The Papers of Charles Hamlin (mss24661)

359_01_001-	Hamlin, Charles S., Scrap Book – Volume 156, FRBoard Members

205.001 - Hamlin Charles S
Scrap Book - Volume 156
FRBoard Members

Box 359 Folder 1

Form F. R. 131

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

205.001

Office Correspondence

Date June 26, 1941

To Files

Subject:

From Mr. Coe

After correspondence with Mrs. Hamlin (See letters of May 25 and June 4, 1941) the items attached hereto and listed below, because of their possible confidential character, were taken from Volume 156 of Mr. Hamlin's scrap book and placed in the Board's files:

VOLUME 156

Page 5
Reserve Percentages of Jan. 13, 1926, and Jan. 6, 1926.

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Letter from W.P.G. Harding to C.S. Hamlin regarding memberships on Federal Reserve Board.

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Letter from D. F. Houston to C.S.H. in re memberships on Federal Reserve Board.

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(X-4521) Proposals to amend Section 9 of the Federal Reserve Act.

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Earnings and Expenses of Federal Reserve Banks during 1926.

See BA

CONFIDENTIAL
Not for publication

St. 4807

RESERVE PERCENTAGES OF JANUARY 13, 1926, AND JANUARY 6, 1926.

Federal Reserve Bank	Ratio of total reserves to deposit and F.R.note liabilities combined Jan. 13 - - Jan. 6		Ratio of reserves in vault and in Gold Settlement Fund to deposits Jan. 13 - - Jan. 6		Ratio of gold with F. R. Agent and in gold redemption fund to F. R. notes in actual circulation Jan. 13 - - Jan. 6		Ratio of gold reserves to F.R. notes in actual circulation after setting aside a 35% reserve against deposits Jan. 13 - - - Jan. 6	
Boston	61.0	63.5	63.6	60.0	58.6	66.8	84.3	89.7
New York	81.8	80.1	70.6	72.3	109.2	98.4	196.8	185.6
Philadelphia	76.1	76.4	50.1	49.7	101.2	101.8	115.9	115.7
Cleveland	76.1	74.6	60.1	59.0	89.3	87.0	109.9	106.1
Richmond	70.3	71.1	52.2	48.6	85.0	89.4	99.0	100.5
Atlanta	59.9	52.7	41.5	47.7	69.3	55.3	72.7	62.1
Chicago	71.5	63.3	68.6	61.2	77.0	67.5	140.4	117.4
St. Louis	51.5	47.9	56.3	50.7	40.8	41.6	88.1	77.2
Minneapolis	76.0	70.3	51.2	48.4	96.2	88.3	109.4	99.3
Kansas City	59.0	56.3	42.1	39.7	81.3	77.9	90.8	83.9
Dallas	47.4	45.1	45.8	42.6	49.8	48.5	65.1	58.6
San Francisco	75.6	74.4	43.5	42.2	104.6	102.0	112.2	108.2
TOTAL	72.7	70.2	61.4	60.1	87.8	83.4	123.2	116.3

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS
JANUARY 14, 1926.

C.

205.001

52

W. P. G. HARDING
30 PEARL STREET
BOSTON

January 21, 1926.

Dear Mr. Hamlin:

I have received your letter of the 20th instant and would call your attention to the fact that originally President Wilson offered a membership on the Board to Harry A. Wheeler of Chicago who is, I think, a Republican. As you say, following Delano's resignation, membership was offered to Mr. Goff, to General Dawes and also to Evans Woollen. This was while Mr. Glass was Secretary of the Treasury and I have heard him say that the place was offered to ten or twelve men before it was finally given to Moehlenpah. No doubt he will give you the names. Following the resignation of Albert Strauss who was also a Republican, Secretary Houston was, as I remember it, authorized by the President to offer the vacant position to each of two Republicans in the Philadelphia district, both of whom declined, and then Mr. Platt was appointed.

Mr. Curtiss is feeling better although he is not yet in good shape. He has been coming to the bank every day for some time but under the advice of his doctor, he is making arrangements to leave about the first of February for a three weeks trip to some place in the West Indies.

With kind regards, I am

Sincerely yours,

W. P. G. Harding

Hon. Charles S. Hamlin,
Federal Reserve Board,
Washington, D. C.

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Sec Bk

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4507

January 21, 1926.

SUBJECT: Letters to Committee on Banking and Currency re Legislation.

Dear Sir:

The Federal Reserve Board has recently addressed three letters to the Chairman of the Committee on Banking and Currency of the House of Representatives, copies of which are enclosed for your information, as follows:

(1) Expressing the Board's views on and recommending certain amendments to H. R. 2, the so-called McFadden Bill;
(2) Recommending an amendment to Section 13 of the Federal Reserve Act extending the maximum maturity of advances by Federal reserve banks to member banks on their promissory notes when such notes are secured by eligible paper; and
(3) Recommending the enactment of legislation to prohibit the use of the words "Federal", "Reserve" and "United States" by banking associations, etc.

Very truly yours,

Walter L. Eddy,
Secretary.

(Enclosures)

TO CHAIRMEN AND GOVERNORS OF ALL F. R. BANKS

205.001

(COPY) X-4508

January 16, 1926.

Dear Mr. McFadden:

Reference is made to your letter of October 31st in which it is suggested that the maximum maturity of advances made by Federal reserve banks to member banks on their promissory notes be increased from fifteen days to ninety days.

After careful consideration of this suggestion, and after consultation with the Federal Reserve Agents and the Governors of the several Federal reserve banks, the Federal Reserve Board is of the opinion that an amendment to thelaw increasing the maximum maturity of such notes when secured by paper eligible for rediscount or for purchase by Federal reserve banks should be adopted. The Board does not believe, however, that this increase in maturity of such notes should apply when they are secured by bonds or notes of the United States or by bonds of the War Finance Corporation. I am enclosing herewith a draft of an amendment to Section 13 of the Federal Reserve Act which embodies the views of the Federal Reserve Board, which are concurred in by the Federal Reserve Agents and the Governors of the several Federal reserve banks.

The proposed amendment would permit Federal reserve banks to extend credit to their member banks for any period of time not exceeding ninety days on the security of eligible paper, whereas under the present law the length of the period of any such credit in excess of fifteen days is determined necessarily by the maturity dates of the notes which are offered for discount at the Federal reserve banks. The Federal Reserve Board believes that it would be of distinct advantage to member banks to be able to obtain credit for any desired period up to ninety days, regardless of the maturity dates of the notes in its portfolio. Especially is this true in those sections of the country where seasonal credit is greatly demanded.

It is also believed that the enactment of the amendment proposed will be a means of saving country banks much inconvenience. Member banks' notes with fifteen-day maturities are in many cases frequently renewed and the proposed amendment would eliminate the necessity and inconvenience of such frequent renewals. This would be of especial assistance to those member banks which are so situated that more than one day is necessary for the mails to pass to or from the Federal reserve bank by which they are served.

The Federal Reserve Board feels that the increase in maturity for member banks' notes should be limited to those notes secured by paper eligible for discount or purchase by Federal reserve banks because, in the opinion of the Board, it is unsound banking to permit the issue of Federal Reserve Notes against promissory notes secured by Government bonds as collateral. For this reason the Board believes that the present law is sufficiently liberal as respects advances to member banks on notes secured by Government bonds.

The foregoing recommendation is made by a majority vote of the Board.

Very truly yours,

D. R. Crissinger,
Governor.

Hon. Louis T. McFadden, Chairman,
Committee on Banking and Currency,
Washington, D. C.

205.001

X-4508-a

A B I L L

To Amend Section 13 of the Federal Reserve Act and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the seventh paragraph of Section 13 of the Federal Reserve Act as amended be amended and reenacted to read as follows:

"Any Federal reserve bank may make advances for periods not exceeding fifteen days to its member banks on their promissory notes secured by the deposit or pledge of bonds or notes of the United States or of bonds of the War Finance Corporation, or when authorized by the Federal Reserve Board and subject to such conditions, regulations, limitations and restrictions as the said Board may prescribe, may make advances for periods not exceeding ninety days to its member banks on their promissory notes secured by such notes, drafts, bills of exchange or bankers' acceptances as are eligible for rediscount or for purchase by Federal reserve banks under the provisions of this Act. All such advances shall be made at rates of interest to be established by such Federal reserve banks subject to the review and determination of the Federal Reserve Board."

(COPY) R-4509

January 16, 1926.

Honorable Louis T. McFadden, Chairman,
Committee on Banking and Currency,
House of Representatives,
Washington, D. C.

My dear Congressman:

The Federal Reserve Board has received many complaints about the use of the words "Federal" or "Reserve", or a combination of the two as part of the title of banks, corporations and firms other than Federal reserve banks. In most of these instances it is obvious that such words have been used in an attempt to take advantage of the prestige enjoyed by the Federal reserve banks and to arrogate to the firms or corporations using such words part of the benefits accruing from this prestige, and the Board has felt that not only is this purpose in itself objectionable but also that such use of these words is likely to mislead the public and to cause confusion. Indeed, in several instances it has been found that the use of such words by firms or corporations other than Federal reserve banks actually has led to confusion. The Board has always opposed such use of these words and feels that legislation to remedy the situation is very badly needed.

Under date of September 2, 1922, the Board called this matter to your attention with a request that you endeavor to secure the passage of a law which would prevent this objectionable practice as far as possible; and you introduced at the first session of the 68th Congress a Bill (H.R. 6145) for this purpose, a copy of which is enclosed herewith. This bill, however, was never reported out by the Banking and Currency Committee, and the Board desires to renew its recommendation that this bill, or some other bill having substantially the same effect, be enacted into law at the present session of Congress and to express its hope that you will exert your best efforts to this end.

It will be noted that the first provision of the enclosed bill would prohibit offering for sale as Farm Loan bonds any securities not issued under the terms of the Federal Farm Loan Act. This provision was included in the bill, at the time it was being prepared, at the request of the Farm Loan Board, but the Federal Reserve Board is not advised whether the Farm Loan Board is still desirous of securing the enactment of such legislation.

A precedent for the enactment of a law of this kind is found in Section 5243 of the Revised Statutes which prohibits the

use of the word "national" as part of the title of any bank not organized under the National Bank Act. While the validity of that provision has never been passed upon by the courts, it has been on the statute books since 1873 and its validity has never been questioned. It is well recognized that the good name or reputation of a bank is one of its most valuable possessions and it would seem clear that the same is true of any banking system. Any device or scheme the natural result of which would be to cause banks, corporations or firms of questionable standing to be confused with the Federal reserve banks or which is likely to mislead the public into believing that such banks, corporations or firms are affiliated in some way with the Federal Reserve System endangers the good name and reputation of the Federal Reserve System. It is believed, therefore, that the enactment of legislation to prevent such abuses is necessary to protect the Federal reserve banks and the Federal Reserve System. The Supreme Court of the United States has recognized the principle that the power to create national banks carries with it the power to preserve them,(See First National Bank v. Fellows, 244 U.S. 416 and cases cited), and the same must be true as to the Federal reserve banks. There would seem to be no doubt, therefore, as to the constitutionality of a bill designed to protect the reputation of the Federal reserve banks.

For your information there is also enclosed herewith a copy of a memorandum prepared for the information of the Federal Reserve Board containing a brief statement of the circumstances of each case which has been called to the attention of the Board in which the word "Federal" or the word "Reserve" or a combination of the two has been used as a part of the name of a bank, corporation or firm other than a Federal reserve bank or in the advertising of such a bank, corporation or firm or where such use of these words has been attempted. It is believed that a reading of the facts set forth in this memorandum will convince any one of the necessity for some legislation to prevent such abuses.

As you will note from the memorandum, the Board has sought various ways of preventing the objectionable practices, but usually with little success. The Board has several times requested the aid of the Federal Trade Commission in these matters, but as this body is without jurisdiction over banks or insurance companies its power to render material assistance has necessarily been greatly restricted.

The Federal Reserve Board hopes that you will do all that is possible to secure the introduction and enactment into law of a bill which will provide an effective remedy for this situation.

If agreeable to you, the Board will be glad to furnish a copy of this letter and the enclosed documents to each member of your committee in order that they may study them at their leisure.

Very truly yours,

D. R. Crissinger
Governor

Enclosures
WW OMC

68th Congress,
1st Session.

(COPY)

X-4509-a

H. R. 6145

IN THE HOUSE OF REPRESENTATIVES.

January 24, 1924.

Mr. McFadden introduced the following bill; which was referred to the Committee on Banking and Currency and ordered to be printed.

A BILL

To prohibit offering for sale as Federal farm loan bonds any securities not issued under the terms of the Farm Loan Act, to limit the use of the words "Federal", "United States", or "reserve", or a combination of such words, to prohibit false advertising, and for other purposes.

BE IT ENACTED BY THE SENATE AND HOUSE OF REPRESENTATIVES OF THE UNITED STATES OF AMERICA IN CONGRESS ASSEMBLED, That no bank, banking association, trust company, corporation, association, firm, partnership, or person not organized under the provisions of the Act of July 17, 1916, known as the Federal Farm Loan Act, as amended, shall advertise or represent that it makes Federal farm loans or advertise or offer for sale as Federal farm loan bonds any bond not issued under the provisions of the Federal Farm Loan Act or make use of the word "Federal" or the words "United States" or any other word or words implying Government ownership, obligation, or supervision in advertising or offering for sale any bond, note, mortgage, or other security not issued by the Government of the United States or under the provisions of the said Federal Farm Loan Act or some other Act of Congress.

SEC. 2. That no bank, banking association, trust company, corporation, association, firm, partnership, or person engaged in the banking, loan, building and loan, brokerage, factorage, insurance, indemnity, or trust business shall use the word "Federal", the words "United States", or the word "reserve", or any combination of such words, as a portion of its corporate, firm, or trade name or title or of the name under which it does business: Provided, however, That the provisions of this section shall not apply to the Federal Reserve Board, the Federal Farm Loan Board, the Federal Trade Commission, or any other department, bureau or independent establishment of the Government of the United States, nor to any Federal reserve bank, Federal land bank, or Federal reserve agent, nor to the Federal Advisory Council, nor to any corporation organized under the laws of the United States,

nor to any bank, banking association, trust company, corporation, association, firm partnership, or person actually engaged in business under such name or title prior to the passage of this Act.

SEC. 3. That no bank, banking association, or trust company which is not a member of the Federal reserve system shall advertise or represent in any way that it is a member of such system or publish or display any sign, symbol, or advertisement reasonably calculated to convey the impression that it is a member of such system.

