

The Papers of Charles Hamlin (mss24661)

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Hamlin, Charles S., Scrap Book – Volume 177, FRBoard Members

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Scrap Book - Volume 177
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Office Correspondence

Date July 17, 1941

To The Files

Subject: _____

From Mr. Coe

M.S.C.

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 177 of Mr. Hamlin's scrap book and placed in the Board's files:

VOLUME 177

- Page 49 - Memo to Mr. Hamlin from Mr. Goldenweiser re Open Market Operation.
- Page 51 - Memo to Mr. Hamlin from Mr. Goldenweiser re "Funds put into the market establishing a basis for a tenfold increase in loans".
- Page 61 - Confidential opinion re An Appraisal of Factors Composing the Present Credit Situation.
- Page 65 - Branch banks - Memo of Mr. Smead to Board.
- Page 67 - Earnings & Expenses of F.R. Banks - January 1928.
- Page 79 - Letter to Mr. Hamlin from Gov. McDougal of F.R.Bk. of Chicago re conducting F.R. Banks in such a manner as to meet their full commitments with respect to expenses and dividends incurred.
- Page 83 - Recommendations of policy by the Open Market Committee.
- Page 85 - Extracts from C. S. Hamlin's diaries re meeting of Board and Governors of F.R. Banks at office of Sec'y. of Treasury where Treasury policy, stating the coming issue of 500 millions of Treas. certificates would be issued.
- Page 87 - Memo to Mr. Hamlin from Mr. Wingfield re Limitation on loans by a State member bank to one borrower.
- Page 91 - Memo to Mr. Hamlin from Mr. Wyatt re Board's power over foreign transactions of F.R. Banks.
- Page 97 - Report of Sub-committee of the General Acceptance Committee to the F.R. Board - October 21, 1927.
- Page 99 - Letter to Mr. Geo. L. Harrison, Counsel of F.R. Board re right of F.R. Board to initiate and control discount rates of F.R. Banks.
- Page 101 - Letter to Gov. Harding from R.C. Leffingwell, Ass't. Sec'y. of Treas., expressing view concerning the proposed increase of rate of the F.R. Bk. of New York.
- Page 103 - Letter to Gov. Harding from R.C. Leffingwell re offering of $4\frac{1}{2}\%$ certificates of an average maturity of 3 months.
- Page 105 - Memo to Mr. Hamlin from Mr. Wyatt re Acceptances Growing out of Transactions Involving the Importation or Exportation of Goods.
- Page 135 - Correspondence between Frederic A. Delano and Carter Glass in which Senator Glass denies that Paul M. Warburg was chiefly responsible for the conception and development of what is known as the Gold Clearing Fund of the F.R. System - (not members of Board at this time)

Office Correspondence

FEDERAL RESERVE
BOARD

Date February 17, 1928

To Mr. Hamlin

Subject: Open Market Operation

From Mr. Goldenweiser

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Some time ago, you asked me what would have happened if there had been no open-market operations by the Federal reserve banks. I think in discussing this subject we might as well eliminate the entire period prior to 1922, when there was no open-market policy and when discounts were very much more important than open-market purchases. The following is for your own personal use. It is more informal than any statement that I should care to make to the Board.

In 1922 the reserve banks bought large amounts of securities, because they were alarmed by the decrease in their earnings. They soon learned that this resulted in a decrease in their discounts and that their earnings were not benefitted by the change. It was only in 1923 that the open-market policy with reference to credit conditions was formulated and came to be understood. I think that the course of events in 1923 would have been essentially the same if the securities in the Federal reserve banks' portfolio had not been permitted to run off. The liquidation of these securities did, however, result in increasing indebtedness of the member banks and in some tightening in the money market. Perhaps the boom which appeared to be under way early in 1923 would have lasted a little longer if it had not been for Federal reserve action. In 1924 large-scale purchases of securities contributed to the plethora of funds and put the member banks in the financial centers practically out of debt to the reserve banks. In that year the Federal reserve system was probably responsible for a certain part of the extreme monetary ease and the consequent growth in the investments and security loans of member banks.

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I think that in 1925 and 1926 open-market operations merely had the effect of smoothing the machinery at the turning points without playing a large part in credit policy. In the early part of 1927 open-market policy resulted in encouraging easy money and thus facilitating gold withdrawals, and later in the year up to the middle of November in offsetting the effects of these exports. After that time open-market purchases were in small volume and gold exports had their full effect on the money market.

On the basis of these facts, it is my general impression that: (1) The effects of the open-market policy on the general credit situation are not as great as is generally believed. (2) Open-market operations, except for some errors in judgment, particularly in regard to the timing of operations, have been conducted with wisdom and have supported changes in discount rates. (3) It is often overlooked that one important reason for open-market operations in a volume larger than what may come to be considered normal has been the unusually large gold movements of recent years. With the re-establishment of the gold standard and the diminution of the volume of international gold movements, it may be expected that open-market operations will be on a smaller scale. (4) It would at times be very difficult to operate the Federal reserve banks without recourse to open-market operations and to limit the banks' authority in this respect would be unfortunate. No central bank in the world operates without this power.

Office Correspondence

FEDERAL RESERVE
BOARD

Date February 17, 1928

To Mr. Hamlin

Subject: *Page 51*From Mr. Goldenweiser
*E. G. G.*2-1896
670

In your memorandum of February 14, you asked me to discuss the statement that "funds put into the market either through rediscounts or through open-market purchases establish a basis for a ten-fold increase in loans." You wished me to see to what extent these funds were paid out in the form of Federal reserve notes and, therefore, did not establish any basis for credit.

In reply, I would like to call your attention to the attached chart, which shows the volume of reserve bank credit; changes in gold stock, and these two amounts combined, as well as changes in money in circulation, and in member bank reserve balances. The reasoning back of this chart is that gold imports and reserve bank credit, either through discounts or purchases, have the effect of placing reserve bank funds at the disposal of member banks. There are two ways in which the member banks can use these funds: either by meeting an increased demand for money in circulation, or by adding these funds to their reserves, where they constitute a basis for credit expansion at a rate which in recent years has been more nearly 15 to 1 than 10 to 1. You will see from the chart that during the past six years there have been considerable fluctuations in the volume of reserve bank credit, but very little net increase. On the other hand, there has been a large increase in gold stock, so that the top line of the chart, which shows the growth in reserve funds from the two sources, has greatly increased. Turning now to the two lines which show the use made of these funds by the member banks, you will note that in 1922 there was a growth in both money in

Office CorrespondenceFEDERAL RESERVE
BOARD

Date _____

To _____

Subject: _____

From _____

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circulation and reserve balances; that in 1923 the entire amount was absorbed by additional demand for circulation; that in 1925 and 1926 there was relatively little change in either item and in 1924 and 1927 there were large increases in member bank reserve balances. These two years, 1924 and 1927, are the years when member bank credit showed the largest growth.

I hope that this chart and explanation will serve the purpose of your inquiry.

AN APPRAISAL OF FACTORS COMPOSING THE PRESENT CREDIT SITUATION

Page 61

(February, 1928)

There have been so many conflicting views expressed recently on the credit situation that it would appear to be an opportune time to make a careful appraisal of the various factors which stand forth as most important in the present credit position of the country. Those which most readily come to mind in this connection are:-

(1) SPECULATION IN REAL ESTATE AND BUILDING.

The situation in regard to real estate and building construction is one which seems to justify considerable apprehension not only with respect to the New England district but throughout the country. All periods of expansion have been marked by speculation in various forms. In 1920, for example, it took the form of commodity speculation, more particularly, but in the last two or three years, aside from the security market, the most marked form of speculation has been in the field of real estate and real estate securities, and although the volume of new building in 1927 was somewhat less than in 1926 or 1925, nevertheless the total assumed the huge proportion of \$3,667,000,000 according to a compilation for 354 cities which appeared in the Commercial and Financial Chronicle for January 28, 1928. There is reason to believe that a substantial part of this vast sum was not required to meet any definite demand for new construction. In some cases it represents projects which primarily seem to have been intended as a means of marketing securities and the momentum thus created has become so great that despite the obvious and extensive vacancies in office and apartment buildings, new construction is being continually started. Here in Boston we have several of our newest and most modern office buildings, to say nothing of apartment houses and residential property, only partially tenanted and unable

to pay dividends on their preferred stocks, while at the same time we hear of the prospect of construction of several additional buildings which will be thrown on the market for office or other business purposes. A factor which has made this situation possible is the cheapness of money which has been available for mortgage loans to real estate promoters. These mortgage loans, the market for which is slow, furnished not only through the familiar channels of savings banks and insurance companies but also increasingly through the national banks and trust companies, have been encouraged by and are largely due to the great increase in time deposits and other forms of savings. In some cases this situation has produced conditions which have made it necessary for banks carrying heavy construction loans to take over building projects, thereby increasing their real estate investments beyond the limits that prudence and safety should dictate. Thus in the case of member banks investments are becoming less liquid and a smaller proportion of the whole is eligible for rediscount at the Federal Reserve Banks. Furthermore, financing for building promotion has also been accomplished extensively through the sale of real estate securities, some of which are based on valuations which there is every reason to believe are so far in excess of real values that it is difficult to escape the conclusion that the securities have been floated at inflated prices such as cannot be maintained on the basis of actual earnings.

