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PROCEEDINGS

OF A

CONFERENCE OF GOVERNERS OF THE FEDERAL RESERVE BANKS

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## CONFERENCE OF GOVERNORS OF THE FEDERAL RESERVE BANKS

## SECOND DAY.

Washington, D. C.,

Wednesday, October 26th, 1921.

The Conference reassembled pursuant to adjournment in Parlor A, Washington Hotel, Washington, D. C., at 9:30 o'clock a m on Wednesday, October 26th, 1921.

## Present:

The Governors as indicated in yesterday's record.

## P R O C E E D I N G S.

The Chairman (Governor Strong). The meeting will come to order.

I did not have a chance yesterday, in the urgency of getting along with our program, to open up any discussion of what we should say to Mr. Meyer this morning. May I explain now just what I have in mind.

If we decide, after meeting with these Senators to-



morrow, that it is going to be a wise thing to send any communications to the member banks on the subject of cattle loans at all, to send out any questionnaire, or do anything to stimulate their interest in looking after the cattle industry, it may afford opportunity for us to get in touch with the War Finance Corporation and turn over to them some needy borrowers, if you please; that we all know that it will take time to develop machinery to cover this country, machinery needed to reach the cattle men, and I had in mind saying to Mr. Hagar this morning, if it met with your views, that we were considering suggestions for approaching the member banks in the cattle districts in some way, which had not yet been determined upon, which might result in inquiries being made in regard to cattle credit, and whether he was now prepared to cooperate with us in considering loans of a character that could not be held by us for the member banks, that is, loans of too long maturity; is he fixed up now with his board in such a way that he can reach them or has he any practical means of reaching the people that need to be reached most.

The War Finance Corporation before went through so many guarantees by three or four people that the thing

they were designed to do, and that is take a little risk themselves, they never did , and is he in better shape in that way than he was before, unless he is ready to take some reasonable risk like anybody else.

Governor Van Zandt. For your information I might say that the War Finance Corporation has established <sup>an</sup> agricultural loan agency in Fort Worth, Texas, and also in Albuquerque, New Mexico, both in the Eleventh District. The one at Fort Worth is operating and is making loans, and we have paid out the money on some loans they have already made, and they have applications for several million dollars worth of loans that they are working up and turning over to the War Finance Corporation as rapidly as they can handle them.

Governor Morss. If that is so, are those the character of loans that could just as well be made by somebody else; that is to say, are you loaning Government money, simply loaning Government money at perhaps a little cheaper rate.

Governor Van Zandt. We have nothing to do with it except to pay out the money.

Governor Morss. I know that, but the War Finance Corporation does not loan anything but Government money. It



sells these certificates.

The Chairman. The point is this, really: the cattle industry is being approached by the War Finance Corporation with an offer, if you please, of credit for a longer time than the commercial banks of the country will now extend it because they cannot rediscount that paper at Reserve Banks. The War Finance Corporation has stepped in directly to make loans to the cattle industry. Without discussing whether that is a wise or unwise thing for our Government to do, it is being done.

Governor Morss. Is it a practical thing for them to do it?

The Chairman. I think so.

Governor Morss. I do not know anything about this. We have none of it in my country and I am only asking for information.

Governor McDougal. In further response to Mr. Morss's inquiry, I would state that the War Finance Corporation has proceeded in a very sensible way, so far as our district is concerned in Chicago, and that is, they have taken three bankers, who are practical bankers, and familiar with all phases of the cattle business, and they have formed a

committee called the Illinois committee. They have established a similar committee in Iowa and other States, and there has been one loan made in the district so far.

Governor Morss. Then you consider there is no objection to our now working up some plan of cooperation with them, in case we do do anything by way of communicating with the member banks?

Governor McDougal. I think it is very advisable. I do not say communicate with the member banks--the member banks are well informed as to the plan and procedure and the inquiries are already very numerous. What we want to see is to have them eliminate as far as possible any unnecessary formalities and get on a practical basis.

The Chairman. What I am after is something different, and I do not think you get it. What we have been after is to have the Federal Reserve System take some affirmative action to push this thing along.

Governor Calkins. Governor Morss's question as to whether the War Finance Corporation is ready to do business has not been answered yet. It is doing business. It is not a question of whether it is, but whether it is prepared to do business. Heretofore they have been obliged to make



such requirements as to make it possible for them to render any real assistance. They might have made loans, but they did not do any good. As I understand the matter, they have arranged to make loans to the cattle growers, and it is the cattle growers that need the assistance. All the farmers and canners in California, to whom they have loaned money, did not need that any more than I did, and it is the cattle people who need assistance. They have made arrangements to make loans to the cattle growers without the bank indorsement and with only the indorsement of the cattle loan company, which was organized for the purpose of indorsing the paper as a matter of fact, so that they have made arrangements to enable them to make loans without the intervention of a lot of guarantees.

Governor Morss. That is what I had in mind.

The Chairman. How do you feel about it, Governor Calkins?

Governor Calkins. I feel that anything we can do to encourage the cattle grower and to assist him should be done. I also feel that the War Finance Corporation has doubtful usefulness when it goes into the thing it has gone into in some parts of the country. For instance, they loan money to the

so-called Cannery Association in California, which should not have had a cent. There is no reason why they should be favored as compared with other smaller corporations. They also have loaned money to the California prune growers. I am a living example of the prosperity of the California prune grower. They do not need any assistance at all. They have also made a loan of \$10,000,000.00 to the Northwest Wheat Growers' Association, and there should be no necessity for borrowing long-time money on wheat. If it is carried a long time it is only done to control the price.

Governor Morss. I asked the question because I am not informed and I wanted to know whether the corporation, under the present arrangement, could be made of real use to people who need it most, and where we do not touch them, and that is long-time credit, or whether it is just a fact that they would go through the form--whether we will get any results from it--well, I do not want to use the word--let me say to show a disposition to help these cattle people with two or three year loans.

The Chairman. They have already furnished them with \$50,000,000.00, which is being gradually loaned. The



War Finance Corporation is actually loaning money to the cattle people.

Governor Morss. Excuse me just a moment. If you mean out in Chicago, that scheme there is a private enterprise, an enterprise of the banks themselves, and it has nothing to do with the Government and nothing to do with any law. The activities of the War Finance Corporation are governed quite strictly by its laws and regulations, and I am trying to find out if it is going to do the good it pretends, that is, <sup>on</sup> which basis we are to approach this matter. I feel it makes some difference if we know just what the theory is.

The Chairman. Their theory is that they have got the funds and they are willing to loan them for two or three years to the cattle industry, that they are organized to do it and are already making loans.

Governor Morss. But have they a great many guarantees? That has been the trouble with <sup>them</sup> all the time. The loans have all been guaranteed by as many people as they needed, member banks and anybody else.

The Chairman. Mr Meyer has stated that the War Finance Corporation did not intend to lose any money, but

was prepared to take a proper risk. Translated into plain English, that means that they are going to surround the loans with as many safeguards as they can reasonably, but are not going to surround them with so many that they are not going to be able to do any business.

Governor Morss. Can they accept a risk that could be accepted by the Reserve Bank in Chicago?

Governor McDougal. Yes.

Governor Young. They can go further than that. I am satisfied that the War Finance Corporation is going to function. They do not require that the cattle loans or agricultural loans be offered to them. All they require of the bank is that they state to them that a loan of so much was made for agricultural or livestock requirements, and then you can offer them township warrants or real estate mortgages. They will take most any paper that is good. I am satisfied that the War Finance Corporation means business and I think it is going to function, and I think they can function.

These committees in all the large cities, these bankers, have given up their time gratis and have passed on this paper. They are men who are familiar with loans in the agricultural sections. They have a committee in Minneap-



olis, and Mr. Jaffray is on it, and Mr. Magruder and Mr. Mitchell, and they are operating. I do not think it is necessary for the Federal Reserve Banks to send any circulars out at all, because that committee out there has received requests from 1300 banks for applications. Now, they talk about red tape, but if you will look over these War Finance applications, with all its different forms and everything, when you get through with it it isn't anything more than the Federal Reserve Bank asks, except that they ask for it all at once.

The Chairman. You say it is not necessary to send out communications. I do not think it is necessary, but I think it is a desirable thing.

Governor Young. I can say very frankly to you that if I have written one letter I have written two hundred to some of our banks that are tied up to us on this cattle paper that cannot be paid at the present time and suggested to them that they seek some assistance through the War Finance Corporation.

The Chairman. Mr. Harrison, you have been attending these meetings and talking to these people at different times. Do you see the value now of the Federal Reserve

Banks in those sections of the country taking an affirmative position and stimulating the member banks to get behind the War Finance Corporation, to help the cattle industry? I am not devising ways and means, but what I want is to make a record for the Federal Reserve Banks, that they are to help in this situation. You gentlemen have not talked with these Senators who will be here tomorrow morning to discuss this. I make this suggestion because I believe that it will not only be of intrinsic help in the situation to the cattle industry, but I think it will be a step in taking some affirmative action and that these men will appreciate and will indicate a desire on the part of the Reserve System to help out in a difficulty, which you might call a dangerous situation in that important industry. It may be nothing more than an expression of our helpful attitude, but to the extent that it is known and understood that that is our attitude it will be helpful.

Governor Wellborn. I appreciate your position, Mr. Chairman, and I am in full accord with you. I have seen the daily operation of the War Finance Corporation in my city of Atlanta. They have got a committee, they are functioning, and they are assisting the agricultural industry



very materially. Like Governor Young, I have written several letters to our member banks. They have written to me and asked my advice about it, and I think we ought to give them some assurance that we think that they ought to go into this. I think it is more the duty of the Federal Reserve System than it is the duty of the War Finance Corporation.

Governor Van Zandt. In the Eleventh District we are sending out speakers to the different sections, writing letters, and are encouraging them in every way to cooperate with the War Finance Corporation in the making of these cattle loans. They have taken an active part in the organization of cattle loan companies, to be organized under the suggestion of Mr. Meyer to make the original loans and to follow them up and to see that they are taken care of. These cattle loan companies do not make their loans until they are sure that the War Finance Corporation will take them over.

(Mr. Meyer Managing Director of the War Finance Corporation, entered the conference room).

The Chairman. The situation in regard to the cattle industry in the country seems to be this. We all under-

stand the difficulty it is in. There are two special avenues of relief now, one the \$50,000,000.00 cattle loan fund in Chicago and the other the War Finance Corporation. The Federal Reserve Banks can do nothing directly to extend any relief to the cattle growers. The only means by which they can extend any relief is possibly by stimulating the member banks to assist, and it is always a question as to the extent of stimulation that it is wise for the Federal Reserve Banks to attempt through its members. We have no power and no desire to tell our member banks what loans they shall make, nor can we restrain them from making any loans that they want to make. On the other hand I think we are all agreed here that it is desirable that the Federal Reserve Banks should, if possible, take some affirmative position looking to that, and if they do, the result of any effort they may make, so far as we can see, should be directed towards you and the War Finance Corporation; that is to say, if we are to undertake to approach the member banks in any way to deal with the cattle industry in the respective communities, we must do so in the expectation that it will result in replies to inquiries that we might make, being referred to your organi -



zation for treatment. I have no doubt of that.

Mr. Meyer. Let me get that straight. Do you contemplate sending out a questionnaire?

The Chairman. Well, if we do anything of that sort. We have not decided whether it would be wise to do so; in fact, we have not had time to discuss it yet very fully.

Mr. Meyer. The members may stimulate them to do no business. It is, I think, a fact that member banks are calling cattle loans and livestock loans.

The Chairman. Yes.

Mr. Meyer. And forcing liquidation.

The Chairman. Are they today doing it?

Mr. Meyer. Yes.

The Chairman. Why are they doing that?

Mr. Meyer. Well, I think there is a good deal of impetus still effective from the contraction psychology of collecting and reducing. When you start a wave of contraction--I do not mean when you start it, I mean when a wave of contraction starts--it does not always stop as soon as it might be considered a good thing to have it stop. In addition to that, you are perfectly familiar with the psychology of the decline in prices and de-

creasing confidence, that is, people lacking confidence. They had too much confidence during high prices in the cattle industry and they haven't got enough confidence in low prices. "Give us our money" is the attitude of a good many of the bankers. They want to clean up. They have had these loans a long time and they did not intend that they should be carried so long. There is a little bit of fear in the situation; it is a state of mind. I do not think there is anything emanating from the Reserve Board to keep that going, but on the contrary it seems to me that there has been no impetus from Washington and I do not know of any from the banks. The difficulty which is inherent in the situation and which every Reserve Bank reports, it being identical in almost all the districts, is the fact that in a period of declining prices and enforced economy and debt paying, bank deposits decline and liquidation is forced upon many banks that have over-borrowed, possibly banks which had not over-borrowed at the time of the crisis, but are over-borrowed because their deposits are declining, and lots of the member banks are borrowing from a hundred to five hundred-- and in one case reported here yesterday a thousand times



their reserve deposit, not because they deliberately borrowed that much, but because their deposits have flown and liquidation has been forced upon them.

The Chairman. Of course that is one of the important reasons, and those banks of course need assistance.

Mr. Meyer. Yes, and we can give it to them. We are encouraging them to come to us on good loans. In some cases they had to rewrite the loans and take a second mortgage. Where there is a shrinkage we cannot take the shrinkage. To give a concrete illustration: a company in one of the Western States--I do not want to identify this company--came to us and asked us to take over their entire bills payable of about \$600,000.00. They are a financing corporation in a limited area. The committee recommended the loan, and the paper is recommended by the committee. We naturally told them that it was an extraordinary and unusual thing to ask us to take over the entire bills payable of a cattle financing institution. The paper is re-discounted now in a number of banks in the State in which this finance company is engaged in operation, and in two or three other States. I doubt whether there is any urgency about liquidation on the part of some of those banks,

nevertheless they did offer us the entire bills payable. Our reply was that we would take all the bills payable through the banks that now held them, or we would take a first mortgage on the outfit for two-thirds of the bills payable and let the banks that held this paper now take a second mortgage on all the assets, including the bills payable and the capital assets, and that we would in turn rediscount for those banks, which are mostly member banks, on the basis of their second mortgage.

The Chairman. For how long a time do they want that money?

Mr. Meyer. They did not want it. That was our proposition.

The Chairman. How long would the loan run?

Mr. Meyer. We could give it to them for a year, with an option for another year and still a third year. The time element is entirely in their favor. I think there were some fifty loans made by this Finance Corporation to the stock growers in that country, and their capital is invested in real estate and bank stock, which represents the paid-in capital. That is probably how it was formed. It was not really a properly formed loan company in the



first place and yet everybody connected with the business is supposed to be all right, that is, I mean the moral element is supposed to be very good. That is just a little illustration of what we are up against. In some districts the banks regard us as simply a dumping resource to get rid of everything that they want to get rid of without any standing by the situation by the banks. I think we made a fair proposition. The banks were loaded up with \$600,000.00, where the margin was not perhaps entirely satisfactory. We offered to give them 75 per cent., without recourse to the banks, and asked them to stand on 25 per cent. subordinated, we to rediscount the 25 per cent. if they wanted it, and the banks let it go.

The Chairman. That all depends on whether they just wanted credit or whether they wanted to get rid of a bad asset.

Mr. Myer. We asked them to indorse 25 per cent. and we would relieve them entirely, without recourse, of 75 per cent. I do not think it is a bad asset, but it was an unusual thing to ask us to take over the entire bills payable. If they have confidence in the values

they should be willing to stay in for 25 per cent. On the other hand we offered to give them a year's loan, with the option of another year and still a third. If they haven't any confidence in the paper, why should we take it.

The Chairman. I do not want to unduly shorten the discussion, Mr. Meyer--

Mr. Meyer. That is all I wanted to say about that.

The Chairman (continuing). --but I wanted to get at one thing, for the benefit of our future discussions here, and that is whether, in case the circular should be sent to the member banks in regard to the cattle loans and the cattle industry, with regard to conditions in the various sections where the member banks operate, would it be deemed wise to do that, and will the War Finance Corporation welcome communications from the Reserve Banks and from member banks indicating where relief may be extended by the War Finance Corporation? Is it a good thing, in other words, from your standpoint, for us to get at our member banks in some way so as to stimulate them?

Mr. Myer. A great deal would depend on the form of that communication and also the procedure followed by the



Governors and the officers in the field. I would like to talk that over, and if you are going to send a circular I would like you to let us have a look at it before you send it. We regard that as good cooperation. I would say off hand that we would regard that as a good thing if done in the right way and carried out in the right way, because it might give these banks a better understanding of what we have. I think that is interesting, and it brings me to a rather important point. We find that a good many of the banks are very reluctant to come to us with paper, which really ought to come to us and stay outside of the Federal Reserve System, for the reason that they say that the Federal Reserve Banks in the various districts will use those loans in reduction of the basic line which the banks are entitled to with the Federal Reserve Banks. We hear that from many different sources. They do not give us any basis for that, but they just say it is going to happen.

The Chairman. But the basis line has no relation to such a transaction as that.

Mr. Meyer. That is the impression that prevails very generally in some of the districts. Some Oklahoma

bankers the other day that came to us on the cotton situation, when we said to them "Why don't you come to us with some of your cattle loans--I had also asked them to organize a loan corporation there--they replied specifically to the question as to why they didn't come to us by saying that it wasn't a bit of use because it would simply automatically reduce their line with the Federal Reserve System--

Governor Miller. There is not a word of truth in it.

Mr. Meyer. I know there isn't, but that is the way they feel, and that impression has got to be removed. I agree that there is nothing in it, but that is the point. How are you going to make them understand that there is nothing in it. Of course the liability of a bank with the War Finance Corporation is the same thing as any liability in the general condition of the institution.

Governor Miller. But that has absolutely no relation to the basic line.

The Chairman. Not at all.

Mr. Myer. Well, you have to find a way to convey that information to them. On the other hand, we could not say that a liability to the War Finance Corporation was not a



liability.

Governor Miller. Especially not to the banks--

The Chairman. But as to the basic line--

Mr. Meyer. I mean their line of rediscount.

The Chairman. Even that does not enter into it.

Governor Calkins. I think that what Mr.           intends to say is perfectly correct. The country banker argues that if he gets money from the War Finance Corporation, if he is already over-extended, that the Federal Reserve Bank will say that he ought to apply that to a reduction of his rediscounts with it.

The Chairman. But will they say so?

Governor Calkins. No, they will not, but the banker says that they will and fears that they will, and that is what Mr. Meyer is driving at.

Mr. Meyer. There is a general impression that to the extent they borrow from the War Finance Corporation their line with the Federal Reserve Bank in the district will be automatically curtailed.

Governor Miller. We have never suggested anything like that.

Mr. Meyer. I know that, but I am telling you what they

think. Governor Calkins agrees with me, and I think others of you do. Now what you can do to alter that state of mind is a very important question.

The Chairman. There are two provisions of the law in relation to indebtedness that a member bank may incur. One is Section 5202 of the Revised Statute, which places a limit upon the liabilities that National Banks may incur to borrow money, but that limit specifically does not apply to borrowings from the Reserve Banks.

Mr. Meyer. And not from the War Finance Corporation.

The Chairman. Not from the War Finance Corporation.

Mr. Meyer. That is by legislation recently enacted.

Governor Calkins. A great many of the bankers do not understand that.

Mr. Meyer. They do not, and that is one of the problems in the situation. That is up to you, because I cannot speak for the Federal Reserve System.

The Chairman. There is a subject that this discussion brings up where, if we do decide to communicate with the member banks, it can be pointed out to them in plain language just what the provisions of the statute are in re-



gard to the limitations of borrowing.

Mr. Meyer. Under the provisions of the statute they have the right to borrow without limit from the Federal Reserve system legally; but the trouble with these banks is not the legal right to borrow, but their misunderstanding of their line with the Federal Reserve Bank in the district. Is that right, Governor Calkins?

Governor Calkins. It is right if you mean to say that that is what they think.

Mr. Meyer. Yes, that is all I mean to say.

Governor Calkins. But it is not true.

Mr. Meyer. But they think it is, and that has everything to do with their action and inaction.

The Chairman. They have been taught to think so by a lot of irresponsible agitators who are pinning on to the Federal Reserve System the responsibility for policies adopted by member banks.

Mr. Meyer. I think it is just ignorance, just fear and suspicion---

The Chairman. It is not ignorance.

Mr. Meyer. It is partly so--

The Chairman. It is not ignorance when it is based

on statements made by a lot of irresponsible people who want to get their statements in the press, especially in the agricultural press of the country.

Governor Wellborn. It is based on a pretty good reason. If they have formed a big liability with the War Finance Corporation and continue to borrow a full line from the bank, they are just increasing their liability, there is no doubt about that, and that weakens their credit.

Mr. Meyer. They go further than that, Governor. I cannot see how you can convey the idea to them that if they borrow from the War Finance Corporation in an unlimited degree that it will be considered a factor in the total figure--

Governor Seay. There you have it, Mr. Myer.

Mr. Meyer. You cannot tell them that that isn't so because it is so, but the thought that we need to convey to them is that there is not an automatic and proportionate and mathematical deduction made, on borrowings and rediscounts from the War Finance Corporation, against the bank's normal line of credit.

Governor Seay. But it suits many of the banks to put that interpretation upon it. There is another point to



be considered. Neither the War Finance Corporation Act nor any other act exempts a bank from Section 5202. If they are loaning to one borrower as much as they are permitted to loan, they cannot loan him any more, whether they get it from the War Finance Corporation or some one else.

Governor Wellborn. How would it do, in getting out this circular, to state that any loan secured from the War Finance Corporation will not be counted against their discount line?

Mr. Meyer. Anything that you can say in that respect I think will be helpful. I do not know how far you could go without creating misunderstanding.

Governor Galkins. I would like to ask Mr. Meyer if the War Finance Corporation is prepared to make loans to the cattle and sheep growers without bank indorsement.

Mr. Meyer. We cannot do it, except through livestock loan companies.

Governor Galkins. And you are proceeding to organize livestock companies.

Mr. Meyer. We are stimulating the organization of them. We do not organize them. I think it will be interesting

for you to know this: those loan companies which we are stimulating are not exclusively livestock companies in most cases. They are intended to take up the excess loans, the amount in excess of 10 per cent. of the capital stock of a National bank--take the excess loans with or without bank indorsement or other substantial guarantees, through the loan company to the War Finance Corporation. We have made a good deal of progress since I started out. They are active in Montana. I telephoned some of our Montana friends and they said that they would borrow \$250,000.00 to help out Montana, starting with that in a lump sum. In Arizona they are forming some loan companies, and in New Mexico. Day before yesterday they had a meeting in which \$500,000.00 was subscribed and \$250,000.00 paid in. At Fort Worth they formed a company on the 12th and received subscriptions that day amounting to \$950,000.00. I asked the railroad companies, the sulphur companies and the oil companies to interest themselves in the livestock and banking situation in the State of Texas. The people from Houston came in the day before yesterday and agreed to put up \$500,000.00 for a loan company. A loan company has been formed at Liberal, Kansas. In Salina, Kansas, they are putting up



\$500,000.00. Nebraska is working on the proposition.

Cheyenne has formed a company with \$500,000.00.

The Chairman. Mr. Lyer, we have an immense program and we are short of time. While I do not want to press the matter to a conclusion too rapidly--

Mr. Meyer. That is all right, Mr. Chairman.

The Chairman. The suggestion is, and we are going to discuss it further, that it might be desirable to have the Reserve Banks in this section get in communication with their member banks about the cattle interests. I do not know what form it will take. The Reserve Banks send circulars to their member banks of all kinds, and it can be made to include an explanation with regard to the duplication of liability with the Reserve Bank and the War Finance Corporation. Do you see any possibility of any constructive good coming out of such an attitude by the Reserve Bank?

Mr. Meyer. I do, especially on that point of the line of credit with the Reserve Bank. That is really a sticking point, I believe, in the situation, it is either so or they are pretending that it is, as Governor Seay says. If you get up a circular we will be very glad to cooperate with you. As long as we are working together and you are

going to refer to the War Finance Corporation, I think it would be a good thing for us to see the circular.

The Chairman. It has occurred to us that it might be possible for the Governors of the banks in those districts--there are six districts affected--

Mr. Meyer. Yes.

The Chairman. To prepare a uniform circular, if not a uniform circular, a circular containing the same principles, made applicable to the different districts, and get it ready before we leave Washington.

Mr. Meyer. That would be a very good thing. I will not be here, but Mr. McLean could go over it. If you will leave it until Monday or Tuesday, Mr. Cooksey, Mr. Davis and myself will be back. We are making a week-end trip for the purpose of stimulating activity in the corn belt, where things are going a little slowly.

I want to say this further: I am thinking of sending telegrams to the heads of the State banking associations, pointing out our powers and resources and pointing out that we have a bunch of committees, and calling on them to study the agricultural needs of their States, with a view of getting the cooperation of the banks of the State



as a whole in order to make our funds available as promptly as can be, because we have unlimited resources for the purposes we have in view.

Governor Calkins. I would like to ask a question more or less pointed and perhaps impertinent. Is it your view that singling out the livestock industry--and I am not talking about any other--is it your view that your corporation can be most helpful in making loans based on livestock with other than bank indorsement; isn't that its best opportunity to be helpful to these livestock loan companies and these corporations that you are stimulating the organization of?

Mr. Meyer. Yes, but I think the banks ought to stand reasonably behind it. I do not think we want to say to every bank that it can get rid of all its livestock business and pass it on.

Governor Calkins. I do not know whether you know this or not, but this is a common situation with small banks in the sheep-growing sections: the bank is in a position to either do one of two things, that is, close out the sheep grower altogether and take its loss or carry him for his current operations, provided he can get something out-

side of the bank, from some other source, with which to carry on. It cannot do both, not only on account of the loan limitation, but because it is already overloaned--

Mr. Meyer. I think the banks ought to be encouraged to come to the War Finance Corporation with their rediscounts of livestock loans for the present, and then perhaps as new organizations come into existence you will find that they will automatically begin to flow out. I look for a restoration of the cattle loan paper market as rates on other paper decline and cattle loan paper becomes attractive on account of the rate.

Governor Calkins. There is one great obstacle, and that is in the price--

Mr. Meyer (interrupting). But I do not think prices are going to decline any more. As soon as we get enough money into this industry, I am confident that you are going to see a restabilization of prices at a somewhat higher level, when breeding ewes at \$7.00 or \$6.50 will not be obtainable.

Governor Calkins. They are not now.

Governor Norris. Before you go, Mr. Meyer, I would like to submit this suggestion in your hearing. Just as



the War Finance Corporation cannot undertake to speak for the Reserve Banks or their member banks, it seems to me a little bit inappropriate perhaps for us to address our member banks the kind of letter or statement that the War Finance Corporation might very properly address. Now wouldn't it be a solution of the situation for the War Finance Corporation to address to us a letter or statement requesting us to transmit that through our member banks, which we could then do in a letter, saying that we were very glad to transmit the statement and putting in such explanation as local conditions would require as to the effect of their availing themselves of the privileges of the War Finance Corporation would have on their relations with us.

The Chairman. Let us take up that discussion when we come to the question of formulating the letter.

Mr. Meyer. If you want to formulate it in two letters it would be all right, as long as we agree on the form of the letter.

Governor Norris. It seems to me it would be more proper for you to state your case and have us transmit it and make our comment on it.

Mr. Meyer. The important thing is to convey the idea first that the big banks are not forcing liquidation of cattle loans; second, that borrowing from us does not automatically reduce the line with the Federal Reserve System.