SEC. 4. That any bank, banking association, trust company, corporation, association, firm or partnership violating any of the provisions of this Act shall be guilty of a misdemeanor and shall be subject to a fine of not exceeding $1,000. Any person violating any of the provisions of this Act, or any officer of any bank, banking association, trust company, corporation or association, or member of any firm or partnership violating any of the provisions of this Act who participates in, or knowingly acquiesces in, such violation shall be guilty of a misdemeanor and shall be subject to a fine of not exceeding $1,000 or imprisonment not exceeding oneyear, or both. Any such illegal use of such word or words, or any combination of such words, or any other violation of any of the provisions of this Act, may be enjoined by the United States district court having jurisdiction, at the instance of any United States district attorney, any Federal land bank, joint-stock land bank, Federal reserve bank, or the Federal Farm Loan Board or the Federal Reserve Board.

SEC. 5. That if any clause, sentence, paragraph, or part of this Act shall for any reason be adjudged by any court of competent jurisdiction to be invalid, such judgment shall not affect, impair or invalidate the remainder of this Act, but shall be confined in its operation to the clause, sentence, paragraph, or part thereof directly involved in the controversy in which such judgment shall have been rendered.

(COPY) X-4500

January 8, 1926.

Honorable Louis T. McFadden, Chairman,
Committee on Banking and Currency,
House of Representatives,
Washington, D. C.

My dear Congressman:

The Federal Reserve Board welcomes the opportunity afforded by the request conveyed in your letter of December 11, 1925, to express its opinion on your Bill, H.R. 2, amending the National Bank Act and the Federal Reserve Act.

The urgent importance of liberalizing the law so as to enable national banks to compete more effectively with State institutions has long been recognized by the Board, and appropriate legislation for this purpose has been under consideration during the last year by a special committee of officers of various Federal reserve banks assisted by the Board's Division of Research and Statistics. The opinions herewith submitted are based in large measure upon the work of this Committee after consultation with the Federal Advisory Council.

Many of the provisions of the bill as introduced are approved without change, but the Board ventures to suggest considerable changes in Section 5200 designed in part to clarify that very complicated section and in part to limit certain somewhat hazardous classes of loans. While strongly in favor of liberalizing the statute, the Board feels also that it is highly desirable to introduce additional safeguards, especially in view of the numerous bank failures in recent years. The Board, therefore, submits a limited number of suggestions with this object in view. They are designed mainly to secure more adequate data regarding the conditions of the banks through examination and it is not believed that they would hamper in any way the conduct of its business by any well managed bank.

SECTIONS APPROVED WITHOUT ANY SUGGESTED CHANGES.

The Board approves the following provisions of H.R. 2 in their present form:

Section 2(a), amending subsection 2 of Section 5136 of the Revised Statutes so as to give national banks indeterminate charters in lieu of charters for a term of 99 years.

Section 2(b), amending subsection 7 of Section 5136 of the Revised Statutes so as to regulate the safe deposit business and the business of buying and selling investment securities when transacted by national banks.

Section 3, amending Section 5137 of the Revised Statutes so as to permit the purchase by national banks of such real estate as shall be necessary for their accommodation in the transaction of their business rather than merely such as may be necessary for their immediate use.

Section 4, amending Section 5138 of the Revised Statutes so as to authorize the chartering of national banks in outlying sections of large cities with a capital of $100,000.

Section 5, amending Section 5142 of the Revised Statutes so as expressly to authorize national banks to increase their capital by means of stock dividends.

Section 6, amending Section 5150 of the Revised Statutes so as to authorize the board of directors of a national bank to designate a director in lieu of the president to be chairman of the board of directors.

Section 13, amending Section 5208 of the Revised Statutes relating to the certification of checks by officers, directors, agents or employees of Federal reserve banks and member banks of the Federal Reserve System.

Section 14, amending Section 5211 of the Revised Statutes so as to permit reports of condition of national banks to the Comptroller of the Currency to be signed by the vice president or assistant cashier.

Section 15, amending the fourth paragraph of Section 13 of the Federal Reserve Act so as to permit Federal reserve banks to rediscount for member banks the eligible paper of any one borrower in an amount equal to that which may be borrowed lawfully from any national banking association under the terms of Section 5200 of the Revised Statutes as amended.

Section 16, amending Section 22 of the Federal Reserve Act, so as to make thefts by any bank examiner or assistant bank examiner from any member bank of the Federal Reserve System a Federal offense.

REAL ESTATE LOANS.

The Board approves of that portion of Section 17 of your Bill which would amend Section 24 of the Federal Reserve Act so as to broaden the power of national banks to make loans on real estate and increase the aggregate amount of such loans which may be made by any national bank from 33 1/3 per cent of its time deposits to 50 per cent of the national bank's savings deposits; but the Board is opposed to that portion of this section of the Bill (page 27, lines 4 to 9, inclusive) which would provide that the rate of interest which national banks may pay upon time deposits, savings deposits or other deposits shall not exceed the maximum rate authorized to be paid upon such deposits by State banks or trust companies.

CONSOLIDATION OF NATIONAL BANKS.

Upon consideration of Section 1 of your Bill, which would amend the Consolidation Act of November 7, 1918, by the addition thereto of a new section simplifying the procedure involved in the consolidation of State banks with national banks, the Board voted to approve all of such proposed new section except that portion thereof which relates to branch banking.

SECTION 5200 OF THE REVISED STATUTES.

The Board recommends that the following be substituted for Section 11 of your Bill, which would amend and reenact Section 5200 of the Revised Statutes:

"Sec. 11. That Section 5200 of the Revised Statutes of the United States, as amended, be amended to read as follows:

'Section 5200. The total direct liabilities to any national banking association of any person, firm, company or corporation for money borrowed shall at no time exceed 10 per centum of the amount of the capital stock of such association actually paid in and unimpaired and 10 per centum of its unimpaired surplus fund; and the aggregate liabilities to any national banking association of any person, firm, company or corporation, to wit, the direct liabilities for moneys borrowed and the indirect liabilities as surety, endorser or guarantor, where such surety, drawer, endorser, or guarantor obtains a loan from, or discounts paper with, or sells paper under guarantee to, any such association, shall at no time exceed 25 per centum of the amount of the capital stock of such association actually paid in and unimpaired, and 25 per centum of its unimpaired surplus fund.

'Within the meaning of this section: (a) The liabilities of any company or firm shall include the liabilities of the several members thereof; (b) where the majority of the stock of any corporation is owned by any borrower the liabilities of such corporation as surety, drawer, endorser or guarantor shall be considered part of the aggregate liabilities of such borrower; and (c) all liabilities of the actual borrower on accommodation paper, whether in the form of liabilities as maker, acceptor, surety, drawer, endorser, or guarantor shall be considered direct liabilities within the meaning of this section.

'The limitations prescribed above in the first paragraph of this section shall be subject to the following exceptions:

'(1) Liabilities arising out of the discount or purchase of the following classes of paper shall be subject to no limitation based upon the amount of such capital and surplus except where both the drawer and drawee, or both the maker and payee, are corporations and one of such corporations is affiliated with, or a subsidiary of, the other - i.e., where a majority of the stock of one of such corporations is owned by the other or by the stockholders thereof:

(a) Bills of exchange drawn in good faith against actually existing values.

(b) Commercial or business paper actually owned by the person, company, corporation, or firm negotiating the same.

(c) Drafts and bills of exchange secured by shipping documents conveying or securing title to goods shipped.

'(2) Liabilities arising out of the discount or purchase of the following classes of paper shall be subject to no limitation based upon the amount of such capital and surplus:

(a) Demand obligations which are or have been discounted or purchased for the account of the drawer or endorser and which are secured by documents covering commodities in actual process of shipment.

(b) Bankers' acceptances of the kinds described in section 13 of the Federal Reserve Act.

(c) Notes secured by not less than a like face amount of bonds, notes, or certificates of indebtedness of the United States.

'(3) In addition to the 10 per centum permitted under the first paragraph of this section, liabilities to any national banking association may be incurred in an amount equal to 15 per centum of the paid in and unimpaired capital and 15 per centum of the unimpaired surplus fund of such national banking association, when such liabilities are evidenced by notes secured by shipping documents, warehouse receipts, or other such documents conveying or securing title covering readily marketable nonperishable staples, the actual market value of which is not at any time less than 115 per centum of the face value of such notes, and which are fully covered by insurance if it is customary to insure such staples; but this exception shall not apply to liabilities of any person, corporation, firm or company or the several members thereof arising from the same transactions and secured upon the identical staples for more than six months; Provided, however, That liabilities of this character may be incurred for a period of not more than three months in an additional amount equal to 15 per centum of the paid in and unimpaired capital and 15 per centum of the unimpaired surplus fund of such national banking association, in addition to the 10 per centum permitted under the first paragraph of this section and the 15 per centum hereinbefore permitted under this paragraph.

'(4) In addition to the 10 per centum permitted under the first paragraph of this section, liabilities to any national banking association may be incurred in an amount equal to 15 per centum of the paid in and unimpaired capital and 15 per centum of the unimpaired surplus fund of such national banking association, when evidenced by notes secured by documents conveying or securing title to live stock which is being prepared for market during the period of the loan evidenced by such notes, and the market value of which is not at any time less than 115 per centum of the face amount of such notes; but this exception shall not apply to the liabilities of any person, corporation, firm, or company, or the several members thereof, for more than nine months; Provided, however, That exceptions (3) and (4) are not cumulative but only alternative exceptions - i.e., only one of the two shall be available to the same borrower and not both at the same time.'"

This proposed revision of Section 5200 is a result of a thorough study which the Board has caused to be made by a committee of officers of the Federal Reserve System aided by the Board's Division of Research and Statistics. The recommendations of this committee were also considered by the Federal Advisory Council. In the opinion of the Federal Reserve Board, this revision combines the best features of the various drafts of Section 5200 incorporated in the bills on this subject heretofore introduced in Congress, together with certain new provisions which the Board believes to be desirable. Those features of this proposed revision which are taken from drafts heretofore considered by Congress require no comment; but I shall comment briefly on certain of the proposed new features.

Subdivisions (b) and (c) of the second paragraph of the above draft are new and are intended to bring under the 10% limitation of the first paragraph the indirect liabilities of affiliated corporations and liabilities of the borrower on accommodation paper. The Board believes this is necessary in order to cover cases where the drawer and drawee or the maker and indorser are in effect a single interest.

The first and second exceptions are broadened so as to apply to liabilities arising out of the purchase of paper as well as the discount of paper. A provision is also inserted in the first exception excluding from the benefits of that exception paper on which the drawer and drawee, or the maker and payee, are affiliated corporations. The purpose of this provision is to exclude some portion of those notes and bills of exchange which are in substance nothing more than the obligations of a single interest.

Certain language is inserted in subdivision (a) of the second exception to exclude the holding of accepted demand obligations for an indefinite period of time by a bank,-a practice which involves making what is substantially an unsecured loan on single name paper.

A new subdivision (c) is added to the second exception, excluding from any limitation notes secured by not less than a like face amount of bonds, notes or certificates of indebtedness of the United States. This is based on the theory that, since banks may purchase an unlimited amount of these securities, it would seem logical to permit them to make loans in unlimited amounts on notes collateraled by such securities.

The third exception, which relates to liabilities on notes secured by shipping documents, warehouse receipts, or other such documents conveying or securing title, covering readily marketable non-perishable staples, would permit such loans to be made in an amount equal to 15 per centum of the bank's capital and surplus in addition to the basic 10 per cent for periods not in excess of six months, and in an additional amount equal to 15 per cent of the bank's capital and surplus for a period of not more than three months. The provision requiring such staples to be insured is qualified in such a way as not to apply to such staples as pig iron, lead, zinc, etc., which are not customarily insured. The above draft of this exception is believed to be a fair compromise between the corresponding provisions of the various other drafts of this bill which have heretofore been introduced in Congress; and the Board believes that it will enable the banks to supply all proper financial facilities for the marketing of such staples.

The fourth exception, which relates to loans on live stock is changed so as not to apply to loans on dairy or breeder herds nor to the liabilities of any one borrower for more than nine months.

SUGGESTED AMENDMENTS DESIGNED TO STRENGTHEN THE BANKS.

The Board also desires to recommend the following additional amendments to the National Bank Act and the Federal Reserve Act and requests that these proposed amendments be incorporated in your bill:

1. That Section 5202 of the Revised Statutes as amended be further amended by adding at the end thereof a new paragraph to read as follows:

> "All obligations of every nature both direct and indirect arising out of the sale, pledge, or hypothecation of any one of its assets by a national banking association shall be definitely recorded upon its books at the time such assets are sold, pledged, or hypothecated. For each failure to comply with this requirement a national banking association shall be subject to a fine of Five Hundred Dollars, to be imposed by the Comptroller of the Currency."

This proposal is designed to cover the rather common practice of the assumption of obligations by banks in an informal fashion, often in correspondence between bank officials. These obligations

frequently escape the notice of bank examiners because they are not definitely recorded on the books of the banks.

2. That Section 5240 of the Revised Statutes of the United States, as amended, be further amended by adding at the end thereof a new paragraph reading as follows:

> "Whenever in the judgment of the Comptroller of the Currency any national banking association is so closely related in management, operation or interest to any other bank, banking association, trust company, securities company or investment company that an examination of such national banking association fails to disclose its true condition in the absence of detailed information regarding such other related institution, such national banking association shall (a) obtain from such related institution and furnish to the Comptroller of the Currency a copy of a report of an examination of such related institution made by the State authorities simultaneously with an examination of such national banking association made by examiners appointed by the Comptroller of the Currency, or (b) by such other means as may be deemed satisfactory by the Comptroller of the Currency, furnish to the Comptroller of the Currency detailed information regarding the condition and operation of such related institution. In such cases the Comptroller of the Currency may, upon request, furnish the State Supervisor of Banking, or other similar officers, copies of reports of examination of such related national banking association. If any national banking association shall fail to comply with the requirements of this paragraph after a demand for such compliance has been made by the Comptroller of the Currency, the Comptroller shall report the facts in the case to the Federal Reserve Board, which may, after a hearing, issue an order depriving such national banking association of the privilege of receiving any discounts, advancements or accommodations from the Federal reserve bank of which it is a member until it has complied fully with all demands made by the Comptroller of the Currency pursuant to the provisions of this paragraph. The Federal Reserve Board shall send a copy of such order by registered mail to such national banking association and a copy to the Federal reserve bank of which it is a member; and, after receipt of said order, such Federal reserve bank shall not rediscount any paper for, or make any loan, advancement, or other extension of credit to, such national banking association until said Federal reserve bank has been notified by the Federal Reserve Board that such national banking association has complied fully with the requirements of this paragraph."

This proposal is designed to secure adequate information regarding national banks which are related to other institutions and in particular to afford some check upon certain abuses frequently engaged in by chains of banks. During the last few years a number of such chains have collapsed,

and investigation shows that when a national bank is in such a chain an examination of it fails to disclose its true condition, due to the shifting of assets back and forth between the various institutions which make up the chain.

