

VOLUME **1**

FOURTH CONFERENCE
BOARD OF GOVERNORS, FEDERAL RESERVE
BANKS.

Hotel Blackstone, Chicago, Ill.,

Monday, June 14, 1915.

DAY AND NIGHT SESSIONS.

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FOURTH CONFERENCE

of the

BOARD OF GOVERNORS OF THE FEDERAL RESERVE BANKS.

Chicago, Illinois,

Monday, June 14, 1915,

11 o'clock a.m.

The Conference went into formal session in the Hotel Blackstone, at 11 o'clock a. m.

PRESENT:

Benjamin Strong, Jr., Governor, Federal Reserve Bank of New York.

J. B. McDougal, Governor, Federal Reserve Bank of Chicago.

C. R. McKay, Deputy Governor, Federal Reserve Bank of Chicago.

G. J. Seay, Governor, Federal Reserve Bank of Richmond.

A. L. Aiken, Governor, Federal Reserve Bank of Boston.

Rollo Wells, Governor, Federal Reserve Bank of St. Louis.

J. A. McCord, Governor, Federal Reserve Bank of Atlanta.

Theo. Wold, Governor, Federal Reserve Bank of Minneapolis.

Russell Lowry, Deputy Governor, Federal Reserve Bank
of San Francisco.

C. J. Rhoades, Governor Federal Reserve Bank of Phila-
delphia.

R. L. Van Zandt, Governor Federal Reserve Bank of
Dallas.

E. R. Fancher, Governor, Federal Reserve Bank of
Cleveland.

C. M. Sawyer, Governor, Federal Reserve Bank of Kansas
City.

J. F. Curtis, Counsel, Federal Reserve Bank of New
York, and Secretary of the Board of Governors of
the Federal Reserve Banks.

The Chairman: The conference will come to order.

This is the Fourth Conference of the Governors, and
our first order of business will be to act on the minutes
of the last meeting. They have been furnished to all of
the members, and, unless it is your pleasure to have them
read, they will be approved without reading in detail.

What is your pleasure about the minutes, gentlemen?

Governor McCord: I move that they be approved with-
out reading.

Governor Weld: I will second that motion.

The Chairman: It has been moved and seconded that
the minutes of the last meeting be approved without reading.
Is there any discussion?

(There was no discussion and the motion was put and carried.)

The Chairman: Before taking up the program I want to call your attention to the fact that a different arrangement has been made dividing all the subjects selected for discussion under general headings, and the result has been the development of a very long program, by far the longest we have yet considered.

I would like to ask, for the purpose of making progress, that each suggestion on the program be taken up first by the member who made the suggestion in the first instance, who will thereby establish a basis of discussion by means of his preliminary statement. And in order also that progress may be made, if that statement can be embodied in a resolution for discussion it will aid very much in getting the record in clean shape for the Secretary.

Governor Fancher: I offer a resolution that that be our procedure.

Governor Wold: I second that motion.

The Chairman: You have heard Governor Fancher's motion as to the order of procedure suggested by me. Is there anything further?

(There was no further discussion and the motion was put and carried.)

The Chairman: Item No. 2 on the program is the report of the Clearance Committee, of which Governor McDougal is Chairman. Governor McDougal, have you a report to submit?

Governor McDougal: I have no report to submit. I felt that, because of the fact that each of the Governors has been supplied with a copy of the minutes of each meeting, perhaps they would receive and accept those minutes as a report. I have corresponded with the Secretary, Mr. Curtis, on the matter, and suggested that he bring the complete minutes and records along in the event the Conference wanted to go into the matter further.

Mr. Curtis: I have the minutes here if anyone desires to have them read.

The Chairman: Does anyone desire that?

Governor Wold: There would perhaps be no purpose served by reading them.

Governor McDougal: I have a short memorandum of the meetings that have been held. It is not prepared in the form of a report, nor is it intended for a report.

Governor Seay: I think it is a matter of history, Mr. Chairman; We are all thoroughly familiar with it and it would hardly serve any purpose to go into it now. Perhaps certain features of it may come up for discussion as we discuss things generally, but I do not believe it would serve any purpose to go into it formally.

Governor Wold: I think the thanks of the Governors is due this committee. They have served this Conference well and have given a good deal of time to it. I am sure that this conference, and each Governor, appreciates the efforts and results obtained by this committee.

The Chairman: In brief, Governor McDougal, the

committee has actually completed its work as to the inter-district collection system, and the system is in course of establishment by all of the banks, as I understand it?

Governor McDougal: That is true.

The Chairman: They have also concluded their work in regard to the establishment of the gold settlement fund, which is now in operation.

Governor McDougal: That statement would cover the work which has been done, except perhaps we have taken it upon ourselves to go further in some respects than the authorization given us by the body of Governors.

We found that this committee was called upon to handle various subjects, all pertaining, I think, directly or indirectly, to the subjects that were given to us to handle. I should like very much to have this Conference approved in a general way what we have done, or have the matter opened for discussion.

The Chairman: It has been suggested to me that inasmuch as this committee has been considering a number of subjects referred to it by the Federal Reserve Board, it might be well to consider the advisability of extending the scope of the work of the committee, creating in fact an executive committee, consisting of that same committee with possible the addition of one or two others who are accessible for frequent meetings. How would that idea appeal to you?

Governor McDougal: That idea would appeal to me

favorably. I think we have gone far enough to know there is need of such a committee.

As a matter of fact we have felt a little delicacy in handling some things on behalf of the Governors which we were not authorized by the Governors to handle, our reason for so doing being that otherwise it would have been necessary to have called all the Governors together. And the probability is there will be other use for such a committee.

The Chairman: This suggestion came from Governor Fancher. Suppose we ask him to submit for consideration a resolution embodying his ideas.

Governor Fancher: I feel about as Governor McDougal does. I was the author of the original resolution creating this committee. I think its original scope has been very much extended. They have been called upon to do some things that it was not contemplated they should do at the time the committee was created; and there has been strong indication that the Federal Reserve Board would like a committee of Governors, through whom they could work, that would be accessible. Now that the original committee has accomplished what it was given to do, it seems that we could with propriety follow the procedure of the Federal Reserve Bank of Kansas City and have an executive committee.

It was my thought that we could add to that committee Governor Rhoades, of Philadelphia. He is accessible, but

we would be perfectly willing to go further west if we can find recruits.

I would offer a resolution that an executive committee of six or seven of the Governors be elected. Possibly the make-up of the committee should be left to the Chairman. Mr. Chairman, have you given that matter any consideration?

The Chairman: I have thought of the matter since you have mentioned this committee. It is a geographical difficulty more than anything else.

Governor Fancher: Yes; I realize that.

Governor Wood: I would second Governor Fancher's motion.

Governor Rhoades: Is not a committee of five sufficiently large for the purpose? It is pretty hard to get them together now.

Governor Fancher: You are accessible, Governor Rhoades, and I think you can do considerable work on the committee.

Governor Rhoades: I would be glad enough to do it. The more members you have on the committee the more difficult it is to get them together.

Governor Fancher: I suggest six members and I do that because you, Governor Rhoades, are accessible and can work on the committee.

Governor Rhoades: My feelings will not be hurt if you keep the membership at five. However, I will be very glad to do anything that I can.

The Chairman: The most important thing is to get a committee that can have frequent meetings without too serious inconvenience to any of the members. If other members of this body are able to serve on the committee and will volunteer I would like to suggest to the Conference that they be appointed on the committee.

Governor Aiken: Governor Rhoades volunteered to me and I will pass his name to the conference as very acceptable.

Governor McCord: May I ask this question? Is a committee of five large enough? In case any member sees he cannot meet with the committee and thinks it is necessary that he be represented, then I suggest that he be authorized to designate some other Governor to sit in his place. That will hold the committee down to five and contingencies can be met in that way.

Governor McDougal: I would suggest, in the event that it is the purpose to appoint a larger committee than a committee of five, that a majority of three be authorized to do business officially. That would help the situation very much. I think it would be difficult to get five or six members together at one time, but if three of those members can transact business there would be no delay, and I think it advisable to give them authority to do that.

The Chairman: We have Governor Fancher's motion, which provides for the appointment of a committee of six, consisting of the members of the former clearance committee,

with the addition of Governor Rhoades. Your suggestion, Governor McDougal---

Governor McDougal: Is that three constitute a quorum.

The Chairman: Yes; that three constitute a quorum. And that you offer as an amendment to Governor Fancher's motion?

Governor McDougal: I would like to have it incorporated in that motion.

Governor Fancher: I should be very glad to have it incorporated in the motion and I assent to it.

The Chairman: Was there a second to that motion?

Governor Wold: I seconded that motion some time ago.

The Chairman: The motion has been seconded. Is there any further discussion?

(There was no further discussion, but calls for the question.)

(The motion was thereupon duly put and carried.)

The Chairman: The motion has been carried and the committee is appointed.

Item No. 3 consists of four matters left on the program and not dealt with at the last meeting. If any of those present care to bring up any one of these subjects for discussion we can take them up now. Otherwise I think it is fair to assume that they have been on the program long enough to be dropped.

Governor Aiken: I would like to bring up one matter under item 3, and that is the matter of rebating interest in connection with discounts.

The Chairman: That comes up later on the program.

Governor Aiken: Very well.

Governor McCord: I would like to bring up the item of "number of forms". I think, according to the original plan, that we have a superfluous number of forms in the discount department. We have set aside one or two of them and have gone ahead. I would like to know what the other Governors are doing.

Governor Weld: We have set all of them aside but one or two.

Governor McCord: Then there is no further discussion necessary.

Governor Seay: We have made considerable changes and have substituted forms for others.

Governor McCord: I would like to ask you one thing, Governor Seay. How do you notify your members? Do you do it on the slip, as originally, or do you send the regular discount sheet like the New York or Chicago banks, containing the items listed for discount?

Governor Seay: We do not have a slip for each item.

Governor McCord: I just wanted to find out about that. I will change that myself. I had been thinking of doing it.

Governor Seay: That is a far more convenient and safer practice.

Governor McCord: I think so, too.

Governor Rhoades: Would it be possible to have a sort of clearing house for forms between our auditors

or some other official of the bank?

The Chairman: That is a matter that should be dealt with by a committee of auditors or accounts of the reserve banks. It is important and they should have a meeting before very long and go over these matters of detail in the banks.

The question of forms for discount has also come up in our bank. We know there are too many forms provided and we are not using a number of them.

Governor Fancher: In our bank we have absolutely discarded a number of the forms and substituted our own.

Governor McCord: Are you using some other form? That is, are you using a form in place of that one or have you discarded it entirely?

Governor Fancher. Some of the forms we are using. Others we have substituted for and discarded the original entirely. We have worked out our own forms.

Governor McCord: But you are treating the subjects in each case?

Governor Fancher: Yes.

Governor Seay: In our bank there are many cases where the securing of figures from the bookkeepers has held the department back. We have substituted a different system. We also changed our liability ledger.

Governor McCord: The way we get around it is this. I notify the member bank that his paper is passed for discount and the discount clerk will advise him later. The next day the information goes out.

The Chairman: Would you feel willing to submit to the meeting a resolution for adoption, if agreeable, providing that the Executive Committee might call for a meeting of the clerks or officers of a number of reserve banks, to be selected, to discuss this question of forms and make recommendations?

Governor McCord: I will offer that resolution if I can get a second to it.

Governor Fancher: You have a second to it.

The Chairman: I have in mind the thought that you and Governor Van Zandt and Governor Seay have had more experience in discounting than the rest of us.

Governor Seay: The question would cover more than the forms in the discount department---

The Chairman: Your motion has been seconded, Governor McCord.

Governor McCord: May I suggest this before the motion is put: It would be a nice plan to let Dallas, Richmond and Atlanta, being contiguous, form a committee of men from each of their banks; then have New York, Philadelphia and Boston form a committee; let them get together and interchange views in that way, instead of calling a convention of men from all over the United States. I think probably that would work out better.

Governor Fancher: It occurs to me that this matter of forms pertains not only to a change of forms in the discount departments, but to other forms covering operations in other departments of the bank; that is, new forms

that the accountants and auditors are bringing out all the time. I think the auditors who held a meeting in Washington in January have, by this time, worked out a number of things that would be of advantage to the banks. If they can be brought together; if information can be exchanged and forms discussed, I think much good will come of it.

The Chairman: Governor McCord's original motion was to provide for appointment of a committee of that character by the executive committee, which committee would arrange for a meeting for the purpose of discussing this matter of forms.

Does your motion stand, Governor McCord?

Governor McCord: Yes. I will let it go for approval or disapproval.

The Chairman: Is there any other discussion?

(There was no further discussion and the motion was duly carried.)

The Chairman: Governor Aiken, I was mistaken in regard to the question of rebating of interest. It does not come up on the program later. Shall we discuss it now?

Governor Aiken: I would like to say that in the last week on trips I have made down in Maine two of our larger Maine banks had had to borrow from their correspondents for a very short period, some three or four days. Neither of the banks had enough paper maturing in the course of three or four days to provide a basis for the amount of loan they wanted. That is a very desirable sort of rediscount for us to get. We could not handle it

without taking notes for it and rebating the interest on it. They would not rediscount with us for two or three weeks to the extent of \$100,000 for the sake of getting the loan for three or four days, when they could get it at one of our large Boston banks on a certificate of deposit.

That question brings us face to face with a problem that we must meet in some way.

Governor McDougal: Did you handle the transaction?

Governor Aiken: I did not handle it. They did not come to us.

The Chairman: Have you any further suggestions as to a recommendation to be submitted to the Federal Reserve Board, Governor Aiken?

Governor Aiken: Governor McCord tells me that he can give us some light on the subject through what has been done in the Atlanta District, and I would be glad to hear it.

The Chairman: Governor McCord?

Governor McCord: The discounts are short term paper with us and we rebate with a nominal penalty of one per cent. For instance if we discount for them at four per cent we allow a rebate at three. We simply put that penalty on in order to prevent the misuse of the discount feature of the bank. It has proven very satisfactory, and we are meeting the situation that Governor Aiken has spoken of in this way; that our bankers are learning to shape their portfolios so as to have the paper available. It is a new system, as you all know, and they have not

heretofore arranged their portfolios so as to handle it. In the City of Atlanta especially I expect a large number of people there to discount paper at four days, five days, six days or ten days without any difficulty or without any trouble, because they are arranging their portfolios in that shape. They are regular customers. That is the way we are handling it, Governor Aiken.

Governor Seay: Governor Aiken's description of the situation applies to his district and to several others. It is something that has not yet arisen with us; but I do not see why he could not act as a member bank may act under the circumstances of this situation.

We have adopted a plan of not granting rebates to our member banks unless they, in turn, pay it to their customers. But that is a situation entirely distinct from the one described by Governor Aiken. When we make rebates we make full rebates. We find nothing leaves such a bad taste in the mouth as failure to make full rebates when the difference perhaps is so small that it gives the bank just ground for controversy with you. When we do make rebate we make it at the minimum rate and count full rebate for that time; but we only do that in case the bank itself is called upon to make it to a customer; in other words, to save the bank harmless. I do not see the least objection to Governor Aiken handling it as he may please or to any other bank meeting circumstances in order to accommodate a bank desiring discount.

Governor McCord: In view of the fact that the

conditions are different in each one of the districts I will offer this resolution:

That the question of rebating be left to each Federal Reserve Bank to handle as conditions in their district may justify.

Governor McDougal: I see no occasion for passing any such resolution. We are already separate from and independent of each other. In so far as the Chicago bank is concerned, the matter of rebating interest was a question which arose very soon after the bank opened its doors and we adopted a policy under which we informed banks when they asked the question, that we cannot promise to rebate in full the interest on the paper we take from them. On the other hand we have it definitely understood that we rediscount such paper as they offer to maturity. In the event a question arises such as Governor Aiken has referred to we would use our own discretion. It seems to me it would be a very easy matter. We would take such rediscounts, without hesitation, up to any point or date desired---

The Chairman: Will you rebate it in full for the balance of the time the paper has to run?

Governor McDougal: Yes. However, I think this is a situation each bank ought to meet by itself independent of any action of this organization.

The Chairman: Governor McDougal, your idea is that the difficulty Governor Aiken has referred to could be met by having a contract made in advance of the maturity of

a discount irrespective of the maturity of the paper discounted.

Governor McDougal: I think that could be done satisfactorily and properly, and I think it should be done.

The Chairman: That is my own view of it.

Mr. McDougal: I think it is well we should discuss the matter here, but it seems to me that any definite action taken in the premises at this meeting would be out of place. We will have to handle these things as they come up--- these and other questions.

The Chairman: On the other hand might it not be most desirable if we could get a ruling from the Federal Reserve Board that a contract for discount for a specified number of days, irrespective of the maturity date of the paper discounted, could be permitted, because then we would be able at once to publish a special rate for discount for short term paper, which is just what the board desires to bring about.

Governor Wold: I thoroughly agree with what Governor McDougal has said. I think it is a question for each bank to handle itself. Our policy has been to encourage liquidation, if the maker of the bill which had been re-discounted with us desired to rebate. We would not rebate for the convenience of the bank, however.

I would like to inquire of Governor McDougal what rate he would quote a bank that brought in sixty day paper and wanted to enter into a contract to retire it in twenty days--- your sixty day rate being greater than your thirty

day rate? How would you get away from that?

Governor McLougal: If I understand you correctly, I should not hesitate, in loaning money under those circumstances, to make the rate to conform with the period for which you are taking the discount.

Governor Wold: Then I think it is quite necessary to take the matter up with the Board for their approval. Otherwise we are liable to get in difficulty with the Board on the rates which we quote.

The Chairman: Will you offer a resolution?

Governor Wold: Could not the matter be taken up through the Executive Committee?

The Chairman: We are all here now; the matter is on the program and why not dispose of it?

Governor Wold: I move that it is the sense of this conference that the Federal Reserve Banks be authorized to quote a minimum rate on paper which may be carried to maturity and which, under the published rate, would require a greater rate of interest, provided a contract is entered into between the endorsing bank, or member bank, and the Federal Reserve Bank to retire the paper within the period for which the low rate was quoted. I do not know whether that covers it correctly or not.

Governor Lowry: When a bank in San Francisco wanted to rebate paper or wanted to take up paper that a customer was ready to pay, we follow the policy of making a rebate interest on the basis of the rate for that period.

For instance, if paper was discounted at a ninety day rate and taken up thirty days before its maturity, we rebated interest at the thirty day rate. We found that left the situation in a very satisfactory way; but we have discouraged the practice of the bank taking up paper, as Governor Wold has said, for their own convenience.

The Chairman: Of course, Mr. Lowry there is the possibility of large banks rediscounting large amounts of paper and taking advantage of the reserve bank by taking back their own paper in order to get their money out. That being the effect of such a transaction it would really make the rate of no avail to protect the bank against sudden loss on a large volume of discounts. Under present conditions that question may not arise, but it may conceivably arise at a time when the reserve bank would be seriously inconvenienced through the abuse of that privilege.

Governor Lowry: We have not encouraged or permitted them to take up paper merely because they have funds, but only in cases where a customer wishes to take up a note. There are two questions involved; one is the question of dealing with the smaller member banks where a customer wants to anticipate the payment of a note, and the other is a matter of accommodating the larger reserve bank on short time discount for making good depletion in reserve or debit in the clearing house. It seems to me it would be quite desirable if we had a ruling from the Board so that in case a bank wanted money for eight days --- with maturity at thirty days--- we could discount that note for eight days.

Mr. Curtis: Your proposition is one of making a contract at the time of making your rediscount and also refers to an instance where it is desired to change a pre-existing contract---

Governor Lowry: Two questions.

The Chairman: Are not there really three questions? First is the matter of rebating notes for convenience of customers of member banks; second is the question of making a short discount for the members banks without regard to the maturity of the paper offered for discount and the third is a special rate for short discount?

If Governor Wold will withdraw his motion possibly we can offer a resolution in the form of a recommendation to the Board covering all three questions.

Governor Wold: I will be very glad to withdraw my resolution.

The Chairman: Will you state for the record a resolution, in the form of a recommendation to the Reserve Board, that will cover all three points?

Governor Wold: I would suggest that Mr. Curtis submit it.

The Chairman: The Secretary is asked to distate a resolution covering these three points.

Mr. Curtis: I move that this Conference recommend that the Federal Reserve Board authorize the establishment of rates for short term paper, not exceeding fifteen days, and that they authorize Federal Reserve Banks at their dis-

cretion to discount paper of a longer maturity for a time less than the actual maturity of the paper at an appropriate rate for the time the discount is agreed upon to run.

Governor Lowry: Does not that amount to a direct loan to a member bank on the security of its bills receivable?

The Chairman: It amounts to an evasion of that very question. That matter we have been trying unsuccessfully to evade for a long time.

Governor McDougal: There is a question of danger involved there unless we can in some way limit the operations under this plan by which we approve a rediscount for a stated period regardless of the maturity of the note. Unless that is done it will not be utilized by the large city banks alone but the country banks will be very quick to avail themselves of that if we let them do it.

(Informal discussion followed which the stenographer was directed not to report.)

The Chairman: Governor McDougal's motion is an amendment, as I understand it, to the original resolution to the effect that the discount of paper will be at the discretion of the reserve bank and that some check shall be interposed to the abuse of that privilege by country banks who really desire to borrow money for the full rate, sixty or ninety days, but will make this a means of taking advantage of the ten or fifteen day rate. Is there any objection to that amendment?

Governor Seay: It is a hazardous thing to undertake

with regard to the small banks of any district. It is a very necessary thing to provide for, I believe, in dealing with the large banks, but it is a hazardous thing in dealing with the smaller banks of every district, who will take advantage of any opening you give them and devise an excuse sufficiently plausible to justify themselves.

The Chairman: This matter has been discussed by our directors in New York in response to a suggestion from the Federal Reserve Board that we consider the establishment of a short rate such as we have discussed here, and our board was of the opinion it would be quite inadvisable for the New York bank to make a move in the direction of establishing such a rate just now, as it might give the impression throughout our own district and in other parts of the country that this special rate for very short loans could only be availed of by the large banks in New York and might have the appearance of turning over the resources of the Federal Reserve Bank to the big Wall Street institutions at preferential rates. Our intention in New York is to avail of the privilege of establishing the low rate probably after all the other Federal Reserve Banks have taken that action. This with a view to overcoming any such impression.

Governor Lowry: The board of directors of our bank, about a month ago, established a rate of 2-1/2 per cent for 15 day paper. But that rate was not approved by the Federal Reserve Board.

Governor McCord: To get back to the proposition I

made --- I did not get a second to it, as is the usual custom around this board--- this question should be left to each bank to handle according to the conditions in its own district.

Governor Sawyer: As I understand the object of it it is to get the consent of the Federal Reserve Board to do this if we desire to do it. After we get that consent then we will handle our affairs as may seem proper to us.

Governor Peay: There are limits within which we can exercise our discretion. We are not at liberty now to exercise it below a minimum rate which has been approved by the Board.

Governor McCord: That is true. In my district we have what are known as commodity loans on demand. These refer to cotton or naval stores at the ports ready for shipment. I have asked for a ruling of the Board on that. One of the member banks would offer a demand loan secured by a commodity. At the time they offered it they would give the number of days they wanted it discounted for, not exceeding fifty days; they would name ten, twenty, or thirty days, and I was authorized by the Board to discount that paper at the minimum rate of my bank--- demand paper.

The Chairman: That is a different question. The value is fixed at maturity and is binding upon the maker of the note.

Governor McCord: No, on the member bank.

The Chairman: Well, if it is binding upon the member

bank it becomes binding upon the maker of the note. Governor McDougal's objection would not apply to such cases because the maturity as of the member bank would be also the maturity as of the maker of the note.

Governor McDougal: Mr. Chairman, the records of this meeting belong to the organization and do not go outside of it?

The Chairman: They do not to my knowledge.

Governor McDougal: I think it would be well to take some action. That is emphasized by a letter I received from a member of the Board this morning calling our attention to the fact that Chicago and some other Federal Reserve Banks have arranged in New York to carry excess balances for exchange purposes; that is, they would not settle the account in full weekly. They seem to find objection to that although it can be overcome no doubt. I am just calling your attention to this to emphasize the fact in your minds that the Board has its eye on us.

The Chairman: Governor McDougal, that subject is on our program for discussion later.

Governor McDougal: I have just received a long letter regarding it in which they speak of several banks having arranged in New York to carry balances for exchange purposes. They have no notice of that fact except in the New York bank.

The Chairman: There is a motion before the meeting in regard to short loans and short rates of discount. What is your pleasure in regard to that motion? It has been seconded. Do you wish to bring it up to a vote by calling for the question?

(The question was called for, and, there being no further discussion, it was put and carried.)

Does anybody care

The Chairman: to bring up for discussion the third sub-item, paragraph 3 of item 3 of the program, "Method of collection?"

Mr. McCord: I should like to see whether we are in harmony with each other about that. Our policy is to send back all items of discount to the member banks six days before their maturity.

The Chairman: May I refresh your memory, if you do not already remember the action of the former meeting of Governors on this subject? In connection with the discussion of the effect of the statutory form of endorsement requiring the waiver of demand, notice and protest it was decided that as a matter of policy, with discretion, of course, in each bank, that discount paper be sent back directly to the bank discounting it for collection a sufficient number of days in advance of its maturity to insure the protection of the claim of the member bank on all endorsers, and so far as I am aware most of the banks have followed that practice up to this date. That applies only to paper discounted for member banks and paper purchased in the market; that is, acceptances and municipal

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warrants, which appear on the program later for discussion as to methods of collection. So that we are now considering simply the method of clearing paper discounted for member banks.

Mr. Wold: The policy of the Minneapolis bank has been that the rediscounted paper for member banks at a point other than where the bank was located, for whom discount was obtained, was cleared through other sources---

The Chairman: You have ^{collected} items of that character through other banks than member banks?

Governor Wold: As a safeguard to us, as a safeguard against kiting of paper. We have had paper come from a member bank in Wisconsin or Michigan, payable to Minneapolis or St. Paul, and it would seem ridiculous to send that paper back to Michigan for collection.

The Chairman: Governor McCord brought this item up for discussion. As I understand it, Governor McCord wanted to ascertain what the practice was in other banks.

Mr. McCord: That is the idea.

The Chairman: Is there any further discussion on this item?

Governor Rhoades: We have pursued the uniform practice of collecting paper direct wherever it was possible in our district, with the result that we have got a good many renewals in that way, and we have sometimes twenty protested notes by the process, and we feel it safer to do it wherever it is possible.

Governor Wold: The same thing has come to our

notice. Paper would be protested or renewed, and then we would be offered it a few days later and we would decline to take it. We would know then whether it was really trade paper or accommodation paper.

Governor McCord: Can we not discuss the question of paper outside of the district?

The Chairman: That comes up later.

Governor McCord: All right.

The Chairman: Does this subject appear to require the passage of a resolution or recommendation by the twelve banks?

Governor McCord: No; I just simply asked for the information so that I would know.

Governor Rhoades: I should be glad to have an expression of opinion as to what is the sense of the Governors.

The Chairman: Would you offer a resolution, Governor Rhoades, in order that we might have a vote on that?

Governor Rhoades: For the sake of the discussion I would move that it is the sense of the Governors that it is desirable to collect paper direct wherever it is possible without our districts.

Governor Seay: I believe that to be a sound principle, sir. I do not think any of us could dispute that as a sound banking principle; but under the conditions that have prevailed with us we have not thought it expedient at this time to put it into force.

9-4 Governor Aiken: Is not this another case where it must be left to the discretion of the bank?

Governor Seay: I think that is true. We know perfectly well that we are not scrutinizing it, but we require statements directly and get them directly and in fact we are too liberal in that respect. We want all the credit requirements we can get, and as time goes on we are getting more and more, but nevertheless there is a great deal of cotton mill paper in our district. There is a special ruling by the Federal Reserve Board on cotton mill paper. It is a condition that it has had to deal with separately. So I think that what might be true in one district would not be altogether expedient in another. I think you will have to deal with it according to the conditions and the discretion of the reserve banks.

Governor McCord: The end justifies the means.

The Chairman: Governor Rhoades' motion has not been seconded, and, having allowed sufficient time for discussion and a second, we will pass this topic.

The next topic in the business held over from the last conference is "collections outside of the districts". Does anyone wish to bring that up? It will come up later in relation to acceptances and warrants.

Governor McCord: I suggest we pass it and handle the whole subject at one time.

The Chairman: Does anyone care to bring up either (a) or (c)?

Governor McCord: As to item (c) there is an accumu-

lation of national bank notes. I arranged with the Treasurer that he would give an open account with us there, and we send in our national bank notes when they are payable, either in treasury notes, if he has them, or in silver certificates, or that he will credit the member bank for the five percent fund at our request; that is, we carry the balance there, and if a member bank wants us to remit to the five per cent fund we tell him to charge our account---

Mr. Wold: Carry the balance with whom?

Governor McCord: The Treasurer of the United States.