(2) THE INCREASING VOLUME OF NEW CAPITAL ISSUES.

New security issues in the United States have been stimulated by declining money rates. As a result, the total new capital issues in 1927, according to the figures given in the Financial Chronicle for January 21, 1928, amounted to \$7,735,000,000, exclusive of refunding issues. In other words, the country absorbed nearly \$8,000,000,000 of new securities during the calendar year 1927, and this affords a fairly accurate measure of the savings capacity of the country, since savings ultimately find their way into new securities (exclusive of refunding securities), and it makes no difference whether these securities are bought

by individual investors, savings banks, insurance companies or others. In 1923, the total amounted to only \$4,304,000,000, as compared with \$7,700,000,000 in 1927. Expansion has occurred in each of the principal classifications of issues, - corporate, foreign and municipal. This expansion in new capital requirements is the reflection of several trends, and in part it represents a switching from the practice of borrowing temporarily at the banks. Local instances of this may be cited in the funding of the floating debt of the Pacific Mills and of the Hood Rubber Company into the form of bonds. As noted above, low mortgage money has made possible a vast expansion in new building, and much of this mortgage money has been obtained through the sale of real estate securities on a wide scale. Low money rates have furthermore stimulated widespread borrowing by state and municipal governments.

Low money rates also have made the United States an attractive source of supply for loans needed by foreign countries and a large proportion of these have found a resting place in the investment portfolios of member banks. That the market for these foreign loans is not broad is evidenced by the rate at which they are selling in comparison with high grade domestic bonds, - such as industrial bonds issued to refund bank loans and new capital issues in the form of stocks and bonds which have served to increase the producing capacity of the country. The large amount of savings in the form of savings deposits in banks, life insurance companies, etc., has made the demand for bonds so great that bond houses have had difficulty in procuring a sufficient supply and have therefore felt obliged in some cases to accept and to offer their customers a somewhat lower grade of bonds than they would under other circumstances, such bonds sometimes yielding a lower rate of return than the risk would seem to warrant. The volume of these new capital issues amounted in 1926 to approximately \$6,000,000 and in 1927 to \$8,000,000, exclusive of bonds issued for refunding purposes. There is evidence both in the case of foreign and domestic loans of large balances being left with banks and bankers, pending the time they are needed by the borrowing company, so that if

there should be any decrease in the volume of time deposits there would probably be disclosed evidence of a large amount of undigested bonds; some evidence of this appeared last July and August. There is also evidence, as European countries become stabilized, of their purchasing their own bonds in the American market which would have a stabilizing tendency besides relieving the gold situation.

A large part of all of these various new securities above referred to have found their way into the portfolios of the member banks which are now holding a larger portion of their total loans and investments in the form of stocks and bonds than they have since early in 1925. This whole situation tends to make the condition of the member banks less liquid because long term bonds, even though they may be marketable and actively traded in, would undoubtedly fall to price levels which would entail losses if the banks, owing to a loss of deposits, were forced to liquidate their security holdings on a large scale; indeed, experience shows that the volume of holdings of such securities by banks rarely declines, thus indicating an indisposition to liquidate securities of this type, once purchased. Therefore, the conclusion is obvious with respect to loans and investments in general as well as in the specific case of expanding real estate loans as above alluded to, that the banks are tying up an increasing portion of their funds in slow moving investments which are not eligible for rediscount at the reserve banks.

(3) **INSTALMENT BUYING**

Irrespective of investigations made by certain economists whose reactions have been on the whole favorable, there is considerable doubt as to how sound the policy of instalment buying really is. There is no question but that the large volume of production during the last four or five years, has been due in great measure to instalment buying. For the most part, the terms of instalment payment appear to be more severe than they were perhaps two years ago; there is

a more careful scrutinizing of accounts; - and there does not appear to be any evidence of the policy of instalment buying getting more unsound. On the other hand, if retail sales should fall off, there might be a tendency to increase the period for instalment payments. So far as the retailer is concerned, his burden of carrying instalment accounts has been transferred for the most part from inventory and open accounts, so that the statements of most of the merchants show that the inventories, plus open accounts, plus instalment accounts, are no larger than they were before the policy of instalment selling became so prevalent. On the other hand, there is evidence of a certain amount of abuse of the instalment payment privilege, - that customers are buying beyond their needs, and if there is any change in the industrial situation which would affect their capacity to pay, the situation might become such in the end as to cause much social unrest; and yet it is quite generally agreed that instalment buying has made labor more efficient and steadier.

During 1927 there was some evidence that this method of making purchases was becoming stabilized both as to the amount of instalment credits outstanding at any one time, and as to the methods of financing these credits. As a result, new business is at the present time no longer being stimulated, since instalment buying builds up business only when new purchases on the instalment plan are in excess of those of the preceding period. On the other hand, there is reason to think that there is less credit risk and less hazard in the instalment buying at the present time than was the case a few years ago, when the rapid growth in such sales was stimulating business to a large extent. Doubtless, however, there are still instances of instalment buying of consumers' goods whose useful life is so short as to make questionable the desirability of selling them on the instalment basis. Similarly, there are instances of the sale of goods, (e.g. paints and clothing) which in the nature of things could not be repossessed in the case of failure to pay. The proportion of such unsound practices to the total amount of instalment funds, however, is becoming less and less.

(4) THE LARGE INCREASE IN TIME DEPOSITS.

During the phenomenal prosperity of the past five years savings have grown to huge proportions. This was indicated in Topic (2) above, where it was pointed out that each year this country has been able to absorb an increasingly large volume of new capital issues,- a volume which year after year exceeds the previous year by nearly a billion dollars, and which in 1927 reached the huge total of \$7,700,000,000. Practically all channels for savings have participated in this movement. Mutual savings banks have been constantly increasing their deposits, although their rate of growth, after excluding interest compounded at the going rates, has not been as great as in some other fields. Insurance companies have been conspicuous for their rapid expansion in recent years, a vast amount of savings being represented by life insurance. Similarly, private investors have been buying for investment as never before in the history of the country. The member banks also have been experiencing a rapid expansion in their savings departments. But the expansion in time deposits has probably considerably exceeded the expansion in savings deposits proper, since a substantial part of time deposits represents balances placed in the banks by depositors other than savings depositors. There has been evidence even of foreign balances being carried in the form of time deposits in the member banks. Similarly, corporations are carrying large balances in the form of time deposits. In many parts of the country, private investors deposit large balances in the form of time deposits, some of which are temporarily so placed pending investment in securities. Deposits of this latter character, although classed as time deposits, and carrying the minimum reserve of only 3 per cent, are in reality subject to withdrawal practically on demand and in large amounts. They, therefore, represent a somewhat hazardous feature in the present banking situation.

One factor in the increase in time deposits is, no doubt, the unwillingness of the investor to buy the class of securities in which the banks are investing their funds; also, there is not only uncertainty as to market and prices, but

evidence of a feeling that the 4 per cent rate which has been obtainable on savings deposits is a satisfactory return, besides giving relief from the necessity of cutting coupons, depositing dividend checks, keeping records for income tax returns, and other bookkeeping annoyances incident to the purchase and exchange of securities. In other words, it would appear that a substantial volume of the time deposits represents money which ordinarily would go into the security market, or be used by the depositors in the conduct of their own business. The principal danger in this situation would be the withdrawing of funds on deposit, but insofar as these time deposits represent bona fide savings, permanent investments, or even corporation money, there would appear to be little danger from that source. In case a large deposit is withdrawn, (with, of course, the exception of a foreign deposit or an amount due to a bank or individual in a foreign country) that deposit would either be made in another bank or in securities which would again relieve, or which would not make any stringency in the credit situation (except through hoarding).

(5) THE LARGE INCREASE IN BROKERS' LOANS.

Week by week brokers' loans have been rising to new high records, until at the present time (Feb. 1, 1928) they are in the neighborhood of \$4,500,000,000. The large increase in brokers' loans does not for the most part appear to consist of credit furnished directly or indirectly by Federal Reserve Banks. There is no doubt but that the open market operations of the reserve banks do to a certain extent increase the amount of floating credit in the New York market, but the principal sources of this increase would appear to come from two places:-

First. From surplus funds of member banks. The large increase in savings deposits in banks and the unwillingness to invest the total amount of that increase in securities has led banks to take the conservative method of loaning surplus money on time or demand against well-margined and selected collateral, and as these loans are mostly made through New York banks the chances are that their character is subject to careful scrutiny. So far as the member bank is con-

cerned there can be little objection to placing money in the form of brokers' loans, provided these loans are well margined, because there is no more liquid form of investment, and probably no form of investment better secured than brokers' loans. It is distinctly more preferable from the point of view of bank liquidity for a bank to loan a portion of its money in the stock market than for it to invest all its funds in the securities direct, i.e. to loan its money in the stock market with a margin rather than for it to purchase the securities direct, or to loan on real estate. On the other hand, the expansion in the stock market has inflated many security prices to levels at which there is considerable doubt as to whether or not they are justified by earnings, dividends or future prospects. Therefore, from the point of view of the stock market and of holders of stock market securities, (and this includes investors, savings banks and insurance companies), the present expansion in brokers' loans is disturbing since it represents the placing of an undue proportion of the country's loanable funds in Wall Street in the form of call loans. It is well known that call loans represent the excess credit which banks are unable to loan to their commercial customers at home, and are therefore the first to feel contraction when the interior banks experience an expansion in their local demand for commercial loans. This surplus credit of member banks does not appear to come from rediscounts of commercial paper in the Federal Reserve Banks but through the lack of demand for commercial, industrial and agricultural requirements, and from the urge to keep funds employed.