3. That Section 9 of the Federal Reserve Act as amended be further amended by inserting therein, immediately after the sixth paragraph thereof, a new paragraph reading as follows:

"Whenever in the judgment of the Federal Reserve Board any member bank is so closely related in management, operation and interest to any other bank, banking association, trust company, securities company or investment company that an examination of such member bank fails to disclose its true condition in the absence of detailed information regarding such other related institution, such member bank shall (a) obtain from such related institution and furnish to the Federal Reserve Board a copy of a report of an examination of such related institution made by the State authorities simultaneously with an examination of such member bank, or (b) by such other means as may be deemed satisfactory by the Federal Reserve Board, furnish to the Federal Reserve Board detailed information regarding the condition and operations of such related institution. In such cases the Federal Reserve Board may, upon request, furnish the State Supervisor of Banking, or other similar officers, copies of reports of any examination of such related member bank which has been made by direction of the Federal Reserve Board or of the Federal reserve bank by examiners selected or approved by the Federal Reserve Board. If any member bank shall fail to comply with the requirements of this paragraph after a demand for such compliance has been made by the Federal Reserve Board, said Board may, after a hearing, issue an order depriving such member bank of the privilege of receiving any discounts, advancements or accommodations from the Federal reserve bank of which it is a member until it has complied fully with all demands made by the Federal Reserve Board pursuant to the provisions of this paragraph. The Federal Reserve Board shall send a copy of such order by registered mail to such member bank and a copy to the Federal reserve bank of which it is a member, and, after receipt of said order, such Federal reserve bank shall not rediscount any paper for, or make any loan, advancement, or other extension of credit to, such member bank until said Federal reserve bank has been notified by the Federal Reserve Board that such member bank has complied fully with the requirements of this paragraph."

This proposal is similar to the preceding and is intended to apply to State banks and trust companies which are members of the Federal Reserve System. At present the only penalty for non-compliance with any provision of the Federal Reserve Act by State member banks is that provided for in the seventh paragraph of Section 9 of the Federal Reserve Act, which authorizes the Federal Reserve Board to expel from the Federal Reserve System any State member bank which fails to comply with the provisions of that Section. The penalty suggested above is less drastic but is nevertheless thought to be sufficient.

4. That Section 5146 of the Revised Statutes of the United States, as amended, be further amended to read as follows:

"Sec.5146. Every director must, during his whole term of service, be a citizen of the United States, and at least three-fourths of the directors must have resided in the State, Territory, or District in which the association is located, or within fifty miles of the location of the office of the association, for at least one year immediately preceding their election, and must be residents of such State or within a fifty-mile territory of the location of the association during their continuance in office. Every director must own in his own right at least ten shares of the capital stock of the association of which he is a director, unless the capital of the bank shall not exceed $25,000, in which case he must own in his own right at least five shares of such capital stock. Any director who ceases to be the owner of the required number of shares of the stock, or who pledges or hypothecates the same, or who becomes in any other manner disqualified, shall thereby vacate his place.

"No national banking association shall make a loan or loans aggregating more than Five Hundred Dollars to any salaried officer of such national banking association or to any corporation in which such officer or any director of such national banking association owns or controls a majority of the stock or of which he is an officer or director, unless (a) such loan is fully secured by readily marketable collateral, or (b) such officer or director has first made available to the board of directors of such national banking association by filing with such national banking association in approved form a financial statement of such officer or of such corporation, as the case may be, which financial statement shall accurately show the financial condition of such officer or corporation at the close of the last fiscal or calendar year preceding the loan. A violation of this provision shall disqualify any such officer or director from serving as such and vacate his place."

This would amend Section 5146 in two respects: (1) The last sentence of that section as it now reads would be amended so as to disqualify a director who pledges or hypothecates his stock. This is intended merely to meet an apparent oversight in the law. (2) A new paragraph would be added relating to loans to officers of national banks and to corporations the majority of the stock of which is owned or controlled by officers or directors of national banks.

5. That Section 5205 of the Revised Statutes of the United States, as amended, be further amended to read as follows:

> "Sec.5205. Every association which shall have failed to pay up its capital stock, as required by law, and every association whose capital stock shall have become impaired by losses or otherwise, shall, within two months after receiving notice thereof from the Comptroller of the Currency, pay the deficiency in the capital stock, by assessment upon the shareholders pro rata for the amount of capital stock held by each; and the Treasurer of the United States shall withhold the interest upon all bonds held by him in trust for any such association, upon notification from the Comptroller of the Currency, until otherwise notified by him. If any such association shall fail to pay up its capital stock, and shall refuse to go into liquidation, as provided by law, for two months after receiving notice from the Comptroller, a receiver may be appointed to close up the business of the association, according to the provisions of section fifty-two hundred and thirty-four: And provided, That if any shareholder or shareholders of such bank shall neglect or refuse, after two months' notice, to pay the assessment, as provided in this section, it shall be the duty of the board of directors to cause a sufficient amount of the capital stock of such shareholder or shareholders to be sold at public auction (after thirty days' notice shall be given by posting such notice of sale in the office of the bank, and by publishing such notice in a newspaper of the city or town in which the bank is located, or in a newspaper published nearest thereto), to make good the deficiency, and the balance, if any, shall be returned to such delinquent shareholder or shareholders: Provided, however, That the Comptroller of the Currency may extend the time for payment of such assessment whenever in his judgment it may be deemed advisable."

The only effect of this amendment would be to shorten from three months to two months the period allowed for the payment of assessments to restore the capital of a national bank which has become impaired, with a provision authorizing the Comptroller of the Currency

to extend the time for the payment of such assessment when in his judgment it may be deemed advisable.

The Board has taken no definite action upon those provisions of your Bill which are not specifically mentioned above, but if it does so I shall advise you promptly of the action taken. The Board is also considering the advisability of recommending the enactment of certain other amendments to the National Bank Act and the Federal Reserve Act, but has not yet taken definite action upon the matter. If it decides to recommend any further amendments, I shall advise you at a later date.

It may be of interest to your Committee to know that this letter was considered in detail at a meeting of the Federal Reserve Board at which all members except the Secretary of the Treasury and the Comptroller of the Currency were present and was approved by all those members who were present.

If there is anything further that the Board can do to be of any assistance to you in this or in any other matter, please do not hesitate to call upon us.

Very truly yours,

D. R. Crissinger,
G o v e r n o r.

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P.S. If you so desire the Board will be very glad to furnish you with additional copies of this letter for the use of the other members of your Committee.

Sir Bk

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FEDERAL RESERVE BOARD

WASHINGTON X-4510

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 20, 1926.

SUBJECT: Federal Reserve Bank of San Francisco v.
Idaho Grimm Alfalfa Seed Growers Association.

Dear Sir:

11-18-25

There is enclosed for your information a copy of a letter addressed to the Board by Mr. Perrin transmitting a copy of the opinion rendered by the Circuit Court of Appeals in the above entitled case, which was decided adversely to the Federal Reserve Bank by the United States District Court and the Circuit Court of Appeals. After discussing the case at some length, Mr. Perrin states that the Executive Committee of the Federal Reserve Bank of San Francisco feel that the case involves a question of vital importance not only to the Federal Reserve Bank of San Francisco, but to all other Federal reserve banks, and has authorized the employment of Honorable Newton D. Baker to assist in handling the case before the Supreme Court of the United States. Mr. Perrin suggests that the case be brought to the attention of the other Federal reserve banks and that, if agreeable to them, Mr. Baker's fee be prorated among all of the Federal reserve banks, as has been done in the past in relation to other cases of system-wide interest.

The Board understands that Mr. Baker actually has been employed by the Federal Reserve Bank of San Francisco and has filed with the Supreme Court a petition for a writ of certiorari. The Board desires to make no recommendation in this matter, but requests that you advise it whether or not your bank would be willing to bear a pro rata share of the expenses of Mr. Baker's employment in this case.

Yours very truly,

D. R. Crissinger,
Governor

TO GOVERNORS OF ALL F.R.BANKS

Enclosure.

X-4464

205.001

COPY

IN THE UNITED STATES CIRCUIT COURT OF APPEALS

For the Ninth Circuit.

FEDERAL RESERVE BANK OF SAN FRANCISCO, a corporation,	)	
Plaintiff in Error	)	
vs.	)	No. 4560
IDAHO GRIMM ALFALFA SEED GROWERS ASSOCIATION, a corporation,	)	
Defendant in Error.	)	

Upon Writ of Error to the United States District Court for the District of Idaho, Eastern Division.

Before GILBERT, HUNT, and RUDKIN, Circuit Judges.

RUDKIN, Circuit Judge: During the period herein mentioned, the Idaho Grimm Alfalfa Seed Growers Association was a farm marketing association organized under the laws of that State and was engaged in the business of cleaning and marketing alfalfa seed produced by its members. When alfalfa seed was sold, a draft was drawn on the buyer for the purchase price with a bill of lading attached. Up to about a year prior to November 28, 1923, all drafts thus drawn were deposited with D. W. Standrod and Company Bankers, for collection only, and the Association was not permitted to draw against the amount of the drafts until payment was actually made to the Standrod Bank. But in the fall of 1922, this arrangement was changed through an agreement between the Association and the Standrod Bank, and thereafter the Association was given immediate credit for the amount of the

drafts when deposited, and was permitted to draw against them to the full amount, if it so desired. If a draft was not paid when presented, the amount was charged back to the account of the Association, and if paid, the Association was charged with interest on the amounts checked out before the draft was actually paid. On November 23, 1923, the Association drew a sight draft in the sum of $10,848.80 on Teweles and Company for the purchase price of a carload of alfalfa seed shipped to that company. The draft was made payable to the Standrod Bank, had attached thereto a bill of lading for the shipment, and was accompanied by a letter of instructions, stating that payment might be deferred until the arrival of the car. The draft was then forwarded by the Standrod Bank to the Federal Reserve Bank at Salt Lake for discount and was there discounted and the amount placed to the credit of the Standrod Bank. Two similar drafts were drawn by the Association on November 26, 1923, for substantially similar amounts and these drafts took the same course. It might be said in this connection, however, that the general manager of the Association neglected to sign one of the last mentioned drafts and the defect was not discovered until the draft reached the Federal Reserve Bank at Salt Lake. The Standrod Bank was then notified of the defect over the telephone and another draft was substituted in its place.

The Standrod Bank was open for the transaction of business for the last time on November 28, 1923, and on November 30, 1923, its affairs were taken over by the Banking Officers of the State. On the latter date the Standrod Bank had an overdraft with the Federal Reserve Bank in the sum of $47.96, and the Association had a balance to its checking account, on the books of the Standrod Bank, in the sum of $32,295.20. On December 1, 1923, the Association notified the Banking Officers of the State that the Standrod

Bank was insolvent at the time of the receipt of the drafts and that its officers and agents knew or had cause to believe that it was so insolvent, and the Association made claim to the drafts or, if collected, to the proceeds thereof. A copy of this notice was mailed to the Federal Reserve Bank on the same day.

The present action was then instituted by the Association against the Federal Reserve Bank, the Standrod Bank, and the Banking Officers of the States to recover the amount of the three drafts or their value. The complaint contains six causes of action in all, or two causes of action based on each of the three drafts. The causes of action on each of the three drafts were identical in form however, so that for persent purposes reference need only be made to the first and second causes of action based on the draft of November 23, 1923. Speaking generally, it was alleged in the first cause of action that for upwards of a year prior to the date of the receipt of the draft in question the Standrod Bank was insolvent; that its directors and managing officers, and the managing officers of the Federal Reserve Bank were at all times fully aware of its insolvent condition; that the draft was forwarded to the Federal Reserve Bank for collection; that the amount thereof was collected by the Federal Reserve Bank after the close of the Standrod Bank, and that the Federal Reserve Bank refused to account for the proceeds thereof. In the second cause of action it was alleged that the draft was deposited with the Standrod Bank under an agreement between the Association and the Bank that the draft and the proceeds thereof should be and remain the property of the Association, and that the title thereto, or to the proceeds thereof, should not become the property of the Standrod Bank. At the commencement of the trial the Federal Reserve Bank moved the court to require

the plaintiff to elect whether it would proceed on the first, third and fifth causes of action, which it claimed were of equitable cognizance, or on the second, fourth and sixth causes of action which it claimed were cognizable at law. This motion was denied. The motion was renewed at the close of the testimony on the part of the plaintiff but was again denied. A motion for a nonsuit was then granted to the second, fourth and sixth causes of action, but denied as to the remaining causes of action. The Federal Reserve Bank then moved the court to discharge the jury and transfer the cause to the equity side of the court. The court took this motion under advisement and directed the trial to proceed in the meantime. The cause was thereafter submitted to the jury under instructions to which no exceptionswere taken, and the jury returned a verdict in favor of the plaintiff in the sum of $32,692.12. Sometime after the verdict was returned the court filed a memorandum on the motion to discharge the jury and transfer the cause to the equity side of the court in which it said:

> "While the point is not entirely free from doubt, upon consideration I have concluded that the complaint was properly entertained upon the law side of the court.
>
> "The further question of whether or not, if the verdict be taken as advisory only, it should be approved and adopted, I answer in the affirmative."

The court then added:

> "Counsel for the plaintiff will prepare a judgment in the ordinary form of a judgment upon the verdict, incorporating therein, at the proper place, the additional clause, in substance, 'which finding of the jury is approved and adopted.'"

Judgment was thereafter entered upon the verdict, as directed by the court, after making certain deductions for moneys checked out by the plaintiff before the close of the Standrod Bank. The judgment thus entered has been brought here for review by writ of error.

The first assignment of error is based on the refusal of the court to require the defendant in error to elect whether it would proceed on the even or odd numbered causes of action. In answer to this assignment we need only say that the granting of the nonsuit as to the even numbered causes of action necessarily compelled the defendant in error to proceed on the remaining causes of action and, conceding for the purposes of this case only, that it was error not to require an election at an earlier stage of the trial, the error was plainly and manifestly without prejudice.

The next assignment of error is based on the refusal of the court to discharge the jury and transfer the cause to the equity side of the court after the nonsuit had been granted as to the even numbered causes of action. Again, if we concede that the action or actions were of equitable cognizance, no error can be predicated upon the action of the court in submitting the issues to a jury in an advisory capacity because that practice is always permissible and its adoption is a matter of discretion with the court. And when the court treated the verdict as advisory only and approved the findings of the jury it asserted all the powers and assumed all the responsibilities of a Chancellor. This was the utmost consideration to which the plaintiff in error was entitled and it is in no position to complain of mere matters of procedure resting in the sound discretion of the court. We might say in this connection, however, that it does not appear to us that the defendant in error was seeking to enforce a trust or to follow trust funds. It proceeded upon the theory that the diversion of the proceeds of the drafts by the Federal Reserve Bank, with knowledge that the Standrod Bank was insolvent, and with knowledge that the drafts were not the property of the Standrod Bank, was a tort or wrong for which a court of law has always afforded a full, complete and adequate remedy.

