

VOLUME II

CONFERENCE OF GOVERNORS OF THE FEDERAL RESERVE BANKS

*M. Martin*  
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FEDERAL RESERVE BOARD

Treasury Building  
Washington, D. C.

May 9 - 12, 1927

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## A F T E R   R E C E S S .

The Conference reconvened pursuant to recess at 2:30 o'clock p.m.

The Chairman. The Conference will kindly come to order. I have just been asked by Governor Crissinger to bring up a matter that is not on the program. On yesterday the Federal Reserve Board passed a resolution that I will ask Mr. Harrison to read.

Mr. Harrison. Mr. Miller moved: "It is the opinion of the Board that the issues in the par clearance case of the State Bank of Hugo, Minnesota, against the Federal Reserve Bank of Minneapolis, are of interest to every Federal Reserve Bank and that arrangements should therefore be made for presentation of the System interests, and further that for this purpose the Board recommend the employment of Mr. Baker as special counsel on behalf of the Reserve Banks, the cost of his employment to be prorated among the various Federal reserve banks."

The Chairman. The point is this: In almost all cases where special counsel has been retained in connection with par collection litigation in various cases the Federal Reserve Board has first made inquiry of the Conference of Governors

as to whether the particular case presented elements of such importance that it should be dealt with as a System matter. This is simply following that precedent, and from what I have learned of the case from Governor Young and Mr. Baker, my own opinion is that it would be a very good idea to have System counsel. Mr. Young can explain the character of the case.

Governor Young. That is entirely agreeable to me.

Governor Fancher. What are the points involved?

Governor Wellborn. Was it a member bank?

Governor Young. No, a non-member bank. In 1919 when we started our universal par collection campaign we put the entire State of Minnesota on the par list, On April 1st. We wrote several letters to this bank in an effort to get them to agree to remit at par, which they refused to do. They even went further than that and notified us that they did not want to be on the par list. When the items started to come in we presented them at the bank's counter for payment in cash. They were paid in cash, no argument about it, no question about it. That ran along for about two weeks. Then the bank wrote us a letter that they had started to remit for those items at par and if we would send them through the mail they would remit for them at par. That we did for three, four

or five months, I forget which. Then the bank, according to their testimony, said that they read about the Cattletsburg case and the Brookins case, and they went to see a rather prominent attorney by the name of Sullivan, and he told them to get off the par list, and to notify our bank. We took them off the par list. They brought suit against us for nineteen thousand-odd dollars, forty-two hundred dollars loss of exchange and fifteen hundred dollars punitive damages or exemplary damages. The case has been in the courts ever since 1925, transferred from one court to another, our attorney finally getting the case into Minneapolis, where he wanted it,

Governor Fancher. In what court there?

Governor Young. In the District Court. The Board has been acquainted with all of the conditions surrounding the case. We invited legal assistance but no one seemed to consider of sufficient importance to have anyone else in it, thinking that Judge Uland could represent us as well as anyone. He had hoped that the Judge would take the case from the jury, but he did not do so. They claim that when the bank sent this signed letter to us agreeing to remit at par that it was under coercion and that they were entitled to recover for exchange charges, and they convinced the judge of it and they convinced

the Jury, and that is where it is. We plan on appealing the case.

The Chairman. Was a verdict rendered against you?

Governor Young. Oh, yes, against us.

The Chairman. For the whole sum?

Governor Young. No. The evidence they put up was very poor. They did not have any of our letters. All they had was the draft registry, and they assumed that that was a transit letter. They showed that many of these items were non-cash items on which they could charge exchange if they wanted to. But the judge threw that out. The amount was brought down to \$1234.99 or something like that.

The Chairman. Did they assess any punitive damages against you?

Governor Young. No, they threw that out. They had no evidence to show that there had been any damage done along those lines. In so far as Minneapolis is concerned we ceased in 1920 or '21 making collections over the counter. That was two or three years before the Atlanta decision. Much of this will be outlawed, but there is still opportunity for many of these banks to collect from us if this decision is upheld. It is an extremely important case, I think, and has some bearing

on this Atlanta situation. I do not know whether it is good law or not. The attorneys tell me it is not,

Governor Fancher. Does Judge Uland want the Board's counsel in on it?

Governor Young. He has made no such request. About a year ago I told Mr. Wyatt about it and told him that we would welcome Mr. Baker or anybody who wanted to cooperate. Judge Uland has been extremely successful with our cases. This is the first case that he has lost. He has won a great number of cases out there. He seems to be convinced that he can win this case. I know we will be very glad to have Mr. Baker's assistance and I am heartily in favor of the proposal of the Board.

The Chairman. If there is no further discussion, the question is on Governor Young's suggestion that he favors the Board's recommendation for the employment of Mr. Baker in this case and that the Board be so advised. All those in favor of the motion will signify it by saying aye.

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

The Chairman. Now, I have been advised by Governor Crissinger, and I think he spoke to Governor Fancher about

it, that the Federal Reserve Board would like to be present at further discussions of the non-cash collection proposition which we were discussing before lunch.

Mr. Baker has requested that he be allowed to have a copy of the discussion in which he took part yesterday morning. If there is no objection to that we understood that he may have a copy.

(On motion, duly seconded, it was agreed that Mr. Baker should have a copy of the discussion, which motion was unanimously carried.)

The Chairman. Now the Board would like to be present, as I said, at any further discussion of this Minneapolis collection proposition, if there is no objection.

Governor Young. None whatever.

The Chairman. If there is no objection I will that Mr. Eddy notify the Board.

(Whereupon, at 3:05 o'clock p.m., Governor Crissinger, Vice-Governor Platt, Mr. Miller, Mr. Hamlin, Mr. James and Mr. Cunningham entered the Conference Room and the following proceedings were had):

Governor Crissinger. The question before the Conference is the discussion of the ruling by the Federal Reserve Board

on the optional charge on non-cash collection items and the Minneapolis method of handling non-cash collection items. That is on the program and it was thought advisable when that matter was taken up and considered that the Board be present.

Mr. Fancher, I think your district raised the question and put it on the program, as well as Richmond, Cleveland and San Francisco. Will you please open up the discussion?

Governor Fancher. I presented to the Conference this morning a review of the particular transaction that led to its being brought to the attention of the Board, and a summary of the correspondence which was had with the Board bearing on the matter. Shortly after making that presentation this morning I was called out of the meeting and I am not in a position to summarize the discussion.

I brought out the fact that an arrangement had been sanctioned on the part of the Board with the Minneapolis Bank which was at variance with the Board's letter X-4677, which was quite explicit as to the classification to be applied to items payable at street addresses. Naturally we were somewhat embarrassed at our bank when this charge was made on these items paid at the Midland National Bank



& Trust Company, but we found that the permission given to the Minneapolis Bank applied to all items whether payable at banks or payable at street addresses. That was at variance with the Board's letter and I found that the other eleven banks had not been advised of the change in the arrangement.

Governor Crissinger. Was it changed by the Board in that letter?

Governor Fancher. Yes.

Governor Crissinger. Will you just read the letter?

Governor Fancher. Shall I read from your letter?

Governor Crissinger. Yes.

Governor Fancher. I will read the Board's letter X-4677, dated September 24, 1926, and addressed to Governors of all Federal Reserve Banks.

"FEDERAL RESERVE BOARD

WASHINGTON

X-4677  
September 24, 1926.

Dear Sir:

"In the considerations which have been given during the past two years to the question of whether or not the

Federal reserve banks should discontinue the handling of so-called non-cash collection items, considerable opposition has developed to the continuance of the service as at present; that is, without charge and without limitation as to items payable at street addresses.

"The provisions of the Federal Reserve Act authorize, but do not require the Federal reserve banks to handle non-cash items and the inauguration of the function was not the result of an order by the Federal Reserve Board, but rather at its suggestion.

I think with respect to that the Board found that it was a direction on the part of the Board. The banks were directed by letter from the Board in September, 1917. The letter then continues:

"The Board wishes to suggest to the Federal reserve banks that each bank exercise its own option as to the collection of non-cash items at street addresses, but continue the collection of non-cash items collectible at banks."

Governor Crissinger. What is the other letter?

Governor Fancher. In reply to a letter which I addressed to the Board under date of March 2nd, the Board wrote to me on April 7, 1927, as follows:

## "FEDERAL RESERVE BOARD

Washington

April 7, 1927.

Dear Governor Fancher:

Receipt is acknowledged of your letter of March 2nd, with respect to a collection charge of one tenth of one per cent made by the Midland National Bank and Trust Company of Minneapolis on two items payable at that bank which had been forwarded for collection by the Mellon National Bank of Pittsburgh direct to the Federal Reserve Bank of Minneapolis. This matter has received the careful consideration of the Federal Reserve Board but apparently there is nothing that the Board can do at this time by way of bringing about a change in the present procedure of the Minneapolis bank in the matter of handling non-cash items payable at banks located in Minneapolis and Helena, unless it can be shown that the effect on the collection system as a whole is detrimental. The Minneapolis bank requested the Board's approval prior to its adoption of the change in its procedure and the proposal made by the bank, and approved by the Board, clearly permits the handling of items payable at banks in Minneapolis and Helena in the manner in which it is handled

the two items referred to in your letter.

"In giving its approval to the change in the procedure of the Minneapolis bank, the Board did so with the distinct understanding on the part of the bank that if it should appear at any time that the new procedure is having a detrimental effect upon the Federal Reserve collection system as a whole the Minneapolis bank would at the request of the Board discontinue same and revert to the practice of handling Minneapolis and Helena items as it had been doing. After the changed procedure has been in operation for six months, the Board will give consideration to its effect on the collection system as a whole and at that time special consideration will be given to the advisability of modifying the plan, if it is to continue, so as to provide for direct representation by the Minneapolis bank itself of all items received by it which are payable at banks located in Minneapolis or Helena.

Very truly yours, (Signed) D.R. Crissinger  
Governor."

Then further, in a letter under date of May 5, there is enclosed to me copies of letters exchanged between the Federal Reserve Board and Mr. Mitchel, Chairman of the Federal Reserve Bank of Minneapolis, and a resolution which the Board of the Minneapolis Bank adopted, in reference to the handling of non-cash items, which was acceptable to the Federal Reserve Board.

Governor Crissinger. I understand the complaint to be that after the original letter of December the Board changed it without notifying the other banks; is that it?

Governor Fancher. Yes. We received a letter from the Minneapolis Bank along in January, as to the change in their

procedure on February 1, we notified our direct sending member banks, ~~and~~ all of our banks, but our larger banks that were sending direct to Minneapolis, to change the procedure; that our information was to the effect that a charge would be made on items payable at street addresses and that items payable at banks would be received and handled as before. We assume that we understood the situation, in the absence of any advice different from that in the Federal Reserve Board's letter X-4677; but apparently we were not fully informed.

Governor Young. I rather object to that statement. Minneapolis notified all the other banks what the resolution was, by letter -- very short, very concise, understood by four Reserve banks and not understood by eight. They sent in many wires to our bank as to what we would do in this case, in that and the other case, so I prepared a wire to all the Reserve Banks covering all the inquiries made, telling them what we would do and what we would not do, so that Cleveland was on notice before February 1.

Governor Crissinger. How does it happen that your bank changed the original order that was made before that?

Governor Young. Because, in the ruling that the Board

made, there was no possible chance of Minneapolis eliminat-  
ing the liability and working it out under the old method  
and I suggested a new method, which was approved by the  
Federal Reserve Board.

Governor Crissinger. My recollection is that letter  
says "street addresses".

Governor Young. No.

Governor Wellborn. Here is a copy of the letter we re-  
ceived from Governor Young:

"C O P Y

FEDERAL RESERVE BANK -

MINNEAPOLIS, MINN 920 AM

Jan. 25 1927

WELLBORN  
ATLANTA GA

My letter of January 17 in reference to non cash collections  
has prompted a number of inquiries. Inasmuch as the time  
is short, I am venturing to reply to all communications by  
this method and advise as follows:

1. Federal Reserve Bank of Minneapolis will continue  
in the future as in the past to accept all non cash items  
for collection, reserving the right to refuse to handle any  
non cash item payable at a non par point which must be

collected through a non par bank,

2. Non cash collections payable in Minneapolis will be delivered to Minneapolis member banks for collection and return to us. This applies to Helena also.

3. Minneapolis and Helena Banks charge for this service one dollar a thousand with a minimum charge of ten cents.

4. Any charge made by a collecting agent will be deducted by us when proceeds of items are credited.

5. It is not our intention to turn all non cash items over to member banks in Minneapolis or Helena for collection. Only those which are payable in Minneapolis or Helena. Items payable outside of Minneapolis or Helena will be handled as in the past.

6. We will not refuse to handle non-cash items received from direct sending member banks. Such items will be handled the same as if sent to us by another Federal reserve bank.

YOUNG,

That covers everything and there couldn't be any misunderstanding about it.

Governor Strong. But I do not think that answers the

main question.

Governor Young. It answers that question satisfactorily.

Governor Strong. I beg to differ with you there, Governor Young.

Governor Young. I did not say the main question. I say it answers that one question.

Governor Strong. As to whether you gave notice of the particular arrangement made in Minneapolis?

Governor Young. Yes, sir.

Governor Strong. I do not think that has been disputed here, has it?

Governor Crissinger. The criticism I understood you to make was that the Board did not do it.

Governor Strong. There are really two questions involved here. One is the question of the merits of the proposition, which has been discussed for the last four years, that is of handling non-cash collection items free or with a charge; and the other is a particular procedure which has been adopted here in creating an exception. Whether adequate notice was sent out or not is not so material anyway. The important thing is that one reserve bank is undertaking a method



of collection, with a charge, which at least nine of the reserve banks think is a very dangerous thing to the collection system.

Instead of having the matter reviewed by the Board and acted upon, in behalf of all the Reserve Banks, this particular method was sanctioned.

I discussed this morning, in Governor Fancher's absence, simply because he and I have had opportunity to go over it together, and I do not want, unless I am asked to do so, repeat all I said this morning, the general position which it seems to us the whole matter is left in by reason of this isolated exception at Minneapolis. However, the discussion will be on the record.

Governor Seay, Inasmuch as Governor Strong is in a position to summarize the discussion which took place this morning I suggest, if there is no objection, that he be requested to do so. That is about the best way of getting it briefly before the members of the Federal Reserve Board who are now present. He may feel disinclined to repeat what position he took this morning, but it so well represents the views of the majority of the Reserve Banks that I think he could do no better than present that to the Board at the pre-

sent time.

Governor Crissinger. Well, why not, Governor Strong?

Governor Strong. I think the subject should be presented in its logical sequence. The history of the non cash collection system is, briefly, this:

Following the adoption of the par collection system, the Reserve Banks were struggling with the subject of non-cash collections. We knew, as did the Board, that it was a puzzling and difficult subject and needed study. We deferred handling these items completely, we handled none of them until, in 1917, the Board sent us a specific direction to undertake the handling of the collection of items for the member banks. It was done, with a service charge of 15 cents an item.

Later, when the Reserve Banks had their large earnings and were endeavoring to increase the membership of State banks, that charge, as well as a service charge for the cash items of a cent an item, was discontinued. Now, by 1924 these complaints had arisen, largely by the members of the American Bankers' Association, and subsequently by the Barton Committee, and the whole subject was turned over to a committee of the Governors. The report was made in 1924,

which recommended that we handle the items, that we handle all items, and that we do it without charge.

Now, that report, which represented the views of nine of the Reserve Banks, has been considered at every meeting since then, and twice a year it has been recommended to the Board that that be the action of the System and the Board. But there has undoubtedly been opposition to it, especially in three of the Reserve Banks.

Now, as I understand it, at our last Fall meeting, the Reserve Banks took up for consideration a ruling which had just been made by the Federal Reserve Board, which was read here, that each Reserve Bank might decide for itself about handling items on street addresses. I do not understand that that dealt with the question of either a service charge or an exchange charge, but left it very largely to each reserve bank to decide what it should do. When the Conference reassembled a memorial or recommendation was promptly submitted to the Reserve Board pointing out the danger of the possible developments, and the Board, so far as I am aware at this time, has taken no action on that recommendation. We have never received any action on it, have we, Mr. Harrison?

Mr. Harrison. No, sir.

Gov. Strong:

/I think the particular objection as to the method of dealing with the difference of view, arises in this point: That immediately following the Governors' Conference, a memorial being placed with the Board, urging need for uniformity, an arrangement was made with one individual bank which, in point of fact, and which I believe, had all the aspects of the result of that action been considered by the Board in discussion with the Governors, it is quite unlikely that the Board would have taken the action.

Let me point out, if I may, some of the things that <sup>might</sup> occur. Let us suppose that the Minneapolis Reserve Bank went ahead with its particular method of dealing with the non-cash items. Then suppose Governor Bailey, having an idea that he thought was better, undertook to collect everything except street address items. Then let us suppose that in New York we should undertake to handle everything with a 15 cent service charge instead of one-tenth of one per cent exchange charge. Then suppose San Francisco should decide not to handle any at all of these street items? There would be such confusion in the Federal Reserve System that at once the Federal Reserve Board would have to resolve the point and decide

upon some uniformity.

As I look at it now, with the Federal Reserve Bank of Minneapolis alone undertaking to collect items by this method, if it continues to do so, the Federal Reserve Board will shortly be obliged to rule that all these items are subject to a charge of one-tenth of one per cent. The consequence to the Reserve System is that one bank alone in the Reserve System, by being given this opportunity to make the first break in the dike, so to speak, is going to force the other eleven banks to adopt its particular view.

And aside from that, I would like to call the attention of the Board to one curious thing about this plan of Minneapolis. It meets Governor Young's situation. We do not dispute that, but the objections that have been raised to the par collection system have never been along the line of the particular plan now undertaken in Minneapolis, that is by the use within the Federal Reserve System. We have discussed here whether we would or would not handle street address items. We have discussed here whether we would or would not make a service charge for them. But I never remember joining in any discussion of any plan by which the door would be gradually opened to allow the member banks to make these col-

lections for us and to make a charge of one-tenth of one per cent for doing so. The discussion has largely centered in the phase as to whether it was or was not going to cost us ten to fifteen million dollars to perform the service. This doesn't remedy that, it doesn't remove that objection. It always has had to do with a very difficult problem in Minneapolis of whether they should undertake the responsibility in collecting items through banks that were of doubtful solvency. The question of doubtful solvency is only solved at the street addresses of the two cities of Minneapolis and Helena. All the other collections made throughout that district are made exactly as they have been made heretofore.

I do not want to exaggerate the consequences of this, but I am very sure that in a short time there will not be one city in this country, where there is a Federal Reserve bank or branch, where the member banks will not insist upon charging one tenth of one per cent on these items, however they are collected. I am afraid the consequences are going to be very widespread and cause great dissatisfaction.

This particular method of dealing with it does not

solve our problem at all. Our problem was whether we should  
 the  
 handle/items at all, or, if we did, whether we would get some  
 of the expense back. This c ontemplates continuing to handle  
 all these items and to pay a large revenue to the member  
 banks. Governor Norris says it has cost eleven to twelve  
 thousand dollars in the last year, and it would amount to  
 \$170,000 in the city of Philadelphia. If it is \$170,000 in  
 the city of Philadelphia it will be \$750,000 in the city  
 of New York -- and to the member banks; we do not get it.

Governor Young. Of course that is a maximum statement.  
 yet  
 The facts are that the member banks would not/\$170,000.  
 They would route it to get it there in some way where they  
 wouldn't pay a hundred and seventy thousand, or a hundred,  
 or fifty, or even twenty-five thousand.

Governor Fancher. How would they get them there --

Governor Young. Oh, any bank in Philadelphia can col-  
 lect on New York, Pittsburgh, Chicago or elsewhere --

Governor Fancher. But can any bank in Philadelphia col-  
 lect on Minneapolis?

Governor Young. They cannot, and there is a reason for  
 it.

Governor Strong. That is the answer, and the unfortunate

part of the plan now in operation in Minneapolis, by which all these Minneapolis items are collected through Minneapolis member banks, is that they are going to do it free for all member banks in that District and not member banks in other districts.

Governor Young. The most natural thing in the world.

Governor Strong. Sure, it is natural.

Governor Young. Philadelphia doesn't carry any accounts in Minneapolis. Every member bank in the ninth district carries accounts in Minneapolis. They don't send the items to us and haven't done it for five years. Why should they get them free now?

Governor Strong. How about Dallas?

Governor Young. Dallas carries accounts in Minneapolis to get them handled free. We have had a large automobile concern collecting items in Minneapolis for the last six years through our bank. Since this has gone in what have they done? They opened up an account in Minneapolis.

Vice-Governor Platt. That explains the Barton committee attitude.

Governor Fancher. Mr. Barton has gotten exactly what he has contended for. In the non-cash collection items



handled under the old clearing house arrangement which was inaugurated 20-odd years ago in Minneapolis and the charges still prevail today.

Governor Young. There is a bond dealer in Minneapolis that hasn't even got a pay-roll account with the Twin City banks, and yet he did a hundred million dollars worth of business last year. Maybe the Federal Reserve System is intended for that, but I do not think so.

Governor Strong. I do not think this plan will correct that.

Governor Wellborn. It looks to me like we are not going to get anywhere in discussing this. It has been going on for three or four years. It has been said that unsettled questions have no pity for the repose of nations. I am sure this question has had no pity on us for the last few years. At the Conference this morning I suggested a compromise. Usually things like this are compromised. That compromise was a resolution adopted by the Kansas City Bank, which was submitted to me by Governor Bailey. It didn't suit me exactly. I want to abolish non-cash collections — just wipe them off. However, in his resolution there is a very liberal provision to take care of the collection of a good many of such

items, and I think it is a very reasonable compromise. Therefore I am in favor of that as a compromise and I believe it is the only way you will ever settle this question satisfactorily. Governor Strong spoke of not saving any money through the Minneapolis plan. That is true, but it satisfies the Minneapolis Bank.

Governor Young. I will correct that statement a little bit. We have saved on it because we have relieved ourselves from a tremendous liability.

Governor Strong. Do you mean as to items payable at banks in Minneapolis?

Governor Young. At street addresses.

Governor Strong. I am talking about items payable at banks.

Governor Young. And I am talking about items payable at street addresses. You say I haven't accomplished anything that I hoped to accomplish, but I have.

Governor Strong. The original plan contemplated by the Board, of which we all had notice, had to do with street address items.

Governor Young. Yes.

Governor Strong. The result of the arrangement with you gives the Minneapolis banks a charge of one-tenth of one per cent on all items payable at street addresses or banks too?

Governor Young. That is true.

Governor Strong. That is certainly a surprise to every reserve bank, quite a surprise.

Governor Young. I do not see why it is.

Governor Strong. In the first place, it is an exception from the Board's ruling, their only ruling.

Governor Young. The Board made another ruling and I wired your bank about it.

Governor Wellborn. I had not quite finished. I would like to say another word.

Governor Crissinger. Go ahead, Governor Wellborn.

Governor Wellborn. Now, the letter which was sent out by the Board in September has been discussed and the gentlemen say it has been changed. I think there is one thing in it that no one disputes, and that is that the Federal Reserve Act authorizes but does not require Federal Reserve banks to do this.

Governor Seay. But the Board requires it.

Governor Wellborn. It authorizes but does not require the Federal Reserve Bank to handle these items.

Governor Fancher. But the Board by direction, and you have the letter in your files, directing you to proceed to collect these items.

Governor Wellborn. That is a matter of courtesy. We are just trying to get together.

Governor Harding. May I say a word on this subject?

Governor Crissinger. Yes, Governor Harding.

Governor Harding. Reference has been made to the fact that in 1917, in September, I think it was, the Federal Reserve Board directed the Federal Reserve banks to put into operation a non-cash collection system. That is correct. That letter was inspired, primarily, because of its bearing on the par remittance of checks, and this action today has an equally direct bearing on the par remittance of checks.

The situation in September of 1917 was this: Shortly after the passage of the Hardwick amendment, which was twisted around so that it reversed exactly what its proponents wanted it to do, there was a little feeling against the par remitting system on the part of various country banks. They complained they were obliged, under the amendment of June 21,

1917, to keep their entire reserve with the Federal reserve bank; that they had their balances with their city correspondents; that they were constantly having items that they had to send to these various reserve banks cities, and they wanted the privilege of sending those items to the Federal Reserve bank and have them attended to and not to some other bank where they had no account probably and would be charged for it. They said those banks in the cities get checks on us and they put them in the Federal reserve bank and they are sent to us and we have got to remit for them at par. It seemed to the Board, as a matter of forecast, that we had to put in this direction. I assume my part of the responsibility for it.

It has gone along and the main question up to date has been the question of little drafts, items on street addresses, and I do not think it is material whether the banks collect those street address items or not. It won't amount to a row of pins in Boston. I do not know how it is in other cities. Where a note or an acceptance is payable at a bank it seems to me that the Federal Reserve Bank ought to continue to attend to that, because it is compensated for and you do not have to go there and present it. As a

matter of fact all you have to do is to present it at the bank where payable. There is where you get the check for it. That is a different proposition from an ordinary acceptance draft on a street address.

Just as this question was related to the par collection of checks in 1917, the reverse practice will have an equal bearing on the par collecting system, because the country banks will say here is an item on Minneapolis, why should we send it there when they make an exception of their own member banks, and if all the other banks adopted some plan such as Minneapolis has adopted then we have a universal system of charging on non-cash items. Then the country banks are going to use that as an argument, and justly so, as to why they should be penalized by having to give up their exchange on their checks when they don't get all the advantages in the collection of these other items. So I think there is a good deal to think about in this.

I should think that as the matter has been up before the Board so very long, that it is important that the Board make some definite and final ruling on the subject. It was suggested this morning that a committee be appointed to go out to Minneapolis to study the situation for six months,

or something of that sort, and report to the next Conference, either next October or November. Any damage that is going to be done by this thing will have been done in the meantime.

I very much hope that the Board will give very prompt consideration to this subject, which is a very important one at a great many banks. If it cannot reach a unanimous vote, take a majority vote and settle this question, because you are the only people who can do it. The people sitting around this table cannot decide it, but the Board under the Federal Reserve Act has the power to do so. I know that you are vitally interested in the successful operation of the system and I want to warn you that this is a situation which needs attention and which needs a ruling one way or the other, as to uniformity.

Governor Young. You will remember that the section of the Act, under which we handle notes and bills, is section 13, which specifically authorizes us to handle these items and nothing else. I will be glad to compromise if the Board will issue a ruling to the effect that we shall handle these notes and bills and nothing else --

Governor Strong. And other items?

Governor Young. No other items. Section 13 authorizes

you to handle matured notes and bills. It does not mean past due notes, it does not mean a pending draft, it does not mean a draft with a lot of securities attached, bills of lading or anything else. It means a matured note or bill.

Governor Seay. Does it mean matured bills or just bills?

Governor Young. Matured notes and bills.

Governor Seay. That qualification does not necessarily apply to the word "bills", but applies to matured notes.

Governor Young. Let the Board rule definitely what they do mean by it, and Minneapolis will get in line. That is what it means, matured notes and bills.

Mr. James. It occurs to me that the question of these <sup>cash</sup> non/collection items and the handling of them affects only twelve bank cities and 23 branch cities. What I am trying to get through my mind is whether or not the procedure at the Minneapolis Bank discriminates in any way for or against the banks in Minneapolis as relate to other member banks in your district? In other words, you have at the Federal Reserve Bank of Minneapolis collection items on Bismark, South Dakota.

Governor Young. On Bismarck?

Mr. James. Yes, payable at some place in Bismarck.

Governor Young. Yes.

Mr. James. As I understand it, your procedure is to



handle it in Minneapolis just as you would handle it if it came to you in Bismarck; is that right?

Governor Young. Yes, sir. That is, if the member bank would send us a non-cash item on Bismarck, North Dakota, we would send it to Bismarck to the member bank there if there is one; if there is not a member bank we would send it to the non-member bank provided it is on the par list. That bank may charge or may not charge.

Mr. James. It is optional?

Governor Young. Yes, sir. The chances are that it won't charge, because a great number of them are under the impression that they have to remit to us for non-cash items without deduction for exchange.

Mr. James. The last circulars that I have seen on the subject from the banks state that this does not prevent you from making a charge.

Governor Young. Yes, that is in our circular.

Mr. James. A member bank in cities other than Federal Reserve Bank and branch cities is on notice that a charge is legitimate and that there is no objection to its making it if it so desires?

Governor Young. That is right.

Mr. James. Consequently, as I understand the procedure,

you have placed the banks in Minneapolis on the same basis, as far as non cash collections are concerned, as though they were located in the same city.

Governor Young. Yes.

Mr. James. And to be specific you have put the Minneapolis branches on exactly the same plane with the St. Paul banks?

Governor Young. Yes, a uniform basis.

Governor Fancher. Except that in Minneapolis they have a clearing house rule and they do not in Bismarck.

Mr. James. How about St. Paul?

Governor Fancher. The same thing in St. Paul.

Governor Strong. I think there is this difference also: The Federal Reserve Bank of Minneapolis is located in Minneapolis, and naturally one of two things will arise. As I understand it, the Federal Reserve Bank of Minneapolis now distributes all of the items on the banks in Minneapolis, does it not?

Governor Young. To six member banks.

Governor Strong. Now, suppose we undertook to do that in New York?

Mr. James. I do not think the Board's ruling goes that

far.

Governor Strong. Well, that is what it has done. You have got to choose between one of two courses. You have either got to distribute those items ~~among~~ <sup>fairly</sup> among all the member banks in the city, and I think we have 112 in New York City, or you have got to concentrate them in a few, and if we concentrate them in a few those will charge exchange for collecting drafts on all the others, and if you distribute it among 112 banks it is a perfectly ridiculous situation, you have got to admit, if we should run 112 collection accounts in the City of New York. Something goes against the grain with me to send a collection item of ten thousand dollars or a hundred thousand dollars to the First National Bank, when your messenger can walk down the street to the bank and make a collection at the bank, and then charge one tenth of one per cent. A dollar a thousand. I do not think we would ever be able to justify it with the public or with the member banks or the country banks.

Now the fact is we happen to occupy 35 cities in the United States with head offices and branches, and we ought to be able to collect these items ourselves without facing all these problems and handing out a big revenue to the member

banks. We have always gotten along pretty well at New York, and I am sure they have as large or a larger volume than they have in Minneapolis.

Mr. James. The trouble is that the thing is not only going to be in Minneapolis. There are other cities besides New York, and as I see it they have some rights too.

Governor Strong. Yes, I know, Mr. James, and I say that after consideration of the importance of New York, the size of it, and all that, but I cannot believe that these difficulties of this character are more peculiar to those three districts where the opposition is encountered in the reserve banks than to other districts. I do not see that the member banks are so different from the member banks in all the other districts that these ~~are~~ situations are peculiar to these three districts.

Mr. James. No, I cannot agree with you, if you will permit me to say so, because of the physical relationship that exists between Minneapolis and St. Paul. It does not seem fair to me to the bank in Minneapolis to allow the St. Paul banks to have their items collected through the Minneapolis bank without charge and then the Minneapolis banks have their items on St. Paul subjected to charge.

Governor Strong. What is the difference between the situation in Minneapolis and St. Paul and in the city of New York, where we have the Borough of Manhattan, the Borough of Brooklyn, Staten Island, Jersey City, Hoboken and the Bronx, where this has all been worked out?