Governor Norris. I think if we wrote the original letter it would be very apt to convey the impression that we were trying to shift the burden from our shoulders on to yours.

Mr. Meyer. That would be dangerous.

Governor Calkins. There is another question in which I think Mr. Meyer is interested that we have not touched on at all, and that is with regard to furnishing him with men that he wants for his personnel and organization.

The Chairman. Are we not to get a list of his requirements before discussing them?

Mr. Meyer. The one man that we want quickly --I have a list, but I forgot to bring it over and will send it over-- is a man of executive and administrative experience, with ability to practically run the administrative end of our work under Mr. Ontjes, who will take the loans when they are passed over from the Board of Directors, which constitutes the executive end. We have taken rooms in the



Southern Building, because we need a lot of space that we could not get in the Treasury. We have ample room there, and we want a man who has experience, who will not have to learn the routine banking business, to head that organization under Mr. Ontjes, who will be the head of the whole activity, but who will spend most of his time at our meetings taking the business which we pass over from the executive to the administrative end. He wants to know how to carry out instructions and how to communicate with the Federal Reserve Fiscal Agents and supervise things generally. We want a man of that type right away.

Governor Miller. I would like to ask you if the new loan companies being formed would take the loans from the bank without indorsement.

Mr. Meyer. No; they would take the excess loans in the same way that the correspondent banks have carried them before.

The Chairman. We are very much obliged to you, Mr. Meyer. We will thresh this out and let you know.

Mr. Meyer. Very well. I thank you.

(Mr. Meyer thereupon retired from the Conference room).

The Chairman. I would like to dispose of this cattle

matter by doing this, which I think will save time. I think if we ask the officers of the Reserve Banks, the six banks that are interested in the cattle situation, to discuss the matter and formulate, not necessarily a letter now, but formulate a proposal for a letter, going over the proposed legislation of which copies are in front of you, and which is very confidential, we can put it on the calendar for discussion tomorrow immediately after we meet with Senator Hendrick and his associates. That means that possibly at noon today or after adjournment tonight those six men will be called upon to sit down and consider the matter.

Governor Calkins. I think your purpose is to have the Federal Reserve Banks show a willingness to assist in every way possible, and that that is your whole purpose.

The Chairman. That is my purpose, yes. If I may say so, Governor Norris, I do not think the purpose would be served by our simply transmitting a communication from the War Finance Corporation.

Governor Biggs. I would like to say that it is not our member banks in the cattle section, because we have ~~four to one state banks that are~~ interested. This matter



is being very well handled in our State.

The Chairman. I venture the prophecy that if this situation works out through the agency of the War Finance Corporation, or some other agency created by an act of Congress, and the Federal Reserve Banks, who have a responsibility in these districts, sit by and do nothing and take no affirmative action, the reaction from it is going to be this: "Look at that crowd; they have all the money in the world and they don't do a darned thing; they don't raise a finger". That is the feeling here in Washington.

Governor Norris. I think we can accept Governor Strong's opinion on that matter, because he has been amongst these men so much and his judgment is certainly good. I think we will be very glad to do anything we can.

Governor Calkins. I might support his judgment with a concrete case. When the War Finance Corporation undertook to assist the Northwest Wheat Growers' Association we were asked to handle the transactions, and upon inquiry we found that any requirements laid by us, in passing on the paper, would arouse the antagonism of the Northwest Wheat Growers' Association, and we thought it was necessary

to ask the War Finance Corporation to arrange and pass on every detail of the transaction and leave nothing for us to do but to put the transaction through. That just supports what you say. If we had found a legal defect in the contract and pointed it out, they would have said, "Well, the Federal Reserve Bank is trying to block the whole proposition". We did not want to be put in that position and consequently asked them to pass on it.

Governor Miller. That is exactly our attitude in the Kansas City district.

Governor Young. That is what we had to do in Minneapolis also.

The Chairman. These men in Washington get all these stories. They are all sent over here by their constituents and they are flooded with them.

Governor Galkins. We said on every possible occasion that we would expedite the transaction in every way we could and assist in every way possible. We said that to the War Finance Corporation and not to the bankers or borrowers, and we told them that we wanted them to handle the transaction as far as the details were concerned.

The Chairman. If that program is agreeable to you, we



will deal with it in that way. I think it will save time. We can now go ahead with our regular program. The next question is when would you like to invite Mr. Gilbert to join the meeting and discuss Supplement No. 2?

Governor McDougal. I saw Mr. Gilbert and he said he would be ready to come over at almost any time. I think we might call him up and ascertain what his wishes are.

The Chairman. The first topic on the program that has not been passed for consideration later, if we have time to deal with it, is

Credit Transactions and Policies.

(b) Eligibility committee.

(1) Scope. Definition desirable, as there seems to be some variance in the ideas of the Federal Reserve Banks as to the functions of this committee.

Governor Galkins. I think there is a misunderstanding or lack of uniformity now. Some of us do not seem to be discriminating between eligibility and acceptability. Some communications we receive from other banks seem to apply to acceptability rather than to technical eligibility, and I think the duties of the eligibility committee should be a little more clearly defined, so that we could have

uniformity of action.

The Chairman. It was our understanding in New York at least, and we have proceeded upon the theory, that the subject of eligibility is naturally divided into two parts, one technical eligibility, which includes all the requirements of the law and regulations of the law, and the other eligibility in the sense that paper becomes ineligible by reason of a poor statement, for instance.

Governor Calkins. I think all that is necessary to correct this situation, if it needs correction, is to state that and have it understood.

Governor Miller. Desirability instead of eligibility?

Governor Calkins. Have it understood that the duty of the eligibility committee is to pass on both the technical eligibility and the eligibility from the point of view of acceptability.

The Chairman. Will you offer such a resolution?

Governor Calkins. I offer a resolution to the effect that the eligibility committee is to pass on both technical eligibility and the acceptability of the paper.

Governor Miller. We have two or three letters from the Federal Reserve Board that expressly state that it is



the function and prerogative of the Federal Reserve Board alone, using these words, to pass on eligibility of paper, and for that reason we have never appointed an eligibility committee. I think we wrote Governor Calkins that we would not appoint such a committee, but if they would call it the desirability or acceptability committee that we would do that.

Governor Calkins. The function of the Board, as defined by the statute, is to formulate rules of eligibility.

Governor Miller. Yes.

The Chairman. Every Federal Reserve Bank has got to determine whether paper submitted conforms to those rules.

Governor Miller. It is the function of every Federal Reserve Bank to pass upon the paper, as to whether it does conform to the rules of eligibility, and you cannot escape that responsibility.

Governor Miller. We got a very severe reprimand. They said that certain classes of paper were eligible--I am sorry; I thought I had brought that with me, two letters on the subject in which Governor Harding states positively that it is the sole prerogative of the Federal Reserve Board alone, that the Board alone can determine the

eligibility of paper, but that we can determine the desirability of it.

The Chairman. You are confusing the two subjects, Governor Miller.

Governor Wellborn. We have to construe it when it comes before us.

Governor Seay. Perhaps it was a class of paper that had never come before the Board for ruling.

Governor Miller. I think not.

Governor Calkins. The Board, I think, has been extremely careful to say in every case that the opinion of the Board as to eligibility of paper did not determine the question of whether it would be accepted by the banks or not.

Governor Miller. They stated that in their letter.

Governor Wellborn. They could not rule on a particular piece of paper. They would not see the paper, and the committee would have to rule on it.

The Chairman. Every Federal Reserve Bank has to determine whether paper it discounts conforms to the rules of eligibility, and that is all the committee is for.

Governor Calkins. The motion I have made will cover it so far as I am concerned.



Governor Miller. It will cover it so far as I am concerned.

Governor Young. I will second the motion.

(The motion, having been duly seconded, was unanimously carried).

The Chairman. Sub-topic 2 is -

- (2) Uniform procedure of eligibility committees of the respective banks in reporting conclusions to each other.

Governor Fancher. I think the motion practically covers this.

The Chairman. Then sub-topic 2 is covered by Governor Calkins' motion.

The next topic under credit transactions and policies is (c).

- (c) Acceptance by member banks of payment in full or in part of notes rediscounted with the Federal Reserve Banks. In view of growing practice among banks in certain sections to accept payments on customers' notes which have been rediscounted or pledged with the Federal Reserve Bank, should not notices be sent out by Federal Reserve Banks to

makers of such notes that payment should be made to the holder thereof as protection to the Reserve Bank in the instances of failed banks.

Governor Calkins. That suggestion has been made and re-made; it has been discussed each time. We did not feel that it was opportune. I do not know whether the rest of you Governors have had the same situation we have, but I presume you have. We will take one instance. Some banks have insisted on accepting payment on account, and in some cases payment in full, of notes under rediscount with the Federal Reserve Bank, and instead of remitting the proceeds they have charged it to that account and put the proceeds in cashiers' checks and held them in the note file awaiting maturity of the note. In one instance during the meantime a bank failed. We of course have recourse on the maker of the note, but it has been suggested, and I think it is a good suggestion, that in due time the makers of notes rediscounted with Federal Reserve Banks should be informed that the note has been rediscounted and that the Federal Reserve Bank is the holder in due course. We have always postponed doing that because we thought it would cause too much disturbance, but it is a very serious question.



Governor McDougal. Are you applying your suggestion to paper which is held or may be held in connection with failed banks or all banks?

Governor Calkins. All banks. It would not do any good to send a notice after the bank had failed.

The Chairman. Do you offer a motion that it should be the policy of the Reserve Banks to send notices to all makers of notes?

Governor Calkins. I certainly will not do so at this time, but I would like to have discussion of the matter, however. I would like to know something of the experience of the other banks, but I offer no such motion at this time.

Governor Seay. I would make a motion that it is the consensus of opinion that a communication in that respect should be sent as a warning to member banks. I think it is very proper to call it to the attention of member banks, but I believe that is as far as we should go. It is quite proper to send a warning to our member banks in that particular.

Governor Calkins. That does not answer my question.

Governor Seay. It does not fully, but I believe it is as far as we should go.

Governor Calkins. I agree with you, but to show how far it has gone, a National bank examiner in one section of our district came into the office one day and started to tell me the result of an examination he had just been making of small banks, and he stated that it was the general practice in that section of the country among a number of banks to accept payment on account and payment in full and not notify the Federal Reserve Bank. I pinned him down on the question of general practice and made him give me a specific instance, and he backed up a little on that and said he did not mean it was general practice, but he did furnish me with about five instances in which it had been done. We ran down every case and it was corrected; but it is a serious danger that we have got to deal with and what we want to know is how to deal with it. I do not think that we can send out notices at this time. I feel like Dr. Miller, who says that the proper time to do anything disagreeable is some other time.

The Chairman. Then would your situation be met by Governor Seay's proposal that this be made the subject of a circular to member banks, calling their attention to the fact that it is a reprehensible and indefensible practice



and that they should not indulge in it?

Governor Calkins. I can see a serious objection to sending a circular of that kind, because nine-tenths of the banks would say "We never did it, we never did anything of that sort, and we do not need any such admonition".

Governor Seay. It cannot be the general practice, then.

Governor Calkins. It is not the general practice.

Governor Young. We have had a great deal of experience with that and we have had some losses. What I have been doing for the last six months is this. We usually know sometime in advance when a bank is in trouble and where this situation might exist, and we promptly put a man in there to watch our collateral. In the case of the last three banks that closed we did not get caught in that way.

The Chairman. How would it do to send a communication to the Comptroller of the Currency, pointing this out to him and asking him to send a circular to all National bank examiners and that where they find a bank indulging in any such practice--and the examiner should be especially warned to look for it--that the Federal Reserve Bank should be promptly notified?

Governor Calkins. I think that is a very good sug-

gestion.

Governor Van Zandt. I think the banker should have his attention called by the examiner to the fact that there is a criminal feature to it.

Governor Young. I will make that as a motion, Mr. Chairman.

(The motion, having been duly seconded, was unanimously carried).

Governor McDougal. There is one matter relating to this subject that may be of interest to some here. In two cases that I have clearly in mind we have had notes under discount by banks which failed. Those notes were paid in advance by the maker to the bank or at least partly paid, and in both cases we have proceeded and collected the whole amount from the maker.

The Chairman. It is admitted that the maker does not discharge his responsibility.

Governor McDougal. I am stating that as a matter of interest, and they have been paid.

The Chairman. Shall this communication be sent out by the secretary, the chairman, or who?

Governor Young. I suggest the secretary.



The Chairman. Mr. Secretary, you are instructed to prepare a communication in accordance with this motion and communicate the result to the twelve Governors.

The next topic is sub division (e).

(e) Rediscounting non-negotiable notes. X

Should not measures be adopted for the protection of Federal Reserve Banks against equities which may exist between borrower and lender, when rediscounting notes supported by chattel mortgages containing provisions destroying negotiability.

Governor Calkins. We can dispose of that very quickly. Practically all chattel mortgages destroy the negotiability of the notes. The maker of a chattel mortgage secured note deposited in a bank, and on which that bank has secured re-discount, has the right of off-set.

The Chairman. What do you propose in regard to this topic, Governor Calkins?

Governor Calkins. I think we should make an effort to procure uniform chattel mortgage procedure, and that is about as far as I think we can go.

Governor Seay. I think the law is different in the different States.

Governor Calkins. Not the States where the Negotiable Instrument Act has been passed, and that is the large majority.

The Chairman. Forty-three of the States, I believe.

Governor Seay. In some cases where a negotiable note is given a chattel mortgage is given in addition as security for the note.

The Chairman. The general rule is that if you convey a note which is secured, without adequate conveyance of the security, you are liable to lose the security on the note, and you cannot make an effective transfer of the note.

Governor Calkins. If the note bears evidence that it is secured by a chattel or other mortgage, it is non-negotiable in all of the forty-three States mentioned. I think that is an accurate statement. You cannot make a note secured by a mortgage on real estate a negotiable note unless it is made without knowledge of that fact. I tried that out in court myself.

The Chairman. The question is how to get at this. It is the sort of thing that ought to be dealt with by a carefully prepared circular, a circular prepared by a lawyer to all the member banks, pointing out the inherent



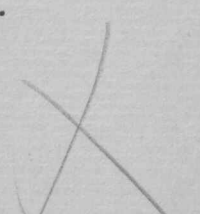
difficulty of attempting to negotiate a non-negotiable note unless a legal conveyance of the security is made.

Governor Calkins. In order to save time I will offer this suggestion: We have an attorney at home whom I think is qualified certainly in this kind of practice, and I will be glad to get from him an opinion to be transmitted to the twelve banks, if that is agreeable, for further consideration.

The Chairman. Could you not go a little further and ask him to prepare a form circular which might be considered by each of the Reserve Banks to send to their member banks, because in that way we would have opportunity for uniformity, which is exceedingly desirable in a circular of that character.

Governor Calkins. He is not so strong on writing circulars, but he will try it.

The Chairman. Well, suppose you prepare the circular and let him prepare the opinion. At any rate, I will appoint Governor Calkins a committee of one to prepare the necessary papers and communications on this subject. If there is no opposition to that, it will be considered the sense of the meeting.



The next topic is

- (f) Should the Federal Reserve Bank discontinue rediscounting for member banks notes of non-member banks secured by Government obligations

That is suggested by the Federal Reserve Bank of Atlanta at least it is a hold-over from a previous session.

Governor Wellborn. In view of the fact that since this was suggested to the meeting the Board has requested that we take non-member banks paper, I see no necessity of pushing the matter. It might just as well be dropped.

Governor Morss. I do not see how it could be left in better shape than it is now.

The Chairman. Then it is understood that this topic is withdrawn from the program.

The next topic is (g), which appears on supplement 3.

- (g) Furnishing credit information to member banks.

That topic was suggested by the New York Bank and I would like to call the attention of the meeting to this fact, that the member banks are calling upon us in increasing volume for reports upon commercial paper and it is evident that other Reserve Banks are calling upon each other for such information in creased volume, and that Fed-



eral Reserve Banks are sending credit inquiries of that character to member banks in other districts. Now you will recall this matter was discussed at a former conference a good deal. To show the importance of the subject, in September of this year we had 415 reports to make on commercial paper; in January of 1921 we had 460, and at that rate we will shortly be sending out possibly as many as 5,000 reports a year.

Governor Calkins. That is, reports made to other Federal Reserve Banks?

The Chairman. We get some requests from other Federal Reserve Banks, we get some from the War Finance Corporation, but most of them are from our own member banks.

Governor Calkins. Do you furnish that information?

The Chairman. To some of them. Some inquiries of that character are made to our member banks by the credit department of other Federal Reserve Banks.

Governor Calkins. Do you furnish information to your member banks?

The Chairman. We simply transmit what we get, without any comment.

Governor Calkins. That is not furnishing information in

the sense that I mean.

The Chairman. We make credit inquiries and transmit just what we get.

Governor Morss. Do you make it a practice to answer these inquiries at all?

The Chairman. We do, but we want to discontinue it, to be quite frank with you.

Governor Morss. We have never done it.

Governor Calkins. We have never done it either.

Governor Miller. We do not.

Governor Van Zandt. No, we do not.

The Chairman. I do not want to press for any action in this meeting, but it is the feeling of the officers of the New York Bank that, to the extent that we are now doing it, we should discontinue it. We are doing it too much altogether.

Governor Calkins. Do you want a resolution?

Governor Morss. There are other reasons for not doing it besides the matter of simple convenience. It is a pretty serious matter for a Federal Reserve Bank to absolutely turn down or to give unfortunate information that concerns the responsibility of a bank, and that is the reason we do not



want to do it.

Governor Calkins. I move that it is the sense of the meeting that the Federal Reserve Banks should not furnish information to member banks or any bank except Federal Reserve Banks.

The Chairman. Or the War Finance Corporation?

Governor Calkins. Yes. I think the exchange of credit information between the Federal Reserve Banks is perfectly proper.

Governor Young. I will second that motion.

(The motion, having been duly seconded, was carried).

The Chairman. We now come to

## II. Collections and Clearings.

### (A) Report of Collection Committee.

Mr. Harrison has been closely engaged in the last six months on matters that have really made it impossible to have a meeting of that committee. The committee consisted of officers of the Reserve Bank of Richmond, Mr. Logan of the Federal Reserve Board, and Mr. Harrison. Mr. Harrison has a report to submit which cannot be submitted as a report of the committee, although both he and Mr. Logan have been over it and approve of it, because the third member of the

committee has not seen it and has not had opportunity to see it, due to cause beyond our control. Mr. Harrison will submit this report.

Mr. Harrison. I have distributed the substance of the report in these various memoranda. As Governor Strong has said, we have never had a regular meeting of the collection committee, and I accept the entire responsibility for that, and I want to qualify any statement I make here now with the statement that Mr. Walden, the third member of the committee, has never had opportunity to go over it and has never given his approval or consent to anything that we have here.

During the first part of the summer, when I was in Washington, I had various occasions to discuss matters that were before the collection committee with Mr. Logan, and I availed myself of those opportunities, and I have a pretty good idea of how both he and myself feel with respect to the questions referred to us.

If it meets with the approval of the Governors, I would just like to report what Mr. Logan and I do feel about these matters that were referred to us at the last Conference and let it be received just in that way. I might also say that I have discussed it, or discussed some of these subjects, with



other officers in the Reserve Bank of New York and have had correspondence on different occasions with other Federal Reserve Banks about points as and when they came up.

The first question that was referred to the committee was the uniform collection circular produced last year by the New York Bank. That was referred back to the committee with the thought that we might perhaps agree upon some sort of general liability clause that would be incorporated in the circular of each Federal Reserve Bank. The purpose of this is obvious. We are now collecting agents for our member banks, not only within the district, but in every other district of the United States, and that is true of every other Federal Reserve Bank. The result is that we have a very direct interest in what the provisions of other Federal Reserve Banks' circulars are.

If we take a check from one of our member banks for collection in the San Francisco district and San Francisco avails itself of collection facilities or processes that we have not specified in our circular, there is a great question whether we would not be liable for any loss resulting from the employment of means in San Francisco that we do not specify in our own circular. For that reason,

for the protection of each individual Reserve Bank, it is very important that we not only know what is in each other's circulars, but that these circulars of other banks coincide with our own circular. We have gone over this clause, or two different clauses, one for collection of cash items and one for collection of non-cash items; we have gone over them pretty carefully. We have as a matter of fact tried out one of them in our own circular since last March, and we have never yet had a case come up of any kind where we haven't felt that we were absolutely protected.

I am willing to read this, or will just refer it to the Governors for their consideration, as they please, but I am rather inclined to believe that if we can get some sort of opinion expressed by the Governors it would be desirable; because otherwise it may go back and drift along indefinitely.

The Chairman. Is not this a matter where most of the Governors will feel that they will want the advice of counsel at home?

Governor Galkins. It is a very technical matter and we ought to study it quite carefully.

Mr. Harrison. I think that is very true, but I am also



convinced that the opinion of no twelve lawyers is going to be the same or that the words that any other lawyer would use are just the words that they would use. I do not mean by that that we ought to shut off any consideration by the other banks, but my suggestion would be to have the Governors approve of this, subject to such amendments as their attorneys care to make, with the understanding that those amendments be limited as <sup>much as</sup> possible under the circumstances, because otherwise we will never reach any agreement on it.

Governor Seay. I move that this be received from the committee and that each Governor take up the report or recommendation with the technical officers of the banks and their counsel and report to the chairman of the committee. I think we will have to discuss this thing with our technical officers, and we also will have to discuss it with our counsel to some degree. I am sure that the aim of the committee is to reach a conclusion in the matter, and none of us are disposed to quibble.

Mr. Harrison. I did not mean to imply anything of that kind, Governor--

Governor Seay. I am sure you did not and I did not so

take it.

Mr. Harrison. I am only too anxious, and I know Mr. Logan is, to have the views of each one of the other banks. My only thought was that if you could approve of the general set-up--or, to put it this way, that you refer it to your technical officers to consider for the purpose of amending in such slight ways as they may deem necessary.

Governor Seay. That is the purpose of my suggestion.

The Chairman. Would you be willing to incorporate in your motion a recommendation by expression of the sense of this meeting that it is desirable in principle that the circular which <sup>fixed</sup> / the liability of the Reserve Banks for collecting cash items and non-cash items shall be uniform in all the Federal Reserve Banks, and that in order to bring about that uniformity this suggestion shall now be promptly examined and any changes that seem essential be incorporated, and that it be promptly reported to the chairman of the committee on collections, so that we may get something in the nature of uniformity in the circular?

Governor Seay. Perfectly. That was the scope of my intended purpose in referring to it in that way.

Governor Calkins. I would like to second the motion



and then to make my usual oration. This action as suggested by Governor Seay's motion and your supplement should be followed up by an actual business conference of transit experts or collection experts to settle the questions. We have had it for about seven years now and don't you think it is time we reach some definite conclusion? Will we get anywhere if we have a reference back to the Governors in and turn back to the chairman of the committee on collections? Should we not get right down to business and have a conference on this one subject, if necessary, for the purpose of getting to a conclusion?

Governor Seay. If I may answer that, it was my purpose to reach a conclusion. If the result of these communications from the banks do not show uniformity of opinion, as I hope they will, then the chairman of the committee might notify the banks that there is a variation of opinion and a committee would be appointed to resolve the differences of opinion, and I believe we might get somewhere.

The Chairman. Governor Seay and Governor Calkins, our experience in New York is this, that if we refer questions of policy to the transit men, to the experts, so-

called, they do not think in terms of the whole system, but just in terms of their own desk and their own organization, and simply on the question of collecting checks. I want to say just one word further on this matter in regard to pending litigation. Suggestions have been made by the Federal Reserve Board about the imposition of charges by the member banks on checks that come from non-member banks, and so on. I know how Mr. Davis, special counsel who has been retained in this litigation in the Atlanta District, feels, and I know the feeling in our own offices, is that at the moment there should not be anything done at all to change the status of the collection system generally as a whole, that the first thing is to get by with that litigation and that we should not make fundamental changes.

Governor Calkins. I want to submit a supplement to my oration. I did not intend to say that this thing should be left to the determination of a meeting of transit managers or anything of that sort. I think perhaps it should be a meeting of the Governors, supported by their transit managers or counsel, but I think it should be handled in that manner if we want definite conclusions adopted. I want to say further, in regard to what you say about chang-



ing the status, that we have litigation in our district now and we are proud of it. We have what we think is a much better case than anyone else, and we are going to push it just as hard as we can push it. We sincerely hope that until this entire question is decided by the courts that nobody will throw a monkey-wrench into the machinery, and that is what will be done if we impose a charge.

Governor Fancher. That is the situation we have in our district. We have litigation and we seem to have a pretty fair case and want to go through with it.

The Chairman. That subject is on the program later for consideration.

Governor Fancher. Mr. Chairman, Mr. Harrison has prepared a report here for his committee bearing upon the matter of the legal phases and responsibilities of the Federal Reserve Banks. We are in a very much confused condition in regard to this matter of handling non-cash items. We had a committee which considered this whole question and made report to the Governors, recommending certain forms which never have been put in use. This matter of handling non-cash items is one of the most confused conditions in the Reserve Banks today.

Mr. Harrison. I was coming to that matter further in this report.

Governor Fancher. I want the matter threshed out, because it is a thing that I feel quite strongly about.

Mr. Harrison. I had a list of four things, and the first one is uniformity of circular.

The Chairman. We have two distinct matters to deal with now under the general head of collections and clearing. One is the whole principle and method we are going to apply to the development of this business, whether we are going to charge or not charge, whether we are going to have a par list and a non-par list, and those are questions of policy which the Governors of these banks have got to deal with. Behind that there is a question of technical practice, which has nothing to do with policies, the technical practices in carrying out the policies that we have adopted, and as to most of those technical questions I do not feel competent to deal with them, but want the technical men in the bank to deal with them; but on the matter of policies, as to whether we are going to impose these charges that are suggested or not, I do not want to have the technical men deal with that, but I want to dis-



cuss that myself.

Governor Fancher. I am heartily in accord with that, and that is the thing to do. But the trouble is that we have reported matters of technical operations to certain committees to report back, and reports have been made and forms recommended and nothing come of it, and they have never been put through and have never been put in operation.

Governor Calkins. I differ with the Chairman to this extent. I think it is impossible to separate what you call technical questions and questions of policies; it cannot be done.

The Chairman. Now, under (B) we have (1): Final advice of payment of items for which available funds have not been received, and so forth. Those are all matters of detail, not policy. I think they should go to a committee of experts. That is what I refer to when I speak of technical matters.

Governor Seay. Mr. Chairman, I still think that the motion, supplemented by you, will meet the situation presented in regard to the report of the collection committee so far, but I think the collection committee should be continued and if possible have an early meeting and thresh

out these matters and report to a subsequent meeting of the Governors on this and other matters. With regard to the matter already reported, I believe it is important and that those questions should be settled as quickly as possible. I am of the opinion that there will be some uniform agreement if not entire uniformity among the executives of the banks as to these things which are presented here.

The Chairman. You mean, dispose of this without going into the general subject of policies and details? What do you wish to do with the report of the committee? The suggestion was that it be referred to each bank with the request to report back to Mr. Harrison, chairman of the committee, and that it is the sense of the meeting that a uniform circular should be adopted by all Reserve Banks which would define their liability and responsibility.