Second. From unemployed proceeds of capital issues. A large volume of capital issues as already pointed out has been placed in this country, more especially since 1923 and 1924, following the substantial progress made in the stabilization of economic conditions in England and Germany. Foreign issues and domestic issues in such volumes as \$6,000,000,000 in 1926 and \$8,000,000,000 in 1927, have no doubt increased the volume of brokers' loans not only through the amount required in financing their

original sale, but also through the amount of unemployed proceeds from such capital issues. There is doubtless also a large amount of credit in the brokers' loans which represents credits controlled outside of the United States, as for instance, by central banks of issue, joint stock banks, foreign bankers and Nationals of outside countries. The danger in this particular factor is the possibility of large amounts being drawn upon and converted into gold for export.

Therefore, if and when commercial borrowing expands, or if and when there is a serious withdrawal of deposits, the brokers' loan market will be the first to feel the contraction, because, as stated above, brokers' loans represent surplus funds, - funds which are the first line of defense which banks call upon when in need of liquid funds. But the calling of loans, if properly margined, should not so far impair the security as to cause losses to the lenders, though they can conceivably cause serious losses to those forced to liquidate stocks in order to pay off the loans.

(6) HIGH LEVEL OF THE STOCK MARKET.

Several features of this phase of the situation are deserving of careful study. Prices of stocks at the present time are at the highest levels on record, levels which cannot be justified in all cases easily in the light of current dividends, current earnings or future prospective profits. The yield on many classes of stocks, both investment and semi-investment, is so low as to be less than the yield on investment bonds. Even commercial paper rates are higher than the yields on some stocks. These relationships, therefore, are obviously out of line, and suggest a vulnerable position in the stock market, a decline in which might easily be precipitated by influences outlined in Topic (5) above.

So far as the causes for the present high level of stocks are concerned, there are three in particular to which it may be plausibly attributed: (1) The demand for high grade stocks in excess of the supply; (2) that turning of the public to stocks as media for investments and willingness to accept a lower return on common and preferred stocks than in past years, especially on the well-

managed and highest grade of these stocks; (3) the rapid rise of investment trusts, further alluded to below. A casual glance at some of the holdings of these trusts and of certain corporations furnishes ample evidence of the demand referred to above. The Bancitaly Corporation, for example, has million dollar investments in a long list of high grade securities. The ability of this corporation to invest has come from its selling of securities to the public at large. It would not appear probable that this corporation, or any other of the large trusts, could dump any large volume of one or several stocks on the stock market in justice to itself, and this alone may act as a stabilizer of the general situation.

(7) INVESTMENT TRUSTS.

The growth in investment trusts in recent years has been phenomenal. Some of these trusts have been organized recently and, therefore, practically at the top of the market and are, accordingly, not in a position easily to withstand a possible sharp drop in the stock market. Some of them also are managed loosely, according to the terms of their constitutions, and in some cases are controlled by men relatively inexperienced in the handling of large investment funds. They represent the assembling under one management of large blocks of securities, which tends to place the voting control of banks and corporations increasingly in the hands of a relatively small group of financiers. Such organizations, on the other hand, if properly and conservatively managed, should not only have a stabilizing effect on the security market but should overcome to quite an extent the undoubtedly enormous waste constantly occurring through the investment of savings in fraudulent and speculative securities. So far as its effect on the credit situation is concerned, therefore, it would appear that the well managed investment trust ought not to be an adverse factor.

(8) GOLD EXCHANGE IN RELATION TO THE LARGE VOLUME OF BALANCES AND INVESTMENTS THAT COULD BE WITHDRAWN ON DEMAND BY EUROPE.

Under the gold exchange standard, countries adopting that standard are en-

abled to hold their reserves against their own credit structure of bank notes and deposits, not in the form of gold in their own vaults, but in the form of investments in gold standard countries. In this manner the gold reserve of the gold standard countries is called upon to serve two purposes: (1) to support the domestic credit structure, and (2) to support the foreign credit structure of those countries placing their central reserves in the form of gold exchange in gold standard markets. It is, therefore, a form of pyramiding. The subject of gold exchange is one that is being given more and more consideration throughout the world. It was apparently first suggested at the Genoa Conference in 1922 in the belief that there was not sufficient gold in the world to serve as a foundation for the stabilization of Europe and that therefore gold exchange, or balances and investments payable in countries on a gold basis, should be used in lieu of gold. The fact that there is no definite information regarding the volume of balances and investments in the United States that could be withdrawn on demand by Europe and other continents constitutes an unsatisfactory situation, especially as the estimates of balances and short time loans and investments that are liable to be withdrawn are between one and two billions, a large part of which apparently is due to France,- a country where the political and economic situation is not very satisfactory and where a definite policy could not be assured. Furthermore, this gold exchange has become a part of our credit structure and if withdrawn would be withdrawn primarily from the outside market, that is, it does not represent balances in the Federal Reserve Banks. On the other hand, the Federal Reserve System with its high percentage of reserve (74%) could withstand and relieve a reasonable amount of pressure caused by the withdrawal of the gold. Nevertheless if it can be assumed that there is a net minimum of at least \$1,000,000,000 of foreign gold exchange in the American credit structure, it follows that \$1,000,000,000 of gold in the Reserve banks may fairly be considered as utilized to support the bank note circulation and deposits in foreign gold exchange countries. If, therefore, acting on that principle, it be considered that the cash reserves of the Federal Reserve Banks applicable to

the domestic credit structure alone amount to something less than \$2,000,000,000 instead of to slightly less than \$3,000,000,000 as indicated in the Federal Reserve statements, it would be seen that the domestic reserve ratio today would be in the neighborhood of 50 per cent, instead of 75 per cent, as published in the statement.

On the other hand, there is in circulation something like \$1,400,000,000 of gold, of which, probably, something over \$1,000,000,000 is in the form of gold certificates which could be brought into the reserves of the reserve banks, - a factor which would help the situation. Moreover, with the stabilization of Europe, the Nationals of those countries are buying in the American market their own national securities, which, again, would somewhat relieve the situation. Again, it is to the interest of Europe not to allow a withdrawal of gold from this country that would cause interest rates to rise to such a point as would affect the placing of foreign securities in this country, and therefore it is probable that only in the event of an extreme crisis in Europe, such as a war, would these large gold exchange balances be converted unexpectedly into export gold.

Therefore the disquieting factors may be over emphasized in some quarters, but nevertheless the following points stand out:

- (1) Demand for gold for withdrawal can be made more suddenly than gold can be drawn in from circulation;
- (2) This demand will probably be liquidated from surplus funds in the call market;
- (3) Banks hold a declining proportion of eligible paper so that resort to secondary Federal Reserve credits might be delayed;
- (4) A moderate calling of loans results in sudden and sharp changes in rates on all brokers' loans outstanding;
- (5) The high level of the stock market makes it unusually sensitive to any threatened contraction in the supply of call money.
- (6) Banks are protected by ample margins against these liquid loans, so the public in general, including institutions holding security investments, would be the sufferers.

(9) INDUSTRIAL AND OTHER COMPETITION AND THE EFFECT ON DECREASED PROFITS.

Competition in all lines of business is becoming increasingly acute. It is not confined to manufacturing or agriculture, or mining or retail distribution. It is practically universal. To a large extent, this is a reflection of the over-extension of productive facilities during the war period,- an over-extension to which the country has as yet not fully grown up on a peace basis. As a result, prices are being narrowed and in some cases profits have declined to the point where they are practically eliminated. As a consequence of this situation, the volume of production has declined in recent months, and is now substantially below the computed normal. Paralleling the decline in productive activity, there has been a decline in the volume of payrolls the past year, the result not only of reduced employment but also, to some extent, of reduced wage rates. Therefore, the purchasing power of the country is also declining, and at the present time is some 9 per cent lower than two years ago. On the other hand, wholesale commodity prices are only about 4 per cent lower than two years ago so that there has been a net reduction in the purchasing power with which to market goods.

But since the volume of production has fallen much more rapidly than either payrolls or commodity prices, the situation appears to be fairly well in hand. The net result is that the prosperity of the country is not far below normal, and cannot be considered in any sense as being in a depression area at the present time. Nevertheless, industrial profits are suffering, and this fact must be considered in connection with the vulnerability of the stock market which, as pointed out above, is at the present moment at the highest level on record, a level which it is difficult to justify on the basis of existing conditions other than low money rates. Declining production, declining payrolls and declining prices, however, have not been accompanied by rising money rates as is usually the case when depression is threatening. There is no indication that there will not be a plentiful reservoir of immediate credit available for all legitimate commercial needs at reasonable money rates. Since the present specu-

lative outburst has been confined largely to the real estate and security markets, and has not been imparted to the commodity markets, or to industrial production, it cannot be considered that the present situation industrially is definitely bad. It is simply a shade below normal, and only by contrast with the almost continuously super-normal activity of the past five years does it appear low.