Governor Harding. Mr. James no doubt remembers the competition between the various cities in 1914 for reserve banks. No city declined to be a reserve bank city. They were all anxious for it. I do not think any city ever declined to be a branch city or objected to raising its reserve from seven to ten per cent to be a branch city. Then Mr. James spoke about Minneapolis operating with the bank in Dismarck or some other place, that they charged these drafts while Minneapolis could not. The whole thing is related again to the par collection system of checks. Every Federal Reserve Bank prefers remittance for those checks in immediately available funds. The fact that Minneapolis is the site of a Federal Reserve Bank gives the city a tremendous advantage in getting accounts of country banks. It certainly gives them a tremendous advantage in getting accounts of these country banks, which completely offsets any loss of exchange they might have.

Mr. James. That is a valid argument.

Governor Harding. I do not try to make any other kind, Mr. James. This whole thing is directly related to the par collection system. You will remember originally the Board authorized a service charge on checks and on these drafts, based on the amount of the item. There is no more trouble attached to presenting an item for ten thousand dollars than there is for <sup>one of</sup> two and a half dollars. A service charge is one thing, but to charge one-tenth of one per cent of the amount of the instrument is not a service charge but an exchange charge.

Mr. James. I agree with that.

Governor Harding. And thereby you get this whole proposition of exchange worked right back into this thing.

Mr. Miller. Is it not also a fact that the Minneapolis Bank gets a secondary service and the Minneapolis Bank and the St. Paul Banks are in effect working on a smaller reserve than the other banks?

Mr. James. Isn't that offset by the difference in the reserve requirement?

Governor Young. St. Paul has the same requirement.

Mr. Miller. Ten per cent.

Governor Young. They have practically <sup>any</sup> advantage that Minneapolis banks have.

Mr. Miller. How do they get it?

Governor Young. They get currency within half an hour; they can get clearing within half an hour. They can beat our mail schedule by half an hour.

Mr. Miller. But how actually physically do they get it?

Governor Young. Motor trucks, armored cars.

Mr. Miller. Do the Minneapolis banks also have armored cars to get their supply from the Reserve bank?

Governor Young. No.

Mr. Miller. So that it does put them under a certain advantage.

Governor Young. The two largest banks are just across the street, and just around the corner.

Mr. Miller. Exactly, and the Minneapolis Reserve Bank, practically speaking, is their bank. It is their annex. They use it and they probably dominate it. I suppose the plain fact is they want revenue.

Governor Young. There isn't any argument or question about that.

Vice-Governor Platt. They want balances.

Governor Young. They want balances or they want revenue, one or the other, or both.

Mr. Miller. They want both.

Governor Young. No, because if they have the balances they do not take the revenue.

Mr. Miller. And in order to placate them we are going to nibble into, and probably disintegrate, the non-cash collection system which has been in vogue, which is well established and which is useful. It strikes me that the Federal Reserve System in this matter, if you gentlemen around the table cannot compromise it among yourselves, is very incapable.

Governor Strong. I would like to answer that. We did not compromise this. We did not settle it. The Federal Reserve Board settled it by a private arrangement with this bank, without advance notice to us.

Mr. Miller. As I remember, there were three banks voting in the negative.

Governor Strong. Yes.

Mr. Miller. If the Governors had been unanimous on it—

Governor Strong. Is the Board always unanimous?



Mr. Miller. No.

Mr. James. Very rarely.

Governor Strong. The fact is that if, when this application came in from Minneapolis, the Board had said "We are going to decide the principle of this par collection system for the reserve banks, for all the banks;" this thing never would have arisen.

Governor Crissinger. In the use of the Reserve bank don't the Minneapolis banks have an easier use of your bank than the St. Paul banks?

Governor Young. By thirty minutes, I should say.

Governor Crissinger. They have to maintain motor cars?

Mr. Miller. They can get in after half past two, and the St. Paul banks cannot.

Governor Crissinger. As a matter of fact your banks have an advantage over the St. Paul banks, do they not?

Governor Young. Yes, sir.

Governor Norris. Without going into the details of the advantages and disadvantages as between Minneapolis, St. Paul, or any other cities, I venture to say that every one of us constantly hears the remark from member banks that the Reserve bank is a splendid thing for the banks in the city

where it is located but a great many of them are constantly saying that it is of very little use to a bank to locate it outside of the reserve city.

Governor Strong. There is one situation that has not been brought out. I do not know that it is clear to anybody in the room, and that is that this arrangement with Minneapolis necessitates sending all items payable at the Northwestern National Bank to the First National Bank, and sending all items payable at the First National Bank to the Northwestern National Bank in order that they may charge exchange to each other.

Governor Young. No, sir.

Governor Strong. Is there any exchange charged on those items which go direct to the bank where payable?

Governor Young. Yes, sir.

Governor Strong. They are still charged?

Governor Young. Yes, sir.

Governor Strong. Right at the bank where the item is payable?

Governor Young. Yes.

Governor Strong. I am glad to know that.

Governor Fancher. This would not be a controverted

point if there were not clearing house arrangements with certain of these cities, and that is all there is to it. You have an old arrangement in St. Paul and Minneapolis that has been in effect for more than twenty years and the rates have not been modified at all. Those rates were built up for exchange charges on the basis that at certain times of the year it costs more to make exchange, currency was shipped back and forth, and on that basis today you are permitting the member banks of Minneapolis to make a charge. There isn't any justification in the world today for charging the Midland National Bank \$17 on an item or note of its customer payable at that bank, and you cannot justify the charge today. It is only made because there is an iron-clad clearing house rule that has stood for more than twenty years. If you did not have that arrangement this thing wouldn't be bothering you at all.

Mr. Barton has gotten just exactly what he started out to get. This has been a complete laydown on our part as it stands today. There isn't any other explanation of it. What Barton went out to get he has gotten.

Governor Seay. This matter has so many ramifications that it is not easy to follow. Governor Harding has called

attention to the fact that it involves the par collection system; it involves the subject of not paying interest on reserve deposits, and it/<sup>even</sup>involves membership in the Federal reserve system.

Governor Harding stated that the Board was moved to make this ruling requiring reserve banks to handle items because of the complaints of the country banks that they had abandoned or reduced their correspondents and had no means of collecting these things. It has been argued in defense of not paying interest on reserve deposits that members of the Federal Reserve System were no longer required to maintain city correspondents because the Reserve banks could handle these items for them. Furthermore, it has been argued that the reserves set free by that were in large measure compensation for the lack of interest on reserve deposits.

Now it has been brought out here that one bank that wanted to collect these items over in Minneapolis had been compelled to place an account there. We are going back to just where we started. Recently we had quite an important State bank and trust company in Charleston, West Virginia, join the System. Very soon thereafter they handled some of these items on Minneapolis and they had to pay a charge, as I remember it,

of twenty dollars and ten dollars. They wrote in and asked to know if it was possible that member banks had to pay a charge on notes payable not at street addresses but at banking institutions in those places. That bank is managed by some of the most intelligent people that I have ever come in contact with, either member or non-member banks, and they were amazed that that state of affairs could exist.

Now, it involves membership in the Federal Reserve System, as I have stated, because if these country banks can maintain all of these advantages by maintaining city correspondents, and if they are driven by this action to place again bank accounts with city correspondents, then it has a decided influence upon the question of future membership in the Federal Reserve System.

Governor Strong. To collect on Minneapolis you have got to have an account there.

Governor Young. Is there a member bank in the Federal Reserve System that has not a correspondent account? The answer is no and there is no use thinking about it.

Governor Seay. If you say to the same degree I can answer it no.

Governor Young. That is right.

Governor Seay. I can answer no to the question in another way. Has it as many correspondents as it formerly had? I say no. Therefore I say that the amount which the member bank is compelled to keep with its correspondent for the purpose of having their business taken care of has been tremendously reduced.

Governor Young. I think I can answer that inquiry in a minute. You spoke of the bank in Charleston being very much surprised because it had to pay an exchange charge at Minneapolis. What would they do in St. Paul?? Would they be surprised at St. Paul?

Governor Seay. Minneapolis being a reserve city, that was the nature of their surprise.

Mr. Miller. Let me make a suggestion. How would it do for the Board to reclassify St. Paul and reduce the required reserve to seven per cent?

Governor Strong. Oh, they would all want that.

Governor Young. Put St. Paul on a seven per cent basis and Minneapolis on a ten per cent basis, on account of this collection business?

Mr. Miller. Exactly.

Governor Young. There was one remark made that I resent

just a bit, and that is that Barton accomplished what he wanted to and that I laid down to him. The only time I ever lay down to anybody is when they knock me down.

Governor Bailey. We look at the thing from a little different angle than you do. We have always contended that the Federal reserve bank had no business to have its messengers out on the street collecting street address items.

When we received that letter from the Board on the 27th of last September, we waited until I came up here to talk it over with Mr. Young and Mr. Wellborn, but we did not come to any agreement, and we agreed to go home and talk with our boards of directors and try to come to some agreement.

We have always felt that to put the Federal reserve bank out on the street collecting items was not the purpose of the Federal Reserve Act; that it was an institution which did business with the banks rather than with the individual, so we drafted this and we sent it here and expected to shoot. I thought we had the authority, under that September business, but before I could get the ramrod jammed down we got word to lay off. This is the way it reads:

Effective January 1, 1927, the Federal Reserve Bank of Kansas City will limit the operation of its non-cash

collection department to the handling of items drawn on or payable at banks<sup>x</sup>, and will discontinue the handling of items payable at street addresses which necessitate either presentation or notification. The following conditions, effective January 1, 1927, should therefore be carefully observed:

#### Section I. GENERAL PROVISIONS.

##### Character of Items Which May be Forwarded as Collections.

Member banks may forward to the Federal Reserve Bank of Kansas City for collection and credit, checks or drafts drawn on or payable at banks; certificates of deposit; coupons and bonds payable at banks; notes and acceptances payable at banks; orders on savings banks; checks previously protested; and other similar items drawn on or payable at banks. We will also handle for collection, coupons detached from bonds held in safekeeping by Federal Reserve Banks for their member banks, and sight or demand bill of lading drafts discounted by Federal Reserve Banks for their members.

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(Footnote) <sup>x</sup>Wherever the word 'banks' is used in this letter, the word shall be held to mean incorporated banks or trust companies, or regularly organized commercial banking institutions receiving deposits subject to check.



Items Which Will Not Hereafter be Handled:

The Federal Reserve Bank of Kansas City will not hereafter handle for collection, promissory notes; time, sight and demand drafts; creamery checks; city, county, school district and state warrants; or items of a similar nature; except in cases where any such items are drawn on or payable at banks.

If we get that we will be perfectly satisfied.

Now, speaking about equipment, we have armored equipment at Kansas City, we have one at each one of our branches. We were robbed of \$200,000. I don't know whether they are any more virtuous in Minneapolis than we are, but we got a part of the money back. We got it in Denver.

Governor Young. That was a non-cash collection that we were quite willing to collect gratuitously.

Governor Bailey. This is as far as Kansas City feels that it wants to go. I do not believe it would disturb the collection system if we were to keep off the street and let us clear the rest of it.

Vice Governor Platt. I would like to hear what Governor Fancher has to say about that. Why wouldn't that work all right?

Governor Fancher. We have gone on here, Governor Platt, since 1917, and obtained nothing from the large volume of business. Do you want now to be in a position of declining to handle all items upon street addresses? That will leave a very small volume of items payable at banks.

Vice-Governor Platt. Wouldn't the result be that most of them would be drawn payable at banks?

Governor Fancher. They could not be.

Governor Young. I think all of them would be,

Vice Governor Platt. Governor Young says all of them  
but grain drafts.

Governor Fancher. I do not agree with that.

Vice Governor Platt. But if they would do it?

Governor Bailey. I know that out in the Middle West  
the big banks are opposed to this non-par collection. They  
have had it up with the American Bankers' Association, they  
have had it up in their State conventions. In attending a  
State convention on the Pacific Coast I was surrounded by  
a number of bankers and they asked me how I stood on the  
thing and I told them flatly. I do not think the Federal  
Reserve Bank of San Francisco has found that out, but I found  
it out when I got out there.

Governor Calkins. In answer to that suggestion I will  
say that the Federal Reserve Bank of San Francisco knew it  
before you went out there,

Governor Bailey. You were not trying to follow out  
the dictates of your constituents, if this was so; that is all.

Governor Crissinger. What do you say about having uni-  
formity in the System?

Governor Bailey. Make it all this way.

Governor Crissinger. All your way, you mean?

Governor Bailey. Yes.

Governor Fancher. What are the clearing house rates in Kansas City for clearing items?

Governor Bailey. Oh, this won't change them.

Governor Fancher. Have you a clearing house arrangement which charges for non-cash items?

Governor Bailey. Yes, I think we have.

Governor Seay. Has Atlanta?

Governor Bailey. I don't know, but this doesn't contemplate changing that. What we want to get rid of is this business of someone wanting us to go down to a bank and release a mortgage, and all that kind of thing. They sent collections from the Pacific Coast divided up into twenty different drafts, and one bill of lading on canned fish, and we have to write twenty letters. We finally concluded we wouldn't do that any more, and without any authority from the Board we just send them back.

Mr. Miller. Why was that, because you thought it was an improper service?

Governor Bailey. Yes, I thought it was an imposition on

us.

Mr. Miller. But didn't you think it was a disadvantage to the commerce of the country and to the customers of the bank that were using your facilities?

Governor Bailey. I think it ought to have gone to a commercial bank. They would make a charge for it. I do not think they have any right to send that kind of thing in to us and have us write twenty-odd letters. We did undertake to do that once and we lost three thousand dollars on it, and that "cured us of sucking eggs."

Mr. Miller. Do you think your member banks should lose \$3,000 on it?

Governor Bailey. We lost it. We didn't take the right kind of receipt from this fellow to whom the fish were shipped.

Governor Fancher. What would happen in the case of a bank in Youngstown, Ohio, with a collection drawn on a street address in Kansas City, sent to some bank which sent it to the bank at Kansas City — what would happen?

Governor Bailey. They would charge him for it.

Governor Fancher. The clearing house rate, certainly.

Governor Seay. It is significant that at these three places at which this controversy arises there are clearing

house arrangements charging exchange — Atlanta, Minneapolis and Kansas City.

Governor Wellborn. How about Birmingham, Nashville and Jacksonville?

Governor Seay. I do not know. You might carry it further. There is one other thing while we are on the subject. A large part of the objection that has been raised to Federal Reserve banks collecting street addresses has arisen from the fact that they would not receive the character of funds that the commercial banks have received. I think Governor Young stated that in Minneapolis it was the custom to receive checks, not certified checks, but to receive checks for grain drafts and not require the payer of the draft to have his check certified. A very large part of the dissatisfaction and complaint has arisen because of the loose practice, loose banking practice and practices which have prevailed in certain localities in this country. There is no winking at it. Banks, by reason of competition, have engaged to take from their customers, their customers being the public, almost any character of funds which they tender and put themselves to the trouble of getting a check certified or converting it into cash, and so forth, and many

practices which may justly be regarded as loose banking practices, which prevail in certain localities because of competition. That is the basis for a great deal of the objection which has arisen and for complaints against the Federal Reserve System and the Federal Reserve Banks for exacting funds which reasonable bank requirements would exact under the same conditions.

Governor McDougal. If the First National Bank of Chicago sends an item of this character to the First National Bank of Minneapolis, is that item exposed to the same charge as if you forwarded the same item?

Governor Young. I think so.

Governor McDougal. You are sure of that, no matter what the relations might be?

Governor Young. If Chicago had a balance in Minneapolis they would handle it gratuitously, but Chicago has not a balance, but Minneapolis has one in Chicago.

Governor McDougal. This thing puts the banks in the unfortunate position of not being able to get through Minneapolis the service that the Minneapolis banks can still get through the other thirty-odd units of the Federal Reserve System. That is where the trouble comes in.

Governor Young. No, I do not agree with that. Minneapolis can get certain services in New York and certain services in Chicago and San Francisco or any place where they happen to have an account.

Governor McDougal. That is indirectly. They do get it through the Federal Reserve System but we cannot?

Governor Young. No.

Governor McDougal. It is available to them if they want it?

Governor Young. It is slower. They do not want it. They send it out themselves and get it quicker. They do not use it for the same reason that our member banks in our own district do not use the collection system very much. The service is quicker through the correspondents.

Governor Strong. I was wondering what the consequence would be if in every city where there was a reserve bank or branch they discover the fact that there is a profit here and set up a system of clearing house charges and subject all of these non-cash collection items to charges in those cities--- I suppose the customers of the Minneapolis banks would begin to kick like steers if they had to pay on these items.

Governor Young. I do not think so. They have paid them



for a long while.

Governor Strong. I am wondering what the effect would be on business generally. In our bank in the month of April we collected in non-cash items \$162,432,000, at an <sup>exchange</sup> charge of about \$11,400.--- or about sev<sup>en</sup> cents a thousand. I am wondering if that whole amount was charged at one-tenth of one per cent what would happen. I do not think the Federal Reserve System was organized purely for the benefit of the banks. I think there is something beyond all of that.

Governor Norris, This practice is for the benefit of a favorite few member banks in a particular reserve city, and at the expense of all other banks in the country and their customers, except those in the Eleventh District. Of course conditions vary in different parts of the country as to the popularity or unpopularity of this service. Of course I can only speak as to our own district. The popularity of it in our district is pretty well evidenced by the fact that the number of items we handle in dollar amount has increased every year from 1920. Between 1921 and 1926 it grew from 221,000 items to 522,000 items. We were used for that service last year by 41 city banks and 429 country banks, and it is those country banks who would most strenuously object to any curtail-

ment of the service. We might as well all recognize and bear in mind the fact, which we know, that the one thing more than anything else that militates against the popularity of the Federal Reserve city and the joining of additional members is the fact that the member bank is obliged to keep its reserve without getting any interest on it. Now if in addition to requiring that of them we are going to subject them to a charge that we are now rendering as a compensation for that, and still compel them to keep balances with other banks -- Governor Young has suggested that Philadelphia or any other of the banks might avoid this charge by opening accounts in Minneapolis -- and if this System continues in Minneapolis it has got to be extended to all the other Federal Reserve cities and branch cities. Neither our banks nor those of New York or San Francisco or anywhere else are going to stand by and see the Federal Reserve Bank of Minneapolis throw a tremendous profit to its member banks in its city and be satisfied that the banks in their cities should not extend the same favor to them. Therefore this system of making charges will either become universal or else the member banks, in addition to keeping their reserve without interest at the

Federal Reserve bank, will be required to maintain balances all over the country to make these collections.

Governor Young. If a bank in Minneapolis receives from, say, a bank in Philadelphia, a draft of a thousand dollars with stock attached, and they have to make a street presentation of that, and collect it by certified check or in any way they want to, it takes time and it takes labor and they are entitled to pay for that. I won't say one-tenth of one per cent, but they are entitled to something. There cannot be any argument about that.

Governor Norris. If they receive it direct, and not through you.

Governor Young. Yes. They are entitled to some pay for the work that they have done. There isn't any argument about that.

Governor Strong. You think not? We have quite a large security business in New York City and the member banks in New York City have abolished their charges on all of those items and do all of that for nothing.

Governor Young. Yes, and they have subsidiary corporations that are selling bonds all the way from ten to fifty dollars —

Governor Strong. All securities are delivered on collection in New York without any charge.

Governor Young. They are made in Minneapolis without any charge.

Governor Strong. I mean those that come into New York.

Governor Young. Sure, and you are going to get a lot more. It is going to grow and I make the prediction that it is going to cripple your bank some day.

Mr. Hamlin. I am reminded of the story of the lady who watched the regiment march by in which her son was, and said that Johnnie was the only man in step, that the others were all out of step. I have had a good many doubts, but I believe this is one of the cases where uniformity is absolutely desirable and essential, and either we should take Governor Young's rule as the uniform rule or we should accept the feeling of nine out of the twelve banks. That is the conclusion that I have reached. It seems to me monstrous for a bank to make a charge for collecting from itself and when the payer of the note has an account at the bank. I believe in lots of States the banks are allowed to pay that off and charge it to the account.

Governor Strong. Some have that and some have not.

Mr. Hamlin. At any rate it seems, wholly apart from any legal question, a monstrous charge to me.

Governor Young. I will agree with you. If you could discriminate in the items from a practical standpoint I would be willing to do that. But you cannot discriminate and that is all there is to it. It cannot be done, even by the suggestion that Governor Bailey makes, with all due respect to Governor Bailey. A sharp, clever man can beat it.

Governor Bailey. We never contemplated that this would change any of our collections at banks, but only presentation at street items. It is a growing proposition. If there is a mistake in a bill we have to present it four or five times. The statement has been made, with regard to country banks, that <sup>if</sup> they do not get paid on their balances, you have taken away their exchange, and they are willing to accept cash items. They believe it necessary for them to do business and it reduces the float. With these other items you don't know whether you are going to get credit for them that day, the next day or next week. I know the feeling of the banks out in our section of the country is that they want to get back so they can charge, and they say that everything that goes to the Federal Reserve Bank is free --

Governor Seay. How about the 440-odd country banks which use Governor Norris' reserve bank for the collection of these items?

Governor Bailey. Well, those fellows down there are so slow that they didn't catch it.

Governor Crissinger. Mr. Strater, do you want to enlighten us on this subject?

Mr. Strater. I will be glad to give my views on it. There does not appear to be any distinction made between collection items payable out in the country and collection items payable in a Federal Reserve City. There is a tremendous distinction. They do not have anything in common. The country bank that gets collection items from a reserve bank has a perfect right to charge for them. They handle them just exactly as they would handle them if they got them direct from a member bank in the district. They have got to take them, present them and remit for them. Therefore it is no hardship on the country bank. It does not mean anything to the country bank whether it gets non-cash items from the Federal Reserve Bank or some other bank. In the Federal Reserve Bank cities it is an entirely different proposition because, as Governor Young has undertaken to do in Minneapolis,

if he turns over to the member bank these collections he is doing something which the Federal Reserve bank could do just as well as not, probably through the clearing house. Now it may be that is not possible in Minneapolis, but it is possible in a great many cities. It is done in New York, Philadelphia, Pittsburgh, St. Louis and dozens of other places.

I think the real important factor about this thing is this: If you are going to consider a note payable at a bank subject to an exchange charge I think it is not much of a step to justify an exchange charge on checks. If you are going to justify an exchange charge on checks in a Federal reserve bank city of course you are going to justify it in every city in the country. I think the check collection system is right now in great peril on that account. It is my opinion it is not at all likely that that Alabama situation may have arisen out of something just as intangible as this. It is possible that other suits may be brought in Governor Young's District as a result of this thing. He is now confronted with a suit for collection of exchange.

the  
Then there is / matter of reserves. It will affect the

reserves, because a member bank or any bank that is obliged to carry accounts in 35 cities has got to tie up a tremendous lot of money in addition to its reserve in the Federal reserve bank. Now they can get that service through the Federal reserve bank and they are not required to keep all of those accounts. That to a bank in an ordinary city is something that is going to be a tremendous hardship to them. Take the banks in cities like Youngstown and Columbus and various other cities in our district. They all have collections payable in Minneapolis and in other Federal Reserve bank cities. If they are going to be required to carry ten, twenty or fifty thousand dollars in 35 different places they are going to pretty nearly exhaust their resources; or if they have got to pay very heavy exchange charges it is going to run into a lot of money.

Governor Young. Mr. Strater, you send items out to the small country banks in your district, and they have every right to charge exchange. It may be a note on the Great Lakes Drainage & Dock Company for \$17,000, payable at their own bank. The customary charge of one tenth of one per cent is \$17. When you make a charge of that kind in that kind of an operation do you ever complain to the Federal Reserve



Board about it? Is the charge paid or isn't it? Is one-tenth of one per cent a fair charge for that bank to make?

Mr. Strater. No, I wouldn't say that it was.

Governor Young. Did you complain to the Federal Reserve Board?

Mr. Strater. I do not quite get your point.

Governor Young. You are complaining about Minneapolis making a charge of this kind. Why don't you clean up your own district first?

Mr. Strater. The average cost in our district is six cents a thousand.

Governor Young. I don't care about the average cost. I am interested in the maximum cost, which is one-tenth of one per cent, which some of them charge.

Governor Strater. Some of them may charge that, non-member banks.

Governor Young. But do you complain about that?

Mr. Strater. There is no occasion to complain to the Federal Reserve Board about the action of a non-member bank.

Governor Young. Then why bother Minneapolis?

Mr. Strater. You are dealing with member banks.

Governor Young. And you are dealing with member banks--

Governor Bailey. Suppose it comes to Minneapolis and Minneapolis sends it to Bismarck, if Bismarck charges--

Governor Young. Bismarck does charge; so you can take Bismarck.

Governor Bailey. They don't on all items.

Governor Strong. If we are going to be forced to make a charge in New York to collect these items, we are going to collect them and get the charge.

Governor Young. There is one point I wanted to take up with Mr. Strater. There is a possibility of Minneapolis having some more losses. This non-cash collection is one of the evils of the System. We are going to have more law suits, but they are not going to come from Atlanta on non-cash collections but they are going to come from some drug store down at Cattletsburg or some such place as that. That is where it is coming from.

Mr. Miller. What would be your position before a committee of Congress if you had to justify the imposing of an exchange charge on items payable at banks in Minneapolis?

Governor Young. What would be my position before Congress?

Mr. Miller. They haven't abandoned the system which was

pursued up to last January, was it not?

Governor Young. Just the same as it was two or three years ago. I have mentioned the liability on the part of our bank and we want to avoid it and get rid of it.

Mr. Miller. But wherein is the serious liability?

Governor Young. In collecting checks with securities attached, bills of lading attached.

Mr. Miller. At banks?

Governor Young. No.

Mr. Miller. I am talking about at banks.

Governor Young. At banks, the only argument I can put up at all is that it is possible to discriminate between items.

Mr. Miller. Did you find that to be a sort of handicap or hardship when you were practicing that system?

Governor Young. Yes, sir.

Mr. Miller. Did the member banks find it so? What is the difference between the situation in Minneapolis and in the other reserve cities?

Governor Young. It is extremely different.

Mr. Miller. In what way? I mean, for items payable at banks?

Governor Young. I think the Board can correct that very easily by issuing a regulation.

Mr. Miller. I understand, but we want to know what kind of a regulation to issue, we want the information on which we can proceed; and I want to see whether there is some rationale in this thing.

Governor Young. I cannot set up a very good defense.

Mr. Miller. You cannot?

Governor Young. No.

Vice-Governor Platt. The Board might try it out by having Minneapolis change the proposition to apply wholly to street address items and see how that would work. Stop collecting items on street addresses and simply collect those at banks. I think there is no reason whatever, in the case of notes payable at a bank and charged to a man's account, for taking anything out of it whatever.

Governor Bailey. We never charge them in Kansas City.

Vice Governor Platt. Whether he draws a check on it or whether it is charged, it doesn't make any difference. They do not do any work at all. All they do is charge something.

Governor Fancher. In many cases there is an order filed

with the bank authorizing them to charge to the account of the depositor matured notes as they come in, whether presented at the counter or passed through the clearing.

Governor Strong. Security drafts have been mentioned, that you got for collection, which cause liability -- those came from New York?

Governor Young. Not all of them. Some came from Chicago.

Governor Strong. But most of them come from Federal reserve cities, do they not, like New York and Chicago?

Governor Young. Yes.

Governor Strong. Have you ever taken that up with us in New York to see whether those were sent to you direct, in accordance with the regulations in New York. We do not receive them ourselves.

Governor Young. I think we have received some direct from you,

Governor Strong. Mighty few of them. Our rule is not to receive them, and it strikes me that if you had taken that up with the Federal Reserve Bank of New York you might have gotten rid of that liability.

Governor Young. I think I mentioned it in 1923 or 1921, that as one of my objections to the non-cash collections,

Governor Fancher. You spoke of your great risk in handling these street address items. Have you ever made any loss on them in Minneapolis?

Governor Young. No.

Governor Fancher. I do not know of any Federal reserve bank that has ever sustained any losses through the handling of those items in their cities. If they have done so I would like to know of it.

Governor Bailey. We had one.

Governor Fancher. But that was not because anything happened to the collection but perhaps was failure on your part to exercise due diligence.

Governor Strong. We do not handle security drafts. They have to go direct. But the fact is that the loss between bank and brokers and between the brokers themselves in delivering securities in New York, where probably the hazard is a thousand times as great every day as it would be in a year in Minneapolis, is practically negligible. In fact I cannot now recall any instance where any such losses occurred.

Governor Young. Well, the possibility of loss is there.

Now, I have repeatedly tried to get my story with regard to Minneapolis over. I do not seem to get very far with it. I

am going to try it once more.

We get grain drafts that run from between 200,000 and 600,000 dollars a day. Now if we took that draft down to the grain concern and asked them to give us cash for it we wouldn't get anywhere with that. If we stated to the grain concern we wanted a certified check we wouldn't get anywhere with that. The method of procedure we follow is this: Our collector goes to one grain concern and leaves the drafts. In some cases there is a bill of lading attached. He comes away and goes to the next place. It takes him an hour to cover all of these grain concerns. It is true with the bill of lading attached there wouldn't be as much liability. But he goes to these places and he throws the draft in, and by the time he gets back to the first man he gets a check. Then he goes to the second, third and fourth fellows and gets his check. Now do you tell me that there isn't any liability there?

Governor Strong. Why does he have to go back?

Governor Young. He has to go back to get his check, to save time.

Governor Harding. Are they bill of lading drafts?

Governor Young. The great majority are.

Governor Harding. Why couldn't you send a man around

to leave notice saying that they would find the draft and bill of lading attached at the Federal Reserve Bank and to send a man up with a certified check.

Governor Young. We could do that.

Governor Harding. That would relieve you from liability in that way.

Governor Young. You could do that but you would get a howl from your merchants.

Governor Harding. Let them howl.

Governor Strong. We have been conducting the business for a little over ten years, and the only loss I have ever heard of is the one Governor Bailey mentioned of several thousand dollars.

Governor Young. We have lost money from cash collections— not in Minneapolis, but we have lost it out in the country.

Governor Strong. I mean in the city.

Governor Young. Let me go a little further. We have the Northwestern National Bank, the First National Bank and the Midland National Bank, who charge more on these grain drafts than we do. Now if our grain draft facilities are open to one bank they are open to any bank. I have talked them out of it before but just as sure as you go back on



that other basis they are going to dump them on us and we have got to collect them, and instead of taking a liability of from two to six hundred thousand we will take a million or more daily.

Governor Strong. We do not have that in New York.

Mr. James. How do you handle items where there is a bill of lading attached with the privilege to be given for examination of goods? Take the cotton drafts, for instance.

Governor Young. I do not know about that. You would have to leave them.

Mr. James. With regard to cotton drafts, where a man down in the country ships cotton with bill of lading.

Governor Strong. That is not a serious thing with us. We do not receive much cotton to speak of in New York.

Mr. James. It is a very difficult thing and I have contended all along that local conditions are responsible for a lot of these troubles.

Governor Strong. In the handling of fruit in New York, it is perishable stuff and a lot of it would be useless in 48 hours. It is almost all handled on drafts of this character and many of them are handled at the Reserve Bank.

We have some special arrangements to facilitate handling them. I do not know what the detail of it is but we never have any losses. We have never lost a penny on any of the non-cash collection items.

Mr. James. I do not think the Reserve banks have, but how about their customers?

Governor Strong. Why should the customers lose if the drafts are handled through us any more than if through members?

Mr. James. There was a prominent cotton man in Memphis who complained to me very bitterly about the Reserve bank handling non-cash business, because this transaction necessitated his carrying the cotton between Saturday twelve o'clock noon and Monday, and it lost him a good many thousand dollars, he claimed.

Governor Strong. I would like to see that contract.

Governor Seay. How about the other side of the question? Would the drawer of the draft have been kept out of the funds during that time? Maybe he had an equitable right to collection of the draft.