Governor Calkins. I do not wish to continue my oration, but I seconded the motion and offered a supplement, and I want to add another supplement, and that is that it is the sense of this meeting that we should reach an agreement in regard to this matter and put that agreement into operation at the earliest possible moment.

Governor Seay. And that for that purpose the col-



lection committee be continued.

Governor Calkins. All right.

The Chairman. Gentlemen, you are now aware of the motion. What is your pleasure with regard to it?

Governor Young. Let us have the question.

(The motion, being duly seconded, was carried).

The Chairman. That disposes of the report of the collection committee.

Mr. Harrison. It really does not, Mr. Chairman.

Governor Van Zandt. No, that is only one part of it.

Mr. Harrison. The rest of it will not take long, but there are one or two things that ought to be mentioned.

The Chairman. At any rate, that disposes of the question of the circular.

Mr. Harrison. Another question that was not referred directly by the Governors to the committee was one referred to the Federal Reserve Board which the Board referred to the committee. That was the question of the uniform <sup>ments</sup> endorsement of inter-district collections of non-cash items and cash items also, as a matter of fact.

Governor Fancher. Cash items as well, was it not?

Mr. Harrison. Yes. That matter was referred to the

Federal Reserve Board I believe a year ago. Now, Mr. Logan and myself prepared, at the request of the Federal Reserve Board, two drafts of a letter, or drafts of two letters, covering the direct sending of cash items and the direct sending of non-cash items. It is our recommendation that each of the Federal Reserve Banks consider these letters, and if they can approve, adopt the policy of sending each one of the other Federal Reserve Banks one of these letters signed. In other words, it is nothing but a blanket indorsement, if you will, concerning non-cash and cash items sent direct by member banks which have been specifically authorized to be sent direct and which covers nothing else.

Now the letter is drafted in such form that any Federal Reserve Bank can make it cover all of its member banks or can specify the names of those member banks to whom they wish to give the privilege of sending direct. The committee believes it is very necessary to give each Federal Reserve Bank the discretion to determine to what extent it will permit its member banks to send direct, whether cash items or non-cash items. It is necessary, we believe, because it is a matter of agency, if you will,



which is the only authority that member banks have to send direct. In the letter referring to the direct sending of cash items, you will notice it specifies "You are hereby authorized and requested to receive and handle such items in all respects in the same manner and subject to the same terms and conditions set forth in the report, which was approved by the Conference of Governors in April, 1921." Then I have attached to that, for the convenience of the Governors, that report, which this committee wishes to recommend. In other words, we believe it is very necessary that the action of the Governors in approving the report of the earlier collection committee, with reference to the direct routing of collection items, be confirmed and be carried out by the banks in the future, because, as Governor Fancher says, there is now no uniform procedure with regard to the handling of these non-cash items. If each Federal Reserve Bank will agree to send not only these blue copy letters that I have submitted, but also a carbon copy of the letter that is attached underneath, which is from the report approved at the last Conference, I think that matter of non-cash items will be fully covered. You all have copies of the full report approved by the last

Conference, from which this letter is merely an extract.

Governor Fancher. And the forms agreed upon and recommended?

Mr. Harrison. The forms were attached and agreed upon by the Conference.

Governor Fancher. Perhaps we can get an agreement here that we will put those forms into operation.

Governor Seay. Is not that whole matter included in this report or these several reports that you have here?

Mr. Harrison. By reference, Governor Seay.

The Chairman. That is, by reference to the previous action?

Mr. Harrison. Yes, by reference to previous action. Reference to it is necessary, and it is also necessary to incorporate in the procedure of each bank the action which was recommended at the last Conference, and that is not being done now.

Governor Seay. It was within my contemplation that what you now propose was covered by the previous resolution we passed?

Mr. Harrison. If that is true, I am perfectly satisfied. I thought in view of Governor Fancher's request you



considered it necessary to appoint a committee on the other features of this memorandum.

(The papers submitted by Mr. Harrison are as follows):

Draft of Letter to all Federal Reserve Banks.

Direct sending of cash items.

Dear Sirs:

The undersigned Federal Reserve Bank of \_\_\_\_\_ advises you that it has authorized each (or the following) of its member and non-member clearing banks to act as its agent in sending direct to you checks and other cash items drawn on par banks in your district, provided that they are properly indorsed by the sending bank.

You are hereby authorized and requested to receive and handle such items in all respects in the same manner and subject to the same terms and conditions that are prescribed by you from time to time for the handling of checks forwarded to you by other Federal Reserve Banks or by your member banks. It is understood that this letter is a blanket guarantee of the indorsements of all such items forwarded to you in the manner described, and that it authorizes you to charge back to our account the amount of any such item for which you may fail to receive the proceeds

for any reason except your own negligence.

Very truly yours,

Draft of letter to all Federal Reserve Banks.

Direct sending of non-cash collection items

Dear Sirs:

The undersigned Federal Reserve Bank of \_\_\_\_\_  
advises you that it has authorized the following of its mem-  
ber banks (and non-member clearing banks) to act as its  
agent in sending direct to you for collection maturing  
notes and bills, or other collection items payable in your  
district, provided they are properly indorsed by the send-  
ing bank.

You are hereby authorized and requested to receive  
and handle such collection items in the manner and subject  
to the terms and conditions set forth in the report,  
which was approved by the Conference of Governors in  
April, 1921. It is understood that this letter is a blanket  
guarantee of the indorsements of all such collection items  
forwarded to you in the manner described.

Very truly yours,

Paragraph defining General Conditions under which



Federal Reserve Banks will accept checks or other cash items for collection.

Recommendation: That this paragraph be inserted in the collection circular of each Federal Reserve Bank. ✓

Every bank sending checks or other cash items to us, or to another Federal Reserve Bank direct, for our account, will be understood to have agreed to the terms and conditions of this circular and to have agreed that in receiving such items we will act only as the collecting agent of the sending bank; that we will be responsible only for due diligence and care in forwarding or presenting such items promptly; that we are authorized to present or send such items, for payment in cash or bank draft, direct to the bank on which they are drawn, or, in our discretion, to forward them to another agent with authority to present or send them, for payment in cash or bank draft, direct to the bank on which they are drawn; and that we are authorized to charge back the amount of any items (whether or not the items themselves can be returned) for which we have not actually received payment either in <sup>c</sup>ash or in the proceeds of the bank draft.

Paragraph defining General Conditions under which Federal Reserve Banks will accept maturing notes and bills and other non-cash items for collection.

Recommendation: That this paragraph be inserted in the collection circular of each Federal Reserve Bank:

Every bank sending maturing notes, or bills, or other non-cash items to us, or to another Federal Reserve Bank direct for our account, will be understood to have agreed to the terms and conditions of this circular and to have agreed that in receiving such items we will act only as the collecting agent of the sending bank; that we will be responsible only for due diligence and care in forwarding or presenting such items promptly; that we are authorized to present or forward such items, for payment in cash or bank draft, direct to the bank on which they are drawn, at which they are payable, or through which they are collectible, or to present them direct to the person, firm, or corporation on which they are drawn for payment in cash or bank check, or in our discretion to forward them to another agent with the same authority that we have to present or forward them for payment; and that, except as herein provided, we shall be held liable only when we have re-



ceived payment in cash or in the proceeds of the bank draft or check, or when we have given advice of payment.

Subject: Direct routing of non-cash collection items payable in other Federal Reserve Districts.

To the member bank addressed:

In order that non-cash collection items payable in other Federal Reserve Districts may be handled for our member banks with the least possible delay, arrangements have been made with other Federal Reserve Banks, whereby such items may be routed by our member banks direct to the other Federal Reserve Bank or branch serving the territory in which the item is payable.

Member banks may avail themselves of this privilege, if the volume of their non-cash collection items payable in other Federal Reserve Districts is large enough to justify sending them direct. It is not compulsory, however, for member banks to route such items direct into other Federal Reserve Districts, and they may continue, as in the past, to send them to this bank (or branch) for collection if they so desire.

If you should desire to avail yourself of the privilege, it will be necessary for you to observe carefully the

following regulations, applicable to the direct routing of collection items:

First - Application for permission to route non-cash collection items direct to other Federal Reserve Banks and Branches must first be made to this bank (or branch), and said permission must be obtained from us before any such items may be routed direct to other Federal Reserve Districts.

Second - After permission has been obtained from us, all non-cash collection items forwarded to the collecting Federal Reserve Bank or Branch of the other district must be accompanied by a collection letter showing the name of your bank and giving a complete description of each item, viz: your collection number, payer, place payable, amount and due date. This collection letter should also prominently state that the proceeds are to be credited to the Federal Reserve Bank of \_\_\_\_\_ (or branch) for your account.

Third - An exact copy of this collection letter should be forwarded to us at the same time that the original letter (with the items) is forwarded to the Federal Reserve Bank for Branch of the district to which the items are payable.

Fourth - The collecting Federal Reserve Bank or Branch



of the other district will use every effort to obtain returns at par, and will make no charge for effecting the collection, except for actual expenditures in cases where it is necessary to send the item to another city for presentation and a collection fee is deducted by the bank collecting the item, and for registration and insurance in cases where it is necessary to forward securities or coupons by insured registered mail.

Fifth - The proceeds of said items will be credited to us by the collecting Federal Reserve Bank or Branch of the other district, and immediately upon receipt of advice of such credit, your account with us will be credited and advice of such credit will be forwarded by us to you. The Collecting Federal Reserve Bank of the other district will also forward you an advice which will show that the collection has been made and the proceeds have been credited to us for your use.

Sixth - The Federal Reserve Bank of \_\_\_\_\_  
(or branch) can assume no responsibility for such collection items forwarded by you direct to other Federal Reserve Banks and Branches other than to give you proper credit for items credited to us by the collecting Federal Re-

serve Banks and Branches of the other districts.

Seventh - Any special instructions, in connection with the handling or disposition of any collection item or the proceeds thereof, should be transmitted direct to the Federal Reserve Bank or Branch to whom sent and to us. Collection items sent to other Federal Reserve Banks and Branches should be traced by you directly to the Federal Reserve Bank or Branch to whom sent.

Eighth - Any collection items which are unpaid will be returned direct to you by the collecting Federal Reserve Bank or Branch of the other district and the protest fees or service charges (if any) on such collection items returned unpaid will be charged to us by the collecting Federal Reserve Bank, and we in turn will charge your reserve account and forward you an advice of the charge.

The Chairman. Now I want to say just a word with regard to Governor Fancher's suggestion. I think it has been a weakness in the results achieved by the meetings of the Governors of the Reserve Banks in the fact that there is not sufficient follow-up. We agree upon things, but they are not put into effect in practice.

Governor Fancher. Absolutely.



The Chairman. You all get copies of the transcript of the meeting with the discussion and minutes of the action taken, and unless the Governors of the Reserve Banks are willing to check up on the record and do the necessary issuing of instructions to the banks about putting things into effect, we will not get the results of these meetings. The procedure in New York in this--and this got me into hot water last time--the Governor sends a memorandum to the head of every department, a memorandum dealing with the action taken at the Conference of Governors. Those memorandums are prepared by Mr. Harrison and they are instructions to give effect to the action of the Conference. Now on the subject we have just been discussing, unless I am mistaken and Mr. Harrison can correct me, these instructions were issued at the time of the Conference, and we are complying with the action of the Conference in the matter of direct routing and immediate credit.

Mr. Harrison. You are not correct in so far as this letter is concerned. That was entirely my fault, Governor Strong. It is attached as an appendices to the report and was overlooked in drawing up our instructions to the bank. As a matter of fact, it was apparently overlooked

by every one of the Federal Reserve Banks, because so far as I know not one of them has sent this kind of a letter to any of its member banks.

Governor Fancher. Mr. Chairman, the facts were that this committee report was considered and referred to Mr. Harrison's committee in connection with other things.

Mr. Harrison. I beg your pardon, Governor, not this particular report just adopted.

The Chairman. If the fault rests with the bank in New York, we will admit it and apologize, and will now try to get results.

Governor Fancher. I do not think it does, Mr. Chairman. I think the trouble was that the report in question was considered very hurriedly. There was a jamb at the end of the Conference and several matters were referred to Mr. Harrison's committee, this along with it. The question of our legal status in the matter of handling cash items for collection was brought up and with several matters was referred to that particular committee.

The Chairman. Need we take the time now to go back and fix the responsibility? Can we not take action?

Governor Seay. I believe we have passed a resolution



on the subject already and referred it to several of the Governors of the Federal Reserve Banks for consultation with their technical men and counsel, to be reported in writing to Mr. Harrison. I intended that resolution to cover everything in these papers.

Governor Fancher. Is that necessary to put the procedure in operation?

The Chairman. If the technical men have not considered the forms, I would say so.

Governor Fancher. That report was acted upon and adopted by this Conference a year ago.

Governor Fancher. Let me read this extract:

The committee submitting this report was appointed at the last Conference of Governors held in April, 1920. The committee consisted of Mr. Strter of Cleveland, chairman, Mr. Hendricks of New York and Mr. Walden of Richmond. On June 2nd, 1920, the committee submitted a report to the Conference of Governors, which was acted upon by that body in October, 1920. The report of the committee was accepted at that time and the Federal Reserve Board approved the action taken at the Conference in a letter of January 4th, 1921, No. x-3014. The forms committee

was instructed to design forms necessary to take care of all transactions arising out of the direct routing of collection items. The committee on forms, in accordance with the ruling of the Board, prepared all necessary forms, and these were submitted to the Conference of Governors held in April, 1921, at which time the entire matter was again turned over to a committee consisting of Mr. Harrison of New York, Mr. Logan, counsel for the Federal Reserve Board, and Mr. Walden of the Federal Reserve Bank of Richmond.

The Chairman. In the minutes of the three days' session of the Conference last April this appears under the heading "Report of the committee on the method of handling collections sent direct by member banks in one district to Federal Reserve Banks in other districts, will be submitted to the committee on standardization of inter-Federal Reserve Bank forms, and upon motion of Governor Van Zandt it was voted that the report of the committee be approved".

Governor Van Zandt. Did the Federal Reserve Board ever take any action on that?

The Chairman. They had already taken action.



Mr. Harrison. So we have just assumed jurisdiction of that matter, Governor Fancher, because of the fact, whether it was our fault or not, it was never carried into effect by all the Federal Reserve Banks, and my purpose in referring to it now is to say that the Federal Reserve Banks do carry out the policies contained and recommended in that report, and, second, to refer to a matter that was not covered in it, and that is a letter concerning uniform indorsement. That is a supplement to the report and referred to this committee by the Federal Reserve Board after our last Conference, and this is all contained in these various memoranda that was submitted to you and which I understood was covered in the earlier action.

The Chairman. Should we not first act upon the three separate reports submitted by the collection committee, being a draft of a letter covering direct sending of cash items, the draft of a letter covering the direct sending of non-cash collection items, paragraph defining general conditions under which the Federal Reserve Banks will accept checks or other cash items for collection, and a paragraph defining general conditions under which the Federal Reserve Banks will accept maturing notes and bills and other non-

cash items for collection. Now we have already acted upon the method of dealing with a proposed uniform circular, and what is your wish in regard to these three separate items which are reported upon by the committee on collections?

Governor Seay. Inasmuch as there seems to be quite a considerable amount of confusion on these matters, I doubt if any of us know exactly where we stand, and why not let that take the same course the others take?

Governor Van Zandt. I thought it all was included.

Governor Seay. I intended to include these things in the recommendation I made just now. The whole trouble arises from the committee not having had time to get together and make these reports on agreement among themselves.

The Chairman. Let me state my understanding of the position of the report of the collection committee. They have submitted a proposed paragraph to go in the collection circular which they recommend as a uniform definition of liabilities and responsibilities; that, by action of the meeting here, is referred to the Governor of each bank to submit to his counsel and technical men, to report back to Mr. Harrison, in order to determine whether there can be uniformity.



This committee has also acted upon another matter which had already been dealt with previously by the Conference, and that is the method which should be formulated and adopted by the Reserve Banks and the forms which should be formulated and adopted by the Reserve Banks in connection with these three classes of items, one, the direct sending of cash items, secondly, the direct sending of non-cash collection items, and, third, the definition in the circular of the general condition which shall govern the acceptance of those items for collection by the Reserve Banks. Now that is all submitted, or re-submitted, because it was already dealt with at an earlier Conference. Now what do you wish to do?

Governor Seay. My motion was that these matters along with this other matter be referred to the Governors of the banks in the same way for a written report to Mr. Harrison.

Governor Norris. Governor Seay's motion was intended to cover another subject, or at least some of the members apparently understood it that way. If there is no objection, why can't we hold that that does include the whole subject?

The Chairman. The understanding, then, is that the

previous motion shall extend also to these three items?

Governor Seay. That was my idea.

The Chairman. Is that seconded?

Governor Norris. I will second that.

(The motion, being duly seconded, was carried).

The Chairman. How about sub-paragraphs 1, 2, 3, 4, 5 and 6? Do you wish to take those up seriatim or do you want to refer them to the committee on collections?

Governor Norris. What are you referring to now, Mr. Chairman?

The Chairman. Collections and clearings, sub-paragraph (b), Nos. 1 to 6.

Governor Calkins. The intention there was to see if it is possible to reach uniform practices in regard to all of those things. We find there is entire lack of uniformity, and we think that condition should be corrected.

Governor McDougal. With that object in view, I would move, with respect to No. 1, that the banks adopt the policy of not advising payment of collection until available funds have been received.

Mr. Harrison. That is one of the matters that Mr. Logan and I considered in the general discussion, and his feeling



was substantially that with certain qualifications, in those cases, for instance, where you receive an item in payment which is not immediately payable but <sup>for</sup> which you are willing to take full responsibility --for instance, in New York and in Boston and other districts we get certified checks not payable through the clearing house, and the following day you give advice of payment, or at least we do, although it is in one sense not an available item until the next day.

Governor Seay. But you assume the responsibility.

Mr. Harrison. We assume the responsibility. Payment should never be given until it is intended as final and irrevocable advice of payment--

The Chairman. You mean advice of payment.

Mr. Harrison. Advice of payment, yes.

Governor Fancher. Are you familiar with the practice which has sprung up in some of the banks in that connection?

Mr. Harrison. Yes, I am, and I have a report that I made to Governor Strong on it. It is just a paragraph and I will read it.

"The question presented is whether there should be a uniform procedure in giving final advice of payment of

collection items for which available funds have not been received.

It is believed that in any case where a Federal Reserve Bank accepts a bank draft in payment of a non-cash collection item, it should not give advice of "payment" unless it intends that that advice will be final and irrevocable. Any intermediate advice of the receipt of an uncollected remittance draft should, if given at all, be clearly expressed as an advice of progress for information only. If, however, a Federal Reserve Bank accepts a certified check in payment of a collection item and is prepared to accept the risk of its ultimate payment, it may, of course, give final advice of payment even before the check has been actually paid. The Federal Reserve Bank of New York in receiving a certified check on a clearing house bank in payment of a collection item gives immediate advice of payment, but it is realized that should the check not be paid when finally presented it would have to absorb the loss. Those Federal Reserve Banks which receive immediately available funds in payment of a collection item and which, as stated by San Francisco, advise that the collection has been paid but that the



credit will be made upon final payment only confuse the issue. The rule should be as stated above.

The Chairman. Now, gentlemen, what action do you wish to take?

Governor Calkins. I think the resolution is sufficient.

Governor Young. I have seconded it.

(The motion, having been duly seconded, was carried).

The Chairman. The next sub-topic is (2).

(2) Advisability of Federal Reserve Banks placing the non-responsibility clause upon bills of lading attached to drafts handled for collection. Desirability of uniform procedure by all Reserve Banks.

Governor Calkins. Desirability of uniformity is the key to the whole proposal.

Governor McDougal. I have an opinion from our counsel in regard to it, in which he states that the use of such a stamp is worthless in his opinion.

Governor Seay. Our counsel gives the same opinion practically.

Governor Fancher. And our attorney has given the same opinion.

Governor Calkins. I think our counsel is of the same opinion. There is no uniformity in regard to it.

The Chairman. May I state that we are in agreement with those that have spoken on this subject, that the stamp does no good and that the question of responsibility is determined in the collection circular.

Governor Van Zandt. That is what our counsel says.

The Chairman. What kind of action do you wish taken on this matter?

Governor Calkins. To discontinue the use of such stamps.

The Chairman. We do not use the stamp in New York.

Governor Morris. Neither do we in Philadelphia.

The Chairman. Have you a resolution to offer, Governor Calkins?

Governor Calkins. Yes, I will offer a resolution to that effect.

Governor Young. I will second it.

(The motion, having been duly seconded, was carried).

The Chairman. The next topic is (3).

- (3) Requirement of certified check on delivery of drafts with securities or bills of lading attached.



Governor Norris. I would like to know what the practice is on that in the other districts.

The Chairman. We always require it in New York. We have had frequent arguments due to our instructions to runners to deliver only on payment of cash, certified check or bank due bill. Several of the larger houses have objected very strongly and several of them have said that they will issue instructions to their customers not to send these drafts through the Federal Reserve System.

Governor Seay. We have had some trouble, but fortunately the clearing house rules in our city require the same thing that we require, so no member bank can collect without taking a certified check.

Governor Norris. With us the commercial banks in all cases where they are satisfied with the credit take a check, so that we are in opposition to the practice of practically all of our member banks.

The Chairman. I think the practice among the member banks generally in New York City is only to deliver documents and securities against the certified check.

Governor McDougal. I think, however, that the banks do leave these documents during the short interval between

the time they accept the check and get it certified, when they are dealing with a customer in whom the bank has confidence, and I think we will have to do that.

The Chairman. What action do you propose, Governor Norris?

Governor Norris. I put it down more as an inquiry than anything else. I wanted to know what the practice was in the other Reserve Banks.

We try to get cash, a certified check, or Federal Reserve Bank funds in New York.

Governor Morss. That is true in Boston.

Governor Fancher. And the same in Cleveland.

The Chairman. Is there any district in which the Reserve Bank accepts checks?

Governor Young. We accept them sometimes.

Governor McDougal. We accept them in some cases, but they are all certified before the day is ended.

Governor Young. That is true with us.

Governor McDougal. That is common banking practice and one in which I think we have to make some concessions.

Governor Young. Minneapolis and Chicago are the only two districts, aren't they?



Governor McDougal. We do a very little of it.

Governor Young. We do a very little of it, but sometimes we have to.

Governor Calkins. We have something which is referred to as a preferred list. We accept uncertified checks in those cases. Those are special cases and are of no importance whatever, and it does not apply to drafts that carry documents or securities in any case.

Governor Seay. May I ask if your messengers get them certified.

Governor Calkins. We get them certified.

Governor Norris. There are many cases where we cannot get them certified, because we would not get the check until 2 or half past in the afternoon; it would be some distance from the bank drawn on, and we could not get it certified that day.

The Chairman. Is your inquiry answered, Governor Norris?

Governor Norris. Yes, I think it is.

The Chairman. I do not want to be considered as pushing matters along, but we have a large program.

The next topic under collections and clearing is

B. Maturing notes, bills and other collection.

- (4) Uniform method of handling railroad drafts, insurance company drafts, payable at or through banks, also certificates of deposit.

Governor Fancher. That is a matter, Mr. Chairman, which seems to lack uniformity of treatment. In many cases checks and cash letters are not payable through the clearing house and have to be presented, and it appears to us that there ought to be some uniform method of handling matters of that sort.

Governor Morss. It is our practice to give immediate credit for all railroad and insurance drafts payable at or through banks that apparently can be collected that way, and otherwise we enter such items for collection. Certain certificates of deposit are handled as time items.

The Chairman. Evidently, Governor Fancher, it rests upon your shoulders to suggest a resolution looking towards a uniform method of handling railroad drafts, demand certificates of deposit, which do not bear interest, and time certificates of deposit, which do bear interest, and possibly to include in that drafts on savings banks with pass books attached.



Governor Fancher. There are two classes of items that we regard as time items, certificates of deposit drawing interest and drafts upon savings banks. The last two classes of items should be clearly listed as collection items. It would seem to me that the other classification, that credit should be given for the total, and those items that can be passed through the clearing house be passed through and that those that require special treatment be collected--the letter not to be broken up--but certain items deducted from the cash letter and then certain credits made the following day after certain items are collected.

The Chairman. To be handled as city collections?

Governor Fancher. Yes. In other words, there is a small item of float included, and we feel in our bank that the item of float is so small that it might well be assumed by the banks, if they will only do it.

The Chairman. Then what is your resolution, Governor Fancher?

Governor Fancher. My resolution would be that railroad drafts and time certificates of deposit be included in the letters as cash items and so treated.

Governor McDougal. How about insurance drafts?

Governor Fancher. Insurance drafts and demand certificates, and that those three classes of items be included as cash items.

Governor Seay. Do not some of the banks claim the right to charge exchange on those items?

Governor Van Zandt. They do, and under the ruling by the Board they can.

Governor Seay. They insist that they should be sent as collection items in many cases and abrogate to themselves the right to charge exchange. What can you do in case a member bank takes that position?

The Chairman. You have got to treat them as collection items, pay it, and charge it back to the member.

Governor Van Zandt. In our district we cannot handle railroad drafts, insurance drafts and so forth as cash items. It cannot be done.

Governor McDougal. I would think that<sup>if</sup>/railroad and insurance drafts ought to be handled in a uniform manner that they must be handled for collection, because there are some of each class that we could not accept as cash.

The Chairman. How about those districts where it is possible, because of the small volume, to handle them as



cash items?

Governor Seay. But then there could not be uniformity.

The Chairman. Exactly. What do you desire? Do you desire uniformity, or do you desire to handle them as collection items when they must be so handled and as cash items where they can be so handled?

Governor Seay. Is there any objection to leaving it to the Federal Reserve Bank and avoid such confusion?

Governor Fancher. There is more or less confusion, but I am willing.

Governor Calkins. Take one specific instance. We had a railroad draft for something over \$155,000.00 returned twice with the comment "Collect through other channels". My opinion is that the Federal Reserve Bank in handling that item assumed responsibility, and if there had been a loss it would have been made to pay.

Governor Van Zandt. That was the Houston branch of our bank, and for that you have received due and abject apology from the head office.

Governor Calkins. I understand, Governor, but I only raise it for the purpose of bringing out the fact that we cannot continue that kind of practice in any case, and we

must have an understanding that these things are to be collected and remitted, or else that they are not. That is what Governor Fancher is driving at.

(After further discussion):

Governor Fancher. I will withdraw the topic from the program, Mr. Chairman. I am satisfied no uniformity can be had in the matter.

The Chairman. No 4 is withdrawn. The next is

- (5) Liability of collector of time items when check or other evidence of payment is accepted which proves to be bad.

Governor Morss. That is quite a large subject in a way. In collecting time items we require currency for order and charge the member bank's reserve account all drafts of member or non-member banks drawn on the Boston bank and payable through the clearing house association, certified check to be received from the member bank on items payable in Boston upon presentation by messengers, individuals, firms or corporations. This question was raised by us because the counsel of a New York bank claimed that they accepted plain checks without these guarantees which we require, and if those checks were not paid the Federal Reserve Bank



of New York, in conforming to the law of the State of New York, was not responsible. It appears to be a fact that if each Federal Reserve Bank conformed to the laws of its own State that the Federal Reserve Bank doing that is not responsible, but if the practice in the New York bank is in conformity with the law, under which collateral can be given out and the indorsement waived, which means when a check is taken and it is not found out whether it is good until the next day, are we protecting our member banks in the way we ought to protect them?