The Chairman: Is not that encouraging a practice, Governor McCord, that will later arise to trouble us?

Governor McCord: It may do so; I do not know.

Governor Seay: How long does it take you to get advice or credit from the Treasury Department?

Governor McCord: It does not take so very long, Governor Seay. We send up the bills and there is time to verify the account and get an acknowledgement.

Governor VanZandt: The Treasurer has refused to do the same thing for us.

Governor Wold: The statement was made member banks should request us to make a deposit on account of the five per cent fund, and we have asked the New York Federal Reserve Bank to make that deposit.

The Chairman: We should be very glad to handle those items at New York if we were requested to do so, provided the Treasury Department machinery would enable us to do it

2-6 promptly. We had difficulty in getting the necessary endorsements on the checks that came to us for that purpose.

Governor Fancher: May I inquire, Mr. Chairman, if you were requested to make a deposit for the credit of the five per cent fund of certain of our member banks you could use your silver certificates?

The Chairman: Yes; we could use for the five per cent fund lawful money, which is the obligation of the member bank that has the circulation.

Governor Seay: Would you do that by your own check payable through the clearing house, or would you make the deposit of money with the Treasurer?

The Chairman: Our difficulty in New York has been really arising in a different way, Governor Seay. The banks outside of our district that want to make payments to their redemption fund in New York have been remitting checks on the other 11 Federal Reserve Banks directly to the assistant Treasurer at New York, and the Assistant Treasurer at New York has endeavored to collect those checks by sending them in to us, not directly, he having no account with us, but through the member banks. The Treasurer of the United States does not put a character of endorsement on that check that would enable any member in New York to bank a check for that purpose. All these checks we have been obliged to advise the Assistant Treasurer in New York to send back. If the member banks of each district care to employ their own federal reserve bank of their own district for the purpose of making these payments into the

Treasury redemption fund, they ought to do it through a transfer arrangement, so that we could make the transfer in New York and they would pay the money into their local federal reserve bank, and then at the end of each week the account would wash out through the gold settlement fund. By that method we would really be of some service to the member banks, although at some seasons of the year it might result in a volume of transactions that would inconvenience us.

What do you suggest as a matter of policy? That is in fact a matter where an absolutely uniform policy should be adopted.

Governor Wold: It seems to me, Mr. Chairman, we should request our member banks that wish to replenish their five per cent fund to do it through their federal reserve bank. Then we would make request of you.

The Chairman: May we not have that as a resolution to go before the management of all twelve of the banks?

Governor Wold: I offer such a resolution.

The Chairman: Then I understand that Governor Wold offers a resolution in the form of a recommendation to all 12 of the Federal Reserve Banks by this conference that hereafter member banks desiring to make payments for account of their five per cent redemption fund do so by transfers directly through the Federal Reserve Banks, and not by drawing checks on the Federal Reserve Banks.

Mr. Fancher: I second that motion.

(There being no further discussion, the question

was put and carried.)

The Chairman: The next item is item (d). I suggest that item (d) be dropped from this place on the program and taken up later where it comes under the subject of intra-district clearings.

Governor McCord: Under item No. 14?

The Chairman: Yes. It will then come up under (a) in item No. 14.

We have about an hour before lunch. We have now reached item No. 4, "Examinations". The first item, (a), is suggested by the Federal Reserve Board. It relates to the examination of member banks, and I understand that the Board desires discussion on the general subject of examinations of member banks.

May I ask the Secretary to read that part of the letter of the Federal Reserve Board relating to this subject?

The Secretary: (Reading): "Experiences as to the operation of examinations ought to be compared with respect to examinations of member banks. It might be interesting to learn what progress has been made in developing cooperation between chief examiners and local examiners in each district."

The Chairman: Do I understand from that letter, Mr. Secretary, that it is the desire of the Federal Reserve Board that we shall discuss the subject of examinations of member banks as one topic, and cooperation between chief examiners and local examiners of federal reserve banks as another topic?

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The Secretary: No; it is all put in under one heading.

Governor Aiken. I should judge from that letter, Mr. Chairman, that what they really want is a report of the experience of the banks under existing conditions with their chief examiner and his local examiners, is it not?-- how the present system is working?

The Chairman: Will it be satisfactory to the meeting if I ask each of those present to make a brief statement of the situation in his respective district in regard to cooperation with the chief examiner of his district and the federal reserve banks in regard to information about the member banks? I understand that is what the board desires, Mr. Secretary?

The Secretary: It seems so to me. (Reading):

"Experiences as to the operation of examinations ought to be compared with respect to examinations of member banks. It might be interesting to learn what progress has been made in developing cooperation between chief examiners and local examiners in each district."

Governor Wold: What do they mean by "local examiners"?

The Secretary: I do not know.

Governor Wold: Do they contemplate a force of examiners for each federal reserve bank?

The Chairman: No; it means the cooperation between the chief examiner of each district and the other national bank examiners of the district who are now classed as local

examiners under the direction of the chief examiner.

The Secretary : Cooperation between those on the one side and the Federal Reserve Banks on the other?

The Chairman: Yes; that group on the one side and the Federal Reserve Banks on the other.

Governor McCord: Do I understand that the local examiners are appointees of the Comptroller of the Currency?

The Chairman: Yes.

Governor McCord: The chief examiner is largely an appointee, and probably entirely an appointee of the Federal Reserve Board?

Governor Seay: Of the Comptroller of the Currency.

The Chairman: Governor Wells, will you state for the purpose of the record what the situation is in your district in respect of cooperation between the chief examiners and local examiners and the federal reserve banks with regard to credit information about your member banks?

Governor Wells: The position of chief examiner in our district is now vacant. There has been the utmost harmony between the bank and the subordinate examiners. We never failed to get all the information we desired. The Comptroller is anxious to find a successor to the chief examiner, and owing to the absence of a chief examiner the district is not thoroughly organized.

Governor Seay: May I ask if you have had frequent occasion to request information from the local examiners?

Governor Wells: No; not any particular information. We get bank statements; we get the notes and anything

2-11 made by the local examiners. If we have any special information that we desire, we have no trouble in obtaining it.

The Chairman: Governor Fancher?

Governor Fancher: Several months ago--- I might say three months ago--- we had correspondence with the Comptroller's office about locating the chief examiner in the building where the Federal Reserve Bank is located, with the result that arrangements were made, and the examiner took offices on the second floor above us. Up to that time his headquarters had been in Pittsburgh. He came over and took a small suite of rooms. We assisted him in getting his files and the statements from the Comptroller's office for our member banks--- 762. ^{were} sent on to Cleveland and were put in these files. While the correspondence was going on I was in the Comptroller's office discussing some plan of cooperation. We have in our district nine district examiners, and I tried to get from the Comptroller just the plan of contact between the chief examiner and the district examiners on the one side, and just the relations between those men and the Federal Reserve Banks. The Comptroller said to me that this plan was being worked out, and the plan of operation would be furnished the chief examiners at an early date. Up to the present time, or up to the last time I saw our examiner, some two weeks ago, no working plan had come. He did not know at that time just what supervision he had over the district examiners, or in just what way to adjust his point of contact. In

reference to access to the reports, our chief examiner is still continuing his work. His work takes him from Cleveland, and when he goes to Pittsburgh he is away some two or three months. At first he locked the office up and gave our Federal Reserve Agent the key, and that permitted our going up and looking at the files. More recently he has put in a clerk and he has given instructions to the clerk that those files are accessible to the Federal Reserve Agent and his deputy and to the Governor. That is about the situation at the present time. In discussing the matter with the Comptroller I suggested, in fact, made the request, that as soon as some plan was worked out I wished to have the chief examiner and the deputy examiners have a day or two's conference together over our situation. He said, "That is very fine. I heartily approve of that, and I hope you will do that at a very early date." But nothing has come of it.

(At this point an informal discussion took place which the stenographer was directed not to report; after which the following occurred.)

The Chairman. Governor Wold, would you repeat your former statement so that we can have it in the record?

Governor Wold: I do not know that it is well to put my former statement in the record in reference to matters that occurred between our Federal Reserve Agents and the Comptroller of the Currency. I thought it might be interesting to the Governors to know the position that the Comptroller had taken.

Our situation is exactly similar to Cleveland's, with the exception that there is no removing of the chief examiner. He has not been able to get any plan from Washington as to how he can operate or what he can do or what authority he may have, or how much of an office force he may have. In the meantime, we are furnishing stenographers and all his clerks. He is using our force. He has his office with us and everything is accessible. He and I are very anxious to have all these examiners called in and spend two or three days in going over the situation. I have it in mind that we will ask these examiners, when they find a bank that is rediscounting with us, to check every note that is rediscounted and report specially to us direct.

The Chairman: You have access to the reports of examiners which now are all assembled in your district in your chief examiner's office?

Governor Wold: The chief examiners' reports give me full information. There is the utmost harmony between the chief examiner and us, and he would like to continue to be right in our office. That is where he prefers to be.

The Chairman: Governor Sawyer?

Governor Sawyer: Our chief examiner was appointed about a month ago, and he tells us that all these reports are to be sent into his office and written there; that the examiner will make a rough report and that report will go to the Comptroller's office after being written in his office. He will have copies of all these reports and

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we have free access to them. When we started the bank we sent to each examiner in that district to get a line upon all of our member banks, that is, a general line, and we have a line on all our member banks in the district and have had it since the beginning. It has been very convenient and a good guide. He has given us such information as we have asked for, very frequently, and it appears to feel that we should have access to all information that he may have. I might say that we have asked him to call the examiners of our district together, for the reason that we have learned that some of these local examiners are rather antagonistic to the Federal Reserve banks in the Federal Reserve System, and we have asked him to call a little convention of those examiners so we could go over the Federal Reserve Act. This would help us in a campaign of education with the member banks. We expect to have that in a little while, and I believe it would be a good thing.

The Chairman: I think it would be advisable to have this discussion get on the record as far as possible.

Governor Fancher: At the time I had my discussion with the Comptroller, which was, I think, at either a committee meeting or one of the Governors' conferences, probably in March, the matter had been reported that some examiner had taken issue with the bank as to eligible paper. I brought that up in my talk with the Comptroller and said it was brought to the attention of one of the Federal Reserve banks that the examiner was not fully in harmony as to what

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what eligible paper. We wanted to bring the examiners in and go very carefully over certain features of the Act and try to impress them as to what was eligible paper and what we were talking about, and attempting to do, so they could help us in making it plain to the member banks that they could make the paper eligible. He said, "That is fine. That is just exactly what we want done."

Governor Wold: In reply to your query, reports from the examiners in the field are now coming into the chief examiner.

The Chairman: Is that the case with Governor Sawyer?

Governor Sawyer: I think so. At any rate they have instructions to send them in. The Examiner has a number of reports that were furnished him from Washington. They were instructed to make duplicate reports when the system was established. They were sent to Washington, and I think he has had those returned to him.

The Chairman: And these reports are accessible to your bank?

Governor Sawyer: Yes; we have access to them. Any information we ask for he will furnish us.

Governor McCord: We have only recently received notice of the appointment of the chief examiner. The examiner has not yet appeared in Atlanta to take up his duties. The first notice I received was at the Pan-American Conference, when the Comptroller told me he had appointed a chief examiner for the Atlanta District. We have no experience thus far relative to the relations be-

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tween the chief examiner and the examiners of our district .
However, some of the examiners in the district have called
at the bank and have discussed with me the various ques-
tions, some of which Governor Fancher spoke of, about the
eligibility of paper. I have endeavored to give our
views of what was eligible.

The Chairman: Have you access to the Examiner's reports
as yet?

Governor McCord: No, because the chief examiner
has not come to the city. I understand he is to take up
quarters in the building in which we are located, and I
anticipate that our relations will be very harmonious,
because we know the man. He is from Birmingham, Alabama,
near us, and we think they will get along very harmoniously.
The understanding, or at least our understanding of the re-
lations will be that the examiners in the field, so to
speak, will report to this chief examiner any criticisms,
the same as they send to Washington, and that we will have
access to those reports; furthermore, that the chief exam-
iner will aid us in any way that we may ask, that is, any
reasonable way.

The Chairman: Governor Aiken.

Governor Aiken: Our chief examiner has a separate
office, entirely outside of our bank. It is working out
very well with us. The reports from the local examiners
have been coming in and everything in the office has been
placed at our disposal. Not only that, but as to any
special points that have come up the chief examiner has co-

operated in every way to give the information we wanted by communicating with the local examiners. I should have no criticism or suggestion to make as to any change in the operation of the office at the present time.

The Chairman: Governor Rhoades?

Governor Rhoades: Our situation is most unsatisfactory. The man who is presumably chief examiner but who has not yet been definitely appointed has his office in the post office building some blocks away from us. He is out of the city a great deal of the time, and when he is away nobody is permitted to have access to his office. He has no back file of reports. He does receive the new reports as they come in, which he will not let us see, but from which he makes abstracts and tells us verbally or gives us brief written notes. The result is that we do not feel we have real information at all.

Governor Sawyer: If you will allow me just a minute of the time, I referred to a question blank sent out to the examiners which gives a general line on the banks. It will take me but a moment to show it to you. The different examiners have found it very useful. These blanks are very useful in the files and will save a lot of time. If the bank is in first class condition we get the information without going to the files.

(Mr. Sawyer here exhibited to the Conference a sample of blank used by his bank, a copy of which he stated he would furnish to each Governor.)

We found that blank of very great service to us. We

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have had it on our credit files in all of our member banks.

The Chairman: That would imply, Governor Sawyer, that without examining the facts disclosed by the examination of the examiner for the Comptroller you would accept his judgment as to what that examination discloses as to the condition of the bank. You feel justified in passing on the credits in referring to this resume of the judgment of an examiner, as I understand it.

Governor Sawyer: Of course, we make a further examination if this report does not show the bank in good condition.

Governor Aiken: It puts you on notice?

The Chairman: Then you consider that as giving you the benefit of the expression of the examiner's views, and also, having access to the reports of the examination, you can verify them by your own judgment of what the examination means?

Governor Sawyer: Yes. In the first instance we feel it is a great service to us.

The Chairman: Governor McDougal, will you report as to the relations between the chief examiner and the local examiners in your district with the Federal Reserve bank?

Governor McDougal: Mr. Chairman, the chief examiner for our district has not yet put in an appearance. His appointment took place two or three months ago, but he has been detained in Washington or elsewhere on account of complications. However, we have had here a substitute,

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and we have been given free access to the files in the examiner's office, which include copies of all of the reports of all examinations that have been made since our bank opened for business. We have not waited until we had received applications from banks, but, anticipating business with them, we have been at work for several hours perhaps each day and got men in the examiner's office who are going ahead and taking these reports as they come in and making notes with respect to whatever may be interesting and helpful in the matter of passing upon loans or dealing with the banks when the occasion arises. The information we have wanted has been cheerfully given, and the relations are very pleasant. What the plan may be of the chief examiner when he comes, I do not know, but I believe it would be an excellent thing to follow the plan that has been suggested by one of the other governors, that there be a conference held at the center, of all of the examiners in the district. I am led to that belief by one instance in which we found occasion to write to an examiner and he responded briefly that we would have to confine our investigation, in so far as the affairs of his bank were concerned, to the chief examiner in Chicago; that he was not permitted to discuss matters with us or anybody else. I believe if we could get that examiner into the city here we could have a very profitable conference.

Our relations with the examiner, however, are very pleasant and we are getting information that has been very helpful for us in the matter of passing upon loans for re-

discount.

The Chairman: Governor Lowry?

Governor Lowry: Mr. Chairman, the situation in San Francisco is not greatly different from that in Philadelphia. The chief examiner of our district is also the deputy reserve agent and a member of our board of directors, but he does not have an office in San Francisco. His office is in Oakland, across the bay. While he will give to the Chairman of our Board, in the form of letters or memoranda, brief expressions of opinion, we do not have access to his records, and he has advised the different examiners in the district that they have no right to give us any information whatever. I suggested to him at a meeting that we get such information as Governor Sawyer has concerning every bank in the district, and asked him if he would write to the different examiners for that purpose. He said he would not, that he had no right to give any such information. He claimed that he was acting upon the advice of the Comptroller in taking that position. So that we do not get any great amount of information.

The Chairman: Governor Seay?

Governor Seay: Governor Strong, we have had a chief examiner for about two months. Before his appointment we had applied to the Comptroller for some thirty or forty special statements of banks, and after some months we received those through the chief examiner. He permitted them to come into our possession, and we made copies of them all. We have understood that our examiner, who just

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came to us , came for an office there at the suggestion of the Comptroller. We did not have it to give, so we has his office in the Post Office building. We have been led to understand that copies of all reports of the local examiners would be sent there. I think there is reason to say that some change has come over the relation of the examiners with respect to the Federal Reserve banks. You will probably recall that the clearing committee made representations to the Federal Reserve Board of the extreme importance of having access to all of those reports prior to the establishment of a clearing system, and we were led to believe that there would be cordial cooperation with them and that we would have free access to them. On the last occasion on which we went over to learn something as to one of our member banks we were not allowed to handle the report. It was read to us by the chief examiner. We were allowed to make certain memoranda from it that satisfied us; but I think that at the recent Pan-American Congress there was some informal consultation between certain of the Federal Reserve Agents and the Federal Reserve Board, and the intimation rather came out that there was some halt in the process of giving to the federal reserve banks free access to information acquired by these district examiners. I must say that we found that to be the case in the last application we made for information. I do not believe there is that perfect understanding and accord between the Federal Reserve Board and the Comptroller's office now that we thought would prevail when we made the report. It was read to us by the chief examiner. We were allowed to make certain memoranda from it that satisfied us; but I think that at the recent Pan-American Con-

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application to them to establish such relations for the benefit of the banks which were putting into operation a clearing system.

Governor VanZandt: Our chief examiner was appointed on June 1st, by wire, and on June 1st we sent him over to one of our members in Louisiana and he is still there. We do not know what instructions he has. We have had very poor success in getting any information from the Comptroller's office relative to our banks, under any circumstances. We have had half a dozen occasions on which I think the Federal Reserve Agent wrote the Federal Reserve board asking for information from the Comptroller's office, and I have also written to the Comptroller's office myself asking for information with respect to certain banks, and my letters have never been replied to. I do not know what conditions we will have after our chief examiner gets installed and gets his data. He is in harmony with the office and we all like him very much. I know he will do everything that the comptroller will permit him to do.

The Chairman: The situation in New York has been, briefly, about as follows: Prior to the adoption of the plan for intra-district collections our board of directors passed a resolution in which the attention of the Federal Reserve Board was directed to the importance of the matter of credits with respect to member banks, although the whole question of relations with examiners had not at that time arisen. The officers of the bank reported to our directors the recommendations of the clearing committee

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of the Governors that the clearing plan should not be adopted until credit information was available to all of the banks. Some time following that, or at about that time, the chief examiner of our district was appointed. He is our deputy federal reserve agent. The question then arose as to information about the member banks. We had already had conferences with all the local examiners of the district and gotten from them a brief verbal statement of the condition of each member bank that each examiner covered, which was put into our credit file, and a copy of the instructions was sent to the Comptroller's office in Washington. More recently our board considered just what information it was desirable for us to have in reference to the condition of member banks, feeling that more responsibility was given to the bank in having it. They passed a resolution which defined their view of what information it was proper that we should have and how it should be obtained. The arrangements with the chief examiner were delayed somewhat as the result of that discussion, and finally the officers of the bank, not having made satisfactory progress with him, it was taken up with our board and the federal reserve board to see if a better relationship could not be established. The matter has not yet been disposed of, but I think it is fair to say that up to the present time we have had any specific information which we asked about any specific bank given to us very freely, generally by telephone, but we have not had access to the reports of the local or chief examiner, nor

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have we had means of acting on our own judgment in respect to those reports. We have had information given us principally by telephone regarding the conditions of the member banks of the district.

Governor Sawyer: Since we have a right, under the law, to examine our member banks, I cannot see the purpose of any objection in the Comptroller's office to allowing us access to his examiners' reports.

The Chairman: Do you not think it would be desirable for this meeting to discuss it, and if we can agree, to make some recommendation to the Federal Reserve Board as to what should be done in regard to relations with the whole examining force of each district and the machinery to bring about a satisfactory relationship?

(At this point an informal discussion took place which the stenographer was directed not to report; after which the following occurred.)

Governor McDougal: This information which we ask to have supplied freely is necessary. It is to be placed in the hands of the federal reserve agents, and accessible to some of our officers. That is the way we are treating it. It is not general information and does not get into our general credit files, but it is available to us.

Governor Van Zandt: Not being able to get the information I desired on this Louisiana bank which I was speaking of a few minutes ago, acting under Section 217 of the Federal Reserve Act I sent out vice-governor over there to make the examination, and on the strength of that I got

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the comptroller to send in our chief examiner, who was appointed, and we closed the bank. But if we can get that information at the expense of the bank by one of our own men, why should there be any impropriety in the national bank examiner furnishing us with the information?

The Chairman: We have examined one bank in our own district for our own protection--- only one bank--- and as to that bank we feel that now we have a very good line on their condition and a very good understanding of where their difficulties are. We would be reluctant, frankly, to send our own men out to make special examinations of banks that were applying to us for rediscounts for fear that it might cause comment in a country town that would actually injure the credit of the bank or possibly cause a run on it; whereas examinations by the Comptroller's regular examiners never cause any comment and would not involve any special responsibility to us.

Governor Seay: I do not think that anything will be perfectly satisfactory except a copy of that report to go to the Federal Reserve Agent of the bank.

The Chairman: And to be confidentially examined only by certain of the officers of the bank?

Governor Seay: Exactly. There is no way of compromising in this matter. Nothing else will be as satisfactory as that. I do not see why we should take a temporizing attitude in the matter. I believe we ought to have those reports. We have the power to do the same thing ourselves, and it is only technical conditions, I believe,

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that are disclosed in those reports, and we ought to have them.

Governor Aiken: I would like to say that the complete report is at our entire disposal at any time. We walk into his office and he gives us all he has.

The Chairman: Does not this discussion disclose one very apparent fact, and that is that certain of the bank examiners have, either upon their own responsibility or acting upon instructions which they have received, been willing to give complete information ; either in the absence ^{others,} of instructions, or on definite instructions and not desiring to act upon their own discretion, are refusing to give that information. There seems in some districts to be complete harmony and in other districts there does not seem to be.

(At this point an informal discussion took place which the stenographer was directed not to report; after which the following occurred.)

The Chairman: What are we going to recommend, if we are going to recommend anything, or what action are you going to take in response to the suggestion by the Reserve Board that we discuss this subject? I presume it is your desire that a report of the matter be made to the Reserve Board, as has been done with respect to the topics we have discussed heretofore, and I cannot help but feel that in making this suggestion the reserve board had in mind a desire to accomplish what we all want, and that is cooperation and results.

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Governor Sawyer: I think we ought to pass a resolution.

Governor Aiken: At a meeting of the clearing committee of the Federal Reserve Board, if I am not mistaken, we asked them if they could not arrange with the Comptroller's department to have all the information in the hands of the examiners placed at our disposal, and we were assured at that time that that would be done. It seems to me that is the whole thing--- getting all the information that the examiner has; and I think we ought to have definite advices that that has been done.

Governor VanZandt: I think a resolution should be passed stating that we have discussed that subject and that we feel that it is of vital importance that all of the information obtained by national bank examiners in the examining of their banks should be placed at the disposal of the Federal Reserve Banks, and that the Federal Reserve Board be requested to use its efforts to have such an arrangement made.

The Chairman: Governor Van Zandt has made a very comprehensive motion covering this matter.

Governor Sawyer: I second the motion.

Governor McCord: I would like to make this amendment, that it be placed at the disposal of the Federal Reserve Agent---

Governor Wold: No.

Governor Van Zandt: The executive committee of the Federal Reserve Bank.

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Governor McCord: I can see why they do not want it to go down into the bank's records.

Governor Wold: The Governor is supposed to be at least a managing officer of the bank, and this information has to be at the disposal of the Governor of the Bank.

Governor McCord: I understand it to include that, Governor Wold, but the motion is so broad that it would be furnished to the bank. They do not want to do that. I think they are willing to give it to the head officers of the bank.

Governor Wold: Who is the head officer of the bank?

Governor McCord: The Governor.

Governor Van Zandt: May I ask that the motion as offered be read? I would like to change that to the executive committee of the Federal Reserve Bank.

The Chairman: Why not say to the executive officers and the executive committee?

Governor Lowry: Some objection might arise in the case of the executive committee, because in some districts, as in ours, the executive committee is composed directly of men in banks, and some of the member banks may object to having their rivals scrutinizing the reports.

The Secretary: How would it do to say the Governor and other appropriate officers?

Governor Lowry: If I may be permitted to suggest an amendment there, let us say to have these reports go to the banks under such safeguards as the Comptroller shall suggest.

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Governor Aiken: No; I object, Mr. Chairman.

Governor Sawyer: If that resolution contained such a suggestion as you made some time ago I think it would strengthen it, sir. We have the right to make these examinations, under the law, but we had better get the same information through the reports, if that can be injected into it.

The Chairman: May I suggest a five minutes recess with instructions to our secretary to draft a resolution covering this point which shall embody what Governor Vandt has offered, with amendments that have been suggested in regard to the danger of special examinations by examiners of the Federal Reserve Banks?

(At this point an informal discussion took place which the stenographer was directed not to report, after which the following occurred:)

Governor Sawyer: I should like to suggest for the consideration of the Secretary in framing that resolution that we apply directly, as a matter of routine, for a copy of the reports to be furnished as made.

Governor McDougal: The examiner's report contains a full statement of all that he knows with respect to the condition of each bank he examines. His reputation depends upon it, and it seems to me if you could devise a plan whereby each bank would be given opportunity, as we are here in Chicago, to see a complete copy of the examiner's report of his examination of each bank, you would be getting all you could want, excepting that beyond that

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we would like to have the examiners instructed in a way that they would feel at liberty to confer or correspond freely directly with some officer of the bank if we saw fit to communicate with him. But the report in itself is enough in ordinary cases.

The Chairman: Governor McDougal, let me state what is really the point of difference between the chief examiner of our district and the officers of our bank, which I think is similar to what is in your mind. We object to relying upon the judgment or the conclusions of the bank examiner as to what his own report means. We should like to examine the reports of the examiners made by the examiners in our district, draw our own conclusions from those reports and make our own abstracts from them for our reference files.

Governor McDougal: That is what we are doing, exactly.

Governor Aiken: That is what we are doing.

The Chairman: We do not want copies of those, necessarily, on file in our office so that they might cause comment or dissatisfaction to the particular banks that were examined, but we desire to make our own abstracts from them and let those abstracts represent our own conclusions drawn from the work of the examiner himself.

Has this discussion reached a point where you would care to entrust Mr. Curtis with the preparation of a resolution following Governor Van Zandt's motion and the discussion following it, so that we can act on it?

Governor Fancher: There is one thing that comes to

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my mind. In making those reports accessible to the executive committee, I think they should be available to certain officers, the Governor and certain other officers, and only abstracts to the committee.

The Chairman: We do not feel that the bank directors of our district whether they are serving on the executive committee or not, should be able to come into our bank and look at examiners' reports of their competitors; and that would not be permitted in our bank. Our board has passed a resolution which would prohibit any director of that character having access to these reports, but we are willing that whatever information we do get of a confidential character should be at the disposal of the Governor and Federal Reserve Agent, or the deputy Governor, if he is not disqualified by being a director, and possibly one or two other confidential clerks who would have access to the information to keep the files up.

Governor McDougal: If anything that I have stated would indicate that our board or executive committee goes over these reports, that is not correct, because we have never had a single examiner's report in our office. The plan which we follow is to go to the examiner's office and examine the reports, take what we want from them and bring it back and put it away. It is not disclosed, however, to the directors of the bank in any way, nor is it disclosed to the full executive committee, but acted upon by the officers just in the line that you have suggested you were doing.

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Governor Seay: With reference to the abstract from that report and the complete report, I find that at certain times there are certain features of that full report to which I would give more attention than at others, and that later on some other question might arise and I would have to go back again to the files of the special agent. I am sure, for our own purposes, if we could have copies of that report they would be guarded just as sacredly as might be desired, and in the end it would be the only complete and satisfactory way.

The Chairman: Governor Seay, it seems to me the point you raise is that as to probably 90 per cent of all the reports of examinations a complete report would be really superfluous. Where you have a bank with an absolutely clean bill of health and with no items subject to criticism it would seem to be a superfluous thing to copy every line or letter of the report. On the other hand, where a bank is reported to be in doubtful condition, your abstract, so to speak, might be every line and letter in the report and you might want to have the complete schedule of all information disclosed by the examination in your files. The plan that Governor McDougal has suggested I do not understand would prohibit doing that, would it, Governor McDougal?

Governor McDougal: No, indeed.

Governor Rhoades: I concur in Governor Seay's remarks that I would like to have in our office copies of the reports. The few that I have been able to get hold of, I photographed so as to be sure I had the whole thing.