Mr. James. But the point he made was that handling the item through the Federal Reserve bank or branch at Memphis

he was prevented from getting the document completed in time to make the transfer and ship the cotton. The cotton was practically sold to McFadden & Son of Philadelphia. He was compelled to let the cotton lay there uncovered. In the cotton industry in Memphis cotton buyers and cotton merchants seldom have money enough to pay for the cotton that they buy and handle, but they must take the documents to their bank and negotiate a loan against them, or at least have a draft against the party to whom it is sold, and in that way they are able to clear one against the other; but they cannot get a loan and cannot get a certified check unless the documents are placed in the bank that is going to certify the check or make the loan or give them the cash to pay it.

Governor Crissinger. That occurred on Saturday about noon?

Mr. James. A little before noon on Saturday.

Governor Crissinger. He didn't have time to get down to the Federal Reserve Bank.

Governor Strong. This question of responsibility for handling collection items has been considered in the New York Federal Reserve bank ten years or more, and we have on our board

bankers of great experience; and I myself had some reservations about the non-cash collection service at New York, where the items are very large at times, lest it might not put some liability on us. After a great deal of discussion we decided to set up a reserve fund against any unusual losses because of this service. With the approval of the Federal Reserve Board we set aside a fund of a million dollars, which we invested in Government bonds. This business has grown through one of the most perilous periods in our history of bank credit generally, that is during the war, and the amount that we hold in that fund today is nearly a million, nine hundred thousand dollars, with accumulated interest, because we have never charged one penny of loss against it. I cannot believe, in the face of the record in New York in the Federal Reserve bank, through this period of ten years of very great peril to American banking, that these alarming things that we hear about the liability in the collection service are very material. I think we should maintain in the reserve banks a reasonable reserve to draw from in case of some unexpected loss, like a grain draft for fifty thousand dollars coming back, and make up our minds to tackle this proposition and go ahead and perform the ser-

vice; I think if we do that we will eliminate a great many of the risks from the whole collection system which we never will eliminate if we keep monkeying with this non-cash collection business. Every time it comes up it invites further discussion from a dozen different banks. We thought it was all settled at one time. Now this thing has started it all off again. I am not afraid of the liabilities. I had some thought of the possibility of it some ten years ago, but our experience has dissipated all that.

Mr. James. I am not concerning about the liability of the Federal reserve bank making losses. That has never entered into my consideration of the matter at all.

Governor Strong. If we can collect a draft as promptly as any commercial bank can, I maintain that with our connections we ought to do it better than they can.

Governor Harding. If they don't want a draft to come through the Federal Reserve Bank let them keep it out. We do not want to disrupt the whole system on account of it.

Mr. James. I understand that that is being done.

Governor Harding. All right, let them do it.

Governor Calkins. I would like to make two or three inconsequential observations. The first is I cannot see why a

Federal Reserve Bank should not be as well equipped and as well qualified to transact the business that we have been discussing as any commercial bank in the country. I believe that they are.

Second, it is a very curious thing, and this conviction has been growing upon me for four years, that all of the difficulties that we have been discussing in connection with the non-cash collection system have occurred or arisen in the three districts that have always been opposed to the non-cash collection system; that no difficulties of any consequence have arisen in any of the other nine districts. Third, that the argument upon which the Federal Reserve Board directed the setting up of the non-cash collection system was that the member banks, particularly the remote country banks, had been deprived of an opportunity to maintain relations for the purpose of making these collections. That reason is just as good today as it was when it was first given, and possibly stronger. For us to abandon this system at this time is for us to abandon those banks for whom it was set up.

Governor Seay. I would like to say that I am convinced that a very large portion of the evil which comes from the non-cash collection system; that no difficulties of any consequence have arisen in any of the other nine districts. Third,

situation lies in its uncertainty. As long as there is any uncertainty or any doubt about the action of one Federal Reserve Bank or another or about the action of the system, then that uncertainty about the situation is going to be one of the chief evils.

Governor Strong. You asked for a recommendation from the Conference, Governor Crissinger. There was a difference of views, as you are aware. Three members of the Conference are opposed to it. Nine favor it. Those three who are supposed to it have some differences between themselves as to what they would like to do. Therefore I can only speak for the nine members who are agreed upon continuing it. I would like to express again what I believe to be their recommendations. They will dissent from it if I do not express it. I think they are unanimous in their recommendation and their desire ~~that~~ the non-cash collection service should continue; that it should cover items now handled and should be conducted free of charge; that if the Board desires to take the responsibility of any change in that respect that it should be made as a principle and not as a particular method in any one bank; and that that change of principle should be such a change as will not permit any group of member banks to make a profit out of this business; that if we surrender any of our present

methods or abandon any of them that any charge that is imposed should inure to the benefit of the Federal Reserve banks for services that they perform. I think most of these nine men, if not all of them, believe that the only material dissent now is in relation to the street address items; that there would not be any difference of opinion by any of the Governors as to the continuance of the service as to all items except those. Is that right?

Governor Young. No, I would have to change that.

Governor Strong. I understood you to say so this morning.

Governor Harding. Would you be willing to go as far as matured notes and bills?

Governor Young. I think I am prepared to recommend to our directors that if it is made as to matured notes and bills and it is specified what matured notes and bills are, and not let in a lot of drafts with bills of lading attached, and what not, that they approve it. I think our people would be willing to agree to that.

Governor Strong. How about coupons?

Governor Young. I don't care whether you leave them in or out.



Governor McDougal. Do you refer to matured notes and drafts payable at banks?

Governor Young. Yes.

Governor McDougal. And not at street addresses?

Governor Young. No; matured notes and drafts payable at banks.

Governor Crissinger. I do not think there is anything further that can come out of this discussion. It is for the Board to take action in the matter.

(Whereupon, at 4:55 p.m., the Federal Reserve Board retired from the Conference Room and the Conference of Governors proceeded as follows:)

The Chairman (Governor McDougal presiding:) Governor Norris, I think you are responsible for this extra session. What topics have you in mind?

Governor Norris. There are two or three topics which we might dispose of.

Governor Seay. Topic I-H has not been disposed of.

The Chairman. Very well; we will take that up.

I. CREDIT TRANSACTIONS AND POLICIES

H. The possible effect of decision of Supreme Court of

Texas in rendering trade acceptances non-negotiable where they contain the clause: "The obligation of the acceptor hereof arises out of the purchase of goods from the drawer, maturity being in conformity with the original terms of purchase."

Governor Norris. If I may make a suggestion, it seems to me that if that decision of the Supreme Court of Texas was based only of the word "maturity being in conformity with the original terms of purchase", that the decision was perfectly right and it does not affect the business generally. If it was on any other ground it was a wrong decision, but just as likely to be followed. Is there anything else that we can say or do about it?

Governor Talley. I had an idea that we might just refer that topic to the acceptance committee.

The Chairman. Let me interrupt just a moment. Mr. Harrison has made the suggestion that Mr. Dewey has expressed a desire to come before the conference and take up the currency program. Mr. Harrison says he believes this is a good time to procure Mr. Dewey.

Mr. Harrison. I do not know that I can, but if agreeable to him, it would be a good time to do it.

Governor Biggs. I think the Governors who are absent would be very much interested in that.

Governor Norris. Yes, I think they would be.

Mr. Harrison. Then I will withdraw the suggestion.

Governor Norris. Governor Talley was saying that he had in mind suggesting that this matter be referred to the standing committee on acceptances.

Governor Calkins. I so move.

Governor Fancher. I will second the motion.

Governor Talley. I just want to say further that I asked our counsel the direct question if he thought that the decision of the Supreme Court of Texas was inspired largely by the latter part of that clause, "maturity being in conformity with the original terms of purchase", and he stated emphatically that he thought not.

Governor Calkins. I think he is wrong about that, Governor Talley.

The Chairman. I have no doubt, Governor Talley, that most of those present have brought something from their counsel on this, but if it is going to be referred to the committee on acceptances we need go no further with it.

Governor Talley. I will undertake to have the whole

question briefed for that committee, including the argument for a motion for rehearing before the Supreme Court of Texas, which was denied. The thought is in my mind that if is likely to affect not only the negotiability of the trade acceptances but the eligibility clause of the bankers' acceptances that it might have the same effect in every State.

The Chairman. The motion is to refer this question to the standing committee on acceptances. That motion has been seconded.

Governor Seay. I would like to ask if it is not the opinion of Dallas and its counsel that this matter could be easily reached by a change in the formula. It seems to me it would be a very easy matter to change the formula so as to accomplish the purpose the Board has in mind and yet avoid any alteration of the negotiability of the instrument. My thought is that it might be handled more expeditiously by being referred to the Board's counsel than through a committee, and we might get quicker action.

Governor Norris. Perhaps Governor Talley will accept that amendment.

Governor Talley. Yes, I will be glad to try that.

Governor Seay. I am taking it for granted that our own

secretary would be willing to collaborate with the Board's counsel if desired.

Mr. Harrison. I would be glad to do so if it would help.

Governor Seay. I will offer a substitute motion that our secretary be requested to advise <sup>with</sup> the counsel of the Federal Reserve Board to determine whether or not this question, which has arisen from the decision of the Texas Supreme Court, might not be obviated by a change in the formula, which would answer the purpose which the Board had in mind in making the original formula.

Governor Calkins. I will second the motion.

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

Governor Norris. Now, may we not take up 2-D? Or was that done this morning before I came in?

Governor Seay. It was, and no action taken.

Governor Norris. I think we <sup>might</sup> dispose of IV-B, Revision of Treasury Department Circular No. 92."

\* I suggest that our secretary take the matter up with Mr. Dewey and try to secure action. If that is satisfactory to the Conference I will withdraw that from the program.

Governor Fancher. May we not take up the reports on page

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IV. OPERATION AND ADMINISTRATION.

## I. Report of Leased Wire Committee.

The Chairman, Report of the Leased Wire Committee is as follows:

REPORT OF THE LEASED WIRE COMMITTEE  
TO THE GOVERNORS' CONFERENCE

May 9, 1927.

At the last Governors' Conference the question of an additional supply of Federal Reserve Code Books was discussed and referred to the Leased Wire Committee with power to act.

In order to determine how many, if any, books should be printed at this time, the committee wrote to all of the Federal Reserve banks to ascertain the condition of the books which they now have on hand and the probable length of time before they would need additional copies. The replies received indicate that most of the banks have a sufficient number of code books to meet their requirements for a minimum period of approximately two years, and it is believed that the supply held by the Board will take care of the needs of the remaining banks for a similar period.

In view of the foregoing, the committee feels that the printing of extra copies can be deferred for another year, at which time the desirability of some revision in the code, as well as the question of an additional supply, will be considered.

With respect to the Leased Wire System, your committee has to report that there has been no change in the arrangement of the circuits since the last conference and that the present facilities are ample and the service apparently satisfactory.

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Governor Norris. I move that the report be received and filed.

Governor Fancher. I will second that.

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

The Chairman. The next is the report of the Insurance Committee, which is as follows:

REPORT OF THE INSURANCE COMMITTEE TO THE GOVERNORS' CONFERENCE - May 9, 1927.

Since the last Governors' Conference no new matters have been referred to this committee and no matters have come

up requiring a meeting of the committee, so that there is nothing to be reported at this time.

Respectfully,

W. F. Taylor  
J. H. Dillard  
E. R. Kenzel, Chairman

Insurance Committee.

Governor Norris. I move that the report be received and filed.

Governor Fancher. I second the motion.

(The motion was duly put, seconded and carried.)

Governor Fancher. Mr. Chairman, I have a copy of the report of the subcommittee of the general Committee on Bankers' Acceptances. It does not seem to be on the program.

Mr. Harrison. At the time the program was made up the Committee told me they had nothing to report.

The Chairman. Mr. Harrison, you read that report, please.

(The report referred to is as follows:)

REPORT OF THE SUB-COMMITTEE OF GENERAL COMMITTEE  
ON BANKERS ACCEPTANCES TO GOVERNORS' CONFERENCE,

May 9, 1927.

Since the last conference no question has been reported to the Sub-Committee, consequently there is nothing new to



report at this time.

Your Committee, however, again respectfully calls attention to the fact that the matters referred to in the report of the General Committee on Bankers Acceptances, submitted to the Conference of March 22, 1926, printed on page 370-378 of the Stenographic Record of that Conference, outlining certain principles and rules desired by the Conference in its consideration of a general broadening of practice in bankers' domestic acceptance credits, and approved by that Conference, have, your Committee understands, still to be disposed of by the action of the Federal Reserve Board.

Respectfully submitted,

W. W. Paddock,  
C. R. McKay,  
F. J. Zurlinden,  
E. R. Kenzel, Chairman.

Governor Fancher. I move that the report be received and that the Secretary be directed to call the attention of the Federal Reserve Board to the matter touched on in the report, and transmit a copy of the report to the Federal Reserve Board.

Governor Talley. I will second that.

(The motion was put, duly seconded and carried.)

Governor Talley. There is one topic we can dispose of, Topic I-G, at the bottom of the first page, Desirability of amending that part of Section 13 relating to discount of demand and sight drafts secured by shipping documents covering domestic shipment of agricultural products so it will include all staple non-perishable commodities, such for example as flour, bran, cottonseed meal, etc., as well as reimbursement drafts for the proceeds of other bills carrying shipping documents.

The Chairman. Are you ready to take that up, Governor Talley?

Governor Talley. Yes, Mr. Chairman. I move that that matter be referred to the Advisory Committee on Legislative Matters.

Governor Fancher. I will second that motion.

(The motion was put, and being duly seconded, was unanimously carried.)

The Chairman. Now, gentlemen, are there any other topics that we can take up at this time?

Mr. Harrison. Mr. Chairman, I might report on the matter of the gold holdings of the Federal reserve banks.

The Chairman. Very well, Mr. Harrison.

(Mr. Harrison then reported to the Conference on the matter of the gold held by the several Federal reserve banks, and was requested to send the table of figures to each of the reserve banks for their information.)

(Whereupon, at 5:30 o'clock p.m., upon motion duly seconded, the Conference of Governors adjourned until tomorrow, Wednesday, May 11, 1927, at 9:30 o'clock a.m.)

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## T H I R D D A Y .

May 11, 1927,

9:30 o'clock a.m.

## CONFERENCE OF GOVERNORS OF THE FEDERAL RESERVE BANKS.

The Conference of Governors of the Federal Reserve Banks reassembled in the Hearing Room of the Federal Reserve Board, Treasury Building, Washington, D. C.

## PRESENT:

(As indicated in the record of the first day's proceedings.)

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

The Chairman (Governor Strong presiding:) We will pass Topics A and B for discussion when we meet with the Board, unless there is objection.

Governor Seay. Has the time been set for the meeting with the Board?

The Chairman. Not yet. Now, if you please, I would like to skip Topic C because I have to be absent for a few minutes, and I would like to be here when that is discussed. We can take up topic D, continuous borrowers. This was

carried over from the former conference.

I. CREDIT TRANSACTIONS AND POLICIES

D. Continuous Borrowers.

Report to be submitted by each Federal reserve bank showing number of borrowing banks in each district with particular reference to number of banks which have been borrowing for a year or more, the amount of their capital, surplus and total resources, and the average amount of their borrowings from the Federal reserve bank. (See paragraph 5 of Secretary's Minutes of November, 1926, Governors' Conference.)

Governor Wellborn. Out of 500 and some-odd member banks in our District we have 47 who at the present time are continuous borrowers, including last year and this. I have a list of them here.

Governor Harding. We have banks borrowing continuously for one year or more as of January 1, 1927, seven banks, all comparatively small banks, and the borrowings are negligible. Most of them are on Government securities.

Governor McDougal. How many members have you?

Governor Harding. 427.

Governor Young. I have a report prepared on that.

The Chairman. Suppose we hand these reports to the Secretary?

Governor Young. We have 23 banks who are borrowing continuously, out of 760-odd banks. In the State of Montana every bank out there cleared up last year with the exception of one bank. The continuous borrowing is not a problem with us any more, except some banks that are just about down and out.

Governor Seay. We have 58 member banks who were continuous borrowers, from May 1, 1926, through April 30, 1927; one of them continues from 1917, two from 1919, two from 1920, three from 1921, two from 1922, three from 1923, six from 1924, nineteen from 1925, and 26 from 1926. The average amount borrowed is \$5,873,000.

Governor Biggs. We have 618 member banks. Sixteen of them have been borrowers continuously for twelve months. Four of them have borrowed continuously for four or five years and have never gotten out. The rest of them are in the northern part of Illinois and along the Iowa line, where they are pretty hit on land. They are not in serious condition but have not been able to clean up.

Governor Talley. Out of a total of 838 member banks, 134

were borrowing from us at the close of business on April 30th. Of this number 28 have been continuously in debt to us since May, 1926.

We have also included in the report a list showing sixteen banks which have been in debt to us almost continuously for the past year. They have been in and out, and have cleaned up only for a short time. We compiled our report for the twelve months' period just prior to May 1, 1927. If we compiled it on the basis of the calendar year 1926 there would only be three banks borrowing for a period of three months.

Governor Fancher. Out of 853 borrowers, 213 of the banks were borrowing on April 30th. Of that number 43 have borrowed since May 1, 1926. Of that number 19 banks were borrowing exclusively on Governments or on Governments and rediscounts, and 17 of them were borrowing on rediscounts. They are small banks. The total borrowing of the 43 banks is three and a half million dollars. Only two of the number are borrowing in excess of capital and surplus.

Governor McDougal. On the basis of the year 1926 of 1320 member banks 115 have been borrowing continuously during the year. Fifteen of them have paid out entirely since

the first of the year. That is about the status now.

Governor Bailey. Out of 1100 banks the total borrowing for the year was 49, total capital \$2,260,000, and surplus \$536,000, and the average borrowing \$49,320.

Governor Calkins. We have 719 member banks, of which about 176 have borrowed throughout the year 1927 for a three months period. As I recall it we have about twenty banks that have been borrowing continuously. That number does not include some very small banks that are and have been borrowing for four or five years, mainly on Government securities. We have no continuous borrowing problem in our District at present.

The Chairman. I will ask Mr. Harrison to make a report for New York, and I will ask Governor McDougal to take the chair for a few moments.

(Governor McDougal thereupon took the Chair.)

Mr. Harrison. I would like to make a report for New York. At the end of 1926 we had 919 member banks. During the year 603 of those banks have borrowed from us. At the end of the year 317 were in debt to us. At the close of business as of April 25, 1927, we had 935 banks, 278 of which were been borrowing from us. We have had no banks in



debt to us for a year or more since the year 1925. We have now 32 member banks that have been borrowing for six months or more, but not in excess of a year. We have four member banks who, at the end of April, were borrowing in excess of their capital and surplus.

The Chairman. I would suggest that we dispose of this matter by recording in the minutes simply the number of banks that are reported to be continuous borrowers for the period of a year. Ours was 115.

Governor Seay. Would it not be well to also incorporate the average amount if available, for that would be the most significant part of it?

The Chairman. Our average amount would be approximately \$50,000 per bank.

Governor Seay. The main object, as I understand it, in finding the amount that has been borrowed continuously, is how much of the resources of the Federal reserve banks have been monopolized by these continuous borrowers.

Governor Norris. I do not think the report from the Philadelphia district has been entered on the minutes.

The Chairman. Governor Seay suggests that we report the number of continuous borrowers in each district and the

aggregate amount and the average amount involved.

Governor Seay. I just suggest that because I believe that is the most significant part of the whole business.

The Chairman. Without objection, that course will be pursued. In Chicago, we had 115 continuous borrowers; during 1926 the average borrowings were \$5,800,000.

Governor Young. I haven't the accurate figures but will supply them later. As of end of April 1927 there were 25 banks borrowing continuously for a year or more with an aggregate average of about 890 thousand.

Governor Harding. 47 banks have been borrowing continually. The average of the aggregate borrowings can be figured from this.

Governor Seay. It is incorporated in the statement I have handed in. 58 banks with an aggregate average of \$5,873,000.

Governor Calkins. I will supply the figures called for.

Governor Biggs. We have 16 borrowing banks, of which 15 have an average borrowing of \$40,000, or a total of \$600,000. We have one large bank that has been a continuous borrower for about half of that amount. The 15 banks are in the agricultural sections. The total average is about \$80,000, or a little in excess of a million dollars for the 16 banks.

Governor Talley. My report is made on the basis of a

year and shows the average borrowing of each bank. I haven't a summary.

The Chairman. Have you a statement as to the number of current borrowers?

Governor Talley. Yes, 28.

The Chairman. Do you know about how much they are borrowing in the aggregate?

Governor Talley. No, my report isn't made up on that basis. It shows the average borrowing of the individual banks, and the aggregate can be determined from the report.

Governor Fancher. As of April 30th 43 banks borrowing continuously for a year; total average borrowings of the 43 banks \$3,331,000. Combined surplus of the 43 banks \$9,960,000. Two banks borrowing in excess of capital and surplus.

Governor Norris. Out of 771 member banks we had 60 that borrowed continuously during the calendar year 1926. Eleven of them have since paid off, being 49 continuous borrowers as of April, 1926. Of that number borrowed entirely on Government obligations, 12 on Governments, and paper; 9 entirely on paper. I think we should file a complete statement giving the names of those banks, their capital and surplus, deposits, maximum and minimum borrowings in 1926. I

haven't those figures totalled. I did not understand it was the desire they should be totalled. I haven't an adding machine with me so I cannot give the total now.

Governor Bailey. Out of 1100 banks 49 in the District have borrowed continuously for a year. Their capital is a little over three million dollars. The average borrowings were \$49,320 and the total borrowings \$2,416,000. I also have it by States, giving the name of the banks in each one of our States. I will file the whole thing.

Governor McDougal. Fifteen of my banks have been out entirely since the first of the year. 47 banks will probably be out and 43 probably will not be out.

Mr. Harrison. In 1926 of the 919 member banks in the New York District there were no banks at that time which had been continuous borrowers for as long as a year.

The Chairman. We will now take up Topic I-E. That topic is submitted by the Federal Reserve Board. Does any bank representative here have those notes to contend with?

I. CREDIT TRANSACTIONS AND POLICIES

E. Should notes held by a member bank bearing endorsement of officers of nonmember banks be considered eligible for rediscount at Federal Reserve Banks?

Governor Bailey. I would like to talk about that a minute. I notice that in reply to the letter that the Board sent out to every bank, every bank have answered that they have no such paper. That would be true with us if we answered it in the abstract, that at this time we have no member bank paper, but we have had a good deal of trouble to eliminate it.

This condition prevails with us. I do not think it prevails at Dallas or at Minneapolis. The cattle industry must be financed outside of the territory where the range is located. Those are little banks out there and they cannot do it, and at every stock yards center there are banks organized for the purpose of making these loans on these ranch cattle. I know of no other way that they can finance that great industry than by coming down to the stock yards centers and borrowing money to carry these herds during the summer on the ranches. It is customary for every one of these stock yards banks to have a representative at each section. In a special case, let me say, they had a stock yards bank at Omaha. Mr. Van Zandt was president at the time. He has since left the bank but the principle there is just the same. He selected a man out in the Northwest,

in Nebraska, to make those loans for him. Somebody said that it was a poor system to solicit loans, but it is done by every live stock bank that I know of. They know the good cattle men out there and they tell them that they will be glad to carry them for a certain amount on their cattle. They select a man who is familiar with the country. They have to know cattle, they have to inspect them and count them and watch them during the summer and see that they have grass and water.

In this special case the man was president of a little non-member bank with a loan basis of \$3,000. Now these loans run from ten to fifty thousand dollars on these cattle. They are counted and a chattel mortgage is given and they are handled in that way. Now because this man was president of a little non-member bank, the idea leaked out some way that the non-member bank was getting advantage of it, and that the thing should be decided on its merits. Now non-member banks get no benefit from that, and I know that to be true in this case because I have looked at the statement. Now we have our managers come in once a month to a meeting at the head office and we tell them that before they make any loans they must carefully review the matter and see

whether they had any non-member paper bank in there, and they assured me that they did not. We went through our own paper. The fact is I asked him why he didn't take some man that was not the president of a bank and the question could not be raised, and he said "Well, I knew this man; he is a competent cattle man; he was a man I would like to have represent me out there, and I didn't think the fact that he was president of a little bank that could loan \$3,000 would make his paper eligible."

Now I would like a resolution passed that it is the sense of the Board of Governors that the facts ought to govern these cases. That if it is to the benefit of these little country banks that the paper ought to be eligible. There is no other way to finance this great industry, gentlemen.

Governor Harding. I will offer a resolution and lay it open for discussion.

Resolved, that in the opinion of this Conference, any offer to it for rediscunt by a member bank which bears the endorsement of an officer of the non-member bank, puts the Federal Reserve bank on notice that it should investigate the facts; that if the facts show that it

is not in effect a rediscount for the benefit of the non-member bank, that there is nothing in the endorsement to impair the eligibility of the paper.

Governor Bailey. That is absolutely satisfactory.

Governor Harding. That is as clear as a bell. The endorsement cannot possibly affect the eligibility under the law.

Governor Young. I second the motion.

The Chairman. I think Governor Harding's resolution covers the case perfectly.

Governor Bailey. Yes.

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

The Chairman. The next topic is submitted by the New York Bank, and I think it advisable to await Governor Strong's return.

Governor Seay. Mr. Chairman, I suggest that we take up Topic IV, F and G, Should not Federal Reserve Banks be reimbursed by Federal Land Banks for expense involved in paying Federal Farm Loan coupons? And, G, Air Mail Service; to what extent is it being used or should be used by Federal Reserve banks, and, second, its effect on time sched-



ules?

IV. OPERATION AND ADMINISTRATION.

F. Should not Federal Reserve Banks be reimbursed by Federal Land Banks for expense involved in paying Federal Farm Loan coupons?

At the last conference it was voted that each Governor submit a new estimate of expense involved in handling these coupons. (See paragraph 41 of Secretary's Minutes of November, 1926, Governors' Conference.)

G. Air Mail Service.

1. To what extent is it being used or should be used by Federal Reserve Banks?

2. Its effect on Time Schedules?

The Chairman. Will you discuss that topic, Governor Seay?

Governor Seay. The question is, should not the Federal Reserve Bank be reimbursed by Federal Land Banks for expense involved in paying Federal Farm Loan coupons? I move, Mr. Chairman, that it is the sense of the meeting that the Federal Reserve banks should be so reimbursed.

Governor Norris. That topic has been on the program at one or two previous conferences, and it developed that

there was a very wide difference in the different banks in their estimates of the cost. For that reason it was voted at the last conference that a new estimate of expense involved should be submitted at this Conference.

Therefore I think we had better get the respective estimates of cost so that we may know what the size of the problem is.

Governor McDougal. What is the cost to the Philadelphia Bank?

Governor Norris. During 1926 our coupon department handled approximately 3,700,000 coupons, of which 129,681 were Land Bank coupons, about 3-1/2 per cent. The total salaries of the Department amount to \$8,220, and at 3-1/2 per cent the proportionate share would be \$300. However, as it takes twice as long to handle Land Bank coupons as Liberty bond coupons, \$600 would seem to me to be a fair estimate of the expense to be reimbursed.

Governor Harding. On that basis \$500 would be a fair estimate for Boston.

Governor Fancher. We estimated that the Cleveland bank has an expense of \$960.

Governor Talley. Our expense is negligible, \$9.73 for a month's operating, adding a letter something for clerk hire.

I think the reimbursement should be made on application by the bank, and we would not want to make application.

Governor Biggs. It is \$341 for St. Louis and the three branches for a year.

Governor Talley. We would not want to make application because it would cost us more to go through the form of making the application than we would receive.

Governor Calkins. Seconding Governor Talley's suggestion, I will say that unless the expenditures of other banks justify it, or the cost increases, it would be extravagant for us to make a claim because it would cost more to set up the machinery than we would get; our bill for 1926 was \$57.39.

Governor Seay. Our experience coincides with that of the Philadelphia Bank: That is that it takes twice as long to handle Land Bank coupons as it does to handle Government coupons. The amount is insignificant in our case, amounting to only \$271. But in view of the fact that it seems to be the practice to ask the Federal Reserve Banks to absorb this, that and the other services at their own expense, I might say the increasing practice, I believe as a matter of principle that the reserve banks should be

reimbursed for this expense, particularly when they are called upon to perform that by governmental agencies. I would be perfectly willing to accept the amendment suggested by Governor Talley, but I do believe as a matter of principle, for the reasons that I have stated, that these people should be asked to pay the expenses incurred by the Federal Reserve Banks in rendering these services.

Governor Wellborn. The expense involved to us in handling Federal Land Bank coupons is so inconsequential that it is immaterial to us whether we are reimbursed.

Governor Young. It is such a small thing in Minneapolis that I cannot figure the expense on it.

The Chairman. That is the case in the Chicago bank, according to figures submitted, that is about \$660 a year. But Governor Seay has stated it is not so much the expense involved as it is the matter of principle. What was the amendment you suggested, Governor Talley?

Governor Talley. I suggested that Governor Seay's motion be amended that the Federal Reserve banks be reimbursed for the expense whenever they make claim for it.

Mr. Harrison. In New York we handled practically 600,000 coupons during the year 1926, aggregating about \$18,800,000.

As close as we can estimate it the total cost of our handling these coupons was \$2400. On the other hand, we believe very clearly that if we should abandon the handling of these coupons that we would not save \$2400, because the Liberty loan coupon department handles them, and the dates are so well staggered that they don't interfere with the work of our Liberty loan department. We would not make a proportionate saving by an abandonment of the present practice. Our recommendation so far as we are concerned is that we should not ask for reimbursement.

Governor Fancher. Doesn't the Land Bank carry with you, Mr. Harrison, an account of some magnitude?

Mr. Harrison. A balance is maintained by the Land Banks with us averaging about two million dollars.

Governor Fancher. There is nothing of that sort in the other eleven banks.

Mr. Harrison. It does us no good so far as earnings are concerned.

The Chairman. The question is on Governor Talley's amendment to Governor Seay's motion. What was that motion, Mr. Harrison?

Mr. Harrison. Governor Seay moved that the Federal Re-

serve banks be reimbursed for the expense, and Governor Talley amended it by suggesting they be reimbursed if and when requested by the Federal reserve banks.

Governor Seay. I would like to suggest some qualification in regard to the amount, that is, if the amount involved is sufficient.

Governor Talley. I would be perfectly willing to say "If the amount involved is sufficient to warrant a Federal reserve bank in making claim for reimbursement."

Governor Norris. Isn't that implied?

Governor Seay. It is implied, but I think it would preserve the principle more clearly if it was stated.

Governor Norris. But if we adopt that amendment to Governor Seay's motion, as suggested by Governor Talley, it would practically impose obligation on the New York Bank to ask for reimbursement, if it acted in accordance with the expressed sentiment of the Conference. I take it they do not wish to make that request.

The Chairman. I do not think it will impose such a responsibility on the New York Bank, because they would not file their claim.

Governor Norris. But Governor Seay asked Governor Talley to add to his amendment, "if the amount is material."

The Chairman. Each bank is entitled to determine for itself whether the amount involved justifies the request.

Governor Bailey. I think the first amendment covers it.

Governor Seay. I am not at all insistent, because it is perfectly clear that the amount is insignificant; but I would like to get at the opinion here, and I do not believe we have gotten at it, as to whether the principle I have endeavored to present is a correct one, that the Federal reserve banks should, as a rule, be reimbursed for services which they render to other governmental agencies which are sustained by their own income.

Governor Norris. I think we are all in agreement with that as a matter of principle,

Governor Seay. That is the principle I would like to see established. Of course I do not want to bind any Federal Reserve Bank to do anything that is not wholly agreeable to it.