The Chairman. Governor Morss, admitting that there is lack of uniformity in the statutes of the different States, isn't it a fact that the reliance for protection that the Reserve Banks must have necessarily is in the form of the circular which they send out, and that if we adopt this uniform circular that has been suggested, and our counsel advise us that it is an effective protection, what more can we do? We cannot change the State laws.

Governor Morss. That might cover it, but apparently we got the impression that New York proposed to protect itself behind its law instead of agreeing to anything especially.

Mr. Harrison. I think there must be a misunderstanding about that, Governor Morss, because as a matter of fact the law in New York, while authorizing any collecting bank to accept payment in check, does not give us any greater protection than our own circular and your own circular gives you. The fact that the law provides that we are protected by taking payment in that manner does not give us any greater rights than you have got under a circular that is the same as ours.

Governor Morss. But our circulars are not identical now, are they?

Mr. Harrison. No, but I think that every Reserve Bank thinks that its circular authorizes them to take payment in a bank draft. As a matter of fact, if you do not admit that, the collection system falls flat, because most of our collections are based upon remittance in bank draft. Now ordinarily it is negligent to take payment in that manner, and if a check or remittance draft is not paid the collecting agent suffers, so that the Federal Reserve Banks now protect themselves by means of circulars which authorize them to take payment in bank drafts. In New York the circular is superfluous, so far as that particular part



of it is concerned, but in other States it is necessary, and each Federal Reserve Bank has to recognize that necessity in drafting its circular.

Governor Morss. Is that the practice of the commercial banks in New York on collection items?

Mr. Harrison. Absolutely.

Governor Morss. Would they give up a collateral that comes with a note for collection in exchange for an ordinary check?

The Chairman. You certainly would have to imply from that that if they would not give up the collateral they would then be required to pay cash.

Governor Norris. The question is if they gave up collateral and accepted a check in payment which was not good, would they be responsible to the bank that sends the item?

The Chairman. That depends upon the terms of the circular. I think if you submit this question, which comes up in connection with the New York practice, to your counsel, in connection with the study of the proposed uniform circular, you will find that the circular disposes of the question.

Mr. Harrison. We are better protected; when your mem-

ber bank sends direct to us we are better protected than the banks in your district, for this reason, that the law authorizes us to accept payment in draft, and if the draft is not paid, then the owner, or the person holding it can sue on the original note. Even if they have not got it they can get a certified copy of it. That is not true in any other district. Where the law does not authorize you to take payment in check and you do so, then the obligor on the note is released. In your district, where you take a check in payment, that is the last thing, so far as the original obligor is concerned.

Governor Norris. That is true, but in our circular we say we do not take them, and that is what we are bound by.

Mr. Harrison. I know that, but what I am trying to show is that not only is the New York law not unfair, but it is even greater protection to us and to our member banks and to your member banks than the laws in other States which do not authorize payment by means of bank draft.

Governor Morss. Is not that shutting the door after the horse has been stolen? If you give up your collateral it is pretty hard to get it back.



Governor Miller. But the indorsers would not be released by the fact of cancellation or delivery of collateral, would they?

Mr. Harrison. I think not, but I would like to investigate that a little further. I think not, for the reason that that is an authorized means of accepting payment.

Governor Miller. If we took one in Missouri and sent it to New York, would the suit be brought under the Missouri statute or the New York statute?

Mr. Harrison. That depends. If you adopt the circular that this paragraph refers to, then you specifically authorize yourself to send to us for collection items in the manner that we have defined, and that is the beauty of it.

Governor Morss. It is not a case of protecting the Federal Reserve Bank. The banks are protected, but if you were to send your items to New York, the owner of the note is not as well protected as he is if it is to be collected in Boston--

Mr. Harrison. I think in New York he is much better protected than he is in Boston, because in New York, un-

like Boston, he can sue on the original notes, whereas in Boston, when you take payment in a bank draft, the note is gone forever, and obligor is released.

Governor Seay. In one case he has a suit and in the other case he gets his collateral back.

Governor Morss. He does not want a law suit; that is the last thing he wants.

The Chairman. Suppose you get a draft, with security attached, drawn on a bank in Portland, Maine. How do you get payment for that draft? You send it to Portland for collection and get a bank draft?

Governor Morss. Yes.

The Chairman. . . When you accept a bank draft, the obligor on the draft, with security attached, is released, isn't he?

Governor Morss. Yes, he is. He has lost his collateral. We never could make it absolute because of such things as that.

Mr. Harrison. You cannot make <sup>your practice</sup>  $\frac{1}{2}$  apply any place, except Boston.

Governor Morss. We cannot make it apply to every case, but we can make it apply to most cases. New York



apparently does not do that; they do not make it apply to any case.

Mr. Harrison. We do in New York City; we always require a certified check in payment of their collections. It only arises outside of New York, where it does with you, and outside of New York, as outside of Boston, we never release <sup>the</sup> notes collateral if we can help it, but if we do we have one additional advantage that you have not; we have got a check which may or may not be paid, and we have the right to sue on the original note or a certified copy of it, which you cannot do.

Governor Miller. But the collateral is dissipated.

Mr. Harrison. Yes, but it is in Boston also.

? Governor Morss. Yes, I think it is, when you give it outside <sup>Boston.</sup> we got the impression from the correspondence and conversation that we had, that you did not protect the owner of the note, in what you accepted in payment, as well as we protected them in Boston.

The Chairman. We accept just what you do.

Governor Morss. We had a different impression.

Mr. Harrison. As I say, there was a misunderstanding. We have figured it out that we not only give your member

bank and our member bank all that you do, but that we have the additional advantage in New York that we can sue on the note.

Governor Calkins. Is not that covered by the circular?

The Chairman. It is supposed to be.

The next is No. 6.

(6) Exchange Charges: There should be an uniform practice among Federal Reserve Banks in the following regards:

(a) Deduction of exchange on demand certificates of deposit and time certificates of deposit sent for collection at maturity.

That matter is automatically dealt with, isn't it? What do you propose in regard to this topic?

Governor McDougal. There is a memorandum in a report here to the effect that it is common practice in rural districts to use the certificate of deposit in lieu of a cashier's check or bank draft. A certificate of deposit is a direct obligation of the issuing bank and as such should be treated the same as the cashier's check; otherwise it should be handled as a cash item and no deduction



for exchange should be made.

Governor Calkins. The Board has ruled to the contrary.

Governor McDougal. It is now the practice of all but three of the Reserve Banks, Richmond, Minneapolis and San Francisco, to handle certificates as cash items and the practice should be uniform. I think it has been taken care of to some extent. However, no action is asked to be taken on this topic.

The Chairman. If no action is necessary we will go to the next one.

Topic (b). Deduction of exchange on checks protested and returned for non-payment when re-forwarded for collection and paid by drawee bank.

Governor McDougal. In accordance with the Board's ruling of November 29th, 1919, protested checks forwarded the second time are handled as collections. In collecting such dishonored items a distinct service is rendered, and therefore the collecting bank is entitled to a charge for the service. That was put in here for the reason that in some instances items of that sort came in through banks where they had been collected and an exchange charge deducted,

and the sending banks would not accept payment.

The Chairman. Have you been able to collect exchange that has been deducted and collected by a bank?

Governor McDougal. We would not attempt to do it where it has been reforwarded.

The Chairman. The opinion apparently prevails in the New York bank that such an act is covered by the terms of an amendment to the Federal Reserve Act, that the member bank has no right to impose the exchange charge upon that item and they have succeeded in getting the exchange back in some cases.

Governor Calkins. When protest fees have been added to the face of the check and a request is made to collect the face amount plus the protest fees, the drawee bank has no right to charge the face of the check plus the protest fee. When it is necessary to reforward it for payment it is not a cash item and cannot be made so.

The Chairman. Nevertheless it would not be subject to an exchange charge.

Governor Calkins. It should not be.

The Chairman. The mere fact that the Board rules that way for physical, mechanical and mathematical reasons in



accounting, it must be handled as a collection item. You do not alter the law of the United States, which provides that a check drawn on a member bank is not subject to deduction for exchange when presented at the Federal Reserve Bank.

Governor Seay. I move, Mr. Chairman, it is the sense of the Conference that such checks should not be subject to deduction for exchange.

The Chairman. Even if presented for collection.

(The motion, being duly seconded, was carried).

The Chairman. The next is

C. Transit.

- (1) Desirability of the Federal Reserve Banks establishing a uniform practice in handling check collections, with the aim of making the methods of handling checks for member banks, so far as is reasonably possible, as simple as were these transactions of the banks with their city correspondents.

The Chairman. We have been subjected to somewhat the same complaint that Governor Fancher referred to, in the development of the technique in another bank which is dif-

ferent from ours. I think possibly some of our men felt that we were surrounding the collection business with a good deal of formality and red tape. I may be wrong about that. This seems a proper subject to refer to a committee. It is one that requires a lot of investigation, energy and technique.

Mr. Harrison. If I may explain that, the objection that was intended to be raised by that question was the one Governor Fancher has previously raised and which has been disposed of, unfavorably if you will, and that is that there should be uniformity in the handling of such items as drafts on savings banks, for instance, without pass books attached. In some Reserve Banks, I believe Minneapolis has at times refused to handle those as cash items. In fact, one of them was returned to us stamped "Can handle for collection only". They not only refused to accept it as a cash item, but they did not exercise their discretion to handle it as a collection item, but returned <sup>it</sup> with the stamp on it that they could handle only for collection.

Governor Young. That was not from Minneapolis.

Mr. Harrison. I understood it was from Minneapolis,



although I may be wrong.

The Chairman. Do you wish to press this matter, Mr. Harrison?

Mr. Harrison. No. I think the opinion of the Governors was expressed in the discussion of the question that Governor Fancher presented.

The Chairman. One of our men in New York is very keen to have the Reserve Banks start a campaign to educate the member banks to have printed certain identification symbols on the check issued to their customers, checks which they use themselves, so as to facilitate the sorting and collection of checks.

This comes under topic No. 2, under C.

(2) Identification symbols on member banks' checks.

I do not know whether the time has arrived to take that up or not. It would possibly subject the member banks to some expense and considerable annoyance, but in time I think it ought to be done. I do not know whether you know it, but in England, where of course has developed through branch extension, every check that has to pass through the London clearing house must bear one of three symbols. One symbol is a circle, another is a triangle, and the

third is a square. They are printed plainly in one corner of the check in black ink. They have inside of one symbol a "C", inside of another an "M"; the "C" indicates the country, and the "M" "metropolitan", and then they have another letter that indicates the area immediately around that city. They have three clearings, as you know, the distinguishing feature between the three clearings being the time at which the clearing closes, the clearings in the London clearing house being continuous. I have been in the clearing house, and I have seen how it works. These checks go rattling through all day long, and the sorting and handling of the checks is very much facilitated, just as the counting of money is facilitated by having the denomination in a plain figure and in a handy location. If the day ever comes when we can get our member banks to adopt a system of symbols--the one suggested here may not be the best by any means--you are going to find that the cost and the time required in sorting and routing the checks and the amount of lost time and lost motion due to error in sorting is going to be tremendously reduced. I do not want to recommend that we do that now, but if we have a committee appointed to consider the perfection of



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the technique of/collection system, that is one topic which they could take up and consider and should consider carefully. If we ever get the banks in a good frame of mind about the system, I think it would produce an agreeable effect to do this, and in the course of time we would have all the checks bearing these symbols.

Governor Seay. It could not be done at once. It is a matter of communication and education, and it seems to me it would serve the purpose if a resolution were passed to the effect that the Federal Reserve Banks pursue this matter as a matter of education with their banks and gradually bring it about.

Governor Van Zandt. We started out by having the skeleton numbers on the checks, but that didn't meet with much success.

The Chairman. Your motion would be, Governor Seay, to simply get the district numbers on the checks, inasmuch as we tried that at the beginning and a great many of them have them on there now, and that it would be confusing to abandon that for a new designation?

Governor Van Zandt. The skeleton number does not answer the purpose that the symbol does, for the reason that some

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districts, for instance San Francisco, have a great many branches, and if you had the district number and also an indication of the branch, it would facilitate sorting materially.

The Chairman. I have a feeling that when we undertake a campaign for the development of the use of symbols on checks we can develop a system of symbols which will be easy to apply to existing checks, by a rubber stamp if necessary, until existing supplies are used up, one that will be much more complete and effective than just the skeleton number of the district, which is not a very complete symbol and does not afford the convenience that a better system of symbols would afford.

Governor Fancher. I am rather familiar with the work involved and the time it took to get the ABA symbols on checks. That was placed in the hands of a very able and energetic committee, and I think it took three or four years before they really got the symbols in general use. In fact, in order to get the banks to adopt any scheme of this sort, it would have to be taken in hand by a committee that would simply live with it for some time, and it would be a matter of several years before it could



be brought about.

The Chairman. Is this an opportune time to press such a matter as this?

Governor Fancher. I do not believe it is.

The Chairman. I am willing, if there is a feeling of that sort, to pass the topic. The next topic is

(3) Desirability of uniform practice in filing claims on behalf of member banks by Federal Reserve Banks and their branches of transit items involved in bank failures.

Governor McDougal. It is our practice to file claims on request of depositors. Some Federal Reserve Banks decline to render a like service. Governor Harding of the Reserve Board, in letters to at least two of the Reserve Banks, gave it as the Board's opinion that the filing of claims on behalf of member banks on checks received for collection is a service which the Federal Reserve Bank might properly render. I feel that the banks when requested to file these claims should do it. The practice not being uniform is perhaps the reason that it was put on by Chicago and also St. Louis.

Governor Biggs. We think it highly desirable that all

Reserve Banks and branches follow uniform practices in the matter of filing claims on behalf of endorsers, covering checks involved in bank failures.

Governor Seay. We have had occasion to file claims for other Federal Reserve Banks, and we have done it very willingly, and I concur in the opinion expressed by Governor McDougal that it would be rendering a service if all the banks would adopt the same practice. We do it cheerfully.

Governor Van Zandt. In our district we have done it in a great many instances, and in several instances we have succeeded in getting a preferred claim through for our indoser, where owners of checks that were included in the same letter were not able to get a preferred claim through, and therefore it might be worth something to the banks to use our service.

The Chairman. We file claims unless the owner of the check, the bank that owns the check, instructs us that they will do it themselves.

Governor Van Zandt. We file claims only on written authority.

The Chairman. What is the desire of Chicago and St. Louis



in this matter?

Governor McDougal. I would recommend for consideration of the Conference that a uniform policy be adopted and that when requested to do so by the owner of the checks that the Federal Reserve Banks file claims in their behalf.

Governor Miller. You mean the member bank sending you the item?

Governor McDougal. I do, yes.

Governor Miller. When requested to do so by the other member bank.

Governor McDougal. Yes.

Governor Miller. The member bank sending the item frequently is not the owner of the check, because the member bank charges it back.

Governor Van Zandt. They can get the same authority from their customer.

The Chairman. The effect of Governor McDougal's motion would be that the Federal Reserve Banks would file claims against failed banks for unpaid collections.

Governor McDougal. On request.

The Chairman. On request of their last endorser; and that that practice be made uniform.

Governor Fancher. We do it.

Mr. Harrison. We do it unless the parties notify us that they will file their own claim.

Governor Van Zandt. But we have been advised by the Federal Reserve Board that we cannot file a claim without authority.

The Chairman. I do not think such a ruling by the Reserve Board would hold.

Governor Van Zandt. I do not think the motion contained anything about authority. Does it not say when requested?

Governor Galkins. Can anybody produce that ruling of the Board?

Mr. Harrison. I am sure Mr. Logan does not know of it, because I have discussed this whole question of claims with him and I told him that we file claims for our member banks unless requested not to do so.

Governor Fancher. That is what we do.

Mr. Harrison. I also took occasion to tell him that Cleveland did the same thing.

The Chairman. May I suggest a little different form of motion, and that is this, that it is the sense of the meeting that claims of this character against failed



banks shall be filed by Federal Reserve Banks in behalf of the member banks and other Reserve Banks with or without the request of the member bank unless the Federal Reserve Bank is instructed to the contrary; that Governor Van Zandt be requested to apply to the Board, in case he finds a written ruling on this subject, informing the Board that the Conference has taken this action, for a different ruling from the Board.

Governor Van Zandt. I think that ruling was sent to me in response to an inquiry at a time when they sent me some correspondence that they had with Governor Seay on some claims that he had filed.

Governor Seay. It has been our practice, as incorporated in the motion of Governor Strong, to render this service upon request, or, in the absence of request to the contrary.

The Chairman. How does that motion strike you, gentlemen?

Governor Seay. I will second it.

Mr. Harrison. That includes Reserve Banks or last endorsers.

Governor Van Zandt. Last endorsers, yes.

(The motion, having been duly seconded, was carried).

Governor Seay. Mr. Chairman, before adjourning, I want to mention one thing, with Governor McDougal's concurrence. Last night the Board appointed a committee of two Governors and two Federal Reserve Agents to consider the subject of group meetings, as to whether it was desirable to continue them, and, if desirable, whether the banks should be regrouped or not.

The opinion was expressed here yesterday, as I recall it, that it would be highly advantageous to the Governors themselves to have meetings, as formerly, and with perhaps greater frequency than they are now called, and have them away from Washington, where they would not be so occupied with other things that they would not have the time to give to administrative questions which should be given. It passed through my mind, without talking to Governor McDougal, that conferences of the Governors, as formerly held, say quarterly, would be more desirable and would effect better results--

The Chairman. To be held at different Reserve Banks?

Governor Seay. At different Reserve Banks. I haven't consulted with anybody, not having had time, but I thought an expression of opinion might be brought out here before



we had this meeting at lunch today.

Governor Miller. The Federal Reserve Bank at Kansas City has just completed a very beautiful office building, and as that is the central point, the heart of America, I would like to invite you to hold the first meeting in Kansas City at a very early date.

Governor Seay. Having just moved into our new building, and being actually occupying it, perhaps my invitation might have preference over yours.

The Chairman. The suggestion has been made by three Governors, now, that the work of the Federal Reserve Banks will be greatly benefitted by having meetings of Governors of the banks in different Federal Reserve cities from time to time, and more frequently, and that instead of having these group meetings, which are incomplete and cannot decide anything, that it would be more desirable to have meetings of the Governors as suggested. That I understand is the sense of the meeting.

Governor Seay. I would like to say that it is my opinion that the group meetings can be made beneficial and that we have derived benefits from them, but nevertheless I think as I have expressed myself.

The Chairman. I am simply introducing into the record what has been said at the meeting, but I understand has been said in private conversation, just as something to work on.

Governor McDougal. Chicago belongs to what is called Group 2. We have held during the last year only one meeting, and that was at Dallas. Banks belonging to the other groups I understand have held more meetings, and perhaps have gotten all the way around. I think in considering this subject that we must bear in mind that the group meetings were held between three meetings, contemplated a joint meeting of Governors and the Chairmen of the Bank, and I am inclined to think that while the meetings of the Governors which has been suggested are very desirable, and I would be in favor of holding them, still they would hardly take the place of the group meetings such as have been held.

The Chairman. Governor McDougal, let us consider what you do at these group meetings. I attended two of them. We have had three in our district: one at Boston, one at New York, and one at Philadelphia. They are very delightful meetings; we attended the Directors' meeting and picked up some ideas of how they did things as contrasted with the way we did them; then we had luncheon and dinner;



we had a delightful chat, but there were only three banks involved and nothing could be decided. There was little opportunity for discussing the technique of the system, that we are all working on and want to perfect, and I am frank to say that I would rather give up the necessary time to having three meetings of the Governors a year, or four, or any number that is feasible, in order to get something definitely decided, than I would to have these group meetings, which are perfectly delightful, I admit, but which to my mind do not accomplish a fraction of what these meetings of the Governors accomplish.

Governor Morss. I agree with you there.

Governor Calkins. The fact of the matter is we haven't time enough to devote to these group meetings. If we devoted all the time that we should devote to discussion at these Conferences of Governors, we would give all the time that we should be away from the offices for such purposes. The group meetings are entirely inconclusive and always will be, and on that account I am in favor of increasing the Governors' Conferences and cutting out the group meetings.

The Chairman. What I would like to do in connection with the Governors' Conferences is something like this,

Governor Calkins: We have, for instance, a program made up well in advance, and the bulk of that program consists of topics bearing upon collections and transit matters and upon currency, so that we could get the program up a month in advance and everyone will have opportunity to study the subjects in their banks, we would have time to make a thorough study, and then we could go to a meeting, and take some of the men in the bank if necessary, and thresh these things out and decide them thoroughly and completely, taking the time that is necessary, and we would get somewhere.

Governor Callins. I want to say further that at almost every Conference of Governors that has been held we have been unable to get through with the program and have had to drop a lot of things because we could not discuss them.

Governor Biggs. There is another reason for meeting out of Washington. We have discussed here the livestock and agricultural condition, in which five of the Governors are interested, and I think if the other seven Governors could <sup>go</sup> into that district and see the conditions that they would get a better viewpoint. I think if they got out and mingled with some of the people in the extreme west and



Central west and in the South, I think it would be very helpful.

The Chairman. I think there is a great advantage in doing just what you say.

Governor Seay. I advanced the subject with the view of getting an expression of opinion, and I might add this, that as you recall objection was made before to these meetings of the Governors in different parts of the country on the ground that they were junkets. I am satisfied that no one is more appreciative of hospitality than I am, but it might be well to consider whether, if we make these trips, we should have it understood that we are not to be entertained by bankers and are not to devote time to anything but business.

The Chairman. That they will be nothing but business meetings.

Governor Calkins. We have something further to consider. There is a committee of the Chairmen to consider the same subject, and in view of that I think the proper procedure would be to consult the Board first.

The Chairman. I was going to suggest that we pass a resolution. There is difference between the Conferences

of the Federal Reserve Agents and the Conferences of the Governors. The Federal Reserve Agents are the representatives of the Reserve Board and would naturally meet in Washington. The Governors are the ones that are supposed to run these banks in the field with responsibility for the various things that we have on these programs to discuss, and I think we can do it better by meeting in the Reserve Banks, and spend<sup>ing</sup> a certain amount of time getting familiar with the practices in the Reserve Banks themselves.

The Board has appointed a committee of Agents and Governors to handle the matter.

Governor Seay. I understood that the purpose of the Board was to get an opinion from the respective parties as to whether or not it would be proper to continue or discontinue the group meetings. The Board itself referred the matter to this committee for recommendation back to the Board.

The Chairman. Is it not now proper for us to indicate to Governor McDougal and Governor Seay as to whether we think the group meetings should be continued or discontinued? That is what they specifically ask us to do. How do you



feel about continuing the group meetings?

Governor Wellborn. I think we are all pretty well agreed on that, that we ought to discontinue them after this year.

Governor Biggs. It is very difficult to hold them. We had one in Dallas that was a good one, and we expected Chicago and Dallas to come to St. Louis. We made three different appointments. At these group meetings the Board was to have not less than one member. On one occasion we could not get a member of the Board, and on another occasion the Board went down through Dallas and through New Mexico. It is difficult to get the Agents and the Governors to agree on the time, but we did agree on two occasions, and then we could not get a representative of the Board.

The Chairman. Now, Governors Seay and McDougal, do you not think you have a pretty clear understanding of the sense of the meeting and that you will be able to deal with the question?

Governor Seay. I think so.

Governor McDougal. Yes.

Governor Van Zandt. Gentlemen, every time we get together we have this question coming up of electing a chair-

man, and I would like to move now that for the next Conference of Governors that Governor Strong be made Chairman and Mr. Harrison secretary.

(The motion was duly seconded and unanimously carried).

The Chairman. A motion to adjourn is in order.

(Motion to adjourn being made and duly seconded, the Conference adjourned at 11 o'clock p m until 2 o'clock p m of the same day).

fol's

turn.



## AFTER RECESS.

The Conference reconvened at 2 o'clock p m, at the expiration of the recess.

The Chairman. The meeting will please come to order.

The next item on the program is

## C. Transit.

- (4) Letters to banks calling attention to failure to give reason for non-payment of checks returned. Can this practice be discontinued?

This was proposed by St. Louis. Governor Biggs?

Governor Biggs. I do not find that among my papers.

May I pass that?

Governor Calkins: The following motion was adopted at the Transit Conference held in Cleveland on June 23, 1919, and approved by the Federal Reserve Board.

"That where a member bank or non-member bank returns a check to a Federal Reserve bank without giving the reason for non-payment, the receiving Federal Reserve bank returned the check to its endorser with the notation 'No reason given' and advised the bank by which it was returned that it failed to give a reason, and asked them for it, and also stated that it expects to hold them responsible for their failure to do so

Endorsers are entitled to this information, and for this reason the practice should not be discontinued.

The Chairman. Are you talking about No. 4 or No. 5?

Governor Calkins. No. 4.

The Chairman. This is a St. Louis topic. Have you found it yet, Governor Biggs?

Governor Biggs. No. Pass on to the next one until I can find it.

The Chairman. Let us go ahead and discuss it. The Federal Reserve Bank of New York pursues the practice of writing to member banks immediately upon receipt of an item unpaid without any reason for non-payment.

Governor Van Zandt. The Federal Reserve Bank of Dallas does the same thing.

Governor Calkins. I think we do the same thing.

Governor Fancher. We do.

The Chairman. It is difficult to arrive at what should be done in a case of this kind. Certainly, you have no reason to withhold the information from your member bank.

Governor Calkins. What is your procedure?

The Chairman. We just advise them on that form.

Governor Calkins. Action was taken by the transit managers department and confirmed by the Federal Reserve Board.



The Chairman. Governor Biggs raises this question. I imagine the practice of the Federal Reserve Board is uniform. He wants to know whether that practice can be discontinued.

Governor Norris. The practice of calling the attention of the bank to its failure to give reason for not giving final advice of payment of items which have previously been advised as outstanding?

The Chairman. Is not that regularly done by all of the banks?

Governor Norris. I suppose it is, but we assumed that the question was asked with a view to getting rid of the trouble of writing the letters of inquiry.

Governor Van Zandt. You get more trouble on your shoulders by the long chain of correspondence which you have in taking <sup>it</sup> up with these persons who do insist on having a reason given.

The Chairman. Topic C (4) you are ready to pass, Governor Biggs?

Governor Biggs. Yes.

The Chairman. Topic 5. Check collections. Final advice of payment of items which have previously been ad-

vised as outstanding.

Governor Calkins. This appears to be a topic of the Federal Reserve Bank of St. Louis. On items forwarded to the Federal Reserve Bank of St. Louis we receive a letter which reads as follows:

"This is only to notify you that we are without returns on the following items. This notice does not necessarily imply non-payment, as the advice of remittance may have gone astray in the mails. We are tracing and will advise you later."

That is all right. Then we notify our indorsers, and then we get a communication through St. Louis which reads in substance to the effect that, referring to their advice of no returns sent to us on the date communicated above, regarding the following items, they beg to advise us that the



same is no longer outstanding on their books. This second letter is very vague, and they do not give us the necessary information to pass upon the matter.

I do not think any action is necessary on that.

Governor Van Zandt. "No longer outstanding" means it is not received or might have been returned.

Governor Seay. Is not that covered by B (1)?

Governor Calkins. I do not think so.

Mr. Harrison. One is maturing notes and the other is checks.

Governor Seay. The word "item" is used in both cases.

Mr. Harrison. But it is under the transit topic. I wish that it were covered by B (1). That would be the best disposition of it.