Numerous errors have been assigned on the admission of testimony over objection. The defendant in error offered in evidence a compilation made by one of the witnesses from the books of the Bank, showing in detail the resources and liabilities of the Bank at the close of business on November 28, 1923. This compilation or summary was taken from books already in evidence; its correctness was at no time questioned and is not questioned now. There was no error in this ruling. San Pedro Lumber Co. v. Reynolds, 53 Pac. 410; Jordan v. Warner's Estate, 83 N.W. 946; State v. Brady, 69 N.W. 290.

The liquidating officer of the State, who had charge of the affairs of the Standrod Bank since its close, was permitted to give the amount collected or realized from the assets in his charge during the preceding ten months, and to state whether, in his opinion, any equity remained in the pledged bills receivable of the Bank after payment of the loans secured by the pledges. As already stated, the witness had been in charge of the affairs of the Bank for about ten months; it was his duty to collect and distribute the assets in his charge and he had devoted his entire time and attention to that object. He had consulted with the collecting agent of the Federal Reserve Bank and was more familiar with the assets of the Bank and their probable value than any other person, except perhaps the managing officers of the Bank. He was competent therefore to express an opinion on the question submitted, and the fact that his opinion was based on the value of the securities some time after the close of the Bank would go to the weight of his testimony, not to its competency. State v. Cadwell, 44 N.W. 700; Campbell v. Park, 101 N.W. 861.

The plaintiff in error moved to strike the testimony of one of the witnesses, based on a compilation prepared from the books of the Standrod Bank in evidence, showing the number of overdue notes held by the Standrod

Bank and how long overdue, and the deficiency or excess of reserve on deposit with the Federal Reserve Bank on different dates. There was no error in this ruling for reasons already stated.

Under date of November 10, 1923, or eighteen days before the close of the Bank, the vice-president and manager of the Standrod Bank addressed a letter to the managing officer of the Federal Reserve Bank stating that he had found it necessary to take advantage of the offer of the latter to handle a note of $10,000; that he was enclosing the note therewith, payable ten days from November 13, adding: "This will tide us over." The manager of the Federal Reserve Bank answered this letter under date of November 14, 1923, stating that the discount committee of the Federal Reserve Bank had declined to accept the note for discount, and further that the directors of the Federal Reserve Bank were of opinion that the Federal Reserve branch had advanced a sufficient sum to provide for the ordinary needs of the Standrod Bank, and that considering all the features entering into the security pledged as collateral to its obligation now owing to the Federal Reserve Bank, it was only proper that the directors and stockholders of the Standrod Bank should provide funds out of their personal resources of a sufficient amount to properly rehabilitate the Bank and furnish it with a large enough amount of working capital to have the bank function in a proper manner. Error is assigned in the admission of these two letters, but the assignment is without merit. The letters clearly tended to show the desperate condition of the Standrod Bank on that date and knowledge of that condition on the part of the Federal Reserve Bank.

Under date of September 9, 1922, the assistant manager of the Federal Reserve Bank addressed a letter to the president of the Standrod Bank stating that the harvest season was on; that he desired to impress upon the officers of the bank the necessity of shaping their affairs so that after the

period of liquidation was over the bank would show a decided improvement in its condition; that at that time the loans of the institution approximated $1,700,000, while the deposits were less than one half that amount, or in the neighborhood of $785,000; that these figures spoke for themselves and called for no comment; that if the Standrod Bank expected to continue to receive assistance from the Federal Reserve Bank, a determined effort must be put forth by its officers to the end that a proper ratio between loans and deposits might be shown; and the president of the Standrod Bank was directed to bring the letter to the attention of the board of directors and furnish the Federal Reserve Bank with a letter over the signature of each, outlining what the Federal Reserve Bank might expect in that regard. This letter was answered by the president of the Standrod Bank under date of September 11, 1922. In this letter he stated that they expected to reduce their loans to $1,200,000 that season; that with this reduction there would no doubt be a corresponding increase in deposits; that the officers of the Standrod Bank realized that it would take another year to put everything in shape, where there would be no borrowed money; that in a great many cases they had loaned money to farmers and stockmen and it was absolutely necessary to make further advances in order to secure liquidation on their present indebtedness. This letter was answered under date of September 12, by the assistant manager of the Federal Reserve Bank, by a second letter, stating that the letter of the president of the Standrod Bank was unsatisfactory for two reasons: First, because a communication over the signature of each of the directors setting forth what might thenceforth be expected from the bank was not furnished as requested, and second, while the Federal Reserve Bank was not in a position to know how great a reduction in loans should be made, it believed that the policy of the Standrod Bank should be to bring about the greatest possible liquidation, to the end that it might again resume a position more nearly bordering on the

sound and normal. These letters were objected to for the like reasons as the letters already considered, but, in our opinion, they were competent for the same reasons. They tended to show the condition of the Standrod Bank and knowledge of that condition on the part of the Federal Reserve Bank. True, the letters were written a little more than a year before the bank closed, but other testimony in the case shows that there was no substantial change in the condition of the bank from that date until the time it closed, except perhaps for the worse, as the disparity between loans and deposits was even greater when the bank closed than when these letters were written.

It only remains to consider the question of the insolvency of the Standrod Bank; knowledge of that insolvency on the part of its officers and the officers of the Federal Reserve Bank, and the effect of such insolvency and knowledge, if proven. A bank is said to be solvent when it has enough assets to pay, within a reasonable time, all of its liabilities through its own agencies, and is insolvent when unable to meet its liabilities as they become due in the ordinary course of business, or, in shorter terms, when it cannot pay its deposits on demand in accordance with its promise. 7 C.J. 727. Measured by this rule we think the court and jury were amply justified in finding that the bank was insolvent, if indeed it was not wholly and hopelessly so.

When the Bank closed, its deposits were approximately $500,000, and its loans and discounts approximately $1,300,000. It had borrowed from the plaintiff in error the sum of approximately $700,000; from the United States National Bank of Portland approximately $85,000; and from the National Bank at Pocatello, Idaho, $20,000. It had pledged with the plaintiff in error, as security for its loan, bills receivable of the face value of approximately $900,000; with the United States National Bank of Portland bills receivable

of the face value of approximately $175,000; and with the bank of Pocatello bills receivable of the face value of approximately $30,000. And we think it fairly appears from the testimony that there was no equity in the bills receivable thus pledged, after the payment of the loans which they were pledged to secure. There was left with the bank to meet its ordinary demands from day to day and to pay its depositors, bills receivable of the face value of approximately $275,000 and a small amount in stocks, bonds, warrants and overdrafts. During the ten months which had elapsed since the bank closed its doors, the liquidating officer of the State had been able to realize but $40,000 or $50,000 from the assets and resources that came into his hands. In the summer of 1923, the board of directors considered the proposition of forming a holding company to take over three, four, or five hundred thousand dollars in face value of the uncollectible paper of the bank, but the vice-president and manager did not think that this would suffice.

During July and August, 1923, the Pacific Joint Stock Land Bank forwarded two checks to the Standrod Bank aggregating the sum of $11,000, with instructions to obtain releases of liens against property and turn the proceeds over to borrowers from the Joint Stock Land Bank. The releases were not returned and several letters passed without satisfaction. A representative of the Joint Stock Land Bank was then sent to the Standrod Bank to inquire into the matter. He there discovered that the money had been misapplied and was informed by the vice-president and manager that the demands upon the bank were rather large and unusual, and that owing to low reserves he was not in a position to repay the money. He asked for further time, but this was refused. Several meetings of the board of directors followed and finally, about two days later, the representative of the Land Bank received a draft on the Walker Brothers Bank at Salt Lake City for the amount.

We have already referred to the refusal of the loan of $10,000 a few days before the close of the bank to tide it over. As against this the only testimony offered by the plaintiff in error was some testimony tending to show that the officers of the Standrod Bank had no knowledge of its insolvent condition. While the testimony had that tendency, if credited by the court and jury, it likewise had a strong tendency to show that the bank was in fact insolvent. It appeared from the testimony of one of the directors that nearly all the loans had been outstanding since the close of the war; that there was no money in the country; that the bank was unable to make collections; that its deposits had decreased from a million and a half to about half a million dollars; that the directors of the bank had pledged their personal credit to raise money for the bank, in short, that the condition of the bank was all but desperate. Under these circumstances it is idle to claim that the finding of the court and jury on the question of insolvency was not justified by the testimony.

The claim that the directors and managing officers of the Standrod Bank had no notice or knowledge of the existing condition is equally unfounded. The directors, called as witnesses, derived their knowledge of the condition of the bank, in most part, from reports made to them by other officers of the bank, and it is a significant fact that such other officers were not called as witnesses. True, they might have been called by the defendant in error, but officers who receive deposits in an insolvent bank are guilty of a fraud, if not a crime, and a third party who undertakes to prove the fact of insolvency cannot be expected to call the perpetrators of the fraud as witnesses. Furthermore, the insolvent condition of the bank had so long continued and was manifested in so many different ways, that a finding of knowledge of insolvency on the part of the managing officers of

both banks was fully justified. If this be true, all the authorities agree that the receipt of a deposit by an insolvent bank is a fraud on the depositor; that title to the deposit does not pass, and that the deposit may be followed so long as it can be identified. A fraud was thus perpetrated on the defendant in error by the officers of the Standrod Bank, and, wittingly or unwittingly, the Federal Reserve Bank became a party to the fraud.

It is lastly contended that the plaintiff in error is a bona fide purchaser before maturity and that its title cannot be assailed. But the Federal Reserve Bank had notice that the drafts were not the property of the Standrod Bank, in two ways: First, because it was apparent that the Standrod Bank had no funds with which to purchase the drafts; and second, because the applications for discount stated on their face that the drafts were the property of a depositor. With this knowledge, a finding of mala fides on the part of the plaintiff in error was justified, and the plea of bona fide purchaser cannot prevail.

The judgment is affirmed.

(ENDORSED:) Opinion. Filed Nov. 9, 1925
F. D. Monckton, Clerk, by Paul P. O'Brien, Deputy Clerk.

(COPY) X-4464-a

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FEDERAL RESERVE BANK

Of San Francisco

John Perrin,
Chairman of the Board
and Federal Reserve Agent.

November 18, 1925.

Federal Reserve Board
Washington,
D.C.

Sirs:

During 1924 the Idaho Grimm Alfalfa Seed Growers Association, an organization of farmers engaged in the production and sale of alfalfa seed, brought an action against the Federal Reserve Bank in the state courts of Idaho for the recovery of $32,692, loss alleged to have been sustained through the failure of D. W. Standrod & Co., Bankers, Blackfoot, Idaho. This case was removed by the Federal Reserve Bank from the State Court to the United States District Court sitting in Idaho. Plaintiff's claim was predicated upon the following facts:

The Seed Growers Association, for some time prior to the failure of the Standrod Bank on November 30, 1923, had been a depositor in that bank. They had entered into a special arrangement with the Standrod Bank whereby they were privileged to deliver to the Standrod Bank sight drafts drawn to the order of the bank, with order bill of lading attached, representing the purchase price of seed sold by them to eastern customers, and for these drafts the Standrod Bank gave the Association full and immediate credit. The Association was then allowed to treat the proceeds as part of their general checking account and to use the funds represented by the drafts without restriction, even before the drafts could possibly have been collected. For some time prior to November, 1923, the Standrod Bank had been in an extended condition and this fact was known to the Federal Reserve Bank and to the officers of the Standrod Bank. During the early part of November, 1923, the condition of the Standrod Bank was such that the Federal Reserve Bank of San Francisco felt that it was not warranted in making any further advances to the Standrod Bank and so notified that bank. During the last week that the bank was open for business, the Seed Growers Association deposited with the Standrod Bank three sight drafts with bills of lading attached, aggregating over $30,000, receiving immediate credit therefor, and against the credit thus created the Seed Growers Association immediately commenced to draw. These drafts were negotiable in form and bore no evidence of any attempt on the part of the Association to restrict their negotiation. Immediately upon their receipt by the Standrod Bank, that bank transmitted them to the Salt Lake City Branch of this bank, accompanied by the usual form of application for discount. Credit of the Association being good, and the paper being eligible and entirely acceptable, the drafts were immediately discounted

by this bank and the proceeds thereof passed to the reserve account of the Standrod Bank. That bank immediately proceeded to avail itself of the reserve credit thus established and between the date of the credit and the date on which the bank closed its doors used all of its reserve funds and failed with an overdraft of a small amount. Upon the delivery of the drafts to the Federal Reserve Bank they were immediately forwarded to the eastern points at which they were payable for collection. Proceeds from the collections had not come into the possession of the Federal Reserve Bank when the Standrod Bank closed its doors. As soon as the Association received notice that the Standrod Bank had placed its affairs in the hands of the State Commissioner of Finance, the Association notified the Standrod Bank and the Commissioner of Finance that the drafts had been deposited for collection only, that title thereto had not passed to the Standrod Bank and that the Association would claim as its own any funds representing the collection of said drafts. The Association also claimed at this time that a fraud had been committed upon it through the receipt of the drafts by the Standrod Bank at a time when it was insolvent and when such insolvency was known to the officers of the Standrod Bank. A copy of this notice was served upon the Federal Reserve Bank after the Standrod Bank had closed. Subsequently, long after collection of the drafts had been made, the Association demanded that the Reserve bank reimburse it for the amount of its deposit in the Standrod Bank at the time of failure, aggregating over $30,000. This demand was refused and the action above referred to was commenced.

The case was tried in the United States District Court at Pocatello before a jury consisting of eleven farmers and one ex-policeman. The complaint consisted of six causes of action, two on each of the drafts involved. The first cause of action as to each draft was predicated upon the theory that the Standrod Bank was insolvent when the drafts were received, that this insolvency was known to its officers and to the Federal Reserve Bank and that the failed bank, as well as the Federal Reserve Bank, was liable to the Association for the unused portion of the deposit representing the face value of the drafts. The second cause of action in each instance was predicated upon the theory that the drafts had been deposited for collection only and that, title having been retained by the Seed Growers Association, no purchaser of the drafts could acquire title good as against the Association. Upon the trial this bank contended that there was no evidence to support the theory that the drafts had been deposited for collection only and that inasmuch as the Federal Reserve Bank did not know and had no means of knowing the status of accounts as between the Association and the Standrod Bank, it patently could not be charged as a party to the alleged fraud resulting from the receipt of deposits. The Court granted a motion for nonsuit on the three causes of action, predicated upon the theory that the drafts had been deposited for collection only, but allowed the case to proceed on the insolvency theory. The case was voluntarily dismissed as against the Commissioner of Finance, the Standrod Bank and the liquidating agent, leaving this bank as the sole defendant. A verdict was rendered for the full amount of the drafts, without any allowance for the amount thereof actually used by the Association. The Court subsequently required a deduction of the amount checked out by the Association

and entered judgment for the balance.