Governor Calkins. Suppose we do this: Resolved, that in principle the Federal reserve banks should be reimbursed

for services performed for governmental agencies, other than the Treasury, when the expense is sufficient to justify the filing of a claim by the individual banking concerned.

Governor Seay. That substitute is perfectly satisfactory to me, Mr. Chairman.

Governor Fancher. I will second the substitute.

Governor Young. Would that apply to the War Finance Corporation?

Governor Seay. I had that in mind.

Governor Young. The reason I make the inquiry is this: We have a building in Minneapolis that we cannot possibly rent space to anybody in. The building is not designed so that we can. The War Finance Corporation occupies some space there which we have given them. It does not cause us any inconvenience or trouble at all and it saves the Government in the neighborhood of six or eight thousand dollars a year.

Governor Harding. There is a difference between the War Finance Corporation and other agencies, in that the War Finance Corporation is owned entirely by the Treasury. In the case of the Farm Loan banks it amounts to very little. The War Finance Corporation would come under the Treasury.

Governor Young. It costs us nothing and saves the Treasury six or eight thousand dollars a year.



Governor Seay. At the same time I have this in mind: The work done by the War Finance Corporation was bi-Partisan work very largely. Nevertheless it is doubtful whether the corporation could have performed this work without the aid of the Federal Reserve Banks, and the Federal reserve banks, I imagine, in the popular estimation received very little credit for the work that they have performed, which was very onerous and very expensive, and for which the War Finance Corporation reaped <sup>the</sup> benefits.

The Chairman. I think it is the policy of the War Finance Corporation to reimburse the banks for at least a considerable part of it.

Governor Seay. Yes, but I do not think either the public or the War Finance Corporation itself accorded to the banks recognition of the great deal of work that <sup>they</sup> performed.

Governor Calkins. Mr. Chairman, my purpose in this was to state the principle and leave the application of it to each bank.

(There were calls for the question, and the motion having been numerously seconded, was unanimously carried.)

Governor Harding. Mr. Chairman, can we not take up Topic I-G?

The Chairman. Yes.

I. CREDIT TRANSACTIONS AND POLICIES

G. Desirability of amending that part of Section 13 relating to discount of demand and sight drafts secured by shipping documents covering domestic shipment of agricultural products so it will include all staple non-perishable commodities, such for example as flour, bran, cottonseed meal, etc., as well as reimbursement drafts for the proceeds of other bills carrying shipping documents.

Governor Harding. I think I can say something that will throw some light on it. It seems to me the question of authorizing the discount of demand or sight drafts secured by shipping documents covering staple, non-perishable commodities, such, for example, as flour, bran, cottonseed meal, and so forth, can be handled by regulation of the Board. It does not require an amendment to the Act. I base that opinion on this: Look at Section 13, in the paragraph above the one which authorizes these transactions where it says "Nothing in this Act contained shall be construed to prohibit such notes, drafts and bills of exchange, secured by staple agricultural products, or other goods, wares, or merchandise, from being eligible for such discount, and the notes, drafts

and bills of exchange of factors issued as such making advances exclusively to producers of staple agricultural products in their raw state shall be eligible for such discount," and so forth. That is the very section applicable to Mr. Talley's question, whether a reserve bank might purchase bills of exchange payable at sight or on demand, which are drawn to finance domestic shipments of non-perishable, readily marketable, staple agricultural products. It does not say "in the raw state" there. I think the Board can very easily rule that the refinements of these agricultural products of wheat, flour, bran, cottonseed meal, and so forth, should be included.

Governor Young. We had these flour drafts for a long while and it was interpreted that they were agricultural products. But someone took up the question of whether or not it was an agricultural product and it was stopped.

Governor Harding. The Board could rule despite that, and let someone raise another case against the ruling. But you have a distinction between agricultural products in their raw state, in this factors proposition of staple, non-perishable agricultural products.

Governor Talley. The Board has ruled exactly contrary

to what Governor Harding has suggested. The Board's counsel has construed that paragraph you have just read in its entirety, to allow you to include agricultural products in their raw state.

Governor Harding. I think it ought to come up again for reconsideration.

Governor Talley. I agree with that exactly, but I am unable to get the Board to rule that way.

Governor Calkins. How would it do to suggest to the Board to have the matter reviewed again in order to determine whether it had power to rule? That is the question. There is no doubt that the matter can be cured by a ruling, if the Board had authority to make such a ruling. Personally I believe that they have, as Governor Harding has said, but the Board's counsel advises them to the contrary.

Governor Talley. The Board's counsel has predicated his opinion upon the Court decisions referred to by Governor Young.

The Chairman. This question was disposed of yesterday by passing it along to the advisory committee on legislative matters. Now Governor Harding suggests that it be reopened for reconsideration. If there is no objection the question

is open for reconsideration.

Governor Bailey. Why not form a resolution asking the Board to reconsider it?

The Chairman. Governor Harding, will you put your statement in the form of a motion?

Governor Harding. I offer a motion that this Conference request the Federal Reserve Board to reconsider its previous ruling that agricultural products in the secondary stage, such as flour, bran, cottonseed meal, and so forth, cannot be included on the ground that if Congress wished to confine this to non-perishable, readily marketable and staple agricultural products in their raw state, it would have said so, just as it said in the preceding paragraph, in regard to factors, where it specifically says that these products must be in the raw state.

Governor Bailey. I will second that.

Governor Norris. I have no personal interest in this thing, but I think the gentlemen who are anxious to get this action will get it quicker by an amendment to the Act than by undertaking to get the Board to review or change its previous decision, because I do not believe the Board will do that. If they rule that anything, the base of which is agri-

cultural, still retains the character of an agricultural product, where on earth is it going to end? The Board, I think, has ruled that canned goods in which the base is tomatoes, or whatever it may be, representing 25 or 30 per cent of the value of the finished product, are not agricultural products. Now, would you say that <sup>a</sup> broom, for instance, was an agricultural product?

Governor Calkins. There is the most delightful opportunity to argue in regard to the definition. There is no question about that. It appears to me, however, that it is perfectly practicable and possible to get a definition which would be sufficiently inclusive. Governor Norris illustrates with a broom, which is good, but which is not as good as it might be.

Governor Norris. I have no doubt you could improve on it, Governor. ~~But taking~~

Governor Calkins. Taking what Governor Harding has said, you notice the list of absurdities that arise in this. For instance, sweet potatoes are a non-perishable agricultural commodity, <sup>but</sup> if they are put in a dry kiln and dried so that they are less perishable they are outside the ruling of the Board. There are many other cases that are just as absurd as

that.

Governor Bailey. I think Governor Harding's motion covering bran, flour, cottonseed mea, and so forth, will cover it. These are the things that affect us.

Governor Seay. It might go a little further than that, and that is to consider whether or not by an amendment to the Act it would not be desirable to have demand bills or drafts cover<sup>ing</sup> other commodities.

Governor Harding. Of course if you want to amend the Act, that is one thing. It is easier to get the Board to make a regulation than it is to amend the Act, and much safer.

Governor Calkins. I agree with Governor Harding in his last statement, and for that reason I suggest that a resolution be adopted, and that the other resolution referring the matter to the legislative committee be not rescinded, the status being then that the Board did not amend the regulations, <sup>if</sup> the legislative committee could do its duty.

(Governor Strong returned to the Conference Room and resumed the Chair.)

The Chairman. Gentlemen, if I may interrupt, Under-Secretary Mills has never met all of the members of this organization. He is just publishing the call for the balance

of the second Libertys, which have to be paid off in November. The Treasury has an extensive program ahead of it. In view of that fact I think it would be very desirable if we could have opportunity now to hear from him something of what he proposes. He will be in shortly.

Governor Harding. Let us dispose of my motion, Mr. Chairman. It has been made and seconded.

(Mr. Harrison then read the motion.)

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

The Chairman. I have a message just received from Mr. Newton D. Baker, addressed to Mr. Wyatt:

"Will be glad to have Governors' Conference know that I appreciate their confidence. Will arrange to go to Minneapolis at an early date but will await your wire before making plans to meet Parker."

(Whereupon Under Secretary Ogden Mills entered the Conference Room and a conference followed, the Reporter retiring from the Conference Room at the direction of the Chair.

#### V. FISCAL AGENCY.

A. Possible improvements in method of allotting Treasury Notes or Certificates. (With particular reference to



desirability of reasonably firm district quotas.)

(The discussion of this subject was opened by Governor Norris in the absence of the Reporter. The Reporter was recalled to the Conference Room and the proceedings continued as follows:)

Governor Norris. I put this topic on the program for the purpose of ascertaining whether it would be possible for the Treasury to eliminate the preferential allotment on small subscriptions and to fix a reasonably firm quota for each district.

Governor Fancher. We were in correspondence with Under-Secretary Winston in November of 1926. They sent a communication received from the Deputy Governor of the Kansas City Bank, to the other districts, and I am sure you received it. In our reply to Mr. Winston's letter we wrote very fully as to the basis of the allotments and the abuses we had observed, and all that sort of thing. Those are about the views of our bank at the present time. I suggest that they are on file in your office, Mr. Secretary.

Under Secretary Mills. I have them here with me.

Governor Harding. We have a considerable number of fictitious subscriptions handed in to us at Boston. Our situation is a good deal like that of Governor Norris. I was wondering,

in view of the fact that the Treasury seems to want to have popular subscriptions and to encourage the individual subscriber, if a certain amount for individual subscriptions could be set aside and forwarded directly to each reserve bank, in addition to the district quota, and if the banks get shut out or if there is any deficiency in the individual subscriptions, give the banks their allotments --

The Chairman. Wouldn't they just get around that by sending these subscriptions indirectly? One difficulty is that in some of the districts, not in ours, the notice of the subscription is not far enough in advance for the individual subscriptions to be made anyway.

Governor Harding. Couldn't the notice be given a little further in advance?

Under Secretary Mills. It is pretty difficult to do that.

Governor Calkins. We have as much complaint as anyone on that ground. It is a fact that in some cases the notice of the issue does not reach a subscriber until a considerable time has elapsed after the subscription has been closed.

The Chairman. Wouldn't they just get around that? That is a common situation.

Governor Norris. Does that amount to anything? Isn't

it true that the fellow who does not get the announcement would not subscribe if he did get it?

The Chairman. I don't know about that, Governor Norris. The Treasury mailing list is six or eight hundred thousand names, which they got from their subscriptions to Liberty loans. These people have received circulars of every one of these offerings and a very large number of them have been received after the sale has been concluded; they have sent in subscriptions which have had to be returned.

Governor Calkins. They have sent in subscriptions and payments.

Governor Fancher. This situation has developed. Going back to the time when the small banks had subscriptions from their depositors, we have some 1900 banks, but the fact are that we haven't had subscriptions from a number of the small banks. We send the notice to them, but we do not hear from them at all because anything under four per cent they are not interested in and have not been interested in for a long time. The subscriptions we get now may come from 100 to 120 banks, and going back two or three years we would have them from four or five or six hundred banks. We attempt to reach the small banks by wire, and I think now

that it is both money and effort wasted.

Governor Young. Two or three years ago we had a great deal of difficulty with these small subscribers who would not get the notice in time. We rather adopted a plan, something along the line suggested by Governor Harding, of taking a hundred or two hundred thousand in addition, and if some little subscription of five hundred or a thousand dollars comes in we take care of it. We haven't had to do that in the last year and a half.

Governor Fancher. I think the small bank has passed out of the picture in this matter with regard to buying low rate Government certificates.

Governor Calkins. I agree to a certain extent with Governor Fancher, but I think the small subscriber still exists. There is throughout the country a considerable number of individual subscribers who still buy these low rate government securities if they have opportunity. As to whether that group is of enough consequence to make it desirable for the Treasury Department to permit them to survive, or not, I do not know. I think it is very doubtful myself; but if the Treasury Department does feel that it ought to make offerings which can be availed of by these subscribers

to past issues, that the best opportunity for doing that is through some modification of the conditions of the war loan deposit accounts. That is the best opportunity the Treasury has so far as I can see. In addition to that I think it would be effective to revise the list of acceptable securities very closely.

Governor Seay. That last suggestion is the most important feature of it, from our point of view.

Governor Young. I would like to give you the benefit of the experience in Minneapolis on that proposition. For five years we have accepted nothing but United States Government securities on war loan account, and it does not interfere with the <sup>padding of</sup> subscriptions at all; not a bit.

Governor Calkins. I think that is probably the experience of a great many of the districts, but not all. I do not think that would work as well in New York as it would in Minneapolis, for instance.

Governor Young. I just wanted to give the experience that we have had in Minneapolis for five years.

Under Secretary Mills. I would like to hear the experience of New York. You have done more to eliminate padding than anything else.

The Chairman. We recognize that these securities in our district are mainly sold to large banks for the advantage of the deposits, and to some extent to very large corporations who have funds to invest and who subscribe through their banks, at the solicitation of their bank, in order to get the benefit of the deposit. We have had some padding, but whenever it has become apparent we have taken it up with the bank and I believe it is almost entirely eliminated.

It occurred to me that the experience in the different districts varies so that we might get two or three of the banks to send experienced men over here to Washington to handle this end of it, in consultation with Mr. Mills' men, and consider whether some revision of the present practice is not desirable. They could make recommendation on it.

Governor Fancher. I think that would be a very practical way to handle it. It would be well for Mr. Mills to have the advantage of the experience of these men who have lived with these various issues for some years and know all the developments, short cuts and abuses that have sprung up.

Governor Harding. I think Governor Young has indicated a solution of this thing. In the Federal Reserve Bank of

Boston, for instance, that bank got the entire subscription for its own account, and it resulted in its getting a legitimate 250,000. Out of that allotment we could take care of the legitimate, bona fide small subscriber.

Under Secretary Mills. Would you compel the individual subscriber to deal directly with the Federal Reserve Bank?

Governor Harding. Not necessarily, but to investigate it and find out if it was a legitimate proposition, and then send it to them at cost.

We followed exactly the practice that Governor Young referred to. We used to take a few hundred thousand of these to meet legitimate small subscriptions, but we have stopped doing that because we have not any more calls.

The Chairman. Suppose the practice was changed to this extent, that the Treasury, in its next circular, in a rather prominent way, possibly on a separate piece of paper, notify everybody -- putting it in the circulars going to the banks as well, that the requirement for a fairly short notice on closing of the subscriptions could not be changed, but that arrangements had been made with the Federal reserve banks by which a moderate fund of these certificates would be taken by the reserve banks and the small subscribers would be allotted

out of that amount in the order in which applications were received.

Under Secretary Mills. Then you would eliminate the small subscribers entirely, those of the thousand dollar class?

Governor Norris. It would cut out the preferential allotment to them.

Under Secretary Mills. Yes, cut it out entirely.

Governor Norris. Yes, because the small subscriber practically does not exist, and the only effect of the preferential allotment is to make the bank that wants a big bunch of them enter its subscriptions in thousand dollar units, instead of sending in a single subscription for a million or five million, or whatever it wants.

Under Secretary Mills. I think it would be a mistake to admit officially that that class does not exist. In other words, I think it would be an unfortunate position for the Treasury to take and that the Government securities are now simply bank investments.

Governor Norris. It is not necessary to admit it at all.

The Chairman. Why not claim that it exists, that the Treasury wants to encourage its development, and that this means is being employed to do it?



Governor Fancher. I think in some cases, perhaps the small subscriber has been discouraged by the prompt closing of the offer. He gets his notice and then, perhaps before he gets the notice from us, in some cases, he gets official notice mailed to him that the office has been closed and he thinks "what is the use; I do not have opportunity." We have done as the other banks have done. We have taken a few thousand to take care of our small subscriptions, in order to keep the small banks satisfied.

Governor Wellborn. In the Atlanta District we do not think much of making district quotas because at certain times we can take more than we can at others. Business conditions vary.

Under Secretary Mills. I think that was one of the principle reasons which led to the abandonment of the former system which existed, as I understand, until 1922. The change was made in view of experience and after very thorough study.

Governor Wellborn. We made a special effort to get the individual subscribers and a great many of them came into the bank and subscribed.

Governor Norris. To 3-1/8 and 3-1/4 securities?

Governor Wellborn. Yes, sir.

Under Secretary Mills. Did you take care of the individual subscriptions along the line suggested by Governor Young?

Governor Wellborn. Yes. We made a special effort to take care of the individual subscribers. Of course some of the individual subscriptions, from corporations, come through the banks themselves, from customers that have surplus funds they want to use in that way. The present method is satisfactory in our district.

Governor Seay. The only effect of these various suggestions to restrict the subscriptions would be to greatly reduce the volume of these apparent bona fide subscriptions. As it now stands, I take it that that is not only misleading but harmful.

Governor Norris. Yes. It is a clear evidence of the absurdity of the situation when an issue is four or five times over-subscribed, and then for weeks afterwards is offered around at a discount.

Governor Wellborn. Don't you think the last offer will rather correct that abuse?

Governor Norris. The result of the last offer will be to make it easier to get a correction of this situation now than it has ever been before, but I do not think it will in itself

entirely cure it unless there is some action.

The Chairman. Here is a suggestion of a solution. Suppose Governor Harding, Governor Norris, Governor Fancher, and we in New York, designate a man, if the Treasury desires it, and have those men at the call of the Treasury to attend the meeting here, discuss the matter with the men in the Treasury and handle this matter. Will that be satisfactory?

Under Secretary Mills. That will be satisfactory.

Governor Calkins. Mr. Chairman, there is another topic that we might include with that. Revision of Treasury Department Circular No. 92 is directly related.

Governor Talley. Is it the understanding that there would be publicity given by the Treasury to the fact that the Federal reserve banks would guarantee allotments of small subscriptions?

The Chairman. No, there would not be anything of the sort.

Governor Talley. It was suggested a moment ago to put an extra sheet in the circular to the effect that the banks would take care of them.

The Chairman. Yes, but they would only be allotted in

the order of their receipt. There would be no different rule applied to the original offer.

Governor Calkins. Mr. Chairman, I would like to ask whether it would not be desirable to include with these representatives to meet here a representative of some more remote bank, having a somewhat different situation than you have here?

The Chairman. If you can get them to come, yes.

Governor Calkins. I think Governor Talley would be glad to send a man.

Governor Talley. Yes, we will be glad to send some one if it is desired.

Governor Fancher. We will be glad to send a man.

The Chairman. Then it will be understood that Boston, Philadelphia, Cleveland, Dallas and New York, if it is desired, will send men at the call of the Under Secretary of the Treasury.

Governor Norris. Then that will also include, I suppose, a discussion of the revision of Circular 92.

The Chairman. Yes. We might suggest to the Under Secretary now that in sending his call he give ample time for preparation of the data and should include a statement of the

matter to be discussed.

Under Secretary Mills. How much time do you think should be allowed?

The Chairman. Well, considering the distance from Dallas, I should say about ten days will be sufficient.

Governor Talley. The notice to reach us ten days before the day of the meeting.

The Chairman. Is there anything else that we wish to discuss with Mr. Mills? We have taken up a lot of his time. We have on the program a discussion that the conference always has with the Treasury Currency Committee, of which Mr. Dewey is Chairman.

Under Secretary Mills. He is away today, but I think he will be here tomorrow.

The Chairman. We could discuss the topic III-C.

### III. COIN, CURRENCY AND CIRCULATION.

#### C. Future Currency Program.

Has the time approached to consider in anticipation some program as to the two per cent consols now held to secure national bank note circulation?

The Chairman. In connection with the discussion of our portfolio situation the question came up as to the possibility

of the Treasury finding means of carrying out the real purpose of the Federal Reserve Act in retiring national bank notes, which would add a great deal to the portfolio of the reserve banks. 75 million twos can be called now, and the remaining 500 million can be called in 1930.

There seem to be two or three important questions. The first one is what effect will it have on the banks with regard to their right to issue currency in these national bank notes. It is one of their privileges. Another question has to do with the handling of the issued currency required to take the place of a national bank note, because we are now deprived of the means of issuing Federal Reserve bank notes because <sup>of</sup> the lapse of time. The opportunity to acquire 500 millions of twos for that purpose has passed, and the Act contains no provision by which that operation is cumulative. There are difficulties in connection with that. There is the difficulty of the Treasury issuing higher rate securities and increasing the debt held by the public in order to retire the two per cent bonds held by the National Banks. Those are the three principal difficulties, I think.

The Treasury is now at work on the technical arrangement for the retirement of the twos in case it is decided that

should be done. But the chief question is to find out what will be the reaction of the national banks. There is a concern in Washington that is opposed to the retirement of national bank notes and they are agitating the question among the national banks.

What would be the feeling of the National Banks in your country, Governor Young, about retiring the national bank notes?

Governor Young. With the larger banks I do not think it would make any difference at all, because they haven't any circulation, or a very small amount, if they have any. It is true that the smaller banks like the circulation, regardless of whether they make money on it or not. It may be a case of the officers liking their name on the bill, I don't know. At all events they do like it, and you would get some criticism, I think, from the smaller banks. However, it is an issue that we have to face at some time and I think we should face it now while the going is good.

Governor Harding. The great majority of the banks would not care anything about it. As a matter of fact I suppose only about half of them have any circulation now. But, as Mr. Young says, some of them think very highly of the privilege. I

heard of a case not very long ago where the president of a  
little national bank/ came down to Boston and put up at the  
hotel. He brought with him some currency in sheet form. He  
had had the cashier sign it but did not sign it himself and  
did not cut them. He put those in his pocket, and when he  
went to pay his bill he asked the clerk to give him a pen,  
and he signed the currency and handed it in.

The Chairman. What about your bank, Governor Wellborn?

Governor Wellborn. I do not think it would make very  
much difference to the banks. Some of the smaller banks  
probably look upon it as an advertisement and would rather  
that it be not discontinued, but I do not think there will  
be any serious objection on their part.

Governor Seay. A considerable number of the small banks,  
I think, Mr. Chairman, would object, not so much because of  
the deprivation of income, but because of the distinction  
they appear to think it gives them to be able to issue money.  
On the part of the larger banks I do not believe there  
would be any objection.

Governor Calkins. I have the same report. So far as  
value is concerned there would be no considerable objection.  
Many of the smaller banks would take the position that it was



taking something away from them. However, so far as the 75 million are concerned, I think it is time to begin.

Governor Biggs. I concur in the position taken by Governor Calkins and Governor Seay. I think the larger banks will not care, but the smaller banks would, although not all of them.

Governor Talley. The chief value that the banks attach to the circulation privilege is that of advertising. There would be some kick from the small banks which have not amortized their premium on circulation bonds. Some of the larger banks have an idea they make a little profit out of it. There may be some mild remonstrance from them. My idea is that it should be done, because national bank circulation is just a fifth wheel on the currency machine, and that is all there is to it.

The Chairman. Yes, and very expensive.

Governor Talley. It becomes so difficult in our district that we have refused to take any circulated notes in from member banks --

The Chairman. There is great difficulty in getting them in circulation.

Governor Talley. Yes, sir.

Governor Fancher. I think very little objection will come from the larger banks. In fact many of our larger banks have circulation now only in a small amount. But there would be some objection from the smaller banks on account of the quite substantial profit. Then there is the advertising feature of it. They feel that it would be something taken away from them that they had been doing for some years. I think we could very easily test the situation by a program that would take in the 75 million dollars that can be called now. I think after we had started a program to absorb those and reduce the national bank circulation we could then chart a pretty clear course as to what to do with a large program.

Governor Norris. Mr. Chairman, I would only repeat statements that have already been made.

Governor McDougal. Mr. Chairman, I am sure that the small banks find a lot of satisfaction in this currency issue privilege. I do not know how the larger banks feel about it or how it affects them.

Governor Bailey. In our district I think the change has been discounted anyway. It was the purpose of the original act and from all those I have talked to I have learned that

the tendency has already been to discount it. Of course, these little fellows who like to write their name on it might object, but that would be incidental and I do not think there would be any adverse reaction at all.

The Chairman. I do not think there would be much kick in our district. I am certain that the larger banks would make no objection. The president of one of the larger banks said to me, when I asked him about it, that they are waiting for the thing to happen anyway.

(Further discussion of this matter was had, which the Reporter was directed not to take, at the conclusion of which Under Secretary Mills retired from the Conference Room.)

The Chairman. Now, gentlemen, I have promised to make some progress on this Open Market Committee report. I think if the committee had a very brief meeting now it would be in a position immediately after luncheon to submit the committee's report before the Conference. We could then ask the Federal Reserve Board to meet with the committee in the course of the afternoon.

(Whereupon, at 12:35 o'clock p.m., upon motion duly seconded, the Conference recessed until 2 o'clock p.m. of the same day.)

## A F T E R   R E C E S S .

The Conference reassembled pursuant to recess, at 2 o'clock p.m.

The Chairman. The meeting will kindly come to order.

Before taking up the Open Market Committee report suppose we take up the next item on the program, which can be taken up in Mr. Dewey's absence, and that is "Proposed Revision of the Federal Reserve Board Regulations 4-A," which will involve considerable discussion.

Governor Calkins. Have not all the banks been asked to submit suggestions direct to the Federal Reserve Board, and have not they done so?

The Chairman. I imagine so.

Governor Fancher. Mr. Chairman, I will make a motion that the Conference recommends to the Board that, if agreeable, a committee from the operating staff of some of the Federal Reserve Banks be asked ~~assist~~ the counsel of the Board in giving consideration to the suggested amendment to the Board's regulations, to put in definite shape modifications or amendments to the regulations, and that in that form these modifications and amendments be submitted back to the Reserve banks for final consideration, after taking into ac-

count all suggestions that have been offered by the various reserve banks.

Governor Talley. I will second that motion.

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

The Chairman. Let us take Topic IV-C, which was suggested by New York. That can be referred to the committee and not discussed here. It does relate to regulations, but it is rather a domestic question with us.

#### IV. OPERATION AND ADMINISTRATION.

C. Regulation relating to method of computing member bank reserves for penalties.

The Chairman. Unless some one wants to discuss this generally, it will be passed and referred to this committee.

Governor Young. Mr. Chairman, did I see somewhere that New York had made a suggestion that the reserves be figured over night?

The Chairman. No, we never made that suggestions although the Board understood something we did say as implying that. What we did say was this: That in the Central Reserve cities of Chicago and New York the computation of reserves and the imputation of penalties by the present method re-

sulted in a very distorted picture, inasmuch as it is impossible for the bank in New York and in Chicago to adjust its reserve every day because the most of the payments they receive are in clearing house funds that are not reserve funds until the next day. We suggested that two continuous days of impaired reserve would result in penalties, and that the banks would be required to pay for three days instead of one.

Governor Young. I can pass this suggestion on to you. I do not know whether you can use it or not. The spread in Minneapolis is always between five and seven million dollars between Tuesday and Wednesday. The banks all cover on Wednesday, and we just take eight of the large banks in Minneapolis and St. Paul, and we have one figure the reserve Tuesday, another Wednesday, another Thursday and Friday, and we cut the spread about two million dollars. I do not know whether that is possible for Chicago or not, but you can divide your banks up four ways.

The Chairman. It is a good suggestion, Governor Young. It would be difficult because there are so many of them.

Governor Young. It wouldn't make any difference to

them on what day they settled. It has corrected the situation somewhat in our district but hasn't corrected all of it.

The Chairman. The understanding is that all the comments by the different banks on the proposed draft of regulations will be sent by each reserve bank to Mr. Harrison, excepting those that have already handed them.

We can go ahead now with the report of the Open Market Committee.

This report is submitted as the recommendation of the Open Market Committee. I have advised Governor Crissinger that some time after two o'clock this afternoon we would like to have a meeting with the Board, that this committee wants to submit this report to the Board.

Governor Calkins. The first paragraph refers to the attached memorandum. Is that memorandum to be attached?

The Chairman. That is a memorandum which you gentlemen just gave back to Mr. Harrison, and it is being mimeographed.

Governor Calkins. We will get that later.

The Chairman. Yes. We had all the drafts returned to Mr. Harrison because of the changes made in the final draft. They do not amount to much but I want to be sure that you all have the proper copies.

Now, gentlemen, have you comments that you wish to offer

with regard to the recommendations in this report? The committee offered this as its very best judgment, after quite a good deal of discussion and after discussion with the Federal Reserve Board.

Governor Calkins. The question comes up whether we are to discuss merely this memorandum or the much more elaborate memorandum to be attached.

The Chairman. The first document prepared in the office in New York was intended to be the Committee's report. It did not strike Mr. Harrison and me as being the method that was best designed to deal with this situation, because it did not go into the subject thoroughly enough, so instead of preparing a draft of the report of the committee we prepared a memorandum as to the present situation and submitted that to the Committee, submitted a preliminary draft of it to the Board for discussion as the basis of the preparation of the report of the Committee, which would contain the recommendations of the Committee. The memorandum contained no recommendations and made no suggestions that anything should be done, but was simply a statement of what we regarded as certain facts upon which the Committee would base its report. The report will be attached to the memorandum and you will all



have it and the committee is going ahead and considering some of the possibilities of dealing with the question of the portfolio, such as we discussed this morning, the retirement of national bank notes.

Governor Seay. I did not catch that explanation, and that would cover what I had in mind. I notice that in this report it makes a recommendation that no further sales of system securities be made.

The Chairman. It does not make that.

Governor Seay. (Governor Seay quoted from the report.)

The Chairman. That is a very different matter.

Governor Seay. The amount of securities already sold is about fifty-odd million?

The Chairman. 63 or 64 million.

Governor Seay. Those sales are not only to offset gold importations which had already taken place, but to a certain extent those which were known to be coming forward?

The Chairman. No, the figures are all contained in the memorandum. Some 68 millions I think we sold in order to pay for gold which remains in London.

Governor Seay. If the gold purchased in London remains there it can have no effect over here which needs to be off-

set, can it?

The Chairman. It would if we pay for it by giving our member banks a credit, but if we pay for it by giving them securities out of our portfolio, which sterilizes it, to use a fashionable phrase. Now, of course, if we sell that, as I said this morning you get paid in dollars for it. That would take back out of the market the credit which would have been put in as it arrived and enable us to buy back the 60 million securities which were turned over to the banks to pay for it.

Governor Calkins. When Under Secretary Mills came in Mr. Harrison was about to embark upon an explanation, on which he was cut off. Is that what you are now asking him to explain?

The Chairman. I do not think Governor Seay really got the full details of exactly what this gold movement amounted to and how it was handled.

Mr. Harrison. The difficulty is that the full story about the gold movement has been told only to the Open Market Investment Committee and not to the whole Conference.

The Chairman. The whole story is in the memorandum.

Mr. Harrison. So far as the effect on the market is concerned, if the Federal Reserve Bank of New York buys gold

and pays for it in dollars, it is quite insignificant as a matter of fact whether we hold the gold in New York or in London.

Governor Seay. That is true, but the question I asked is have you already done that?

Mr. Harrison. We have actually paid for it. What happens is this: On a recent date we got advice from the Bank of England that they were holding approximately 60 million dollars for credit for our account, on order of the Bank of France. At the same time we got instructions from the Bank of France to pay for that gold by crediting their account an equivalent amount of dollars. Then we got another instruction from the Bank of France to please invest 60 million dollars in securities, and at that point we had to decide whether we wanted to invest in securities on the market or whether we wanted to sell them some of our own securities.

Governor Seay. That was the fact that was unknown so far as I am concerned. That has not been done?

Mr. Harrison. Yes, that was completed on May 6th.

Governor Seay. Those securities that were sold were sold practically to the Bank of France.