Governor McDougal. This subject has been covered.

The Chairman. I have gathered from the memoranda which I have on this topic C (5) that the men at the

bank at New York regard the number of advices sent as being unnecessarily burdensome and confusing.

Governor Calkins. They are.

The Chairman. They are very burdensome and not helpful. May I read this comment:

"It has been the practice of several of the western banks to very promptly send out notices of non-payment or unsatisfactory returns. Apparently such notices have been mailed in case of a day's delay in receiving remittance, and in some cases even when remittance was made in other than local exchange. A very large percentage of these notices is followed within forty-eight hours by a second notice advising that the items have been paid, all of which has necessitated a great deal of work, not only on the part of the banks sending the notices out, but also on the part of the banks receiving them.

"While prompt action with respect to all items of this character is very much to be commended, it would, nevertheless, appear that in many cases notices have been sent out uselessly and consideration might well be given to the establishment of some definite rule for such cases. If, for instance, for items under \$500.00, it were the practice to defer the sending out of these notices of non-



payment or unsatisfactory returns for a period of 48 hours, except in cases where actual non-payment is sooner determined, much work would be avoided for all concerned without increasing the risks incident to the handling of such items."

Governor Calkins, that is our comment on this topic.

Governor Fancher. Our comment is that our practice with regard to sending out notices of non-payment or unsatisfactory returns, is that we make out a notice in triplicate, the original copy for the indorser, that the item is unaccounted for, and a duplicate on final advice of payment, and we retain the triplicate of the copy for our files.

The Chairman. How soon do you send that notice out?

Governor Fancher. The first notice, Mr. Chairman, immediately.

The Chairman. Governor Calkins, what is your suggestion on this topic?

Governor Calkins. Nothing. I do not think that any action is necessary. The complaint was only with regard to St. Louis anyhow, and they might reform their practice and thereby cure the situation. Is there anybody else

that is concerned, Governor Strong?

The Chairman. Let me see. Here is a little record in the month of January, that Minneapolis sent us 612 without return advices, and in February 35. The advices of returns received amounted to 390 in January and 147 in February.

Governor Young. I was late getting in, for which you have my humble apology. I have a memorandum on that, and I assume that the matter you are discussing is (5), check collections--final advice of payment of items which have previously been advised as outstanding.

The Chairman. Correct.

Governor Young. It is the practice of the Federal Reserve Bank of Minneapolis to advise their indorsers that checks and drafts received for collection are still outstanding after reasonable length of time in which to secure payment has elapsed. This in order that they may be put on notice that the items have not been paid up to that time. When payment of the remittance in which these items were included is received, notice is sent to our indorser that the item upon which previous notice has been sent, is no longer outstanding. This places the Federal Re-



serve Bank and the indorser in the same position as though no notice had been sent--that the item was outstanding. A triplicate form bound in books, with cardboard backs, is used by us, the first being the notice that the item is outstanding--the second notice, that it is no longer outstanding, and the third, a copy for our records. The three forms are all filled out at the same time except as to the date. We thus have a record showing that we have notified our indorser that the item is outstanding, and also a record showing that we have subsequently notified them that it was no longer outstanding. If we advised our indorser that the item was paid, it would necessitate our making a thorough investigation to see that the item had not been returned unpaid, and if it had been returned unpaid, our indorser notified in this event. Otherwise, we might notify our indorser, that an item had been paid when such item had not been paid even though the balance of the items included in the same remittance had been paid. If we used the wording on our second notice "returns have now been received," this might be interpreted by our indorsers as advice of final payment, and they be thus misled. If final advice of payment is desired by our indorsers, they

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can make special request for such information, and it will be furnished, but in the great majority of cases, the notice that the item is no longer outstanding on our records, is all that is desired. Attached are copies of the forms used by us in advising outstanding items.

I do not know anything about this. It was prepared by our transit manager. This is a very serious thing with Minneapolis. We have kept an accurate record for a year, and I suppose that every day there are between 800 and 900 banks at the Helena branch and the Minneapolis branch that are behind from one to thirteen days in their remittances. They say "Why don't you get a man out there?" We have not got 800 men to send out there. That is just what we are contending with in the ninth Federal Reserve District on this per collection of checks, and I tell you it is serious.

The Chairman. I am not going to quarrel with you about putting the burden on us to look up these items so long as you open those banks and get the money for us, so far as I am concerned.

Governor Young. I do not know what suggestion we have on this. I know that our institution will be reason-



able about it. I assume that our transit manager handled this in the way he thought was best. Has there been a resolution offered on it, or anything?

The Chairman. No. We were just sitting on the corpse here. The suggestion seems to be that there is an unnecessary number of notices going out. When we found, as we did in New York, that the notices were sent in of no return faster than we could check them back and look up the items, so that the advice of payment came in before we had looked up the advice of no return, we thought--we had 1100 or 1200 of them in one month, to check up--

Governor Young. I think that this will gradually disappear. While counsel for the Federal Reserve Board expresses the wish that banks do not do anything to change the present par collection of checks, so far as the Minneapolis district is concerned it is almost impossible to continue this thing. We are taking a big chance and risk every day on it.

The Chairman. Governor Calkins, what disposition would you like made on that topic?

Governor Calkins. My advice here is that it only applied to St. Louis, but inasmuch as there are others, I do

but  
not know/what we ought to take some action. I would like  
to know if there is any other bank taking the same position  
that we do.

Governor Van Zandt. We follow the same practice.

Governor Calkins. I thought you did.

Governor Young. I think we followed the same thing in  
Minneapolis, and that the same practice was followed in  
Cleveland, but our second advice says "Paid or returned"  
instead of "Not outstanding".

Governor Calkins. I cannot see any reason for inter-  
fering with banks such as Governor Strong has mentioned. I  
do not want to interfere with the reopening of Banks.

Governor Biggs. You want a more definite advice, and  
I think you should have it.

Governor Norris. Is there any objection to advis-  
ing that it is paid, instead of advising that it is no  
longer outstanding?

Governor Young. That comes about because our man un-  
fortunately feels that if one check in that letter should  
be returned or should be outstanding, you would get that  
anyway, you would have notice of that, while if he advised  
you that this check was paid, it would not be a correct  
advice, and he simply advises that it is no longer out-



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standing, which is the same thing as advising that it was paid.

Governor Calkins. No, it is not the same thing as advising that it was paid. It puts the burden of finding out what really happened on the other bank.

Governor Norris. I do not think so, because you have got the item back.

Governor Calkins. That is what you mean?

Governor Norris. He does not--

Governor Van Zandt (interposing). The returned item might be lost in the mail.

Governor Calkins. I am willing to pass it without any action.

Governor Young. That would be fine.

The Chairman. May I ask Governor Young to say if it is possible to say whether those are black or white items-- whether they have been paid or not paid?

Governor Young. It will be difficult to do that. If there is any possible chance of doing better on that, we will be very glad to do it, or if you have any suggestion to offer to us, send it along and we will do what we can.

The Chairman. How about it, Governor Biggs? Do you feel that way too?

Governor Biggs. Yes. We can do better. We can advise you more definitely, if that is the complaint.

The Chairman. Shall we check No. 5 and pass to the next topic, which is

## II. COLLECTIONS AND CLEARING.

### C. Transit.

- (6) Immediate credit for officers' checks issued by Federal Reserve Banks. It is recommended that immediate credit be given at all Federal Reserve Banks and branches for all checks issued by another Federal Reserve Bank or branch, and that the receiving bank be permitted to deduct such items from its credits to the issuing bank, thereby receiving immediate payment. It is the object of this recommendation to place checks of the several Federal Reserve Banks on the same basis, so far as availability is concerned, as transfer drafts and exchange drafts issued by member banks.



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Governor Seay. I will answer in the affirmative to that, Mr. Chairman. I move that it is the sense of the meeting that immediate credit be given for officers' checks issued by Federal Reserve Banks.

Governor Young. I second the motion.

Governor Van Zandt. I think the explanation in the item itself is sufficient to take the place of any discussion. I am ready for the question.

The Chairman. No further discussion?

(The motion was put and carried).

The Chairman. We have next an interesting topic under (7), which is

(7) Par clearings in the Sixth District--Its present status, legal and otherwise.

Governor Wellborn. I have a paper here, which is not very long, and I will be glad to read it, if it is agreeable. You know, an injunction was brought against us by the country banks.

In presenting for your consideration the legal status of the litigation, I shall trace only the bare outlines of the issues in the suit and of its development to date, with a concluding word as to what remains to be done before the

issue is finally determined.

I might preface all that I say by the statement that the case is just ripe for a hearing on its merits, with one important question definitely determined--viz: the jurisdiction of the Federal Courts over the controversy. Except for a final determination of the fact that the Federal Courts have jurisdiction of the suit, the decisions heretofore handed down have been based entirely on the pleadings as filed in the case by the plaintiffs and the defendants. No issues of fact have been heard or determined.

Prior to undertaking the collection at par of all checks drawn on all banks in the Sixth Federal Reserve District, the Federal Reserve Bank of Atlanta announced to all banks not then remitting at par its intention to carry out what it conceived to be the intent and spirit of the Federal Reserve Act in this regard.

In December, 1919, a letter to this effect was prepared and sent out to a number of banks in the Sixth District. That letter contained the rather widely advertised phrase that the Atlanta Bank would regret, in the event of a refusal to remit at par, to adopt methods of collection "which might prove expensive, annoying and



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embarrassing." It might appropriately be here said that at the time said letter was sent out there was no intent on the part of the Federal Reserve Bank to embarrass, annoy or injure any banking institution. The letter simply meant that any method of collection which involved presentation and remittance through channels other than the mail or correspondent banks, would possibly carry with it features which might, in some degree, prove annoying both to the Reserve Bank and to the remitting bank. Those words, as used, were, however, never intended to contain a threat of substantial or material injury of any kind or character.

After the letter was sent out some conferences were held with the officers of non-member banks, and every effort was made to explain the advantages of a system of universal par collection to the banks that did not desire to remit at par and, also, the fact that the remitting at par would not injure or hamper legitimate activities of any institution.

Despite the effort to make par clearance an accomplished fact without friction, a number of State non-member banks, describing themselves in the bill of com-

plaint as "country banks", filed, in January, 1920, an equitable suit in the Superior Court of Fulton County, Georgia, asking for an injunction against the Federal Reserve Bank of Atlanta and its officers. The bill was based on the theory that the State banks had been making, for a number of years, charges to cover the so-called "service" of remitting at par, and had the legal right to continue to make such charges, whether or not the Federal Reserve Bank of Atlanta desired to avail itself of the "alleged service". It was alleged that the loss of revenue from exchange would seriously cripple all of the plaintiff banks and would drive some of them out of business. The fallacy of these contentions will be readily perceived, but will not now be specifically pointed out, it being the purpose of this paper to state the case which the plaintiffs endeavored to bring rather than to argue the propositions involved.

The bill contained the further charge--a mere conclusion--that the Federal Reserve Bank of Atlanta was planning, under the guise of a par collection program, to force non-member State banks into an involuntary affiliation with the Federal Reserve System, either as regular or clearing members. In other words, that the under-



lying purpose of a par clearance program was not bona fide to collect checks, but was actuated by other and ulterior motives.

The bill contained a further charge, (to which I invite your particular attention, inasmuch as it constituted the basis for the decision of the Supreme Court) that the Federal Reserve Bank intended to accumulate checks drawn on a particular institution until the aggregate of checks reached a large amount, and then to present the same en masse at the counter of a bank which had declined to remit at par, and demand payment in currency. The bill charged that such tactics would inevitably embarrass the bank subjected thereto, and that finally it would be forced to yield to the demands of the Reserve Bank rather than be driven out of business by the continued pressure of such over-the-counter demands for currency payments.

To this body of men it is unnecessary to say that, of course, the Atlanta Bank had no intention of accumulating checks in the way charged. I am only stating what was contained in the bill. The prayers for relief set out in the bill were for an injunction against the collection of checks in any way except through the mail,

through clearing houses or correspondent banks. The Court was asked to create by its decree a situation where the Atlanta Bank could collect checks drawn on non-member banks declining to remit at par only in the methods pointed out. Being inhibited by the Federal Reserve Act from collecting by such methods when exchange charges were exacted, the bank would be compelled to forego the collection of checks drawn on all non-member banks refusing to remit at par.

The bill contained a number of criticisms and charges directed at the policy of the defendant bank and of the Federal Reserve Board in the premises. These attacks were not material to the case, were far beyond the scope of the immediate controversy and had no relevancy thereto--the obvious purpose being to enlist sympathy for the country banks.

Upon the presentation of the bill to the court, and upon an ex parte application, a temporary restraining order was granted.

The plaintiffs in the original bill were all Georgia banks, but a number of banks in the other States very shortly came into the case by the filing of interventions and, therefore, came within the protection of the restrain-



ing order. It was then deemed advisable to cease attempts to collect checks at par, except where remittances at par were being voluntarily made, pending a termination of the litigation.

Messrs. Hollins N. Randolph and Robert S. Parker, of Atlanta, counsel for the bank, immediately filed in the Superior Court of Fulton County, Georgia, proceedings to secure a removal of the controversy into the District Court of the United States for the Northern District of Georgia. The removal was strenuously resisted by the plaintiffs, and the matter was argued before the Superior Court for several days. That court finally entered an order removing the case into the United States Court, but carrying with it the temporary restraining order which had been granted upon the filing of the petition. Judge Samuel H. Sibley, of the Northern District of Georgia, having held himself to be disqualified by reason of his prior connection with some of the plaintiff banks, Judge Beverly D. Evans, of the Southern District of Georgia, was appointed to hear the case.

Plaintiffs moved in the District Court to remand the cause to the Superior Court of Fulton County, Georgia,

raising thereby an issue as to whether or not the Federal Courts had jurisdiction. Counsel for the bank then moved to dismiss the bill for want of equity. Such motion is in the nature of a general demurrer, and its legal effect is to raise an issue as to the sufficiency of the bill to state a case, conceding for the purpose of the motion, the truth of all the averments properly set up in the bill. In other words, such a motion to dismiss concedes for the purposes of the argument, <sup>but</sup> for that purpose only, the truth of all the properly pleaded allegations in the bill, and puts up to the court the question: "Does the bill state a cause of action in equity?"

In April, 1920, the court heard arguments from both sides on the motion to remand and on the motion to dismiss for want of equity. At this hearing counsel for plaintiffs took the position that the effect of enforcing par clearance would be to deprive the plaintiffs of a valuable property right, viz: the right to make and to collect charges for "exchange", from which source of revenue substantial returns had for a long period of time been realized. It was stated that the Reserve Bank had no



right to deprive the plaintiffs of this source of revenue, which result would follow the completion of the par clearance program.

Our counsel argued with force the proposition that the Federal Reserve Bank had the right (as would have any other person), if it saw fit, to present a check directly to the payee bank and at its counter ask for payment either in currency or acceptable exchange, as might be desired. It was argued that the plaintiff banks had no right to insist upon rendering a service which was not asked by the Federal Reserve Bank, and that it was lawful for the Federal Reserve Bank to make collection of checks in any lawful way.

In this view of the law, the District Court concurred, and after a hearing and consideration of the matter, an order was filed dismissing the bill for want of equity. At the same time an order was filed retaining jurisdiction of the case and refusing the motion to remand.

The effect of a dismissal of the bill was, of course, to terminate the temporary restraining order which had been granted when the suit was filed. The court, however,

superseded its judgment pending appeal and, therefore, the original restraining order which had been granted by the Superior Court of Fulton County, Georgia, remained in effect until the case could finally be passed on by the higher courts.

The plaintiffs then took an appeal to the Circuit Court of Appeals for the Fifth Circuit, assigning as error both the refusal of the court to remand the case and the dismissal of the bill for want of equity. At the October Term, 1920, of the Circuit Court of Appeals, the matter again came on for a hearing. In that court the same points were made as in the court below, and the law was elaborately presented by both sides, orally and by briefs. In November, 1920, the Circuit Court of Appeals handed down its decision, which was unanimous, and which affirmed Judge Evans in all respects. The opinion of the Circuit Court of Appeals was written by Judge Grubb, of Alabama, and was a clean-cut vindication of everything for which the bank and its counsel had contended.

Plaintiffs, however, took a still further appeal, and carried the matter to the Supreme Court of the United States. In the Supreme Court the same important questions



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were presented for decision as had been presented in the two lower courts, viz: the fundamental question of whether or not the United States courts had jurisdiction of the controversy, and the question of whether or not the bill, conceding the truth of all its averments, stated a cause of action.

In view of the public nature of the case and of its importance, counsel for the bank filed a motion in the Supreme Court to advance the case upon the dockets of that court, the then Solicitor General of the United States-- Hon. Wm. L. Frierson--joining in the motion as is required by the rules of the Supreme Court. The court granted this motion and the case was assigned for a hearing in April of this year, less than twelve months after it had been first heard by Judge Evans, which record showed a handling of the matter with the utmost dispatch.

In the Supreme Court the case was again exhaustively argued orally and by briefs filed by counsel. The Federal Reserve Board, an amicus curiae, presented an able brief prepared by its counsel, Mr. Walter S. Logan, and signed by Mr. Logan and by the Solicitor General.

At the argument, the Supreme Court repeatedly quest-

ioned counsel as to the allegations in the bill respecting the intent of the Federal Reserve Bank to accumulate checks until they reached a large aggregate amount and then present the same for payment in cash for the alleged ulterior motive of breaking down the business of plaintiffs as it had been conducted and that the bill contained the bald, unsupported assertion of such an intended act, had, of course, been noted from the beginning of the litigation, but it had been successfully contended theretofore that this charge, coupled with the other allegations of the bill, did not make a case. The lower courts had considered the case as one in which there had been no properly pleaded averment of an attempt to do an unlawful thing, or of a lawful thing in an unlawful way. On the contrary, it had been determined that the bill contained no proper charge of any thing except an intent to do a lawful thing in a lawful way. On this basis, the issue had been decided twice, as above set out, in favor of the Federal Reserve Act.

The Supreme Court, however, viewed the allegations of the bill differently, and construed the same as charging that the defendant bank, and its officers, were undertaking,



maliciously and without justification, to injure the plaintiffs. The decision did not challenge the right of the Federal Reserve Bank to make orderly and proper presentation of checks at the counter of a bank for payment, nor did it question the right of the Federal Reserve Bank to make collection in an orderly and legal way of checks drawn on non-member banks. The sole effect of the decision was an adjudication that if the Federal Reserve Bank intended to accumulate checks in the way charged in the bill, and to present the same for payment in cash en masse as charged in the bill, such action would be equivalent to maliciously starting a run on a bank and would, therefore, be actionable.

Accordingly, an opinion was rendered by the Supreme Court in line with the above reversing the lower courts, and remanding the case for trial on its merits. In its decision the Supreme Court decided in favor of the jurisdiction of the Federal Courts. This was an important victory, inasmuch as it assures to all Reserve Banks the right to sue and be sued in the Federal Courts in all cases involving more than \$3,000.

Counsel anticipate a trial of the case on its merits

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in the United States Court, at Atlanta, the last week in November.

I sum up its present legal status, therefore, by saying that the case stands undetermined and undisposed of awaiting trial on its merits. For the first time it will then be possible for the defendants to introduce evidence which it is believed will disprove the truth of the averments of the bill.

I do not conceive it to be within the scope of this paper to indulge in prophecy as to the outcome of the case, but as I read the decision of the Supreme Court, and as its import has been stated to me by counsel, it would seem that the only element in the plaintiffs' case, as set out on paper, which worked a reversal in the Supreme Court, was the charge of an intent unlawfully to accumulate checks. Knowing that such intent does not in fact exist, I feel that an orderly, judicial inquiry into the facts as they exist (as distinguished from the facts as the plaintiffs alleged them to exist) will result in the eventual denial of the injunction sought.

It may be of interest to state that the Honorable John . Davis, of New York, one of the foremost lawyers in the



United States, has been associated with our regular counsel in the case.

Having given you the status of the present legal side of the famous par-clearing case in this district, and assuming that the Federal Reserve Bank of Atlanta will win in the trial of the case next month, what will be the next move to be made by the Federal Reserve? In order for us to make any further headway, it will be necessary to proceed so as not to come into conflict with the several laws of the State legislatures, in all the states of our district. Here is a brief synopsis of these laws, which, as it appears, were passed for the purpose of destroying the effectiveness of par-remitting, or par clearing, insofar as the state non-member banks are concerned:

#### ALABAMA

Shall charge for exchange not exceeding  $1/8$  of 1 %.

When forwarded for payment by any Federal Reserve Bank, express company, or postoffice employe, or by any agent thereof, the paying bank, or remitting bank, may pay or remit, at its option, in money or exchange drawn on its reserve agent; and, at its option, charge not exceeding  $1/8$  of 1% - minimum 10 ¢.

Unlawful for any person, notary, or other officer in State knowingly to protest check for non-payment, when payment is declined solely on the ground that paying bank exercises its option to collect exchange.

#### GEORGIA

Bank has the right to pay checks drawn upon it, when presented by any bank, banker, trust company, or any agent, either in money, or in exchange drawn upon its approved reserve agent, and to charge exchange not exceeding  $1/8$  of 1 %.

#### LOUISIANA

Established custom on the part of banks to charge a service fee (commonly called exchange) for collecting or remitting, by exchange or otherwise, the proceeds of checks, drafts, bills, etc., (commonly known as cash items), declared to be law of State.

Banks shall have right to make such charge, as fixed by custom, when such items are presented to the payee bank, through or by any bank, Federal Reserve Bank, post-office, express company, or any other agency, not to exceed  $1/10$  of 1%, minimum charge 10 ¢.

No such charge can be made by banks for collection



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of checks deposited, when the check is drawn on any other bank in the same municipality.

Optional whether exchange will be charged on checks or drafts, payable to a person in Louisiana, and drawn on a bank within or without the State.

No officer in State shall protest such items, when non-payment is solely on account of the failure or refusal of any of said agencies to pay exchange.

No right of action, either at law or equity, against any bank in Louisiana for refusal to pay, when such refusal is based alone on the ground of non-payment of such exchange, shall prevail.

It is a misdemeanor for any person, or employe, of any bank, or other corporation, to issue, or give notice by publication or otherwise, of the non-payment of any check or draft, drawn on any State bank, savings bank, or trust company, in Louisiana, after such banking institution, on whom said check is drawn, shall have offered to pay the same in accordance with the laws of the State.

Upon conviction, punishment by fine of not less than \$100.00, nor exceeding \$500.00, or imprisonment for not less than ten days, nor more than sixty days.

## MISSISSIPPI

Same as Louisiana law, except as to that part, making it a misdemeanor for any person, or employe, of any bank, or other corporation, to issue or give notice by publication, etc.

## TENNESSEE.

Same as Mississippi.

The recent decision of Judge Holmes, of the Supreme Court of the United States, was, it must be confessed, a terrible blow to the efforts of the Federal Reserve Board to put into effect that part of the Federal Reserve Act which relates to par clearing. The judicial verdict of Mr. Justice Holmes unquestionably had a far-reaching effect; and it seems to me that he went far afield in search of a weapon to strike us, by declaring that "Congress never intended this sort of warfare upon legitimate creations of States". I believe that this opinion, revealing, as it does, the hostile attitude of the Supreme Court, has had a great influence on public opinion, the force of which will be very difficult to overcome, if we continue to fight the question out on the same lines which have hitherto prevailed.

It is a well-known truism that, in order to establish



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an important law, one must have public opinion back of it. In our case, outside of the organized credit associations in a few cities, there is no one, aiding us in our efforts to enforce par remitting. The banking fraternity is almost solidly in sympathy with those who are fighting us in this campaign. At the outset of the struggle, it was thought that the city bankers in our district would support us, and that most of them were anxious to see checks cleared at par; but, when the tug of war came, we failed, much to our surprise, to receive this expected support. In fact, many of the city bankers openly took sides with the State banks, which were then, as now, strongly opposed to par remitting.

Perhaps a Moses may yet arise to lead us out of the wilderness.

The Chairman. What is your desire in regard to this report in its present status?

Governor Seay. I move that it be received, with thanks.

The Chairman. Shall it be printed?

Governor Seay. I think it might be included in the record.

The Chairman. Governor Wellborn, is there any action which you wish to have taken?

Governor Wellborn. No; I would just like to have it printed in the record.

The Chairman. It is so ordered.

Governor Seay. May I ask at this juncture if Governor Harding's address did not include some subjects for discussion.

The Chairman. Yes. I have that in mind, and I was trying to finish this section of collections and clearings, and then take up the three subjects that he dealt with in his address. We had already started on this, Governor Seay, and I thought we had better finish it.

Governor Seay. Yes sir. I was not clear in my mind about it.

The Chairman. There is only one more item to it, which is "Removing the limit from Federal Reserve Exchange Drafts."

Governor Wellborn. Don't you want to discuss this paper that I have read?

Governor Young. I do, but I assume that we will come to discuss it later.



The Chairman. It comes in connection with Governor Harding's address. Richmond submitted this topic, Governor Seay.

- (8) Removing the limit from Federal Reserve Exchange Drafts.

Governor Seay. Mr. Chairman, we are all familiar with the steps which have been taken heretofore to introduce Federal Reserve exchange drafts, which have proved more or less abortive. The first attempt, as you will recall, placed a limitation of \$250.00 on each Federal Reserve exchange draft, and the limitation was so low that it rather brought ridicule upon the suggestion, and I think tended more than anything else we have ever done to postpone the introduction of Federal Reserve exchange, and at the next trial, I think, as a result of a meeting in Chicago, the limit of Federal Reserve exchange drafts was increased or raised to \$5000.00. This subject has been one under discussion at the group meeting of the Richmond, Atlanta and Cleveland banks, and was discussed both at Atlanta and at Cleveland, and at Cleveland a resolution was passed which approved the removal of the limits to Federal Reserve exchange, and which was intended to create or introduce

the use of Federal Reserve exchange among our member banks. That is, briefly, the situation, and the question now is whether we shall remove the limits from the issue of Federal Reserve exchange and say what use will be made of it under the present plan.

I offer a resolution that the limit in the issue of Federal Reserve exchange drafts be removed, to bring the matter up for discussion.

Governor Norris. I second the motion.

The Chairman. Are there any remarks?

Governor Biggs. There is one thing in connection with that. It did not do any good. It just annoyed the purchaser. He would come in, if he wanted \$20,000.00 and ask for four five thousand dollar drafts, to make up the \$20,000.00. You could not explain to him why it was necessary to give him four drafts for \$5,000.00 each instead of one draft for \$20,000.00. I second the motion. I think it should be removed.

Governor Young. I do not think it should be removed. If anyone wants to buy \$20,000.00 worth of these Federal Reserve exchange drafts, they can resort to the Federal



transfer draft, and they do not want it, because they have to notify the Federal Reserve Bank immediately.

Governor Seay. They have got to do that with the Federal Reserve exchange drafts, too. It is the same plan, and I think that the abolishment of the Federal Reserve transfer draft will be a concomitant of this resolution. It is confusing. A Federal transit draft does not accomplish anything now, as long as the transfer over the wire is in vogue, and there is no use of the Federal Reserve transfer draft. The exchange draft is a different thing, and there has been a good deal of complaint in our district, at least, that the drafts issued by member banks cannot obtain immediate credit in other districts.

Governor Young. I have been incorrectly informed, then. I was told that a Federal Reserve exchange draft was available for immediate credit in any other district, because they simply deducted it.