(At this point an informal discussion took place which the stenographer was directed not to report, after which the following occurred:)

The resolution framed by the secretary was read five times by him, was duly seconded by Governor McCord; in the course of informal discussion various amendments were made thereto and it was put and adopted. The resolution as finally adopted is as follows:

"Whereas, the Federal Reserve Banks are authorized by law to examine member banks in their districts,

"And Whereas, it might be a cause of comment upon a member bank in its community if such an examination should be made in addition to the examinations of the national bank examiner, until such examinations are regularly made;

"And whereas, it is considered preferable at present to have the necessary examinations made by the National Bank examiners except in unusual cases;

"And whereas, it is considered by this conference that it is of vital importance to the safety and welfare of the Federal Reserve Banks to have unhampered access to national bank examiners' reports and complete information with respect to all member banks,

"Be it resolved, that the Federal Reserve Board be requested to make arrangements with the Comptroller of the Currency whereby complete copies of all reports made by national bank examiners with respect to member banks shall be given to the Federal Reserve Banks to be open to the confidential inspection of the Governor, the Federal Reserve

Agent, and such other officers of the bank as may be approved by the Federal Reserve Board;

"Provided, that nothing herein contained shall be deemed to limit in any way the right of examination conferred by law upon the Federal Reserve Banks."

The Chairman: I am asked by Governor McDougal to advise the meeting that the President of the Board of Trade of the City of Chicago has invited our attendance at the Board of Trade for a short time--- five minutes or so--- either today or tomorrow.

Governor McDougal: Yes; any time while you are here.

The Chairman: Governor McDougal has advised him that we are very busy and it may not be possible to arrange such attendance but that he would submit the invitation. What is your pleasure about it?

Governor Rhoades: I move that we express our appreciation, but that the pressure of business prevents our accepting the invitation.

Governor McDougal: I sent word to him stating that we probably would not be able to get over there. Nevertheless, it is an invitation and I think I understand the situation well enough to explain it.

The Chairman: May we not ask Governor McDougal to express our very warm thanks, as Governor Rhoades suggests, and explain that we have got to meet morning, afternoon and evening while we are here, and it will very likely be impossible for us to accept the invitation?

(There being no objection the suggestion was

agreed to.

The Chairman: It is now quarter past one. What is your pleasure as to taking a recess for lunch?

Governor Aiken: I move we take a recess at this time.

(The motion was duly seconded, and at 1:15 the conference took a recess until 2:30 o'clock p. m.)

A F T E R R E C E S S .

The Conference reassembled at 2:45 o'clock p. m.

Hon. A. C. Miller, Member of the Federal Reserve Board, was a guest of the Conference during a portion of the afternoon proceedings.

The Chairman: The discussion that was concluded before lunch covered items (a) and (b) of Topic 4. Item (c) was not specifically referred to and comes from Governor Rhoades.

Governor Rhoades: I think that has been covered.

Governor VanZandt: That was covered in the discussion of items (a) and (b).

Governor Fancher: I think the resolution passed covers those two items.

The Chairman: I have just explained to Dr. Miller what we covered in the morning discussion. That is the only really important thing covered, and if it is agreeable I will ask Dr. Miller to look over the program and suggest himself any item that he would like to have discussed while he is here with us.

Dr. Miller: I do not want to interrupt the course of the proceedings any more than I can help. There were two or three items that the Board felt it would perhaps be worth my while to discuss with you in view of the fact that I was going through Chicago at this time. One of those items concerned particularly the matter of some sort of a more or less standardized procedure in the

examination of state banks that apply for membership in any federal reserve bank.

I have just told Governor Strong that Mr. Broderick, our chief of audit and examination, is here at the hotel. He came here at the direction of the Board in order that he might confer with you, so far as you desire respecting any of the details of procedure that would recommend itself.

Another question is the matter of the issuance of regulations concerning trade acceptance paper.

The Chairman: That question was discussed this morning.

Dr. Miller: The third question is that of authorizing a special rate for short maturity of ten and fifteen days. All of the banks have been apprised of the fact that some of the banks have requested that the Board authorize such a rate and we feel that sooner or later that will be done, and we feel also that that question ought to be canvassed from the point of view of all of the banks. That is one of the matters which, from the point of view of the board, it would be well to discuss, and that has been suggested to Governor Strong.

The Chairman: We had that matter up this morning, Dr. Miller, and have passed a resolution for transmission to the Board which contains the unanimous view of this meeting as to two points. We were all quite agreed this morning that it would be highly desirable to have a special rate for the discount of paper for a period not to exceed fifteen days, believing that conditions in the different

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districts would make it necessary to have that rate apply for a longer period, say, in a district like San Francisco, than it would, say, in New York where distances are shorter; and in that connection we also recommended that paper might be discounted for member banks for such short periods as was established for the rates irrespective of the actual maturity of the notes discounted, so that a member bank might discount paper that matured thirty or sixty days hence, for a period of seven, ten or fifteen days at that rate.

Governor Aiken called our attention to a case in his district where a member bank in the State of Maine desired to discount for a few days only but did not have sufficient paper that would mature within that length of time to get that accommodation. They had to go to a member bank in Boston. The necessity for meeting conditions of banks that haven't paper that matures in the period of the lower rate are quite pressing.

Governor Seay: Governor Strong, you omitted to mention the rebate feature.

The Chairman: Yes. The paper which was supplied might be discounted under a contract by which it would be rebated for the unexpired time, the contract to be made in advance, of course---

Mr. Miller: (Interposing) That is a phase of the matter that had not been considered by the Board. I do not think it suggested itself to anyone.

The Chairman: We made a very radical suggestion that

it might be dealt with by making member banks loans upon collateral or eligible paper.

Dr. Miller: This is possibly a step in that direction. It is a very good suggestion and, you say, that action was taken this morning.

The Chairman: Yes.

Dr. Miller: Have you fixed any time when it is to go into effect?

The Chairman: The procedure we have taken simply consists of a recommendation, by resolution, to the Board: First, that these special rates be authorized and second, in order that they might be of use to the member banks, that they discount on that basis and that a rebate for the unexpired time be permitted. Frankly I think the consensus of opinion at this meeting is that many banks would find difficulty in availing of that rate unless they were permitted to rebate for the unexpired time the note had to run beyond the period of short discount say of seven or ten days.

Dr. Miller: There is not very much said in this memorandum regarding trade acceptances, but one or two of the banks have corresponded with the Board about that. It has not been acted upon by the Board but simply informally considered from time to time. The theory we have with respect to that is that we must foster the growth of paper of that kind that is in controversy in the Act, as the proper kind of paper eligible for a reserve bank. We have not it in adequate volume at the present time so we

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must adjust the operation of these banks to the situation that exists and in the meantime see what we can do to foster the growth of another system, naturalizing, perhaps, ~~the~~ forms of paper in the banking practice of this country that are for the moment unusual, and to do this, perhaps, by making some concessions in rates that will make it worth the while of the member banks and borrowers to make the adjustment in their practices, and to do that always with the view of getting the kind of paper that is, as near as things can humanly be, liquid paper, which does not depend on anything aside from the actual transaction that the paper is bottomed on.

If the Board takes action of that kind, as I think it will do sooner or later, we do not want to do anything that will, so to speak, traverse that action. We do not want to work toward the treatment of commercial paper as collateral---

Mr. Seay: (Interposing) Our resolution did not contemplate that. It was the out-and-out discount of paper running, say, thirty, sixty or ninety days, with a rebate agreement. We make rebates now, frequently to member banks, when their customers retire paper, due to the sale of a commodity.

Dr. Miller: I believe almost all of us have done that, but it does not occur with great frequency.

The Chairman: It would be a matter of serious inconvenience to some of the member banks not to be able to rebate some special note where a customer of a member bank

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had a special arrangement to take it up. In New York we have always rebated at one per cent below the discount rate so that it was not an entire loss to us.

Governor Fancher: This situation has developed. A good many of our smaller member banks take all their notes with interest--- a six months note with six per cent interest--- and it is the custom in the bank, if the party disposes of any particular commodity, for him to come in at the end of two or three or four months, pay his note and pay the interest up to that time. If we discounted the paper and a particular transaction of that sort came up they would feel that it was a loss to them. They only pay the discount for the time the note has been in our files and up to the time the customer takes it up.

Governor Seay: It is the general practice in all the Washington banks to take paper with interest. They have a great many very large notes and that has been the general practice.

Dr. Miller: What is the practice in your bank, Mr. Lowry?

Governor Lowry: Most of the banks in the District take notes with interest. Interest follows the note, payable at maturity. We have rediscounted something over 1,000 notes. I think we have been called upon to rebate less than half a dozen. Such calls were in cases where, as Governor Fancher explained, the customer paid the note and the bank released the obligation upon payment of interest up to the payment of the note. Then our custom was

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to rebate the unearned discount at the rate for the period yet to run. If the note was taken up 28 days before its maturity we rebated interest at the thirty day rate.

Governor Seay: For the full time?

Governor Lowry: For the time yet remaining.

The Chairman: Do you figure a new principal? Is there a note drawn with principal and interest, and do you discount the new principal?

Governor Lowry: Yes sir.

The Chairman: That is the custom in New York.

Governor Lowry: We discount the sum that the borrower will have to pay at maturity.

Dr. Miller: Mr. Lowry, I have just recently received a letter from California. What do you do in case of the payment on account ^{by} the borrower to a member bank whose note you have discounted.

Governor Lowry: I think we only had one case of that kind arise, and we credited the amount of principal paid; endorsed the payment on the note and left the adjustment of interest until maturity, anticipating that there might be further payment. We did not attempt to re-adjust the amount of discount until the note expired.

Dr. Miller: So that in that case would ^{you} give practically the same facility as given by any bank?

Mr. Lowry: Yes sir.

Dr. Miller: One of the other questions that we wish to ask you to discuss, or rather that we wish to call to your attention, is the matter of the expenses or expenditures

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of federal reserve banks in the development of some standard by which you could compare the efficiency and economy of operation of the different banks; something looking toward the establishment of a unit cost. We would like to receive your suggestions on that, and I would like to say just a word--- not more than two or three words--- on that subject.

On the first of July the board, according to its previous announcement, is going to publish the expenses of the twelve banks, distinguishing of course between the organization expense and the operating expenses. Until we had announced our policy on that subject there were constant applications coming to the Board for information regarding the expenses of the banks in general or regarding particular banks. Some of these requests came we think from people who were curious to know and who wanted to know whether or not the system, from that point of view, would stand a reasonable test. Their criticisms were plainly inspired by the desire to find fault with the banks. Some of them were clearly malicious and were intended for use as ammunition in attacks upon the reserve banks. Latterly there has been nothing, but I am sure there are a great many people that are lying in wait and who are curious to see what is going to develop when this first statement is published. So this has been a thing that the Board has had constantly in mind. We have had it in mind sometimes to a very unpleasant degree as regards our own operations. The last committee upon

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which I sat was the purchasing committee which was making estimates of expenditures for the next half year. We expected to let you off with an assessment of probably not more than one tenth of one per cent. You see, we are getting down pretty close to the bone, with the object of economy in every conceivable direction.

We are operating the gold settlement fund, and expect to be operating it for some time, without as much as a single dollar of additional expense. We found public men, without cost, that are able to do it and willing to do it, so we simply set them to work on it until the thing grows and reaches a magnitude that will justify or necessitate the appointment of special men to handle it. We have felt that that ought to be brought to your attention.

The Chairman: We have it under four heads on our program.

Dr. Miller: I presume you have all been thinking about it and worrying about it. We want some suggestions so that when the inquiries are addressed to us we can dispose of them in the most satisfactory way.

The Chairman: A good many of the subjects contained in the program, which have been placed there at the suggestion of different officers of the banks, have to do with the detail management of the banks; that is to say, matters of accounting, expense, audit and so on, which really cannot be satisfactorily dealt with at a meeting such as this, where we really are discussing a policy in regard to that matter rather than the details of it.

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At the meeting this morning it was decided to convert the committee, which had formerly dealt with the collection matter, into a permanent executive committee. That committee was instructed to arrange, at an early date, for a meeting of accountants, auditors or experts from certain of the banks, to take up this question of detail. That is one of the subjects that I had in mind, when we come to it on the program, to suggest turning over for detail treatment in that way, and discuss the principles upon which it should be handled at this meeting. Probably a good deal of our work will be done by that method as we go along, because our program is very extensive.

Dr. Miller: That is undoubtedly true.

The Chairman: I think we would all like something in the way of an expression from you in regard to the matter of rebate. But in one phase of the matter there are a great many little details arising in the relation between the reserve banks and the member banks where some technical difficulty will arise affecting the ability of the reserve bank to do for its member banks what they have been in the habit of having done for them by their correspondents. But we can do away with a lot of those things by telling the member banks that they are going to be properly accommodated without regard to too much red tape or too many technicalities. If we do that I think we are going to make friends very much faster. This matter of rebate is just one of the little things that will act as a pin prick to discourage them in taking their business to the

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reserve banks.

Dr. Miller: I think this is one of the matters that has got to be handled, to use our President's phrase, "on the lines of accommodation;" it is a matter in which we must go just as far as we safely can in adapting the operations of these banks to the actual necessities of the existing situation, but not to a point where you tend to include elements in the existing banking practice that are out of gear, so to speak, with the underlying theory and purpose of the Federal Reserve System.

This is the first time this matter has ever been brought to my attention or that I have ever thought of it. My own attitude toward it would be determined, I think, by my guess as to whether or not that kind of accommodation was virtually a loan to a member bank instead of a discount of paper; and secondly, the effect that it might have in diminishing the habit of producing, providing or having a supply of paper of a kind that is, properly as well as technically speaking, eligible for discount under the Federal Reserve System.

I have a letter here, Mr. Lowry, from Mr. John Perrin, of your district, which contains a pretty sage observation with respect to this. The letter is very brief and I think I will read it.

"I am not prepared to say that I advocate immediate action, but I would like to bring before the Federal Reserve Board, for its consideration, the desirability of authorizing special rates to induce the creation of acceptances

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covering ordinary settlements between customers of banks in the purchase and sale of goods. The differentiation between ordinary advances by banks, often capital advances, and those extensions of credit involving goods whose disposition would provide the means of payment, seems to me entirely possible to bring about in increasing measure if the selfish interest of profit seeking can be made to exert its influence. If regulations can be formulated which will satisfactorily define eligibility of paper subject to the special rates, it appears to me that rates one per cent less than the current rates for other eligible paper might wisely be established.

"I assume that in other Federal Reserve Banks the customers' paper accepted for rediscount to a considerable extent must resemble that which we are accepting. We must not blind ourselves to the fact that much of it is not of a class which will certainly convert itself into money at maturity if there were any credit strain, just as a member bank's loans to its customers will not yield it much money under the pressure of a crisis, for instance, as in 1907. So, while it is unquestionably wise to begin our rediscount operations by accepting the best paper that our member banks not have, nevertheless it appears to me desirable that more influence should be applied than is now being exerted to improve the character of the paper. Of course influence of this kind will be more readily exerted when credit conditions become less easy, but the matter seems to be one well worth considering now.

(signed) JOHN PERRIN, F. R. A."

I think that is a wise point of view and one that we must not lose sight of

My first reaction on this matter as to handling paper of long maturity, on the basis of seven, ten or fifteen day advances, would be that it might perhaps tend to postpone the development of paper of the kind that will ultimately be the paper we want for discount at Federal Reserve banks.

The Chairman: How are we to overcome the difficulty of the trade discount? That is almost insuperable now. I mean the difference in rate of interest would be slight compared to the difference in interest as between a merchant and his customer on a trade discount for a like period of time. The rate to these people is two per cent for sixty days and one per cent for thirty days. That is 12 per cent per annum, and unless you can change the basic trade system and make all transactions cash or on acceptance, it is going to be almost impossible to introduce that class of paper except as to those customers who are the poorest customers, who always take the time and never avail themselves of the trade discount. We have discussed that matter with a concern in New York who told Mr. Jay that they had 20,000 customers on their books. They said that in going over their books it was quite clear that the only ones who would avail themselves of any such arrangement were those who were habitually straining their credit to the limit in making deferred payments for goods. They cited as an illustration a large class of customers

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whose accounts were really consignment accounts and who took advantage of every technical defect, shortage or difference in the quality of the goods, time of delivery, or other conditions that might arise if they were not able to turn them over.

Dr. Miller: I suppose that is true at the present time. Paper of that kind is usually weak paper. I suppose the question is whether it is desirable to try to establish two-name paper, not for the largest ^{borrowers,} as they would not resort to it, but at any rate for a considerable class of the smaller borrowers who are by no means weak, and to do that by giving them some inducement in the matter of rates.

You must not lose sight of the fact that sooner or later the pressure is going to be very strong upon the reserve board to formulate regulations under which Federal Reserve Banks will have to go into the open market, under the provisions of Section 14, and buy paper. A great many such suggestions and some demands have been made.

When I was in San Francisco I was interested and surprised to hear one of the largest bankers there say he believed that the Federal Reserve Banks never would become really serious factors in the money market of that district until they did it. I was very much surprised to hear that from, I think, Mr. Lowry, your largest banker, Mr. Anderson. He said that these banks never would amount to anything until they do that. It is not quite clear to any of us how we can do that safely. I am interested

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in seeing if we cannot devise a method by which we can begin to operate under Section 13 of the law, putting that date off to as distant a point as possible.

The trade acceptance that I have in mind, or the Board has in mind--- although we have never dealt with it formally or rather extensively--- is an acceptance that would be eligible for discount under Section 13, giving those who are interested in getting larger facilities at the Federal Reserve banks an avenue of approach through their member banks.

The Chairman: Would you deal with them as bills of exchange?

Dr. Miller: Yes; as bills of exchange.

The Chairman: Or would you deal with them as notes of hand?

Dr. Miller: As bills of exchange.

The Chairman: That would involve at the same time, would it not, the whole subject of domestic acceptances and how they may be distinguished from purely finance acceptances?

Dr. Miller: We have in mind, of course, bankers' acceptances; just straight acceptances.

The Chairman: Of course a great many of the large commission merchants in New York are now longer commission merchants but bankers who are loaning money in one form or another. They would look for domestic acceptances to give a better rate and convert all their loans into that form of paper.

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Dr. Miller: I do not know how much you men in the New York banks hear of these matters, but a great many people never heard of an acceptance until the Federal Reserve Banks began to operate. They were very much impressed with the fact that the acceptances took a low rate and wondered why, if the acceptance was entitled to better credit, we did not advise the same form of acceptance for domestic use.

I feel reasonably sure we will have great difficulty in going ahead and authorizing bankers' acceptances originating in trade between two foreign countries until we have done something to remove the disparity in rates between acceptances and domestic rates. And if we can bridge that cash safely and properly, by establishing a rate for a certain type of domestic paper that has all the quality of good paper even though it is without the very best endorsement, I think we have protected ourselves.

Governor Seay: Trade acceptances were common in a small way fifteen or twenty years ago.

Dr. Miller: It seems to be a usual form of paper in the south.

The Chairman: Thirty or forty years ago it was a universal form of paper.

Governor Lowry: Suppose such a draft were offered with the endorsement of a member bank, could we buy it in the open market?

Mr. Miller: I think the intention of the Board is to limit that paper to paper that comes with the endorsement of a member bank.

Governor Wold: I have a tentative regulation here along those lines, dealing with contemplated open market operations with that class of paper. Governor Delane sent me this last week.

Mr. Miller: There are three tentative drafts. I do not know what the Board will do, but my best guess is that it will begin conservatively, when it deals with the subject, and limit it to operations under section 13. We have safe-guards there. We have the member banks interested in protecting us on this kind of paper, and of course the reserve bank is protected with the endorsement of the member bank. After we watch operations under that we can best determine how far it is advisable to go in authorizing banks to go ahead and purchase this paper on their own initiative.

The Chairman: This situation possibly applies more to New York than any other section of the country. But looking at this from the standpoint of earnings of our banks, if we are to rely for earnings upon the creation of trade acceptances, and our ability to get them from the member banks with their endorsement, the situation will be a little different from what now exists, so far as our earnings

are concerned. Even with a more favorable rate for that class of paper than for the present note of hand, which is considered eligible, with \$200,000,000 surplus reserve held by the clearing house, there is almost no chance for us to do any business with the member banks at all.

I notice by the last report of the Comptroller, or an analysis of his report, that of the \$734,000,000 of surplus reserves shown in his report of March 4, more than one-half or just about one half of all of that surplus is held by country banks and not by banks in the reserve or central reserve cities, which would indicate that it would not be available to one using the facilities of reserve banks if lower rates were established than are in existence now.

Mr. Miller: No one has in mind the development of this kind of paper now with a view of forcing its use. The present situation, of course, is a transitory one. Funds will not always be as easy. It is rather a question of principle. I think sooner or later we have got to face the question of principle.

That question was discussed more or less at the meeting of the last advisory council. I remember that Mr. Forgan recited his experience.

The Chairman: He is "dead agin" it.

Mr. Miller: Yes. There are one or two members of the council that had an open mind on the subject at any rate. At least one or two seemed to think that it would be well worth while to initiate the experiment.

The Chairman: Would it be of value to have this meeting pass a resolution, which I think would be unanimous as most of our resolutions are,---

Governor Sawyer: (Interposing) Mr. Chairman, we are confronted at Kansas City with the question of grain. The grain draft is paid on arrival of grain, bill of lading attached. They are drawn to be paid on the arrival of the grain, bill of lading attached. We have been trying to devise some plan, within the law, whereby we could handle this in some way. It would be of great assistance to the member banks; but we have not been able to think of any way of doing it. There is practically no definite time of discount.

Governor Seay: Could you not do that by making a certain specified time, ample to cover it, with a rebate?

Governor Sawyer: We could do it by rebate.

Governor Weld: Governor Warburg discussed that subject with me. When conditions are normal we might secure a great many arrival flour drafts; that is, shipments covering the sale of flour east sometimes take thirty days, sometimes two weeks, sometimes three weeks and are sometimes indefinite, the customer to pay the draft on arrival. It was suggested that the draft be made for ten days; we could discount it for ten days on arrival and make an agreement with the bank that if it was outstanding at the end of thirty days it would be considered due and would be charged to their account. That would not be practical with a grain draft. Three

or four days would cover that.

Governor Sawyer: Hardly that. Sometimes there is congestion on the railroads and it takes three or four weeks for them to get through. When the war broke out the grain did not arrive for ten days or sometimes two or three weeks. Often, with a heavy crop, a congested condition arises and the grain is delayed. There is no definite time. They cannot figure out in advance how long it will take that grain to arrive at destination.

Governor McCord : In the Sixth District we have another condition, and that condition relates to cotton. The cotton reaches our ports and the buyer of the cotton makes a demand note with the member banks. They never know when that cotton can be shipped; they do not know when they can get shipping room. To make that time paper would absolutely preclude us from getting the paper. They would say "We may get shipping room in six days, or it may be fifteen days."

I communicated with ^{the} Board on the subject of naval stores, and they gave me the privilege of making a special contract with a member bank to take a demand naval stores bill under a thirty day contract with a member bank, with the right to rebate interest. We are thereby enabled to meet a situation that we could not meet otherwise, because we could not hope to get that business. We could not get it unless we handled it the way we have been handling it.

Governor Wold: With a discount of about 30 days?

Governor McCord: Yes.

The Chairman: And a rebate after the bills are released through shipment of the stuff?

Governor McCord: Yes. That was a commodity loan, and the board gave me the right to make the commodity loan, and it proved to be very satisfactory and advantageous.

Mr. Miller: Yes; I remember that instance.

I suggest that you get the subject under discussion at this conference, and that you appoint a continuing committee, representing some of the districts that would be most interested in the development of paper of this kind, to see what can be done to get it started, under restrictions that will protect it against abuse and will yet make it possible to operate it.

Governor McDougal: May I ask you this question: Whether you or the board believe that the paper we are now permitted to re-discount is technically not eligible under the Act?

Mr. Miller: Well, the Act is very widely drawn; it is drawn in extremely liberal terms and the regulations of the Board are drawn in pretty liberal terms. Boiled down to this point it practically says that if the member bank and the Federal Reserve Bank are satisfied, with such evidence as it chooses to exact, of the eligibility of the paper, that it is eligible paper. We did that because we realized that if these banks were to be banks they would have to adapt themselves to commercial practices

as they were.

I think certainly a majority of the Board would feel that there is a good deal of paper that is coming into the banks that is technically eligible but is not actually of the best type. It is conceivable that if we had say more than half of the available resources of the banks invested in paper of this type, and there came a real stress or strain, the Federal Reserve Banks might be in a very bad plight in trying to realize on this paper as it matured; but under those circumstances the fact would be demonstrated that the paper did not really have the essentials of liquid paper.

Governor Seay: I can very frankly say that a great deal that we take, although using the very best care and judgment, falls short of my own definition of eligible paper under the Federal Reserve Act. I am just as conscious of that as anybody can be; and at the same time paper that comes to us is a very much better class of paper, I think, than goes to New York, or to any other bank, attached as collateral. It is the best class of paper that we have get, yet tested by the real definition of eligible paper, which I believe is made with the purpose and intention of being paid at maturity, it falls short.

The Chairman: The real paper that is always paid at maturity, is commercial paper that is sold through brokers. That is the case where the maker of the paper does not know where it is going to turn up when it matures.

Governor Wold: Is that always paid? Is not that paid by selling somebody else the note?

The Chairman: It frequently is. But so far as actual payment is concerned, it is paper where the maker keeps his account with the bank and comes in and says that the bank will have to renew that or he will take his account away. But that paper is paid. Last fall we made inquiry in New York, I think it was about the 1st of September, as to how much paper was maturing before the first of January that had been sold by the note brokers in New York City alone, and it exceeded \$500,000,000; and it was all paid, too.

Governor Wold: And these conditions arose at a very opportune time, the liquidating period of the year. A lot of commercial paper is made during the spring and summer and is resold before the liquidating period of that particular business comes around. If it happened that those conditions arose at a period of the year when it was easy for our people to liquidate, with the harvesting of their crops disposed of, it would be all right---

The Chairman: (Interposing) Well, things moved pretty slowly last fall for some time, until after these banks opened. You will remember the fact that there was over \$500,000,000 of paper sold by brokers in New York alone, or sold throughout the country to the little country banks, and that is a pretty good demonstration that that paper is based upon sound business principles.

Governor Seay: The ideal paper, as I take it, is

that which is paid at the consummation of the transaction upon which it was based. Foreign acceptances were held up last year by prevention of consummation of the transactions on which they were based.

Mr. Miller: Yes. It is impersonal paper. You do not look to the creator of the note; you look to the transaction. The name is important, but it is of secondary importance. The transaction takes care of the paper.

Governor Seay: Is it contemplated that the paper you have under consideration now shall carry documents? If it does not, how are you going to get away from the name. That is the only thing you have to go on.

Mr. Miller: You cannot get away from the name of the company, and that is the reason it is suggested, at the beginning, that this paper come to the Federal Reserve Bank with the endorsement of the member bank. You have got to rely more or less upon the knowledge that the member bank has of the paper of different concerns, and the judgment of the member bank. At any rate if the member bank has got to make good the reserve bank can protect itself by simply pointing to the regulations. The expectation should be that that paper is going to be paid at maturity, and that there is no question about it.

Governor Weld: I am a firm believer in the kind of paper--- if we can get it back to that--- the old fashioned kind in vogue twenty five years ago, where reputable, responsible dealers gave their obligations in settlement

of the bill and did that as a matter of course. They did that nine times out of ten in settlement of a past due bill, a bill past maturity, on which they wanted further time.

The Chairman:

Is not a very large amount of that actually created in order that the seller of the goods may finance his own customers and carry them sixty or ninety days?

Governor Wold: Accommodation?

The Chairman: Yes.

Governor Wold: We have some of that.

The Chairman: I think the great volume of paper dealt in is of that character--- capital for the merchant to use in carrying his customers.

Governor Fancher: There are a great many lines of industry where the particular transaction does not culminate in ninety days from the time it is begun. Sometimes a product is not paid for before eight or nine months have passed.

Mr. Miller: When it comes into the bank let it come within the ninety day limit.

Governor Seay: I was talking to the president of one of the large Pittsburgh banks the other day on the train. He said that one of his customers came to him and wanted to borrow fifty or sixty thousand dollars and he could only do it on his credit. In discussing the matter the President found that he had made a sale of just about that amount which involved some coal shipments. He asked him if he could not draw a draft on the consignee

and he replied that it was not the practice. He then asked him if he could not do it. The customer replied, "I do not think I can do it. I should not like to ask that because it would injure my credit if I did. But he happened to know the consignee and he asked the consignee if he would not be willing to accept his draft, and the consignee said that he certainly would be. That is a case where the man who sold the goods was unwilling to ask for an acceptance because he thought it would injure his credit.

In another case a corporation had to provide for the payment of interest on its bonds. It had a transaction of that kind too. It had a book credit but it absolutely refused to ask for acceptances. The other party in the case was seen and he said also that he would be perfectly willing to accept. Yet the first man would not ask it and actually sold treasury bonds at a low price because it had not been the custom to ask for acceptances.