The case was appealed by us to the Circuit Court of Appeals for the Ninth Circuit and was recently argued before that court. The judgment of the lower court was affirmed and it is the present intention of this bank to ask for a rehearing before the Circuit Court of Appeals and if this is denied to take the matter to the Supreme Court of the United States.

There are many facts in connection with the case, favorable to our position, which it is difficult to set forth in this letter. It may be said, however, that there is absolutely no evidence in the record which even remotely tends to show that the Federal Reserve Bank had any knowledge whatever that the Seed Growers Association had not received a full, adequate and present consideration from the Standrod Bank for the drafts. No attempt was made to prove that the Reserve Bank knew that the proceeds of the drafts had been left on deposit with the Standrod Bank. It was shown that the Association might have withdrawn the full amount of the drafts in cash over the counter of the bank, might have accepted exchange on the Standrod Bank's correspondents for the amount thereof, or might have used the proceeds to pay a preexisting indebtedness to the Standrod Bank and that no knowledge of which of these three courses had been followed was brought home to the Federal Reserve Bank. It was further shown that the Association itself was so well acquainted with the condition of the Standrod Bank that about a month prior to the date when it closed the manager of the Association demanded from the Standrod Bank a prerequisite to further deposits that the bank should give the Association a bond to protect its account similar to bonds furnished to indemnify public deposits. The manager of the Association also admitted that he had known the Standrod Bank was in an extended condition for two years prior to its failure. The Directors of the Standrod Bank all testified that they had no knowledge whatever that the bank was insolvent until it was taken in charge by the Commissioner of Finance. Practically the only evidence of insolvency introduced was that gained from an examination of the books of the bank after it had closed and from an appraisal of the value of its assets by the Deputy Commissioner of Finance who took charge of the bank in November, 1923. The existence of a condition of insolvency is predicated solely upon inference and not upon positive testimony.

Yesterday the Executive Committee of this bank, feeling that this case involves a question of such vital importance not only to this bank but to all other Federal reserve banks and banks generally, authorized the employment of Hon. Newton D. Baker to assist in handling the case before the Supreme Court of the United States, provided Mr. Baker was available. From the brief summary of the facts which I have given it can be plainly seen that if the judgment of the lower court, sustained by the Circuit Court of Appeals, is to stand, neither this bank nor any bank can safely discount for another institution, which it knows or has reason to believe is in an extended condition. Banks do not usually discount their customers' paper unless they are in need of funds and the Court has said in effect that if the bank is in that condition, the discounting agency is placed on notice that there may be equities enforceable against innocent third parties purchasing paper for value. The decision of the Circuit Court of Appeals was evidently hastily prepared and is not supported by any citation of authorities. A copy of the opinion prepared by Judge Rudkin

is attached hereto, as well as a copy of our closing brief.

I have taken the liberty of calling this case to your attention, not only for the purpose of acquainting you with the situation in relation thereto, but also for the purpose of suggesting that the case and its importance be brought to the attention of the other Federal reserve banks and, if agreeable to them, that Mr. Baker's fee be prorated among all of the banks, as has been done in the past in relation to several other cases no more important and of no more universal interest than this.

I am informed that counsel for the Federal Reserve Board has been advised as to progress in this case and has been supplied with copies of the briefs. A copy of the Opinion of the Circuit Court of Appeals is being forwarded to Mr. Wyatt.

Very truly yours,

(signed) JOHN PERRIN

Chairman of the Board.

Enclosures.

205,001

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Volume 156

Notes of Mr. Hamlin on offers of membership on Federal Reserve Board. This sheet was glued in and could not be removed. It was defaced.

Sen Bk

United States Senate

COMMITTEE ON APPROPRIATIONS

205.001

January 23, 1926.

Personal

My dear Governor Hamlin:

Responding to yours of January 22nd, with respect to appointments to the Federal Reserve Board, my knowledge of these relates only to the time when I was at the Treasury. I recall distinctly that the vacancy created by the resignation of Mr. Delano was held open an unreasonably long time in an effort to get some suitable Republican to accept appointment. The place was offered to Mr. Frederic Goff, of Cleveland, Mr. Wallace Simmons, of Saint Louis, to Mr. Woolley, head of the American Radiator Company, whose home at the time was in Chicago, and by cable to Mr. Charles G. Dawes, then in France. I have a not too well defined impression that it was again offered to Harry Wheeler of Chicago.

After these vain efforts to get a suitable Republican for the position, it was offered three times to Evans Woollen, of Indianapolis, who accepted and declined as many times in a single week. With the President's permission I was on the eve of offering the place to Mr. Puelich, of Minnesota; but at this point Mr. McAdoo intervened with a personal appeal to me to designate Mohlenpah. I had met Mohlenpah once or twice and simply knew him as one of the few bankers who had favored the passage of the Federal Reserve Act and who exhibited the courage alone to advocate it before that meeting of the American Bankers' Association in Boston which unqualifiedly condemned it three weeks before it became a law. I yielded to Mr. McAdoo's urgent personal request and, I may say confidentially, this appointment to the Board is the only one with which I had anything to do of which I did not feel particularly proud.

I have no information as to whom Secretary Houston first tendered the appointment which the President subsequently gave to Platt. I have good reason to believe that my letters to the President and Secretary Houston in behalf of Platt resulted in his appointment. While he isn't brilliant and sometimes is quite indiscreet, I have never had occasion to regret my action in his case.

I wish I could be a little more specific about these matters; but all my data relating to them is in a box at my country home.

Always with cordial regards,

Sincerely yours,

Carter Glass.

Hon. C. S. Hamlin,
Federal Reserve Board,
Washington, D.C.

195 BROADWAY
NEW YORK

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205.081

January 27, 1926.

Hon. C. S. Hamlin,

Federal Reserve Board,

Washington, D. C.

My dear Hamlin:

The copies of my Treasury correspondence are not where I can put my hands on them at present and I have to speak entirely from memory about the offer of Reserve Board positions to different men. I cannot recall definitely whether the President authorized me to offer the position to the men whom I sounded, or whether I sounded them with a view subsequently to recommend them to the President. My recollection is that I canvassed the names of the three men with the President and received his sanction. One of the men was Otto Bannard, of New York, a retired banker of much experience; another was Hulbert, of Chicago; and the third was R. H. Treman, of Ithaca.

I am not sure whether all these names came up in connection with the vacancy which Platt filled or not. It seems to me that I sounded Treman before Platt was appointed. Whether I sounded the other two in connection with the vacancy which Platt filled, or the vacancy which Wills filled, or the vacancy left by Wills' resignation, I do not remember.

At any rate, two of the men whom I canvassed were very outstanding men, and the failure to get their consent illustrates

the difficulty an executive labors under in filling positions as the public expects them to be filled.

I had this same difficulty when I was trying to fill Leffingwell's place in the Treasury. I sounded Jackson Reynolds, now president of the First National Bank in New York, Melvin Traylor, president of the First National Bank of Chicago, I believe, and Buck Hallowell, of Boston. No one of these was available. Gilbert was then appointed and made an excellent Assistant Secretary.

After a great deal of hesitation I did decide to publish something. Doubleday, Page and Company will publish a book, probably in the latter part of the year. They were given the serial rights to the matter, and the World's Work is doing the initial serializing. The first installment has already appeared in the February number. Doubleday, Page and Company sold secondary and subsequent serial rights to a number of papers, including those of the Hearst syndicate. The installments will appear in these papers after they have appeared in the World's Work.

Mrs. Houston had a nice letter from Mrs. Hamlin not long ago. When I was in Washington I called to see you but you were out.

With best wishes,

Sincerely yours,

D. F. Houston

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OPERATIONS OF THE FEDERAL RESERVE CLEARING SYSTEM DURING DECEMBER 1925.
(Numbers in thousands; amounts in thousands of dollars) Page 1

F. R. Bank or Branch and District number	Items drawn on banks in F. R. Bank or branch city		Own F.R. district outside F.R. bank and branch cities		Items drawn on U. S. Treasurer		Total items handled, exclusive of duplications	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
HEAD OFFICES								
1. Boston	828	1,057,119	5,531	595,670	141	16,421	6,500	1,669,210
2. New York	3,650	5,986,758	6,570	943,125	438	111,841	10,658	7,041,724
3. Philadelphia	1,739	1,670,247	3,475	431,415	152	25,447	5,366	2,127,109
4. Cleveland	735	637,482	1,900	207,249	71	7,188	2,706	851,919
5. Richmond	160	389,077	2,435	375,033	62	6,184	2,657	770,294
6. Atlanta	136	393,783	476	64,603	48	4,443	660	462,829
7. Chicago	1,345	1,207,219	6,069	449,390	311	53,275	7,725	1,709,884
8. St. Louis	534	472,931	1,970	109,287	118	8,694	2,622	590,912
9. Minneapolis	346	199,299	1,738	95,174	62	7,592	*2,150	*306,774
10. Kansas City	410	321,685	2,273	147,619	92	13,914	2,775	483,218
11. Dallas	160	228,751	2,016	240,660	38	4,782	2,214	474,193
12. San Francisco	413	597,127	819	57,451	74	16,837	1,306	671,415
TOTAL	10,456	13,161,478	35,272	3,716,676	1,607	276,618	47,339	17,159,481
BRANCHES								
2. Buffalo	273	186,897	666	72,246	19	2,993	958	262,136
4. Cincinnati	278	445,628	1,109	99,324	61	8,927	*1,460	*555,779
Pittsburgh	502	813,298	1,339	129,081	49	5,181	1,890	947,560
5. Baltimore	332	286,664	1,006	87,153	55	7,740	1,393	381,557
6. Birmingham	80	109,345	292	25,075	15	1,729	387	136,149
Jacksonville	107	245,380	506	102,110	16	1,612	629	349,102
Nashville	140	112,590	309	28,827	17	1,566	466	142,983
New Orleans	98	138,571	193	23,666	38	3,816	329	166,053
7. Detroit	529	505,643	1,104	99,483	82	4,671	1,715	609,797
8. Little Rock	62	60,378	398	27,149	12	1,315	472	88,842
Louisville	151	188,864	560	29,071	39	3,537	750	221,472
Memphis	115	106,945	227	19,463	13	2,221	355	128,629
9. Helena	24	19,690	150	12,800	10	1,081	184	33,571
10. Denver	192	74,856	496	55,786	23	3,579	711	134,221
Oklahoma City	88	96,904	1,587	122,119	14	3,412	1,689	222,435
Omaha	125	73,104	841	44,316	31	3,683	*997	*121,294
11. El Paso	56	19,689	174	13,960	16	1,577	246	35,226
Houston	86	95,744	516	50,256	13	1,343	615	147,343
12. Los Angeles	691	263,988	2,261	151,122	70	10,025	3,022	425,135
Portland	112	83,127	339	20,221	24	3,859	475	107,207
Salt Lake City	74	55,309	673	43,137	17	3,466	764	101,912
Seattle	166	60,126	338	21,760	31	6,120	535	88,006
Spokane	102	29,638	258	16,272	11	1,665	371	47,575
TOTAL	4,383	4,072,378	15,342	1,294,397	676	85,118	20,413	5,453,984
COMBINED								
1. Boston	828	1,057,119	5,531	595,670	141	16,421	6,500	1,669,210
2. New York	3,923	6,173,655	7,236	1,015,371	457	114,834	11,616	7,303,860
3. Philadelphia	1,739	1,670,247	3,475	431,415	152	25,447	5,366	2,127,109
4. Cleveland	1,515	1,896,408	4,348	435,654	181	21,296	*6,056	*2,355,258
5. Richmond	492	675,741	3,441	462,186	117	13,924	4,050	1,151,851
6. Atlanta	561	999,669	1,776	244,281	134	13,166	2,471	1,257,116
7. Chicago	1,874	1,712,862	7,173	548,873	393	57,946	9,440	2,319,681
8. St. Louis	862	829,118	3,155	184,970	182	15,767	4,199	1,029,855
9. Minneapolis	370	218,989	1,888	107,974	72	8,673	*2,334	*340,345
10. Kansas City	815	566,549	5,197	369,840	160	24,588	*6,172	*961,168
11. Dallas	302	344,184	2,706	304,876	67	7,702	3,075	656,762
12. San Francisco	1,558	1,089,315	4,688	309,963	227	41,972	6,473	1,441,250
SYSTEM	14,839	17,233,856	50,614	5,011,073	2,283	361,736	67,752	22,613,465

*Includes items drawn on banks in other Federal reserve districts, forwarded direct to drawee banks, as follows: Cincinnati 12,000 items, $1,900,000; Minneapolis 4,000 items, $4,709,000; Omaha 258 items, $191,000.

C. St. 4822.

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OPERATIONS OF THE FEDERAL RESERVE CLEARING SYSTEM DURING DECEMBER 1925.
(Numbers in thousands; amounts in thousands of dollars) Page 2.