Mr. Harrison. That is right, on May 6th. Entirely

apart from that particular transaction of 60 million dollars in gold that we bought and kept in London, there were other shipments of gold that had already been despatched under a contract between the Bank of France and a member bank in New York, which were sold to us by the member bank in New York, and the proceeds of which we had to invest upon order of the Bank of France just exactly as we had invested the proceeds of the gold which we bought <sup>in</sup> London. The total amount of investments out of the proceeds of gold which was actually shipped to us, about nine million dollars, I have not the figures before me on that. The total reduction of the holdings of the System on account of this Bank of France gold transaction to date has been about 68 millions of dollars. There is another shipment of six million dollars which arrives in New York today, the proceeds of which will be paid to a member bank for the account of the Bank of France. Then we will get instructions from the Bank of France to invest those proceeds in securities, and under this resolution or recommendation which the Open Market Investment Committee has finally adopted, instead of selling the securities to the Bank of France out of our investment account we will go out into the market

and purchase them for them.

Governor Fancher. That will in effect mean that the gold has found its way into the open market and there will have been that much added.

Mr. Harrison. That is right. In other words, by having gone into the open market instead of going to our investment account we have not sterilized it. There isn't much more coming now, about 17 million after this six million.

Governor Calkins. A matter which Mr. Harrison approached, but did not finish, owing to the arrival of the Under Secretary, was some discussion in regard to the participation by the banks in the holding of gold abroad.

Mr. Harrison. As I explained, we purchased bars of gold at bar value, the mint value of which was approximately \$59,700,000. We paid for that gold an amount approximately \$210,000 less than the mint value of it and we credited that \$210,000 to suspense account. What will happen to it will depend on what happens to the gold, at what price we sell the gold. But the thing that the men in New York are very anxious to decide upon now is whether or not various other Federal reserve banks wish to participate in the purchase of the gold which is being ear marked in London.

Governor Young. Do you want us to participate?

Governor Calkins. Inasmuch as the other banks --

The Chairman. Just a moment. Let us answer Governor Young's question first, which is?

Governor Young. Does New York want the other Federal reserve banks to participate?

The Chairman. We want them to use their own judgment about it.

Governor Bailey. What would you advise us to do? We usually follow your smoke.

Governor Young. Perhaps I didn't put the inquiry in the manner in which I should have put it.

The Chairman. Let me tell the story, and then you can ask the question.

Governor Young. Let me correct my question a little bit. What I want to know is whether it is too much accounting trouble for New York.

The Chairman. Oh, no. It goes further than that.

Governor Young. All right. I will recommend to our people that we participate.

The Chairman. The real point is this: When we paid for this gold by taking your securities you took an interest,

but if you do not participate in the sale of the gold, if there is any profit in it, we would get all the profit. It is only proper and fair that you should participate in that. If we are lucky we might make a couple of hundred thousand dollars on it and it ought to be divided up. If you do not want to be bothered with it or think there is a chance of not selling at a profit we would take it. My best judgment is that we are not going to lose anything on it but that we will make a nice little profit.

Governor Young. I am not going into it for profit, but I am gradually getting educated to some of these foreign transactions and I will be glad to recommend to our people that we go into it.

The Chairman. If we can sell this for dollars today at substantially the mint price abroad, or anything like it, we would make that profit.

Governor McDougal. Isn't it true that we are already participating in this? Have not the securities been in effect delivered and each bank charged accordingly?

Mr. Harrison. I cannot vouch for it, but the book-keeping that should have taken place at the moment has been that you have been credited with the proceeds of the sales

of securities. Now the question is whether you want to give back that credit and take one in London.

Governor Harding. Our officers meet next Wednesday. If there is an adjournment <sup>here</sup> which will let me get back for that time I will recommend that we take our participation.

The Chairman. We can carry it for a week in our account.

Mr. Harrison. The only advantage in doing this at once, if we are to do it, is this: It is going to be a matter of considerable comment in the newspapers when it is disclosed that there is an increase in the gold holdings abroad amounting to some sixty millions of dollars, and if we do it at once the New York statement would be the only one which would show an increase in gold abroad.

Governor Harding. When do you make that statement?

Mr. Harrison. Today.

Governor Harding. If it will help matters any, with the understanding that, in the very improbable event that the Directors should turn me down on this, I will take the participation now.

Governor Norris. And I will.

Governor Fancher. Yes.



Governor Young. I will take a chance.

Mr. Harrison. We can agree to buy back any gold that you are not in a position to take.

Governor Norris. We are in a position to do it. I have always participated in every foreign account. I do not think there is a shadow of doubt but what our directors will approve it, but I have always given them an opportunity to pass on it.

Mr. Harrison. There is only one factor that might be considered, and that is whether any one of the reserve banks has got a reserve position that might in any way be affected substantially and where it might be their best judgment to keep out of the participation.

Governor McDougal. It seems to me the banks ought to be notified of what is going to take place because it will affect our statements.

Mr. Harrison. With the authority of the Conference I will have the New York Bank participate the total amount on the usual basis and advise each Federal reserve bank that that has been done and mention that the action had the approval of the Governors' Conference.

Governor McDougal. We can report this to our boards

when the time comes. It will be all right, and it seems to me it is identical with what we have been doing.

The Chairman. Quite. This is a sort of emergency situation and we had to act as promptly as possible. We realized in New York that if any reserve bank felt a reluctance to carry some part of their gold abroad where it would not count as reserve we would have to take it over; but unless we had acted at once we would have had all that gold over here with little likelihood of getting it out again. We conferred with the committee by telephone and they all agreed to do it as a committee procedure. We took it up with the Federal Reserve Board and told them exactly what the situation was and that it might work out very happily with a profit. If we can short cut the gold over there we have got a chance to make a profit.

Governor Seay. Is this gold in the form of American bars, Governor Strong?

The Chairman. Not all of it. Some of it is in South African bars and some British bars. There is some little coin. I do not know how much. We have bought it all at its fine gold value. Of course there isn't a very large amount of coin, but to the extent that there is coin there we probably

will be able to dispose of it at its legal value and make a profit there. tender

Now the question is how the Conference feels about the Committee's recommendations in this document.

Governor Young. I move its approval.

The Chairman. Perhaps as a member of the committee I should move its approval.

Governor Young. Then I will second it.

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

The Chairman. The next topic is D, suggested by New York and Minneapolis, having to do with the McFadden bill. Each district has been asked to submit a report as to the effect upon branch banking in the different districts of the passage of the McFadden Bill.

#### IV. OPERATION AND ADMINISTRATION.

##### D. McFadden Bill. (H.R. 3)

1. Effects of McFadden bill on branch banking in the different districts. (Each district is asked to submit a report.)

2. Prospects of State banks converting into national banks in view of terms of McFadden bill. (Each district

is asked to submit a report.)

3. Are there any other questions requiring discussion which are raised by enactment of McFadden bill?

Governor Bailey. Mr. Chairman, we have no branch banks in our district.

Governor McDougal. I will report in a moment.

Governor Norris. Will you please pass me for a moment?

Governor Fancher. In some parts of our district, particularly in Ohio, they permit branch banking. However, it seems a little early yet to tell just what effect the passage of the McFadden Act has had. We have had only one application for a branch, from a bank in Cincinnati, and that raises the question now as to interpretation of the act as to city limits. It is pretty squarely up to the Board to interpret it because it is almost entirely surrounded by the city of Cincinnati and really within the corporate limits. It will be necessary to interpret that provision of the act. We have had no state banks that have converted to national banks. It is a little early to note the effect both with regard to branch banking and also with regard to state banks taking out national bank charters.

Governor Bailey. You are discussing Topic II as well

as Topic I?

Governor Fancher. Yes, sir.

Governor Bailey. We are going to get some additions to the National bank system as a result of it. I know of two cases where they had a savings bank which is going to convert to a national bank and another one is doing the same thing or contemplating it. We have had more inquiries since the bill was passed by state banks with regard to taking out charters than we had before.

Governor McDougal. In regard to topic 1, there is only one of our States in the Seventh District which permits branch banking. We have not seen that this bill has had any noticeable effect in the State of Michigan, except some inquiry as to some points involved. There has been a lot of discussion and some inquiries out there, having for their basis the determination of the question of the advisability of converting State banks into National banks. One or two large banks have been considering it, but I do not know of any steps that have been taken definitely.

Governor Norris. In New Jersey, in anticipation of the McFadden bill passing, they passed an act providing for branch banking and it is being very satisfactorily worked

out by a system of cooperation between the State banking department and the Comptroller's office. I do not know the details of it, and I haven't had opportunity to learn them, but I know it is being worked out in a very satisfactory and cooperative way.

At the last session of the Pennsylvania Legislature, which closed a few weeks ago, they passed a bill which, while it is in the form of a bill prohibiting branch banking, actually legalizes and authorizes and permits it in those cities where banks have heretofore maintained branches or branch offices. It is practiced in Delaware, in Pennsylvania to a limited extent, and in New Jersey generally. It will result in extending the operations of established banks through the opening of branches.

As to the second inquiry, in some sections of the district, particularly those where there is a large foreign population, the national banks are in much better standing than the State institutions, and in those sections we expect to get some conversions; and further, when a national and state institution consolidates, we should now expect to see a greater number of consolidated institutions continuing under the national charters.

Governor Talley. Mr. Chairman, I have a report here, but the effect of the McFadden Act will be so unimportant in the Eleventh District that I do not believe it is of sufficient consequence to take up the time of the Conference.

Governor Biggs. The present status of branch banking in the Eighth District is as follows:

Branches are prohibited by statute in Arkansas, and none are in operation by member banks.

Branches are prohibited by statute in Illinois, and none are in operation by member banks in that part of the State included in District No. 8.

Branches are prohibited by statute in Indiana, and none are in operation by member banks in that part of the State included in the Eighth District.

In Kentucky full-fledged branch banks are prohibited by a court ruling, but additional offices or tellers' windows may be established in the same city where the parent bank is located. For a number of years the Bank Commissioner had permitted such additional offices, but a year or so ago he refused to permit the state banks in Louisville to establish any more of them. The matter was taken to court, and on February 8th, 1927, the highest tribunal of the State issued

an opinion upholding the right of a state bank to establish additional offices in the same city where it is located for purposes of receiving deposits and paying checks, and enjoining the Bank Commissioner from interfering. Therefore a non-member bank in Kentucky may now establish as many of such offices as it desires without asking anyone. However, the member state banks are required by condition of membership to obtain permission of the Federal Reserve Board before doing so.

The only member banks in that part of Kentucky included in District No. 8 having branch offices are located in Louisville. They are as follows: National Bank of Kentucky, which has one branch office; Citizens' Union National Bank, which has one; Louisville National Bank, which has five; First National Bank, which has two and has been authorized to open four others, and Liberty Insurance Bank, which has six and has been authorized to open another.

In Mississippi branches are prohibited, except that banks in cities of ten thousand or over may, with approval of the banking department, establish additional offices in the same city where the parent bank is located, and that outside branches already established may be removed with the



consent of the banking department, from one municipality to another. The only member bank in that part of Mississippi included in the eighth district having branches is the Grenada Bank, which has 12 branches located in other towns.

Branches are prohibited by statute in Missouri and no member banks have any.

In Tennessee branches are permitted in the same county in which the parent bank is located. The only member bank in that part of Tennessee included in this District having branches is the Union and Planters' Bank and Trust Company of Memphis, which has two branch offices in that city.

So far, the only effects of the McFadden Bill on branch banking in the Eighth District have taken place in Kentucky. Before the bill was passed, the First National Bank of Louisville had no branches. After the bill became a law, in order to meet competition of the local banks having branches, it applied for six additional offices. At the same time, the Liberty Insurance Bank, a state bank, applied for permission to increase its branch offices from five to seven. The Chief National Bank Examiner and the Assistant Federal Reserve Agent visited Louisville, looked over the proposed locations, and discussed the situation with the local bankers, who agreed

to limit the number of branches they would request. So far as we know, the only other member bank in Louisville now desiring branches is the Citizens Union National Bank, which has only one and may want another.

Governor Calkins. It seems to me I have heard something about branch banking, although I am a little hazy about it right now.

Most of the effects of the McFadden Bill, as applying to branch banking, were anticipated in California. Two of the seven States in our district permit branch banking — Arizona and California. The others do not. There have been very few, practically no, important developments that were not under way at the time the bill was passed. Since its passage it is too early to judge of the effect on the disposition of state banks with regard to joining the national system, although we anticipate a movement in that direction. There have been two conversions of state to national banks. One the Bank of Italy and the other the Commercial Bank, a small bank. There has been one conversion from state to national bank applied for and refused by the Comptroller. There has been one consolidation of a national bank with a state bank, with the operation of the former

state bank as a branch of the national bank.

Three non-member banks have applied for branches located at points other than the city of their home offices and have received permission from the state department in California. There have been quite a number of additional city branches established, that is established in the city of the head office. We have informal information that there has been some discussion about the consolidation of state and savings banks now owned or controlled by national banks.

The points under consideration are, first, that they believe more economical operation would be possible with the affiliated savings bank merged with the national bank, a somewhat more flexible movement with regard to savings deposits than under the State law; also more liberal capital requirements for national banks. There is, of course, no opportunity at this early date to say what the net results of the passage of the McFadden Bill upon the conversion of state banks will be. My own impression is that there will be in our district, not only in the State of California, but elsewhere, a disposition on the part of state banks to consider whether they would be better off if they got into the national system or whether they would be just as

well off without becoming members of the Federal Reserve System and without nationalizing. I think that inquiry is quite general among the better banks that are outside of the system now.

Governor Seay. In our district, West Virginia permits branch banking. There are no developments in branch banking so far as I know, which can properly be traced to the passage of the McFadden Bill, or to its effect upon state banks in inducing them to convert into national banks. We feel that it is premature to venture an expression on that.

Governor Wellborn. In the Atlanta District the States of Louisiana, Tennessee, Mississippi and Georgia permit branch banking, and Alabama to a limited extent. That is banks that already have branches there can keep them, but they cannot have any more.

The McFadden bill had a marked effect in Georgia. It has resulted in the largest state bank we have in Georgia being converted into a national bank and they have received their charter already. That is a bank with 65 millions in deposits. They immediately took steps to convert and the Comptroller approved it. In Nashville the First National has established five or six branches in their own city.

Governor Harding. The banks in Boston and Providence and some of the larger Maine cities were already pretty well provided with branch offices before the McFadden Act was passed. I do not think any of them have added to their number of branches since.

An interesting development took place about a month ago. One of the non-member suburban trust companies went to the Massachusetts Legislature and asked for a special act to enable them to establish a branch in a town outside of their own county. Some of the suburban national banks objected and pointed out that the object of the McFadden Act was to equalize competitive methods between national banks and trust companies, and this would result in an inequality, and succeeded in having the Legislature turn it down. The effect of the McFadden Act I think will be most favorable for the perpetuation of national banks in the district. For some time past a merger has been under way in Hartford between the Hartford National Bank and a large trust company, the trust company having considerably larger deposits than the Hartford National Bank. The consolidation is all fixed and I expect it has gone through already. They hung in the balance, even after the passage of the McFadden Act, as to whether the

consolidated institution would take out a national charter or a state charter. The trust company is strong for a state charter, and some of the national bank people had cold feet on the national charter. The sticking point was the continuity of trusts. It seems that some lawyer here in Cincinnati gave an opinion that the McFadden Act did not provide for the continuity of trusts carried by trust companies. The Comptroller of the Currency sent one or two of his deputies out there and finally convinced these people that the trusts would not be disturbed. Now it has been definitely decided that the combined institution will continue business as a national bank.

The Chairman. Governor Young?

Governor Young. In answer to No. 1, there is no occasion for branch banking anywhere in the Northwest, except Minneapolis, St. Paul and Duluth. The towns are too small. In Minneapolis, St. Paul and Duluth the state law prohibits them.

In answer to No. 2, we have had a great number of inquiries with reference to national banks. I think that comes about for three reasons. The first reason is, because, as Governor Norris said, the public for some reason

or other, seems to prefer the word "national". We have some very specific examples of that right in Minneapolis. The First National of Minneapolis owned the Bloomington Bank through stock ownership. The Bloomington Bank lost some \$250,000 in deposits out there. They took out a national charter and got it back and some more, and still everybody knows it is the same organization. You just cannot explain it.

The second reason is the fear of the passage of guaranty laws in Montana and Minnesota. The good banks out there are going to get out of the State system if the guaranty law is passed. In Minnesota it is killed for two years and won't come up again.

The third reason for taking out national charters is that in Minneapolis and St. Paul the large banks have had to unscramble their branches. Before the McFadden bill was passed it was not profitable for them to take out \$200,000 capital. Now that the McFadden Bill is passed I think every one of those outlying banks will be national banks. In addition to that we have had some consolidations between state banks and national banks. The good consolidations have come our way. The poor ones have not come our way, not because they

didn't want to, but because the Chief National Bank Examiner pushed them the other way. So, all told, I feel that the McFadden Bill has been beneficial in the agricultural sections. I do not think we are going to get so many national banks, but those that we do get are going to be the good ones.

The Chairman. I think New York has noticed the effect of it. We have the northern half of New Jersey and there have been 23 new branches opened there. In New York I think there are 26, making 49 altogether. There is one noticeable thing, I think, with us, as with you, and that is the tendency to take out State charters in these consolidations has been arrested.

One thing that strikes us is that there certainly has been an impetus given to membership in our district. I remember the report I got when I was abroad was that we had just gotten our <sup>nine</sup> hundredth member. I notice since my return that it is up to 934, and I think it is higher now. Notwithstanding that the surplus has not increased. Our capital and surplus together has crossed the one hundred million dollar mark, due to increase in capital from the new banks, to consolidation with national charters of members of the system and increases in capital of some of the larger banks.



I do not know whether there are any particular developments in connection with the passage of the McFadden Act which raise any questions which could be disposed of at this meeting. It was put on the program, but we have no question in our district.

Governor Fancher. We have none.

Governor Norris. I would like to ask one question that is applicable to the whole country. There has been very considerable variance in the rulings of the Federal Reserve Board on the question of reserves, as to what is the outlying section of a city. In Chicago I think the whole city is outlying except a little block in the financial center. In Philadelphia we have no outlying sections at all, although there are points 14 miles distant from the City Hall.

Now, under the McFadden Bill, if the Comptroller allows an institution to be incorporated with a smaller capital because it is in an outlying section, can the Federal Reserve Board, of which it is a member, say that that is not an outlying section as far as reserves are concerned?

Governor Young. I think so. If that bank is handling country bank accounts and bank balances I think they would be justified in saying that they would have to carry a higher

reserve. That would be taken under consideration and determined by the Board.

Governor Norris. They have not done so.

Governor Young. That is what they have done with us.

Governor Norris. We had a number of cases that we have put up to them, small banks in residential sections, most distinctly outlying sections of the city, which had definite names, although they were within the corporate limits of Philadelphia. These were just local institutions, little institutions, that had no outside bank accounts at all, but they have always held that they were not outlying.

Governor Young. Did your board make a favorable recommendation?

Governor Norris. Yes.

Governor Young. That is peculiar, because they have always granted it to Minneapolis.

Governor Harding. There is another important thing in connection with the passage of the McFadden legislation, in my opinion, and that is the desirability of statutory definition of savings deposits. The powers of national banks to lend money on real estate is very greatly increased, because now they can lend I think 50 per cent of their savings deposits.

In the Boston banks, most of the national banks there have a savings department with a savings pass book and they pay four per cent interest. They place no limit whatever upon the amount of savings that can be carried in one pass book. One of the large Boston banks recently put in a rule that they would pay four per cent only on the first ten thousand dollars, and over and above ten thousand dollars the rate would be three per cent. Under that limit that bank has some accounts of a hundred and fifty and two hundred thousand dollars. Another bank which has no limit at all on the amount of savings to be carried in any one pass book, has issued one pass book to a corporation for a million dollars savings account, at 4 per cent.

The Chairman. And \$30,000 reserve with you on that.

Governor Harding. Yes. It seems to me that sooner or later we have got to have legislation from Congress with a view of having a statutory definition made of what a savings account is.

Governor Bailey. Hasn't that been the question in California for a good while?

Governor Calkins. They have the half and half situation, the savings certificates.

Governor McDougal. This question is a very important one, I think. We had so many cases with the Board in regard to it that we feel very strongly the necessity for some authority ruling specifically what is meant by savings deposits. I do not know whether any attention has been given to it or not, but unless it is done there is going to be confusion and everything that goes with it. I think the average bank under present conditions and in the face of the law will continue to use time deposits until they are stopped.

Governor Calkins. Isn't it true that the Comptroller of the Currency is now considering a ruling on that question? There is a very urgent need for an intelligent definition of time deposits and savings deposits. The situation is growing rapidly worse, and growing rapidly worse faster in the New England section than any other part of the country. The time deposit evil -- and I think that is the proper thing to call it -- is growing everywhere. Banks everywhere are carrying as time deposits funds that have no business to be classified as time deposits.

The Chairman. 60 per cent of the increased bank deposits in the last ten years consist of those deposits that carry three per cent reserve. Bearing on this development

that you referred to in New England, Governor Harding, as I recall it there was a case out in California some years ago where a bank met the requirement of the three per cent reserve by holding the original pass book in its own possession and giving a duplicate to the depositor, so that the depositor could draw a check on his savings account. I wonder if Governor Calkins will tell us whether that matter has ever been disposed of?

Governor Calkins. No, I think not. I think that practice still prevails.

The Chairman. Then you have a lot of banks carrying savings deposits out there which carry ten per cent reserve, and some that carry three per cent reserve?

Governor Calkins. Yes. The fact is, not the bank you referred to, but another one out there, there was some discussion about meeting the definition of the Board exactly, but the discussion stopped right there and no action was ever taken.

The Chairman. Do you realize that if there had been a reasonably strict definition of what type of deposit would be permitted to carry only three per cent reserve that we wouldn't be bothering about our portfolio very much?

Governor Calkins. That is true, not only in California but in other parts of the country, New York, Chicago, Cleveland, Pittsburgh, and so forth.

The Chairman. Oh, yes, that is all admitted; but if this great growth of deposits in the guise of savings deposits had not been permitted to take the form of savings deposits the reserve requirements today would have necessitated a sufficient volume of borrowing from the reserve banks so that we would have had no difficulty in maintaining an adequate portfolio and the whole banking position would have been very much stronger.

Governor Calkins. If the reserve amounts to anything, in the sense that it is usually supposed to mean something, it is perfectly absurd for a corporation to carry a million dollars in a savings account and the bank carry three per cent reserve against it.

Governor Seay. It would have a marked effect on the expansion of credit, Mr. Chairman.

Governor Calkins. I do not think any more vital question could be considered by this Conference or the Federal Reserve System than the correction of the tendency that has been growing so strong to evade proper compliance with reserve

requirements.

Governor Seay. In the amendment to its regulations I think the Board has attempted in some way to deal with that situation. It might be a subject for the committee, which is to be appointed, to take up with the counsel for the Federal Reserve Board.

Governor Harding. I think I appreciate some of the difficulties encountered by the Board on this particular problem. I do not think it is anything which is very well cured by a regulation. I think it goes deeper than that and needs legislation. I think the reserve section of the Federal Reserve Act ought to be amended so that it would carry a definition of savings deposits by providing some limitation on the amount that could be carried in the pass book.

The Chairman. That was a provision as to mutual savings banks --

Governor Harding. The question of time certificates is a little more complicated than in the California case, with which you are familiar. Quite recently one of the Boston trust companies has gone California one better. They have got out the slickest proposition you ever saw. It is a demand certificate of deposit which they claim is a time certificate

and carries only three per cent reserve against it. Looking at it one way it is a time certificate and looking at it another way it is a demand certificate.

Governor Talley. We have banks carrying public funds, and in view of the experience they have had with regard to the time consumed in withdrawing these public funds, they are undertaking to get letters from public authorities obligating themselves to give more than 30 days' notice for withdrawal, and treat the public funds as time deposits, although it is very clear that any political subdivision has a right to lend its funds which it has accumulated for a particular purpose. We have had that up with the Federal Reserve Board and also with the Comptroller, and it still goes on. In some instances it is mitigated by the fact that the banks are carrying good secondary reserves; but it is a deposit that requires a ten per cent reserve and only a three per cent reserve is being carried against it.

The Chairman. The matter suggested by the New York District in connection with that can be disposed of without any discussion here, and we won't take the time.

Topic F has been acted upon. Topic G is the air mail service.



G. Air Mail Service.

1. To what extent is it being used or should be used by Federal Reserve Banks?

2. Its effect on Time Schedules.

Governor Harding. The Boston post office has been sending out a number of circulars to banks and business corporations advising them to use the Air Mail Service. Two or three of our larger member banks have been experimenting with it in some of their direct sendings. In the reserve bank we have taken the position that if we could cut the corner by saving a day's time on some of this stuff by sending it by air mail, the banks that send the stuff could do the same thing, and that we are just as well off if we let it run for a while. Our attitude is that we are not going to use the air mail except in self defense.

I have a memorandum from my transit department on this which says:

"In order to test out the air mail, we sent letters Federal reserve banks and branches during the first three days of the month of March. On one day the mail plane out of Boston broke down at Framingham, and the tests on the other two days showed such a variation in the time the mail arrived

that we were unable to draw satisfactory definite conclusions.

"The First National Bank and the National Shawmut Bank have been forwarding by air mail cash letters to selected points since March 9th. During this time 85 letters have been sent to other Federal reserve banks, and 32 of these letters arrived at their destination at the same time as if they had been sent by railway mail. 45 arrived one day earlier than if they had been sent by railway mail, and 8 which were sent to Dallas arrived at their destination two days earlier.

"Experience thus far indicates that no time can be gained on letters to Detroit, and the time to Chicago, Cleveland, Minneapolis, New Orleans and Kansas City is quite uncertain. On letters to St. Louis, Omaha, Dallas, San Francisco and their branches a gain of from one to two days is quite consistently shown."

Of course any general use of the air mail would involve a revision of the time schedules. If Boston uses it to San Francisco, San Francisco would quite naturally use it to Boston, and the net result would be just about the same, and we have all the uncertainties, delays, and so forth. So our

attitude is we prefer to let it alone until it is in more general use and stabilized. It is too uncertain now.

Governor Fancher. I have a memorandum prepared by Mr. Strater bearing on this:

"The Standing Committee on Collections has repeatedly discussed the possible development of the 'Air Mail Service' to a point where the Federal reserve banks might recognize the method of air transportation by revising its time schedules.

"At present there is only one important air mail service, and that is the Trans-Continental one. There are a number of feeder routes which are more or less effective and more or less dependable. The rates, however, are practically ten times the rates charged for ordinary mail and are prohibitive for the ordinary volume of checks. It is only in cases where large amounts are involved and long distances to be covered that any real advantage can accrue from the means of air mail transportation.

"In my opinion, it will be many years before the service is developed to an extent where it will be of any practical usefulness for transportation of mail for short distances, and naturally the more remote the point of collec-

tion the less volume there will be.

"It has been our experience that some of our member banks take advantage of the service when checks of large amounts are concerned but these are relatively infrequent and are all handled as special cases. We permit certain of our larger banks to send checks of \$50,000 or more to other Federal reserve banks and branches by air mail routes and give them an estimated availability date which is adjusted in their reserve if the schedule fails."

Governor McDougal. We are not using the air mail service. Some of our member banks have used it in connection with items sent to New York and some of the western reserve cities. Aside from that I do not think they make much use of it.

The Chairman. Do any other Governors wish to report?

Governor Seay. Richmond is about to become an air mail city. The problem is not at all pressing with us.

Governor Calkins. The use of air mail with us has been confined to the direct routing by member banks. When it gives the member banks the benefit of the shorter time schedule it is done in all such cases, they paying the cost. 21 member banks in the principal cities are using or have used the air mail.

Governor Seay. Do you require the member banks to pay

the additional postage?

Governor Calkins. Yes.

Governor Talley. We have three member banks that make a daily practice of using the air mail from the Dallas station. We have made a complete analysis of their sendings over a period of three months and note that 116 cash letters were received and credited by other federal reserve banks, every one a four day letter. Finding that our member banks were credited on their books with only four days we credit on that date, the credit dates pass to the accounts of our members. To encourage the sending by air mail we have been absorbing this float, but our idea is it is not at all practicable and we do not use it ourselves.

Governor Wellborn. In the Atlanta District there were two air mail routes established at different times, but they found that they did not pay and they have discontinued the service. One of them is in the hands of a receiver, the one that went to Florida.

Mr. Harrison. Theree Federal reserve banks have sent items to us by air mail, Minneapolis, St. Louis and the Seattle branch. 22 member banks have sent air mail to us direct. We ourselves have not used the air mail for outgoing items, Although we have advised our various member banks that they may

send checks direct to other Federal reserve banks by air mail there is only one of our member banks to our knowledge who has ever used it, and then very occasionally, and only for large items.

When this matter was referred to the standing committee on collections by the Fall Conference of 1924 that Committee reported back that they thought the air mail service was too inexperienced and too unstable to justify changing schedules. The committee said, however, that they would watch the development of the air mail service, and if the time should come when experience justified its general use or the changing of the time schedules, the committee would advise the Governors. We have considered that the matter is in the lap of the committee and that the next move will be up to them so far as we are concerned.

The Chairman. Now we have had a general review of it, which is not altogether encouraging.

Governor Biggs. About a year ago we inaugurated the air mail service between St. Louis and Chicago and the first month the results of the operation were very satisfactory, and we gave our member banks schedules based on air mail service, but required that they assume the postage. Just about the time

the schedules were changed daylight saving went into effect. The air mail service thereafter did not come up to the standard maintained for the few weeks we had been observing it, and in the fall and winter it became very erratic. The record beginning with October based on dollar amount of cash letters handled by air mail showed that the following percentage of cash letters arrived on time:

October,, 59 per cent.

November, 36 per cent.

D ecember, 55 per cen t.

January, 45 per cent.

February, 63 per cent.

March, 68 per cent.

Last fall, due to the irregularity of the air mail service, the matter was taken up with the Board and it was decided that we should discontinue guaranteeing the air mail schedules. Since then we have been accepting checks to be forwarded by air mail, but only subject to our regular published time schedules, except that if in the regular course of business we find that we obtained earlier credits than our regular schedules called for, we give the interested member bank the benefit of the earlier availability through credit

in the analysis of their reserve account.

The Chairman. If there is no further discussion of this, we will go to Topic IV-K, report of the committee on safe-keeping of securities.

IV. OPERATION AND ADMINISTRATION.

K. Report of Committee on Safekeeping.

The Chairman. This is a committee appointed by the Federal Reserve Board between meetings of the Governors.

(The report of the committee is as follows:)

March 11, 1927.

REPORT OF THE COMMITTEE ON THE FUNCTION OF CUSTODIES  
IN FEDERAL RESERVE BANKS.

Pursuant to a letter from the Federal Reserve Board, dated January 5, 1927, in regard to the safekeeping of securities by Federal Reserve Banks, the committee designated by the Board, consisting of

R. A. Young, Governor, Federal Reserve Bank of Minneapolis.  
Wm. McC. Martin, Chairman and Federal Reserve Agent,  
Federal Reserve Bank of St. Louis,  
J. H. Case, Deputy Governor, Federal Reserve Bank of  
New York, Chairman,



duly met at the Federal Reserve Bank of New York on March 4 and 5, 1927.

The Board requested that this committee give consideration to all phases of the safekeeping problem. The committee, therefore, after careful consideration, has divided the problem into specific questions and makes the following responses and recommendations in respect thereto, in which are incorporated their views as to the questions specifically raised by the Board, as well as to other questions involved in a general consideration of the safekeeping problem. These questions and responses and recommendations follow:

1. Should Federal reserve banks receive for safekeeping securities which are the property of member banks, and, if so, should any distinction be made as to the location of the member bank; that is, should the same service be rendered to both city and country banks?