I believe if the Reserve Banks should take it up with the clearing house member banks in the larger cities and get the clearing house members to put the stamp of their approval upon the acceptance business, we could get it into practice quicker in that fashion than we could in any other way.

Mr. Miller: It will involve education and probably take time. It will grow slowly, but if you can set the stamp of approval upon it and show that it is not only admissible paper, but it is better paper, if it is genuine within the scope of that definition, I believe you will find

a number of member bank customers that would avail themselves of it.

I do not expect that single name paper will ever disappear. It seems to me that it is the class of borrowers midway between the very biggest and best and the weakest and poorest that might be induced to borrow in this form through the member banks, operating under the influence of the reserve banks, and feed into the reserve banks a very considerable volume of paper that in a time of stress might be amongst the very best paper they would have.

The Chairman: The influence of the Reserve banks has already been felt in two directions that impressed me as being hopeful.

I firmly believe that the regulation which takes effect July 15, with regard to the requirement about statements, is going to have a very wholesome effect after a while by giving the member banks the excuse for asking their customer for a statement, whereas heretofore they have hesitated because the customer would leave the bank. Now they have the means of approaching the subject.

We, in New York, have certainly seen the influence in some ways of the regulation about municipal borrowings. Most of the banks in the East--- and I know Governor Kains' bank in the west, and others--- have gotten up a little standard form for use. We get inquiries from the brokers in advance now about the requirements of the federal reserve banks in the borrowing of money in order that the borrowers may conform to the requirements. That

subtle influence on the borrower of having his borrowings come out of the largest possible pocket is going to reach into the question of settlements and may be made to work with trade acceptances. I hope it will. If we can stimulate it by a preferential rate that is certainly going to help.

Mr. Miller: That is one of the questions that we shall have to take up in the autumn, and if your ideas can crystalize in that time so that we can have the benefit of your judgment, it would simplify our task a great deal, of course.

Another question is the examination of state banks that want to come in. In our circular regulations we promise them a certain degree of immunity and tell them that the examinations will be, as far as possible, in cooperation with the state bank examinations and by examiners of the board or of the several Federal Reserve Banks. I suppose all of these banks have on the personnel of their staffs men who are competent to conduct these examinations, and, for the time being, at any rate, have the time to do it; but one or two experiences we have had indicate the desirability of canvassing the matter in advance and coming to some sort of an understanding as to just what the scope of these examinations should be, how far they should go into certain classes of detail and how far they should avoid that; that is, safely avoid going into a mass of detail that might perhaps cause irritation on the part of the banks that are examined.

To assist in that phase of the discussion we have had

Mr. Broderick come here at this time and hold himself in readiness to take part in the discussion of this matter at any time you care to call him. I have not anything very definite in mind, nor has the Board anything very definite to suggest, except that this matter ought to be given attention before the actual work of examining the banks does not is undertaken. It look as though we were going to have a stampede of state banks, and yet inquiries are coming in.

I noticed, Governor Aiken, that the Old Colony Trust Company is ready to come in.

Governor Aiken: Yes. I have been in almost daily conference with them.

Mr. Miller: They wanted to know what they should do and how soon they could get in.

We all know in a general way that the state bank examination in Massachusetts is very thorough. However, we cannot simply let the matter go on general repute, and so the Board has got to devise some sort of procedure for determining the character of state bank examinations.

The Chairman: I was going to ask you if it would be of value to do as we have done in some cases, that is, get an expression of views from each of the Governors of the banks at this meeting as to the character of examinations conducted in their sections.

Mr. Miller: I think it would be of value.

The Chairman: Most of us, I think, would be able to answer that without very much examination. As to the character of the examinations with our districts we might have some that

would pass an absolute unqualified recommendation, and others that would be doubtful and others that would be condemned. A discussion of that might assist the Board in determining to what extent it should go, in the outset, in accepting examinations without further inquiry.

I am sure Governor Aiken would say that in Massachusetts the examination is of a character that would almost allow acceptance without question. I would certainly say that with respect to both New York and New Jersey, where the examination has been developed to a very high standard in recent years.

Mr. Miller: And I suppose it is in the State of California.

Governor Lowry: In California the examination is very thorough, but I cannot speak for other states in the district.

Governor Van Zandt: It is very thorough in Texas. There are four examinations a year and they are very thorough.

The Chairman: There are two in New York.

Governor Wold: In Minnesota we have very good examinations. North Dakota has a good one and Wisconsin also. I would not be able to recommend South Dakota. I am not in a position to state just what the conditions are in Montana. I expect to be out there sometime in September, and will be able to speak more definitely after that time.

The Chairman: Mr. Miller, would you care to have us

take up in detail a discussion of the subject of state bank examinations to see to what extent it may be necessary to have those examinations conducted by arrangement with the state authorities?

Mr. Miller: Yes. I am not prepared to do that myself, but I think it would be well, perhaps, for a committee of Governors to handle that matter, and to have Mr. Broderick called in when you are ready to take it up.

The Chairman: Yes. He knows our district in New York very well.

Mr. Miller: He has been getting an impression of the situation. He has been going through the country. He has just been in San Francisco. His examination^{is} going on now. He has come up here for a day or two and will go back to Dallas.

It occurred to me that perhaps this might be wise; for each one of the banks--- but not necessarily now-- to sooner or later designate the man that it is going to use in making these examinations. It would perhaps then be well to have these men meet at some convenient time and place in conference with Mr. Broderick and to have a discussion of the general plan and method of the examination so far as that could be done. Of course all sorts of adjustments would have to be made to fit conditions in particular states, but at any rate they should arrange to have the examination, whether conducted by one bank or by another bank, with a certain degree of uniformity, so that the examiners, when they come to make a definite recommenda-

tion to the Board, would have a knowledge of who were making the examinations and a knowledge of the general basis upon which they were being made. This should be done in order that the admission of a state bank to any Federal Reserve Bank, where permission has got to be obtained from the board, would be made substantially upon the same basis; not on one basis in one district and on another basis in another district, but a certain degree of uniformity should be observed, and that I suppose could be very easily worked out.

The Chairman: With the larger companies, like the large trust companies in New York, in order to remove the obstacles in the way of their admission to membership, it is going to be necessary to minimize the actual expense and labor involved in making the examinations.

Mr. Miller: That is true.

The Chairman: In New York State a trust company is required to be examined by a committee of its directors twice a year. It is examined twice by the banking department. In the past it has been examined twice, although that is not obligatory, by the Clearing House Association. If the Federal Reserve System imposes in addition another examination upon those trust companies, we have estimated at the Bankers' Trust Company that there would practically be no time throughout the year when they would not have examiners in the bank.

Mr. Miller:

Of course that is exactly what we want to avoid.

The Chairman: That ought to be avoided of course.

I am very hopeful, when the facts are gone into with reference to New York City--- and Mr. Broderick will be of great service there--- that that situation can be changed so that when the question of admission of institutions of undoubted standing comes up we can take the report of the last examination made by the State Bank Department by agreement with that department, or the examination made by the Clearing House Examiners by agreement with that institution. Those examinations are filed in the institutions themselves and can be checked up and looked over and if necessary those matters that require it can receive special study. We could then use those examinations as a basis for admission. If we do that we are going to overcome a great many of the objections.

Mr. Miller: We will go just as far as we possibly can in making it easy for banks in that condition to come in.

Governor Wold: I notice in your regulations you refer to paragraph 2, article 5: "shall invest only in loans on real estate or mortgages of a character and to an extent which, considering the nature of its liabilities, would not impair its liquid condition." You do not mention the form of mortgages. Do you refer to real estate mortgages? Does that imply that a bank may hold a mortgage security upon city property?

Mr. Miller: Oh, yes. The proposition is put positively. We tried to phrase it negatively. We do not

take cognizance of real estate loans as such. What we take cognizance of is the condition of the bank. If the bank's condition is safely liquid, so that it is not going to be embarrassed, that is, be an embarrassment to the Federal Reserve Bank, and so that it can really avail itself of the facilities of that bank, then we feel a real estate loan is safe. But, as a matter of fact, as I say, we do not take any reckoning of a real estate loan. What we look to is the liquid condition of the bank. We feel that this is as liberally drawn as it could be. It might give rise, of course, to a good deal of difficulty in passing upon the eligibility of an applying bank. One bank might have 25 per cent of its loans in real estate, and perhaps not be in a liquid condition; another might perhaps have fifty or sixty per cent of its loans in real estate, or farm mortgage loans and yet be in a very good condition.

I think there are instances of that in Governor Sawyer's district,---

Governor Sawyer: (Interposing) Yes; we handle farm loans.

Mr. Miller: You have farm loans which, in a time of stress might prove to be the very best resources of any of the banks in your district.

Governor Sawyer: They have very few of the same loans in the bank over four months. They make new loans.

Mr. Miller: So that practically what we say here is that on matters of importance to the reserve bank the bank is to use its banking judgment.

Governor McCord: I want to ask a question. I have difficulty with one of my saving banks and trust companies in my city just before I left home. They had just received the regulations and wanted to know if a mortgage on city property on a safe valuation of say 50 per cent was all right, and whether they would join the Federal Reserve System. He said that he understood the regulation governed farm loans---

Mr. Miller: Well, he is in error. I hope with Governor McDougal's aid to persuade the best companies in the city to come in and come in very promptly, and they of course have very large real estate loans.

Governor McDougal: I can go a little further and say that one of our city banks, a very large one, is already in under those very circumstances. They have a large amount of city loans. They loan on city property.

Governor McCord: I will state what statement was made to me. He said, "I have been carrying a subsidiary reserve in standard stocks and bonds, but when the exchanges close I do not have any subsidiary reserve." He said, "I can convert that into commercial paper and carry the subsidiary reserve in them if I am admitted into the system with city mortgages."

The Chairman: Mr. Miller, there is another phase of this same question of city banks taking membership, which it seems to me will necessitate a more or less formal arrangement with the state authorities, and that is in the matter of reports. Most of the states that have good amount of city loans. They loan on city property.

Governor McCord: I will state what statement was made to me. He said, "I have been carrying a subsidiary re-

banking departments require regular reports from the state institutions and they have now an arrangement by which the date of these reports is the same date on which the Comptroller of the Currency makes a call. It would be well if we could make an arrangement with the Federal Reserve Board, and at the same time with the state authorities, for the applying member banks to use that identical form and not require a separate form or a separate analysis of business. That would remove a serious bar to their admission.

Mr. Miller: That is true.

The Chairman: In the large institutions it will take every available minute of time. Ten days is allowed in New York City to prepare the necessary information to get up one of those reports. They are not the form required by the Comptroller's Report, but they are very complete.

Mr. Miller: I suppose in some cases we could bring some pressure to bear upon the State Banking Department to amend their form of report if it is really essential.

By the way, Mr. Broderick attended the Convention of the State Bank Superintendents in San Francisco last month and he reported in general their feeling toward the Federal Reserve System was one of sympathy and accord. He did not think there was very much doubt, if any, but that a very good working arrangement could be effected with them.

Governor Aiken: I had quite a talk with Mr. Thorn-dyke, the bank examiner for Massachusetts, the other day,

and he told me he and his department would be very glad to cooperate with us in any way.

Governor Fancher: I think that is the attitude in Ohio. I think Mr. Hall, the superintendent there, will be very glad to cooperate in the form of examination, or in the matter of uniformity of statements. I think he is very friendly towards us.

Mr. Miller: I thought, Governor Wold, when you spoke a moment ago that you were going to call my attention to item 4 in article 5, as follows:

"Shall maintain such improvements and changes in its banking practice as may have been specifically required of it by the Federal Reserve Board as a condition of its admission, and shall not lower the standard of banking then required of it;"

That, of course, gives any Federal Reserve Bank very considerable discretionary latitude.

I think some of the Board, at the very last moment, before the circular went to its final draft, began to fear that we might get a good many state banks to apply for membership that were not altogether desirable members, and that under the terms of our circular they might say that they had a right to come in, and even mandamus the Federal Reserve Board if they refused to admit them. There therefore might be some difficulty in exercising discretion against a bank where you could not actually set forth acceptable and convincing reasons for refusing to admit them.

My suggestion has been to put in the paragraph above a phrase as follows. I do not know that it would be of any value, but I would put it in: "If, in the judgment of the Federal Reserve Board, an applying bank or trust company conforms to all the requirements of the Federal Reserve Act and these regulations and is otherwise qualified for membership", and so forth.

I think possibly that might help in the case of a bank that was disposed to resort to court proceedings in order to determine its rights. At any rate it would perhaps discourage them or be the means of putting it off.

There is, of course, the possibility that, in our solicitude to make the gateway into the Federal Reserve System easy to banks that we want to get in, we may have opened the door so wide that we cannot block the door to banks whose membership is not so desirable. I think probably that can be handled, if not through resorting to provisions of the Act, at any rate by the repeal of some of the provisions of the circular.

But the matter of some sort of joint procedure between our division of examination and that of the reserve banks, and between both and the state bank authorities, we feel is very important and ought to be developed just as quickly as possible, so that when state banks apply they may receive a prompt answer.

The Chairman: Would it be satisfactory to the Board, Mr. Miller, if we make a recommendation and convey back to the Federal Reserve Banks the recommendation that they

so organize their offices that they will be in a position to make these examinations with their own men, under a supervision that will be arranged by the Board?

Mr. Miller: Yes, I think that would dispose of the matter as a matter of record. Then they could designate the men, indicate to the board who those men are, and our examination division can get in touch with them.

The Chairman: Fortunately we have some very excellent men in our own bank for that purpose. One of them happens to be an old examiner for the State.

Mr. Miller: Mr. Broderick tells me that the banks examined so far not only have excellent men, but men who have had a great deal of experience in the matter of examination, so that in certain cases it will be very simple. It will be simple here in Chicago, with Mr. McDougal's experience. The same is true of St. Louis, because Mr. French was an officer of the clearing house there. San Francisco is likewise in the same position. Nevertheless, there must be some uniform procedure worked out.

The Chairman: Would not the reserve board also feel disposed at this time to consider having the officers of the federal reserve banks open, in a preliminary way, a discussion with the state authorities on this matter?

Mr. Miller: I could not speak for the board on that point. Of course it would be unofficial and informal.

The Chairman: Speaking always for our own district, the examiner in New Jersey is an officer of Governor Rhoades' bank and the superintendent in New York happens

to be a personal friend of some of our officers. I am very hopeful that the Board in Washington will act upon some recommendations, which I hope we will make to them, that we can establish a relationship with the city authorities right away that will clear the deck for the best possible procedure.

Mr. Miller: I would say in that case that perhaps you had better advise the Board of what you are doing, or what you have in contemplation, so that if it is deemed advisable Mr. Broderick can join in it and be definitely informed of just what takes place so that there would be no working at cross purposes or on defective information.

Governor Wold: Let me make this inquiry. Is it contemplated, in a case where a state bank examination is not satisfactory, for the reserve bank to continue the examinations periodically, or will they call on the National bank examiners?

Mr. Miller: I do not think I quite understood that, Governor.

Governor Wold: A state bank makes application for membership. We examine it and the examination is not satisfactory; it is not the character of examination that we would be willing to accept. Is the Federal Reserve Bank to thereafter make a periodical examination?

Mr. Miller: Certainly you would have to do that.

Governor Wold: That might involve keeping or maintaining quite a department for that purpose.

Mr. Miller: It might if there is enough of that kind.

I do not know just what would happen, but we should probably have to enlarge our examining force. But we will anyway, in the near future, make two appointments just as soon as we can get hold of the right sort of men, and those men will assist in that way, even if they do not do all of it or work at it all the time. It has even been suggested that for a while, at any rate, the reserve banks might accommodate one another. The Board will now and then want to borrow an officer or examiner from one of the Federal Reserve Banks so that it can be loaned to another one. In time we can organize an adequate examining force, so that all of this work can be conducted by some sort of a central organization.

Governor Fancher: If the examining department of some particular state was up to a high standard, is it contemplated that the examinations on the part of the state department will be in conjunction with the examination on the part of the Federal Reserve Bank---

Mr. Miller: (Interposing) Yes. That is what we had in mind. We want to cooperate with them at every point. We want to make our examinations at the time when they are making theirs and join with them hand in hand.

Governor Sawyer: Is it contemplated that you will accept the examination made by the state examiners if you are satisfied with the report of that examination and are furnished a copy of it?

Mr. Miller: Yes. We suppose that is what it would

be in fact, but we would not of course want to announce that such was the case. I do not suppose the Board or any Federal Reserve Bank would have the right to take that responsibility, but it could use its judgment, and doubtless wherever there are good examinations, as long as they continue good, accept them. A part of the Board's work with regard to its examination division would concern itself with examining the examiner, so to speak; that is, keep itself thoroughly informed on the quality of the examination rather than participate actively in the examination itself.

The Chairman: We have thought it might be possible say, at one of the two examinations each year, or possibly at both of the examinations in New York City, to have the Board authorize the having of say one or two men to join with the state examiners and have the examination conducted so that they would be on the spot and be able to discuss matters with the examiners. There is a very great advantage in having the original examination for entrance coincident with the regular state examination, and it would be well to have a representative of the Reserve Board or the bank present at the time. Then it will not attract attention, as will a special examination, and no embarrassment will be likely to arise if the member is not admitted, or the applicant is not admitted.

Governor Fancher: We had in mind that once a year, at one of the examinations, to have some representative of our bank in the member bank to take part in the examina-

tion with the State department.

Mr. Miller: That would be it exactly.

Governor McCord: The state banks in our locality have some apprehension as to that. They say that the state examiner will want to show his ability and will be exacting, and vice versa, and they would be between two fires.

Mr. Miller: I think I have taken up about all the time of the Conference that I care to.

The Chairman: Perhaps we can get you to stay a while while we go ahead with our program. We have a variety of subjects to pick from here. If there are any in which you are particularly interested we can turn the program around.

The next matter that would come up in the regular course of the program would be item D under item 4, which is a technical matter: "Appointment of representative to examine Federal Reserve notes sent to Washington for destruction."

This is a matter that we must dispose of at this meeting. Under the terms of the National Bank Act it is necessary that every National Bank have a representative present in Washington to witness and certify to the destruction of national bank notes which are macerated.

Governor Aiken has raised the question as to whether the Federal Reserve Bank should not join in the appointment of a similar representative in Washington to witness officially the destruction of Federal Reserve notes which the Federal Reserve banks are of course obligated to pay.

Governor Aiken, will you explain that point?

Governor Aiken: That statement covers the whole point, Mr. Chairman. It occurred to me that we might have one representative who could do a variety of things; that perhaps the auditor who represented us at the audit of the gold fund account could do that too; that the various duties could be consolidated and covered by one person. That person could act for all the banks.

The Chairman: The two matters have to be dealt with a little differently. The destruction of notes is a matter of constant occurrence at the Treasury Department, whereas the audit of the gold fund, under the terms of the regulation, would occur every three months and will be conducted by some one appointed by this meeting. I think we should take advantage of this meeting to appoint a representative of the banks to make the audit. We then should have a regular representative in Washington to witness the destruction of the notes.

Governor Van Zandt: Is that necessary? As I understand it the reserve notes are obligations of the United States Government direct. When they are redeemed our redemption account is charged with them and when our redemption account is exhausted we get those notes bank.

The Chairman: You mean you get new notes to take the place of those destroyed?

Governor Van Zandt: Yes.

Governor Wold: Are you referring to Federal Reserve notes issued? It seems to me that when we have delivered

the gold to the Federal Reserve Agent our liability ceased on those and we are under no obligation to witness their destruction---

Governor Seay: The law says they shall be paid upon presentation to the bank, and as long as they are out we have the obligation to pay them. They have got to be destroyed.

Mr. Miller: Of course you get the receipt of the Comptroller when they are returned.

The Chairman: In one aspect of the matter it is superfluous work and in another aspect of the matter it is an additional assurance to the bank that the office that is charged with the duty of destroying those notes does extinguish the note in such a fashion that it finally extinguishes them as a liability against the bank,---

Governor Wold: (Interrupting) You have deposited the money with the Government, and that ought to be good.

The Chairman: Are you not assuming that those notes will come in for redemption as national bank notes do? Isn't it a fact that you will be redeeming them in your own office and will have an accumulation of worn out notes unfit for circulation?

Governor Wold: You can present them to the agent and get gold for them.

(Further informal discussion followed.)

The Chairman: Governor Aiken, what is your feeling about this? You are responsible for the item.

Governor Aiken: I am disposed to feel that it would

be desirable to have the notes checked in Washington, just as they do with National bank notes.

Mr. Curtis: The only point I find on it is Section 16, to the effect that Federal Reserve notes unfit for circulation shall be returned by the Federal Reserve agent to the Comptroller of the Currency for cancellation and destruction.

Governor Van Zandt: That is a matter between the Federal Reserve Agent and the Comptroller.

Mr. Curtis: It would seem so from that.

Governor Aiken: Would we really be relieved of all responsibility when they are turned over to him for redemption?

Mr. Curtis: I am not entirely clear on that. I do not know just what that practice would be.

Governor Aiken: If that is so, I should think there would be no necessity for having anyone there.

Governor McCord: Would they not be treated as Treasury notes and silver certificates which the Government itself assumes responsibility on?

Governor Seay: It is a kind of joint liability.
Mr. Curtis: There is this feature of it. The bank would not be protected in case those notes were shipped to the Comptroller and somebody in the Comptroller's office, instead of destroying them, reissued them.

Mr. Miller: They could not reissue them. Of course somebody could steal them.

Mr. Curtis: That is what I mean.

Mr. Miller: When the Federal Reserve Agent returns a note he gets a receipt from the Comptroller. It looks to me as though the protection there is pretty adequate. The man who is not protected, of course, is the Comptroller. The bank turns them over to the Federal Reserve Agent and gets his receipt; the Federal Reserve Agent turns them over to the Comptroller and gets his receipt.

The Chairman: There is not really so much difference in the law as would appear, for this reason. The Government is liable for the payment of the notes and so is the bank. The presumption is that the National Bank is charged with some additional duty with regard to witnessing the maceration or destruction of its own notes because it alone is liable, and the obligation to destroy them is entrusted to the Comptroller: The law provides that the National Bank notes are payable out of the general fund of the United States, and I know some very able surety lawyers in New York who will render an opinion that the United States Government is actually obligated directly for the payment of National Bank notes.

(Further informal discussion followed.)

The Chairman: The question before the meeting is whether it would be well for the Federal Reserve banks to appoint a representative in Washington to witness the destruction of Federal Reserve notes.

Governor Aiken, I think if you will make a motion in this matter we will get action.

Governor McDougal: This matter could be handled

economically, because there are only twelve federal reserve banks whereas there are 10,000 national banks, and there is a constant destruction of the national bank notes. This could be done economically by arranging to have it done at the same time that the audit of the gold fund is made. The Comptroller, no doubt, would be very willing to do it at that time. That would be four times a year.

The Chairman: They have to be checked up.

Governor Wold: Certainly. It involves a good deal of work.

Mr. Miller: It may be of interest to the conference if I report that on the first of July there will be a change in the general machinery for handling issues from Washington. I refer to the issue of Federal Reserve notes. That has been in the hands of the Comptroller up to the present time. The Board has satisfied itself that it is within the law to throw the burden of providing for the physical custody of those notes, until they are actually shipped to the reserve banks, upon the Treasury Department. Instead of doing as has been the practice up to the present time, that is, carting the notes from the Bureau of Engraving to the Comptroller's office, where they have rather inadequate vaults, recounting them and having a very considerable division there for handling the notes, we felt it was rather an unnecessary expense, and from the first of July on the work in the Comptroller's office with regard to Federal Reserve notes will be very much diminished and the expense will be greatly curtailed. All that the

Comptroller will do will be to handle notes returned as unfit. Those are the only Federal Reserve notes that will come into the hands of the Comptroller. His functions will be purely bookkeeping; keeping the records of shipments made under his order from the Treasury or the Bureau of Engraving to the Federal Reserve Banks, and so on.

It is estimated that when we get up to a circulation of \$100,000,000 as we probably will before the year is over, that about \$60,000,000 a year will be returned for destruction. That is an average of five millions a month, and we have made our allowances on that basis, that is, an allowance for the services of counters, record keepers and so on. It will not amount to that at the present time. It probably won't run over two and a half to three millions a month. That would amount to \$200,000 a day and we will have to provide for a clerical force that can do that much and that can destroy them as they go along. Therefore, if you keep someone there to witness the destruction and to check up the notes in the Comptroller's office you will have to have someone there right along, because I do not believe the Comptroller would be satisfied with a periodical destruction of say every three months. I think he would object to that. The responsibility will be considerable and he does not want to take any unnecessary chances.

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Governor Aiken: I brought this up more to get an expression of opinion. It is a department of the bank that I am not familiar with, with which I have no knowledge or experience, and I wanted to give opportunity to the other gentlemen who are more familiar with it than I to give an opinion. I have no motion to make for the appointment of such a representative.

Governor Wold: I am under the impression that that matter has been taken up for a report by the counsel. I believe it was referred to Judge Elliott. Whether an opinion has been rendered or not I do not know.

Governor Seay: I am sure that it has been, because our Federal Reserve Agent has written the board and I think the board advised that the matter would be taken under consideration.

Dr. Miller: Very likely that is true; I had not heard of it.

Governor Aiken: I think we can very well leave that matter in abeyance.

The Chairman: You suggest, then, that this matter be left on the program and that no action be taken at this time?

Governor Aiken: Yes.

The Chairman: In regard to the appointment of a representative to audit the gold fund, we might take that up at this meeting.

Governor Rhoades: I move the Chairman be authorized to make such an appointment.

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The Chairman: It might be well to determine whether that should be a special representative to go to Washington, or whether you prefer to select someone already located in Washington to make that audit. Is there any opinion on that point?

Governor Van Zandt: I suggest that you change your motion to leave it to his discretion in making the appointment.

Governor Rhoades: I meant that he should have discretionary powers in making the appointment.

Governor Van Zandt: I second the motion.

(There being no discussion the motion was put and carried.)

The Chairman: I will make the appointment, if satisfactory to the meeting, to concur with some other meeting that we will have in Washington when, possibly, Mr. McKay and Mr. Hendricks will be there, and we can get them to do it. (Laughter)

Item (f) is in regard to the recent order of the Comptroller with respect to omitting certain items from reports made by member banks to the Comptroller and which both Governor Wold and Governor Fancher feel resulted in some disadvantage to the Federal Reserve Banks. Will you speak on that, Governor Wold?

Governor Wold: The Comptroller, when he made his last call, as you all know, by the letter which accompanied it, advised the national banks that they might eliminate from the report sent to the Federal Reserve Agents certain

that we will have in Washington when, possibly, Mr. McKay and Mr. Hendricks will be there, and we can get them to do it. (Laughter)

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information that to my mind is of great importance to ourselves--- the question of liability of the officers and directors being one, and the principal one. It is quite important that we know where they are doing business, and it is of the greatest importance that we know to what extent the officers and directors are involved in the institution, and what officers and directors; and in connection with that the board sent to the Chairman of our board a letter asking for instructions. You are probably acquainted with that, Dr. Miller, as to what changes might be made in the reports heretofore required of national banks. Our chairman has left the matter in abeyance and has written the board to that effect. When I return from this conference we can then take the matter up along that line. I am very much of the opinion that regardless of what else is eliminated from these statements, the question of liability of all officers and directors, either direct or indirect, should come to the Federal Reserve Banks.

Governor Seay: I think you will find that unanimous. I think Mr. McDougal had some talk on that point with Mr. Harding of the Board.

Governor McDougal: I noticed some time ago the order. I believe it provided that the banks were permitted to eliminate from their reports the details with respect to the obligations of the directors and officers, and upon the occasion of my last visit to Washington I took the matter up with Mr. Harding and told him that the Board by such a ruling was going to deprive us of that factor in the

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report that was most interesting and most helpful of all, and that I hoped very much that they would reconsider the matter and request the banks to go back to their original plan and give us the full details. It is interesting, of course, to know how much the directors are borrowing in the aggregate, but it is not helpful to the extent that it is if we know the detail. I want to know what the president is borrowing, and the cashier, first of all, because I feel that the officers of a bank who are giving their time to the institution should not borrow to the same extent, perhaps, that directors might be permitted to borrow. I believe, on the other hand, that a director in a bank should be permitted to borrow from his institution as freely as he would in the bank across the street, on the same terms, that far and no farther; and when we find that a board in the aggregate is borrowing \$150,000, we want to know whether it is borrowed by one, two or three individuals. Since the matter has been brought up, I think it is perfectly proper for me to talk freely. Mr. Harding was not inclined to agree with me. He felt that if we had before us the aggregate borrowings of the Board, that is all the information that should be given. He, I think

raised one point which indicated that they had had some correspondence with regard to the matter and that some banks had objected to having the details of the borrowings of their directors reported to the Federal Reserve Bank. I asked Mr. Harding to reconsider the matter and told him I hoped they would return to the original plan,

as otherwise we were deprived of very useful information which was left out in that way. He felt that the board had acted on the matter and that it probably would stand. Nevertheless, I think it is a matter that should not rest where it is, but should be taken up, and this body should assert itself and ask for that information. Without it we are in danger, submitted to a danger that would not exist if we had that detail.