Governor Seay. A Federal Reserve exchange draft is immediately available in any other district, but the point is that the draft has not come into use because of the inconvenience of having to issue several drafts for any specific remittance. Attention was called to the

fact that a bank which was called upon to issue \$20,000.00 in Federal Reserve exchange would have to resort to the issue of four drafts of \$5,000.00 each, and it tends to discourage the use of Federal Reserve exchange rather than to encourage it, and the original plan was to encourage the use of Federal Reserve exchange. No bank, in making a remittance of \$13,500.00, will resort to the use of Federal Reserve exchange, because he has to issue three drafts for it. If he could issue one draft, it might tend to encourage the use of Federal Reserve exchange, and we have been of the opinion that its use should be encouraged rather than retarded.

Governor McDougal. I believe I can state that the principal reason why this medium of exchange has not been used in our part of the country is that it necessitates an almost immediate charge against the drawing bank's reserve account and consequently he had rather draw against another account which draws interest, and receive the benefit of a float. That is what we have to deal with. We have consistently endeavored to introduce this form of exchange to our banks, but they do not use it.



Governor Seay. I am aware of that. That does not seem to me, however, to stand in the way of removing the limit on Federal Reserve exchange.

Governor McDougal. Not at all.

Governor Seay. It is a different matter. If we are to have it, I do not think its use should be restricted by any such a limitation. If it is decided to use it, give it the facility of unlimited issuance.

Governor Young. We do not use either the Federal Reserve exchange draft or the transfer draft in our district. It is very limited. Let us see if I am clear on the distinction between the transfer and the exchange draft. On an exchange draft there is no advice from the Federal Reserve Bank upon whom the draft is drawn but with a transfer draft it states specifically where that is to be payable, and the funds are wired there.

The Chairman. And there is no limit to the amount.

Governor Young. But you do not pay until the funds are placed in the other Federal Reserve bank.

Governor Seay. That is right.

Governor Young. Now, you propose, in increasing the

Federal Reserve exchange draft, to remove the limit upon the amount, so that New York or Dallas or San Francisco or where not will pay any kind of a Federal Reserve exchange draft that is presented to them in unlimited amount and deduct it immediately. I think that is very dangerous.

Governor Seay. That is the question which is now up for a vote, and I would like to see this Conference vote upon it.

The Chairman. I would not do it, with banking conditions as they are now. I think it is a very dangerous thing. There is no advice.

? Governor Seay. There is an advice to the Federal Reserve Bank of issue..

The Chairman. I know.

Governor Seay. There is an advice upon the Federal Reserve Bank upon which it is drawn, and you will recall the conditions under which it is issued. It is issued under a form of agreement passed by the board of directors of the bank that the bank issuing it will maintain an extra reserve to meet the draft, and that it will dispatch advice upon receipt of the draft, and the amount is charged



to the issuing bank.

The Chairman. What are those drafts used for?

Governor Seay. For all purposes, the same purposes as drafts on Minneapolis are used by its member bank in that State for remitting for items sent to it, drafts upon Chicago are remitted by Chicago member banks, and drafts on New York are used by interior member banks for remitting purposes.

The Chairman. That is all right, but if the remittance is to make payment at some specific point, they have either the telegraphic system to use now or the transfer draft for an unlimited amount. The exchange draft is negotiable and immediate credit will be given for it in an unlimited amount. If you take the limit off, resolution or no resolution, it would be the handiest little instrument for kiting that you can imagine.

Governor Seay. Don't you forget, if you do, that the exchange draft is received for immediate credit by all exchange banks, just as we agree to receive the checks of officers of the Federal Reserve Bank, although the underlying reason is different?

The Chairman. One is very different from the other.

Governor Seay. But in this case they are all received subject to final actual payment, but immediate credit is given. There is no danger to the receiving Federal Reserve bank, but the proposition is that immediate credit should be given, but they are received as all other items subject to final actual payment, and what human objection there can be to receiving them I do not see.

Governor Young. I know a hundred banks in North and South Dakota that would just work that to a finish.

Governor Seay. What if they would? Don't you receive other items from all of your correspondents--don't you receive Chicago, New York and San Francisco exchange?

Governor Young. But we do not give immediate credit on it.

Governor Seay. But we are arranging to give the Federal Reserve exchange draft a preference, and it is always received, notwithstanding immediate credit is given, subject to final payment by the bank upon which the draft is drawn.

Governor Young. Then they can use the transfer draft.

Governor Seay. I think the use of both drafts is very



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the use of  
confusing and is calculated to bring/both of them into  
disrepute.

Governor Van Zandt. I want some information. I want to know what would be the status of a paying Federal Reserve Bank if one of these Federal exchange drafts were to be drawn by a bank in my district and sent to a bank in Governor Seay's district, and Governor Seay should give that bank immediate credit and it should use the funds and fail, and by the time the draft had got down to my bank, the bank drawing it would have failed, who would have to hold the bag?

Governor Seay. Is not that same thing true of any other draft?

Governor Van Zandt. If you give immediate credit.

Governor Seay. Yes, if you give immediate credit, or, as we now do, if you give credit according to the average time of transit, when the draft itself has not been paid. Don't we receive in all of our districts drafts on different bases and give credit therefor before they are collected?

Governor Young. I think we watch them quite close upon big items.

Governor Seay. But we receive it upon the same principle.

The Chairman. It is not sound.

Governor Seay. But we do it and have been doing it since the Federal Reserve Banks have been established. Now, what has arisen from that? What danger from arisen from that and what loss has arisen from that? Yet it is a practice that has prevailed and is prevailing today; it has prevailed ever since the establishment of the collection system.

The Chairman. The only loss that we have sustained is in a case where kiting is actually taking place, where really there is/no money behind the check. I am frank to say that I do not see the object in putting checks afloat to circulate anywhere for any length of time and to get immediate credit at any Federal Reserve Bank. A check is drawn to make a payment at a certain place, and when it is deflected from that place and circulates in the currency, it is a misuse of the system of checks.

Governor Seay. But I would like to ask if it has not been the immemorial practice in this country to draw drafts on certain places in this country and use them to make

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payments at other places. Drafts have been drawn on certain centers of the country, and they have been used to make payments at certain other unspecified places, and the whole system has been built up on that practice. There is only one final place of payment, and that is the place on which the draft is drawn. Nevertheless, these drafts have always been used and are now all over the country for the purpose of making the payment at a specified place, and yet they are drawn on other places.

(At this point Mr. Gilbert entered the room).

Governor Van Zandt. To get the question before the house, I move that we do not request an increase in the limit of \$5,000.00 on a Federal exchange draft.

Governor Young. There is another motion before the house.

The Chairman. A motion has been made and seconded to remove the limit. We increased it once to \$5,000.00, and now the motion is to take the limit off. Governor McDougal has seconded the motion.

Governor McDougal. I should like to ask Governor Seay, as a result of his inquiries, what is the volume or to what extent is this form of exchange being used.

Governor Seay. In the most limited form. I do not suppose at the present time that we have a dozen checks in a month of that character. It will be recalled that at one time during Mr. Delano's connection with the Federal Reserve System, he was chairman of a committee appointed to devise a plan under which Federal Reserve exchange could be safely issued. As a result of <sup>his</sup> chairmanship of that committee, the present plan was devised, and the matter has, as you all know, been under discussion from time to time from then until now. I think I am not mistaken in saying that as a result of the meeting of some minor body in Chicago, the recommendation was made some time ago that the limit be removed.

The Chairman. Is there any demand for it from any of the member banks?

Governor Seay. There has been a demand in our district, and there was a demand in the beginning and I believe now there still is. I think the reason it was brought up was because of that very fact, that the member bank cannot obtain the same currency for their drafts on their own Federal Reserve Bank that they can obtain for drafts on certain other centers in the country. It is not confined



to any center, but to other centers, New York, Chicago, San Francisco.

The Chairman. I would like to debate that with any member bank that presents that suggestion. You mean that a check of one of your members on your bank will not pay a bill or perform the function of a check in Chicago, Kansas City or any other place, in the same way as a check of one of your banks on the National City Bank of New York?

Governor Seay. I mean to say that a draft issued by one of our member banks, if sent to one of the Cleveland Commercial banks, will not be received on the same basis as the New York, Cincinnati or Chicago draft is received in that district.

The Chairman. That is because Richmond is not in New York. We cannot alter that.

Governor Seay. But the facility of obtaining payment of that check is greater than the facility for obtaining payment on any other check, and banks in Cincinnati or Cleveland make the distinction that they have greater facility in obtaining payment on it than they have this other kind of check.

Governor Young. If they used a Federal Reserve

transfer draft, there would be a preference.

Governor Seay. I do not think so.

The Chairman. Don't let us keep Mr. Gilbert waiting here.

Mr. Gilbert. I just want a few moments to tell you personally what I have to say and which I would ordinarily put in a telegram.

(Whereupon discussion ensued with Mr. Gilbert which was directed by the Chairman to be not reported).

The Chairman. We are now discussing the proposal advanced by Governor Seay to remove the limit on Federal Reserve exchange drafts. There is a motion before the meeting, which has been seconded, to remove the limit. Are you ready for the question?

Governor Seay. Before that is put, I would like to say just a few more words. We may have lost our recollection of the plan under which these drafts are issued. It may be recalled that when the Federal Reserve Board, who proposed this matter, and it did come from them, I believe, that they elaborated a plan of report<sup>ing</sup> by wire to all other Federal Reserve Banks of issue of the receipt of these Federal Reserve exchange drafts, and the plan contemplates



now that any Federal Reserve Bank may over its wires give on the day of receipt a list of the drafts that it has received, and may receive payment therefor on the same day through transfer through the gold fund. I do not share in the belief of those who entertain conviction that there is great danger in this plan. I think the Federal Reserve Bank may receive payment for these drafts for which they give the credit by wire advices on the very day on which they receive them. I do not believe that they will be used to such an extent that it will not be an entirely practicable arrangement. We have discussed this matter in Cleveland and in Atlanta. I would like very much to hear Governor Fancher's opinion on the matter. We discussed it with his Federal Reserve Agent and somewhat with his Board and a great deal with himself, and we arrived at a conclusion there, after a very thorough consideration of the matter, and I would like very much if he would express his views here.

The Chairman. Governor Fancher?

Governor Fancher. Mr. Chairman, we have had the matter brought up to us many times by our member banks, why they cannot draw their <sup>drafts</sup> / against a balance, and

have them circulate, if they can draw their drafts against New York and Chicago accounts, and that has been raised several times with member banks; and we found many times, on the point brought up several times in <sup>previous</sup> discussion, about a Federal Reserve Bank draft being received on the same basis as a draft on a New York correspondent. This occurred in many instances. I know one case of a Chicago bank where the draft was taken in preferred time, and the bank's draft in another transaction was received. I presume that is occasioned by clearing house rules which prevail in Chicago, giving preference to New York exchange. Am I right, Governor McDougal?

Governor McDougal. I should think so.

Governor Fancher. It seems to me that I can see no different reason involved in passing credit on millions of dollars of items.

The Chairman. Do you think then, Governor Fancher, that the art of banking really contemplates that a check drawn on a bank in Cleveland or on a bank in Richmond or on a bank in Dallas, a Reserve Bank, should perform the function of New York exchange? Get back to the fundamentals of it. The money is not there unless we ad-



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Governor Fancher. Why should it not?

The Chairman. Because it is a check drawn and payable in Dallas or Cleveland or Richmond. If you ask us as a favor to your member bank to cash these drafts in New York, then does not the question arise as to whether I have any duty to do that in New York, whether it is the right and fair thing to do? What is the object of this? The object of it is to make it quite unnecessary for banks to carry accounts in New York banks, isn't it?

Governor Fancher. In many cases, yes.

Governor Seay. I did not have New York particularly in mind.

The Chairman. What they complain about is the New York and Chicago banks.

Governor Seay. Elsewhere outside of the district in which the draft originates. That is the point.

Governor Fancher. Exactly.

Governor Seay. It applies to all districts alike, whether it be New York, Chicago, Minneapolis, Cleveland, San Francisco, St. Louis or Kansas City.

Governor Calkins. It does not apply in that sense

which Governor Strong means. It would apply with a great deal more force to New York and Chicago.

The Chairman. Now, just suppose that the Federal Reserve Bank of New York, which has a duty to its members who have built up their business on the basis of the usual course of banking--suppose that we came before this meeting with a proposal of this kind, which you gentlemen believe would work an injury to the usual course of banking in your districts, what position is the Federal Reserve Bank of New York or the Federal Reserve Bank of Chicago going to be in with its members if we afford unlimited facilities for getting immediate credit, which is making New York exchange for every bank in the United States that is a member of the Federal Reserve System?

Governor Seay. Suppose you take the other side of the question, and it is just as forcible. I believe it is a fact that conditions as they now exist do require the maintenance of balances outside of the district, when, under the system contemplated in the Federal Reserve Act, they need not be maintained outside of the district, for the transfer of funds can be made through the Federal Reserve System, and if New York is given



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a means of getting its funds immediately, how is New York injured. New York is given the means of getting immediate payment under this plan, and it is so contemplated on the plan under which the Federal Reserve drafts are issued. The present arrangement I believe does work against the rest of the country exactly what you contend the new arrangement might work against New York.

The Chairman. What I want to get at is this. Is there any demand, legitimate or otherwise, of any considerable proportions, that this facility be extended to the member banks? I have not heard of it, except the cases which have been spoken of in Richmond, which I always felt arose, if you please, from the efforts of the bank in Roanoke to get their checks on the par list in New York. Is not that right?

Governor Seay. I have no reference to Roanoke, but the matter has arisen in hundreds of cases throughout our entire district.

The Chairman. Why is it there and not in other districts?

Governor Seay. Formerly we received a great many more letters than we do now, but we are receiving a

great number of letters now, about discrimination  
issued  
against drafts/by a member bank against their own Fed-  
eral Reserve bank, facilities for payment of which  
might ordinarily be obtained, and which it is contem-  
plated will be obtained through the Federal Reserve plan.

The Chairman. Do you find that in Atlanta, Governor  
Wellborn?

Governor Wellborn. No; I have never heard it men-  
tioned at all.

The Chairman. How about in Dallas?

Governor Van Zandt. We do not have any of it.

The Chairman. Governor Miller?

Governor Miller. We do not have any of it.

The Chairman. Governor Young?

Governor Young. We never have any of it.

The Chairman. Governor Biggs?

Governor Biggs. Very little, and the only objection  
is that we have this five thousand dollar limit, and they  
come in and say "Here are three checks made payable to  
the same party for \$5,000.00 each, and we do not under-  
stand why we have to give three checks when one would do  
as well." It does not make any difference at all, but



we cannot explain that to a man.

The Chairman. Do you have a demand in your district, Governor Fancher?

Governor Fancher. Yes sir, from the smaller banks.

The Chairman. Governor Calkins?

Governor Calkins. We had some complaint when the plan was first proposed, but it never amounted to anything.

The Chairman. Governor Morss?

Governor Morss. No.

The Chairman. Governor McDougal?

Mr. McDougal. We have placed the blanks with something like 350 banks in our district. The facility is very little used, and this question has never arisen to my knowledge.

The Chairman. Governor Norris, do you have any?

Governor Norris. We have not had complaints, but we have had banks take three, five or seven of these five thousand dollar drafts.

The Chairman. Is that for the purpose of remitting in settlement of collection items?

Governor Norris. Yes sir.

Governor Biggs. It is simply irritating to the pur-

chasers. They cannot understand that kind of a rule.

Governor Callins. Why should not they remit that \$25,000.00 by wire, where they have to get seven five thousand dollar drafts?

Governor Norris. I do not know why they did not.

Governor Young. Or use a transfer draft.

Governor Norris. I do not know.

The Chairman. I want to have an open mind upon this matter, but I do not want to stir up a hornet's nest in New York just now. Now, the motion is to remove the limit. I have not discussed this with any of the New York bankers. I gather that you gentlemen have discussed it with your bankers--that is, you have, Governor Seay and Governor Fancher--and there is a possibility in this, it may be remote, but there is a possibility in this that it will raise a storm of protest among the New York banks, and I do not think that I am justified in saying that the facilities of the Federal Reserve Bank of New York will be opened up wide for this business without finding out what the effect of it is likely to be. Let us have a vote on it, and let me reserve our position in New York until we can find out.



Governor Seay. We had a meeting on this subject early in the days of the Federal Reserve System in New York, at which some of your directors were present, and they objected to the plan, somewhat upon the grounds which you have advanced. That was the time when the Federal Reserve Board had submitted to us the forms of drafts which were to be used, had elaborated a scheme of telegraphic advices upon the receipt of advice of issue from our member bank to each Federal Reserve Bank. The whole scheme at that time was being worked out. I recollect particularly Mr. Woodward was present, and he said he would never give his consent to the plan, but I do not think it at all improbable that the New York banks would object to the arrangement. I think it very natural. I think perhaps their self-interest might prompt them to object to the arrangement.

The Chairman. The plan of using these drafts was originally advanced and the amount of each draft limited to \$250.00 as an accommodation to people who needed facilities for making small remittances where the member banks would sell these drafts to their customers, where they could send them anywhere, and this is a complete

distortion of the purpose for which their plan of Federal Reserve exchange drafts was devised. It was not intended to make big bank transfers at all. They were little merchant's remittances, designed to be sent anywhere in the United States in any district, like a bank draft, and I am perfectly clear in my mind that every purpose of bank transfer will be served by the wire system of the Federal Reserve Bank, just as well as any draft sent around. It costs nothing. It is cheap, and immediate, and I think we are liable to get into hot water over it in New York. I can frankly say that. I can see how an energetic bunch of bankers down in Richmond or in some other district, especially if the Federal Reserve Bank promotes it, will make a very considerable use of this feature, educated to what it means.

Governor Seay. It has never been discussed in any formal way with our Richmond bankers as such. The matter has arisen wholly in the Federal Reserve Bank, and it has arisen by reason of our experience with our member banks outside of Richmond and not in Richmond.

Governor Calkins. There seems to be a very clear division of opinion here, without any very evident preponderance, and it also appears to me that this is a matter of very vital importance to all of us, not only to the New York Bank, but all the rest of us.

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It perhaps should have been settled years ago, but it has not been, and I wish to suggest an amendment to Governor Seay's motion, which is to put this on the program for determination at the next Conference. In the meantime I think all of the Governors should make inquiry and come here prepared to say what the people in their districts desire.

Governor Morss. I second the motion.

Governor Seay. I am perfectly willing to do that.

The Chairman. I want to be fair about this, and this occurs to me, that the establishment of the Federal Reserve System deprives banks in some parts of the country of the facility of drawing New York exchange unless they were willing to maintain balances which otherwise would not be necessary. That is your point?

Governor Seay. That is a part of the point.

The Chairman. Or a part of it. If that is true, I do not understand why, in 90 per cent of the entire country, there has not been an outcry about it. It is so in Richmond and it is so in Cleveland. I admit that. I do not know why. Possibly it has something to do with our time schedule, but what impresses me very much is this, that we have put in the telegraph system, over which last year the New York Bank made

17 billion dollars of payments. We made 176,000 wire transfers in the New York Bank, and with the requirements of exchange that could possibly be afforded to the member banks, there is nothing that can equal that. No Federal Reserve Exchange draft will ever take the place of that.

Governor Seay. That is positively true, all of which we recognize.

The Chairman. And inasmuch as we are doing an awful lot for the member banks and spending a lot of money to do it, I do not want to stir up a hornet's nest in New York in this matter, which would possibly result in a disturbance of relations that we ought not to disturb without consulting them, until we have looked into it further.

Governor Calkins. In offering my motion as an amendment it is to meet that situation. It is not to spare New York. I do not think that we should be deterred from taking this action merely because it would arouse antagonism in New York, but I do not believe we are prepared now to say whether it is the proper thing to do.

Governor Norris. Governor Calkins moves the postponement of it until the next Conference, and I understood Governor Seay to say that it was satisfactory to him.



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Governor Seay. Perfectly.

Governor Norris. Does not that dispose of it?

The Chairman. I hate to beg off on the ground of the New York banks, but that is one difficulty. The other difficulty which I apprehend-- and this is suggested by the men in the Bank at New York-- is the possibility of kiting.

Governor Fancher. I cannot see any more possibility of kiting than we have under the conditions as they exist today.

Governor Seay. I do not think so, either. I think if one medium of exchange were used, against several which are now used, that the opportunity of kiting would be diminished, and I believe the safeguards which could be thrown around this system and a rule applied of depriving any bank which did it of the privilege of issuing the exchange which is involved in the plan, would be as nearly prohibitive of kiting as any arrangement you could make. I think it throws around the use of Federal Reserve Exchange a safeguard which does not now exist anywhere.

Governor Calkins. It occurs to me that it should be determined whether the banks would adopt this system and discard the old system. Personally, I do not believe that the removal of this limit would affect the situation in the New York Bank

at all.

The Chairman. May be it would not.

Governor Seay. It might not.

The Chairman. But I want to make sure.

Governor Seay. Any change, however, would be gradual, whatever it might be. You cannot change customs that have grown up, in a short while.

Governor Calkins. It might be argued that the wire transfers would take balances away from the New York Bank, but I do not think that any such thing has resulted.

The Chairman. I think it has.

Governor Calkins. Not to any considerable amount.

The Chairman. I would be quite willing to do this, if the Conference wants to take a preliminary vote and vote in favor of removing the limit, subject to further investigation, we can go ahead and make the investigation in New York, and if we find no objection there, that is, no serious objection, which would be taken seriously, we can advise the Governors of the other banks.

Governor Seay. I think that the motion of Governor Calkins would be preferable to taking a vote which must be divided.. I would be quite willing to see this thing passed, but I



recall that at our last meeting there was a resolution about receiving National Bank notes, which passed seven in favor and five against, and although I proposed the motion I also proposed a reconsideration, upon the ground that in my judgment no policy of the Federal Reserve Banks ought to be carried out on any such divided opinion, and I would feel the same way in regard to this, and I greatly prefer that the matter be left for consideration and study and go over to a subsequent meeting.

Governor Fancher. And for determination.

Governor Seay. And for determination.

The Chairman. Then I will put the motion to place this on the program for the next Conference.

(Motion put and carried unanimously.)

The Chairman. Now, proceeding upon the arrival of Mr. Gilbert with the rest of the program, don't you think we had better pick up Governor Harding's address and make as much progress with that as we can? We have completed Transit and Collection matters.

Governor McDougal. With your permission, Mr. Chairman, there was one part of a subject which was passed which I should like to bring up. It is found on the second page of

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the program, Topic 1, subject No (4), and that is in regard to uniform practice in handling bankers' acceptances taken from brokers under repurchase agreements.

The Chairman. Governor McDougal, will you discuss (4), a and b, please?

Governor McDougal. (4-a) is the one I want to discuss. Under present conditions the Federal Reserve Banks are not following a uniform practice or method in figuring discounts on such bills. It is our policy to have the discount at the specified rate deducted from the face of the bill covering the unexpired period of its life and when the broker takes the bill up a similar operation is involved.

The Federal Reserve Bank of San Francisco figures fifteen-day discount on the bill and has instructed us to do likewise in all transactions involving acceptance of bills for its account.

Under our plan the bill is discounted in the usual manner of taking discount and would remain an earning asset of this bank even though the repurchase agreement for any reason should become ineffective.

Under the San Francisco plan should the repurchase agreement become ineffective the bill would no longer be an earning



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asset at the expiration of the fifteen-day period.

That, of course, I think you will understand, and the recommendation is suggested that a uniform basis of discount be used by all Federal Reserve Banks, the practice of discounting the bill to its maturity and rebating for the unexpired period when taken up by the broker.

That is the recommendation.

The Chairman. Of course the largest dealings of that kind are probably in New York now, and Mr. Kenzel, who has made a memorandum on this topic, seemed to think that in New York the present practice, which is similar to San Francisco, discounting for the actual period of the contract, is preferable to the one suggested by Chicago. In the first place, if we take five millions of bills from one dealer and exact a discount for 90 days on five millions of bills, say at six per cent, we are requiring that dealer to give us \$75,000 in margin, and that is a lot of money for him to tie up in a short transaction.

Governor Morss. Our practice is the same as New York.

Governor Young. He discounted those bills. You are not asking any more of him.

The Chairman. But you are lending him on the bills.

Governor McDougal. The question involved is what would

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your position be in case that broker should not be able to perform?

The Chairman. I admit that we would be in a weak position, and your criticism is the only important criticism to be advanced against it, and it is an important one.

Governor Morss. Suppose the concern failed, what would your position be?

The Chairman. Then we would be stuck.

Governor Morss. Don't you want to keep the title of your bill in the name of the broker, so in case of loss from any cause he surely stands it?

The Chairman. Our contract, as I recall, makes the broker liable to us. In case he does not exercise his contract to repurchase, I suppose we would have a claim if he failed. To be very frank, I do not think the practice of discounting for fifteen days and exacting only the fifteen days' discount in lieu of a loan on the present worth is defensible at all except to stimulate a market. I think it is the wrong way to do the business. I am frank to say that, Governor McDougal.

Mr. Harrison. And probably illegal.

The Chairman. Yes, and as Mr. Harrison says, probably illegal. If the Conference wants to pass a resolution



condemning the practice, this is another case where I would like to have it out with the brokers in New York first and see just where they stand. This is exacting a much larger margin-- I mean a new practice-- discount for ninety days would be exacting a very much larger margin from the standpoint of the broker, who is now making a profit on it, which he otherwise would not make. That is what it amounts to, and as it sometimes happens to us, we carry ten or fifteen millions for these brokers, and it is a very considerable item in their profit. It has helped the market.

Governor Calkins. I would like to know why Mr. Harrison thinks it probably would be illegal.

Mr. Harrison. I have not studied it at all, but it has just occurred to me during the progress of this discussion that the Federal Reserve Bank has a right to buy and sell bills in the open market. The inference is that they have a right to buy them in fee, if I may relate it to a transaction in land, and not for a term of years-- to carry out the analogy.

The Chairman. It is a conditional sale.

Mr. Harrison. I think personally that even with these contracts where the discount is based upon the period of the repurchase agreement, there ought to be no doubt that the title

in the bill goes absolutely to the purchasing Federal Reserve Bank, and upon the failure of the broker to repurchase, the only thing that would happen is that he has broken his contract and that the title is still in the Federal Reserve Bank.

Governor McDougal. And you carry the title to the maturity.

Mr. Harrison. In other words, I think there is nothing in the arrangement of discounting on a fifteen day discount basis but to see that the title in the contract goes along in the bank. Even though the broker fails to carry out his contract to repurchase. That would be the only way you could justify the thing legally.