The Federal reserve banks are all rendering a safekeeping service to their member banks and it is doubtful if the banks could avoid the rendering of this service to at least a limited extent, even if they desired to do so. For instance, the banks necessarily hold large amounts of securities as col-

lateral to loans. The loans are paid off and the securities generally are permitted to remain with the reserve bank as a matter of convenience and in anticipation of the need for further borrowing. Securities so held, even though originally pledged as collateral, are held in safekeeping and it would be very difficult, if not quite impossible, to avoid the holding of securities in such cases. In addition, a large number of banks have lodged with their Federal reserve banks for safekeeping all or a substantial part of their security holdings. In some districts the reserve banks are already holding a majority of all of the securities owned by the country member banks within the districts. This represents a service of very great value to the country member bank and, incidentally, to the public interest generally, for the reason that the majority of country banks do not have vaults of proper strength for the safeguarding of their property. Your committee believes that the value of this service to the member banks is far beyond its comparatively small cost to the Federal Reserve System and that it is a service which is incident to the maintenance of the reserve account.

It recommends, therefore, that the Federal reserve banks receive for safekeeping securities which are the property of

their country member banks. As to whether or not this service should be rendered to both city and country banks, it is the view of the committee that in general the policy should be to limit the safekeeping of securities to member banks outside of reserve and branch cities, but that the reserve banks should exercise discretion in the case of banks which do not have adequate vault protection of their own, regardless of location.

2. Should Federal reserve banks receive for safekeeping securities the property of correspondents other than member banks, agencies of the Government, etc.?

It is the view of the committee that the reserve banks may properly receive securities to be held for the account of the Secretary of the Treasury and other agencies of the Government, in cases where the banks are specifically authorized by law to render this service, or where they have been specifically requested by the Secretary of the Treasury to render it as fiscal agents of the United States Government. The committee also believes that the holding of securities for foreign or other correspondents may properly be undertaken.

3. Should Federal reserve banks receive for safekeeping from member banks, securities in which third parties

have an interest proprietary or otherwise?

Your committee is of the opinion that Federal reserve banks should not in any case render this service, for the reason that it would impose liabilities which it is felt the Federal reserve banks should not assume. Aside from the question of possible lack of legal authority, numerous difficulties could arise in connection with this service if it were undertaken, incident to the accounting for securities held which were known to be the property of a third party, or in which a third party has an interest; for example, the administration of the inheritance tax laws, etc. In this connection the committee considered a letter addressed by Mr. Martin to Mr. Case under date of February 1, 1927, a copy of which is attached as Exhibit A. Furthermore, and as a practical matter, if the reserve banks were to undertake to render a service of this character, the possible volume of business which might ultimately be offered is enormous and would impose a very great burden upon the reserve banks, not only for the expense which would be involved, but for the liability incident to the handling of a great volume of securities. There would also arise the element of competition which member banks which are especially equipped to handle such business for profit.

The committee recommends, therefore, that the Federal reserve banks should not receive for safekeeping from member banks securities which are not the property of the depositing member bank.

5. If Federal reserve banks are to hold securities for safekeeping should a charge be made for this service with respect to any particular class of safekeeping?

It is the view of the committee that in all cases where it recommends that the Federal reserve banks should render a safekeeping service to member banks, this service, the cost of which to the reserve banks is not great, should be rendered free of charge.

In the case of securities held in safekeeping for other than member banks, as, for instance, foreign correspondents, agencies of the Government, etc., it believes that the matter of a charge should be left to the discretion of the reserve bank handling the business.

6. What are the legal responsibilities involved in the handling of securities for safekeeping, and would this legal liability be increased if a charge were to be imposed?

There is attached as Exhibit B copy of an opinion of counsel of the Federal Reserve Bank of New York, dated

January 20, 1927, which the committee considered and adopted. This opinion was rendered with reference to the law of the State of New York. The rule of law is that reserve banks holding securities in safekeeping for member banks are not in any case insurers against loss. In any case where a reserve bank is expressly paid for these services, or where it might be found that in fact there is a lawful consideration passing from the member bank to the reserve bank (and the opinion anticipates that in all these cases there would be found to be in fact a real consideration passing from the member bank to the reserve bank), the reserve bank would be liable in the event of loss of property held by it only if it should be proved that the reserve bank had omitted to give to the property held in custody the same care that would be given by an ordinary prudent banker to the conduct of his own business in like circumstances. In any case where it might be found that the custody of the reserve bank is gratuitous, the reserve bank would be liable for any loss occurring only if gross negligence were proved. These are definitely settled rules of law in the State of New York, and while there might be slight variations, it is believed that they are of quite general application. The opinion ex-

pressed the view that while, theoretically, there is a difference between a possible charge to a jury that the reserve bank is liable if it failed to use the care that an ordinarily prudent banker would give to the conduct of his own affairs, and a charge that the reserve bank would be liable only if gross negligence were proved, yet as a practical matter it is doubted that there would be any great advantage to the bank in the event of the latter of those two possible charges.

The opinion refers, also, to the legal effect of the clause in the safekeeping receipt issued by the Federal Reserve Bank of New York, as follows:

"The Federal Reserve Bank will give to property left in its custody the same care that it gives its own property; but beyond that will not assume responsibility ."

At the time the opinion was written it was thought that this provision would be of doubtful effect. However, in an opinion decided in the last month in New York it was held that the liability of a bank holding securities in safekeeping was limited to that expressed in the receipt. The law is contrary to this in many states, where the courts hold that contracts seeking to exempt a party from the consequences of his own

negligence will not be given effect.

The opinion also discusses the liability of the banks in safekeeping operations on behalf of various Government departments, and, after expressing the view that possibly there would be found to be a consideration moving from the Treasury to the reserve banks for the performance of these services, states that the liability of the reserve banks is to use in the custody of these securities that degree of care which an ordinarily prudent banker would give to the conduct of his own affairs in like circumstances.

7. Should any distinction be made as to the class of securities which will be held in safekeeping?

It is the view of the committee that no distinction should be made as to the class of securities to be held, if its recommendations in other respects are accepted. That is to say, if the securities to be held for member banks are restricted to those which are the property of the member banks for whom held, then any securities which the member banks own should be held by the reserve banks.

In submitting this report the committee desires to point out that it has given careful consideration to the value of the service which the reserve banks might render to the member



banks in relation to the cost of that service. It believes that the value of the service is very great, especially to the country member banks, who, in many cases, are without proper facilities for caring for their securities. It believes that by restricting the service for member banks to securities actually owned by member banks, the burden on the reserve system will not be great, and that the expense will be very small compared with the value of the service rendered. The committee is convinced that the service should be restricted to those securities which are the property of the member banks, as, if this were not done, the volume of securities which would ultimately find their way to reserve banks would be very great and would impose a burden on the reserve banks, which they would be unwarranted in assuming, it would also cause the reserve banks to enter into direct competition with member banks which are equipped to render a safekeeping service for individuals, which it believes the reserve banks should not do.

Respectfully submitted,

\*R. A. Young,  
Wm. McC. Martin  
J. H. Case, Chairman.

\* While the above report was unanimously adopted by the committee, nevertheless Governor Young desired to have noted his

exception in one regard, as follows:

"Governor Young desired to make an exception to the rule described by Paragraph Four so as to allow the Federal Reserve Bank of Minneapolis and possibly other reserve banks similarly situated to continue to receive from member banks and hold in safekeeping collateral deposited by member banks to secure State or other public deposits, the reasons for such exception being that the Federal Reserve Bank of Minneapolis, and possibly other reserve banks, have done a substantial amount of this business for member banks with mutual satisfaction and further that local conditions are such that the Federal Reserve Bank of Minneapolis, and possibly other reserve banks, have relatively few opportunities for rendering services to members and hence are unwilling to refrain from giving this substantial aid."

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EXHIBIT A.

FEDERAL RESERVE BANK  
OF  
ST. LOUIS

February 1, 1927.

Mr. J. H. Case, Deputy Governor,

Federal Reserve Bank,

New York, N.Y.

Dear Mr. Case:

Referring to your letter of January 14th, with which you enclosed agenda for meeting of our safe keeping committee, I believe there is something we should at least have in mind in connection with consideration of the question as to whether or not we should accept custody of securities owned by customers of member banks, and that is the effect of the state inheritance tax laws.

Under the Missouri inheritance tax laws, should we accept the custody of securities owned by customers of member banks we undoubtedly would be under the responsibility of notifying the tax authorities in the event of the death of the individual customer, and in addition to this we, of course, would be under the responsibility, in the event of the death of a member bank's customer, of seeing that the securities reached the proper legal representative of the deceased, which would necessitate scrutiny of letters of administration. All of this responsibility is obviated if we deal only with securities owned by member banks, owned by customers of member banks, and that is the effect of the state inheritance tax laws.

We all here think that you have covered the matter very thoroughly in your agenda and that after consideration of this our committee should have an excellent starting point for its discussion. I hope very much that Mr. Young is not still sick. As it may be of assistance to you in setting a date for our meeting, I am advising that I have engagements on February 9th and February 14th.

Yours very truly,

Wm. Mc. C. Martin,

Chairman of the Board.

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EXHIBIT B

January 20, 1927.

To Mr. Kenzel

From L. R. Mason

MEMORANDUM

re

BANK'S LIABILITY IN CONNECTION WITH  
SAFEKEEPING ACCOUNTS.

Reference is made to the letter of the Federal Reserve Board of January 5, addressed to Mr. Case, in connection with the work of the committee appointed to make a study

of the question of the safekeeping of securities by reserve banks.

The Board asks to be advised specifically (a) as to the legal liability of reserve banks acting as bailees of securities for pay and (b) as to the legal liability of reserve banks acting as bailees of securities without compensation. I shall endeavor to answer these questions with reference to the law of the State of New York. In order to answer fully, it seems desirable, first, to state the various circumstances under which this bank engages to act as bailee of securities. We shall then in each case reach a conclusion upon the question of whether the bailment is for hire or gratuitous and, having determined that question, express an opinion as to the measure of care required of the bank.

First, then, this bank receives securities from member banks solely for purposes of safekeeping. Upon the receipt of such securities the bank issues a receipt, of which the following is a provision:

"the Federal Reserve Bank will give to property left in its custody the same care that it gives its own property; but beyond that will not assume responsibility."

In these transactions there is no express provision for payment for the services of this bank. However, in view of the relation of the bank with its members, the fact might well be established that the transaction involves mutual benefits and is based upon a real consideration. My best judgment is that we would be found in fact to be bailees for hire in these cases.

Now as to liability in cases of this sort. In the first place, whether the bank is a gratuitous bailee or a bailee for hire, it is not in any sense an in-surer against loss. If we should be found to be a bailee for hire, as anticipated, we are responsible under the decisions of the courts of this state for the use of ordinary care — that is, the measure

In these transactions there is no express provision for payment for the services of this bank. However, in view of the relation of the bank with its members, the fact might well be established that the transaction involves mutual benefits and is based upon a real consideration. My best judgment is that we would be found in fact to be bailees for hire in these cases. If, on the other hand, we were found to be in these cases a gratuitous bailee, the courts would instruct a jury considering the matter that the bank was liable only if gross negligence were proved. It is doubtful as a practical matter

that any substantial benefit would accrue to the bank, so far

as legal liability is concerned, as a result of the latter place, whether the bank is a gratuitous bailee or a bailee for hire, it is not in any sense an in-surer against loss.

If we should be found to be a bailee for hire, as anticipated,

It might be contended that the ~~clause~~ quoted from the receipt is a general avoidance of liability, if we had shown the property of a member in our bank the same care as our own. However, the courts do not look with favor upon contracts in which parties seek exemption from consequences of their own neglect, and I doubt that this provision would be of any effect at all if there was proof of negligence or if there were circumstances giving rise to an inference of negligence. These remarks concerning the receipt apply, of course, to all cases in which the receipt is issued. <sup>x</sup>

<sup>x</sup>(Note.) In the case of *Sagendorph v. First National Bank of Philmont*, (reported 218 N.Y., Supp., 191), decided after this opinion was written, it was held that a stipulation against liability contained in the safekeeping receipt, identical with the one under consideration, limited the liability of the bank holding property in safekeeping to that expressed in the receipt. This seems <sup>now</sup> to be the law in New York. However, there is much authority contrary to this in other states, where it is quite generally held that stipulations against negligence are of no effect.

Another class of cases in which this bank has on occasion in the past received securities for safekeeping

from member banks is identical with the one just considered and involves a receipt containing the same provisions as the one above referred to, except that the bank is on notice that the securities in this class are the property of some person or corporation other than the member bank. It has long been the policy of this bank not to receive securities on this basis. However, since the question appears to be involved in the considerations of the Board, we shall consider the question of liability in transactions of this sort. So far as concerns the question of whether we are bailees for hire or gratuitous bailees and our consequent liability, the considerations are exactly the same as in the case first discussed. There is, however, another aspect of the question of liability applying peculiarly to cases of the sort now under consideration. This question is as to our duty to inquire into the terms of the trust under which the member bank acts for its customer. The rule of law in the State of New York is that where a trustee deposits funds belonging to a trust the bank acting as bailee is under no obligation to inquire as to the terms of the trust. It is entitled to assume that the trustee will apply the funds to their proper purposes. If the trustee misapplies



the funds without this bank's knowledge, it is not responsible therefor. Of course, if this bank had knowledge of such violation or if it profited in any way by it, it would be liable; otherwise not.

A further question which might arise in this class of cases is as to the duty of this bank if, in a given case, it should be advised by a customer of the member bank or by the member bank of any dispute between them as to what disposition should be made of property held in custody. In such cases it is clear that the duty of this bank would be to release the securities only upon the consent of both parties, or to deliver them over in accordance with an order of court.

The next class of cases for consideration is the one in which we hold securities as collateral for loans to member banks or where we hold them with the understanding that we may use them as collateral if required. The receipt in this class of cases contains the same provision as the one quoted above, and the same remarks as to the legal effect of the provision apply.

In these instances I think we are clearly bailees for hire and are in consequence chargeable not as insurers but

with the duty of using the care an ordinarily prudent banker in the conduct of his own business in like circumstances would exercise.

There is a large class of safekeeping operations arising out of our relation as fiscal agent of the Treasury of the United States and as fiscal agent of other corporations organized under Federal law. We in fact hold in many accounts securities of various departments of the Government, either by virtue of a special request of the Treasury or under the Treasury's Circular No. 154 of May 15, 1922, and letter of Mr. Gilbert, addressed to Governor Crissinger under date of July 17, 1923, authorizing reserve banks to take securities tendered by Treasury officers in the ordinary course of their duties. Also, we hold collateral pledged by banks to secure special Government deposit accounts. These securities are held under letter of May 29, 1917, addressed by Secretary McAdoo to the bank and letter of April 25, 1919, addressed to the bank by Assistant Secretary Leffingwell.

In none of these cases do we make any direct charge for our service of safekeeping, except that of the Alien Property Custodian. However, it is thought that in the event of any

question about liability it would probably be determined that in fact there is some consideration passing to us, in view of our relations to the Treasury as its banker. It is not adequate compensation in any safekeeping transaction, but is nevertheless a real consideration.

As to liability in these cases, there is no judicial authority, the question never having been presented to the courts. However, in my opinion, our responsibility in all these cases is not that of insurer but that of an agent to his principal, and in my judgment in all of them we would be held to that degree of care which a reasonably prudent banker would ordinarily give to the conduct of his own business in like circumstances. It is true that the letters of Messrs. McAdoo and Leffingwell, above referred to, are open to the construction that the intention was to make this bank an insurer for the receipt, custody and disposition of collateral for Government deposits.

In some of these accounts we have notice that the property held is subject to rights of third persons. In these cases the same considerations of liability apply as appeared heretofore when we discussed those cases in which the bank has in the past received securities for safekeeping from

member banks where this bank is on notice that the securities are the property of some person or corporation other than the member bank.

- - - -

Governor Young. Are there any objections to the conclusions that the committee has arrived at?

The Chairman. I only heard the objection voiced by one or two members of the Federal Reserve Board, who seemed to think that it would be desirable for some of the reserve banks to undertake to receive securities on deposit for safekeeping from their member banks for account of the customers of the bank members, and this report is designed to point out some of the dangers of doing so. In New York we do not do it except where we cannot avoid. We try to keep them out.

Is there any further discussion of this report?

Governor Calkins. I have not a copy of the report before me, but my understanding is the report does not contemplate any change in the procedure or practice of any Federal Reserve bank; that is, no compulsory change; is that correct?

Governor Young. That is correct.

Governor Biggs. There is one point that Mr. Martin, who was on the committee, raised, and that is if we should accept securities owned by customers of member banks we would undoubtedly be under the responsibility of notifying the public authorities in the event of the death of the individual customer and also under the responsibility, in the event of the death of a customer, of seeing that the securities reached the proper legal representatives of the decedent. That would necessitate careful scrutiny of the letters of administration. These things would prove very annoying in the State of Missouri if we took the securities of member banks.

Governor Young. This committee recommends that we avoid that, but they will creep in. They creep in everywhere. They get in our bank, in New York and everywhere else.

Governor Fancher. Our procedure practically conforms to the procedure I find in the report, with the exception of a few instances we have received securities from banks to be held for county commissioners, to secure deposits. Those are only in a few cases and a receipt is issued to the bank for the account of the County Commissioners. It is very carefully safeguarded and I do not think we are assuming any

undue liability. We only have a few cases.

The Chairman. It is quite large with us, of course.

Governor Fancher. We do not invite it. The cases are special rather than the rule.

Mr. Harrison. When this committee was appointed in January by the Federal Reserve Board, Governor Crissinger stated in the letter appointing the committee that the committee should make a report of the findings, together with such recommendations as might seem advisable, at the next Governors' Conference. In a subsequent letter he indicated that the findings and recommendations of this committee appointed by the Board should be reported to this Conference, so that I think even though the committee was appointed by the Board it would be proper for this Conference to approve the recommendations of the committee.

The Chairman. What is your pleasure about the report? Governor Young was a member of the committee.

Governor McDougal. I move that the report be received and approved.

Governor Talley. I second the motion.

Governor Calkins. Not having a copy of the report and not knowing what it contains I would hesitate action, but I

am willing, however, to waive any consideration of the report itself upon Governor Young's statement that ~~it~~ does not carry any compulsory change as applied to any Federal Reserve Bank. There are a number of things that are done by other Federal Reserve Banks that we do not do, and if the report imposes an obligation on the Federal Reserve Bank to conform to uniform practice, I think I ought to know it before I pass on it.

Governor Seay. The report as we read it, conforms so nearly to the practices which the reserve banks have reported here as being in vogue, that we see no occasion to take exception to anything in the report, and we would be prepared to accept and approve of it.

Governor Wellborn. I have a memorandum on this which I would like to read:

"I have carefully reviewed the report of the committee on the functions of Custodies in Federal Reserve Banks, and am pleased to advise that our practice conforms to the recommendations contained in the report in every respect, with the exception of receiving securities for safekeeping from state officials which are deposited with those officials by member banks and par remitting banks, said securities being

the property of the respective banks.

"In issuing our trust receipts to the various State officials we do not recognize third parties. Our receipts are issued direct in the names of the different state officials without regard to the names of the banks depositing the securities with the state officials. In making deliveries of, or detaching coupons from, any of these securities, we recognize only instructions received from the state official to whom our trust receipts are issued.

"It is recommended that we continue our present policy in accepting securities from state officials, for the reason it is our opinion that we are rendering a distinct service not to the state officials themselves, but to member banks and par remitting banks, and we are also of the opinion

"In issuing our trust receipts to the various State officials we do not recognize third parties. Our receipts are issued direct in the names of the different state officials without regard to the names of the banks depositing the securities with the state officials. In making deliveries of, or detaching coupons from, any of these securities, we recognize only instructions received from the state official to whom our trust receipts are issued.

The Chairman. We have motion to accept the report and approve it.

Governor Norris. I will second the motion.

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

"It is recommended that we continue our present policy in accepting securities from state officials, for the reason



The Chairman, Governor Calkins has placed his reservation on the record and the motion is carried.

Governor Seay, are you ready to report for the advisory committee on legislative matters?

REPORT OF ADVISORY COMMITTEE ON LEGISLATIVE MATTERS.

Governor Seay. The last Governors' Conference seemed to be of the opinion that the time was not auspicious to consider the proposal of any amendment to the Federal Reserve Act. There has therefore been no subject of that nature for the committee to consider and there have been no subjects of any collateral nature, so far as they have been communicated to the Chairman, which would call for any special meeting of the committee. Therefore there has been no meeting of the committee. There was one subject alluded to at the last Conference, contained in the reserve report of the Agents' committee, but there hasn't seemed to have been any necessity for action by this committee on that report. The Federal Reserve Board was communicated with by the committee and asked if it had anything to propose to the committee for its consideration and a reply in the negative was received.

The Chairman:

/ of course the most important of all subjects to be considered, which has not yet been referred to your committee by the Board, but which in fact was withdrawn from considera-

tion, as I remember it, was the one raised by Governor Harding, the question of time and savings deposits.

Governor Seay. So far as I understand the duties of the committee which was appointed by the Board, the specific matters which were referred to it for consideration, were those relating to the first and second McFadden Bills. Those relating to the first McFadden Bill were disposed of at length and in detail and a report was made to the Federal Reserve Board, and based upon that report the Federal Reserve Board made certain representations to the committees of Congress to which more or less respectful attention was given. The second McFadden Bill was withdrawn from consideration practically, so there have been no matters requiring the special consideration of this committee so far as I am aware or so far as other members of this committee have communicated them to me.

Governor Harding. With regard to this question of time and savings deposits, I will be very glad to offer the following resolution: That the Governors of the Federal Reserve banks view with grave concern the weakening of the reserve position of the banks of the country due to the constantly growing tendency to transfer what are in effect demand de-

posits into so-called time deposits or savings accounts, and respectfully<sup>ly</sup> suggests that, in case the Board finds that it cannot adequately cope with this tendency by regulation, that steps be taken to impress upon Congress, at its next session, the importance of amending the reserve provisions of the Federal Reserve Act in such manner as to safeguard the banking position of the country.

Governor Calkins. I will second that motion.

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

Governor Seay. I would like to suggest that the matter brought to the attention of the Conference by Governor Fancher was quite a different one and covers quite a different subject.

Governor Fancher. I do not want any action. I simply brought it up just to get the reaction.

Governor Seay. Inasmuch as Governor Fancher has asked for the reaction, I would like to say that I consider the ruling of the Board as quite an important one as affects the reserves, in that it permitted certain deductions from deposits, and actually permitted deductions from deposits of items which are not the property of the bank. Here

is a case in our bank which bears exactly on the point (reads memorandum).

Governor Fancher. I move that the Conference respectfully call to the attention of the Federal Reserve Board the fact that the ruling in its letter of March 24, 1927 (X-4816), in reply to letter from the Federal Reserve Bank of New York dated November 8, 1926, February 18, 1927, will have the effect, if generally adopted as a practice by member banks, of reducing very considerably the liability in the item "due to banks" upon which the reserve calculation is made, which appears to be unjustifiable because of the fact that the items so deducted need not have been credited to the depositors' accounts under the terms of the Board's ruling.

Governor Seay. I will second that.

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

The Chairman. Shall we now take up Topic F on page 1.

13. CREDIT TRANSACTIONS AND POLICIES

F. Strong Stabilization Bill. (H. R. 7895).

The Chairman (continuing:) I suppose you have all received letters from Congressman Strong. I received a letter of from him and was not aware of the fact that he had been in correspondence with the Federal Reserve Board on the subject of his bill, and had made a request of the Federal Reserve Board which it had not thought wise to accede to; but because of my contact with him during the hearings I thought I ought to write him a polite letter. He is under the impression that in some way there has been a concerted effort made, after an exchange of views between the reserve banks, to oppose his bill. I told him that there did not seem to be anything that I could do about the matter, in view of the <sup>FACT</sup> that the Federal Reserve Board had taken the matter under advisement and had given him an answer to his request. I did think it was only fair to explain to the meeting what I had done in my correspondence with him.

It is rather unfortunate, I think, that he should gain the impression that there is a sort of concert of opposition among the reserve banks to his legislation. I do not believe in his bill, and certainly said so plainly enough to the committee, but it may be that some sort of formula can be devised that will satisfy his views and not leave that impres-

sion in his mind. He is a very earnest, and, I think, a very intelligent fellow. He is a lawyer from Kansas. I told him that I had plenty of sympathy with his purpose, but that the method of handling this responsibility of the Federal Reserve System was a wrong one.

The only suggestion I made to the committee was that inasmuch as this was a declaration of purpose of Congress, and if it was to be made it should be in the preamble of the bill and should be rather in effect a statement of the purpose of the Federal Reserve System to maintain the gold standard.

Governor Fancher. I am curious to learn how many wrote him in response to the letter which he sent to all of us.

Governor Young. I did.

Governor Harding. He did not write me a letter.

Governor Wellborn. I did not reply to the letter.

Governor Seay. In a letter he wrote to me he expressed the opinion strongly you have just communicated to the Conference, and that is that he is really impressed with the fact that there must have been some exchange of views and some concert of action.

The Chairman. If you will authorize me to tell him

that there was no exchange of views and that there was no concert of action I will take the first opportunity to do that.

Governor Calkins. I wrote to him and, curiously enough, he incorporated the only suggestion that I made in the second provision of his bill.

Governor Fancher. I wrote to him and expressed sympathy for what he was attempting to do but that I did not agree with the manner in which it was done and suggested that it might be something in the preamble of the Federal Reserve Act. I expressed the opinion that I thought too great responsibility would be placed upon the Board.

Governor Harding. I wrote him about a year ago and made a suggestion, which I see he has incorporated in this last bill of his. I thought you were referring to a recent letter, but this was about a year ago.

Governor McDougal. Are you talking about a new letter now?

Governor Fancher. I haven't written him within a year. I think it was nearly a year ago. It was when his bill was first up for discussion.

Governor Young. I received a letter from Congressman

Strong about two months ago in which he sent me a copy of the redraft of his bill and asked my opinion on it. I told him I had studied it quite carefully and would not change my opinion as expressed in my previous letter. I got an acknowledgment of my letter in which he said that he was satisfied that there was something in the idea and he thought that when the proper time came he would get cooperation from the splendid men who were Governors of the Federal Reserve System. I thought he was in rather a friendly frame of mind.

The Chairman. He is a very good friend of the System.

Governor Bailey. Yes, he is.

Governor Fancher. In replying to my letter he did not seem particularly pleased with the suggestions I made.

Governor Bailey. He stops in to see me almost every time he goes through Kansas City. I have known him for a great many years and he is quite an able man and a hard worker.

The Chairman. (After a little further discussion:) There is no action required on this matter, and I would like to call up the last unfinished business on the program, with the exception of the report to the Federal Reserve Board.



NON CASH COLLECTIONS.

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Chairman. We left the discussion of our dear old friend non-cash collections up in the air yesterday. I do not want to be raising an old ghost but I will tell you in the position of matters now unless the Board does something it will take care of itself. What action does the Conference wish to take?

Governor Seay. At the last conference of Governors, which you were prevented from attending, Governor Strong, the matter was referred to a committee by the Conference and a formal communication addressed to the Board. It strikes me that the matter could be reached by reaffirming that and respectfully requesting and urging that the Board take the action pointed out therein, for the reasons therein given.

Governor Calkins. The last paragraph of the action at the Fall Conference states: "Under these circumstances it is the sense of the Conference that, in order to preserve that uniformity which is believed to be so essential and to the best interests of the Federal Reserve System and its member banks x x x that the Federal Reserve Board should reconsider its letter of September 24, 1926, and determine whether, from the point of view of the

Federal Reserve System as a whole, all Federal reserve banks shall, or whether all Federal reserve banks shall not, continue to handle for collection items which are payable at street addresses."

Governor Harding. It seems to me that we might lead to some progress if we took it up in steps. First, suppose somebody offers a motion that in the opinion of this Conference all action on the subject of these non-cash collections shall be uniform at all banks? Then those in favor of the proposition can vote for it and those opposed to it can vote against it. Then take up the next step. That is, that the matter has been pending for three or four years and it is the opinion of the Conference that it is very important, in order to prevent disintegration of the collection system, that we have a prompt ruling one way or the other on this subject. Then those who feel that way about it can vote Aye and those who are opposed to it can vote No. The Board will then be able to see how each man has stood on the proposition.

Governor Norris. We have voted on this question several times and had a nine to three vote. If we vote on it as divided up like that and get a nine to three vote we

haven't gained much.

Governor Wellborn. I think if you split it up that way you just simply muddle the question. Otherwise we would just throw out our strongest card, to be frank with you. I have not consulted with these other gentlemen about it. We have had no concerted action on it. We have just given our individual views. I have not written Governor Bailey a line on it nor has he written to me. I am against the non-cash collection practice. I am sorry it ever started and I want to see it discontinued. I have given my reasons for it time and again. It is to your interest to have them and to my interest not to have them.

The Chairman (Governor McDougal presiding:) Governor Norris has made a suggestion. Governor Harding has made a suggestion. How would it do to let these men who want to consider these matters consider them between now and tomorrow morning's session and see if they cannot make some progress.

Governor Norris. The suggestions have come from the majority. Possibly some reasonable suggestion may come from the minority tomorrow morning.

Governor Wellborn. In answer to that, we are of record. We have discussed it time and again. I wouldn't want to do

anything here contrary to the wishes of our Board. I could not change my position if I wished to without consulting my board.

Governor Bailey. You mean the board of the Atlanta Bank?

Governor Wellborn. Yes.

Governor Fancher. What action did your Board take, Governor Wellborn?

Governor Wellborn. Our board adopted the same resolution as that adopted by Governor Bailey's board.

Governor Fancher. That was not to receive them?

Governor Wellborn. That we would receive certain items, as Governor Bailey read on yesterday. Governor Bailey's position was a little more liberal than mine, but I came to his position. I did that not for the sake of getting anything through but because I thought it was the proper thing to do.

Governor Seay. I would like to ask Governor Wellborn how he thinks he would compromise the committee or his board in any way if he voted in favor of a proposition to ask the Federal Reserve Board to make a decision one way or the other?

Governor Wellborn. As it now stands it is in the air, and I think it is favorable to us. I do not want to do any-

thing to hurt my cause. That is the way I feel about it. I never try to hurt myself at any rate.

Governor Harding. I think it is the duty of this Conference to go ahead and take a vote on it and say something positive about it.

Governor Bailey. Whenever it comes to a vote for or against it I am going to vote no.

Governor Fancher. I think it would be interesting to determine whether we believe in uniformity. If we do not believe in uniformity that is all there is to it.

The Chairman. We will take a vote on it if you wish.

Governor Fancher. All the Governors are not here.

Governor Harding. The question is are we in favor of having it settled or in favor of having it stay up in the air?

Governor Fancher. There are three or four questions we might vote on tomorrow morning.

The Chairman. Yes, and I think it is important that all the Governors be here.

Governor Harding. Tomorrow morning would be the best time to take it up, when we are all fresh.

Governor Wellborn. Then I suggest, Mr. Chairman, that

we pass it until tomorrow morning.

The Chairman. If satisfactory to the Conference we will let this matter rest until all the Governors are here. Mr. Harrison has a topic that he would like to submit at this time.

Mr. Harrison. I have no preference one way or the other. I want to take up the question of the relation of foreign banks. Mr. Strong asked me to do so in his absence, if the Conference wished to take it up tonight. My report on the subject will be very informal and not for the record.

Governor Harding. Mr. Chairman, I move we adjourn until 9:30 tomorrow morning.

(Whereupon, at 4:50 o'clock p.m., upon motion duly seconded, the Conference adjourned until tomorrow, Thursday, May 12, 1927, at 9:30 o'clock a.m.)