The Chairman: I have a letter from Mr. Miller, of Kansas City, along the same lines, Governor McDougal, in which he asks that we bring that matter up for discussion at this meeting.

Governor Sawyer: We discussed that in our committee meeting. Our experience has been that from 50 to 75 per cent of failures are caused by the borrowings of insiders. It is very important, I think, that we should have information as to who is borrowing, individually. The aggregate does not tell us anything except in a comparative way, and what the total borrowings amount to, of course; but we ought to know what individuals are borrowing. It has a great bearing on the credit and standing of the bank. I think we should have it, by all means.

The Chairman: Governor Fancher also asked that this item be put on the program.

Governor Fancher: When we were informed of the new ruling our Federal Agent wrote to the Comptroller and endeavored to bring out certain items. It is quite essential that certain information should be made available to the

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banks, and it is on this point that we should have detailed information of the borrowings of the officers and directors. We should also have the details of bills payable. We stated that those were the two things that were quite essential in determining the condition of a bank

Dr. Miller: The board has been considering various aspects of this and related questions in the past week or two, and I do not think the question needs to be regarded as a closed question. Most of us have an open mind upon it; and while it is acknowledged that the question is one that involves a good deal of difficulty and one that requires some insight or judgment in determining just the extent of the information that the Federal Reserve Bank is fairly entitled to for the use of its officers and the amount of information that the Comptroller's office, representing the member banks, can give without any violation of the trust that those banks impose in him, and, because of that trust, give him the information, there is some adjustment that could be reached. Mr. Harding is rather more sympathetic with the attitude of the banks, and feels that they may have a grievance if more information is given by the Comptroller's office than is absolutely necessary for the use of the Federal Reserve Banks. I am not now talking simply of the publication, but the two hang together more or less. That question is distinctly an open question at the present time and one upon which the Governors ought to, I think, feel perfectly free to express

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themselves, and any well considered judgment that can be arrived at will not only be of the greatest assistance to the Board, but will be utilized by the Board.

Governor Fancher: This is a condition, Dr. Miller, that a district such as District No. 4 faces, that a number of our present rediscounting banks are our weakest banks. It is very essential that we have the fullest information concerning them. We have banks that came to us when we first opened, in November, for rediscount, and they stood on our books, and it is going to be a problem just how to treat that situation. I think it is very essential that we have those items fully.

Dr. Miller: I think you ought to say so if that is the sentiment of the body.

Governor Seay: Either you want to send and examine those banks, or you want all the information which another examiner has gotten from them.

The Chairman: I think we should read to Dr. Miller now the text of the resolution that was passed, dealing with item (a) under Subject 4--- items (a), (b), and (c). Have you the text of that resolution, Mr. Curtis? A great part of our morning session was given up to the discussion of this matter, resulting in the passing of a resolution which was read about six times, I think, and changed every time, before being finally adopted.

(The Secretary thereupon read the resolution referred to, as follows:)

"Whereas, The Federal Reserve Banks are authorized by

law to examine member banks in their districts;

And Whereas, It might be a cause of comment upon a member bank in its community if such an examination should be made in addition to the examinations of the National Bank examiner, until such examinations are regularly made;

And, Whereas, It is considered preferable at present to have the necessary examinations made by the National Bank Examiners, except in usual cases;

"And Whereas, It is considered by this conference that it is of vital importance to the safety and welfare of the Federal Reserve Banks to have unhampered access to National Bank Examiners' reports, and complete information with respect to all member banks,

"Be it resolved, That the Federal Reserve Board be requested to make arrangements with the Comptroller of the Currency whereby complete copies of all reports made by National Bank Examiners with respect to member banks shall be given to the Federal Reserve Banks to be open to the confidential inspection of the Governor, the Federal Reserve Agent and such other officers of the bank as may be approved by the Federal Reserve Board;

"Provided, that nothing herein contained shall be deemed to limit in any way the right of examination conferred by law upon the Federal Reserve Banks."

Dr. Miller: I think that is an excellent way of getting the question before the Board.

The Chairman: I am sure, Dr. Miller, that if you had

heard the discussion this morning you would realize that the only motive that actuates the officers of these banks in passing that resolution is to be able to perform their duties and to protect the banks.

Dr. Miller: That is, of course, what we assume. You mean, to protect the reserve banks?

The Chairman: To protect the reserve banks.

Dr. Miller: The Comptroller takes the position that he has got to protect the member banks; that his relations to the member banks are of a very intimate fiduciary character; that they repose faith in him and make these complete statements, or at any rate that his examiners ascertain their conditions direct, either by direct inquiry or otherwise, and that they must be treated as extreme confidences. Otherwise, the whole bank examination system may break down and lose its value and character. On the other hand, recent discussions have shown a tendency to approach this thing as one that admits of a reasonable adjustment between what is fair to the member bank and what is fair to the Federal Reserve Banks. I think it will take probably a considerable amount of discussion before the thing is finally in the way of solution. But I think there is a solution, and I think that this is a very good way to start it, providing that it shows a willingness to accept something short of an ultimatum.

My own view of this matter is that unless the Governor and Federal Reserve Agent can be trusted with this information, they are not the proper

people . You must secure, then, a change in the personnel. But you cannot administer--- I am speaking now from the point of view of the Reserve Board and the Comptroller's office--- you cannot administer those banks that are charged with very serious responsibility on the basis of distrust or doubt. You have got to get men in these positions in whom you can place the fullest measure of confidence, and then give them the information they ask for and which they feel they are entitled to in the administration of their banks. When I say trusted, I do not mean in the matter of honor, necessarily, but in the matter of discretion and judgment. I believe that will be done. I do not think I am going too far in stating that that is the probable attitude that the Board will take.

Governor Seay: There is this in question with the Comptroller. The Federal Reserve Bank is prompted by the desire to be of the utmost help to the member banks that it can be, and it wishes to know exactly how far it may go in extending aid to the member banks. With full information before it it might be able to go very much further in extending it.

Dr. Miller: That has appeared in some cases already. I think there was a bank in Governor Wells' territory that was distinctly helped by coming into that kind of a relation with the Federal Reserve Bank. It was distinctly hostile to the Federal Reserve Bank, and they finally came to regard it as a big brother that wanted to help. Of course, the call comes really from certain

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of the member banks who are very much afraid that they are going to be put at the mercy of the Reserve Bank--- not that they want to conceal the information, because there is no guilt, but it is information that is valuable to rivals sitting on the boards of these banks and which will put them in a distinctly unfavorable position.

Governor Van Zandt: Our request of the Federal Reserve board is not that the information be given to the members of the board at all, nor to our entire executive committee.

Dr. Miller: I notice that it is carefully guarded-- such as are approved by the Federal Reserve Board.

The Chairman: Dr. Miller, we prefaced the discussion of the terms of this regulation by asking each of the Governors to state the circumstances of their local situation in regard to relations with the examiners, and the result showed that seven of the banks had either satisfactory relations with the examiners or complete access to everything that theoretically is being divulged to the banks. They had the reports in their offices where they could examine them at any time. As to the other five, the information was either denied them or facilities for their getting it had not so far been created.

Our point in New York is not so much to have copies of these reports, as I explained to the meeting here, -- while the resolution calls for copies of the reports, and that was the sense of the meeting--- yet in our case our attitude has been that if a bank examiner takes his own work

and gives us his own judgment, we are delegating our judgment to that examiner. We want to examine his work and see what our judgment is on the facts disclosed in the examination. That is the crux of the whole thing.

Dr. Miller: I think you are right. I think that is a very good form in which to present it.

The Chairman: In regard to item (f) that led up to this matter, the discussion has reached a point where we ought to be able to act upon the resolution, if Governor Wold or Governor Fancher would offer one, in regard to those items that have been omitted from the detailed schedules in the form of report made to the Comptroller of the Currency.

Governor Wold: In view of the fact that the Board requested their reserve agents to suggest any changes that might be made in these reports, it would be well for the conference to see if some eliminations might not be made along other lines that would make it a little simpler. The reports have become more and more extended. I have one thought on loans on farm lands. It seems to me that that is unnecessary now. All we care for is the totals provided they are made under the rules of the Federal Reserve Board. If the report complies with those rules, it would be asking for as much detailed information as is necessary.

Governor McDougal: You have in mind that the report is not intended for our sole benefit, have you not?

Governor Wold: It is likely that the department in Washington would like that information.

Governor McDougal: Why should they want it any

4-13 more than a detailed list of loans made in accordance with the law? Real estate and farm mortgages now may be taken legally.

Governor Seay: Was that submitted to you?

Governor McDougal: Our chairman submitted that to me and asked that I bring it up here.

Governor Seay: I think our reply has gone forward and I have not seen it.

Governor Fancher: Our reply has gone forward. I thought I had a copy of it here.

Governor Wold: I informed the board when I got back that I would frame up a reply and send it on.

Governor Seay: I do not even know myself what reply was made.

The Chairman: Gentlemen, we are going to get down to "brass tacks." A resolution is wanted on subject (f). Governor Wold or Governor Fancher being responsible, I shall ask one of them to offer a resolution.

Mr. McDougal: May I make an inquiry before you proceed? What were the omissions that turned up?

The Chairman: Due or from reserve agents. The name of the bank is omitted---

Governor Van Landt: The item of bills payable was omitted, too.

Governor McDougal: I also took up the matter of bills payable with Mr. Harding, and I told him it would be under some circumstances a very important matter to be able to verify through the details our own ideas or information

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we got from other sources, and I was inclined to think that perhaps they might be likely to ask for that detail again. But he was not inclined to have the liability of the individual directors reported. I think both of those should be reported as formerly.

Governor "old: I am not sure that it is of great importance to have the salary given. I do not think that is important at all.

The Chairman: I do not think it is important.

Governor McDougal: We would rather not have it.

Governor Fancher: I would offer a resolution that it be the sense of this meeting that we recommend to the Board that of the items which have been omitted in the statements as rendered to the Federal Reserve Banks, the statements show the following three items: A detail of the borrowings of the officers and directors; details of bills payable; names of the correspondents.

(The resolution was duly seconded by Governor McDougal, and, there being no further discussion, it was put and adopted.)

(At this point Dr. Miller withdrew from the conference.)

The Chairman: In order to take advantage of Mr. Broderick's presence, turn to item 13, "Admission of state banks". This subject has been divided into two subjects suggested by the Federal Reserve Board--- "Principles of examinations" and "Principles of admission."

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Mr. Broderick, before you came in this subject was discussed with Dr. Miller and we had considered in a general discussion the advisability, first, of this meeting recommending, so far as they feel able to, which states maintain examinations of state banks such as would justify our recommending their acceptance or partial acceptance by the Federal Reserve Board--- which were doubtful as to the character of the examination, and which we would recommend be not accepted. It was also suggested that we consider taking up directly with the state authorities the question of cooperation in examinations and in making reports. We also considered whether by cooperation the form of reports now being made in various states to the state authorities might not be accommodated to our needs with a minimum of changes, if any. The subject was very generally discussed, and now we would like to take it up in detail with you. Would you be good enough to open the discussion by stating your own views?

Mr. Broderick: First, as to the states which maintain a satisfactory standard, the information which I have of course is from a knowledge and acquaintance with the commissioners in the different states, and is based almost entirely upon a knowledge which I have gained from conversation with them as to the methods which they pursue. We have up to this time admitted nineteen banks. In each instance arrangements have been made to authorize the acceptance of the state examinations. That has been done in every instance for this reason: The Commissioner thought

if we attempted to discriminate against any state it would immediately stir up antagonism for the system, and we thought probably we might be able to reach the desired result in another way; our idea being that ^{for} those states that have not been admitted because the standard was not satisfactory, we could arrange to have a special examination made in cooperation with the state examiners.

In that way we forestall any antagonism, and we do not raise the issue. It might be pretty hard for us to say to a state "You do not maintain a satisfactory standard." They would ask us to prove it. We might have some difficulty if we based our proof on information and belief. I believe New York, Massachusetts, California, Wisconsin, Texas and Minnesota have excellent examination standards. I believe the state of Michigan has a good standard. Kentucky is improving. Kansas has an excellent standard. I say that out of respect to Mr. Sawyer. I think the results of examinations from that State will prove that assertion is true. We have a number of other states, like Oregon and Washington, where there are chief examiners or superintendents who appear to be very competent men, but the standard of the examination itself depends upon examination, and nearly all of them would depend upon the Federal Reserve Bank in the district in which the state is located.

The Chairman: New Jersey has a pretty good examination.

Mr. Broderick: Pardon me. That is one state I have

also on the list, and it is in very good condition because the commissioner of banking is the deputy reserve agent of Philadelphia, and, I believe, will continue so. By authorizing the acceptance--- I am talking of the two regular examinations a year--- of all banks in all states, and then arranging to have representatives of the Board, or a representative of the Board, with the bank, preferably, to make the examination in cooperation with the State examiners, we will still maintain friendly relations with the examining authorities in all states and probably secure a greater degree of cooperation than we would receive in case we insisted upon special examinations being made in every instance. That is the attitude which the Board has taken up to this time, and I think if it meets with your approval the chances are we will continue to take it.

The Chairman: Right at this point, in order to get a good record of the views of this meeting, are you ready to consider and act upon the suggestion that Mr. Broderick has already made? If anyone feels disposed to make a motion that will result in an expression of views---

Governor McCord: I would like to ask Mr. Broderick one question, and that is this: Suppose a state bank makes application to join the Federal Reserve System. Ought not the first examination to be made under the supervision of the National Governor, in the Federal Reserve System? That is a very dangerous point in there.

Mr. Broderick: I had not covered the initial examination yet. I was just covering the regular examina-

tion. I was just referring to the nineteen banks which have been admitted, and laying down the principles upon which they were accepted. Shall I go ahead with the initial examination?

The Chairman: Before doing that: You have outlined what you have followed as a procedure in the past with nineteen applicants, but I understand from your statement that that is what you recommend following in the future in respect to examinations?

Mr. Broderick: As to regular examinations yes, not the initial examinations.

The Chairman: In order that our record may be connected, might it not be well for this meeting at once to express its views as to the recommendation which you ^{have} now expressed? Does someone feel willing to make a motion which would be an expression of our view as to Mr. Broderick's statement?

Governor Seay: I think, Mr. Chairman, that it is highly important, in order to secure the prompt admission of such banks as may desire to come into the system, that we should meet them with some definite system of examination which can be put into effect without delay. There exists only the state examination system which we can utilize. We are not prepared to do it ourselves.

The Chairman: Now you are deferring to admission. Mr. Broderick has been discussing the principles of regular examination of members who have been admitted.

Mr. Broderick: Without regard to the question of

admission.

The Chairman: Without regard to the question of admission, which he is going to take up next.

Governor Lowry: As I understand, Mr. Broderick, are you now in a position to determine what state examinations are defective, and what are not?

Mr. Broderick: The best way to determine that is to let the state bank examiners handle that situation with the cooperation of examinations from the federal reserve if by banks, and that procedure we then determine that the state bank examinations are not effective, then we can substitute some other plan.

The Chairman: That is my understanding of his statement exactly, Mr. Lowry.

Governor Lowry: I move that we endorse the view taken by Mr. Broderick and recommend its operation.

Governor Wold: I should like to ask one question of Mr. Broderick if I may. You will expect, of course, duplicates of the reports made to the superintendents of banks that the state examiners made to the federal reserve banks, will you not?

Mr. Broderick: Yes. I might add a point there, too, that before authorizing the examinations made by those authorities we wrote to the specific superintendents and asked them if in the event of authorizing the acceptance of their examination, they would agree to furnish the Federal Reserve Board with two duplicate copies of each examination and furnish such other information as might be

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necessary, and, further, to agree to send those reports to the Board through the Federal Reserve Agent in the district in which the state is located. In each instance we received their assurance, and we have received it with copies of the examination since that time.

Governor McDougal: How many states does that cover?

Mr. Broderick: That covers---

Governor McDougal: Never mind the number; but there are a number of states as to which there was no report made?

Mr. Broderick: I will give you the states in which we have the arrangement at the present time.

Governor McDougal: All I wanted to know was whether you had corresponded with all of the state banking departments?

Mr. Broderick: No; only the commissioners of those banks which have already been admitted to the system. That only includes about seven or eight--- Texas, Alabama, Missouri, Wisconsin, Illinois, South Carolina and Virginia.

The Chairman: Then, Mr. Broderick, the extension of those arrangements into other states would be dependent still upon the attitude of the commissioners in the departments of those states?

Mr. Broderick: Yes. I might say in connection with Alabama, that the arrangement has not been made there, for the reason that the superintendent believes he has not the power under the law, and the question has been referred to the Attorney General. In the event of the Attorney General's ruling adversely, arrangements will then be made

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to have the examination made by representatives of the Federal Reserve Bank at Atlanta.

The Chairman: Governor Lowry's motion has not been seconded.

Governor Wold: I second the motion.

(There being no further discussion, the question was put and carried.)

The Chairman: May I suggest, Mr. Broderick, that the next question that we should discuss will be the principles of the examination for admission.

Mr. Broderick: Governor Seay took up the question of expediting the admissions, particularly those which are known to be in a good condition. In that regard I think a procedure like this might be followed: The form of application will be a little different from that--- I do not know whether you gentlemen have received forms or not. I have not received a printed form myself, so I am just talking as to the form which existed at the time I left Washington, which was in the latter part of May.

The Chairman: It has been sent to all the reserve banks.

Mr. Broderick: I think the principle is all the same. You will note that this new form differs from the old in that the application will be complete in itself when it is filed by the bank. The difficulty was experienced in the old form because it required a certificate of the state examiner. The result was that in some instances a regular examination may have been made two days before the application was made out at the bank, and the result

would be that probably another examination would not be made for a year--- usually, six months. It was thought in connection with this application that the bank should be able to file a complete application at one time, so that it could be considered by the committee of each Federal Reserve Bank.

As to the examination, I think that three or four methods could be followed. A choice of any one of the three suggestions would be satisfactory. In the first place, the members of the Federal Reserve Board are usually familiar with the condition of the bank, or they have facilities for obtaining information as to the general condition of the institution from other institutions. It may be that of their own knowledge it is known that the bank is not in a satisfactory condition. So before taking up that application or putting the officials to the trouble of examining the bank, we might be able to weed out a number of applications right there. If the general reputation of an applying bank is considered good, then arrangements should be made with the commissioner of banking to consider the last report of examination.

In the first instance an examination might be made two months or three months, four, five or maybe six months before, and if the general condition of the institution has been uniformly good for a number of years, then there is no reason why a recommendation should not be made as to the approval of the examination based upon the examination recently made. I think that would enable us to expect

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dite passing upon the applications. In the event that too long a time has elapsed between the last examination and the time the application is filed, then the question of examination could be taken up. You might be able to arrange to have the state commissioner make an examination if you personally consider his standard proper; or you might arrange to have the auditor or one of your officials or one of your clerks who is competent to do that work, examine with the state examiners, or you might arrange, in the event that you have not sufficient confidence to take up the matter very tactfully, that the commissioner make a special examination.

I think any one of those three methods would be satisfactory.

The Chairman: In the event that the bank itself made an examination with its own examiners, it would then not be necessary to get the assent of the Commissioner of the State?

Mr. Broderick: No. I think it would be a little bit diplomatic to take up with him and tell him you would like to have this passed on, and probably it would not be convenient for him to take up the examination right away, and in that way you would still retain his friendly opinion. State commissioners are not overly enthusiastic about the Federal Reserve System, but I have found that by taking it for granted you can accomplish a great deal more.

The Chairman: And they are really under implied in-

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tention of law to facilitate the admission of state banks into membership, because the statute provides for their admission; and while it may direct the superintendent or commissioner to do any particular thing, the mere fact that the statute has made provision for the admission of state banks to membership in the system is an implication that they should not be obstructed, at any rate.

Governor Seay: Those that I know are big enough men not to consider the personal view at all. I know that in the State of Virginia the bank commissioner is not permitted to give information as to any institution; and we found a way; we suggested that we have the bank pass a resolution authorizing the state examiner to appoint the Federal Reserve Agent at Richmond, and the Secretary of the Federal Reserve Board as agents of the bank to receive information from the bank Commissioner. I think in a number of states we can do the same thing. There is something in the law which provides for getting the information, but I think their cooperation is very necessary. I have ^{found,} further, that one reason why they are apt to cooperate with us is the fact that we will be holding up their hands too. They were told very plainly that as to any state bank which was under criticism of the State Department that should apply for membership, if the criticisms were material ones they would not be admitted to the Federal Reserve System. In that way we are weeding out unsatisfactory conditions, and institutions, and they can see where we would be of vast assistance to them. I think if we handle the state commissioners rightly they will be very good friends both

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to the banks and the system.

The Chairman: Then, I understand that your recommendation for handling the admission examinations provides really for three possible courses: One is for the admission to be based upon the examination of the last previous state examination, where the officers of the Federal Reserve Bank consider that the examination is an effective and efficient one. The second is to provide for a joint examination with the cooperation of the state authorities, or possibly a special examination by the state authorities with a representative of the bank---

Mr. Broderick: I might say, Mr. Strong, a special examination on the part of the state authorities without a representative present, and a special examination with a representative present; in other words, leave that to the discretion of the committee specified in the regulation.

The Chairman: Exactly; and by one of those three methods you would deal with the application for admission to the system, in each instance being guided, of course, by the best knowledge that can be obtained as to the character of the state examination, upon which would be predicated the judgment as to whether it would be accepted in whole or in part, and whether a special examination should be made by the reserve bank.

Mr. Broderick: That is correct.

The Chairman: What is your pleasure as to taking action on this recommendation, gentlemen, and if so, will someone offer a resolution to that effect?

Governor Rhoades: I make that motion, Mr. Chairman.

Governor Sawyer: I second it.

The Chairman: First, let me ask if any objection appears to that course?

Governor Seay: It is thoroughly in conformity with my ideas, sir. I believe you, yourself, have indicated that in your own district that will probably be the only means that you can use to put it in force. I believe the same thing is true as to all of the districts.

Governor Fancher: I believe it is practically true in all the districts.

(The question was called for, and, there being no further discussion, it was put and carried.)

The Chairman: The next subject, naturally, Mr. Broderick, it seems to me would be the method of dealing with the regular reports made by state banks to the state authorities. We are now dealing with this matter by the general advice or supervision of banks that apply for membership.

Mr. Broderick: May I ask if you can just change that order to bring in the question of examination now?

The Chairman: You would rather deal with that next?

Mr. Broderick: Just as you say; only I think, with the question of examination, the next point as to making examinations is to make sure that we have the proper material in each instance and to adopt uniform methods.

The Chairman: All right; let us discuss that next,

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Mr. Broderick.

Mr. Broderick: I would make this suggestion, Governor; that in each district names be given of those who should be designated as examiners.

The Chairman: Will someone offer a resolution which I will take the liberty of dictating in order to make progress?

It is moved that immediately after this conference each Reserve bank designate and advise the Federal Reserve Board of the names of the officers or employes in each bank who will ^{have} ~~be~~ assigned to them the work of making examination of state institutions.

Governor Fancher: I will offer that as a resolution.

Governor Van Zandt: I second it.

(There being no further discussion, the resolution so offered and seconded was adopted.)

Mr. Broderick: As soon as names are received, of course the matter of uniform method of examination can be taken up with those gentlemen direct.

As to the matter of report: The report itself will have to be made to conform to the state reports in order to insure the proper cooperation with the state authorities, for the present at least. We can ask the state authorities to obtain such additional information which we may need which is now included in the regular state report, but I think it will be a good deal better to start off with their reports and change them or decrease---

The Chairman: We realize that in all states where

reports are regularly required from state banks, much of the material is required by statute.

Mr. Broderick: You are talking of the regular reports?

The Chairman: Yes; I thought that was what you were referring to.

Mr. Broderick: There will be no difficulty in taking that matter up directly with the bank itself. For instance, in New York the state superintendent receives a copy of the report of every national bank in that state which has been designated as a reserve depository. There is no reason why the Governor of each bank or the federal reserve agent cannot take up with the state banks that have been admitted the matter of filing duplicate copies of reports made to the State Commissioners.

The Chairman: Then can we not pass a resolution stating it to be the sense of this meeting that at the earliest practicable moment each bank take up with the bank commissioners of the respective states of their districts the question of having copies of those reports filed at the proper time?

Mr. Broderick: May I interrupt at this time, Mr. Strong? I would suggest that probably it would be a good deal better if that matter were taken up with the member banks and have them file copies.

Governor Wold: Do you refer now to the special examination or the reports?

Mr. Broderick: The reports.

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Governor Wold: That is one of the requirements of its admission.

Mr. Broderick: They take the reports to the Comptroller of the Currency.

Governor Wold: State banks?

Mr. Broderick: The state banks that have been admitted have to make reports on the forms prescribed by the Comptroller of the Currency. Mr. Strong's point is, I believe, that on the state forms there is more helpful information with regard to those state institutions than you could get in the national form which is now being used by the state banks.

The Chairman: In our state that is so.

Mr. Broderick: I think the state banks should be required to file copies of the reports which they file with the state commissioners, and those extra copies can be obtained by taking it up in each instance with the member banks.

The Chairman: Then, possibly I should modify that statement by the suggestion that we get copies of the forms from the respective states and send them to you so that such supplementary information as should be obtained can be set out in a separate form, and such information as they will be reluctant to give may be described as not essential. I do not think if the Comptroller omits from the reports that we get from National banks a statement of the salaries of the officers of the bank that he should require the statements of the salaries of officers of the state banks

that is now required in New York State.

Mr. Broderick: In the quarterly reports?

The Chairman: Yes.

Mr. Broderick: Is that something new?

The Chairman: Yes; they have had it in there for some time. All the salaries of the officers are set out in the regular called report from the trust companies in New York.

Governor Wold: I think they are in Minnesota, too.

Mr. Broderick: Why not try to get the whole report instead of bring^{ing} up the question of elimination, at all?

The Chairman: They objected to it in New York State.

Mr. Broderick: I know that.

The Chairman: The national banks from the very outset in New York did not fill in the salary questions at all in the reports that they sent to us, and we did not require them to do it. In most cases they omitted to do it.

Mr. Broderick: Do you not think that the Federal Reserve Banks can handle that matter for themselves?

The Chairman: I suppose they can.

Mr. Broderick: Simply ask for a copy and get all you can and take up the objections later?

Governor McCord: We do not get all of it now.

Mr. Broderick: State reports?

Governor McCord: Even National banks--- we do not get all of it now.

The Chairman: What is your view of that, Governor

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McDougal?

Governor McDougal: I think that the more information we can get the better. It seems to me that Mr. Broderick's idea of asking for a complete report and not suggesting any eliminations will be all right where it works. If it does not work, we will have to take what we can get.

Governor Fancher: Let me inquire: Would that mean that they would send to the Federal Reserve Agent a copy of the report that they would render to the Comptroller, and also an additional copy of the report each would render to the state superintendents of banks? Would it mean that, Mr. Broderick?

Mr. Broderick: Yes, it would. It would be really a double report.

The Chairman: That ought to be eliminated, if possible.

Mr. Broderick: How can you eliminate it if you want the extra information of the state report, unless you write to each bank separately?

Governor Fancher: It would be voluntary on the part of the state bank if it furnished us a copy of its report to the State Superintendent?

Mr. Broderick: Yes.

Governor Fancher. Of course the report to the Comptroller they would be obliged to furnish to us the same as the National member banks, but it would be voluntary on their part if they furnished us with a copy of their report to the state superintendent?

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Mr. Broderick: Yes. I think you will find that the calls for reports, with the exception of New York and a few other states, are made concurrently with those of the Comptroller.

The Chairman: They have been in New York State until recently.

Mr. Broderick: New York State calls for four and the Comptroller calls for five. New York State has only been calling where they could arrange to call privately; but there has not been as much cooperation on that point as there should be.

Governor Wold: Will they be required to publish two different statements?

Mr. Broderick: No. They do have to publish the state reports, but they do not have to publish the national reports.

McCord:
Governor Wold: The trouble in our state--- Georgia--
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is that the State superintendent calls for reports simultaneously with the Comptroller, but he omits the fifth one, and usually that is the very one we want. It shows the conditions at certain times that they would not like to disclose from the state standpoint.

The Chairman: It imposes upon the state banks the necessity of giving not only very complete reports, which some of them now give four or five times a year, but the additional necessity of giving reports required by the Comptroller showing conditions of national banks. The forms are quite different. The forms applying to state

banks are modeled upon statutory requirements in many cases, and the forms made to the Comptroller of the Currency follow his discretion, very largely. Why might it not be practicable at the outset to accept from those states where they cannot get forms of reports just copies of what is regularly filed with the state department?