(10) INCREASE IN LOCAL PUBLIC EXPENDITURES.

While the Federal government has been reducing taxes in recent years, local governments have been doing the reverse, and the volume of local taxes is today greater than at any time in the past. Similarly, the volume of local debt has been rising about as fast as the volume of Federal debt has been declining, so that large expenditures, taxes and public debt are substantially where they were at the end of the war, viewing the situation as a whole. Economies on the part of the Federal government are offset by extravagances on the part of the local governments. In so far as these expenditures are made for productive enterprises, such as public works, and in so far as this work is done economically and efficiently, these expenditures may be justified on the ground that they increase general business activity and increase purchasing power. But these public enterprises seldom are handled efficiently. Many of the large expenditures are directed into non-productive channels of one sort or another which do little to stimulate the general business situation.

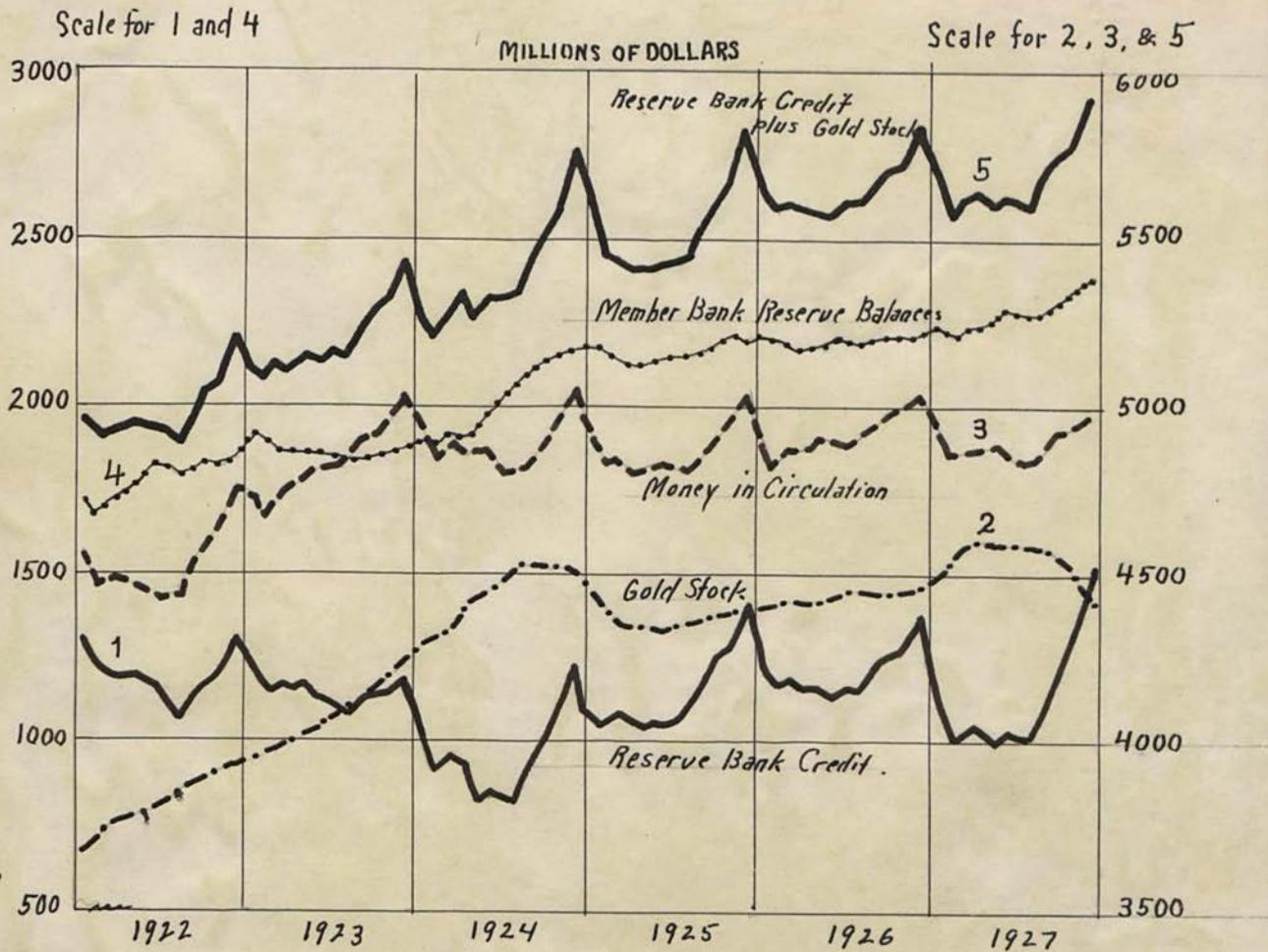
(11) PROHIBITION.

There is considerable to be said on both sides as regards the business aspects of prohibition. On the one hand, may be mentioned the exceedingly heavy cost of prohibition enforcement, together with the loss of revenue both to the federal and the local governments in the form of license fees, which contrasts with the revenue on limited prohibition which is in effect in Ontario and Quebec, producing large sums for the central government. On the other hand, may be mentioned the fact that prohibition has probably been a direct cause of the vast

expansion in productive activity and in retail sales during the past few years. Money which formerly went into the saloon is being spent by wage workers for clothing, radios, automobiles and all sorts of retail goods. Prohibition, therefore, appears to be expensive so far as public revenues are concerned since it represents a heavy outgo of public funds in place of a substantial income of public funds. On the other hand, it makes possible a vastly increased purchasing power on the part of the population as a whole, and thereby greatly stimulates business and industrial activity.

(12) TREND OF INTERNATIONAL TRADE MOVEMENTS.

The United States has loaned or invested large sums in European countries. The first effect has been a stabilization of monetary systems, which in turn has assisted in a general industrial expansion. As European nations work back toward a sound basis, this country must expect to have increasing imports from European countries, the chief reason being that foreign loans, as well as reparations, can probably be paid only with merchandise, the proceeds of tourist expenditures, and immigrant remittances, and not with gold transfers. The growth of our imports is not likely to be extremely rapid, and our country can probably absorb an increasing volume of imports, but nevertheless, as this growth occurs, our own manufacturers are likely to feel the results of the increasing competition. This factor is one which should be taken into account in considering the long-time trend of manufacturing volume and distribution from the point of view of profits.



February 17, 1928

TO: Federal Reserve Board
FROM: Mr. Smead

SUBJECT: Branches of Member and Non-member Banks, Feb. 25 and June 30, 1927.

(St. 5656)

On February 25, 1927, the date on which the McFadden amendment to the Federal Reserve and National Bank acts became effective, there were in the United States 777 banks in 396 cities which were operating a total of 2,902 domestic branches, the figures by classes of banks being as follows:

	Number of banks operating branches	Number of branches
Total - all banks	777	2,902
National banks	144	389
State bank members	189	1,562
State bank nonmembers	385	863
Mutual savings banks	50	76
Private banks	9	12

On June 30, 1927, the latest date for which complete figures for both member and nonmember banks are available, the number of banks operating branches was 788, or about 3 per cent of the total number of banks (about 26,800) in the United States, while the number of branches on the same date was 2,989, about one-tenth the number of banking offices (parent banks plus branches) in the country. Although the majority of the banks -- 481 out of 788 -- had branches only in the head-office city, there were 978 branches, or one-third of the total number, that were located outside the head-office city.

In most cases the size of the individual branch system was small, 442 of the 788 banks having only 1 branch and 136 but 2 branches. Of the 210 banks that had more than 2 branches, 58 were located in cities of less than 100,000 population (where national banks may not hereafter establish more than 2 branches), including 3 national banks, 13 state bank members, and 42 nonmembers. There were 51 banks that had more than 10 branches on June 30, 1927, including the following which had 30 or more branches:

Number of branches	<u>Location and name of parent bank</u>	
284	San Francisco	Bank of Italy National Trust & Savings Ass'n.
94	"	American Trust Company
101	Los Angeles	Pacific Southwest Trust & Savings Bank (now Los Angeles-First National Trust & Savings)
52	"	Security Trust and Savings Bank
47	"	California Bank (nonmember)
35	"	Merchants National Trust and Savings Bank
64	New York City	Corn Exchange Bank
42	"	Bank of the Manhattan Company
52	Cleveland	Cleveland Trust Co.
47	Detroit	Wayne County and Home Savings Bank
46	"	Peoples State Bank
30	"	Central Savings Bank (recently consol. with First Nat.)
30	"	Peninsular State Bank
32	Buffalo	Marine Trust Company

There was an increase from 2,782 on December 31, 1926 to 2,902 on February 25, 1927 and to 2,989 on June 30, 1927, in the number of branches in operation, while the number of banks operating branches declined from 794 on December 31, 1926 to 777 on February 25, 1927, due almost entirely to mergers and absorptions, increasing to 788 on June 30, 1927. Most of the new branches established during the six-month period are located outside the head-office cities, and half of them were established through the purchase of independent banks and their conversion into branches.