F. R. Bank or Branch and District number	Items forwarded to: Parent bank, or to branches in own district		Items forwarded to: Other F.R.banks and their branches		Total items handled, including duplications: Number		Total items handled, including duplications: Amount	
	Number	Amount	Number	Amount	1925	1924	1925	1924
HEAD OFFICES								
1. Boston	-	-	313	70,426	6,813	6,275	1,739,636	1,492,551
2. New York	31	9,309	1,544	165,783	12,233	11,516	7,216,816	5,791,543
3. Philadelphia	-	-	890	129,016	6,256	5,663	2,256,125	2,156,079
4. Cleveland	46	10,377	79	13,295	2,831	2,706	875,591	724,437
5. Richmond	87	13,502	243	79,436	2,987	2,779	863,232	882,743
6. Atlanta	99	16,956	98	27,827	857	759	507,612	221,475
7. Chicago	26	2,754	566	43,411	8,317	7,642	1,756,049	1,634,679
8. St. Louis	9	1,025	78	5,868	2,709	2,776	597,805	539,538
9. Minneapolis	1	279	124	24,692	2,275	2,341	331,745	330,897
10. Kansas City	23	10,173	95	25,963	2,893	2,601	519,354	471,229
11. Dallas	39	6,088	75	10,448	2,328	2,363	490,729	521,024
12. San Francisco	47	4,291	14	1,582	1,367	1,222	677,288	563,309
TOTAL	408	74,754	4,119	597,747	51,866	48,643	17,831,982	15,329,504
BRANCHES								
2. Buffalo	21	7,709	97	13,569	1,076	988	283,414	245,422
4. Cincinnati	22	4,659	46	6,047	1,528	1,477	566,485	521,797
Pittsburgh	48	11,153	110	49,826	2,048	1,915	1,008,539	993,877
5. Baltimore	145	14,952	206	50,518	1,744	1,718	447,027	390,717
6. Birmingham	35	13,714	20	21,322	442	430	171,185	151,251
Jacksonville	11	5,479	55	32,189	695	496	386,770	172,835
Nashville	15	2,485	83	15,058	564	410	160,526	143,899
New Orleans	5	816	16	6,879	350	315	173,748	172,398
7. Detroit	4	2,145	24	6,814	1,743	1,412	618,756	494,184
8. Little Rock	7	702	2	315	481	483	89,859	96,363
Louisville	2	183	10	1,177	762	739	222,832	215,796
Memphis	1	305	1	300	357	349	129,234	84,914
9. Helena	2	2,601	8	3,317	194	176	39,489	36,508
10. Denver	36	15,171	77	17,196	824	774	166,588	150,800
Oklahoma City	21	12,422	63	13,592	1,773	1,671	248,449	235,169
Omaha	21	3,758	48	5,757	1,066	965	130,809	106,814
11. El Paso	9	1,215	20	3,349	275	264	39,790	38,145
Houston	8	1,796	20	2,153	643	614	151,292	150,408
12. Los Angeles	60	6,719	80	12,159	3,162	3,631	444,013	473,401
Portland	63	7,125	12	6,250	550	527	120,582	96,292
Salt Lake City	14	2,396	18	3,854	796	670	108,162	87,102
Seattle	37	8,575	21	6,786	593	552	103,367	91,841
Spokane	23	3,763	17	4,027	411	380	55,365	43,897
TOTAL	610	129,843	1,054	282,454	22,077	20,956	5,866,281	5,193,830
COMBINED								
1. Boston	-	-	313	70,426	6,813	6,275	1,739,636	1,492,551
2. New York	52	17,018	1,641	179,352	13,309	12,504	7,500,230	6,036,965
3. Philadelphia	-	-	890	129,016	6,256	5,663	2,256,125	2,156,079
4. Cleveland	116	26,189	235	69,168	6,407	6,098	2,450,615	2,240,111
5. Richmond	232	28,454	449	129,954	4,731	4,497	1,310,259	1,273,460
6. Atlanta	165	39,450	272	103,275	2,908	2,410	1,399,841	861,858
7. Chicago	30	4,899	590	50,225	10,060	9,054	2,374,805	2,128,863
8. St. Louis	19	2,215	91	7,660	4,309	4,347	1,039,730	936,611
9. Minneapolis	3	2,880	132	28,009	2,469	2,517	371,234	367,405
10. Kansas City	101	41,524	283	62,508	6,556	6,011	1,065,200	964,012
11. Dallas	56	9,099	115	15,950	3,246	3,241	681,811	709,577
12. San Francisco	244	32,869	162	34,658	6,879	6,982	1,508,777	1,355,842
SYSTEM	1,018	204,597	5,173	880,201	73,943	69,599	23,698,263	20,523,334

NOTE: The number of business days was 25 at Richmond, Baltimore and Atlanta, and 26 at the remaining banks and branches.

C.

(St. 4822)

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OPERATION OF THE FEDERAL RESERVE CLEARING SYSTEM DURING DECEMBER 1925

State	Number of banks in each State on December 31									
	Member banks*						Nonmember banks			
	Total		National		Non-national		On par list		Not on par list**	
	1925	1924	1925	1924	1925	1924	1925	1924	1925	1924
NEW ENGLAND STATES:										
Maine	62	62	58	58	4	4	50	49	-	-
New Hampshire	55	54	54	54	1	-	14	15	-	-
Vermont	46	46	46	46	-	-	39	35	-	-
Massachusetts	181	182	154	157	27	25	70	71	-	-
Rhode Island	21	21	17	17	4	4	8	8	--	-
Connecticut	66	66	63	63	3	3	84	74	-	-
EASTERN STATES:										
New York	638	632	539	534	99	98	275	276	-	-
New Jersey	333	313	275	256	58	57	153	141	-	-
Pennsylvania	958	953	868	873	90	80	658	659	-	-
Delaware	22	22	18	18	4	4	32	35	-	-
Maryland	89	91	84	84	5	7	166	170	-	-
Dist. of Columbia	13	15	13	14	-	1	34	33	-	-
SOUTHERN STATES:										
Virginia	193	196	181	184	12	12	227	240	101	89
West Virginia	141	142	124	125	17	17	196	198	9	10
North Carolina	91	95	82	83	9	12	89	100	339	349
South Carolina	90	100	73	81	17	19	25	29	238	267
Georgia	153	172	85	93	68	79	75	75	375	387
Florida	70	69	59	56	11	13	87	77	159	159
Kentucky	146	147	139	138	7	9	432	442	22	17
Tennessee	118	120	106	107	12	13	222	268	235	206
Alabama	124	126	103	102	21	24	27	35	199	195
Mississippi	45	44	37	36	8	8	25	25	275	274
Arkansas	122	126	87	89	35	37	256	280	112	77
Louisiana	46	47	33	33	13	14	35	44	171	171
Texas	780	751	656	577	124	174	713	807	98	68
MIDDLE WESTERN:										
Ohio	441	447	353	358	88	89	658	661	-	-
Indiana	265	268	246	247	19	21	826	832	8	8
Illinois	589	583	504	501	85	82	1,293	1,300	20	18
Michigan	290	286	128	122	162	164	513	526	92	83
Wisconsin	185	187	159	157	26	30	618	645	188	162
Minnesota	331	364	308	334	23	30	515	654	519	403
Iowa	417	446	329	346	88	100	1,207	1,289	51	33
Missouri	198	192	135	131	63	61	1,311	1,363	35	32
WESTERN STATES:										
North Dakota	163	174	160	170	3	4	203	285	282	224
South Dakota	122	133	110	119	12	14	208	279	163	144
Nebraska	181	187	169	174	12	13	740	766	176	171
Kansas	266	265	259	258	7	7	1,006	1,032	3	5
Montana	111	130	80	93	31	37	106	111	11	9
Wyoming	34	39	32	35	2	4	54	60	11	11
Colorado	134	144	131	141	3	3	181	188	6	7
New Mexico	33	36	31	34	2	2	29	35	3	3
Oklahoma	385	430	382	423	3	7	371	373	4	5
PACIFIC STATES:										
Washington	156	158	112	112	44	46	171	177	32	29
Oregon	134	137	98	99	36	38	110	114	29	27
California	300	300	267	263	33	37	329	375	-	1
Idaho	80	101	56	67	24	34	80	72	-	-
Utah	46	49	20	21	26	28	68	66	-	-
Arizona	20	23	17	19	3	4	30	33	4	3
Nevada	10	11	10	11	-	-	24	23	-	-
TOTAL	9,494	9,682	8,050	8,113	1,444	1,569	14,643	15,445	3,970	3,647

*The figures for 1925 represent the number of member banks in actual operation; those for 1924 represent the number shown by the capital stock records of the Federal reserve bank. **Incorporated banks other than mutual savings banks.

FEDERAL RESERVE BOARD, DIVISION OF BANK OPERATIONS
JANUARY 30, 1926.

(St. 4822)

CONFIDENTIAL
Not for publication

OPERATIONS OF THE FEDERAL RESERVE CLEARING SYSTEM DURING DECEMBER 1925

F. R. Bank or Branch and District number	Number of banks in head office or branch zone on December 31									
	Member banks*						Nonmember banks			
	Total		National		Non-national		On par list		Not on par list**	
	1925	1924	1925	1924	1925	1924	1925	1924	1925	1924
HEAD OFFICES										
1. Boston	420	420	381	384	39	36	246	234	-	-
2. New York	797	773	673	650	124	123	308	297	-	-
3. Philadelphia	753	743	671	671	82	72	513	519	-	-
4. Cleveland	304	307	227	229	77	78	508	513	-	-
5. Richmond	447	465	406	418	41	47	451	477	686	712
6. Atlanta	188	207	116	124	72	83	84	84	404	420
7. Chicago	1,264	1,291	1,013	1,026	251	265	3,564	3,683	231	192
8. St. Louis	409	402	332	326	77	76	1,507	1,564	78	65
9. Minneapolis	718	776	664	709	54	67	1,079	1,387	1,051	844
10. Kansas City	315	314	302	302	13	12	1,326	1,357	8	11
11. Dallas	663	650	562	504	101	146	522	607	143	119
12. San Francisco	171	176	147	150	24	26	211	226	-	-
TOTAL	6,449	6,524	5,494	5,493	955	1,031	10,319	10,948	2,601	2,363
BRANCHES										
2. Buffalo	85	86	62	64	23	22	83	84	-	-
4. Cincinnati	217	221	204	206	13	15	307	306	10	10
Pittsburgh	342	344	316	318	26	26	258	256	-	-
5. Baltimore	155	159	140	142	15	17	261	266	1	3
6. Birmingham	89	91	73	72	16	19	25	33	159	153
Jacksonville	70	69	59	56	11	13	87	77	159	159
Nashville	90	90	88	88	2	2	137	148	158	158
New Orleans	58	59	43	43	15	16	33	41	222	215
7. Detroit	135	128	39	33	96	95	244	244	29	26
8. Little Rock	69	73	43	46	26	27	162	181	83	54
Louisville	92	93	86	86	6	7	332	339	13	10
Memphis	58	60	37	37	21	23	110	141	227	203
9. Helena	111	130	80	93	31	37	106	111	11	9
10. Denver	143	156	139	152	4	4	196	208	8	9
Oklahoma City	356	390	354	388	2	2	351	356	2	2
Omaha	215	226	201	209	14	17	794	826	187	182
11. El Paso	46	46	43	42	3	4	34	35	6	5
Houston	145	142	121	109	24	33	212	220	33	29
12. Los Angeles	155	151	143	137	12	14	159	192	-	1
Portland	137	140	100	101	37	39	125	129	34	32
Salt Lake City	114	138	67	79	47	59	110	101	-	-
Seattle	66	63	57	54	9	9	78	76	19	17
Spokane	97	103	61	65	36	38	120	127	8	7
TOTAL	3,045	3,158	2,556	2,620	489	538	4,324	4,497	1,369	1,284
COMBINED										
1. Boston	420	420	381	384	39	36	246	234	-	-
2. New York	882	859	735	714	147	145	391	381	-	-
3. Philadelphia	753	743	671	671	82	72	513	519	-	-
4. Cleveland	863	872	747	753	116	119	1,073	1,075	10	10
5. Richmond	602	624	546	560	56	64	712	743	687	715
6. Atlanta	495	516	379	383	116	133	366	383	1,102	1,105
7. Chicago	1,399	1,419	1,052	1,059	347	360	3,808	3,927	260	218
8. St. Louis	628	628	498	495	130	133	2,111	2,225	401	332
9. Minneapolis	829	906	744	802	85	104	1,165	1,498	1,062	853
10. Kansas City	1,029	1,086	996	1,051	33	35	2,607	2,747	205	204
11. Dallas	854	838	726	655	128	183	708	862	182	153
12. San Francisco	740	771	575	586	165	185	803	851	61	57
SYSTEM	9,494	9,682	8,050	8,113	1,444	1,569	14,643	15,445	3,970	3,647

*The figures for 1925 represent the number of member banks in actual operation; those for 1924 represent the number shown by the capital stock records of the Federal reserve bank.

**Incorporated banks other than mutual savings banks.

(St.4822)

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

205.001

X-4521

February 3, 1926.

Dear Sir:

There are enclosed herewith, for your information, copies of letters exchanged by the Board with the Chairman of the Committee on Banking and Currency of the House of Representatives, relative to a proposal to amend Section 9 of the Federal Reserve Act with respect to the conditions of membership which the Board may impose upon State banks joining the Federal Reserve System.

Very truly yours,

J. C. Noell,
Assistant Secretary.

(Enclosures)

TO CHAIRMEN OF ALL F. R. BANKS.

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Volume 156

(COPY) X-4521-a

205.001

February 2,
1926.

Honorable Louis T. McFadden, Chairman,
Committee on Banking and Currency,
House of Representatives,
Washington, D. C.

My dear Congressman:

Receipt is acknowledged of your letter of January 25th referring to the appearance before the Federal Reserve Board on December 30, 1925, of the Committee representing the National Association of Supervisors of State Banks, for the purpose of discussing a proposed amendment to the Federal Reserve Act which would change the last sentence of the first paragraph of Section 9 thereof to read as follows, the words underlined being added:

> "The Federal Reserve Board, subject to the provisions of this Act and to such conditions as it may prescribe pursuant thereto, may permit the applying bank to become a stockholder of such Federal Reserve Bank; Provided, however, that such conditions or rules or regulations prescribed shall not limit or impair the charter or statutory rights and powers of such banks nor shall the Federal Reserve Board impose any conditions or restrictions other than those under which national banks shall operate."

While the above mentioned conference was entirely informal and no formal vote was taken by the Federal Reserve Board, the discussion showed very clearly that the Board is strongly opposed to this proposed amendment and also developed the fact that the advocacy of this amendment by the National Association of Supervisors of State Banks is based upon a misunderstanding of the facts regarding the Board's policy and practice in prescribing conditions of membership for State banks prior to their admission to the Federal Reserve System.

In view of these facts the Board has not heretofore considered it necessary to take any formal action with reference to this amendment. You now desire a formal expression of the Board's views, and the Board has no hesitancy in expressing its unqualified disapproval of this proposed amendment.

LEGAL EFFECT OF PROPOSED AMENDMENT.

Before discussing the practical objections to this amendment, it is believed advisable to call attention to the legal phases of the subject. The first two paragraphs of Section 9 of the Federal Reserve Act now read as follows:

> "Any bank incorporated by special law of any State, or organized under the general laws of any State or of the United States, desiring to become a member of the Federal Reserve System, may make application to the Federal Reserve Board, under such rules and regulations as it may prescribe, for the right to subscribe to the stock of the Federal reserve bank organized within the district in which the applying bank is located. * * * The Federal Reserve Board, subject to such conditions as it may prescribe, may permit the applying bank to become a stockholder of such Federal reserve bank.
>
> "In acting upon such application the Federal Reserve Board shall consider the financial condition of the applying bank, the general character of its management, and whether or not the corporate powers exercised are consistent with the purposes of this Act."