Mr. Broderick: That probably would be O. K., but the matter of the form of report, under the Federal Reserve Act, is in the discretion of the Comptroller of the Currency.

The Chairman: Then why can we not recommend that the Comptroller exercise his discretion to avoid making this report matter a perfect nuisance to the State banks that we are seeking to bring into membership?

Mr. Broderick: Of course it is within your powers to make the recommendation. The only point I can see, from his standpoint, is the fact that he has a very complete statistical department in his office, and it may be necessary to get the later information for all the member banks.

Governor Wold: He makes his reports based upon the National Banks, and not upon member banks, does he not?

Mr. Broderick: Yes; that is true.

Governor Fancher: I offer a resolution recommending that in those states where a very full and complete report is made by the state banks to the state authorities, when the calls for conditions are concurrent with the calls from the Comptroller, those reports be accepted in lieu of a

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report made in this special form provided by the Comptroller.

Governor Seay: Of course, as to making the calls uniform---

The Chairman: I think if the resolution offered by Governor Fancher should be passed just as it stands it would produce a certain amount of pressure for uniform date and ultimately uniform banks to be used. Certainly it will save expense if it is construed that the Federal Reserve Act requires every state bank that takes membership to publish its report just as a national bank does, because there would be a duplication of the expense of publication.

Governor Van Zandt: I second the motion.

(There being no further discussion the motion was put and carried.)

Mr. Broderick: You want to take up next the form of examination?

The Chairman: It seems to me we ought to have some discussion of what form the examination shall take. We certainly would like to get your views about it.

Governor Wold: While it is on my mind I would like to inquire if there is any objection to naming an examiner of a bank the chief examiner who may be a chief examiner in the bank?

Mr. Broderick: Certainly not. The only point is to keep down the expense of the examinations. The examinations are made by Mr. Kerst as the National Bank examiner----

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Governor Wold: Suppose they are made by him as examiner of the Federal Reserve Bank.

Mr. Broderick: I should imagine that would be all right. I have a form here. It is not very lengthy. It gives my ideas as to the points which should be covered.

The Chairman: Why not let it be put into the record?

Mr. Broderick: It is the only copy I have. It will not take more than three minutes to read it.

(Mr. Broderick thereupon read the form referred to, as follows:)

INITIAL EXAMINATION OF STATE BANKS APPLYING FOR
MEMBERSHIP IN THE FEDERAL RESERVE SYSTEM.

In addition to signing the regular certificate, the examiner should be requested to furnish the following information and statements concerning the bank examined:

1. Report of condition. (Same form to be used as that marked Exhibit 1, filed with the application for stock.
2. Copy of the daily statement certified to by an officer of the bank.
3. Memorandum of the date upon which the last state examination was made--- name of examiner. If a trust company, please state if trust investments and securities were examined.
4. State whether periodical examinations are made by directors.
5. State law limitations.
 - (a) As to secured and unsecured loans to any one firm, corporation or individual.
 - (b) Loans secured by real estate mortgages or other real estate collateral.
 - (c) Investments.
6. Loans and discounts.
 - (a) Amount loans in excess of 10 per cent of capital and surplus (not including undivided profits) of the applying bank.

- (b) Amount of past due notes and loans.
- (c) Amount of notes or other loans in default six months or more which are not properly secured or in process of collection.
- (d) Amount of loans maturing after one year.
Give details.
- (e) Amount of demand loans upon which no interest has been paid for one year or more.
- (f) Amount of loans secured by own bank stock, with details.
- (g) Amount of loans secured by stock of other banking institutions. Give details.
- (h) List of loans over an amount equal to five per cent capital and surplus. Give name of borrower, business, address of borrower, amount of loan. Approximate deposit balance.
- (i) Real estate loans:
 - (a) How is the value of property determined?
 - (b) Money is advanced to what percentage of the appraised value of the properties?
 - (c) Make comment as to the loans to individuals connected with real estate trading corporations, with a description of collateral, if any.
 - (d) Is title to the mortgaged property held by banking institutions?
- (7) Real estate owned:
 - (a) How acquired.

- (b)
- (b) Make comment as to prior mortgages - assessed valuation - income - taxes - expenses - interest - appraised value - when and by whom appraised.
- (8) Investments.
- (a) Give list of investments in detail, showing securities - rate of interest or dividend - par value - book value - and valuation based upon current or last available quotations.
- (b) List of investments in default.
- (c) Provisions for depreciations.
- (d) Are book values adjusted periodically to agree with current valuations?
- (9) Directors and officers.
- (a) Please give a memorandum of the names of officers and directors - post office address - business - firm and corporation affiliations - liabilities as payer - liabilities as endorsers and guarantor.
- (b) List of loans made to corporations which are owned or controlled by officers or directors of the banking institution.
- (10) Assets and liabilities which are not entered upon the books of the banking institution.
- (11) Notes and bills rediscounted, bills payable and certificates of deposit representing money borrowed.
- (a) What is the present amount of indebtedness?
- (b) What assets have been pledged as security for

- (4) indebtedness.
- (12) Contingent liabilities.
- (a) On bills rediscounted or endorsed - guarantees - all other - give particulars - notes and securities pledged or sold with agreement to repurchase.
- (13) Assets pledged as security for deposits or other purpose except money borrowed.
- (a) Give particulars.

Examiner's opinion and comment:

Examiners are requested to cover the following points in the text of their report:

- (a) Character of the business in the community in which the institution is located.
- (b) Character of the business of the bank.
- (c) Is the institution solvent?
- (d) Is its business conducted strictly in accordance with the provisions of the state law?
- (e) Is the management of the institution competent?
- (f) Do you consider the loan policy safe and conservative?
- (g) Are there any unsafe or unsound tendencies apparent?
- (h) Has there been an increase in undesirable assets during the past year?
- (i) Do officers and directors give proper time and attention to the affairs of the institu-

- (j) Is the stock control of the institution held by any one person or group?
- (k) What is the policy of the institution regarding loans to officers and directors or to enterprises which they control or are interested in.
- (l) Is the institution in a position to meet with the reserve and loan requirements of the Federal Reserve Act?
- (m) Comment as to the law suits in which banking institutions may be interested.

(At this point an informal discussion occurred which the stenographer was directed not to report; after which the following proceedings were had:)

The Chairman: Mr. Brederick, does it not boil down to this, that you have the choice of three courses; outside of using your own men you can call in the examiners from the Comptroller's office; you can call in clerks from the sub-treasury occasionally, or you can possibly get assistance from the other Federal Reserve Banks. I would rather have you come in with a man from Mr. Fancher's or Mr. McDougal's bank than either of the other two, and examine our bank, and I would a great deal rather join in lending our men for that purpose than to have the examinations conducted by the use of many men outside of the system.

(At this point further informal discussion was had which the stenographer was directed not to report; after which the following occurred:)

The Chairman: Governor McDougal, do you see any objection to this course? It appeals to me very strongly as giving our men a chance to get information and education.

Governor McDougal: I think the plan you suggest of loaning men to each other is a very good one. It would be entirely satisfactory to me. The reference I made to borrowing help from the bank itself was that I know, of course, that our banks are large enough to take from one department some man who has no knowledge whatever of another department, and possibly we might help you out. But if we can loan him, that would be a very nice and satisfactory solution.

Mr. Broderick: Do not think, gentlemen, that I do not appreciate the point which you raise. As a matter of fact, I think I will be able to use them, because very often we underestimate the amount of work required. Again, our institutions are entirely different from the commercial or investment bank in that we simply have a certain line and they are operated not for the purpose of profit but for the purpose of the general good.

(At this point further informal discussion arose which the stenographer was directed not to report; after which the following proceedings took place.)

The Chairman: Will someone offer a motion, if I understand the sense of the discussion correctly, signifying

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our approval of the suggestion made by Mr. Broderick and, generally, our desire to cooperate in this matter of examinations?

Governor Aiken: I make such a motion, Mr. Chairman.

Governor Fancher: I second the motion.

(There being no further discussion, the motion was put and carried.)

Mr. Broderick: Mr. Strong, may I ask the privilege of about two minutes on some other points?

The Chairman: Certainly, sir.

Mr. Broderick: In the first place, the question has arisen as to payment of entry for membership in the clearing house. I know what method has been pursued by a certain institution I have examined. I would like to know whether, from the representatives of the other five institutions, it is required to pay an entrance fee in the clearing house association?

Governor McDougal: We pay here the dues, the annual dues. I believe that is all.

Governor Aiken: That is what we pay in Boston.

Governor McCord: You have the record on us.

Governor Wold: We have not used the facilities of the clearing house as yet, although we are elected to a nominal membership without liability of any kind, and I suppose it would be without payment of dues or anything of that kind, except our proportion of the clearing house dues.

Governor Fancher: We are not members of the Association, Mr. Broderick. Provisions have been made for joining.

but we have not yet joined.

The Chairman: Do you know what our situation is? We pay a fee for clearing, of \$500 every six months, subject to readjustment, and we have the privilege of using the vaults up there, which is worth a great deal more than that.

Mr. Broderick: Another question, if I may ask your opinion. There is considerable difference of opinion as to the proper method of carrying municipal warrants. I have recommended to the Board that all municipal warrants should be carried on a discount basis. That is, that warrants be carried as investments for the amount which will be received for them at maturity. Do I make that clear?

Governor Fancher: Face and interest?

Mr. Broderick: Face and interest; and the difference between the cost and the amount which you will have received at maturity is to be transferred in the same manner as discount.

The Chairman: Suppose you bought them at par and interest?

Mr. Broderick: Carry them at par and the amount of interest which you receive; in other words you can buy your warrants in two ways. Say you purchase it at a discount, and you probably pay \$49,700 for it. Then you might buy them at \$50,000 and interest at maturity. If you carry them both on the par and interest bases it will simplify the accounting system and enable you to carry your

investment---

The Chairman: But on your plan, Mr. Broderick, if you buy a warrant for \$50,000, and get three per cent interest on it at its maturity, and then you carry it in your banks at \$50,000 plus the three per cent interest and discount that at three per cent, you are investing your interest before you get it?

Mr. Broderick: No; you may invest your interest; that is the way it is being done at the present time. The idea is simply to simplify the present method. Under the former system you have got to carry your warrants in two ways, and it is intricate and it never works out.

The Chairman: Might that not be made up as a memorandum which we can transmit?

Mr. Broderick: Yes; I am asking that the suggestion be made to all the Federal Reserve Banks.

The Chairman: Before you leave, Mr. Broderick, I would like to ask if you expect to be here tomorrow, and whether you will be available?

Mr. Broderick: Yes; I will be here tomorrow.

The Chairman: Because we have on our program various things, and it seems to me ^{we} would get a great deal of advantage by having you here, and if agreeable I should like to skip item No. 5 and all of the subjects covered by that until tomorrow morning, if Mr. Broderick is able to be here then.

Mr. Broderick: Yes; I will be here until tomorrow evening, unless I can be of any assistance later than that.

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The Chairman: Before you go, I would like to say that a question has been raised as to whether it is clearly understood by everybody and should be so understood that these examinations of state institutions for admission to the system are to be at the expense of those institutions in each instance?

Mr. Broderick: That is a point which has not been taken up with the board. I think that is the proper principle, Mr. Strong.

Governor McCord: That is the way we understand it down my way.

Governor Wold: That would make a double expense.

Mr. Broderick: What do you mean by expense? What do you think proper for expenses? Just the incidental expenses of the examiners?

Governor Wold: It raises the whole question. Of course if we send examiners out of our offices to Boston to make examinations, naturally the bank examined would pay that expense.

Mr. Broderick: You mean, inside of your own district?

Governor Wold: No sir; in our district but outside of the city. But the question is whether the actual out of pocket expenses of the examination shall be ~~made~~ alone paid, or whether the applicant shall be required to pay an amount for the making of the examination which would include the out of pocket expenses plus the time of the examiner--- whether there shall be any expense imposed upon the applicant, and if so what it shall consist of?

Mr. Broderick: I think that is a matter you had better take up with the Board. Probably if you would lay down the principle here and send it down to them as the consensus of opinion of this meeting, it would have great weight with them.

The Chairman: What is your own view?

Mr. Broderick: To keep down expenses as much as possible. I would like to see the view prevail that no charge shall be made for time unless necessary for the banks to obtain the service of additional employes, for the time for which employes can be spared does not cost the banks any more than if they were in the office, unless it is necessary to get other people to take their places to perform the daily routine.

Governor Rhoades: What has been the practice with those already admitted?

Mr. Broderick: No expense has been incurred so far.

Governor Wold: Suppose a state bank from South Dakota applies for admission--- and there are a number there that now contemplate coming in and we would like to have them in--- we do not care to accept the South Dakota examination at the present time. We will have to make periodical examinations. Is it your thought that the Federal Reserve Banks should stand the expense?

Mr. Broderick: No, it is not; just to have the banks come in with the understanding that those examinations will have to be made and they will have to pay the expense of them. Conditions in your district might differ from

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those in another district, in a compact district like New York. They might have to go to Montana, 1500 miles away.

Governor Wold: That is a difficult question.

The Chairman: We will discuss that and see if we can agree as to a principle, Mr. Broderick.

Mr. Broderick: You have the authority under the law-- it is very specific there-- to charge the cost of the examination.

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The Chairman: In order to conclude the discussion in regard to examinations, may we not endeavor to arrive at a recommendation as to how the expenses of examinations for admission shall be dealt with?

Governor McDougal: It seems to me, Mr. Chairman, that the expense should be borne by the applying bank in the same way that it is borne by state banks that apply to be converted into national banks. It would be a heavy burden to put upon the bank to expect us to meet the expenses of that examination, and it would be a perfectly proper expense for the applying bank to pay.

The Chairman: Would you have that expense include the time of the men engaged in the examination at the rate of salary paid them by the reserve bank?

Governor Sawyer: I think it should be made uniform. If you send a man from one of the banks to examine and charge for his time at the rate paid by the bank, and the next time send an outside man to examine a neighboring bank at a higher rate, I think it would cause a lot of dissatisfaction.

Governor McDougal: The question is whether we are to charge anything for the men's time.

The Chairman: Yes; that is the question.

Governor McDougal: We have no men to devote regularly to that work at the present time. We would have to employ someone to take their places while they are gone.

The Chairman: Do you expect a flood of applications and expect to be making examinations all the time?

Governor McDougal: I think we should prepare for them. That time will come, and you cannot change the procedure when once it is started, I am afraid.

The Chairman: Your idea would be that each applicant for membership in the system should pay the actual out of pocket expense incurred in making the examination, plus the value of the time of the men devoted to that work, measured by the amount of their compensation received from the Federal Reserve Bank?

Governor McDougal: That would be my recommendation.

The Chairman: Is there any further discussion?

Governor Sawyer: I think it ought to be made a flat rate for examinations.

Governor Wold: Based on resources?

Governor Sawyer: Yes. You are going to cause a good deal of dissatisfaction if you do not do that.

Governor Seay: It is quite an important matter when the small banks apply for admission.

The Chairman: Might it not be proper to do it the

way the accountant does it; that is, so much for the man in charge and so much a day for his assistants?

Governor McCord: The Comptroller's office, under the new rule, bases the cost of examination on the assets of the bank.

The Chairman: Those are regular examinations and not the casual admission examination.

Governor McCord: Might it not be done on the same basis?

Governor Seay: I do not see how. Suppose we have just one bank applying for admission.

The Chairman: How would its capital, resources and surplus be measured? We might have just one applicant for examination and the only one for months and months.

Governor McCord: I mean if it was based on capitalization we would have to take the men into our employ, pay that part of it and swallow the balance of the expense, if any.

The Chairman: I still do not get your point, Governor McCord.

Governor McCord: Suppose in your district the average expense based on assets is so much? You make your examination on the basis of that figure. If there is any other expense you take care of it yourself.

The Chairman: I do not agree to that proposition.

Governor McCord: The most serious cause of dissatisfaction with the examinations by the Comptroller is that the expense is too great.

Governor Aiken: We should be inclined to make examinations at no expense other than the actual necessary expense.

Governor Seay: I think that too, decidedly.

Governor Aiken: If employes of the bank are sent there no charge would be made for their time.

The Chairman: You mean at the beginning.

Governor Aiken: Yes. I do not mean to establish a precedent in that way.

Governor Sawyer: Suppose you sent a salaried man to one bank and sent a man from the outside to a neighboring bank. There would be a difference in the cost and it would cause dissatisfaction.

Governor Seay: In the beginning it is not probable that you would do that.

The Chairman: Suppose it was announced at the outset that all institutions that apply for membership during the calendar year 1915 would be examined by the examiners of the Federal Reserve Banks, where necessary, at the actual cost of making the examination without any charge for the time of the men. Might that not be a little additional inducement for them to hurry up and apply for admission?

Governor Seay: They are not very anxious to come in now. If you saddle them with a portion of the running salary of the men who make the examination, it would prevent many and many a small banker from coming in.

The Chairman: Tempus fugit, gentlemen. It is seven

minutes past six. May we have a motion on this subject?

Governor Seay: I second the motion submitted by Governor Aiken.

The Chairman: Governor Aiken offered a resolution to the effect that for the present and until such time as otherwise directed as a matter of policy by the Federal Reserve Board, that examinations of state banks applying for admission to the system shall be conducted by our own employes, where possible, no charge being made for their services, except the out-of-pocket expenses.

(There were calls for the question.)

The Chairman: That is not quite in accordance with your view, Governor Aiken?

Governor Aiken: No, it is not, but I think it is all right provided we can stop when the time comes, at the end of 1915. The chances are that many of the state banks to be dealt with will be taken in on available information through records from the banking departments or other sources.

The Chairman: Would you modify your resolution by saying until the end of this year, or until otherwise directed?

Governor Aiken: Yes.

Governor Rhoades: I second that motion.

The Chairman: Is there any further discussion?

(There was no further discussion, the motion was duly put and carried.)

Governor Aiken: I would like to say by way of ex-

planation that it seems to me it is probable that the practice will work itself out in this way: That the examinations will be made by the state department and we will send one competent man who will simply supervise the examinations.

The Chairman: That is my view of it exactly. That leaves open the subject of expense of examinations, but we are not ready to deal with that yet anyway.

Time will not permit us to go into a conclusive discussion of Item No. 14 before dinner. I will ask someone to suggest a topic that can be disposed of in a few minutes. Topic No. 5 goes over until tomorrow.

Governor Rhoades: I suggest Topic No. 6.

The Chairman: We will consider topic No. 6. Item (a) is "Communications with Federal Reserve Board - practice with respect to matters pertaining only to banking transactions." That is Governor Wold's suggestion. Can we hear from you, Governor Wold?

Governor Wold: Mr. Chairman, we have all had the same experience in dealing with the Federal Reserve Board. There are some things that really ought to go to the Federal Reserve Agents that come to the banks, and a great many things that pertain purely to banking matters that go to the Federal Reserve Agents. To illustrate, telegrams and confirmations of telegrams in reference to weekly clearances go to the Federal Reserve Agents. Matters of some importance come to him and, through oversight, or the Federal Reserve Agent's absence, they will not come

to my attention until a day or two afterwards. One matter laid ten days without my knowing it, purely through an oversight.

It seems to me the Federal Reserve Board ought to be asked to communicate with the Federal Reserve Bank upon matters pertaining to the operation of the bank. It ought to be easy for them to determine whether it is a banking function or whether it is a matter that the Federal Reserve Agent has in charge. I took the matter up with Mr. Willis and he apologized and said that they would try to have the matter straightened out in the future.

The Chairman: Is not this a matter which should be pretty carefully considered from the standpoint of the Board, as to whether their communications with the Federal Reserve Agent should not consist ^{simply of those} formal communications which they would send to their personal representative in the banks, and that all other correspondence and communications the bank should be sent to the bank or its officers who are looking after these matters?

Governor Aiken: I heartily approve of that, Mr. Chairman.

Governor Rhoades: It smooths the way to have everything addressed to the bank and does not emphasize the individual at all. It is the best business practice anyway.

The Chairman: Then may we not ask Governor Wold to offer a resolution for discussion, to see whether its terms meet everybody's views and cover these points?

Governor Wold: You just stated the points.

However, I will offer that as a resolution or motion.

The Chairman: I will ask the stenographer to read what I stated above.

(The reported read as follows:)

"..... whether their communications with the Federal Reserve Agent should not consist simply of those formal communications which they would send to their personal representative in the bank and that all other correspondence or communications with the bank should be sent to the bank or its officers who are looking after those matters."

Governor Wold: The latter part of that is offered as a motion.

Governor Seay: There is a fundamental misconception on the part of the Board in this matter. I say that with proper deference, but nevertheless it appears to me to be a fact.

The Chairman: I have some sympathy with their feelings on that subject. They have a personal representative in the bank to whom they are called on by law to look to personally in regard to certain matters. I suppose they ought to be directly in touch with them or otherwise they could not get decent men to represent them as Federal Reserve Agents in the banks.

Governor Wold: Who are they representing in the gold pool? The Federal Reserve Agents or the Banks?

The Chairman: That is a matter the Federal Reserve

agents should have nothing to do with, it seems to me, except that them might have in the capacity of general officers of the banks.

Governor Wold: As director or chairman of the board?

The Chairman: Yes.

Governor Seay: I think with reference to matters which pertain to the operation of the bank, when there is occasion to make direct inquiry on the part of the board, it should be made of the executive of the bank. I have some sympathy with the other situation. I do not want to minimize in any way the importance of the functions of the federal reserve agents, but with reference to matters that pertain to the executive administration of the bank, when there is an official whose duty it is to administer them, I think both the inquiry and reply should proceed directly --- that is, the inquiry should be made to him and the reply should be made from him, as it is a circuitous and ineffective way to communicate with the chief executive through the use of an intermediary.

The Chairman: What is your experience, Governor Lowry?

Governor Lowry: I quite agree with Governor Wold in his view that matters pertaining to the bank should come to the bank. There are occasions when the Federal Reserve Agent is not there and no one presumes to open his mail or telegrams when he is not there.

Governor McCord: We do.

Governor Wold: We have no difficulty whatever in the ninth district so far as that is concerned. It is simply that when a matter comes in that may be of importance to me, the Federal Reserve Agent will let it lie on his desk and forget to refer it. That is the only point. There is no feeling one way or the other.

(Informal discussion followed at this point. A tentative resolution was dictated by the Chairman and not incorporated in the record. On page 19, 282 of the proceedings of the conference will be found the subsequent action taken with regard to the above matter, showing the resolution in its final form duly entered of record.)

The Chairman: Item B of Topic No. 6, "Codification or digest of informal rulings of Federal Reserve Board."

Governor McDougal?

Governor McDougal: That was suggested by Mr. Bosworth and has to do with the matter of our bank, and Mr. Bosworth in particular, having called upon the Board many times for rulings on various subjects. I have here a note which he wrote to me and I think perhaps it would be well to read it.

The Chairman: Yes.

Governor McDougal: "Pursuant to our conversation I would be glad if you will bring up before the next Governors' Conference the matter of codification or digest of informal rulings of the Federal Reserve Board."

"I have had this up with Mr. Miller and Mr. Delano of

the Board, and at Mr. Denalo's request I wrote him on May 26th giving him my ideas on the subject and enclosing a sample of these rulings, requesting him to discuss the matter with Mr. Willis. I enclose herewith a copy of the memoranda that I gave him.

"There are hundreds of rulings and it will only be a question of time -- and not a long time at that -- when, unless something is done along these lines, we will all be at sea. I told Mr. Delano that it would be the work of a few weeks for a competent clerk to go through the Secretary's files and take off all this material. It should then be furnished -- at least half a dozen copies of each ruling -- to each of the Federal Reserve Banks. Having caught up to date with the work it should be followed up and new rulings furnished to the banks from day to day or from week to week.

"While I assume that we have received at this bank more than one-twelfth of the rulings of this kind that have been made, we have of course not received all of them, and while each bank can digest the material it has, it will be far easier and more satisfactory for the Secretary of the Reserve Board to cover everything and do it for all the banks."

The idea was to have the Board prepare a digest of some sort of the informal rulings that had been made in response to inquiries from the twelve banks. We know what we have received at our bank, but the intent was to do that for all the banks, to go through the records

and pick these things out, put them in shape, and hereafter when a ruling was made for any one bank, to give the other eleven banks the benefit of it. They could be arranged so that they could be readily referred to and thus avoid repetition of the same requests.

The Chairman: We will pretty soon have this down to a code bank procedure where we can turn to Chapter so-and-so, page so-and-so, and know just what to do.

Governor Seay: They are being embodied in the bulletins?

Governor McCord: Yes, but not codified.

He refers to informal rulings that have to do with many subjects.

The Chairman: May we have a resolution to cover the matter?

Governor McDougal: I have a resolution here.

The Governors, in conference June 14, 1915, have considered and discussed the matter of informal rulings of the Federal Reserve Board made to the Governors and Federal Reserve Agents of the 12 banks, and are of the opinion that, in view of the large number of these rulings, the variety of subjects covered and that they are not made simultaneously to all twelve banks, a comprehensive compilation or digest of them from the beginning, down to date, should be made by the Secretary of the Board, and then kept up from day to day.

I would offer that resolution.

Governor Aiken: I second that motion.

The Chairman: The motion has been made and seconded. Is there any further discussion of the matter?

Governor McDougal: And I would add, of course, that a copy of the resolution be sent to each bank, or say half a dozen copies or so; and that the additions be sent forward as they were made.

The Chairman: Is there any further discussion?

(There was no further discussion; the motion was duly put and carried.)

The Chairman: The suggestion came to my mind when Governor McDougal read that letter as to the proceedings of this conference, or our conferences. We might very handily codify those proceedings and boil them down.

We are covering a pretty wide range of topics in these discussions that ought to be in handy shape for use. I prepared an index of the volumes and sent it around to the Governors. How would it do to refer this matter to someone other than the Secretary, who has some work on hand just now that ought not to be interfered with?

Governor Seay: I move that the subject be carried over, Mr. Chairman.

Governor Wold: I second that motion.

The Chairman: Is there any discussion?

(There was no discussion and the motion was duly put and carried.)

The Chairman: Gentlemen, we have only a little time left before dinner, and suppose we take up item No. 11. Item 11 is "Gold fund". Item (a) under "Gold fund" is

"Attitude of New York Bank in matter of settlement fund."

(Item (a) under "Gold fund" was simply an explanation by the Chairman of the Conference in regard to the method pursued in clearing up the old exchange accounts and establishing the gold fund.)

Governor Weld: There is another topic under Item 11.

The Chairman: That is (b). That has reference to the method of settling overdrafts. We have a due from and due to account, Mr. McKay--- in fact we all have--- and the New York Federal Reserve Bank in running its transactions with the Federal Reserve Bank of Philadelphia has converted its due-from account into an overdraft by reason of this transfer, and when we reported the overdraft they declined to settle it in favor of Philadelphia and Washington.

Mr. McKay: An overdraft on your books?

Governor Rhoades: Pardon me. In order to clear my record I would like to state that we tried to pay that money in ahead of time to you, but we were flagged.

The Chairman: What I think we ought to do is to recognize that these due-to accounts sometimes give rise to an overdraft which should be settled.

Governor Weld: We have a topic covering that same point.

Governor Aiken: We had that same point come up with regard to an overdraft and they threw it out. On what ground did they decline to do it?

The Chairman: They have not yet disclosed to us any

ground. I think we will have to get Mr. Broderick to straighten that out tomorrow morning. I think he will do so.

Mr. McKay: I think their idea is that if a Federal Reserve Bank is going to overdraw its account in New York it ought to deposit with its own sub-treasury on account of the gold settlement fund of the New York Federal Reserve Bank.

(Informal discussion followed which the reporter was directed not to take, and at 7 o'clock p. m., on Monday, June 14, 1915, a recess was taken until 8:30 o'clock p. m.)

N I G H T S E S S I O N .

The Conference resumed its session, after a recess for dinner, at 8:45 o'clock p. m.

The Chairman: Will it be satisfactory to the meeting to leave it to the discretion of the Chair to select from the program subjects for discussion?

Governor Aiken: I move that the Chair be authorized to select the subjects for discussion.

Governor Fancher: I second that motion.

The Chairman: Is there any objection?

(There was no objection offered and the motion to allow the Chair to select the subjects for discussion was unanimously carried.)

The Chairman: I would like to refer to Item 10: "Rates of discount". I call your attention to the fact that subject (a) has been discussed already under the heading of "rebates."

Subject (b) under item 10 is simply a general discussion of rates with a view to reporting the views of the Governors of the Reserve Banks on that subject as a matter of policy.