Between June 1924, when complete figures of branches were first obtained by the Board, and June 1927, three years later, the number of banks operating branches increased from 714 to 788 and the number of branches from 2,293 to 2,989. During this three-year period the number of branches located in the same city as the parent banks increased from 1,508 to 2,011, and the number of branches located outside the head-office cities from 785 to 978. Of the 2,989 branches in operation at the end of June 1927, 2,051 were reported as having been established de novo as branches and 754 as independent banks purchased and converted into branches, while in 184 cases the method of establishment was not reported.

Branch banking, as is quite generally known is confined principally to a few states, 2,462 of the 2,989 branches being located in 8 states, and 1,507 of the total being located in 13 of the large cities of the country. The following table shows separate figures as of June 30, 1927, for each of the principal states and cities in which branches are in operation:

<u>States</u>		<u>Cities</u>	
California	781	New York City	433
New York	542	Detroit	293
Michigan	412	Los Angeles	192
Ohio	237	Philadelphia	93
Pennsylvania	136	San Francisco	92
Massachusetts	134	Cleveland	70
Maryland	113	Buffalo	61
Louisiana	107	Baltimore	55
Total, 8 states	2,462	Boston	50
Total, United States	2,989	New Orleans	48
		Cincinnati	46
		Toledo	38
		Grand Rapids	36
		Total, 13 cities	1,507
		Total, United States	2,989

It is of interest to note in this connection that the two largest branch banking systems in the country have converted from state banks into national banks since the passage of the McFadden Bill - the Bank of Italy of San Francisco with 278 branches at the time of conversion and the Pacific Southwest Trust and Savings of Los Angeles with 99 branches. The annual report of the Comptroller of the Currency shows that between February 25, 1927, when the McFadden Bill became a law, and October 31, 1927, the national banking system acquired 400 branches through conversion or consolidation of state banks, in addition to 127 new branches which the national banks were authorized to establish under the provisions of the Act.

Attached hereto are tables or statements relating to branch banking, showing --

1. A summary for the United States as a whole.
2. The number of banks in each state which were operating branches and the number of branches, as of June 30 and February 25, 1927, December 31, 1926 and 1925, and June 30, 1924.
3. The number of banks, by states and by classes, which on June 30, 1927, were operating 1 branch, 2 branches, 3-5 branches, 6-10 branches, and over 10 branches; the maximum size of individual branch bank systems; and the number of branches located in head-office cities and outside such cities.
4. A summary of the laws relating to branches of both national and state banks.
5. The status of foreign branches of American banks at the end of 1927.

In addition, a list is submitted herewith showing the name, location, capital, surplus, and deposits of each member and nonmember bank which was operating branches on February 25, 1927; the number of branches in the head-office city and outside such city; and the population in 1920 of the town or city in which the parent bank was located.

Legal Status of Branch Banking. Under the McFadden Act, national banks may retain all branches which were in lawful operation on February 25, 1927, whether located within or outside the corporate limits of the head-office city. They may also, with the approval of the Comptroller of the Currency, establish new branches within the corporate limits of the head office city in such states as state banks are permitted by law to do so, subject to the following population restrictions, based on the last decennial census: Under 25,000 - no branches; 25,000 to 50,000 - 1 branch; 50,000 to 100,000 - 2 branches; 100,000 and over - indefinite number of branches subject to determination of Comptroller of Currency. In addition, when a state bank converts into or merges with a national bank, such of its branches as were in lawful operation on February 25, 1927, may be retained regardless of location.

State bank members, under the terms of the McFadden Act, may retain all branches that were in lawful operation on February 25, 1927, whether located within or outside the corporate limits of the head-office city. They may also establish new branches within the corporate limits of the city or town in which the parent bank is located, if in accordance with State law, without the approval of the Federal Reserve Board.

A digest of the state laws pertaining to branch banking at the close of 1924 was published on pages 132-137 of the March 1925 Federal Reserve Bulletin, this digest having been prepared by the Board's Counsel with the assistance of counsel to the Federal reserve banks. While the digest has not been brought up to date, the following changes in state laws relating to branch banking during the past three years are indicated by available information: Tennessee - On April 6, 1925, the law was amended to prohibit the establishment of branches outside the county in which the parent bank is located; New Jersey - In March 1927 the law was amended to permit the establishment of branches by state banks, subject to the same population restrictions as are contained in the McFadden Act with reference to national banks. Pennsylvania - On April 27, 1927, the law was amended to permit the operation of branches which were established prior to March 1, 1927, but prohibiting the establishment of new branches except in those cities in which national banks were operating branches prior to March 1, 1927. Nebraska - An Act approved on April 1, 1927, prohibits the establishment of branches. Georgia - On August 25, 1927, an Act was approved permitting the operation of existing branches but prohibiting the establishment of new branches. Kentucky - The American Bankers Association Journal for April 1927 states that a recent opinion handed down by the Attorney General holds that state banks, under their incidental powers, may establish branches. West Virginia - A bill was before the Legislature in April 1927 prohibiting the establishment of branches, and in Florida in the same month a bill was introduced giving state banks permission to establish branches in cities of 50,000 or more population, but in neither case did the bill become a law.

At the end of 1927 there were 11 states (including the District of Columbia) in which state-wide branch banking was permitted by law or by implication, in two of which no branches were in operation; 12 states in which branch banking was restricted to the cities or counties in which the parent banks were located or contiguous territory; 13 states in which the establishment of branches was prohibited; and 8 states in which there was no provision in the law with respect to the establishment of branches. The details with respect to each state are as follows:

State-Wide Branch Banking Permitted by Law or Implication

Arizona	Rhode Island
California	South Carolina
Delaware	Virginia
District of Columbia	*West Virginia
Maryland	*Wyoming
North Carolina	

*No branches in operation.

Branches Restricted as to location.

Kentucky - City in which parent bank is located
Louisiana - Parish (county) in which parent bank is located
Maine - County in which parent bank is located or adjoining counties
Massachusetts - Town in which parent bank is located, except that mutual savings banks may have branches outside.
Michigan - City in which parent bank is located
Mississippi - City in which parent bank is located if 10,000 or more population
New Jersey - Same restrictions as provided by McFadden Act for national banks
New York - City in which parent bank is located if over 50,000 population
Ohio - City in which parent bank is located and territory contiguous thereto.
Oregon - Laws of 1921 prohibit the establishment of branches until such time as national banks are authorized to establish branches, when the superintendent of banks may authorize state banks to establish branches under similar terms.
Pennsylvania - Cities in which national banks were operating branches prior to March 1, 1927
Tennessee - County in which parent bank is located

Branch Banking Prohibited by Law

#Alabama	Idaho	Nevada
#Arkansas	Illinois	New Mexico
Colorado	#Indiana	Texas
Connecticut	#Minnesota	Utah
Florida	Missouri	#Washington
#Georgia	#Nebraska	#Wisconsin

#Branches in operation, established prior to prohibitory legislation.

No Provision in State Law Regarding Branch Banking
(no branches in operation)

Iowa	North Dakota
Kansas	Montana
New Hampshire	South Dakota
Vermont	Oklahoma

Foreign branches of American banks. Data in the Board's files show that on December 31, 1927, 9 American banks were operating 93 branches, offices or agencies outside the United States, 2 American foreign banking corporations (all subsidiaries of member banks) were operating 11 such offices under agreement with the Federal Reserve Board, of which 4 were non-banking offices in China exercising a note-issue function only, and 3 foreign subsidiaries of American banks were operating 13 offices. The only changes during the year comprise the taking over of 3 branches in China, 3 in India, 4 in Japan, 1 in Java, and 1 in the Straits Settlements, by the National City Bank of New York from its subsidiary, the International Banking Corporation; the establishment by the same bank of one new branch in Cuba and of one in Porto Rico; and the discontinuance of one branch in the Dominican Republic. The names of the banks and banking corporations operating foreign offices, together with the location of the offices, are shown below:

NATIONAL CITY BANK, NEW YORK				BANKERS TRUST CO., NEW YORK			
Argentina	2	Italy	2	England	1	France	1
Belgium	2	Japan	4	CHASE NATIONAL BANK, NEW YORK			
Brazil	4	Java	1	Canal Zone	1	Panama	1
China	8	Panama	2	Cuba	1		
Cuba	25	Peru	1	EMPIRE TRUST CO., NEW YORK			
Chile	2	Porto Rico	2	England	1		
Dominican Republic	6	Singapore	1	EQUITABLE TRUST CO., NEW YORK			
England	2	Uruguay	1	England	2	Mexico	1
India	3	Venezuela	1	France	1		
				**EQUITABLE EASTERN BANKING CORP., N.Y.			
				China	2		
				FARMERS LOAN & TRUST CO., NEW YORK			
				France	1		
				***FARMERS LOAN & TRUST CO., LONDON			
				England	1		
				GUARANTY TRUST CO., NEW YORK			
				Belgium	2	France	2
				England	4		
				FIRST NATIONAL BANK, BOSTON			
				Argentina	2	Cuba	2
				AMERICAN TRUST CO., SAN FRANCISCO			
				England	1		

<u>SUMMARY</u>	<u>Number of banks</u>	<u>Number of offices</u>
National banks	3	76
Member state	5	16
Nonmember state	1	1
American foreign banking corporations	2	11
Foreign subsidiaries	3	13
Total	14	117

*Subsidiary of National City Bank, New York.