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## FOURTH DAY.

May 12, 1927,

9:30 o'clock a.m.

## CONFERENCE OF GOVERNORS

of the

## FEDERAL RESERVE BANKS.

The Conference of Governors of the Federal Reserve Banks reassembled in the Hearing Room of the Federal Reserve Board, Treasury Building, Washington, D. C., on Thursday, May 12, 1927.

## PRESENT:

(As indicated in the record of the first day's proceedings.)

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

The Chairman (Governor Strong presiding:) Gentlemen, the meeting will come to order. I am advised by Governor Grissinger that the Open Market Committee is to have a meeting with the Board in his office at 10:30. No further discussion of the report is necessary, as that was approved yesterday, and we can deal with our unfinished business. I suggest if any action is to be taken in regard to the

unfinished business of the last few years that we take it this morning.

Governor Harding. I would like to offer a resolution which I think comes under the head of unfinished business, Mr. Chairman.

The Chairman. I offer the suggestion that we confine it to the non-cash collections --

Governor Harding. I will offer a resolution pertaining to that.

The Chairman. That is always in order.

#### NON CASH COLLECTIONS.

Governor Harding. I move that as definite recommendations on the subject of non-cash collections have been made at successive conferences of Governors for the past three years, following full discussion, and as all members of the Conference as well as the members of the Federal Reserve Board are fully informed on the subject, there is no further information necessary in order to enable anyone to vote intelligently on this subject.

Governor Biggs. I will second that.

Governor Talley. Is that all there is to it?

Governor Harding. To that one, yes.



Governor McDougal. I would like to inquire of Governor Harding what the object is, to lay it before the Board?

Governor Harding. I would like to find out, by successive steps, just how far we are in accord and how far we differ. I will read it again. (Reading motion)

Governor Seay. Vote one way or the other?

Governor Harding. Yes.

The Chairman. The motion has been seconded.

Governor Seay. I call for the question.

(The motion was put on an aye and nay vote, Governors Bailey and Wellborn voting no.)

Governor Young. I do not quite get the resolution, and I will ask that I be recorded as not voting.

Governor Harding. I have another resolution to offer.

Governor Wellborn. I would like to explain my vote in the negative on that. The Board has it under consideration and I do not believe there is any use in pushing them on the matter.

The Chairman. You are of the opinion that further information is necessary?

Governor Young. I think so. There are many things in my own bank that I am not quite satisfied about all the way

through --

Governor Wellborn. I do not see any use in pushing the Board on the subject.

Governor Norris. I would like to know what the vote on that motion was, Mr. Chairman.

The Chairman. The Chair announces that the motion was carried, Governor Young not voting, Governor Wellborn voting in the negative--

Governor Young. I think I will vote in the negative on that.

Mr. Bailey. I will also vote in the negative.

The Chairman. The motion is carried eight to three.

Governor Harding. Mr. Chairman, I move that this Conference believes that this question should not be held in abeyance any longer and requests the Federal Reserve Board to make, at an early date, a definite ruling upon the subject.

Governor Talley. I will second that.

Governor Seay. I will second it.

Governor Wellborn. Is that another resolution?

Governor Harding. Yes, that we do not want it held in abeyance but have a ruling on the subject one way or the

Governor Bailey. I am in favor of settling it and I will vote aye on that.

Governor Wellborn. I would like to have you read that again.

(Governor Harding then read the motion.)

Governor Wellborn. I will vote no.

Governor Young. I will vote no.

(There were calls for the question and the motion was put on an aye and nay vote and the Chair declared the motion carried nine to two.)

Governor Harding. Mr. Chairman, I move that in the opinion of the Conference it is desirable that any ruling made should be uniform with respect to its application at all reserve banks.

Governor Fancher. I will second that.

Governor Wellborn. If this Conference wishes to invoke the doctrine of absolute uniformity, a great many in our district would take the position that the discount rates should also be uniform.

Governor Harding. The law provides that it need not be. It distinctly says so in the law

Governor Wellborn. It has been discussed in Congress

and discussed by the Press, and if you are going to have absolute uniformity I think you ought to have it with interest rates.

The Chairman. It is uniform now. We all have the four per cent discount rate.

Governor Wellborn. It just so happens at this time.

Governor Harding. This is not a question of uniform procedure in regard to discount rates.

Governor Fancher. I call for the question.

(The motion was put on an aye and nay vote and the Chair announced it carried eight to three, Governors Young, Wellborn and Bailey voting in the negative.)

Governor Harding. Mr. Chairman, I move it is the sense of the Conference that the collection of all non-cash collection items should be continued at all Federal Reserve banks.

Governor Fancher. I will second that.

Governor Talley. I second it.

Governor Bailey. I want to be recorded as voting no.

Governor Young. I wish to be recorded as voting no on all of this.

Governor Wellborn. I will vote no.

(The motion, having been put on an aye and nay vote, the

Chair declared the motion carried eight to three, Governors Bailey, Wellborn and Young voting in the negative.)

Governor Calkins. Mr. Chairman, as I was absent when the vote on the motions just passed was taken with regard to non-cash collections, I desire now to be recorded as voting in the affirmative on those motions, which I have read.

(Whereupon Mr. Harrison reported to the Conference, informally, on the subject of relations with foreign banks, and at 10:30 o'clock a.m. the Conference of Governors recessed to allow the Open Market Committee to confer with the Federal Reserve Board. At 12:15 o'clock p.m., the Conference reconvened and the following proceedings were had):

The Chairman. The meeting will come to order. I think first we should report the result of our conference with the Federal Reserve Board. All members of the Open Market Committee and all members of the Board were there, including the ex-officio members. I will ask Governor Harding to make our report.

(Whereupon Governor Harding reported to the Conference the result of the meeting of the open market committee with the Federal Reserve Board, which the Reporter was directed not to record, at the conclusion of which report Mr. Harri-

son continued his discussion of relations with foreign banks, which the Reporter was directed not to record, at the conclusion of which discussion, at 1 o'clock p.m., the Conference recessed until 3 o'clock p.m. of the same day, for its joint conference with the Federal Reserve Board.)

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J O I N T    C O N F E R E N C E  
of the  
F E D E R A L   R E S E R V E   B O A R D  
with the  
G O V E R N O R S   O F   T H E   F E D E R A L   R E S E R V E   B A N K S .

- - -

The Joint Conference convened, pursuant to recess of the Governors' Conference, at 3 o'clock p.m., on Thursday, May 12, 1927.

PRESENT:

D. R. CRISSINGER, Governor, Federal Reserve Board.  
Edmund Platt, Vice-Governor, Federal Reserve Board.  
Adolph C. Miller, Member, Federal Reserve Board.  
Charles S. Hamlin, Member, Federal Reserve Board.  
George R. James, Member, Federal Reserve Board.  
Edward H. Cunningham, Member, Federal Reserve Board.

The Governors of the Federal Reserve Banks, as previously recorded in the first day's record.

Mr. E. A. Goldenweiser, Director, Division of Research and Statistics, Federal Reserve Board.

PROCEEDINGS.

Governor Crissinger. Gentlemen, we are ready now to hear the report of the Conference of Governors.

Governor Strong. The question is what the Board wishes us to report on. We have made one or two reports.

Governor Crissinger. Then report on something you have not reported on. There is a lot of stuff here.

Governor Strong. I did not know whether you wanted us to go over the whole thing. I understood you wanted to have a discussion of the business situation and I understood that Mr. Goldenweiser was going to make a report.

Governor Crissinger. He has a report to make, but I think we can wait for your written report with regard to a lot of these things.

Governor Strong. It will all be reported to you.

Governor Crissinger. Then we will ask Mr. Goldenweiser to make his statement.

Mr. Goldenweiser. Mr. Chairman and gentlemen, I think the most important single fact in the business situation, and the one that has attracted our attention most, has been the continuous decrease in the price level in the last two years, at a time when business activity has continued to be in exceptionally large volume. I think that probably the general level of business activity and the latest developments in business activity are now familiar to you and you have been comparing notes on them.



I think there will be a general agreement that the first quarter of this year has been very active.

And that the declines of the last quarter of last year, or the ground lost during the last quarter of last year, has been regained. There are some serious difficulties in that situation, such as the Mississippi floods which affect that part of the country very unfavorably. There is over-production in some industries, particularly in oil, and also in the lumber industry. In the mining industry there has been some recession in coal production, owing to the strike, and probably largely as a result of that there has been some decline in the freight movement and distribution of commodities. But with all these bad spots, the general outlook and the general basis of business is favorable.

I think it might be of interest to you if I gave you a little more analysis of the price factor. Prices have been going down, with some interruption, for two years, since the summer of 1925. The decline during that period has been — I have a chart here that shows it — about ten per cent, from 160 to 145, on the Bureau of Labor and Statistics index. Our own weekly index, compiled here, which has only about two-thirds of the commodities, has gone down lower

only about two-thirds of the commodities, has gone down lower than that, but has recently been stable and shows a slightly upward tendency in the last week or two. I believe that the indications are that the most rapid decline in prices has come to an end and that now the curve is flattening out.

This decrease from 160 on the pre-war basis to 145, brings the price level about four per cent above the low point, post war, which was in January, 1922, when it was 138.

This decline in prices is coincidental with, and has followed upon the return of a great many of the countries to the gold standard. That has raised the question whether there is not something in the situation that tends to bring the price level to the pre-war level, to the level that prevailed at the time the world was on the gold standard. There is good authority for that expectation, and we have felt that it was very much worth while to analyze that statement. That general impression is strengthened by the fact that the price decline has been world-wide and wherever currency has been on a stable basis. I have a chart here -- I do not want to show you too many charts, and I think the points stand out well enough without the charts -- showing that the prices

have declined in the gold standard countries -- in England, Germany, Sweden, Switzerland and Holland the prices have gone down (demonstrating with chart).

This raises a number of questions. The first is why should prices go down to the pre-war level, and maybe the first approach to that is that I feel that there was no such thing as a pre-war level. There was a level before the war, but that level was a slope; it was an upward slope; prices had been going up from 1896 to 1913.

I have a chart here that I do want to call to your attention on that point. This chart shows the price development since 1882 to 1906, and from 1896 to 1913 (indicating), and there was an increase of the rate represented by this red line (indicating), that <sup>if</sup> the rate of increase had continued just at the same rate to the present time the prices would now be just about where they are. This last dot in relation to the red line shows where prices would have been if the situation had continued (indicating). Now the significance of that is not that I think that this was a normal condition, that we could therefore expect prices to go up in that way, but it does seem to indicate that selecting the year 1913, which was in the middle of the upward swing,

as normal, and taking the adjustment that existed before the war, there would be a tendency to return now -- I do not think that is supported by the facts. I think it would be an important thing, especially for the men working with bank credit, to forget the pre-war situation and consider the present level and changes from months to month and from year to year on their own basis, with reference to other developments, and not to have in mind at all the fact that we are 145 now, and therefore 45 per cent above the basis that was artificial. I think our reaction to the price index would be very different if we recognized that prices are 94 per cent now, 94 on the basis of 23 to 25, which is the basis I think most of our indexes are computed on, as compared with that price being 145. I think it would be a desirable thing for the Federal Reserve System to put the price index on the same basis on which it puts its other indexes.

An analysis of the price decline divided first into agricultural and non-agricultural commodities, shows that since 1925 there has been a somewhat larger decline in agricultural commodities than in non-agricultural commodities. But they are now closer together than they were at the time

the decline began and closer than they were two months ago. Agriculture on the whole has advanced in the last two months, that is in prices, while industry prices have declined. The reason that is not so clearly realized is the fact that while agricultural commodities have undergone much fluctuation, the decline in the industrial commodities has now been fairly continuous since 1923 and industrial prices are now at the lowest level in ten years, whereas agricultural prices have had a big rise in 1924, and are now very materially above their low point in 1923.

Taking not the last year or two, but the last five years, there has been more pronounced decline in industrial prices than in agricultural prices.

I have here the prices of different industrial commodities analyzed somewhat, but I do not want to stop to talk details. There is a decline in building material. Metal and chemicals have gone down. Clothing materials have gone down. Fuels are subject to so many fluctuations, owing to the irregularity both of oil and coal, that it is difficult to say, but they are very much below the peak, which was so high that I did not spoil the chart by putting it in. It would have been up here (indicating above chart).

House furnishings have been going down. There has been a pretty wide decline in the prices of all classes of commodities, with industrial commodities showing the larger decline. I am going through the list of the 420 commodities that enter into the wholesale price index and have found that of those commodities 300 are lower than they were two years ago, while a hundred commodities are higher, but the decline having been much more substantial than the increase.

This last chart shows world prices, which I mentioned a few moments ago, and a complete series of price charts that I want to call to your attention.

Now, if the gold standard has been instrumental in bringing down the prices it seems to me that that would have to be reflected in a scramble for gold and would have been reflected in a stiffening of money rates, because I cannot see how the operation of the gold standard would influence prices except if there was a shortage of gold, which would result in contraction and a higher price for funds.

The facts again do not support that theory. The price of money, money rates, in nearly all the countries of the

world, in all the stable countries of the world, have been going down. There has been a decline in Berlin, in London, and in Amsterdam, a decline in the money rate, and in general there has been a cheapening of money from the high level which prevailed in the early years of inflation and then of deflation. In going over the positions of the central banks and of the commercial banks of the principal countries of Europe, there is a clear indication that credit has been increasingly plentiful and that the decline in the cost of credit has been accompanied by a growth in the use of credit. That is true of most of the countries. That is true of some of the countries that have been through the period of deflation preliminary to reestablishing on a gold basis. There has been some deflation in Denmark prior to her recent return to the gold basis; London, and in Amsterdam a decline in the money rate, there has been some in Norway and in Italy; but in the principal countries, the bigger countries, and those which have already secured monetary stability, there has been a continuous decline in money rates and an increasing use of credit.

Governor Strong. What commodities are those charts based upon?

decline in the cost of credit has been accompanied by a growth in the use of credit. That is true of most of the countries. That is true of some of the countries that have been through the period of deflation preliminary to

Mr. Goldenweiser. You mean the money rates?

Governor Strong. No, the commodities.

Mr. Goldenweiser. Those are the official price indexes, including the wholesale price index, including this number of commodities in the different countries.

Governor Strong. But they are generally wholesale prices?

Mr. Goldenweiser. Wholesale prices, probably overweighted with raw material.

Mr. Cunningham. I would like to ask you about the first chart you had there and would like to ask you about the increase shown from May, 1896, to 1913, and from 1913 up to the present time. What percentage of increase have you got there?

Mr. Goldenweiser. There was practically 50 per cent increase here (indicating on chart), and 50 per cent increase there (indicating on chart).

Mr. Cunningham. We have practically been maintaining the same level between the present point and that point, and the 1896?

Mr. Goldenweiser. If we had increased at the same rate after 1913 that we had before that we would now be



just about where we are.

Mr. Cunningham. Where would the line be on the 1913 basis?

Mr. Goldenweiser. Right here (indicating on plat).

Mr. Cunningham. And carrying in our minds that we are going back to the 1913 basis, going back to that point (indicating)?

Mr. Goldenweiser. Yes, sir.

Mr. Cunningham. And realizing the steady increase for the last -- how many years?

Mr. Goldenweiser. From 1896 -- thirty years.

Mr. Cunningham. We have gradually increased up to the present time about 50 per cent between the two dividing points there?

Mr. Goldenweiser. Yes. This is on the 1913 basis. This was from 67 to 100 in 17 years, and this has been increased from a hundred to a hundred and forty-five in nineteen years (indicating). It is just about the same rate of increase (indicating on plat).

I do not want to attach too much importance to the percentage curve; I do not think it is a normal curve and that we can expect it, but I do want to say that 1913 -- that there was no such thing as a pre-war level, but a

slope, and if we are going back to that slope, all this projection into the future is on the same level, and is something we cannot determine, and for that reason it is best for us to think in terms of the current basis. It has been the Board's position for a long time that they do distort figures. We do not make an analysis of them and they are hard to forecast, and we believe it is best to have a basis that is as close to the current time as possible. We are using 1923 to 1925 in our big business index.

Governor Strong. It would be just as fair to assume that on the present level we are just as near right as we could be on a basis of 1913?

Mr. Goldenweiser. I think so.

Governor Norris. When you speculate over a fifteen-year period, from 1881 to 1896, we have had a decline in and prices/in the 17-year period from 1896 to 1913 we have had an advance in prices.

Mr. Goldenweiser. Yes.

Governor Norris. And assume that that was the peak, then we can assume that there might have been another 15-year dip then (indicating on chart)?

Mr. Goldenweiser. Yes, sir. That is the very point I want to bring out, that there is no such thing as a level.

Vice Governor Platt. 1913 is a convenient period which everybody thinks of.

Mr. Goldenweiser. Yes, and if people would only consider movements and not levels, I think it would not make so much difference what basis is used. But when that is interpreted to mean that we are 45 per cent above something and that the chances are something is going down 45 per cent more, I think that is an undesirable condition.

I do not know whether there is anything else I want to say. The general developments in the credit situation of the country are familiar to you. Bank credit, which increased at a very rapid rate in 1924 and 1925, grew relatively little in 1926. In the present year it has started out to grow at a fairly rapid rate. I have a chart which shows the reporting member banks. You can see that the latest figures show the highest level of loans and investments on the top line (indicating on chart). Naturally the high level is not a surprising thing, because in most countries one expects a certain amount of constant growth

in loans and in bank operations; but it does show something of a rapid growth after the little liquidation following the season of peak in December -- the movement has been exceptionally rapid. I think an element in the rapid growth has been the growth of investments. The Treasury certificates which were taken in large volume on the 15th of March have not been marketed as easily as usual and they are still to a considerable extent in the possession of the member banks.

Commercial credit has grown at a normal rate, the usual rate (indicating). The use of bank credit for loans on securities, much of which goes into stock exchange operations, is usual, and this line shows the total loans to brokers and dealers as reported by member banks of the System in New York. That is at a high level with the exception of the extreme peak in the early part of 1920, when these figures first became available, and the growth has been very rapid in the last couple of months.

The reserve bank credit shows the usual reflection of the condition of their banks. The reserve bank credit this year has been fluctuating very close to the billion line, about a hundred millions above last year, the hundred million

being substantially the gold imports for that year.

Governor Strong. The reserve bank credit shows a volume of a hundred million greater than the previous year--

Mr. Goldenweiser. Yes.

Governor Strong. And that almost exactly offsets the amount of gold we received in that period?

Mr. Goldenweiser. Yes.

Governor Strong. How does it happen that we have an expansion of bank credit to that amount in that period without increasing the reserves proportionately?

Mr. Goldenweiser. The answer to that is the fact that the credits that arise from the loans have been chiefly in the form of time deposits, which require only three per cent, instead of demand deposits, which require ten to thirteen. To some extent also, the credit has been chiefly not on the 13 per cent basis but on the ten and seven basis.

Governor Strong. A very large part of the growth has been received in the form of time deposits carrying three per cent --

Mr. Goldenweiser. This chart shows a very large growth in time deposits, while demand deposits have not grown so much.

Governor Strong. If there is any poison getting into the system, it is in that way, and it is running through the reserve system --

Governor Crissinger. You mean the time deposits?

Governor Strong. Yes, of course.

Mr. Goldenwiser. There has been no growth in the reserve bank credit, broadly speaking, for five years. It is up around a billion. It has gone up sometimes above, and sometimes it has gone somewhat below. It has fluctuated just around the billion line. The last figures brought in show that the latest reports bring it down to 930 million, which is the low point.

Governor Strong. Nearly 200 million.

Mr. Goldenwiser. There has been 60 million just now taken out of earning assets in connection with gold importation.

Mr. Hamlin. Wouldn't that amount to, under this lowering of reserve on time deposits, to a releasing of reserves?

Mr. Goldenwiser. I think if you analyze it it has been equivalent in its effect to about 200 million dollars --

Governor Strong. 200 million.

Mr. Goldenwiser. Yes. I do not swear by that figure,

because there are so many different elements that enter into it.

Governor Strong. In other words, the amount of the reserve which we had supporting X; the amount of deposits, without any change except a reduction of a hundred millions in our credit, is now supporting X plus a billion and a half.

Mr. Goldenwesier. Yes.

Governor Strong. How far is that going to go?

Mr. Goldenweiser. I do not know.

Governor Strong. It is our idea it is going to go pretty far.

Mr. Goldenweiser. It is necessary, and very desirable, to have that question of time deposits very carefully analyzed by the System with a view of arriving at a definition of them and a change in the requirements, which I understand is a part of your report.

Governor Strong. We merely call attention to it as we have for the last six or eight years, I think.

Mr. Goldenweiser. Now, unless you want to look at some industrial statistics, which I personally think you perhaps have in mind, that is about all I wish to say.

Governor Crissinger. What have you to suggest about

these time deposits?

Governor Strong. We have discussed it at our meeting and passed a resolution offered by Governor Harding, after a statement of the situation in Boston. I happened to hear Mr. Mellon describe what was happening in Pittsburgh, both of which conditions are alarming, and when you learn that there are large commercial banks in both cities, and in other cities, receiving deposits as savings deposits in amount from a hundred thousand to a million dollars in each account, subject to the regular guides, and so on, the effect of which is to reduce the reserve requirement by a pronounced amount, our resolution was directed to calling the Board's attention to the fact that it seemed an important matter, to be dealt with either by a redefinition of what constitutes a deposit requiring only three per cent reserve —

Mr. Goldenweiser (interrupting:) I forgot to say that the Board, in its review this month, has a discussion of the price situation. I have some copies of the page proof run off and I would like to distribute them.

There is one point that I did not mention in discussing prices, which I think is an important factor in the decline of prices, and that has been the plentiful output



and the increased productivity of labor. There has been, since 1925, an increase in productivity that is striking, while the employment statistics show that the volume of persons employed has increased very little. Still production has increased very greatly, and in general, in the last three or four years, there has been an increase of about ten per cent in output which, I believe, is unquestionably one of the important elements in the price decline.

The other thing I meant to say, and I am sorry I did not think of it in time, and that is the paradox of business increasing very rapidly while prices are declining is accompanied by another phenomenon, and that is that business has been profitable and during the same period earnings of corporations have been very large. During 1926 they were larger than in almost any previous year. In the first quarter of the present year they have been large. There has, however, been a tendency towards selection. There have been a good many corporations, the smaller and less important corporations that have not been so successful, and the large volume of total earnings has been due to the very great success of some corporations. That is accompanied by the fact that commercial failures in the first quarter have been

very large and the aggregate liability very large, so that this large volume of production, the decrease in the price level, does seem to result in keen competition, in greater difficulty for a number of concerns to be successful, and yet the earnings continue exceptionally high.

Governor Crissinger. What have you to say as to the gold standard being responsible for the lower prices?

Governor Strong. I am not at all sure about that, because those index prices are so heavily weighted with commodities that represent world prices, they readjust themselves automatically to the common level of the gold basis, and I wouldn't attach so much significance to that as I would to our own price index based on a very wide difference in commodities. The thing that impresses me about the price movement here is the fact that at a time when the discount rates of the Federal reserve banks exerted no pressure whatever upon the member banks, the fact that we bought securities very heavily -- certainly the price situation is not only steady but has shown a tendency to advance, and since we sold some three hundred million dollars of these securities, the first effect was to put the banks more heavily in our debt, they borrowed more money from us,

and they don't like to borrow money from us, and they have now succeeded in this year in reducing their borrowings to a great extent, although not entirely, and that coincides with the tendency of prices to fall -- if we are going to arrive at any conclusion or analogy from that it would seem to me that the pressure of liquidating at the Federal Reserve Banks might have some connection -- I won't say how much -- on the general movement of prices in some way. It may be just coincidence, but it certainly is a fact that at the time when the banks were out of our debt we were experiencing a price decline, and now they have succeeded, after having been forced to borrow through a period when we sold three hundred millions of securities -- in managing to liquidate and get more out of our debt than they were last year, and we have this continued price decline rather accelerated.

Mr. Goldenweiser. I do not think so. It was 147 in December and January, 140 in February, 145 in March and April. Of course we haven't the Bureau of Labor Statistics, but ours show that it has been steady.

Governor Bailey. How many items are included in the Bureau of Labor Statistics?

Mr. Goldenweiser. 440.

Governor Bailey. And in yours?

Mr. Goldenweiser. 288, that is all we can get. Our fluctuates more because it is unfinished articles, which are stable in price. They are hard to get. Ours has more of the nature of a raw material index than theirs.

Governor Strong. That line showing the increase in prices over a period of <sup>thirty</sup> years has been accompanied by a very great increase in the volume of business, has it not?

Mr. Goldenweiser. Yes.

Governor Strong. The question is whether there is any way to ascertain whether the rate of increase in bank credits has reasonably followed the rate of increase in both prices and volume. If it has not, naturally there is some possible pressure upon credit, not expressed in our rate so much as in an absolute lack of desire or reluctance to borrow from the reserve banks, and that is being furnished probably by the weakening of the reserve position through the conversion of demand into time deposits.

Mr. Goldenweiser. I haven't the figures in mind exactly, but I do not think there is evidence that the growth of bank credit has fallen behind the growth of business.

Governor Strong. I do not know that there are any figures to fall back on to relate to, but I do something of the rate of growth of bank assets and liabilities—

Mr. Goldenweiser. The rate of growth of loans is six per cent.

Governor Strong. It will average over the year six to seven.

Mr. Goldenweiser. That average through many years is very high because of the growth of 13 to 14 per cent during the war inflation.

Governor Strong. It is like that line you projected in prices (indicating on plat). If you project the line of growth of bank deposits during that period you will find it works out just about the way that works out, or the way any projected line does. The point is that this last year with a large volume of business, but with some price decline, the growth of bank deposits has been arrested to some extent.

Mr. Goldenweiser. As I say, if you take out the war years, with their larger percentage of increase, you get six or seven per cent (indicating).

Governor Strong. I say if you draw the line exactly

as you have drawn it there, and take the average -- we have done it in New York -- you will find that the averga works out just about as your price average there.

Mr. Goldenweiser. The bank credit is just about what it would be if it was continued (indicating).

Governor Strong. Or a little bit below.

Mr. Goldenweiser. Yes. It wouldn't be very much below, I do not think.

Mr. James. Mr. Goldenweiser, may I ask what effect, on both the volume of business and price level, the change in the price of cotton has, with particular reference to the exports of cotton in 1925 and '26? There is a very vast difference in the value, yet, I imagine, there were more bales and pounds of cotton exported than there were in the previous year.

Mr. Goldenweiser. Yes. I haven't the figures for that exactly, but the decline in the cotton price was an important element in the decline in the price level.

Mr. James. What I have in mind is with reference to bank deposits.

Mr. Goldenweiser. Yes.

Mr. James. Exported cotton from this coun try is a

raw material, sold abroad.

Mr. Goldensweiser. Yes.

Mr. James. And the assumption is that the value of that is reflected immediately back in our deposit accounts, is it not?

Mr. Goldenweiser. Yes.

Mr. James. And if they fell off two hundred million or three hundred million in value, one year against the other, would that in itself account for the stoppage of these bank deposits at a level, without reference to what they are in this country --

Mr. Goldenweiser. I think it would. I haven't the figures in mind, but my impression is that with the lower price of cotton the imports and exports increased sufficiently to make it up.

Mr. James. The value was less. I can get the exact figures if you want them.

Mr. Goldenweiser. You say the value was less?

Mr. James. Yes, considerably less.

Mr. Goldenwieser. Of course that would be an element.

Mr. James. My recollection is it was something like 800 million.

Mr. Goldenweiser. That sounds reasonable, yes.

Governor Strong. You mean the decline in the value of the total crop?

Mr. James. No, the decline in the value of the exports of raw material. The minute that it lands at the shipping port the money comes into this country and that money is deposited here against that exportation.

Mr. Harrison. 200 million less?

Mr. James. The value of the cotton exported, as I recall, in round figures, was \$200,000,000 less in 1926 than it was in 1925, although the number of bales exported was larger; so that your volume of business is increased but your return is lessened and your bank deposits directly are affected quicker by that than by any other thing that I know of.

Mr. Goldenweiser. Of course \$200,000,000 is not a very big factor in that.

Mr. James. No, but we were talking about an approximate figure in the matter of bank deposits.

Governor Strong. That has been offset by other things. ~~Wheat~~ has also declined. Wheat was second in 1925. Now automobiles are second.



Mr. James. Yes, but the point I am trying to get through my head is the real relation of exports to bank deposits. The minute an export is made that is reflected right back in our bank deposits, is it not?

Mr. Goldenweiser. I would doubt that.

Mr. James. The cotton that is exported is paid for before it leaves these shores.

Mr. Miller. You have in the price commodities a great many commodities like cotton and wheat at prices on the world market —

Mr. Goldenweiser. Yes.

Mr. Miller. This movement of domestic credits follows the price and you assume the other as a normal relationship, of price following the volume of credit.

Mr. Goldenweiser. Yes.

Mr. Miller. Is there any method by which you can eliminate those from your price charts so as to show the domestic movement of prices where purely domestic factors are involved?

Mr. Goldenweiser. Yes, that can be done very successfully. I understand what you mean. There is a distinction between what we call sheltered and non-sheltered industries,

and the cost of living enters into the sheltered industries --

Governor Strong. The consumers' goods?

Mr. Goldenweiser. Yes. That is stuff that cannot be exported. That is about 170 (indicating).

Mr. James. There is another factor that enters into the proposition, through the character of credit that is eligible for rediscount at the Reserve Bank and that which is not. In other words, automobile paper is per se ineligible, but we all know that automobile paper is about the most liquid thing a bank can have, and it is very desirable paper. Now in order to take care of a lot of that it may be possible that the banks are using eligible paper arising out of some other transactions to provide funds which they may invest in the other. That may have a bearing on it.

Mr. Goldenweiser. A bearing on what, Mr. James?

Mr. James. A bearing on the volume of credit, the volume of credit used and its relation to the Federal Reserve credit.

Mr. Goldenweiser. Yes.

Governor Crissinger. I think Governor Calkins wants to

say something and I know we would like to hear what is going on in the empire state of California.

Governor Calkins. I do not know that I can add anything very interesting or informing, except to say that I think conditions on the Pacific Coast are perhaps a little more favorable than they are in the country as a whole. Agriculturally the season has been extremely favorable up to this time. I mean in the entire district. There are a few bad spots of course, one of them being the unscrambling of the situation in the lumber industry in the Northwest, which was pretty badly demoralized, without any apparent prospect of early improvement.

The banking situation appears to me to be fairly good, except in some spots, about which you are informed.

One question which seems to me to be of importance, and which has been mentioned once or twice publicly, is the expansion of branch banking in California, but that has not yet brought any developments that are of sufficient importance to determine what its future will be. There is just now a stopping point, of course, but how long the expansion will remain stationary I think we cannot yet determine. We haven't any conditions, except individual

conditions, and we all have those, which are disturbing. We have some individual conditions which are not satisfactory and we will continue to have them for some time.

If anyone wishes to ask me any questions I will be glad to answer them.

Vice-Governor Platt. Is there any tendency shown yet on the part of non-member State banks to extend branches, to amount to anything?

Governor Calkins. No considerable tendency. There have been a few applications made to the State department for branches for non-member State banks.

Vice-Governor Platt. Small banks, or the larger ones?

Governor Calkins. Several branches have been established by the California Bank, which is the largest bank outside of the System; and several by smaller institutions, but none of any particular importance.

Mr. Miller. Has the pride of California been affected any since it has one of the three or four largest national banks in the country?