Governor Lowry: The bank in San Francisco bought in a note for \$200,000 for 15 days maturity, and one of the larger banks in Portland sent down some paper; but the average run of the paper is longer than thirty days. It has been that since the rate went in, as it was before. At the same time that that rate was put into effect, as I men-

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Governor Lowry: The bank in San Francisco bought in a note for \$200,000 for 15 days maturity, and one of the larger banks in Portland sent down some paper; but the average run of the paper is longer than thirty days. It has been that since the rate went in, as it was before. At the same time that that rate was put into effect, as I men-

tioned today, a request was made for a 2-1/2 per cent rate on 15 day paper, but that the Federal Reserve Board held up. At the last meeting of the Board of directors it was decided to make no change in the rate and to withdraw the request for the 2-1/2 per cent rate.

Governor Fancher: May I inquire of Governor Lowry what your rate is to your member banks in a center like San Francisco? What have they been loaning money for?

Governor Lowry: Do you mean the rate to their members?

Governor Fancher: Yes.

Governor Lowry: From 4 to 6 per cent I think.

Governor Fancher: Were any complaints made or criticisms made of your making a lower rate of 3-1/2 per cent, or did that have an effect upon softening rates?

Governor Lowry: No.

Governor Wold: May I ask if any of your country banks have taken advantage of the low rate to send in thirty day paper and then renew---

Governor Lowry: (Interposing) No; there has been none of that, Governor Wold.

Governor Seay: Do you know the lowest rate at which the New York Banks have bought paper, Mr. Chairman?

The Chairman: Three per cent.

Governor Aiken: That is September paper?

The Chairman: Three per cent for three and four months paper is the low rate in New York.

Governor Aiken: That has been true of us.

Governor Seay: Do you know what rate they make to out-of-town correspondents?

The Chairman: Four and five per cent. Four is the minimum. There may be some business in special cases at a lower rate. But the minimum rate for collateral loans with correspondents is four per cent today.

Governor Seay: I call your attention to the fact that Richmond is the only bank that had a ^{per cent} 4-1/2 rate up to sixty days in the country. We have not thought it expedient to lower that rate. I am quite sure we could have gotten half a million or maybe a million more paper from big banks at a somewhat lower rate, possibly four; but we did not feel that the banks that were borrowing from us were entitled to that rate. They never had been heretofore, a great many of them, and we did not desire to encourage it.

The Chairman: In our district we would have to reduce our rates to a level that would compare with the rates which the banks are allowing on their deposit accounts today in order to induce them to discount notes. They are all over in their reserves.

Governor Aiken: That would be the situation with us, Governor Strong. I was down in Maine Saturday night and the president of one of the Maine banks told me that he had borrowed money at three per cent of his correspondent just a little while before. If we reduced our rate to three per cent I think it would be more than met by some of our local banks. The demand for money is very slack and

they are glad to get their money out at almost any price. If we lower our rate it will simply mean that we will push down the rates for the other banks.

Governor Fancher: That is practically our situation at Cleveland. We discussed the matter of lowering the rate and what bearing it would have on bringing more paper to us. We have been advised by the larger banks that their country bank clientele would meet any rate we would name and we thought that we probably would not get any more business and might be charged with bearing rates throughout the district.

Governor Van Zandt: In Dallas we thought we would have as much chance if we made our rate five per cent for sixty days instead of four---

Governor Seay: (Interrupting) What induced you to make it four? You had never been accustomed to it before?

Governor Van Zandt: A few of our directors thought that the object of the Federal Reserve Bank was to lower rates of interest to the member banks.

Governor Wold: Did they lower the rate without the recommendation of the Governor?

Governor Van Zandt: They discussed it at every meeting. We have had the same rate since February. We have not changed our rate at all.

Governor Wold: Do your directors make the rate or a committee?

Governor Van Zandt: The directors.

Governor Wold: In the ninth district our rates still

have the distinction of being the highest.

Governor Seay: Beyond sixty days?

Governor Wold: Yes. Five per cent for ninety days and five per cent for six months. The Twin City banks are carrying fifty per cent reserve. If we make the rate four and a half per cent it would not produce any discounting, but would simply give customers an opportunity to demand a lower rate in getting their regular accommodations, and we do not believe that is the purpose for which the bank was organized. Those who are rediscounting paper that draws a high of interest can well afford to pay five per cent for ninety days. I would like to make inquiry as to when rates made by the other banks go into effect. What is your policy in New York, Governor Strong?

The Chairman: In New York we have a meeting of the directors, ordinarily every Wednesday, although this summer we probably will have it every other Wednesday. It has been some time since any change was made, but when any change is made in rates, that information is conveyed to the Federal Reserve Board immediately after the meeting by telephone or telegraph, and the Board, as a rule, sends us an immediate reply. We then send a card to the member banks advising of the change in rate.

Governor Wold: What has been the custom with your institution, Governor McDougal?

Governor McDougal: The custom here is to determine the rate and communicate the fact to the board; to await

their approval before we send the notice to the member banks.

Governor Wold: Perhaps we have been wrong. We have felt all along that the banks themselves should make these rates, and it should stand. If the Board disapproves of it then it is not in effect. The last time we changed the rate they wired an approval to us and asked us when it went into effect. We told them three days before.

Governor Aiken: What was their answer to that?

Governor Wold: They advised us to hold up the rate and not put it into effect until they had confirmed it.

Governor Seay: I do not think any of the banks that are borrowing from us could obtain from any of their correspondents, from whom they have been accustomed to borrow, as low a rate as we are granting them.

The Chairman: I think that is a fair statement as far as I understand their relations with their correspondents in that section.

Governor Seay: I think up to the present time we have had sufficient justification for the rates we have fixed. You know, it has not prevented the banks from discounting with us. They are doing it just as freely as ever.

We do not want to appear to be isolated in our view or opinion at all, but we just came to the conclusion that that was a fair and equitable rate for our district. We did not want to disturb the rates that had prevailed there-
before in our district. We thought the thing had better

be approached gradually, if at all, and we have steadily maintained the rate.

The Chairman: Is it not a fact that the reserve banks, in determining their policy about rates, must take into consideration--- I do not mean each bank alone, but all of them together--- the situation in the country as a whole? The report of the Comptroller of the Currency of March 4, reporting condition of member banks, on March 4 showed a surplus reserve in the hands of all of the national banks of \$734,000,000.

Governor Seay: That is reckoning as the Comptroller reckons.

The Chairman: That is cash reserve and redeposit reserve both.

Governor Seay: The Comptroller reckons the surplus reserve of the country upon a different principle from that reckoned by Comptrollers heretofore. I notice he takes the total deposit of surplus reserve, as reckoned by law, but he counts as surplus reserve the due from banks. It never has been counted before in this country as he counts it.

Governor Van Zandt: Does that represent your float?

The Chairman: On the other hand he is basing his calculation now upon the elimination of the deduction from gross deposit certain items that have heretofore been deducted; that is, notes of other national banks.

Governor Seay: He counts as legal reserve the excess above the amount that the banks are allowed to keep in the

hands of their reserve agents. He counts that as legal reserve. That has never been counted that way before.

(Informal discussion followed.)

The Chairman: I was getting to the point that the report of the Comptroller discloses a condition that has never existed in this country before, namely, that the reserves of cash in excess of what the law requires, and the balances carried with the reserve agents in excess of what the law requires, today amount to over \$700,000,000.

Governor Seay: That is due to the reduced requirement of reserve---

The Chairman: That is a condition---

Governor Wold: (Interposing) \$480,000,000 of that is due to the fact that the reserve requirements are that much less.

The Chairman: That is the psychology of it. The banks came to regard that as free balance, as a usable fund; that is, the national banks alone. The state banks of the country have resources somewhat larger than all the national banks and they are laboring under the difficulty of an enormous surplus reserve. Taking it all together it may, and probably does, exceed 12 or 13 hundred million dollars.

Governor McCord: I believe each reserve district has reported, except the sixth. We believe that our rates are just about right, considering the conditions of the country. There is a hesitation or halt in the business world that has piled up money in the banks which would

be used if conditions were different. We raised our rate to 4-1/2 per cent and some of our strongest banks took down their loans and did not discount any more. When we placed the rate back to four per cent for 60 days and 4-1/2 per cent for ninety days, and five per cent beyond, we began to get back some of the strong business.

Governor Aiken: I will ask, as a matter of information to me, from Governor McCord, if those banks--- his best banks--- were able to liquidate and pay down when he put his rate at 4-1/2 per cent, and there was a plethora of money in his district, what object there was in the Federal Reserve Bank of Atlanta putting its rate back to 4 per cent?

Governor McCord: I will answer that. There were some banks that were fortunately situated with regard to the sale of cotton. Cotton was being sold in the spring of the year instead of the fall. There was no sale for cotton in the fall of the year. A good deal of it was sold in the spring. Some of those banks had forced collections and got themselves in pretty good shape, whereas others were aiding their customers in taking care of the cotton, naval stores and other products; and we felt that if we could be of service to them at the same rates that they could get money elsewhere, and if they were getting it elsewhere at four per cent for 60 days, that it would be satisfactory to us to make the discount.

I have just had compiled a statement as of May 1, showing the borrowings of my member banks of that date, which shows \$12,000,000 for the district. We had at that time

\$4,800,000 of it, which was 40 per cent of the amount of borrowings of the district.

If We had raised our rate to 4-1/2 per cent we would have lost an element that we wanted to retain and whose friendship we wanted and whose business we wanted, and we would have had to tie to us an element that could not get money any cheaper anywhere else.

The average rate of discount with us on the first of May was 4.5 per cent of all paper including cattle loans and farm loans and other paper. That gave us a rate of 4.5 per cent. Our loans are running off. They were about \$5,800,000 when we met in Washington in March.

We reduced our rate to 4 per cent pretty soon thereafter, and they have run off to \$4,133,000 --- which was the lowest amount --- and they are back now to \$4,300,000.

The Chairman: The reason this item was put on the program was to ascertain whether the officers of these Federal Reserve Banks felt that the situation in the country as a whole, with its enormous excess reserve, would justify us in making a general recommendation as to policy to the Federal Reserve Board in regard to rates.

Governor McCord: We have no recommendation to make. We are satisfied that we are about on an even keel and ought to stay there.

Governor Seay: The condition I have in mind is this, Mr. Chairman. It is easy for banks to borrow now. If we maintained the rate above the rate at which certain well-managed banks can borrow, it is no hardship upon them; they

can get all the money they want.

If we reduce our rate, however, it will have a tendency of encouraging banks to borrow to excess and we will be giving those banks a lower rate than they are, in my judgment, entitled to, speaking with respect to their own condition.

Governor Wold: If I may, I would like to read something here from the Wall Street Journal, which I got the other day. It had been my thought that these banks were not organized for the purpose of competing with member banks whose reserve they were carrying, and therefore it was not necessary to quote a rate, and we ought never to quote a rate to compete with them; that the rate should be a little higher. This paragraph which I will read sets forth my thoughts so much better than I could state them myself that I will, with your permission, read it to you.

"It has not, however, been the policy of the bank to force its funds into use at a time when huge excess reserves are held by the banks throughout the country. Had the reserve banks been in operation a few years, and accumulated a considerable loan and investment account their policy under present conditions should be to withdraw funds from the money market for the purpose of correcting undue ease of money rates, which is only too frequently accompanied by unsound expansion and speculation. In fact, the policy of the reserve banks in using their funds should be influenced by the desire to stabilize rates rather than to employ their funds at any rate, for the sole purpose of earning dividends, without regard to the effect of such a

policy."

Governor Seay: Do you know the author of that article?

Governor Wold: That is an exceptt from a speech made by Governor Strong in New Jersey.

Governor Seay: Under similar conditions, from a different point of view, that has been what has governed us and we have even maintained our rates at higher than those of the other Reserve Banks under those conditions, and that has not operated a hardship. We believe the banks are getting the rate to which they are entitled. Other banks who are entitled to a lower rate can get it without any difficulty outside.

Governor Fancher: We are discounting for some small wheat banks. We do not believe their balances have warranted four per cent money. I think they have had as low a rate when they were borrowing from their correspondents as we are making today.

The Chairman: I do not think there are any banks in our district, as disclosed in the copies of the report to the Comptroller, that are borrowing any money from their correspondents in New York City, Philadelphia, Albany or anywhere else at less than four per cent interest.

Governor Van Zandt: I do not know of any banks in our district--- I have not learned of any at least--- who are borrowing at less than six per cent, with probably one or two exceptions.

Governor Lowry: Our policy in the twelfth district has been to place our rate slightly above the market rate

for the best commercial paper. We have not considered so much the rate at which these member banks could borrow elsewhere, as we have considered the market rate for purchasing paper. We have attempted to keep our rate a little above that. As a matter of fact, however, we are not getting that kind of paper rediscounted. The kind of paper that we get is paper on which the member bank collects anywhere from six to 12 per cent per annum.

Governor McCord: In our district we did not feel justified in raising the rate beyond what it is at the present time, especially when the leading wholesale houses of our prominent cities can get their money from brokers at 3-1/4 and 3-1/2 per cent.

Governor McDougal: You are loaning money, I presume, very largely to the small banks?

Governor McCord: No; we loan some to group 1 banks and groups 2 and 3---

Governor McDougal: I know, but a large percentage of it is to the smaller banks.

Governor McCord: No; the proportion is very nicely and evenly divided.

Governor McDougal: What are your member banks charging their customers on money which you loan them?

Governor McCord: Six per cent. That is the group 1 banks.

Governor Wold: May I ask what the ordinary rate paid by the country banks on deposits is?

Governor McCord: Do you mean where they pay interest

on deposits?

Governor Wold: Yes; say six months.

Governor McCord: Four per cent.

Governor Wold: Don't they pay more than that?

Governor McCord: No sir; about four per cent.

Governor Wold: Don't they pay five per cent?

Governor McCord: No; that would be a rare case.

Governor Seay: We consider it quite remarkable that we have not been called upon to defend a 4-1/2 per cent rate.

Governor McCord: We have been called on to defend a four per cent rate. We were losing the business and the friendship of our customers. We saw it was out of line and we went to four per cent. It has been very satisfactory. It has not brought in any paper, as our statement shows. We have gone down in volume.

Governor Wold: Is it not much cheaper for them to take money from you than it is to take deposits at four per cent. They don't carry any reserve on their rediscounting and they have to carry a reserve on deposits.

Governor McCord: We do not care anything about that. We want to serve the general public.

Governor Wold: But that does not answer the question. If they carry a reserve on their four per cent deposits does it not cost them more on the deposits than it does to rediscount.

Governor McCord: They only carry five per cent reserves.

Governor Wold: The reports of the Comptroller of the Currency do not indicate that they are carrying a five per cent reserve---

Governor McCord: (Interrupting) They do show five per cent reserve on it in their statements to us.

The Chairman: The real question is not what rates are in existence, but rather one of future policy, is it not?

Governor McCord: The judgment of our executive committee was that it was our duty to the community, under the present conditions, to carry a four per cent rate for sixty days. They believed that that would be a just and fair rate.

The Chairman: I guess that is what the New York banks are charging the banks in that district today.

Governor McCord: There are wholesale houses in my city that are selling their paper in the open market in New York at 3 to 3-1/4 per cent.

Governor Seay: I have spoken with regard to it as many times as I have rather with a view to finding out whether I was wrong than trying to prove that I was right. I would judge from the course of our operations that we have done approximately the right thing, perhaps.

The Chairman: Under present conditions it hardly seems as though it is possible to make a rate of four or four and a half per cent. Are the reserve banks now in a position to safely make any further reduction in rates? Won't the consequences of further reduction simply be a

general reduction of interest rates, without any business to speak of to the reserve banks generally? Here are seven or eight hundred millions of reserves unused in the hands of the member banks that are being held awaiting use. The banks are not willing to put the money out at the rates that they can get; it is unprofitable for them to do so, and if the federal reserve banks reduce the rates below their present levels, are they not going to reduce the rates on existing loans and force the surplus into use in order that the banks may earn their expenses and dividends?

Governor McCord: Speaking for the sixth district, we have no disposition to decrease rates at the present time.

Governor Seay: The evils attendant upon too low a rate are greater than those attendant upon too high a rate.

Governor Aiken: This is an expression of opinion as a basis for the formulation of a recommendation to the Federal Reserve Board.

The Chairman: It is a question in my mind whether or not we would be justified in indicating the necessity of action at this time due to a desire to make money or of earning interest and other expenses and dividends, and just mark down the rates regardless of consequences. That is what I am afraid of personally and what I think is the great danger to this country today.

Governor McDougal: Do you feel there is danger of the Board doing that?

The Chairman: No, the Board will not act of its own motion, outright, in making the rates lower. What the board might be inclined to do would be to meet the desire of any of the reserve banks to cut rates at a time when it involves great danger to this country.

Governor McDougal: That matter was up for discussion with a member of the Board and the conclusion was reached that our present rates should not be disturbed. We are loaning money now to member banks at a four per cent rate, a lower rate than the member banks in this district ever have been able to borrow from their correspondents before. It was the opinion of the Board that we would be wrong to accept a lower rate even if it was offered us. Moreover, we are loaning quite as much at four per cent as we would be if we had put it at 3 or 3-1/2 per cent.

Governor Aiken: Governor McDougal reflects the feeling in our district, I am very sure, Mr. Chairman; he certainly reflects my own personal feelings very strongly.

Governor McCord: It is the concensus of opinion that about four per cent for 60 days is about the correct level for present conditions.

Governor Aiken: In the first district.

Governor McCord: And in the sixth and seventh.

Governor McDougal: I was speaking for our district.

Governor McCord: Then there is the first, sixth and seventh.

The Chairman: I think that is the feeling in New York at present.

Governor Seay: I do not feel at the present time there ought to be such a thing as a uniform rate over the country.

Governor McCord: Governor Seay, I can see where you are probably justified in maintaining a 4-1/2 per cent rate. You have the cotton mill industry to take care of and that takes a good deal of money. To put a cheap rate in that particular locality would affect conditions. You border on our district and I have observed that. We are not loaning any cotton mill money because our people are able to get the money at a cheaper rate than we name.

The Chairman: Certainly if a lower rate than four per cent were justified it would be in Boston, Chicago, Philadelphia and New York to-day. The Board has shown no disposition to reduce the rate below four per cent. Whether you would feel disposed to convey any impression of your views to the Board or not, that is a matter entirely in your hands. I do not want to suggest that or urge it. But it is a good plan for us to discuss the rates when we get together. Decidedly the discussion we have had is enough for our own guidance or our own understanding of what the policy of the other banks will be.

Governor McCord: I will say this: I think the discounts in the sixth district will materially increase in the months of July, August and September, by natural conditions, but they will be of a self-liquidating nature, paper that will mature October 1 and be paid October 1, unless their crops are stopped from being marketed.

Governor Wold: Suppose they don't get any crops?

Governor McCord: They will get a crop all right.
They have got a crop.

The Chairman: What is your pleasure about this subject, gentlemen? The discussion that has been had is sufficient to record the views of the members present. Do you care to make any recommendation?

Governor Aiken: I move that the Federal Reserve Board be advised that the matter was under discussion at this meeting and the concensus of opinion was that in view of the large excess reserves throughout the country at the present time it did not seem to us expedient to generally reduce the discount rates of the Federal Reserve banks at present.

The Chairman: Is there a second to that motion?

Governor McDougal: I will second that motion.

The Chairman: Is there any further discussion?

(There was no further discussion and the motion was duly put and carried.)

Governor McCord: Mr. Chairman, I believe there should be a maximum and minimum rate for discounting by Federal Reserve Banks; a minimum where the bank is perfectly willing to take it, and a maximum where it is compulsory. I was wiped out on this proposition at the March meeting, and governed myself accordingly. Nevertheless I think that is the correct view to take of it: That if I see fit on account of business conditions to move the products of our section and you other banks have money that you are

willing to name us a reasonable rate on on discount we should take advantage of it. There ought to be some leeway in the matter. I think the compulsory rate should be a higher rate. The compulsory rate really ought to be the governing rate of discount at home.

Nevertheless, it does not make any difference to us. We will travel along in our way. We have been able to do it so far and I guess we will continue.

Governor Van Zandt: I think some minimum rate should be established for rediscounting with other federal reserve banks. I am looking forward to doing some of that business myself. I really do not believe it is right that we should put out sixty day paper without endorsement on it and get the same rate of interest that we receive, and be put to all the expense of examining the paper and making the loan. Yet on the rates promulgated by the Federal Reserve Board that is what we have to do. Our sixty day paper is four per cent and the sixty day rediscount with other Federal Reserve Banks is four per cent.

Governor Wold: You are not required to do it.

Governor Aiken: When the demand for accommodation is sufficiently great in the Dallas District they can properly put up the rate---

Governor McCord: (Interrupting) No sir. The business would go somewhere else.

Governor McDougal: A bank which found itself approaching the time when it had to rediscount, then is the time to put on the brakes and put up the rate to five

or six per cent.

Governor Wold: They should put the rate up before that.

Governor McCord: I am speaking of a crop moving condition. I just simply mentioned the matter. I am not particular about it. I will withdraw it.

Governor Van Zandt: My idea in stating that was this: We have had an offer from one brokerage firm for all or any part of our rediscounts at 2-1/4 per cent. Why should we be compelled to go to another Federal Reserve Bank at 4 per cent when we can get a 2-1/4 per cent rate on it? It looks like to was a little bit unreasonjable to me.

Governor Aiken: Will the Federal Reserve Board permit a Federal Reserve Bank to sell its paper to a broker?

Governor Van Zandt: I don't know. Of course it is provided for in the Federal Reserve Act.

Governor McDougal: It would seem hardly right for a Federal Reserve Bank to ask its neighboring reserve bank to rediscount for them at a rate materially lower than the rate at which the lending bank would be putting money out to its own member banks. It seems to me that if we are rediscounting for Dallas, Atlanta, or any other reserve bank that we should at least have our minimum rate. I believe our member banks would object to out putting their money out in that way.

Governor Seay: It seems wuite plain to me, Governor McDougal--- and I speak in view of the possibility of being a bank that might be placed in that position, although I do not anticipate or contemplate it--- that that would be

the time to raise the rate so that the rate of the bank applying for the discount would be higher than the bank to which it applies. I imagine the bank granting the re-discount to the other bank would grant it at its lowest rate for that class of paper.

Would that be your idea?

Governor McDougal: We certainly think a bank that is approaching a time when it would be necessary to re-discount ought to put its rates up good and strong. Naturally, under those circumstances, that would be a higher rate than the rate which we would have for accommodation.

Governor Seay: I think that is a reasonable and sound position and I quite agree with it.

Governor McCord: The business will go somewhere else if the bank will not---

Governor Seay (Interrupting): Ought it not to go somewhere else?

Governor Wold: The bank is doing all the business it can.

Governor McDougal: The banks ought to be taught, I believe, or given to understand, that the Federal Reserve Banks are secondary places to come for assistance rather than first places, under some circumstances.

The Chairman: This topic is not on the program, but it is an important one. Governor McCord raised the question.

Governor McCord: I possibly have precipitated a discussion of too great length and I therefore wish to with-

draw it.

The Chairman: I think this meeting ought to be of a character such that any subject which any Governor wants to bring up can be discussed.

But the real question is what if any, action, in the way of a report, should be made to wind up the discussion in a business like fashion. What do you suggest? Have you any recommendation that you would like to submit?

Governor McCord: None whatever. This question was threshed out at the March meeting and I simply brought it up today. You gentlemen still seem to be agreed upon it and we will let it rest.

Governor Seay: I was at first of the opinion that a Federal Reserve Bank that offered its paper to another Federal Reserve Bank for rediscount might be entitled to something for the value of its endorsement. I have since changed that opinion and I believe that when the time approaches for a federal reserve bank to apply for rediscount that it should raise its rates.

Governor McCord: We would not increase our rates when the other Federal Reserve Banks were holding their rates down. We might ask for rediscounts, and under the present situation before me, we would pay you your minimum rate that you were charging, because we would get the gold and we could utilize it for moving our crops; and the amount of the loan we got from you we would loan at the same rate. We would take care of conditions in our district and make some profit off the 60 per cent of surplus that we have advanced the gold against. We would not under any circum-

stances raise our rates beyond that charged by the other Federal Reserve Banks.

Governor Seay: As a matter of abstract principle, Governor McCord; why would you not be governed in your action as a Federal Reserve Bank by the same principle that would govern you if you were back to your old member bank-ship, and be governed by the demand?

Governor McCord: In the last analysis it would be detrimental to the member banks in our district to do any borrowing except at the crop moving period, and that would increase the rate on those banks in the open market. We have got more than one class of business to serve, and the interest of those banks is just as much to us as otherwise.

The Chairman: Governor McCord, you are thinking of the banks in your district, and I think you have got to consider--- in fact I think we all have got to consider--- what is the real spirit of this reserve act. It did not intend to break up the inter bank relations that exist between the banks in the central reserve cities and their correspondents, but it did not intend to do it in six months,--

Governor McCord: (Interrupting) It does expect to do it.

Governor Strong: Let me finish, please.

Governor McCord: Certainly, Mr. Chairman.

The Chairman: The Federal Reserve Act provides that the country banks are going to withdraw their balances which count as reserves from the reserve and central

reserve cities over a period of three years.

Now, your proposition, carried to its last analysis, means that while the withdrawal of reserve balances is to be accomplished in three years, in six months you are going to deprive those banks in the reserve and central reserve cities of the value of their customers as borrowers and have the reserve bank of Atlanta do the lending to those banks in another district and take that business away from their correspondents.

I believe it is the intention of the act that ultimately that should be done, but I do not believe it is intended that it should be done in six months. When you think of the interest of your customer-banks in your district, and that this means that ultimately in three years you will not be able to lend them money just as cheaply as possible, compared with the level of rates in other districts--- you will overlook the fact that this Federal Reserve Act has dug \$300,000,000 of deposits out of the New York banks in three years. It is unfair and improper to impose upon those banks at a time of easy money, the withdrawal of the business of their good customers which they have taken care of for years, because the Federal Reserve Banks want to pay dividends in six months or in a year.

I have stated that very plainly and without any real feeling at all, because that would be the effect of your policy and it is a mistake; there is no question about it.

Governor McCord: I beg leave to differ with you as to the purpose we have. We have not the purpose to cause

the withdrawal of business from the centers at all. We have not the disposition to make dividends under those conditions. But we have two classes of bankers to serve. When I tell you some things that happen then probably you will see why we take the position we do.

When we raised the rate to 4-1/2 per cent the rate was raised on some good, strong, steady banks in our immediate territory a corresponding amount and was not raised in other districts. Naturally it would be raised on our Class 1 banks if they were borrowing. Therefore our committee felt that we should stand on the same basis as other reserve banks and do just as much business as our funds would justify us in doing and then stop and do no more, unless it was simply to move the crops, in which event we would probably rediscount to the member banks, if you gentlemen saw fit to do it, and if you don't, we will just sit down and wait for the opportunity---

Governor Wold: Do the banks in your district, in the country--- and I do not mean for you to pick out isolated cases--- but do the banks generally loan money to their customers over the counter at any where near the rate that the banks in New England make loans to their customers?

Governor McCord: I do not know what they do in the New England States, but I know that the banks in my district with a capital of \$500,000 to \$1,000,000 are loaning to their customers at six per cent.

Governor Wold: What do the banks charge with a \$50,000 capital?

Governor McCord: Seven and eight per cent.

Governor Wold: The rates at which the Federal Reserve banks can ought to have some bearing on the rates at which we rediscount. I do not believe that the Federal Reserve Banks are going to level the interest rates all over the country.

The Chairman: They will in a few years, or come pretty close to it, but I do not think they ought to do it over night regardless of the consequences in other sections of the country.

Governor Wold: You create inflation if you offer money at a rate so much lower than the banks themselves are loaning it at, and when the three year readjustment period comes around, and the crisis comes, we are going to have a splendid opportunity to lend money.

Governor Seay: I do not believe that it is logical for uniformity of rates to be brought about through the instrumentality of the Federal Reserve Banks. A Federal Reserve Bank in a district where funds are scarce has to draw its fund from other district where funds are more plentiful. I do not believe it is logical or fair that the rates should be made uniform by that process. I am arguing somewhat against my own district, but am arguing from a purely logical standpoint.

Governor McCord: I agree with that. I believe you are correct in your views; but I do not believe it is necessary for the sixth district to raise its rates in a crop

a splendid opportunity to lend money.

Governor Seay: I do not believe that it is logical

moving period in order to send the business somewhere else.

Governor Fancher: It seems to me you have all the business you can take care of when you have loaned your resources.

The Chairman: I think you have got the cart before the horse. Frankly this business has been done by New York and Chicago for years. It has been done at fair rates, and New York, Chicago, Philadelphia and other banks have held these reserve deposits for years. The act provides that in a period of three years that relationship must be broken up. Here, in a period of great ease of money, when a crop moving season comes along, the question is shall they relinquish the only profitable feature of the business that exists today in order that the Federal Reserve Bank of Atlanta may take it from them, and then, by George, have that bank come up to New York and borrow their money from the Federal Reserve Bank of New York--- their own money--- and they do not benefit by it at all. It looks to me as though it was a very unjust view and an unjust development in the scheme of the Federal Reserve plan to happen overnight at this season of easy money.