In acting upon an application of a State bank for membership in the Federal Reserve System, the Board is thus required by law to consider (1) the financial condition of the applying bank, (2) the general character of its management, and (3) whether or not the corporate powers exercised by it are consistent with the purposes of the Federal Reserve Act, and before admitting a bank to membership in the Federal Reserve System the Board is authorized to prescribe such reasonable conditions of membership as may be necessary to provide for the maintenance of a high standard of membership. Such conditions of membership, however, can be prescribed only at the time a bank applies for membership in the Federal Reserve System and cannot become binding upon any bank unless and until such bank voluntarily accepts such conditions. Moreover, when certain conditions of membership have once been agreed upon between the Board and a particular bank applying for membership and when that bank has once been admitted to membership subject to such conditions, these conditions cannot thereafter be changed nor can any additional conditions be prescribed by the Board, except by the mutual consent of the Board and the particular bank involved.

The amendment proposed by the National Association of Supervisors of State Banks would have the following legal effect :

(1) If strictly construed, it would take away the power of the Federal Reserve Board to prescribe any condition of membership except such as is made pursuant to some specific provision of the Federal Reserve Act; so that the Board could not prescribe any condition covering a particular situation which has not been foreseen in advance by Congress and provided for in some specific provision of the Federal Reserve Act.

(2) It would forbid the Federal Reserve Board to prescribe any condition, rule or regulation which would limit or impair the charter or statutory rights or powers of any State member bank; so that, even if the Board should find that the corporate powers of a State bank applying for membership were inconsistent with the purposes of the Federal Reserve Act it could not admit that bank subject to a condition that the bank would not exercise such powers but could do only one of two things: (a) Permit the bank to come into the Federal Reserve System and exercise powers inconsistent with membership in the Federal Reserve System, or (b) exclude such bank from membership in the Federal Reserve System altogether.

(3) The proposed amendment would forbid the Federal Reserve Board to impose any condition or restriction upon any State bank other than those under which national banks shall operate. (This is unnecessary and unimportant, because the Board never has prescribed any conditions of membership restricting a State bank to any greater extent than national banks are restricted by law.)

PRACTICAL EFFECT OF PROPOSED AMENDMENT.

The Federal Reserve Board is strongly opposed to this amendment because it would deprive the Board of a power which it believes to be necessary to enable the Board to maintain a high standard of membership in the Federal Reserve System and which it has always exercised temperately and reasonably. The wisdom of the possession of this power by the Federal Reserve Board and the fairness with which it has been exercised have been generally recognized by the banking fraternity and until recently there has been no opposition to it. Moreover, as will be shown below, such opposition as now exists is based upon a misconception of the facts regarding the scope and exercise of this power.

Most of the conditions of membership prescribed by the Board are designed to carry out the purpose of that provision of Section 9 of the Federal Reserve Act which provides that in acting upon applications of State banks for membership in the Federal Reserve System, the Federal Reserve Board shall consider the financial condition of the applying bank, the general character of its management, and whether or not the corporate powers exercised are consistent with the purposes of the Federal Reserve Act. In other words, they are designed to require the member bank to keep its management and financial condition sound after admission to the System and not to acquire and exercise additional corporate powers which might be inconsistent with the purposes of the Act.

Other conditions are designed to cover peculiar situations affecting particular banks, which situations are not, and could not be covered by general provisions of law applicable to all State member banks. Thus, where a bank has too large a proportion of its funds tied up in non-liquid real estate loans, the Board may prescribe as a condition of

membership it shall reduce the amount of such loans to a certain percentage of its capital and surplus within a definite time. Similarly, where the applying bank has no surplus fund against which losses could be charged off, the Board may prescribe as a condition of membership that it shall put a certain percentage of its net earnings each year in its surplus fund until such fund reaches a given amount. If the applying bank has certain corporate powers inconsistent with membership in the Federal Reserve System, the Board may approve its application subject to a condition that it shall not exercise such powers while it is a member of the Federal Reserve System.

Cases like these not infrequently arise in which a bank applying for membership is in all respects eligible and desirable for inclusion in the ranks of the members of the Federal Reserve System except that in one or two respects its condition is not entirely satisfactory or its practices do not accord with the best banking policy. The bank itself desires to come in and is willing to agree to improve its condition or correct its practices in these respects by an agreement with the Federal Reserve Board. The Board and the Federal reserve bank, on the other hand, are desirous of having this particular institution as a member if these differences of practice can be ironed out. In such cases the Board feels that it is better to admit the bank subject to appropriate conditions of membership than to exclude it altogether from the System.

There are many members of the System today which are in all respects loyal and desirable members which the Board could not, in the exercise of a sound discretion, have admitted to membership if it had not possessed the power to prescribe appropriate conditions of membership to fit their peculiar situations. The obstacles in the way of admission were such that the Board felt that it could not properly admit such banks to membership without some promise or assurance against the continued existence of practices then being engaged in by the applicant banks. The difficulty was overcome in all these cases by prescribing conditions of membership which were voluntarily accepted by the member banks prior to admission. If the authority of the Federal Reserve Board to prescribe such conditions of membership is taken away from it, there will be many cases in the future in which the Board will have to refuse to admit banks to membership because of the absence of authority to require adequate assurances from the applicants as to their future conduct, although if these assurances could be given the applicants would in all probability prove to be very satisfactory and helpful members of the System.

The Board has sought in the regulations governing the admission of State banks and trust companies and in these conditions of membership to establish only such reasonable standards of admission as are necessary to protect the member banks, both State and national, against the admission of any bank which would be a source of weakness rather than of strength, and also to prescribe such regulations governing their conduct as will insure a reasonable conformity to fundamental principles deemed essential to the continued success of the Federal Reserve System. It has been with these purposes in mind that the Board has from time to time prescribed for State banks joining the System certain conditions of membership which

seem to be dictated by sound banking policy and has recently published the more usual of these conditions in its Regulation H. Conditions which have been prescribed for State banks and trust companies coming into this System have been found by the Board to be effective in serving the purpose desired, and on the basis of the results obtained in the past the Board believes that its policy of prescribing such conditions of membership is entirely sound and one which it seems advisable to continue in the future. The wisdom and necessity of the practice has long been recognized and acquiesced in by the banking fraternity; and, as will be shown below, Congress has impliedly approved it by amending the law so as expressly to authorize it.

HISTORY OF THIS SUBJECT.

It is believed that a better and clearer understanding of this subject will result from a chronological discussion of its history.

Original Statute and Practice Thereunder.

Section 9 of the Federal Reserve Act as originally enacted provided, in part, as follows:

> "The Organization Committee or the Federal Reserve Board under such rules and regulations as it may prescribe, subject to the provisions of this section, may permit the applying bank to become a stockholder in the Federal Reserve Bank of the district in which the applying bank is located."

Acting under authority of this provision, the Board has always understood that it has the power to prescribe for State banks admitted to membership such conditions as in its discretion it deems necessary or advisable. It acted on the theory that, even if this power were not included in the power to prescribe rules and regulations, it was an incident of the power to approve or reject the application of any particular State bank, in the Board's discretion. In other words, it acted on the theory that the discretionary power to approve or reject any application included the power to approve any application subject to such reasonable and proper conditions as the Board might prescribe.

The Federal Reserve Board's circular letter published with its first regulations with reference to membership of State banks (Regulation M, Series of 1915) contained the following statements which indicate the Board's understanding of the scope of its power as well as the spirit in which it approached this problem :

> "A unified banking system, embracng in its membership the well-managed banks of the country, small and large, State and National, is the aim of the Federal Reserve Act. There can be but one American credit system of nation-wide extent, and it will fall short of satisfying

"the business judgment and expectation of the country and fail of attaining its full potentialities if it rests upon an incomplete foundation and leaves out of its membership any considerable part of the banking strength of the country. The way must be opened for State banking institutions to contribute their share to the capital and resources of the Federal reserve banks, in harmony with the intent of the Federal Reserve Act and in accordance with its provisions. State banks, trust companies, and national banks have their distinctive characters and places in the American banking organization, and these should be respected in coordinating them in the Federal Reserve System. The problem presented is to find a basis upon which these different types of banking institutions may thus be associated which shall be fair to each and which will not require greater uniformity of operation than may be necessary to the attainment of the purposes of the Federal Reserve Act.

"Appreciating fully that the strength of the Federal Reserve System is to be measured by the quality and character of its members, rather than by their number, the Federal Reserve Board is prepared to use the broad discretionary power vested in it by the Federal Reserve Act to bring about this coordination on the basis of equity and practicability. The Board has sought, in the regulations governing the admission of state banks and trust companies hereto appended, first, to establish only such reasonable standards of admission as will be generally recognized as necessary to protect the Federal Reserve System and the national banks, whose membership in the System is obligatory, against the admission of any bank which would be a source of weakness rather than of strength, and second, to prescribe such regulations governing their conduct as will insure a reasonable conformity to fundamental principles deemed essential to the success of the new banking system.

* * * * *

"The conditions of membership of State institutions are, furthermore, prescribed only in general terms in the Act, the further and final elaboration of them being left to the Federal Reserve Board, which is vested with the necessary discretionary authority."

The text of the regulation (Regulation M, Series of 1915) provided, in part, as follows:

> "In passing upon an application the Federal Reserve Board will consider especially -
>
> "(1) The financial condition of the applying bank or trust company and the general character of its management.
>
> "(2) Whether the nature of the powers exercised by the said bank or trust company and its charter provisions are consistent with the proper conduct of the business of banking and with membership in the Federal Reserve Bank.
>
> "(3) Whether the laws of the State or district in which the applying bank or trust company is located contain provisions likely to interfere with the proper regulation and supervision of member banks.
>
> " * * * Whenever the Board may deem it necessary, it will impose such conditions as will insure compliance with the act and these regulations. When the certificate of approval and any conditions contained therein have been accepted by the applying bank or trust company, stock in the Federal Reserve Bank of the district in which the applying bank or trust company is located shall be issued and paid for under the regulations of the Federal Reserve Act provided for national banks which become stockholders in the Federal Reserve Banks.
>
> * * * * * * *
>
> "Every State bank or trust company while a member of the Federal Reserve System -
>
> "(1) Shall retain its full charter and statutory rights as a State bank or trust company, and may continue to exercise the same functions as before admission, except as provided in the Federal Reserve Act and the regulations of the Federal Reserve Board, including any conditions embodied in the certificate of approval.

Amendment of June 21, 1917.

On June 21, 1917, there was enacted into the law a bill which had been drafted and submitted to Congress by the Federal Reserve Board for the purpose of making a number of amendments to various provisions of the Federal Reserve Act. One of the principal purposes of

those amendments was to make the Federal Reserve System more attractive to State banks, and this result was sought in two ways: (1) By assuring them that the liberal interpretation of the law previously adopted by the Board would not be changed and that the Board would not amend those portions of its regulations which assured to State member banks the continued exercise of the rights enjoyed by them under State law, subject to such conditions as the Board might prescribe prior to their admission to membership: and (2) by repealing a number of provisions of the Federal Reserve Act which subjected State member banks to examination by the Comptroller of the Currency and to various provisions of the National Bank Act.

The last sentence of the first paragraph of Section 9 was amended by the Act of June 21, 1917, to read as follows:

> "The Federal Reserve Board, subject to such conditions as it may prescribe, may permit the applying bank to become a stockholder of such Federal Reserve Bank."

The substitution of the word "conditions" for the words "rules and regulations" which appeared in the corresponding portion of the original act was intended to sanction and expressly to authorize the Board's established practice of prescribing conditions of membership before admitting State banks and trust companies to the Federal Reserve System.

Immediately after the clause above quoted a new paragraph was added, reading as follows:

> "In acting upon such application the Federal Reserve Board shall consider the financial condition of the applying bank, the general character of its management, and whether or not the corporate powers exercised are consistent with the purposes of this act."

This simply adopted and wrote into the law the principles previously announced by the Board in its Regulations as a basis for its action on the applications of State banks for membership.

The following new language was also inserted in Section 9:

> "Subject to the provisions of this act and to the regulations of the Board made pursuant thereto, any bank becoming a member of the Federal Reserve System shall retain its full charter and statutory rights as a State bank or trust company, and may continue to exercise all corporate powers granted it by the State in which it was created and shall be entitled to all privileges of member banks: * * * "

This new provision was also an adoption by Congress of a portion of the Board's regulation, and simply wrote into the law the assurance previously given in the Board's regulation that State banks joining the Federal Reserve System should retain their full charter and statutory rights and might continue to exercise the same functions as before admission, except as provided in the Federal Reserve Act, the regulations of the Federal Reserve Board and the conditions of membership agreed upon prior to admission to the Federal Reserve System.

It is obvious, therefore, that all of these changes in the language of Section 9 were made for the purpose of clarifying the law and writing into it the liberal interpretation which the Board had given it and the liberal principles which the Board had previously incorporated in its regulations.

The State banks had represented to the Board that before coming into the Federal Reserve System they wished to know exactly what terms, conditions, and regulations they would be required to comply with and they wished to be assured before being admitted to membership that the Board would not thereafter amend its regulations in such a way as to change the terms and conditions on which they had entered the System. This desire was fully met by the amendment of June 21, 1917. Inasmuch as the Board's regulations regarding State member banks must be based upon the provisions of the Act, the banks know in advance what such provisions are, and they can not be substantially changed without an amendment to the law. As to conditions of membership, they are equally protected, because such conditions must be submitted to, and accepted by, such banks before they become members.

PUBLICATION OF CERTAIN CONDITIONS OF MEMBERSHIP IN BOARD'S REGULATIONS.

Many of the conditions of membership prescribed by the Board from time to time are designed especially to meet peculiar conditions effecting a particular bank applying for membership, and such conditions cannot be standardized or incorporated in any set of regulations or statutes, nor can they all be foreseen in advance and provided for in a statute. Certain other conditions, however, had become quite well standardized and were generally prescribed by the Board for all banks admitted to membership in the Federal Reserve System; and the Board decided that, in order that any State bank or trust company which might contemplate applying for membership in the Federal Reserve System could know in advance what conditions of membership of a general nature, as distinguished from a special nature, it would be required to agree to, published some nine of these general conditions in Section IV of its Regulation H, Series of 1924. This section of the regulation , however, is not really in the nature of a regulation but is merely a statement of what the Board intends to do in the future in the way of prescribing conditions of membership for banks thereafter admitted to membership. It is not retroactive but simply states that hereafter the Board will prescribe certain conditions of membership for all State banks

or trust companies admitted to the Federal Reserve System and that hereafter all such banks applying for membership would be required to agree to such conditions and any other conditions which the Board might prescribe prior to the admission of such bank or trust company to the Federal Reserve System.

The publication of these general conditions of membership in the Board's Regulations has been misunderstood and probably is the cause of the opposition of the National Association of Supervisors of State Banks to the Board's practice of prescribing conditions of membership for State banks and trust companies applying for admission to the Federal Reserve System. This opposition originated with a speech delivered by Honorable George V. McLaughlin, then Superintendent of Banks of the State of New York, at the 23rd Annual Convention of the National Association of Supervisors of State Banks, held at Buffalo, New York, on July 21-23, 1924, which resulted in the adoption of a resolution by that convention advocating certain amendments to Section 9 of the Federal Reserve Act which would, among other things, take away the Board's power to prescribe conditions of membership. The text of Mr. McLaughlin's speech, together with a statement analyzing it and answering the various points made therein, were published at your instance in the Congressional Record for January 8, 1925, at pages 1500 to 1511, inclusive. There was also published at the same time and place a copy of the Board's Regulation H and the text of Mr. McLaughlin's original proposal to amend the Federal Reserve Act.