#Stock owned by Bank of Haiti, Inc., a subsidiary of National City Bank, New York

**Subsidiary of Equitable Trust Company, New York.

***Subsidiary of Farmers Loan & Trust Co., New York.

TABLE 1. - SUMMARY OF BRANCH BANKING IN THE UNITED STATES

St. 5656a

	June 30 1927	Feb. 25 1927	Dec. 31 1926	Dec. 31 1925	June 30 1924
NUMBER OF BANKS					
Total	26,781	*26,973	27,377	28,257	28,996
Operating branches	788	777	794	785	714
By classes of banks:					
National banks	152	144	145	132	108
State bank members	186	189	194	196	191
State bank nonmembers	392	385	396	410	387
Mutual savings banks	50	50	50	47	28
Private banks	8	9	9	(a)	(a)
By location of branches:					
Only in head office city	481	471	476	466	391
Only outside " " "	262	262	271	264	283
Both in and outside head office city	45	44	47	55	40
By size of cities in which parent banks are located:(b)					
100,000 or more population	375		374		
50,000 to 100,000	69		69		
25,000 to 50,000	55		54		
Less than 25,000	289		297		
By size of branch systems:					
1 branch	442	443	453	446	
2 branches	136	128	129	135	
3-5 branches	126	124	124	117	
6-10 branches	33	35	38	39	
Over 10 branches	51	47	50	48	
NUMBER OF BRANCHES					
Total	2,989	2,902	2,782	2,642	2,293
In head office city	2,011	1,923	1,933	1,810	1,508
Outside head office city	978	979	849	832	785
By classes of banks:					
National banks	721	389	405	332	248
State bank members	1,301	1,562	1,367	1,277	1,137
State bank nonmembers	881	863	923	1,033	908
Mutual savings banks	76	76	75	(a)	(a)
Private banks	10	12	12	(a)	(a)
Method of establishment:					
De Novo (as branches)	2,051		1,964		
Independent banks purchased and converted into branches	754		643		
Not reported	184		175		

*March 1927.

(a) Not separately tabulated; included with "state bank nonmembers."

(b) Based on latest available population figures.

NOTE: Figures prior to 1927 have been slightly revised, due to the fact that the establishment or discontinuance of some branches prior to 1927 was not reported until recently.

TABLE 2 - NUMBER OF BANKS OPERATING BRANCHES AND NUMBER OF BRANCHES
IN OPERATION, JUNE 1924 - JUNE 1927, BY STATES

St. 5656b

	Number of banks operating branches					Number of branches				
	June 30 1927	Feb. 25 1927	Dec. 31 1926	Dec. 31 1925	June 30 1924	June 30 1927	Feb. 25 1927	Dec. 31 1926	Dec. 31 1925	June 30 1924
UNITED STATES										
Total	788	777	794	785	714	2,989	2,902	2,782	2,642	2,293
National	152	144	145	132	108	721	389	405	332	248
State member	186	189	194	196	191	1,301	1,562	1,367	1,277	1,137
State nonmember	392	335	396	410	387	881	863	923	1,033	908
Mutual savings	50	50	50	47	28	76	76	75	*	*
Private	8	9	9	*	*	10	12	12	*	*
Alabama	5	5	5	5	5	19	19	19	19	19
Arizona	8	8	8	7	6	23	23	23	21	20
Arkansas	2	2	2	2	2	3	3	3	3	3
California	69	72	89	100	99	781	764	669	640	538
Delaware	5	5	5	5	5	13	14	14	15	18
Dist. of Columbia	10	10	10	10	11	20	20	20	20	19
Florida	-	-	-	1	1	-	-	-	1	1
Georgia	21	21	22	23	21	38	38	38	56	53
Indiana	4	4	4	4	4	8	8	8	8	8
Kentucky	5	4	4	4	4	17	12	12	12	12
Louisiana	41	40	39	35	34	107	106	103	95	93
Maine	23	24	24	24	23	51	54	54	50	47
Maryland	35	35	35	36	27	113	113	113	109	88
Massachusetts	76	79	78	72	61	134	133	131	117	98
Michigan	67	69	69	64	63	412	404	402	384	332
Minnesota	2	2	2	3	3	6	6	6	10	11
Mississippi	11	11	11	11	11	25	25	25	25	25
Nebraska	2	2	2	2	2	2	2	2	2	2
New Jersey	23	14	14	14	14	38	21	21	21	21
New York	108	106	107	98	77	542	518	508	459	362
North Carolina	40	40	41	39	40	74	74	75	69	66
Ohio	57	53	53	52	51	237	230	228	213	203
Oregon	1	1	1	1	1	1	1	1	1	1
Pennsylvania	83	82	83	85	67	136	130	126	122	98
Rhode Island	10	10	9	10	9	29	28	27	27	21
South Carolina	9	8	7	8	9	27	25	24	19	20
Tennessee	23	22	22	24	21	56	56	56	58	53
Virginia	37	37	37	33	31	62	60	59	50	45
Washington	4	4	4	6	5	6	6	6	7	7
Wisconsin	7	7	7	7	7	9	9	9	9	9

*Not separately tabulated.

NOTE: Figures prior to 1927 have been slightly revised, due to the fact that the establishment or discontinuance of some branches prior to 1927 was not reported until recently.

TABLE 3 - SIZE OF BRANCH SYSTEMS AND NUMBER OF BRANCHES, JUNE 30, 1927,
BY STATES AND CLASSES OF BANKS

St. 5656a

State and class of bank	Number of banks operating branches						Maximum size of system*	Number of branches		
	Total	1 branch	2 branches	3-5 branches	6-10 branches	Over 10 branches		Total	In head office city	Outside head office city
UNITED STATES										
TOTAL	788	442	136	126	33	51	284	2,989	2,011	978
National	152	89	28	17	7	11	284	721	431	290
State member	186	72	28	41	15	30	101	1,301	1,063	238
State nonmember	392	235	73	64	11	9	47	881	453	428
Mutual savings	50	40	5	4	-	1	13	76	62	14
Private	8	6	2	-	-	-	2	10	2	8
BANKS LOCATED IN CITIES WITH POPULATION OF (a)										
100,000 or more	375	158	65	79	26	47	284	2,284	1,795	489
50,000 to 100,000	69	46	10	11	2	-	9	125	93	32
25,000 to 50,000	55	34	12	8	-	1	11	100	64	36
Less than 25,000	289	204	49	28	5	3	20	480	59	421
Alabama										
TOTAL	5	4	-	-	-	1	15	19	-	19
State member	1	1	-	-	-	-	1	1	-	1
Nonmember	4	3	-	-	-	1	15	18	-	18
Arizona										
TOTAL	8	4	2	1	-	1	11	23	-	23
State member	2	1	-	-	-	1	11	12	-	12
Nonmember	6	3	2	1	-	-	4	11	-	11
Arkansas										
Nonmember	2	1	1	-	-	-	2	3	-	3
California										
TOTAL	69	32	11	15	3	8	284	781	317	464
National	12	6	1	2	1	2	284	343	83	260
State member	11	4	1	1	1	4	101	275	132	143
Nonmember	46	22	9	12	1	2	47	163	102	61
Delaware										
TOTAL	5	1	2	1	1	-	6	13	1	12
State member	1	1	-	-	-	-	1	1	1	-
Nonmember	4	-	2	1	1	-	6	12	-	12
Dist. of Columbia										
TOTAL	10	5	2	3	-	-	4	20	20	-
National	5	3	1	1	-	-	4	9	9	-
Nonmember	5	2	1	2	-	-	4	11	11	-
Georgia										
TOTAL	21	13	6	1	1	-	9	38	11	27
National	4	1	1	1	1	-	9	16	7	9
State member	4	3	1	-	-	-	2	5	-	5
Nonmember	13	9	4	-	-	-	2	17	4	13
Indiana										
TOTAL	4	3	-	1	-	-	5	8	7	1
State member	1	-	-	1	-	-	5	5	5	-
Nonmember	3	3	-	-	-	-	1	3	2	1
Kentucky										
TOTAL	5	2	-	2	1	-	6	17	17	-
National	4	2	-	2	-	-	5	11	11	-
State member	1	-	-	-	1	-	6	6	6	-
Louisiana										
TOTAL	41	26	5	5	4	1	20	107	54	53
National	1	-	-	-	1	-	8	8	-	8
State member	8	2	1	2	2	1	20	46	39	7
Nonmember	32	24	4	3	1	-	10	53	15	38

*Maximum number of branches of any one bank.
(a) Based on latest available population figures.