The Chairman. I think it would be illuminating if you gentlemen are not familiar with it, to discuss for a minute how this business is handled in London. In normal times, when they have a normal market, a bill market in London, the bill houses, which correspond in their relation to the banks with such concerns as Smithers and others who deal in bills, are in the habit principally or largely of confining their dealings to those types of securities like short term Treasury obligations, which are eligible at the Bank of England, and they do not discount them at the Bank of



England unless the money market goes against them. They borrow on them and resell them at a profit, and they borrow on them from day to day money or week money. They are called in the market "floaters". A bank like the Union Bank or the London Joint City and Midland Bank always has a lot of floaters and I have seen bundles of them in Lloyd's Bank and others, with a strap around them. The bill broker does not even endorse them, but he signs a little memorandum which is the equivalent of a contract, and every day--that is, it is his contract to take up the bills at the end of a day or seven days, whatever the term is, at a rate--every day in the money room in the bank, they have a little stand or a little pulpit. The man who runs these accounts goes into his pulpit at 11 o'clock or whenever it is, and the brokers come in and get a notice of the rate, and if the money market is going against them, they go out and make arrangements to take up these floaters. We have no such machinery in New York, and the Federal Reserve Bank has no power to make loans on floaters, and furthermore the banks, under the influence of this Stock Exchange day loan, which they have not got in London, are too much inclined to take advantage of the higher rates on the Stock Exchange which the brokers are able to pay on these bills, so that we have had to

step in and carry the bills for the brokers, and having no power to lend on these bills, we have to buy them under these repurchase arrangements and reselling arrangements.

That is the situation we are in in New York, because the banks are not yet educated to lending at a much lower rate on bills than they are able to lend from day to day on the Stock Exchange. A hard a fast rule might appeal to Mr. Kenzel as a death blow to the development of this market, and I would not like to impose it upon him, but I would like very much to get an expression here from the Governors as to whether this practice is so unsound in their opinion that it ought to be abandoned.

Governor Van Zandt. Do I understand that you do not deduct the discount to maturity on these bills when you buy them?

The Chairman. No, we do not.

Governor Morss. This expedient which the banks have of loaning on fifteen day repurchase agreements was gotten up to help the brokers, because the commercial banks had not developed a practice of loaning on those bills at a rate which would be anywhere reasonable.

The Chairman. It was first gotten up to avoid the stamp



tax on a promissory note.

Governor Morss. That market which we might hope for amongst the commercial banks has not developed yet, and we have been through many hard and abnormal conditions, and it has not had time to develop. We all hope that that market will develop in the course of time, but until it does we ought to carry the brokers as we do now. As to taking the full discount on all acceptances, it seems to me that you penalize the brokers to quite a considerable extent when you do that, and that it is unnecessary, and in Boston we have taken considerable pains to help the brokers along in every way that seemed reasonable, and this was one of the ways, and I would very much dislike to change it at this time.

The Chairman. Of course, Governor Morss, you realize this, the objection to my argument which I would like to sustain for a few days longer, is when a broker comes into us with five million dollars of which he has just discounted for 90 days at six per cent, the amount of discount on those bills is \$75,000, and consequently those bills have cost him \$4,925,000. Now, as a matter of fact, we advance him, say, \$4,990,000. on those same bills.

Governor Morss. Yes.

The Chairman. And they are worth it. It is his

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obligation to rebuy them that enables him to do that. We are lending him more money on those bills than they cost him. We do that, and it is absolutely indefensible.

Governor Morss. Except as a temporary expedient.

The Chairman. To help them out, yes.

Governor Morss. Yes, to help them out.

The Chairman. We have not talked about that in the bank, and I do not know whether our directors realize that. Do they, Mr. Harrison?

Mr. Harrison. That was a practice that developed before I got there, and I do not know.

Governor Morss. If they go into a commercial bank, would not they expect to make loans on them on the same basis?

The Chairman. They would borrow on these bills up to the present worth of these bills, which is \$4,925,000, less a margin of, say, \$50,000. They might be able to borrow up to the total of the present worth, but we lend them more than that. I know it, and I have been conscious of it ever since we started it.

Governor Seay. We had one practice analagous to that when we advanced another bank par on a Government bond when it was not worth it.



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The Chairman. Yes. I do not suppose that the Federal Reserve Board realizes what this practice means, and I regard it as absolutely indefensible except as a quiet means of giving them a certain amount of money to help them carry this market.

Governor Wellborn. It was not exactly the same thing in the case of Government bonds, because they paid par for their bonds.

Governor Seay. It was not worth it.

Governor Wellborn. But they paid par for the bonds.

Governor McDougal. Governor Strong, your position, of course is no different from ours, except you are handling a larger volume.

The Chairman. Your practice is to discount for ninety days

Governor McDougal. No, for the maturity of the bills, and after learning that the majority of the banks are following the other course we would be very well satisfied to have the subject withdrawn.

Governor Calkins. I do not think it ought to be withdrawn.

Governor Young. I do not think so.

Governor McDougal. Because we shall not depart from our practice, no matter what you do, because this is fundamentally a right and sound practice. That is agreed to by the Conference

The Chairman. With great reluctance I admit it.

Mr. Harrison. I think there is one thing that ought to be considered, which was brought out in the discussion a moment ago, and that is that there ought to be no doubt that the title does pass to maturity, whatever you pay for it.

Governor Norris. The people who deal in five million dollars' worth of bills at a time are not lightwaisted, fly-by-night people. Would a difference of fifty or seventy five thousand dollars in the amount that they borrow be at all vital to them?

The Chairman. They figure pretty close on these bills, and I suppose that they are doing a much larger business, because they borrow money in excess of the cost of these bills.

Governor Norris. It is a very nice business to be able to buy things and at once borrow on them more than you pay for them.

Governor Morss. I would like to ask Mr. Harrison if you hold them to maturity and the broker failed, I do not see why you would not hold them absolutely as collateral against him, but supposing that the maker of one of the bills failed, whom do you want the title in then?

Governor Calkins. You want title in the Federal Reserve



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bank.

Mr. Harrison. The only recourse that you would have in that event under any set of facts would be under your contract with your broker.

Governor Morss. Yes. Could he possibly set up, if the title was irretrievably in the Federal Reserve Bank, that he did not have title to it?

Mr. Harrison. No, I think not, because his liability is a contract liability in any event.

Governor Morss. Yes, I guess so.

Governor Seay. Having started on any kind of a purchase, it is not an easy thing to change it always. I agree with the opinion expressed by yourself, and you cannot find fault with me in doing that, Mr. Chairman.

The Chairman. I never find fault with you.

Governor Seay. I believe, however, that both in the Boston case and in the New York case, that the matter might well be left with them to correct as they see fit in due time. There are some things which we do from expediency, and there always will be such things, and I do not see why in this case it should not be left to them to work it out. I do not believe it is justified by the law or sound Federal Reserve practice, but

nevertheless I think it can be worked out in good time, and I move that it be left to the judgment of these banks to pursue their policy.

Governor Morss. I would like to ask if a note broker takes a loan of a hundred thousand dollars from some of his customers for six months, and he cannot sell the note right off, he goes to his bank and borrows?

The Chairman. Those are taken as collateral at their present worth and not at their face value.

Governor Calkins. I do not agree with Governor Seay that we ought to continue an unsound practice.

Governor Seay. You are doing it, are you?

Governor Calkins. Yes, we are. I think the best point that has been made is that we are advancing more than the bills are worth. In fact, that is the only point of any particular consequence. Another point is that it might arouse some criticism among member banks if they found that we are loaning brokers more than the value of their collateral and we won't loan it to them. I think the matter should have consideration, and be put on the program at the next Conference and probably the program reversed.

The Chairman. The last motion, as I understand it, was  
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not seconded. How would it do for us to take a vote for an expression of opinion as to the practice, and follow that with an expression of opinion as to its discontinuance as soon as it can be done without difficulty in the discount market? I think the time is coming when we can do it. Easier money conditions will make it possible.

Governor Calkins. That raises the question whether we are justified in continuing an unsound practice for a minute.

Governor Seay. If your conscience troubles you, I think you ought to stop it.

Governor Fancher. It developed that four or five of the banks are following the practice. They do it in New York.

The Chairman. We do it.

Governor Fancher. Now, get us out.

Governor Morris. I can understand, of course, that those people figure very closely on interest rates and all of that, but I cannot imagine that they figure so closely on the amount of capital involved in that business that they have got to borrow <sup>more</sup> seventy or seventy-five thousand than they have paid for a thing to enable them to continue in the business, and if they are in that position it seems to me they ought not to be in the business.

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The Chairman. Do you realize the volume of bills which some of these houses carry?

Governor Norris. I can imagine it would be enormous, but look at the percentage. Every man has to have a certain capital in proportion to his business, and the difference between a 15-day discount and a 90-day discount is a very trifling thing on which to do business.

Governor Colkins. They figure so closely on these transactions that they count the postage stamps it takes to do their business.

Governor Wellborn. In addition to that, if they would break even and get exactly what they pay for it, it would not be employing capital.

Governor Norris. No.

The Chairman. If you wish to refer it to the New York Bank for treatment, I will ask Mr. Harrison to make a note to that effect, without passing any resolution. I think I have the sense of the meeting, and I will take it up with Mr. Kenzel and advise you. How many banks are carrying bills of this sort? There is New York, Philadelphia, Boston, St. Louis, San Francisco, Cleveland and Chicago.

Governor Norris. We do not carry them.



Governor Fancher. We only carry 15 days.

The Chairman. Then the list of banks to be dealt with will be Chicago, Boston, San Francisco, Cleveland and St. Louis.

Governor Norris. You would take up the question of the certificates of indebtedness in the same way, would you not?

The Chairman. No. They bear interest.

Governor Seay. If it is your purpose to correct it in time, I can very readily see how it would be serviceable to you to obtain the opinion of this Conference, that it is a practice which ought not to be continued.

The Chairman. I am perfectly clear in my mind, I think, that you all feel that way about any unsound practice, and I think we all agree that this is unsound.

Governor Seay. I think if you would desire to have a resolution of that kind, I will be perfectly willing to offer it.

Governor Calkins. I do not want a resolution of that kind, because I would have to stop it tomorrow morning.

The Chairman. I do not think we had better have a resolution, Governor Seay.

Governor Seay. All right.

The Chairman. Mr. Harrison calls my attention to a fact which I had overlooked, where the same difficulty applies to the fifteen day rediscounts which we have with member banks. We do not do very much of that. We do a lot of bill business.

Mr. Harrison. Some of the Federal Reserve Banks do a great deal for the member banks, I understand.

Governor Calkins. We have additional collateral in that case.

Governor Young. We take the discount out of the fifteen day bill, and we always have additional collateral.

Governor Seay. We long ago discontinued the 15-day purchase.

The Chairman. We prefer to discount it for fifteen days, to keep away from the stamp--isn't that it?

Mr. Harrison. I think we are talking about different things. What I mean is the 90-day bill which we rediscount for 15 days under an agreement to repurchase, and we do it at the 15-day rate.

The Chairman. For member banks?

Mr. Harrison. Yes. The purpose being to avoid the stamp on the fifteen day advances.



The Chairman. Well, I will look into the bill end of it, and the rest of you look into the member bank fifteen day discount.

Governor Seay. Not guilty.

(At this point Mr. Gilbert entered the conference room.)

The Chairman. Let us see what happens. Now, gentlemen, that disposes of all of the topics down to Section 3 of the program, and will you be good enough to turn to Supplement II? I will report first to Mr. Gilbert in regard to the first topic on the Treasury program, supplement II, which we discussed yesterday, and the conclusion of the meeting, at least the sense of the meeting, was this, that we were unanimously in favor of a reduction in the size of the notes.

Governor Calkins. Not unanimously.

The Chairman. I will put the qualification in later. In principle, we do not think that the samples of notes submitted afforded the maximum of protection against counterfeiting, raising, and the maximum of facility in counting, and in order to develop the matter of design, we would like the privilege of having some of the more expert currency men in the System meet at the Treasury with some of your men to discuss those matters, and the whole subject of the change in the size of the notes was made subject to this recommendation to the

Treasury that such inquiry as has been made of the member banks indicates a belief on the part of the member banks, and there is a very distinct belief in this room among the Governors, that among ignorant people of the United States the reduction of the size of the notes is going to cause uneasiness. That was brought out by a number of bankers who were consulted by the Governors with regard to the proposed change in size, and it was suggested in the bank at New York, and I think there is a pretty strong sentiment, that there is a certain element of danger in it. So that the suggestion that this meeting now conveys to you is coupled with that further indication that they feel that there would be some possible uneasiness caused by the reduction in the size.

That is based on a number of considerations, one of which we explained in our letter. The purchasing power of the dollar has decreased, and some people might think that a reduction in size of a bill was caused by the decreased purchasing power of the dollar. Another consideration is that Europe is flooded with depreciated currency of a very small size, in France and Germany, the chamber of commerce and municipal notes in France, and the small denomination of bank notes, and the Bradburys in London have all reduced the size of their notes,



and the suggestion to ignorant people of that fact might give rise to discrimination and uneasiness.

Mr. Gilbert. I spent a part of the morning with the Agents on the question of currency designs and small notes. Of course the small note idea is not a new one. I explained to them the only reason for bringing it up just at this time is that we realize that there has got to be some new currency designs, in order to give a better protection against note-raising and counterfeiting. If we are going to have small notes, this is the time to decide whether we are going to have them, and the Treasury is not at all clear whether we ought to have them or not. Therefore, the thing we are most interested in is to get a perfectly frank expression of opinion from everybody interested, and I share myself to a very large extent the conservative view that it would be well not to make a change, but the thing is up at all times. Secretary McVey had it when he was Secretary and had designs almost complete. When McAdoo came in they were all scrapped, and new designs made, from which some of the Federal Reserve note designs were developed. I think this is the time to canvass the thing, because it is coming up at all times. If we are going to have small notes, I think it will be a matter of two or

three years before the thing can be worked out and plans completed for a substitution. If it is simply a suggestion of designs of the present size, we can probably have new designs running within six months, and that is the proposition, as I see it, that enters into the question of whether the change should be made, because there is a very material difference in time, which is important in the present situation. The currency designs which have been submitted, I think, are rather unattractive, as well as rather incomplete. But the fact is that we have got new designs and modifications of designs in mind. I think if the Federal Reserve Bank will appoint a committee and have it here in Washington in about a month or six weeks, the thing will be in shape for a fairly definite decision.

The Chairman. How many would you like?

Mr. Gilbert. Not too many. I would say from three to five

The Chairman. Would it not be desirable to pick out those men from the men that handle the largest currency program? What do you think of that?

Mr. Gilbert. We have a currency committee now, I might suggest.

The Chairman. Yes, but it is a committee that might require



some change of personnel to get the best results. I would be inclined to put Mr. Chapman on the committee from New York. Mr. Harrison, wouldn't you?

Mr. Harrison. Yes.

The Chairman. As to designs?

Mr. Harrison. Yes. He made a great record in the Sub Treasury.

Mr. Gilbert. He was in the Sub Treasury for many years.

The Chairman. Which of you gentlemen are willing to admit that you have the best currency man in the country in your bank? The banks that handle the largest volume of currency are New York, Chicago, San Francisco and Cleveland, I think.

Governor Galkins. I am willing to admit at once that we should not have the best currency man on the committee. The best currency man in the Federal Reserve Banks is a man who has been handling currency all of his life and has preconceived notions. For instance, the currency man that we inherited from the Treasurer's office; undoubtedly, the man who is the best is the man from the Sub Treasury. I think he is the last man in the world that we ought to have on this committee. I think we ought to have a man with vision, if I may use that word again.

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Governor Morss. This was a question of only considering the design and not the size.

Governor Calkins. Yes, but the other man, who is the best currency man in the world, would select the same type as the kind he has dealt with in the past forty years.

Mr. Gilbert. The Treasury is committed to new designs, but the size is debatable.

Governor Calkins. The defect I see is that these designs do not depart from the designs that have been in use from time immemorial. What we want is the best design that can be devised for protection.

Governor Seay. Is it your view, Governor Calkins, that a bank teller, for instance, would not be the proper man for this Committee?

Governor Calkins. I think he should be a man accustomed to handling currency, but I do not think he should be the late cashier of the sub-Treasury, who from my experience has been a man of limited initiative, to put it that way.

Governor Seay. He was not accustomed so much to the physical handling, was he?

Governor Calkins. Yes, in most cases.

The Chairman. Whom have you got, Mr. McDougal?



Governor McDougal. We have got a man we could use for that purpose.

The Chairman. Has he imagination?

Governor McDougal. He has everything that is necessary, I should think.

Governor Calkins. What is his nationality?

Governor McDougal. I would not be surprised if his forefathers were Norwegians.

The Chairman. The advantage to be derived from this committee is in having it from points nearby so that they could meet in Washington without too much time being lost, and that would be Chicago, Cleveland, New York and Philadelphia-- do you want to send a man over, Governor Morss? Have you got a good man?

Governor Morss. A fairly good man, who has been on the currency committee before.

Governor Van Zandt. I move that such committee be appointed and be directed to come to Washington and confer with Mr. Gilbert at such time as Mr. Gilbert may select.

Governor Seay. I second the motion.

(Motion put and carried unanimously.)

The Chairman. That elects Philadelphia, Chicago, Boston, Cleveland and New York to provide a man on call.

Governor Seay. I suppose, Mr. Gilbert, you have superficial reports from all of these five banks, giving their opinion?

Mr. Gilbert. I have preliminary reports from all of the banks, but so far as I can recall I have no reports on the exact designs sent out two or three weeks ago. It is hardly time as yet.

Governor Seay. You can avail yourself of those reports?

Mr. Gilbert. Oh yes, they are available, and we have other reports available too.

The Chairman. Does that answer Topic No. 1?

Mr. Gilbert. Yes, sir.

The Chairman. The last part of topic No. 2 also appeared on the program, Supplement No. 1, suggested <sup>by</sup> the Federal Reserve Board for consideration at the separate meetings of the Governors and the Reserve Agents, and we have already acted upon that and have made this recommendation, Mr. Gilbert, that if it is desired that the Federal Reserve Banks should now undertake the purchase of the two per cent bonds as provided in Section 18 of the Federal Reserve Act up to the maximum of \$25,000,000 in any one year for the purpose of retiring a corresponding amount of National Bank notes, it would be found



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that the Act was ineffective, because of the selling price,  $101\frac{1}{2}$ , or  $101-5/8$ , and the provision of Section 18 contemplates that the bonds should be sold at par and interest. We would not get the bonds and we would not accomplish anything, and in order to secure a retirement of these National Bank notes at a rate greater than nine million dollars a month, I think it is necessary for them to be purchased under the provisions of Section 18; so that the action of the Conference was to suggest the advisability, if that was the object of the suggestion on the program submitted by the Federal Reserve Board, that it would be much better to submit an amendment to the National Bank Act, substantially to the effect that the privilege of issuing National Bank notes shall not be accorded to newly organized National Banks and to those banks whose charters are extended from time to time. That would effect the retirement of the entire National Bank notes in circulation in a maximum period of 20 years. There are a good many difficulties involved in it other than that amendment, the general difficulty of replacing that amount of currency in circulation among other things. It would mean that the Federal Reserve Banks would own, at the end of 20 years, some seven hundred million of two per cent bonds which they would have to hold

as two, largely in order to be in a position to issue currency. That was the result of the discussion here as to the general subject of retiring the National Bank notes. We have not discussed the question of the handling of National Bank notes, how they shall be assorted, whether they shall be paid out or redeemed, and so on. There was an incidental discussion, without any action being taken, to the general effect that the provision of law contemplates that National Bank notes shall be subject to redemption by holders at any time by the process provided in the National Bank Act. That is, they shall be sent into the Treasury for redemption, and there is a strong indisposition on the part of the Governors of the Federal Reserve Banks to get into any situation where they believe they will become sinks for the accumulation of National Bank notes which are in effect a redundant currency. The general impression which I gathered from the conversation, however, was that we would always be able to pay out the notes as fast as we got them in, provided in doing so that we must face an accumulation of other kinds of currency, like silver certificates and United States notes. When the currency is contracting, the actual day to day turnover must be sufficient



to keep those in circulation.

We also canvassed every Governor here, and discovered there was no Federal Reserve Bank which had any accumulation of United States notes and silver certificates beyond what it was prudent to carry. I think in New York that will not always be so, because we have not been able to count them as fast as we hope to in the future.

Mr. Gilbert. The inquiry which went out from the Treasury was designed as much as anything else to find out just that thing. On the National Bank note question, of course there should not be any question. A Federal Reserve Bank would have a right to send in National Bank notes for redemption. That is absolutely inconceivable. I think the question of what is done by a Federal Reserve Bank has a considerable bearing on the first question you discussed, what should be done with National Bank note circulation in the way of retirement under the Federal Reserve Act or otherwise. If all of the Federal Reserve Banks send in for redemption all the National Bank notes you receive, I think you would soon be able to buy the twos at par.

The Chairman. Of course they would fly around in a circle very fast for a while, and the expense would accumulate

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so fast that the banks would not tolerate it.

Governor Seay. Are you familiar with the suggestion made by Mr. Mitchell of the Federal Reserve Board last night?

Mr. Gilbert. Yes. We talked that over.

The Chairman. What did he want to do-- retire them?

Governor Seay. It was evident that his mind had been working along the same lines as this suggestion of the Board. He wanted to retire the entire issue, leaving in the hands of the Federal Reserve Bank the sole issuing power in the country, and his proposition was that since there was a profit to the National Banks in issuing them, it would be perhaps an injustice if they were deprived of that profit, and he proposed that the Federal Reserve Banks should take over the entire issue of Government twos and pay to the banks the annual profit which they were deriving from their circulation.

Governor Van Zandt. Up to the termination of their charter?

Governor Seay. Up to the termination of their charter or the retirement of the bonds.

Mr. Gilbert. Federal Reserve Banks may soon be glad to have a three per cent note.

The Chairman. The difficulty with a three per cent note is-- or, there are two difficulties. One is that the possibility



of depreciation is very considerable, and I do not think that the Federal Reserve Banks should become very large holders of the Government's debt for an investment. I think it is a wholly wrong principle. It has always turned out to be wrong in banks that have gotten into that position, and the only justification for accumulating a mass of Government bonds is to simplify the currency, the retirement of National Bank notes, and put the currency in the hands of the banks of issue, where it should be. It has always seemed to me that the Federal Reserve Act was a very short step in the solution of currency matters, and we had a big difficulty to get rid of the National Bank notes. Imagine the situation which the Federal Reserve Banks would be in with seven hundred millions of the Government debt, a long time debt, in their hands. Suppose Congress should take the notion some day to modify the circulation privilege in some way; we might face a tremendous loss. We can not afford to convert them into three, with the 3 per cent bonds selling at 78 today, a loss of 23 points, as against 101.

Mr. Gilbert. I doubt if anything very much can be done with National Bank notes without legislation. Whether anything can be done through legislation is another question.

A Congressman came in very lately to talk about National Bank notes,,and he seemed to have it in his mind--he may have had it from some member of the Board, and I rather think he did.

The Chairman. Personally I should be quite willing to start the process under Section 18 whenever we are able to get the bonds at par.

Governor Seay. It is doubtful, I think, if any more practical or more judicious plan could be proposed than the one which is already embodied in the Act, and that is the gradual process of retirement.

Mr. Gilbert. It is a matter of a good many years.

Governor Seay. I have reached a conclusion in my own mind that we might take up the resumption of the purchase of these bonds if we could get them at par, and I am inclined to think that we will get them at par. Particularly I think it is desirable that new National Banks should not be given the power of circulation.

Mr. Gilbert. That would require legislation, in order to make it effective.

The Chairman. They almost had that through when the Federal Reserve Act was under discussion. It was nearly done.

Governor Young. In our resolution yesterday, did not we



suggest or recommend legislation to prohibit a new National Bank or a National Bank whose charter was being renewed from issuing circulation?

The Chairman. The action that we took yesterday was to the effect that if the object of the suggestion contained in the program was to bring about a more prompt retirement of National Bank notes, it might better be done by that method than by attempting to buy the bonds at par when they were selling at  $101\frac{1}{2}$ . That is what it amounted to.

Governor Young. I have been thinking of that just at this moment. Let us assume that that legislation was passed, there would be no demand for these two per cent. bonds, although they have circulation privilege and all buy them, that we could not use them other than through the Federal Reserve Banks. Even if we bought them from the banks at par and accrued interest, what would happen to the price of these two per cent bonds in case we had to sell them?

The Chairman. We would be stuck.

Governor Van Zandt. You would never have to sell them. You would always be able to issue circulation against them.

The Chairman. That is the only thing that would protect us, the circulation privilege.

Governor Young. They would go lower than the threes.

The Chairman. They might.

Governor Van Zandt. You could always issue full value of circulation against them.

The Chairman. The ultimate result of any such program would be to have a fiduciary issue of Federal Reserve notes. That is what it amounts to, exactly similar to the issue of notes in the Bank of England. There are 18,450,000 pounds sterling of Bank of England notes issued against the bonds of the British Government. The rest are all issued against gold. We would have, instead of ninety million dollars, in round figures, we would have 700 million dollars. I think it is a tremendous load to put on the Reserve Banks. Now they are distributed<sup>over</sup>/all the National Banks more or less evenly. In any upheaval, social or otherwise, it would be concentrated in the twelve banks.

Governor Young. Do you think that we should reconsider that recommendation?

The Chairman. It was not a recommendation.

Governor Young. Was it a suggestion?

The Chairman. It was a suggestion that if the object of the program was to hasten the retirement of the National Bank notes, it could be better done than by Sec. 18, which is in effect.



ive right now. The only thing which occurred to me--I did not want to complicate the discussion yesterday--was that a very large number of large National Bank charters mature in the same year. I do not recall what proportion it is that expires in the same year, but I think fifteen New York banks have charters expiring in the same year.

Governor Seay. Some of them have no circulation, isn't that so?

The Chairman. The National Bank of Commerce has none, and perhaps some of the other banks have none.

Governor McDougal. The First National Bank of Chicago has none, has it?

Governor McDougal. I think not, no.

The Chairman. What is your view about that, Mr. Gilbert?

Mr. Gilbert. I do not believe much can be done without legislation. It might be done by amending Section 18.

The Chairman. Much better than any other plan.

Mr. Gilbert. There is a double difficulty with that now. You do not want to buy a bond on a premium, and the only thing you could get would be at a discount.

The Chairman. At such a discount that the plan is wholly inoperative, except that it is intended to maintain National

Bank notes as Federal Reserve Bank notes.

Mr. Gilbert. I think the Federal Reserve Banks can do a good deal to accelerate the retirement by the plan which they adopted in regard to payment of National Bank notes. As I understand it now, practically all of the Reserve Banks pay up in National Bank notes.

Governor Seay. I take it for granted that all of us are of opinion that they have to be eliminated from circulation.

Mr. Gilbert. All of us agree on that. It would be very well for the Treasury.

The Chairman. I agree, with the reservation in one respect. This country, due to the organization of the Federal Reserve System and to the war, has developed a total circulation of all kinds of money in the hands of the people of the country outside of what we have in our reserve, of something over five billion dollars, as I recall--about five billions, roughly. Of that amount \$726,000,00 are National Bank notes. Those National Bank notes are issued under a plan by which they impose no tax upon the borrowers from the banking system of the country at all. They have been absorbed into the circulation, and the amount of circulation is so much in excess of the National Bank notes



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that there is no question of there being a place for them in the circulation of the country.

Now, if you retire them entirely, the probability is that their place must be taken by some other kind of circulation, and what is there to take the place of National Bank Notes except Federal Reserve notes?

Governor Van Zandt. Federal Reserve Bank notes.

The Chairman. It is the same thing. I mean, if we are going to retire them completely and pass the bonds out to the public and simplify the currency by issuing only Federal Reserve Bank notes, that is a good way to do it, which is what has been frequently suggested. You have to replace them by the issue of Federal Reserve notes against the borrowings of member banks, which is really a very considerable tax, and I am not just sure how it would work to sustain a loan account in the Federal Reserve Banks of 700 million dollars to take the place of retired National Bank notes.