Governor Aiken: I would like to ask Governor McCord if they have not, in the past, always raised their rates in a crop moving period down there?

Governor McCord: Because New York raised them on us. The rates to the customers have not been raised. The rates were maintained at six per cent when the banks in Atlanta were paying five and a half in New York.

Governor Fancher: It seems to me you are looking at the entire situation in that view because of a condition that might exist only in Atlanta or New Orleans.

Governor McCord: In Birmingham and Nashville, as well.

Governor Fancher: There are hundreds of small banks of from \$50,000 to \$100,000 capital that, when it comes to crop moving time, have been accustomed to borrow their money at six per cent in New York---

Governor McCord: They pay five per cent.

Governor Fancher: They have paid six per cent a great many times the last few falls, and have made a profit because they have charged eight, which is the rate down there.

Governor McCord: I do not see why we should be called on to raise our rate just in a crop moving season. We certainly are not going to ask for any lower rate.

Governor Wold: Under what conditions ought a bank to raise its rates. Is it not supply and demand that should regulate our rates? If it does not, what should regulate it? Sentiment?

Governor McCord: No, that is not it. Supply and demand ought to regulate it. The trouble of it is the supply and demand is not equitably distributed, because whenever we raise the rate the business goes away from us; it is cheaper somewhere else.

Governor Fancher: Is not that the condition you wish to reach, if you are overloaded?

Governor McCord: We are not especially wanting to do the business. We will get along with what reserves we have, just move along very smoothly---

Governor Seay: (Interposing) You cut your pattern, according to your cloth?

Governor McCord: Sure.

Governor Seay: That is not the spirit of the Act---

Governor McCord: The spirit seems to be that we ought to raise our rates just because there is going to be a demand.

Governor Seay: But if your demand exceeds your resources--- that is the point I am trying to get at--- and I am trying to get at it from the same view you reach it. I am not arguing against you, but am arguing---

Governor McCord: (Interrupting) Well, we will stand just where we are at the present time. If our customers need more money they can go somewhere else and get it.

Governor Seay: You would not raise your rates, but would just let them go?

Governor McCord: I do not think we will. That is the policy of our committee down there, unless other people raise their rates.

Governor Seay: You think your district ought to have the advantage of as low a rate as any other district?

Governor McCord: Under conditions that exist at the present time; yes.

Governor Aiken: Whether you have the money or not?

Governor McCord: We have got the money. I have analyzed the matter from more points than one. The banks in the South have as much money on deposit in New York as they have borrowed from New York---

The Chairman: (Interposing) Why do you keep it there?

Governor McCord: It is simply a matter of handling it. Some have been carrying balances and borrowing---

Governor Seay: (Interposing) If you take the whole South, they have more money than they borrow; but I do not think that that would be a principle by which to decide the rate.

Governor McCord: Well, we will just work it out on the line upon which it is moving, and let her go.

The Chairman: After all, Governor McCord, it will be a question of whether the Federal Reserve Bank of Atlanta is willing to meet the rates of the other districts, ultimately.

Governor McCord: If the other rates are raised, of course we are not going to sit down and try to maintain a rate lower than anybody else.

Governor Aiken: Why should the bank in the Boston district maintain its rates on a basis based on the condition in the Atlanta District? It would, on Governor McCord's theory.

Governor Wold: We ought to get about 3-1/2 per cent, because San Francisco got that---

Governor Lowry: (Interposing) That was more of an

experiment than anything else, Governor Wold.

The Chairman: Governor McCord, you brought up the question of the rediscount rates. What disposition do you wish to make of it?

Governor McCord: I have asked twice to withdraw the proposition. Please understand me. I am not withdrawing it because I am satisfied that you have whipped me in the argument (laughter). I am sorry I brought this discussion up because there is other important business to attend to, and I move that we proceed with the program.

Governor Seay: I think it has been very edifying and I am glad that you brought it up, for one.

Governor Aiken: I move that we proceed with the consideration of the program.

Governor McCord: I second that motion.

The Chairman: Item 9, Governor Rhoades, "Collections: (a) Standard method of collecting notes, warrants and acceptances; (b) Collection of warrants payable outside the district and in a city where there is no Federal reserve bank."

Governor Rhoades: Item (a) has already been discussed sometime today. I forget when.

The Chairman: No disposition was made of it.

Governor Rhoades: An expression of opinion I think was reached.

The Chairman: Only with reference to discounted notes. That is all we discussed.

Governor Rhoades: I ask, for information, whether it

is the sense of the Governors that notes rediscounted and payable outside the district should be sent back to the Federal Reserve Bank by which rediscounted, or should we attempt to collect them through another Federal Reserve Bank in whose district the place of payment is located. The same applies to warrants.

The Chairman: What do you suggest? Have you a resolution to offer, Governor Rhoades?

Governor Rhoades: I should advocate a policy of attempting to collect the items direct rather than through the member banks at which rediscounted. In the case of warrants I should attempt to collect them direct through the Federal Reserve Bank in whose district they were payable.

The Chairman: And acceptances the same way?

Governor Rhoades: Yes.

Governor Wold: Does that apply to purchased paper?

Governor McCord: May I ask this question? Suppose your member bank requested you to collect the item at the point of payment, in view of the disposition of the other Federal Reserve Banks to aid us in that direction? In my district I have discounted some paper payable in New York. Some of our members say they would like to have the paper sent forward. If you adopt the rule you suggest here you would have to send it back home.

Governor Rhoades: I advocate the policy of sending it to the place of payment.

Governor McCord: Direct to the place of payment?

Governor Rhoades: Yes; or, if in another district,

you would have to route it through the Federal Reserve Bank.

Governor Wold: Our policy has been, instead of sending it to the Federal Reserve Bank, to forward direct to the town where it is payable, provided there is a member bank there, with instructions to remit to their Federal Reserve Bank for our account. We recently discounted some purchased paper for the New York Bank, payable in Chicago. We got eastern exchange for it. If we had had to send it back to them we would have just been out the eastern exchange, whereas we collected it ourselves through the Federal Reserve Bank of Chicago and got our eastern exchange back.

Governor Seay: It collected it free for you?

Governor Wold: The Federal Reserve Bank of Chicago?

Governor Seay: No, the member bank?

Governor Wold: The member bank usually charges.

The Chairman: Might it not be desirable in many cases, where paper is payable outside the district, to send that paper to the Federal Reserve bank of the other district?

Governor Wold: We have acted upon the suggestion of Mr. McKay, which we thought was a far better method. It did save one trip. The paper would go to the Chicago bank,

for instance, if it matured in the Chicago district, and they had to reforward it, whereas, if we sent it direct to the First National Bank with instructions to collect from the Federal Reserve Bank at Chicago, it saved one operation.

The Chairman: If it was in some city in which a Federal Reserve Bank was located you would send it to the Federal Reserve Bank?

Governor Wold: Surely.

Governor Seay: At the same time they subjected you to a charge which you imposed on your member bank, when there was one?

Governor Wold: If it was done where they had facilities that would enable them to collect without a charge, then we would return it to them.

Governor McCord: That has been our policy.

Governor Seay: If you had pursued the other method of sending it to the Federal Reserve Bank, while it would have involved more handling, it could have been collected without the charge.

Governor Wold: I do not agree with you. I do not know whether the member bank would make a collection for a Federal Reserve Bank without charge. We sent one item to Atlanta, payable in the district, and it was reforwarded by the Atlanta Bank and a charge of one quarter of one per cent was made by the Federal Reserve Bank of Atlanta, and we took no exception to it.

Governor Aiken: We have had a little experience in collecting notes. Governor McCord was good enough to col-

lect some for us which he sent to his bank, and charged us the rate that was charged by the collecting bank, if I remember right.

Governor McCord: That is correct.

Governor Aiken: Governor Rhoades and I have collected some notes for one another. Notes that we have received from Governor Rhoades that were payable at cities where member banks were located we have sent forward to our member bank and told them that if we received no protest from them on the day the note was due we would charge it against their account. We never had a word from a single bank and charged the notes up without any collection charge or anything of the sort. Some of these gentlemen from the West expressed surprise at that method of treatment.

The Chairman: Governor Rhoades, was your statement on this matter intended as a resolution?

Governor Rhoades: As an expression of opinion, yes.

The Chairman: Is that motion seconded?

Governor Wold: I will second it.

Governor McDougal: May we have the motion read?

The Chairman: The reporter will read the motion.

(The Reporter read as follows:)

"Governor Rhoades: I should advocate a policy of attempting to collect items direct rather than through member banks at which rediscounted, and in the case of warrants I should attempt to collect them direct through the Federal Reserve Bank in whose district they are payable."

Governor Seay: I would like to say that I would not

expect to govern myself by that at the present time. I agree that on general principles it is sound banking.

The Chairman: That would also apply to acceptances, I understand, Governor Rhoades?

Governor Rhoades: Yes.

The Chairman: Governor Rhoades' motion has been seconded.

Governor Seay: If we should pass such a resolution what effect would it be expected to have?

The Chairman: It would be a tender of services of a federal reserve bank to every other federal reserve bank for collection purposes of its items, warrants and acceptances. I do not think it would be any more than that.

Governor Seay: I would say that we would be more than happy to place our collection facilities at the service of any of the Federal Reserve Banks, but we would not expect to send the paper that we rediscount for other member banks directly. I think I should pursue the present policy of sending it to the bank by which discounted. If any other bank desires to collect through us we will be more than glad to do all the collecting we can for them.

The Chairman: I think you have misunderstood item (a). We have three classes of paper to deal with. The first class is notes discounted for member banks; the second is municipal warrants purchased, and the third acceptances purchased in the open market. The three classes are covered in this resolution.

I understand Governor Rhoades' resolution to mean that as to notes discounted for member banks they should be collected direct when payable within the District; and where payable outside the district the other Federal Reserve Banks should be used for the service where the service is satisfactory for collecting those notes; that where warrants and accepted drafts are payable outside the district they also might be sent to the Federal Reserve bank for collection.

Governor Seay: As to sending to the banks within the district where payable, we do not pursue that policy at present. We send it back to the bank for which discounted. I expected to continue that practice. I do not understand that Governor Rhoades intends to suggest any general modification of the policy which was adopted at the first conference held, which was for the purpose of protecting the member banks in the matter of endorsements on paper.

Governor Wold: Our policy has been to make those collections when the note was payable at some other point than at the place where the bank rediscounting it was located.

Governor Seay: Just so.

Governor Wold: When paper is payable under those conditions you send it back to the bank?

Governor Seay: We send it back when it is collectable in the district or anywhere else at this time.

Governor Fancher: That is our policy, if the bank desires it; if they wish it we make an attempt to collect it.

Governor Seay: I am satisfied that that is the wish of our banks; the banks that pay the collection charges. I believe when we open up the intrastate clearing we will perhaps adopt some other method, but until then I think it is expedient to follow the method with which we started.

Governor Aiken: I am coming to the conclusion that we are in gross ignorance in our district in regard to collection charges.

Governor McDougal: I believe the whole matter can be left to the discretion of each bank. We are collecting items that we discount for member banks directly through them, and it works very nicely.

Governor Rhoades: I would withdraw the motion and ask for information as to whether it would be agreeable to the other Federal Reserve Banks for us to send items payable in their districts?

Governor McDougal: Speaking for Chicago, we would be very glad to save any of the banks in any way we can in the matter of collecting.

Governor Seay: Richmond has offered her services.

Governor McCord: Atlanta has done the same thing.

The Chairman: Will you offer a motion, Governor Rhoades?

Governor Rhoades: I will ask you to state it, Mr. Chairman.

The Chairman: Governor Rhoades offers a resolution to the effect that Federal Reserve banks will be respectively expected to extend their collection facilities to

Other Federal Reserve Banks in collecting items payable within their districts.

Has Governor Rhoades a second to that motion?

Governor McDougal: I will second that motion.

The Chairman: Is there any further discussion?

(There was no discussion and the motion was duly put and carried.)

6 fls. Governor McCord: It will be pretty difficult to do that; but if you were to happen to send me an item down there where we have not a rate and where there is no bank that is willing to accept, I might have the unpleasant duty of returning the item.

The Chairman: There is a very slight chance of that happening, Governor.

Governor Aiken: In connection with the collection of acceptances I have noticed that some acceptances have come forward for collection without endorsement. It seems to me that the banks should endorse the items sent forward for collection.

The Chairman: Who is guilty there--- New York?

Governor Aiken: I can see no reason why the bank should not endorse it so that the title should appear right on the paper sent for collection.

The Chairman: In that connection I think I will ask Mr. Curtis to make a statement as to one item that we have on our program under the heading of 12 (d). That item was put on the program at my suggestion in order that

Mr. Curtis might report to this meeting the result of an investigation he has made as to the provisions and the effect of the provisions of the negotiable instrument Act that has been adopted by most of the states.

Mr. Curtis, would you mind reporting the result of your inquiry into that matter.

Mr. Curtis: I looked up the law on the question of the effect of an endorsement on an acceptance, or, rather, the effect of accepting an endorsed bill of exchange. I found that the situation at the common law is that the writing of an acceptance across the face of a bill does not have any effect in the way of guaranteeing the endorsement, and that so far as the negotiable instrument law is concerned that has not been altered. So that we felt somewhat perturbed about taking acceptances even of well-known banking institutions where we were not familiar with the endorsements, because we had no guarantee of title, or of the fact that that endorsement was not a forged endorsement. Some suggested to a good many of the accepting banks that they either also endorse under the last endorsement or else put on a statement that the prior endorsement was guaranteed. It has nothing to do with the acceptance itself, and an acceptance has nothing to do with the endorsement. The rule under the negotiable instrument law is that the acceptor warrants that the drawer of the bill was a real person and that it is his signature, but if the drawer of the bill makes it payable to his own order and then endorses it, the acceptor does not warrant that the endorsement is correct,

even though it is the same person who drew the bill. His warranties under the law are confined to the face of the bill.

So I think the practice has been since that time not to take anything without either an endorsement by the acceptor of some sort--- is not that true?

The Chairman: Yes. As I understand the common law rule, the vendor of the bill is responsible for the competency and the correctness and genuineness of all prior endorsements on the bill; and if we buy a bill, for instance, from a member bank, whether that member bank endorsed it or not, the member bank is responsible as to the genuineness and competency of all endorsements that appear on that bill at the time the member bank made the sale. On the other hand, if we simply buy through a broker of no responsibility, who possibly is acting for the vendor and receives a small commission for his services, we have no protection whatever as to the genuineness or competency of any endorsement on the bill. That same thing would be true of a promissory note which you purchase from a broker.

So we have adopted the policy, as Mr. Curtis states, of requiring either unrestricted endorsements or guaranteed endorsement by banks, generally the bank that accepted in each instance, or in some cases by vendors of the bills, that we consider thoroughly responsible; and it may be--- I did not know it, Governor Aiken--- that in certain bills which were held for account of other banks than ours for

not
collection that endorsements have been put on the bills. That is in our case quite an unnecessary precaution, because we have observed every precaution in purchasing those bills. We have turned down bills that have been offered to us by brokers of whose responsibility we were uncertain, where there are prior endorsements on the bills that he knew nothing whatever about, and at the time we were buying those bills we sent a circular to the reserve banks for which we were acting stating that in each instance they keep a very accurate record of ^{every} endorsement that was on the bill.

Let us suppose, for instance, that we bought some bills from the Guarantee Trust Company, or the First National Bank. Under the common law we would not require their endorsement on those bills as a guarantee of the genuineness of the prior endorsement, because they are the vendor. All we would require would be ample evidence of what endorsements were on the bill when we bought it. It is a matter that has to be handled very carefully. None of us has dealt in acceptances in this country in a very large way, and we do not want to get stuck four or five or six years hence before the statute has run as being liable for return of money which we have received in payment of a bill that we have purchased where our title to that bill was based upon a forged endorsement, and the real holder of the bill had not been paid and he made claim against us for recovery. Of course that liability would not apply to a bank which acted as a collection agent

simply, as I understand the law. I do not think that any question of title there would affect the collection agent bank. I am correct in that, am I not, Mr. Curtis?

Mr. Curtis: If they get the money on it---

The Chairman: NO; but where we are acting as the agent of a bank that had a bill on deposit with us simply for safe-keeping and collection?

Mr. Curtis: I am inclined to think--- and that bank had not a good title to the bill?

The Chairman: Let us suppose, for instance, that we hold a bill accepted by the First National Bank of Boston for account of the Federal Reserve Bank of Chicago, and we send it through the Federal Reserve Bank of Boston for collection, and get the money from the Federal Reserve Bank of Boston, they collecting from the First National Bank of Boston and we turning the money over to the Federal Reserve Bank of Chicago. We would be acting simply as an agent, without responsibility?

Mr. Curtis: But the Federal Reserve Bank of Chicago, in that case, would get stuck if the bill in fact had been stolen.

The Chairman: The Federal Reserve Bank of Chicago would be stuck, of course, but they could not put that liability on us?

Mr. Curtis: No.

Governor Rhoades: What does the rule say in England on the acceptances of those endorsements?

The Chairman: They have a substantially similar

negotiable instrument law to ours, but there the endorsement situation is quite different. The bills are negotiated from bank to bank through responsible bill brokers and endorsed many times over by well-known banks, as a rule. Here we are dealing with acceptances where we do not get the member bank's endorsements; at least, we do not get them unless we take special care to see that we do get them. It is undoubtedly a matter that has got to be regarded with care and discretion in dealing with these bills.

Governor Aiken: In the normal course of business an item coming to us for collection would bear the endorsement of the bank sending it to us for collection. Our cashier called my attention to two or three that came forward from New York and Chicago that had not those endorsements on them, and I thought I would bring the matter up at this meeting to find out the reason.

Governor Wold: If there is no responsibility upon the collecting bank, what is the necessity for the endorsement if the holding bank takes its chances in forwarding through the mails that instrument?

Governor Seay: Just the tracing; that is all, is it not?

Mr. Curtis: I think there would be a responsibility there.

Governor Wold: Whether they endorsed it or not?

Mr. Curtis: My point was that where the collecting agency had got the money and had not remitted it along to the realowner of the bill, I think they would be liable;

but where that money had gone to the owner of the bill, of course that bank would be liable for ^{it;} in fact, they had no title to it. The process would simply be reversed; it would hold them all back until they finally got the proceeds. But I think Mr. Aiken's point is that for a correct tracing of the course of that bill it should be endorsed.

Governor Aiken: That is it exactly, Mr. Curtis. I wanted light as to whether there was any reason for not endorsing it, whether there was involved any peculiar liability.

The Chairman: This is the first I had heard of it, Governor Aiken. What disposition would you like to have made of this subject?

Governor Aiken: If there is no liability attached I should like to have the endorsement as a matter of record. If there is, I should say that we do not endorse any such bills when we send them forward.

The Chairman: May I suggest, as a means of getting a record of this matter for our minutes, that we ask Governor Aiken to submit the question to his counsel and send copies of his reply to the New York Reserve Bank and the other eleven reserve banks?

Governor Aiken: I will, with pleasure.

The Chairman: Would you like to have another endorsement of the sending bank on it?

Governor Aiken: Yes; I think we are entitled to it.

The Chairman: Will you ask him to send a copy of his

opinion on that matter to Mr. Curtis?

Governor Aiken: I will.

The Chairman: Governor McDougal, you suggested Topic No. 16, "foreign exchange".

Governor McDougal: That was suggested simply for the reason that it had been up before, and I think nothing had been done by the banks in regard to entering that branch of the business, and I wondered if anything had been done at the last meeting?

The Chairman: It has been discussed in Washington once, to my knowledge, and there has been some correspondence between some of the reserve banks about it.

Governor Van Zandt: Our cashier corresponded, I think, with the other reserve banks on that subject, and I have all of that correspondence here with me if you want to go into it. It is rather voluminous. It seemed to be the consensus of opinion from that correspondence that the Federal Reserve Banks did not care to even consider that part of the Federal Reserve Act at the present time, under existing conditions, with the war going on, and so forth.

The Chairman: Governor VanZandt, that is very clearly our opinion in New York. So far as we are concerned we would not want to purchase any long bills that were not domiciled in this country, and, furthermore, if our export business can be conducted upon the basis of dollar credit we will be furnished with a supply of paper for investment that will be freed of the exchange specula-

tion which is just now a fairly dangerous commodity. So that in your district or Governor McCord's district, when cotton is moving to market abroad, if the bills that are drawn for the purpose of financing the movement of that cotton can be accepted by American banks instead of by foreign banks, the foreign bank or the customer of the foreign bank will assume all the speculation and exchange and will be able to buy the bill payable in dollars and be insured against any exchange speculation at all. That is what we are hopeful of bringing about as one of the results of this Federal Reserve Act.

On the other hand, if the purchase of exchange in the sense that possibly you and Governor McCord had it in mind means really the purchase of a draft on New York with a cotton bill of exchange attached, there is not any reason in the world why that paper should not come through New York for the purpose of making New York Exchange, and then those drafts would be collected by the Federal Reserve Bank of New York from the member banks, on which they would be drawn, and the exchange would be simply a New York exchange.

Governor McCord: Suppose it is not drawn on a member bank.

The Chairman: Then we are up against that proposition. You mean, suppose it is drawn on the Guarantee Trust Company?

Governor McCord: Yes, or the bank of America.

Governor Van Zandt: Or George H. McFadden & Brother.

The Chairman: In that event it would not be an item that the Federal Reserve Banks could handle, unless we give a construction to Section 14 that would permit us to buy those as an open market proposition.

Governor McCord: I do not mean that you would purchase, but you would handle them for us for collection.

The Chairman: Why, then, if we are going to handle non-member items, of course we would. That opens up the whole subject that is under another section of our program as to what treatment we will accord non-member items, Governor McCord.

Governor McCord: That is the point with me. We do not anticipate handling any foreign exchange under the present conditions. We would not think of it. But there is a good deal of exchange created in my city and other cities in our district that would be very naturally drawn on the Guarantee Trust Company or the Bank of America. The question comes to my mind as to whether you would be willing to collect those for us and give us credit for them.

The Chairman: Would you feel authorized to take them from your member banks?

Governor McCord: Well, I would not do it unless you take them from us for collection. Of course I would defer payment two days until I got it.

The Chairman: What is your feeling about the provisions of the law in that respect, Governor McCord?

Governor McCord: Really, I do not think that you

would handle it unless it would be purely a matter of courtesy for our bank. I believe you could do it if you wanted to.

The Chairman: Do you think the law would permit it?

Governor McCord: Yes.

Governor Seay: Would you expect to take those as cash, Governor McCord?

Governor McCord: Two days deferred payment.

The Chairman: Would you buy them from your member banks, take them on deposit---

Governor McCord: Take them on deposit subject to ultimate payment.

The Chairman: Take them for collection?

Governor McCord: Yes.

Governor Seay: Or charge them with two days' discount?

Governor McCord: Charge them with two days discount.

Governor Wold: Which? Would you take them as a discount---

Governor McCord: I would handle them both ways. I believe I have the right to do it both ways under the law.

The Chairman: Of course, those items now go through to the New York correspondent of your member banks just as any other collection item would go through. They are sent to New York with documents attached, and presented, and the documents are presented, and then later in the day the bank that presents that draft with the documents at-

tached gets the check and credits its correspondent in Atlanta?

Governor McCord: Yes sir.

The Chairman: Your proposition is that you will accept those drafts on deposit for collection and remit them to us so as to make New York exchange?

Governor McCord: If agreeable. I said it is purely a matter of courtesy whether you would do it or not.

The Chairman: We have not the slightest objection to doing it, provided the system will work, or provided it is considered wise for us to begin to take non-member items. Of course, that means that the same privilege ought to be extended to other banks as to items in your district.

Governor McCord: If you were to send me a check on the Central Bank and Trust Corporation, the only State bank member of our clearing house in Atlanta, I would take pleasure in collecting that for you and placing it to your credit.

The Chairman: Yes; but of course, Governor McCord, you realize that there are over \$300,000,000 of those items that come to these three or four non-member banks in New York City alone.

Governor McCord: I understand that thoroughly.

The Chairman: Every season. Year before last there were about \$400,000,000 nearly, that came to New York.

Governor McCord: For instance, a member bank can send

it to the National City Bank or the National Park Bank, and then if they want to convert that into money, they just draw their check on whatever bank it may want---

The Chairman: There is a question whether we should not cut out a double process there.

Governor Fancher: Just under what section would you be warranted in collecting items if you do not discount them? Is it purely a collection matter?

Governor Seay: It is an arbitrary adjustment of a banking privilege.

Governor McCord: I have been doing it. That is all I know.

Governor Fancher: I was just wondering under what section of the Act you were doing a collecting business. That would be a collecting business.

Governor McCord: We are members of the Atlanta Clearing House Association, and one of the Federal Reserve Banks sent to me an item of the Federal Trust Corporation, and I did not hesitate to put it into clearing and get the money on it.

Governor McDougal: Could you send a draft of that kind through the clearing House?

The Chairman: No.

Governor McDougal: Why could you not, if it is payable to the Guarantee Trust Company? I would, if it is drawn on the Guarantee Trust Company.

The Chairman: They do not send any documentary papers through the clearing house at all, because it necessitates

time for the examination of the documents.

I really think, Governor McCord, that it is not a question of what we would be willing to do. We would be willing to do anything. It is a question of policy for all the banks as to whether we are going to open the sluice gates here to non-member items.

Governor McCord: I understand that thoroughly, and I would not have sent you an item until I first had your consent to do it, of course. But we can handle it all right. When a member bank sends it to the National City or National Park Bank---

The Chairman: All items that come through drawn on member banks, of course we can handle, and there is a very considerable volume of those. As to the great bulk of the items drawn on member banks, I realize that---

Governor McCord: A straight check on the Bank of America could be handled by you through the Clearing House?

The Chairman: Oh, yes.

Governor Aiken: I am going to ask you to excuse me, gentlemen.

(At this point Governor Aiken withdrew.)

The Chairman: How do your members feel about this matter of handling non-member items? Do you, in Chicago, take items drawn on non-member banks?

Governor McDougal: We are going to take items on all clearing house banks.

The Chairman: Does the Act permit that?

Governor McDougal: No sir. We take them anyhow.

(Laughter) It is an incidental power.

The Chairman: Has that been up to the Federal Reserve Board in any way for discussion?

Governor McDougal: No, but I think it will come up. I think possibly our right to do that will be questioned.

The Chairman: I have a feeling that it will, too. And yet I have been recently advised by one of the members of the Federal Reserve Board that they have an opinion from their counsel that under some provision of the statute a Federal Reserve bank on some terms can handle checks drawn on non-member banks.

Governor Seay: It has been intimated at more than one conference with the Federal Reserve Board.

Governor Sawyer: The question might be suggested when Dr. Miller is here tomorrow.

Governor McDougal: We will continue to do it until they stop us.

The Chairman: You send the items to us until we squeal, anyway, Governor McCord.

(At this point an informal discussion was had which the stenographer was directed not to report; after which the following occurred)

The Chairman: Governor McDougal has just handed me a letter bearing on the subject, dated Washington, June 11, 1915, the last paragraph of which is as follows:

"At the suggestion of a number of bankers we have been discussing whether we are not authorized under the act to permit Federal Reserve Banks to accept checks of non-

member banks for collection. It seems to me this is permissible; in other words, there is nothing in the law which says it shall not be done. Furthermore, if checks on State banks were received through member banks, there would certainly be no objection to their being received, and in the opinion of many bankers, with whom we have talked, this would do a great deal toward making the collection system a success. It would help to popularize it in the Chicago district, I suppose.

Yours very truly,

(Signed) F. A. Delano,

Vice-Governor."

Governor Wold: If we can do everything that is not prohibited, we will be doing some business after a while.

The Chairman: On the subject of foreign exchange, I understand there is no motion before the house that we should buy foreign bills, and no action is desired on that subject. On the other hand, I understand that Governor McCord proposes to send us some items on non-member banks for collection this fall which we will handle until we strike a snag.

Is there any other question on this topic of foreign exchange?

(At this point an informal discussion occurred which the stenographer was directed not to report, after which the following proceedings took place:)

The Chairman: Would you care to have any action taken

at this meeting in regard to the subject of handling non-member bank items, Governor McCord?

Governor McCord: I have that down for discussion here under a different heading.

The Chairman: Then we can consider the subject of foreign exchange as closed for tonight?

Governor McDougal, that is your topic.

Governor McDougal: My object in opening the topic for discussion was to ascertain whether any of the banks had taken steps towards the organization of a foreign exchange department. We have not in Chicago.

The Chairman: We have not done so in New York, and do not contemplate it.

Governor McCord: We have not done so in Atlanta and will not, under present conditions.

The Chairman: I have been advised that the condition of transportation in Chicago is such just now that some of the gentlemen in attendance at this meeting may have to walk home, and possibly it would be well for us to adjourn to suit their convenience.

Mr. McKay: I move we adjourn.

(On motion, duly seconded, the Conference, at 10:50 o'clock p. m., adjourned until tomorrow morning at 9:30 o'clock.)