TABLE 3 - SIZE OF BRANCH SYSTEMS AND NUMBER OF BRANCHES, JUNE 30, 1927,
BY STATES AND CLASSES OF BANKS

(St. 5656c)

State and class of bank	Number of banks operating branches						Maximum size of system*	Number of branches		
	Total	1 branch	2 branches	3-5 branches	6-10 branches	Over 10 branches		Total	In head office city	Outside head office city
Maine										
TOTAL	23	10	6	6	1	-	6	51	5	46
State member	4	1	-	3	-	-	4	12	2	10
Nonmember	19	9	6	3	1	-	6	39	3	36
Maryland										
TOTAL	35	16	7	8	1	3	20	113	58	55
National	4	2	2	-	-	-	2	6	6	-
State member	2	-	-	1	-	1	14	19	19	-
Nonmember	29	14	5	7	1	2	20	88	33	55
Massachusetts										
TOTAL	76	53	11	9	1	2	11	134	116	18
National	16	8	2	3	1	2	11	50	48	2
State member	15	9	3	3	-	-	5	27	26	1
Nonmember	45	36	6	3	-	-	3	57	42	15
Michigan										
TOTAL	67	36	8	8	3	12	47	412	404	8
National	11	9	1	-	1	-	9	20	19	1
State member	33	13	3	4	2	11	47	334	333	1
Nonmember	23	14	4	4	-	1	22	58	52	6
Minnesota										
National	2	-	-	2	-	-	3	6	6	-
Mississippi										
TOTAL	11	7	3	-	-	1	12	25	1	24
National	1	1	-	-	-	-	1	1	-	1
Nonmember	10	6	3	-	-	1	12	24	1	23
Nebraska										
National	2	2	-	-	-	-	1	2	2	-
New Jersey										
TOTAL	23	15	5	2	1	-	6	38	27	11
National	8	5	3	-	-	-	2	11	8	3
State member	7	4	1	1	1	-	6	15	12	3
Nonmember	8	6	1	1	-	-	4	12	7	5
New York										
TOTAL	108	46	22	19	7	14	64	542	541	1
National	31	13	8	2	2	6	27	153	153	-
State member	39	8	9	11	5	6	64	301	301	-
Nonmember	38	25	5	6	-	2	14	88	87	1
North Carolina										
TOTAL	40	26	5	8	1	-	6	74	8	66
National	3	2	1	-	-	-	2	4	4	-
State member	4	2	1	1	-	-	5	9	1	8
Nonmember	33	22	3	7	1	-	6	61	3	58
Ohio										
TOTAL	57	28	6	13	5	5	52	237	203	34
National	7	7	-	-	-	-	1	7	7	-
State member	23	5	5	6	2	5	52	163	135	28
Nonmember	27	16	1	7	3	-	10	67	61	6
Oregon										
National	1	1	-	-	-	-	1	1	-	1
Pennsylvania										
TOTAL	83	56	15	11	1	-	6	136	128	8
National	20	16	3	1	-	-	5	27	27	-
State member	16	12	-	3	1	-	6	30	28	2
Nonmember	47	28	12	7	-	-	5	79	73	6
Rhode Island										
TOTAL	10	6	-	3	-	1	13	29	12	17
National	1	1	-	-	-	-	1	1	1	-
State member	4	-	-	3	-	1	13	23	8	15
Nonmember	5	5	-	-	-	-	1	5	3	2

*Maximum number of branches of any one bank.

TABLE 3--SIZE OF BRANCH SYSTEMS AND NUMBER OF BRANCHES, JUNE 30, 1927,
BY STATES AND CLASSES OF BANKS

(St. 5656c)

State and class of bank	Number of banks operating branches						Maximum size of system*	Number of branches		
	Total	1 branch	2 branches	3-5 branches	6-10 branches	Over 10 branches		Total	In head office city	Outside head office city
South Carolina										
TOTAL	9	3	3	2	1	-	9	27	6	21
National	2	-	1	1	-	-	5	7	5	2
State member	2	2	-	-	-	-	1	2	1	1
Nonmember	5	1	2	1	1	-	9	18	-	18
Tennessee										
TOTAL	23	14	5	1	1	2	12	56	25	31
National	6	4	1	-	-	1	12	18	18	-
State member	1	-	1	-	-	-	2	2	2	-
Nonmember	16	10	3	1	1	1	11	36	5	31
Virginia										
TOTAL	37	25	7	5	-	-	5	62	31	31
National	9	6	1	2	-	-	5	16	13	3
State member	2	1	-	1	-	-	5	6	6	-
Nonmember	26	18	6	2	-	-	5	40	12	28
Washington										
TOTAL	4	2	2	-	-	-	2	6	3	3
National	1	-	1	-	-	-	2	2	2	-
State member	1	-	1	-	-	-	2	2	1	1
Nonmember	2	2	-	-	-	-	1	2	-	2
Wisconsin										
TOTAL	7	5	2	-	-	-	2	9	8	1
National	1	-	1	-	-	-	2	2	2	-
State member	4	3	1	-	-	-	2	5	5	-
Nonmember	2	2	-	-	-	-	1	2	1	1

*Maximum number of branches of any one bank.

BANKS OPERATING DOMESTIC BRANCHES ON FEBRUARY 25, 1927: SUMMARY

(Date on which branch-banking amendment to National Bank and Federal Reserve Acts became a law)

St. 5656d

States	Number of banks operating branches				Number of branches					
	Total	Na-tional	State mem-bers	Non-members	Total	Operated by			Location	
						Na-tional banks	State bank mem-bers	Non-mem. banks	In H. O. city	Out-side H. O. city
UNITED STATES	777	144	189	444	2,902	389	1,562	951	1,923	979
Alabama	5	-	1	4	19	-	1	18	-	19
Arizona	8	-	2	6	23	-	12	11	-	23
Arkansas	2	-	-	2	3	-	-	3	-	3
California	72	13	13	46	764	62	545	157	299	465
Delaware	5	-	1	4	14	-	1	13	1	13
Dist. of Col.	10	5	-	5	20	9	-	11	20	-
Georgia	21	3	5	13	38	7	14	17	11	27
Indiana	4	-	1	3	8	-	5	3	7	1
Kentucky	4	3	1	-	12	7	5	-	12	-
Louisiana	40	1	8	31	106	8	46	52	54	52
Maine	24	-	4	20	54	-	12	42	5	49
Maryland	35	4	2	29	113	6	19	88	58	55
Massachusetts	79	17	16	46	133	49	28	56	117	16
Michigan	69	12	33	24	404	21	325	58	396	8
Minnesota	2	2	-	-	6	6	-	-	6	-
Mississippi	11	1	1	9	25	1	12	12	1	24
Nebraska	2	2	-	-	2	2	-	-	2	-
New Jersey	14	3	6	5	21	4	8	9	10	11
New York	106	28	39	39	518	133	293	92	517	1
North Carolina	40	3	4	33	74	4	9	61	8	66
Ohio	53	6	22	25	230	6	159	65	196	34
Oregon	1	1	-	-	1	1	-	-	-	1
Pennsylvania	82	20	16	46	130	27	29	74	122	8
Rhode Island	10	1	4	5	28	1	22	5	11	17
South Carolina	8	2	2	4	25	7	2	16	6	19
Tennessee	22	6	1	15	56	9	2	45	24	32
Virginia	37	9	2	26	60	15	6	39	29	31
Washington	4	1	1	2	6	2	2	2	3	3
Wisconsin	7	1	4	2	9	2	5	2	8	1

NOTE: Of the 1,923 branches located in head-office cities, 360 were operated by national banks, 1,051 by state bank members, and 512 by nonmember banks.

Of the 979 branches located outside head-office cities, 29 were operated by national banks, 511 by state bank members, and 439 by nonmember banks.

BANKS OPERATING DOMESTIC BRANCHES ON FEBRUARY 25, 1927

(Population as of 1920; capital, surplus and undivided profits, and deposits as of December 1926, in thousands of dollars)