Governor Wellborn. I wonder why it is that the bonds are more than par, and two years ago we were able to buy them at par and other bonds are below par?

The Chairman. The bonds with the circulation privilege always go up as money eases .

Governor Wellborn. We had an easy time along in 1915 and 1916, and we could buy then at par, and people were glad to take par.

Governor Seay. All of which convinces me that the plan contemplated in the Federal Reserve Act is perhaps the wisest plan that has been proposed, and that is the gradual retiring, and the problems will be solved in the passage of time. I am firmly convinced that ultimately they ought to be retired.

Governor Van Zandt. The Federal Reserve Act is very indefinite in respect to the permission to issue new circulation after the circulation has once been retired by a National Bank.

The Chairman. If any plan for legislation is attempted to hasten the retirement of National Bank notes or to transfer the issue of National Bank notes from the National Banks to the Federal Reserve Banks more readily than contemplated under Section 18, I would like to see the whole subject of currency studied in connection with it. It seems to me we cannot take that step without considering some other step that might be taken for the protection of the Federal Reserve System before they do it. The ability of



the Federal Reserve Banks to convert these twos into threes is a protection, if threes ever sell at the equivalent of what twos are selling, except as to the one-year notes which renew every year, and those you cannot sell. You can loan them, in effect, but you have got to take them back at the end of the year. You cannot shake loose from that class of business, and that maturity is a perfectly false thing. It is not a real thing at all. You cannot get rid of them. No one would ever make a contract to conduct that renewal for the entire thirty years, but I think that part of the Federal Reserve Act is very bad indeed and it ought to be changed. If the Federal Reserve Banks are going to take over the National Bank circulation and own the bonds to secure the circulation, the bonds which they own should be capable of conversion into a bond which you really can sell and get rid of forever.

Governor Seay. We must not overlook the fact that the situation has been tremendously changed by the happening of events which have taken place since the act was passed.

Mr. Gilbert. It might be changed so that the Treasury would gradually redeem those bonds and take up some of the refunding bonds as well as Liberty bonds. It could be done

gradually on the part of the Treasury.

Governor Seay. There was a time when a bond committee appointed by the Conference of the Governors succeeded in selling these threes at a premium, which illustrates the difference between then and now.

The Chairman. I want to tell you that the boys in the Bank at New York which were handling that account sold every blessed bond that we could sell. There was not a chance to sell any more. We were hunt up with over a million of them.

Now, I would like to make a suggestion about the topics two, three, four and five. We have discussed Topic 2, and please disagree with me heartily if you do. It has been my impression for some months past that we have all suffered the result of Mr. Emerson leaving us, when he went to Texas. You will recall at the last Conference when we discussed the arrangement for establishing standards of fitness in sorting and the distribution of the new notes, and so forth, it was all entrusted to Mr. Emerson, but his suddenly leaving--I think the operation of that plan has gotten into a little disorder. That is the impression in the bank in New York. I do not know whether you have the same views. hat



I believe we should do is to have the currency committee take up that subject again and get down to some method or control which does not now exist, the control of distribution of new currency and of the maintenance of a uniform standard of sorting in all of the Reserve Banks. We got evidence--so they say at the Bank; the money department tells me--we get evidence of a very wide difference in standard of sorting. During the war the standard of condition of currency which was in circulation went down very much in our district, and there was very little new money, and there was a tremendous amount of very bad conditioned money. We have been very gradually raising the standard, and we have gotten it up pretty well in New York, I think, but there is a great difference between the standard which we have gotten to, whether it is as good as it should be or not, between ourselves and some of the other banks.

Governor Seay. We are cautioned, Governor Strong, in this program of the Treasury Department against raising the standard too high.

The Chairman. That is just the point. How are we to tell what is the standard?

Mr. Gilbert. There is a very great variation now.

The Chairman. We must have some one in Washington to say what standard to observe.

Mr. Gilbert. It needs at least one man in Washington practically all of the time to watch the whole of the currency business, the amounts issued and redeemed, and the standard applied to the amounts on hand in the banks and the Treasury Reserve and other things. We found about the 1st of August that some kinds of currency had been redeemed two or three times as fast as they ought to have been, partly due to the fact that the currency was floating in, and also due in part to the fact that it was being cut up and destroyed in too good condition. On one class of currency we were over twice the monthly quota, and on that currency we were bound by an appropriation of Congress. If we kept on at that rate, by December 31st there would have been no more currency of that kind, without a new appropriation, which was difficult to get.

The Chairman. At the last conference we had quite a difference of opinion, the vote standing seven to five, as to the policy of receiving National Bank notes, and we took this action, expressing it very roughly, that we should first pay out silver certificates, we should next pay out United States notes, and so long as we could meet the demands of the



currency with those two issues, we would not pay out Federal Reserve notes and Federal Reserve Bank notes; that we should, nevertheless, hold Federal Reserve Bank notes already prepared--I think there was quite a supply on hand--as a reserve stock of small denomination notes for use in case of need, in case we got low. That action, it seems to me, should now be modified with National Bank notes coming in very fast, by the provision that we should first pay out first National Bank Notes, second, silver certificates, third, United States notes, and not pay out Federal Reserve notes and Federal Reserve Bank notes until the supplies of the other kinds of money have been exhausted, but our capacity to pay out these various kinds of money, the rate at which they are paid out, and the length of time which they stay out, depends more on denomination than upon any other factor. All large denominations come in very fast, the small ones stay out longer, but wear out faster, and I do not see how we can arrive at a program of establishing and maintaining a standard of fitness, unless we have a committee come here to Washington, work out the problem thoroughly and scientifically as to the denominations and the kinds to be paid out, and then that there be in the Treasury Department

an organization, on which the Federal Reserve Board should be represented because they issue Federal Reserve notes, and the Comptroller of the Currency should be represented as he has charge of the currency of the United States.

Governor Van Zandt. A piece of it.

The Chairman. A piece of it, and the fiscal department of the Treasury be represented, because they supervise the whole thing, more or less. That is what I would do to work out this currency problem, and I will be very glad to send anyone from our bank in New York over here to study it.

Mr. Gilbert. I think it is clear that the currency problem has to be studied as a whole. You cannot do some thing with National Bank notes and another thing with legals and another with gold certificates, and get anywhere, because they would all be jammed up. I do not quite understand the reason for paying out National Bank notes. I think the question of which shall be paid out has to be handled by denomination, probably. For one reason particularly we declined to issue silver certificates in the one dollar denomination as soon as the turnover resulting from the recoinage of silver under the Pittman Act came into force. At the time being there are a good many five dollar certificates. In



time silver certificates in the one dollar denomination ought to be out almost exclusively. That, by the way, is in response to what is almost an express provision of law. Then United States notes come next, to the extent that the one dollar denomination is necessary, and as is contemplated in the law, the balance of the legals would go out in the higher denominations. Those two kinds of currency have to be circulated. The Treasury cannot afford to have them back up in the Treasury. They may back up in the Reserve Banks and be carried as reserve, but the Treasury is in a position where it has to keep those in circulation. Otherwise, we are forced to borrow while carrying excessive stock.

The Chairman. I think you overlook one thing about National Bank notes, and that is at a time when there is a redundancy of currency, the National Banks seek to find some place for their notes, keep them out and realize a profit on them, and cases are cited here, and I recall that there was suggested in New York some time ago an instance where the entire note issue of a National Bank will be dumped into the Reserve Bank, brand new bills, just to get rid of them.

Mr. Gilbert. We get them at the next dump.

The Chairman. You get them at the next dump. In my

opinion that is a wholly unsound situation, and unless we can promptly get rid of them and pay them out and keep them in circulation the redundant currency coming in will be largely in the form of National Bank notes, which will drift into the Reserve Bank and lie there. We cannot redeem them on account of the expense, and we cannot pay them out because our currency is coming in.

Mr. Gilbert. You may be able to enforce the redemption through retirement of National Bank notes.

The Chairman. Nine millions a month.

Mr. Gilbert. That is one hundred and eight millions a year.

Governor Seay. It is certainly the majority opinion, if not unanimous, that Federal Reserve Banks should not permit themselves to be used by a National Bank as a medium for the circulation of their notes, whether fit or unfit, and absolutely no qualification, moral or legal, should be imposed upon a Federal Reserve Bank which would limit the privilege of sending those notes in for redemption just as freely as they elect to do.

The Chairman. When they go in for redemption to the Bureau of Redemption, they can be shipped right back to the Bank of



issue.

Mr. Gilbert. Oh, yes.

The Chairman. And it is just as much a question of tiring out the banks as anything else.

Mr. Gilbert. Sometimes we pay them out here, probably extra-legally, instead of buying the Reserve Bank notes from Richmond.

The Chairman. I am taking the privilege of discussing these. We have been over most of these. We have discussed them at some length, and I am trying to state the conclusions.

Mr. Gilbert. What bothered me about your statement was that you were saying what Governor Seay said it was decided not to do, to pay out National Bank notes first.

Governor Seay. The policy of our bank is to limit the receiving of National Bank notes on deposit. It has been ever since the organization of the system.

The Chairman. That was our policy until recently. We are now getting a gob of them.

Mr. Harrison. I do not think we are.

The Chairman. Aren't we?

Mr. Harrison. I do not think so many.

The Chairman. We certainly ought to pay them out, don't

you think so, Mr. Gilbert?

Mr. Gilbert. I think so. The Federal Reserve Bank almost assumes an obligation to keep them out. If there is any obligation to keep anything out, I think it is legal tender, such as silver certificates and legal tender notes.

The Chairman. They shot the minutes under my nose in New York. The mistakes which we made, we were led into it gradually and unconsciously. Those of us that did do it, by the way, we supposed that we had to take any kind of currency from the banks to which we sent the checks for collection, and they shipped National Bank notes and we took them, and gradually I imagine most of the Federal Reserve Banks have taken National Bank notes in that way. Is not that a fact?

Gov. Van Zandt. We are.

Governor Young. We take them in.

Governor Morss. We do, but we have never felt any abuse of sending them to us at all. They come in the usual course of our business.

Mr. Harrison. I think that is true of New York too. I say it with a little reservation, because I have not investigated it, but I think the reaction which you have got now is based more on fear than on any actuality.



The Chairman. No. I have resisted this for seven years, taking National Bank notes.

Mr. Harrison. No. I say that the reaction which you got from the bank in New York is raised by the fear that the men there have got that we will get them, rather than that we are getting them.

The Chairman. Mr. Higgins said something to me which implied that since we have been receiving National Bank notes he had not been able to put out United States notes and silver certificates as fast as we wanted to, because we had to get rid of them first, and that is the ground upon which Mr. Gilbert complains, or at least suggests the possibility of criticism of our present policy, that it inevitably results in some accumulation of silver certificates and United States notes. Is not that about it?

Mr. Gilbert. Yes.

Governor Seay. There is no question, but it is a certainty, that we would become a dumping ground of National Bank notes if we had changed our policy. We receive them from non-member banks as shipments in payment of collections, but we do not allow our member banks to impose upon us at will, with that circulation check against it, and payments are made

by us in gold, as they have to be made.

Mr. Gilbert. I should think, as between a Federal Reserve bank and a member bank, that could be controlled.

Governor Seay. We all exercise a benevolent assimilation.

Governor Van Zandt. They have to have some currency to meet their obligations with, and that is all they have.

The Chairman. My conclusion is that the National Bank notes, with the Federal Reserve system operating as it is, has become an integral part of the currency of the country, and today, so far as member banks are concerned, they serve the same purpose of reserve that any other kind of reserve money does, because suppose a member bank has \$50,000 of its circulation in its hands, it cannot use it, it cannot pay it out, nobody will take it, and the currency is coming in very fast, and they deposit it in the Federal Reserve bank and take credit for it. That is a reserve deposit just as much as the deposit of gold is, and what they have succeeded in doing is simply substituting one kind of deposit for another, one kind of credit for another kind of credit, in maintaining their reserve. That is all there is to it, and that is the condition which we have got to face and recognize. The way to obviate



it is to get rid of the National Bank notes.

Governor Seay. As between us and our member banks, there is not the slightest friction. We are governing it without any friction, and as we believe, from a sound policy from the Federal Reserve standpoint.

The Chairman. Mr. Gilbert, how does the committee suggestion appeal to you?

Mr. Gilbert. I think there is some question of whether it ought to be a committee or an actual organization, to have the Board designate some one permanently to handle it, and I will designate someone from the Treasury. We may have to make this a permanent proposition. That is more a matter of detail than anything else.

Governor Van Zandt. Is there not a division in the Federal Reserve Board at the present time that has control of the supply and distribution of currency?

The Chairman. We have never heard from them.

Mr. Harrison. There is a Federal Reserve note issuing and redemption division in the Federal Reserve office.

Mr. Gilbert. That is mere routine money counting, and things of that sort. I think you may want a committee to cover the general question of currency payments, what policy

shall be pursued; on the day to day work of keeping track of the currency circulation, I think you need a permanent organization.

The Chairman. Mr. Emerson was designated as the representative of the Federal Reserve Banks, as much as anything, as I recall, to be the medium through which these matters could be handled for distribution.

Governor Van Zandt. Mr. Emerson told me that they had organized a division to handle that entirely.

The Chairman. Then it is not functioning.

Mr. Harrison. He was the representative of that committee by common consent, and he rather took jurisdiction of that. They have that division in the Federal Reserve Board, which is called the Federal Reserve Board's division of redemption and issue, but they would not be qualified to do this particular task. I mean, the personnel has not the opportunity or the experience to handle this whole currency problem. They are purely an administrative division, very small and purely mechanical.

The Chairman. Well, how would it do for us to pass a recommendation, in accordance with your wishes here, Mr. Gilbert, on topics 2, 3, 4 and 5? I think the kind of



currency to be paid out, that the different Federal Reserve Banks will all agree right now that it should be in the order in which I have named, National Bank notes, silver certificates, United States notes, before we loosen up our Federal Reserve notes or Federal Reserve bank notes, but that the control of our policy to pay out in that order depends very largely upon an adjustment of the denominations, and then if we are in agreement on that fact, then all that is needed is someone to study that question and the standard of fitness.

Mr. Gilbert. The payment of National Bank notes first will not happen as a practical matter, because of course they are not available in the one and two dollar denominations. You have the small denominations problem to face, the legals and silver and Federal Reserve bank notes, and the possible currency to be paid out, and then you have the five dollar up on the other question.

The Chairman. There is an over supply of ones and twos.

Mr. Gilbert. Yes.

The Chairman. There cannot be an oversupply of fives and tens and twenties, because we can simply contract the Federal Reserve note issue so that there cannot be an over-supply.

Mr. Gilbert. Absolutely.

The Chairman. And the problem of supply must be dealt with by an adjustment between silver and legal notes.

Mr. Gilbert. And between Federal Reserve bank notes and reserves.

The Chairman. Yes.

Governor Morss. Does Mr. Gilbert think that we should take National Bank notes to the credit of the Treasury's account and pay them out as soon as possible, or only in the usual course of business?

Mr. Gilbert. In the usual course of business. We do not have any intention of shipping it to you in payment of accounts. There is no possibility of that.

Governor Morss. Do I understand that these banks that have paid in their whole circulation --

Mr. Gilbert (Interposing.) That is, a reserve account. That is not any of our action.

Governor Seay. We take in notes, we ship them to you at our expense.

Mr. Gilbert. That is right, uncut. Do you cut them new, or do you cancel them?

Governor Seay. We do not cancel them. Unfit notes



we do, but the fit ones we do not.

Mr. Gilbert. Unfit National Bank notes are cancelled at the Reserve Banks.

The Chairman. If you form an organization of that kind, Mr. Gilbert, and get answers to questions raised by these four topics, then I think the Federal Reserve Board would like to have opportunity to get your views as to the method of redemption which takes place on shipments between Federal Reserve Banks, and so on. I know the member banks in New York think that we could improve that method considerably-- the method of counting shipments, and so on.

Mr. Gilbert. Whatever organization is appointed here will have to adjust its plans from time to time as the situation develops, and as it gets reports from Federal Reserve Banks.

The Chairman. Is it understood that we will leave the appointment of the organization to you?

Mr. Gilbert. I think it is up to the Federal Reserve Board to make at least one appointment. I will undertake to appoint one or two from the Treasury.

The Chairman. I suggest a recommendation, then, to the Federal Reserve Board that it is the opinion of this meeting that it is desirable that a permanent organization shall be

created in the Treasury, with a representative of the Federal Reserve Board, which shall be charged with the study of topics 2, 3, 4 and 5, and with the administration of the issue of the currency and the adjustment of denominations and the establishment of standards of fitness, etc.

Mr. Gilbert. That organization to confer from time to time with the currency committee of the Federal Reserve Banks?

The Chairman. Yes. Does that motion strike you as a satisfactory disposition of these subjects? Will some one offer it?

Governor Fancher. I will offer it.

Governor Young. I second it.

(Motion put and carried unanimously.)

The Chairman. There is still one other matter, and that is the question of paying out gold certificates. Shall we go into that? I can report right now. It is as good an opportunity as any to report the results of our discussion of that topic.

In the first place, it was considered by the meeting that the paying out of gold certificates, certainly in some sections of the country, would result in putting actual gold coin into circulation quite rapidly, and that that was an uneconomical



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and unwise thing to do. The second point there raised was that in the opinion of the gentlemen here it was inevitable some day that this country would be called upon to return to Europe some part of this mass of gold which we have received in excess of what under normal conditions we should hold, and that is the monetary gold, and that we should be prepared for that. If it was possible to accumulate this gold from the banks and in general circulation during the war as a war emergency measure, based more or less on a patriotic appeal, that except war conditions prevail it would be difficult and possibly impossible to reaccumulate gold which we now pay out at a rate much more rapid than would arise in the usual types of worn out currency.

Those were comments that are possibly not at all controlling. Another comment was that any amount paid out and put into circulation, in order to be effective to accomplish the purpose of reducing the reserve percentages, would have to be a very considerable amount, quite a proportion of what we hold and that the minute the gold certificates appear in general circulation, it would attract attention and cause comment, and that those critics of the Federal Reserve System and the plan of the Treasury who felt that we were responsible

for forcing inflation, and so on, and that we were maintaining unnecessarily high discount rates, would say "Here, these people are absolutely recalcitrant. They cannot be cured of their bad habits. They are absolutely getting to the point now of indulging in a subterfuge, trying to fool us. They are actually paying out their Reserve money, so as to avoid the necessity of reducing their rates. They are profiteers, anyhow, and this is a scandalous thing for them to be doing, and I think there is more danger in that than anything else, and I think every man here believes the same thing, and that it would defeat the very purpose that we are after to pay it out.

Mr. Gilbert. A good deal would depend on how much you put out. It is hardly fair to call it a subterfuge. The gold is actually out of your reserves, and in that respect is different from holding gold from abroad or changing the form of statements so as to throw a good deal of the gold into the Agents' funds.

The Chairman. We thought the sentiment was that it would appear to Congressmen, for instance, and Senators who were criticising if we were paying out our resources in order to escape doing the very thing which they think we ought to do, to make cheap money.



Mr. Gilbert. They will think that whatever you do, to expand and make cheap money. I do not think you should try to avoid that danger from criticism, because they will think that if you have a fifty per cent reserve. Certainly you should not reduce your reserve more than five or ten points in the course of a year or so.

The Chairman. Possibly the extent that we paid gold out, we would accumulate money.

Mr. Gilbert. You would buy Federal Reserve notes then. It seems to me that the gold question, it ought to be considered along the lines of payment of a moderate amount of it, a hundred or two hundred million dollars.

The Chairman. What is the object to be accomplished by it-- just to reduce the reserves?

Mr. Gilbert. I think that is an important element. I think it emphasizes to some extent the absolute convertibility of gold and Federal Reserve notes and all of the currency, and the Federal Reserve Banks have been in the attitude of hoarding the gold, and they still are.

The Chairman. We are all agreed on one thing, and that is that no Federal Reserve Bank should hesitate an instant in making any call for gold in any amount at any time.

Mr. Gilbert. What policy would we pursue, for instance, with regard to Christmas gold? That will come up this year.

The Chairman. We have not discussed it, but I have no doubt that the bank in New York would pay it out. We just discuss<sup>ed</sup> it here without taking any action, and the consensus of the views was that it would come back as fast as we put it out.

Mr. Gilbert. You would have it back in two weeks, probably Governor Miller. That would be small denominations?

Mr. Gilbert. Yes.

The Chairman. Well, this topic and the Government bond matter both are to be discussed with the Federal Reserve Board.

Mr. Gilbert. And with the agents as well.

The Chairman. Well, I suppose so, yes, and at the Joint Conference. Do you want to continue in regard to the gold certificates?

Mr. Gilbert. No; I would not care to continue that now. As I understand it, you have already taken certain action yesterday expressing informally the attitude of the Governors.

The Chairman. Just expressing an opinion, yes.

Mr. Gilbert. I think that ought to go to the joint conference, perhaps, for further discussion.

The Chairman. It ought to go to the Joint Conference for



further discussion by the Federal Reserve agents, you mean?

Did the Federal Reserve Agents discuss this?

Mr. Gilbert. I do not know.

The Chairman. I was greatly surprised at the strength of views expressed, and I was careful not to express my own view until everybody had finished expressing theirs, and there was no dissenting voice heard at all.

Mr. Gilbert. Very well.

The Chairman. Now, as to the fiscal agencies matter, it is six o'clock now. Can you spare us a few minutes tomorrow?

Mr. Gilbert. Has there been any discussion of the fiscal agency acceptances up to date?

The Chairman. No, but it is on our program as well as on yours, and we haven't reached it on our program yet. We have already discussed the question of allotments, No. 3, but that is all. Will it be convenient for you to go through this program with us some time tomorrow?

Mr. Gilbert. Yes. I should suggest somewhere early after eleven.

The Chairman. Then we will meet at 9:30 tomorrow morning. There is a report from a committee appointed to confer with two of our Federal Reserve agents on the subject of group meetings. They have had a meeting and have a report to make. Governor

McDougal, will you report?

Governor McDougal. The report is not at all complete, but we held a little meeting at noon with Mr. Jay and Mr. Martin, representing the other wing of this organization, and it developed that they also had submitted the matter to that Conference. I do not think they had considered it very carefully, but the opinion was expressed in that conference that these group meetings had been productive of good, and the suggestion was that they be continued. We explained that, in considering the matter here, the Governors felt that while some good had come from those conferences in a number of instances, the group meetings had not been help<sup>ful</sup>/at all, and that in giving careful consideration to the related matters, that we felt that we might better meet as Governors oftener, perhaps two or three times a year, outside of Washington, if that could be arranged, and that in view of the time that those meetings would take and also in view of the fact that we would come here together at least once or twice a year, that we felt we could not consistently devote the time necessary to continue these group meetings.

Mr. Jay spoke for his conference and stated that while they had expressed the view that they would like to see the



meetings continue, that they had not gone very carefully into the matter, and the understanding was that he was to bring the matter up again today, and we were to meet tonight or tomorrow, to further discuss the matter. It is very evident that the other conference feels that these meetings have been satisfactory and successful, and would like to continue them at least for the forthcoming year. Mr. Seay, were there any other points brought out?

Governor Seay. I think Governor McDougal is giving you a resume. We expressed to those gentlemen our opinions and the opinion of this conference just as freely as we discussed it here, and we found that they were in accord with the views expressed here. They believed that there was an administrative necessity for more frequent meetings of the Governors. Their knowledge of the workings of their own banks led them to that conclusion, and that as between the meetings of the Governors and these group meetings, if time could not be devoted to both, they believed that the meetings of the Governors were of greater importance than these group meetings.

The Chairman. It seems to me that conclusion is unescapable, because when we all meet, with the program which has

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been studied in advance as this one has, (it has been of the greatest possible advantage to have them studied in advance,) we really get somewhere, and these group meetings are very pleasant and it gets us acquainted, but it does not accomplish anything for the whole System.

Governor Seay. They also expressed the opinion, Governor Strong, that these joint meetings here were a little ponderous, that there were too many subjects to be handled, and their expressed belief was in accord with ours, that we went away without discussing thoroughly many subjects that we came here to consider.

The Chairman. That is right.

Governor Seay. They believed that it would also be advantageous for the agents to meet more than once or twice a year, and if they met by themselves it was agreed on all hands that it would be advisable to have the Joint Conference at least once a year between the Governors and the Agents and the Board.

The Chairman. Once a year?

Governor Seay. Once, a year, but they nodded where they did not express it verbally, wherever we laid stress upon the necessity of the administrative officers of the banks meeting together to discuss some of their every day



problems. They called attention to the fact, as some expressed it, they came across the Continent here for the purpose of discussing these things, and very often left in a state of dissatisfaction. We were compelled to treat them in a very superficial way, and in some cases to pass them altogether, and the necessity was recognized by them, just as well as we recognize it, that it would be to the advantage of the System that the Governors have more frequent meetings, and that they be devoted exclusively to the discussion of problems of administration.

It was pointed out to them by us, or rather, recounted to them, the reason for the discontinuance of the Governors' meetings, and we expressed the opinion that if these meetings were to be held they were to be absolutely working meetings; that no time was to be contemplated to be devoted to receptions or banquets or pleasures, but that they would be wholly occupied with the administrative work of the Federal Reserve Banks, and they appeared to be in perfect accord with us on that subject. They stated that they had not discussed it quite as freely with their own members as we apparently had discussed it with ours, and for that reason they suggested that they go back and report what had occurred at

this meeting of the committee, and that we have a subsequent meeting of our Committee.

It is supposed that the Board expects this committee to report to it. It is a little delicate matter. There are two representatives of the Board, being the Agents, and two representatives of the Governors, and it is felt that if an agreement can be reached between the two as to what ought to be done, it would have more effect.

The Chairman. They will agree with that. Did you show them our program?

Governor Seay. We did not show it to them, but we called to their attention the difficulties which we had. We called their attention to the fact that we were subject to numerous interruptions from all sources when we came here, and that <sup>was</sup> always our program/more ambitious and comprehensive than we could settle, and we felt if we met more frequently our program could be shortened and there would be no necessity for continuing, ~~as~~ we now continue, topics for subsequent meetings. We pointed out that certain problems of administration were actually held up here because we did not have time to reach a common agreement.

The Chairman. Well, we have got to do it in some way or



other, or else have a lot of dissimilar practices, methods developing in the banks, and disorder.

Governor Seay. He also expressed the opinion that it would tend to solidify the Federal Reserve System if the Governors should meet, for instance, in different Federal Reserve cities, and that the body of Governors should meet the directors of the particular bank at which they were meeting. It was suggested that possibly we might be given opportunity for meeting these directors and possibly at times discussing some few questions of policy, leaving the rest of the meeting to the Governors themselves, and it was believed that if the local directors of the Federal Reserve system could meet and discuss with the officers of other Federal Reserve banks the problems which they had in their districts, that they would have a very comprehensive idea of the workings in that district.

The Chairman. May I remind you of the program tomorrow? At 9:30 we meet with Senator Kendrick and his associates. They will probably be through at 11, and then we will ask Mr. Gilbert to meet with us, and when we are through with him we have then to take up the three topics suggested in Governor Harding's talk, and in the afternoon we can go back

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to our regular program. I think we had now better adjourn,  
as it is ten minutes past six.

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(Whereupon, at 6:10 o'clock p.m., the Conference adjourned  
until tomorrow, Thursday, October 27, 1921, at 9:30 o'clock  
A.M.)

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