OPPOSITION BASED ON MISUNDERSTANDING.

The resolution of the National Association of Supervisors of State Banks criticises the Board's new Regulation H, principally because of the conditions of membership set forth therein and certain other provisions designed for their proper administration, and recommends that Congress repeal the Board's power to prescribe such conditions of membership. That resolution, however, is based upon three assumptions, all of which are totally erroneous:

1. That the conditions of membership set forth in Section IV of the Board's Regulation H, Series of 1924, are something entirely new and constitute a departure from the Board's previous practice:

2. That the Board has the right to change these conditions of membership at any time, and that, therefore, State banks are utterly at the mercy of the Federal Reserve Board with regard to such conditions of membership; and

3. That the conditions of membership prescribed by the Federal Reserve Board would discriminate against State banks and in favor of national banks, because the Board does not attempt to prescribe conditions of membership for national banks.

Each of these propositions will be discussed briefly in order:

1. As shown above, these conditions of membership are not at all new, but are conditions which the Federal Reserve Board has for years customarily prescribed for State banks upon their admission to the Federal Reserve System. The only thing new about the situation is that for the first time the Board has set forth these conditions in its printed regulations for the information of the State banks, so that they may know and understand in advance of applying for membership what conditions they will be required to agree to if they are admitted to the Federal Reserve System.

2. The assumption that the Board has, or thinks it has, the right to change its conditions of membership at any time is also equally erroneous. The Board always has considered conditions of membership analogous to contracts or agreements between the Board and each individual State bank admitted to membership in the Federal Reserve System, and has always adhered to the view that they are not subject to change except, of course, by the mutual consent of both parties. When an application for membership is received from a State bank and the Board is inclined to approve it, the Board notifies the bank that it is willing to approve the application provided it will agree to be bound by certain definite conditions of membership set forth in the notice. If the bank is willing to accept these conditions of membership, it so notifies the Board, whereupon the Board's conditional approval of the bank's application for membership becomes effective, and the bank is admitted to the System. The conditions of membership applicable to that bank are thereby fixed for all time and cannot be changed except by the mutual consent of the Board and the bank. The Board does not have, nor has it ever claimed to have, the right to change a condition of membership subsequent to the admission of a bank without the consent of such Bank. In practice, there have rarely been any changes in the conditions prescribed upon the admission of a bank; and in the few cases where such conditions have been changed, they have almost invariably been changed at the request of the member bank.

3. The assumption that conditions of membership prescribed by the Federal Reserve Board discriminate against State banks and in favor of national banks is equally erroneous. The Board never has prescribed any condition of membership for a State bank which restricts the operations of such bank to a greater extent than national banks are restricted by the provisions of the National Bank Act. On the contrary, the Board always has endeavored to permit State bank members of the Federal Reserve System as much freedom as is consistent with membership in the Federal Reserve System, even though this results in their exercising much more liberal powers than those enjoyed by national banks. It is the policy of the Federal Reserve Board to make the System as attractive as possible to State banks and not to restrict their operations within the System to any greater extent than is absolutely necessary for the preservation of a high standard of membership.

State banks, however, operate under the laws of forty-eight different states, many of which are more or less inadequate to provide for

a proper supervision and regulation of the banking business; and in many instances it is absolutely necessary to prescribe conditions of membership for State banks in order to maintain a high standard of membership in the Federal Reserve System. The only other alternatives would be to exclude such State banks from the Federal Reserve System or lower the standard of membership. When a State bank has once been admitted to membership in the Federal Reserve System it cannot be required to withdraw from the System unless it violates some condition of membership or some specific provision of the Federal Reserve Act.

NO VIOLATION OF STATE RIGHTS.

It has been argued that when the Federal Reserve Board prescribes a condition of membership requiring a State bank to agree not to exercise a certain one of its corporate powers while it remains a member of the Federal Reserve System, this violates the public policy of the State under whose laws that bank was incorporated and infringes the rights of the State; but this is not so. The Board does not attempt to say to any State what corporate powers it shall or shall not confer on banks created by it. It only says that if a State bank applies for membership in the Federal Reserve System and has certain powers inconsistent with membership in the Federal Reserve System, it must agree not to exercise those powers while it is in the System.

The fact that a particular State grants unusual powers to banks created by it does not necessarily mean that the policy of the State requires the exercise of such powers by State banks, nor that such powers actually will be exercised. The State laws do not require but merely permit the organization of banks and trust companies; and even when they are organized State banks and trust companies are perfectly free to abstain from exercising certain powers granted to them by the laws of their creation. Thus, the laws of Pennsylvania authorize all trust companies organized thereunder to transact a title insurance, fidelity insurance, and surety business; but many of the trust companies of Pennsylvania have never exercised this power. It is no violation of the policy of the State of Pennsylvania, therefore, for the Board to require a Pennsylvania trust company which never has and never will wish to exercise these powers to agree that it will not do so as long as it remains a member of the Federal Reserve System.

PROPOSED AMENDMENT HARMFUL TO STATE BANKS AND TRUST COMPANIES.

The general banking laws of a number of the States confer on every bank or trust company organized thereunder certain unusual powers which are inconsistent with membership in the Federal Reserve System and the inevitable result of the enactment of this proposed amendment would be to exclude every such bank or trust company from membership in the Federal Reserve System, even though they should have no desire whatever to exercise these unusual powers.

At present such banks are admitted to membership in the Federal Reserve System on condition that they will not exercise the objectionable powers so long as they remain members of the System. If the power to prescribe such conditions of membership is taken away from it, the Board will have no alternative but to deny membership in the Federal Reserve System to all State banks or trust companies possessing such powers, because there will be no way in which the Board can assure itself that they will not undertake the exercise of such powers.

Even where banks applying for membership in the Federal Reserve System have no corporate powers inconsistent with membership, it is often found that their management or financial condition is such that they cannot properly be admitted to the Federal Reserve System unless they will agree as a condition of membership to improve the character of their management or their financial condition within a specified time. In such cases the applying banks will have to be denied membership in the Federal Reserve System if the Board is deprived of the power to admit them subject to appropriate conditions designed to bring them up to the proper standard of members of the Federal Reserve System. Instead of benefitting the State banks and trust companies, therefore, the enactment of the amendment proposed by the National Association of Supervisors of State banks will in many cases work an actual hardship on them.

CONCLUSION.

In conclusion I wish to say that the Board has no desire to be autocratic or unreasonable in this matter and is always willing to hear and give due weight to the views of State banks and State banking authorities with reference to the expediency and reasonableness of its regulations and the conditions of membership prescribed by it. The Board, however, has found by experience that the power to prescribe conditions of membership governing State banks organized under the divergent laws of forty-eight different States is absolutely essential to the preservation of a high standard of membership in the Federal Reserve System; and for this reason, the Board is strongly opposed to the amendment proposed by the National Association of Supervisors of State Banks or any other amendment which would take away or seriously impair the exercise of this power. The Board, however, has no objection to an amendment such as that contained in Section 10 of your Bill,H.R.2, as originally introduced, which would provide that the Board "shall not prescribe any condition of membership which will prevent the applying bank from competing with national banks on a basis of substantial equality or which will subject the applying bank to any greater limitations or restrictions than those under which national banks shall operate"; because the Board never has and never would prescribe any such discriminatory condition of membership.

Respectfully,

Edmund Platt,
Vice-Governor.

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HOUSE OF REPRESENTATIVES
Committee on Banking and Currency
WASHINGTON

January 25, 1926.

Honorable D. R. Crissinger,
Governor, Federal Reserve Board,
Washington, D. C.

Dear Governor Crissinger:

Referring to the appearance of the committee representing the Association of State Bank Supervisors of the United States before the Federal Reserve Board on December 30 last, the purpose of this meeting was to discuss a proposed amendment to Section 9 of H. R. 2, on Line 21, as follows:

> "The Federal Reserve Board, subject to the provisions of this Act and to such conditions as it may prescribe pursuant thereto, may permit the applying bank to become a stockholder of such Federal Reserve Bank; Provided, however, that such conditions or rules or regulations prescribed shall not limit or impair the charter or statutory rights and powers of such banks nor shall the Federal Reserve Board impose any conditions or restrictions other than those under which national banks shall operate."

The matter underlined is new.

I gained the impression during the discussion of this subject that it was the view of the Federal Reserve Board that such a provision was undesirable, but apparently the committee representing the Association of State Bank Supervisors was not convinced of the soundness of the views presented to them by the individual members of your Board who were present at this meeting, because their insistence on pressing their amendment is manifest.

The purpose of this letter is to ask you if you will not kindly write me the Board's objections tothis amendment that I may present these views to the Members of the House in such opposition as I shall make to this proposal when it is offered on the floor of the House during the consideration of H. R. 2.

I expect now that the consideration of this measure will be taken up by the House next Wednesday, January 27, and I believe that debate will be concluded on this bill and vote had on the following Wednesday. I am, therefore, hoping to have as early a reply from you as possible.

Very truly yours,

LTM:b (signed) L. T. McFadden.

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EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS

St. 4836

Federal Reserve Bank	Month of December 1925							Year 1925			
	Earnings				Current expenses	Current net earnings	Annual rate of current net earnings on average paid-in-capital	Current net earnings to Dec. 31	Dividends accrued to Dec. 31	Balance available for depreciation allowances, surplus, franchise tax, etc.	
	From discounted bills	From purchased bills and U. S. securities	From other sources	Total						On Dec. 31	On Nov. 30
							Per cent				
Boston	$175,042	$267,474	$11,526	$454,042	$155,232	$298,810	40.9	$1,262,691	$502,648	$760,043	$506,094
New York	615,539	343,926	70,511	1,029,976	444,753	585,223	21.4	3,891,972	1,888,196	2,003,776	1,579,365
Philadelphia	199,227	105,658	20,887	325,772	160,295	165,477	16.8	1,099,282	673,212	426,070	318,613
Cleveland	295,175	120,079	16,915	432,169	226,798	205,371	18.4	1,413,827	778,811	635,016	495,363
Richmond	155,166	27,480	9,355	192,001	123,374	68,627	13.5	730,846	358,162	372,684	333,955
Atlanta	101,300	247,685	7,450	356,435	129,763	226,672	57.4	846,645	276,488	570,157	366,727
Chicago	317,270	242,574	38,734	598,578	313,104	285,474	21.4	1,680,624	934,016	746,608	539,752
St. Louis	83,947	139,714	6,372	230,033	140,276	89,757	20.6	665,538	306,753	358,785	294,661
Minneapolis	19,601	111,847	6,069	137,517	89,877	47,640	17.6	340,512	193,560	146,952	115,221
Kansas City	61,930	155,704	24,784	242,418	144,533	97,885	27.2	582,542	258,426	324,116	247,446
Dallas	33,055	185,874	7,524	226,453	101,502	124,951	34.4	590,282	255,239	335,043	231,464
San Francisco	192,287	227,710	9,402	429,399	215,141	214,258	30.6	1,167,782	490,447	677,335	504,257
TOTAL											
Dec. 1925	2,249,539	2,175,725	229,529	4,654,793	2,244,648	2,410,145	24.3	14,272,543	6,915,958	7,356,585	5,532,918
Nov. 1925	1,818,671	1,972,686	131,890	3,923,247	2,233,836	1,689,411	17.6	9,909,323	6,682,496	3,226,827	2,306,137
Dec. 1924	920,256	2,347,043	390,944	3,658,243	2,176,587	1,481,656	15.6				

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS
FEBRUARY 10, 1926.

C.

Mr. Hamlin

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EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS

Federal Reserve Bank	Month of January 1926 — Earnings: From discounted bills	From purchased bills and U. S. securities	From other sources	Total	Current expenses	Current net earnings	Annual rate of current net earnings on average paid-in-capital	Month of January 1926: Current net earnings	Dividends accrued	Balance available for depreciation allowances, surplus, franchise tax, etc.
							Per cent			
Boston	$104,474	$275,261	$6,162	$385,897	$177,134	$208,763	28.5	$ 208,763	$ 41,703	$167,060
New York	517,698	247,583	18,883	784,164	523,851	260,313	9.3	260,313	163,954	96,359
Philadelphia	163,031	121,632	14,198	298,861	179,558	119,303	12.1	119,303	58,117	61,186
Cleveland	199,599	140,660	14,281	354,540	208,099	146,441	13.1	146,441	65,872	80,569
Richmond	129,214	40,154	8,100	177,468	123,199	54,269	10.6	54,269	30,011	24,258
Atlanta	88,614	217,958	4,783	311,355	114,481	196,874	49.2	196,874	22,758	174,116
Chicago	272,162	256,068	28,844	557,074	313,321	243,753	18.2	243,753	79,006	164,747
St. Louis	66,866	144,852	3,688	215,406	108,360	107,046	24.6	107,046	25,633	81,413
Minneapolis	15,886	93,397	7,944	117,227	96,786	20,441	7.6	20,441	15,401	5,040
Kansas City	52,694	161,262	23,525	237,481	149,109	88,372	24.5	88,372	21,204	67,168
Dallas	25,355	168,994	5,326	199,675	95,602	104,073	28.7	104,073	21,342	82,731
San Francisco	105,297	235,205	6,302	346,804	196,034	150,770	21.6	150,770	41,002	109,768
TOTAL										
Jan. 1926	1,740,890	2,103,020	142,036	3,985,952	2,285,534	1,700,418	17.0	1,700,418	586,003	1,114,415
Dec. 1925	2,249,539	2,175,725	229,529	4,654,793	2,244,648	2,410,145	24.3			
Jan. 1925	805,159	2,140,481	292,333	3,237,973	2,377,436	860,537	9.0	860,537	561,011	299,526

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS
FEBRUARY 11, 1926.

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EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS
DURING JANUARY 1926.

Total earnings and earnings from discounted bills for the month of January were each very substantially below earnings for December but considerably above those for January 1925. Total earnings were $750,000 more and current expenses about $90,000 less in January 1926 than in January 1925, with the result that current net earnings were $1,700,000, or at an annual rate of 17 per cent of average paid-in capital as compared with $860,000, or 9 per cent in January 1925. All the Federal reserve banks earned their dividends during January, whereas in January 1925 the St. Louis and Minneapolis banks failed to earn their dividends, and the Richmond and Atlanta banks did not have sufficient earnings to cover current operating expenses.

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