Governor Calkins. I think so. They seem to be inclined to mention the fact occasionally. They spend a good deal of money in advertising. They have the largest

national bank accounts of I don't know where — anywhere. After having prepared some expensive engraved announcements to that effect they had to back down, because the Bank of Italy nationalizes and far outstripped them.

Governor Crissinger. I think it would be interesting to know how the weather conditions are affecting the agricultural situation in the Mississippi watershed. That would include Iowa, Illinois, Indiana, Missouri, and all that agricultural country, Governor Biggs.

Governor Biggs. It has affected it very seriously in the flooded section of the district, but not very much in Missouri, except the extreme southern part. It seems to have passed on. There has been a great deal of damage in Arkansas and Mississippi, but the danger, so far as I can see now, has almost passed.

Governor Crissinger. I was not referring to the high water condition as much as I was to the lateness of the crop.

Governor Biggs. They are feeling quite a little alarmed over that, over the fact of the extreme weather, and wondering whether the water will get off in time for them to make anything of a crop, particularly in the Delta. They think that the strong winds will help and that they may be able to

get in their cotton as late as June 1.

Governor Crissinger. What about the effect on the corn crop in Iowa?

Governor Biggs. I do not think it has affected them seriously at all, not yet. Of course it will be late on account of the rain keeping them out of the fields, as well as the water from the Mississippi and the rivers that overflow. You take away that factor, the operations are going ahead about as usual. Although they are <sup>2 or 3</sup> ~~ten or twelve~~ weeks late, they have ample time to make a crop with any seasonable weather.

Governor Crissinger. What have you to say about that, Governor McDougal?

Governor McDougal. With regard to the crop prospects in Iowa, they have had an abundance of rain, perhaps more than normal. Fortunately it has been general and it has covered the whole State, and has left a soil condition, according to the reports, which is more favorable than they have had for a number of years. This is <sup>a</sup> very fortunate condition for those districts where they have been suffering so long and where they have had repeated crop failures. Corn planting is just starting now, which is unusual, and

the rains have delayed the planting of the small grains, particularly oats. The result is some reduction in the acreage, which is not a bad thing. Oats do not produce much anyhow.

But as the result of the unusually good soil conditions, as I have stated, there has been very much improvement. That does not have very much effect on the banking situation but it has on the crop prospects, and we are told that the farmers generally speaking are feeling very much better.

Governor Crissinger. Is that true in Illinois?

Governor McDougal. The situation in Illinois I think is somewhat similar. Of course we were unfortunate last year, as you know, in that we had too much rainfall there. I think conditions are very favorable for planting in Illinois. I do not know whether you want me to cover the general business situation or not.

Governor Crissinger. Yes.

Governor McDougal. The general business situation, as reported to us, is very satisfactory out there. It has stopped to some extent. You know the situation pretty well in regard to the automobile industry. I was in Detroit two or three weeks ago and I was told at that time that ship-

ments of automobiles from Detroit during the year up to date had been not to exceed 50 per cent of what they were last year. That is speaking numerically with regard to car shipments and not in volume of dollars. It is due very largely to the slowing down of the Ford industry, which means more to the city than anything else. Ford employs normally about 116,000 men in his plant. Most of those men are employed now but they are on part time, no more than half time, working about three days a week, and that of course is unfortunate. There is some grievance in regard to the real estate operations, particularly in the outskirts, and that is true in Chicago to some extent. The building situation, according to reports, seems to be going along about the same as last year, although there are some changes in the character of construction, and has been slowing down a good deal in the outskirts. We have a bad condition in Wisconsin, with which you are probably familiar, caused by the canning situation up there. That State cans a very large part of the peas that are put out and there is an accumulation of inventories up there, held over from last year, and some held over from the year before. The canning industry is not in good shape in our district. Unfortunately



that applies to corn too.

However, generally speaking, the business situation, with the exception of those spots, is pretty satisfactory. The credit situation is very satisfactory. The banks are not calling upon the Feder Reserve Bank for a great deal of credit, except those districts that have not yet recovered from the situation they have been in for so long a time.

Governor Crissinger. Are there any questions of Governor McDougal? If not, we will hear from Governor Bailey.

Governor Bailey. We are late in our planting of winter wheat in Kansas, which is the big thing in the State. That holds good in Oklahoma. I would say we are estimating a 150 million bushel crop of wheat in Kansas this year. It is wheat weather, but they have had so much moisture in the fields that the wheat is growing pretty rank and a good deal of apprehension is being felt about whether or not the wheat will get moldy. I never saw the wheat look better. In most of the States there has been a good deal of it cut as a result of the dry weather. A good many of the central counties in Kansas have had partial failures for four or five years, but they have now the best prospect they have had in the history of the State. I think our district is going

along on an even keel.

In Nebraska they are late in getting their corn in. They ought to have the corn planted by the 15th of May, and there wasn't ten per cent of it planted when I left a week ago, but if the weather gets good they will be able to come out all right.

I believe the State of Colorado is further ahead in her general prosperity than any State in our District. There has been a wonderful snow-fall on the mountains. I have some irrigated land out there. I was out there about three weeks ago. There has been an awful rainfall.

Governor Crissinger. What about the live stock situation?

along on an even keel.  
Governor Bailey. That is likely to get us in trouble again --

In Nebraska they are late in getting their corn in. They ought to have the corn planted by the 15th of May, and there wasn't ten per cent of it planted when I left a week ago, but if the weather gets good they will be able to come out all right.  
Governor Crissinger. Tell us how.  
Governor Bailey. The people are selling their steers at twelve and a half dollars a hundred in the pasture.

When a man pays eight or nine dollars a hundred and feeds the steer, and then can sell it for 12-1/2, there is too much spread there and they will sell them off. If we

There has been a wonderful snow-fall on the mountains. I could ever get the thing so we could have a decent spread, have some irrigated land out there. I was out there about three weeks ago. There has been an awful rainfall.

that is so a man when he paid eight dollars for a steer was pretty sure of getting ten dollars for it when he fed him, like it used to be in the good old days, we could get along. But this is too much of a gamble — there is too much spread, and I think the danger is in paying so much for these feeders.

Governor Crissinger. How about the old cow, Governor Bailey?

Governor Bailey. The old cow is coming into her own all over the District. They are going into the cattle business and there is some talk right now of shortage of cattle on the range. The old cow that used to bring \$15, they are now getting fifty to sixty dollars for her. If you take hogs, and with an old sow you get a lot of pigs in a little while, but it takes longer to get calves. It is getting to be the fashion up there for people to want yearling calves, and they are selling so many of them that they won't have any three year old steers if they don't look out. For instance, in one county up there, one of the biggest feed counties, a man had cattle that would average fifteen to sixteen hundred pounds, and he would get eight or nine dollars in Kansas City and fifty cents more in

Chicago. Everybody said it was a mistake and they ought to put in lighter cattle. The result was that the fellow who had the light cattle would get ten dollars and a half and the man that had the thousand pound steer would get ten dollars and a half at the same place, instead of the man with the lighter steers getting eight and a half.

Mr. Miller. Governor McDougal, what is the packing situation in Chicago?

Governor McDougal. I think the big packers this year, particularly in the early part of January, February and March, have not had very satisfactory business. My impression is it has been a little bit better since then. One of the great difficulties with the larger packers during the last few years has been the South American situation, which has been very unprofitable to them. It has been unprofitable to both Swift and Armour. It is hard to tell from the book-keeping, because in one of the companies they include the South American operations in their domestic statements. Swift & Company do that. We know Swift & Company had a pretty profitable business year last year but a material loss in South America.

Governor Strong. That was brought about by the situa-

tion in the British market, the selling of stuff below cost.

Governor McDougal. Competition, yes. There have been reports indicating that that trouble is being reconciled, but it is not reflected in their results of operations. On the other hand, while it is curious, I think it is true that a good many of the small packers have been doing very well, those who understand their business. They have a very good crop of what they call spring pigs. I guess Governor Bailey can tell us about that better than I can.

Governor Bailey. Spring pigs are pigs that are born in the spring.

Governor Crissinger. Governor Wellborn? We will hear from you.

Governor Wellborn. My district is getting along pretty well. Florida, I believe, has attracted more attention throughout the nation than any other State in our district. Two-thirds of the Florida banks that are member banks are not borrowing anything at all.

The manufacturing business in our district is doing exceedingly well, both textile and iron. I think on the whole we are getting along very well down there. There has

been some recession in building, which has caused some unemployment.

Governor Bailey. The oil industry, which is some industry in Oklahoma and Kansas, is showing a reduction in crude oil and they are laying off their men. It is affecting business in the cities immediately adjacent to the oil fields. We have on our board now Mr. Phillips, of the Phillips Petroleum Company, a most excellent man. We have a plan of holding our directors' meeting each year with our Board at our branch. We went down into Oklahoma to see the condition and we met a lot of the oil men, the most representative bunch of oil men that I ever saw, and they were very blue. I wanted our board to see how we handled loans down there. I think we will have to furnish a good deal of money to our oil banks down there during the summer and I do not know whether it would be interesting to you how we lend the money on oil.

Governor Crissinger. I think it would.

Governor Bailey. We have two ways of doing it. One way is where they put it in these big tanks and cruise it, tell how many gallons in the tank, or how many barrels. Then someone tells us about the gasoline content of the

oil. That is extracted, and it is sealed up and padlocked and a trusteeship made and a warehouse receipt issued against the oil. The banks loan a certain per cent on the oil. Right now we wouldn't take a very big margin. When the price of oil does not fluctuate, the situation is a little different. That is one way of handling it. The other way is on settled production. This applies to the smaller dealer. He will show his production for the last sixty days after the production has settled -- not his overflow of oil -- but after it has settled to a certain number of barrels and has shown that constantly for the last sixty days. We investigate it very carefully. Then they make an assignment to the pipe line company, and the oil is delivered and paid for each week, paid into the bank which makes the loan. Right now they would loan about 70 per cent.

Governor Seay. Is the oil insured?

Governor Bailey. It is insured in the tanks, but not insured in the pipe line.

Governor Crissinger. Is there any way of them putting water in the bottom of the tanks on you?

Governor Bailey. I have never heard of it. They might.

Governor Strong. Why do you say that the banks re-

quire more margin on loans on oil if it declines a dollar a barrel, than when it is a dollar higher?

Governor Bailey. The margin must be maintained and I would ask for extra collateral. It is just the same as having a steady market here. I think you would loan more money on wheat when the market is steady than you would when it is fluctuating fifteen or twenty cents a day.

Governor Strong. You would want more margin selling at three dollars than you would at a dollar?

Governor Bailey. Yes.

Governor Strong. It strikes me that that is one thing that might have a great effect on their profits. If the producers are forced to put up more margin it might force them to sell the oil at a lower price.

Governor Crissinger. Governor Talley, will you let us hear from you?

Governor Talley. Mr. Chairman and gentlemen, our district has nothing special to complain about at the present time; there has been some delay in getting the farm operations started. We have had pretty heavy rains in some parts of the district. The cotton planting is pretty well completed up as far as, I would say, the central and south



part of Texas. We are just beginning to study the probable effects of the Mississippi flood. We estimate there is about a million and a half bales of cotton which was produced last year in the flooded area, and that is bound to have some effect on prices later, according to what they are able to do after the floods recede. It is getting so late that it seems that they are pretty well up, against it as far as producing any cotton in that area is concerned. Any price changes probably will become more pronounced after we are through with that crop, which is considered to end about the 31st of July.

I do not think it will increase the acreage any, because they usually plant as much crop as they can in our district anyway. There won't be very much reduction in acreage. I should say a million acres would probably cover it so far as Texas is concerned, and it probably won't be that large.

The outstanding thing right now in the district is what Governor Bailey refers to as the petroleum situation -- over production and decline in price. Not only that, but for the last six weeks or two months, almost every week they have discovered a new oil area, particularly in Texas. Sev-

eral new fields have been brought in. Some of them contain oil of high gravity and the reduction in price of course affects that materially, although the high gravity fields are not always heavy producing fields.

Dr. Goldenweiser spoke of the decrease in business at a certain time in the agricultural areas but that after the first of the year it seemed to move along pretty well. I think what is partially responsible for that is the fact that the cotton crop was not only larger but it was very late and the realization that a lot of cotton, the abandonment of which was contemplated, would be picked, had come rather late. In other words I do not think we can begin to get the major portion of our return from the cotton crop, as affecting business in the District, until pretty well after the first of the year. This shows in the increase in bank deposits in the District between the call of September 21 and of March 23, as directly reflected in the increase of the level of our reserve deposits.

When the price decline in cotton began to overtake the district, there was at first a good deal of disappointment, then demoralization and disorganization. Along in January there came a very strong effort for some sort of expedient

action. That was reflected in our— I won't say operations— but in our activities in the bank in trying to persuade a lot of banks out of the idea that they must borrow heavily simply because they did not have the increase in bank deposits that they usually have every fall and spring. We advised them to wait a bit. We examined our own assets pretty carefully. Later on in January, the latter part of January and the 1st of February, there was quite a considerable decline in bank loans, particularly in the agricultural country banks, and then of course, as always comes at the end of a period of that kind or a situation of that kind, the application of sound principles. The result has been that not only the banks, but the communities themselves are undertaking to get along economically in reference to the crop production and therefore there has not been a very great demand for credit. Notwithstanding the disappointing condition last fall we do not expect our loans to pick up anything like as high as they were last year. They won't go over sixty per cent of what they were last year.

Governor Crissinger. How generally is your cow country restocked?

Governor Talley. Restocked in livestock?

Governor Crissinger. Yes, your cow country.

Governor Talley. The banks generally seem to be re-  
pretty well  
fraining/from following the increase in cattle prices.

Governor Crissinger. Who furnishes the cattle?

Governor Talley. By loaning on cattle at these high prices for restocking purposes. I should say in our district there has been very little restocking done. What restocking has taken place has come from the natural increase in the last two years. There was a time when it looked like the range prices were all out of line with the packer market prices. However, packer prices have receded to a point where they are more comparable with range prices than they were a year ago. There is a distinct and pronounced disinclination on the part of the banks to follow these prices up and to lend for restocking purposes. With regard to the range prices being out of line with the packing prices, of course the condition of the grass has quite an effect on that and as long as they have plenty of grass there isn't any pressure on the market. In that part of our district which adjoins Governor Bailey's district, particularly in New Mexico, it only goes back to 1919 and 1920 when those ranges were overstocked — they were overstocked even before that on

a normal basis, and consequently when the grass began to let down a terrible condition set in, and they are remembering that lesson.

Governor Seay. There are no noteworthy changes in the Fifth District. The aggregate value of the two principal crops, cotton and tobacco, was very much less last year in comparison with the preceding year, and that has had its effect. Our banks are borrowing but little more than half of what they were borrowing from us last year. The lower price of cotton has had some compensating effect on the textile industry and that industry is experiencing considerable revival.

There is a feeling of depression in South Carolina, particularly, where there have been a great many bank failures in the last two or three years. The value of farm lands has fallen to a very low level and at this time there is practically no sale for farm land. The season is somewhat backward, but that is not unusual, and what its effect will be upon the outcome, whether favorable or unfavorable, cannot be told at this time.

The value of the crops in one of our States, North Carolina, is very high, and North Carolina is in a much bet-

ter shape than her sister-State, South Carolina.

On the whole, I think my statement is correct that there are no noteworthy changes in the situation which have not been known to you for some time.

Governor Harding. We have heard a great deal about excessive rain in some of the districts. The Boston District has been very dry. There have been a good many forest fires in Massachusetts and they had close calls for a while. At the time I left Boston but three-quarters of an inch of rain had fallen in the entire year of 1927. The reservoirs are pretty low. There has been nothing in the way of crop retardation as yet. We won't begin until about the 1st of June, although we may get started about the middle of this month. The mills are doing a little better. In two or three companies dividends have been resumed, but as a rule the textile situation is depressed. The woolen trade has been bad, although some of the wool dealers have used up stocks by sales abroad. The railroads seem to be in very good condition. Boston & Maine securities are advancing. They have gotten rid of a number of unprofitable lines which the Interstate Commerce Commission let them out of. The communities interested have taken over these little lines

and they have been able to keep them in operation. Many of the textile mills have made connections in the South. It is getting to be quite the thing for New England mills to have a southern connection. In some States efforts have been made to relieve the mills of excessive taxation. New Hampshire recently passed a law, which is before the Supreme Court, authorizing towns to make special discounts on mill property. In other cases they have reduced the assessments. I am inclined to think that we have a situation in the mills that will work out in the course of three or four years by the process of natural selection and the survival of the fittest. I think there will be a good many mergers of mills in the same town, effecting economies in overhead, and so forth. The shoe business has been depressed but recent reports are that it is improving. Savings bank deposits have increased. Federal Reserve Bank deposits have shown a tendency to increase up to the last thirty days. Probably the most interesting thing, from the banking standpoint, is the large increase in time deposits. It is a general rule to pay interest on all deposits, two per cent on open accounts subject to check, and they have special agreement accounts.

A good many of the large banks have savings departments

that allow 4 per cent interest on savings accounts. One prominent banker told me that he has, or had, a number of accounts in his savings department running from a hundred to a hundred and fifty thousand dollars. He had decided that he would pay four per cent on savings deposits up to ten thousand dollars, and three per cent on all above that. He put that rule in. As a result in the first thirty days he lost a million dollars in deposits. It went from 34 million to 33. His principal competitor had no such rule and his deposits showed an increasing tendency.

The mutual Savings banks have a limit on the amount they will receive from any one depositor. In view of the fact that the McFadden Act emphasizes the distinction between savings deposits and other deposits because it makes savings deposits as one basis for real estate loans made by banks, I think it is very important that there should be a better definition of time deposits and savings deposits. It was discussed here the other day at this conference and I pointed out the difficulties that the Federal Reserve Board had in meeting that problem, expressing the opinion that nothing could be done except by legislation. I really think it would be a good idea to suggest to Congress that it define in the



law what a savings account is, and place a limitation on it. I should think it could say that no member bank, no deposit in a member bank shall be construed as a savings deposit unless it is issued against the pass-book, which must be presented with a check, and that no account will be received from any one person, firm or corporation, or by any bank in the savings department amounting to more than five or ten thousand dollars. I think that might have a good effect. I think the mutual savings banks would agree to increase their limit.

Governor Seay. You would consider what effect that might have in driving deposits into the State institutions.

Governor Harding. My information is that the State institutions haven't the extremes to deal with in their savings department as have the national banks.

Governor Seay. It would be well to consider, in asking Congress to pass a law like that, the effect that it might have in driving deposits from national banks into state banks.

Governor Strong. The state banks as a rule have requirements of higher reserve than the McFadden Act provides for the national banks.

Governor Seay. Some have and some have not.

Vice Governor Platt. In New York there is no reserve requirement for savings deposits.

Governor Strong. In the mutual savings banks.

Vice Governor Platt. Is there any reserve requirement in any of them?

Governor Strong. They have to have a reserve. I forget whether it is three per cent or five per cent, in cash in their vaults. Of course they are very strictly limited in the use they may make of their funds.

Vice Governor Platt. They are strictly limited in investments, but there was a controversy in the case of combination of two banks, one of which is a trust company, and a non-member, whether that combined bank would become a member of the Federal Reserve System, and one of the arguments presented was that there was no requirement for reserve on savings deposits at all.

Governor Harding. In New England there is no reserve requirement for trust companies.

Mr. Harrison. That is true in state banks and trust companies.

Governor Strong. The mutual savings banks have to keep

a cash reserve in their vaults. It is small, but they have to keep it. They have to keep a reserve on time deposits after they reach a certain period before maturity. I forget what it is.

Governor Fancher. In reading this Federal Reserve bulletin here, the statement as to business conditions, I might say it reads as though it was prepared in our office. It pretty closely fits conditions in the Fourth District as to the steel business, the automobile business and the bituminous coal business. There has been some let down in the volume of steel business. A pretty fairly satisfactory four months was had. We had occasion to analyze in our office some few weeks ago the earnings statements of 35 large manufacturing establishments, representing 19 types of business, as to their earnings for the first quarter of 1927. The increase in net earnings for the first quarter as compared with the last year is reported by fourteen concerns, as compared with 22 concerns in 1926; a decline by 12 and no change by nine. The first quarter's business on the whole was a little better than 1926.

The only very bad condition in the Fourth District has been the bituminous coal situation, which has been depressed

for two years. There was some return to operations growing out of the British strike last year, which stimulated production, with an increase in price; then came a lull and then there was a definite prospect that there would be a closing down of the mines by lack of a renewal of the Jacksonville agreement. There was a good deal of coal produced in the last three months prior to the first of April which resulted in stocking up large supplies of coal outside of the mines. Now the operators and the miners are simply marking time. They stand at an impasse so far as making any settlement is concerned, and it is known that until the stocks of coal are pretty well used up there will not be very active negotiations toward any settlement. So I rather think the coal situation will drift along until well into the summer. There is, however, some effort being made on the part of some of the larger operators to resume operations on the non-union basis, and that seems to be gaining some ground in certain parts of Ohio and in Pennsylvania.

The automobile industry is going along at pretty fair volume but not in the volume of a year ago. The tire situation in Akron is fairly stable, and it is believed that the first six months' business will be more satisfactory than

for the same period in 1926.

There has been quite a falling off in the matter of new building permits; quite a marked decrease in March and in April. For the first quarter the permits were nearly 13 per cent less than in the same period of 1926. The falling off in March was about 25 per cent, 30 per cent in April, indicating that building conditions are considerably off from what they were for the same period a year ago.

As to banking conditions, our member banks are borrowing about the same amount from us as they were borrowing a year ago. At our peak period in December we had 304 member banks borrowing and on May 6th, the day I came away, we had 209. The gross amount of borrowing in December was a little in excess of a hundred millions and they are now down to about 40 million.

We are detecting the same condition that Governor Harding mentions in his district, a gradual, I might say rather marked, increase in time deposits which seems to be occurring in the banking situation generally.

Governor Crissinger. Has the agricultural situation affected your country banks to any extent?

Governor Fancher. Not very much. It is quite surprising.

Our agricultural banks, the country banks so-called, are borrowing ten to eleven million dollars from us at the present time. I think agricultural conditions generally speaking are fairly satisfactory, except in some parts where they have had an excess amount of rain and are a little late in getting the planting in. But with any sort of weather I think on the whole the conditions will be fairly normal.

Governor Young. I think you can describe the conditions in our district by saying that everyone is marking time hoping and waiting for a good crop. Prospects of a crop are good. There is plenty of moisture in the soil, more than we have had for a great many years. Wet weather has delayed planting. All the small grains should be in by May 15th. When I left there about a week ago some places had planted a hundred per cent, others eighty, others seventy, and all the way down to 25 per cent. I am in hopes that the grain will all get in.

The situation in South Dakota and North Dakota, where they thought it was so bad, and Congress had to make an appropriation of eight and a half million to take care of seeding requirements --- and that was inoperative because of the

second deficiency bill failing -- I recently checked that situation in South Dakota and the secretary of the South Dakota Bankers' Association tells me that there are very few cases where seed has not been supplied in some way, shape or manner in South Dakota.

There is some concern in our district about the amount of Durham wheat that is going in. That comes about for two reasons. One is that the Durham wheat is a rust-resisting wheat. Ordinarily it does not bring as good a price, but it is <sup>a</sup> surer crop. Last year the people who had Durham wheat made a very handsome price on it. It sold at a premium all the way from 15 to 25 cents over the best grades of bread wheat. We are afraid that they will put too much Durham wheat in.

Governor Crissinger. Is not that a bread wheat?

Governor Young. No, it is a macaroni wheat. It is not used for bread. If we come through with a good crop it is going to help the banking situation very materially. If, on the other hand, we have another poor crop this year it is going to be very severe on the banking situation.

Governor Crissinger. We have not heard from you, Governor Norris.

Governor Norris. I do not think I can report quite as favorable conditions in our district as have been reported in most of the others. In the extreme western part of our district we have a certain amount of the soft coal business, where conditions are as Governor Fancher has described them in his district. In the anthracite district the high price for anthracite and the uncertainty as to supply has led to an enormous substitution of oil burners for coal burners in residences. The mines have never had any trouble in selling their domestic sizes, and the small sizes have had some competition with soft coal; as a result of the British strike and the strike in the non-union fields in western Pennsylvania, Ohio and Indiana, there is a ready market for smaller sizes, but there is a very poor market for the domestic sizes. Most of the mines are now working only about three days a week.

There is a very considerable truck raising and canning industry in southern New Jersey and in Delaware, and conditions there are similar to those that have been described as prevailing, I think, in Wisconsin. Last year a greater part of the pack was carried over; it had to be.

There has been in a good many sections in our district,



particularly in and around Camden, New Jersey, across the river from us, and all along the New Jersey coast, a tremendous real estate speculation. There have been advancing prices for real estate there and increasing rents over a long period of years. The people have gotten into the habit, whenever they have made any money or gotten a little ahead in business, to go into real estate. At the New Jersey Seashore resorts, real estate and hotel-keeping are the two businesses, and practically the only two. While there has been no collapse of that, it has been impossible during the last year to effect sales. Fortunately the people have been in almost every case able to carry on. There has been only one case of a large operator, opening a new development near Atlantic City, who has had to make arrangements with his creditors; but the rest are all holding on. Unless a marked revival comes in the market some of these people will have to let go, and in that case there may be some trouble in the banks there. It is impossible for those banks to avoid real estate loans. Just as an illustration, we had an informal application from some people organizing a trust company in a place near Atlantic City. They said they wanted to become members of the system from the start. It is contrary to

our usual practice to admit such members immediately on incorporation; but we got such good reports of these people and they gave us such assurance of their intention to avoid real estate loans that we made an appointment for them to come to our office and talk it over. In the course of the conversation it developed that while they had this firm intention of avoiding real estate loans that about \$245,000 out of their \$275,000 capital and surplus was in their building; that they had already put it in, so that instead of loaning on real estate they were buying real estate.

The cotton textile business has disappeared from Philadelphia. There isn't a single concern left in it. The woolen and worsted people have had a very hard time. The largest mill there, that has been in existence for a generation or more and out of which several large fortunes were made, has been operating for several years at a loss of about a half a million dollars a year, and I understand they are going to close down.

I am rather surprised at the fact that corporation reports for the first quarter of this year show larger profits than for the same quarter of last year. I think that must be due to very large profits by a few very large corpora-

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tions, because the average small or medium sized business people in Philadelphia are making very small profits. We get constant complaints from the retailers that with increased assessments, meaning increased taxes and rents, increase in wages and other expenses, that they are being eaten up by overhead and that the retail business is not what it ought to be. That situation does not seem to be altogether satisfactory.

As far as the banking situation is concerned, outside of this possible trouble that I have alluded to that may develop along the Atlantic Seashore, the situation is very good.

There is one matter that has excited our attention. I do not know to what extent it has developed in other districts, but we find that a great many trust companies and small national banks are issuing what they call mortgage certificates. They buy an aggregate of say half a million dollars of real estate mortgages and then sell to their customers mortgage participation certificates. Those certificates contain an agreement on the part of the bank to repurchase from the certificate holder on notice.

Governor Crissinger. You say that the national banks are doing that?

Governor Norris. Both national and state banks are doing it. Those certificates do not, in time, coincide with the maturity dates of the mortgages themselves, still they do not treat them as a liability at all. We have taken it up with the State Banking Department and the Commissioner feels that they should be treated as liability, but feels that he requires some legislation before he can enforce that. The Chief National Bank Examiner has also taken it up and I think has — I know he has a form prepared in the Comptroller's office that would enable the business to be done without creating liability. I do not know whether that form would be satisfactory to the purchasers of the certificates. No acute trouble has developed about it but it is a matter that gives us some little concern. I do not think there is anything else that would be of any possible interest to the Conference.

Governor Strong. I have been back in New York but a very short time, and most of that time I have been in Washington. I cannot give any detailed report of the industries and so on of the District, as I would like to do; but in a general way I think I can say that there has been no very great change in the recent period.

I think the striking thing that I noticed on returning is the influence of the passage of the McFadden Bill. As I understand it, since the McFadden Bill became a law, we have had 23 branches approved for banks in New Jersey and 26 in New York. That development has been going on for some time and has resulted in a good many bank consolidations in our district. Notwithstanding that fact there has been quite an accession of membership in the Federal Reserve System. When I was abroad I remember I got a report that we had reached 900 member banks in the district. When I got back to the office I noticed the figure was about 935, and there have been seventeen members added since the first of the year. One of the striking things about it is that the growth of bank capital in our district has led to the situation that we are now nine million dollars below our authorized surplus. Our capital and surplus now exceeds a hundred million dollars, and the rapid growth, far more rapid than I had anticipated a year or two ago, is entirely due to the increase in the amount of banking capital paid in, rather than to the enlargement of our surplus and earnings. It is quite natural that these influences should be felt in New York, which is the largest city and presents

the largest field for development of branches. I hope it will prove to be a wholesome thing. I think in the end it will be.

Possibly the other most striking thing that I notice is in connection with the largest crop that we produce in New York, and that is investment securities. The issues are maintaining about the rate of last year, if not going a little faster. In looking over the offerings of securities it is pretty difficult to find any serious fault with their stability, and I think on the whole they are pretty good.

The foreign loans that have been offered in New York lately -- there are exceptions -- on the whole I think are as good, if not better intrinsically than they were a year ago. The borrowings of Germany, as you know, have been very much reduced, and the recent heavy new borrowings have been those of Italy. While there is some question as to the wisdom of Italy borrowing as much abroad as they are just now, I do not think there is any doubt that those loans have been very carefully selected and are probably good.

I suppose the most important financial problem, the most striking financial problem, is the problem of the borrowings in New York and in the London market by countries

that are gradually feeling the influence of the return of prosperity and have a desire for new enterprises. If any steps should be taken to arrest it ultimately, the time probably has not come. If it does come I hope nothing in the nature of arbitrary control will be applied, but that it will be allowed to work itself out, as it always has in the past by conditions gradually being satisfied and their stopping of their own accord.

The attention of the country is always focused on what is going on in the stock market in New York. I do not know very much about the movement of prices, except that it has been upward. In a broad way, what has happened in the last cycle, so to speak, is that the total decline in the outside figure of the stock exchange loan account of between eight and nine hundred million dollars, and a recovery of that amount in a recent period of roughly one-half of that, and of that one-half, about \$200,000,000 has taken place in a period of about three months last past. Considering the enormous increase in the securities listed on the board, and the fact that they have had a very prosperous period for a few years, I do not know that there is anything alarming in what is happening there. It got to a point where

people were alarmed a year or more ago, and went through a very considerable liquidation, with no great damage resulting. I do not think there is anything else.

Governor Crissinger. Does any member of the Board care to say anything?

Vice Governor Platt, Governor Strong spoke in the beginning about the considerable increase in membership in new banks.

Governor Strong. Probably due to organization of new state banks and some conversions.

Vice Governor Platt. Do you think all of that has resulted from the passage of the McFadden Act?

Governor Strong. The development of these newbanks is directly to be attributed to the fact that the new law in New Jersey permitting branch banking became operative when the McFadden Bill passed. There were twelve branches established by State banks, which are not members of the Reserve System, in addition to those that I have mentioned.

Vice Governor Platt. Weere the banks who started getting branches to some extent non-members and smaller banks?

Governor Strong. Some of it was the result of small



banks having been acquired in anticipation of the passage of this act, the people owning these small banks taking them in as branches.

Governor Crissinger. Is there anything further? If not, the Chair will entertain a motion to adjourn.

Mr. Hamlin. Mr. Chairman, I move that we now adjourn.

(Whereupon, upon motion duly seconded, the Conference adjourned, at 5 o'clock p.m., on Thursday, May 13, 1937, subject to the call of the Federal Reserve Board.)

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