St. 5656d - 1

Location	Pop-ulation	Name of bank	Cap-ital	Surplus and un-divided profits	De-posits	Branches	
						In H.O. city	Out-side H.O. city
ALABAMA							
Athens	3,323	Citizens Bank & Tr. Co.	30	26	348	-	1
Decatur	4,752	Tennessee Valley Bank	250	388	6,456	-	15
Ensley	8,200	Bank of Ensley	200	205	4,421	-	1
Georgiana	1,550	Butler County Bank	25	24	425	-	1
Guin	596	*Merion County Banking Co.	25	54	416	-	1
		TOTAL, 1 state bank member	25	54	416	-	1
		4 nonmember banks	505	643	11,650	-	18
ARIZONA							
Chandler	1,013	Bank of Chandler	50	16	467	-	1
Flagstaff	3,186	Arizona Central Bank	500	251	3,686	-	4
Globe	7,044	Old Dominion Bank	100	127	2,557	-	2
Phoenix	29,053	*Valley Bank	1,050	302	13,665	-	11
Frescott	5,010	Bank of Arizona	50	269	2,266	-	2
Tombstone	1,178	*Cochise County State Bank	30	5	383	-	1
Tucson	20,292	Arizona Southwest Bank	100	25	372	-	1
		United Bank & Trust Co.	70	2	504	-	1
		TOTAL, 2 state bank members	1,080	307	14,048	-	12
		6 nonmember banks	870	690	9,852	-	11
ARKANSAS							
Prescott	2,691	Bank of Prescott	75	87	1,524	-	1
Yellville	615	Citizens Bank	30	11	466	-	2
		TOTAL, 2 nonmember banks	105	98	1,990	-	3
CALIFORNIA							
Alameda	28,806	Citizens Savings Bank	150	184	3,177	1	-
Alhambra	9,096	*First National Bank	100	74	2,373	1	-
Alturas	979	Modoc County Bank	85	49	1,238	-	2
Alvarado	800	Bank of Alameda Co.	160	103	2,247	-	2
Anaheim	5,526	Southern County Bank	115	57	1,057	-	2
Antioch	1,936	Bank of Antioch	150	39	1,276	-	1
Auburn	2,289	Central Bank of California	150	46	1,493	-	3
		Placer County Bank	185	68	1,840	-	1
Bakersfield	18,638	*First National Bank	100	25	1,512	1	-
		*Security Trust Co.	650	726	10,595	-	3
Balboa	500	Bank of Balboa	50	7	388	-	1
Berkeley	56,036	Berkeley Bank	375	183	4,652	3	-
Bishop	1,304	Inyo County Bank	125	100	1,600	-	3
Colusa	1,846	Colusa County Bank	500	220	2,615	-	3
Crockett	1,800	*First National Bank	50	16	672	1	-
Fort Jones	331	Scott Valley Bank	100	75	900	-	1
Grass Valley	4,006	Nevada County Bank	300	413	4,809	-	1
Guerneville	800	Bank of Guerneville	50	12	480	-	1
Hermosa Beach	2,327	First Bank of Hermosa Beach	50	13	415	1	-
Jackson	1,601	Bank of Amador County	125	238	2,070	-	3
Lawndale	190	First Exchange State Bank	50	1	255	-	1
Long Beach	55,593	*California National Bank	200	140	3,866	1	-
		*Farmers & Merchants Bank	500	917	10,508	1	-
Los Angeles	576,673	*First National Bank	3,500	4,587	91,878	1	-
		*Merchants Nat'l Tr. & Sav. Bk.	4,000	4,697	127,857	28	6
		*Pacific National Bank	1,000	213	7,701	8	-
		*Seaboard National Bank	1,000	118	4,610	1	-
		*United States National Bank	750	239	8,706	6	-
		*Pacific Southwest Tr. & Sav.	6,900	7,514	200,957	46	53
		*Security Trust & Sav. Bank	11,275	5,985	233,659	32	17
		Bank of Hollywood	325	30	1,702	1	-
		California Bank	3,000	2,158	88,969	39	6
		Citizens Trust & Sav. Bank	2,000	2,195	52,220	23	1
		Metropolitan Trust Co.	500	109	-	1	-

*Member bank.

BANKS OPERATING DOMESTIC BRANCHES ON FEBRUARY 26, 1927

(Population as of 1920; capital, surplus and undivided profits, and deposits as of December 1926, in thousands of dollars)

St. 5656d - 2

Location	Pop-ulation	Name of bank	Cap-ital	Surplus and un-divided profits	Deposits	Branches	
						In H.O. city	Out-side H.O. city
<u>CALIFORNIA (Cont'd)</u>							
Newman	1,251	Bank of Newman	150	162	1,833	-	3
Oakland	216,261	*Central National Bank	1,200	1,963	25,643	1	-
		Central Savings Bank	1,200	1,937	31,369	1	-
		Oakland Bank	1,500	3,170	61,434	10	-
Pasadena	45,354	*Pasadena National Bank	100	26	1,561	2	-
		First Tr. & Savings Bank	900	682	11,889	2	-
Pinole	967	Bank of Pinole	125	121	1,956	-	3
Quincy	520	*Plumas County Bank	100	40	1,212	-	1
Richmond	16,843	Mechanics Bank	200	256	3,069	-	1
Sacramento	65,908	*California National Bank	1,500	1,092	22,956	2	-
		California Tr. & Sav. Bank	450	606	12,998	2	1
		Farmers & Mechanics Bank	350	405	8,485	-	1
Salinas	4,308	*Monterey County Bank	276	232	4,427	-	2
San Bernar-dino	18,721	San Bernardino County Sav. Bk.	150	365	3,106	-	1
		San Bernardino Valley Bank	175	21	1,906	-	2
San Diego	74,683	First Tr. & Savings Bank	500	253	5,406	2	2
		Security Com'l & Sav. Bank	276	98	2,575	1	-
San Francisco	506,676	*Bank of California, N.A.	8,500	9,186	85,262	-	3
		*American Trust Company	5,500	5,299	174,061	32	60
		*Anglo California Tr. Co.	1,500	2,175	64,986	7	-
		*Bank of Italy	20,000	15,827	416,710	27	251
		*French-American Bank	1,250	1,057	21,032	3	-
		*United Bank & Tr. Co.	4,500	1,149	42,664	-	8
		*Wells Fargo Bk. & Union Tr. Co.	9,000	8,290	117,599	1	-
		Banca Popolare Fugazi	1,057	187	19,113	2	2
		Humboldt Bank	1,200	1,421	28,296	1	-
		San Francisco Bank	1,000	3,450	107,227	4	-
		#Hibernia Sav. & Loan Society	-	7,302	77,481	2	-
San Leandro	5,703	State Bank	213	94	2,395	-	3
Santa Monica	15,252	Marine Bank	100	48	1,000	1	-
Santa Rosa	8,758	Exchange Bank	200	311	3,261	-	1
Sebastopol	1,493	Analy Savings Bank	50	35	542	-	1
Stockton	40,296	Union Safe Deposit Bank	310	73	1,664	-	1
Susanville	918	Lassen Industrial Bank	150	38	1,366	-	2
Taft	3,317	State Bank	75	3	593	-	1
Turlock	3,394	*Commercial Bank	75	101	1,655	-	1
Valley Ford	150	Dairyman's Coast Bank	200	105	1,918	-	2
Woodland	4,147	Bank of Yolo	330	48	1,854	-	1
		TOTAL, 13 National banks	22,000	22,376	384,597	53	9
		13 state bank members	61,526	49,312	1,300,065	149	396
		46 nonmember banks	19,406	27,491	566,139	97	60
<u>DELAWARE</u>							
Dover	4,042	Farmers Bank	500	1,566	17,252	-	2
Lewes	2,074	Sussex Trust Company	325	643	6,526	-	2
Selbyville	462	Baltimore Trust Company	100	163	1,878	-	2
Wilmington	110,168	*Wilmington Trust Company	2,000	1,754	16,882	1	-
		Delaware Trust Company	1,000	315	8,724	-	7
		TOTAL, 1 state bank member	2,000	1,754	16,882	1	-
		4 nonmember banks	1,925	2,687	34,380	-	13
<u>DIST. OF COLUMBIA</u>							
Washington	437,571	*District National Bank	1,000	919	8,763	2	-
		*Franklin National Bank	225	325	4,249	1	-
		*Lincoln National Bank	400	551	6,378	1	-
		*Riggs National Bank	2,500	2,301	38,453	4	-
		*Second National Bank	500	394	5,333	1	-

*Member bank.

#Mutual Savings bank.

BANKS OPERATING DOMESTIC BRANCHES ON FEBRUARY 25, 1927

(Population as of 1920; capital, surplus and undivided profits, and deposits as of December 1926, in thousands of dollars.)

(St. 5656a) 3

Location	Pop-ulation	Name of bank	Cap-ital	Surplus and und. profits	De-posits	Branches	
						In H.O. city	Out-side H.O. city
<u>DIST. OF COLUMBIA</u>		(Cont'd)					
Washington	437,571	American Sec. & Trust Co.	3,400	3,371	29,273	4	-
		McLachlen Banking Corp.	150	187	1,455	1	-
		Merchants Bank & Tr. Co.	1,000	323	9,535	3	-
		Washington Loan & Tr. Co.	1,000	2,214	13,625	1	-
		Washington Mechanics Sav.Bk.	50	51	1,810	2	-
		TOTAL, 5 national banks	4,625	4,490	63,176	9	-
		5 nonmember banks	5,600	6,156	55,698	11	-
<u>GEORGIA</u>							
Atlanta	200,616	*Atlanta & Lowry Nat. Bank	4,000	3,725	48,578	2	-
		*Fourth National Bank	1,200	2,611	35,800	3	1
Augusta	52,548	Georgia Railroad Bank	1,000	475	10,048	1	-
Brunswick	14,413	*Brunswick Bank & Tr. Co.	230	116	1,829	-	2
Buford	2,500	Bank of Buford	25	43	316	-	2
Cairo	1,903	Farmers & Merchants Bank	40	28	440	-	1
Columbus	31,125	Columbus Sav. Bk. & Tr. Co.	250	112	2,936	2	-
Cornelia	1,274	Cornelia Bank	40	10	682	-	1
Douglas	3,401	Union Banking Company	100	35	834	-	2
Douglasville	2,159	*Douglasville Banking Co.	75	26	381	-	1
Folkston	397	Citizens Bank	15	17	439	-	1
Glenwood	592	Farmers Bank	30	40	150	-	1
Greenville	760	*Greenville Banking Co.	65	69	392	-	1
Griffin	8,240	Griffin Banking Company	100	123	908	-	1
Hahira	864	Farmers Bank	30	2	139	-	1
Mt. Vernon	722	Mt. Vernon Bank	15	57	250	-	1
Pelham	2,640	*Farmers Bank	100	58	341	-	1
Rome	13,252	*National City Bank	200	271	2,526	1	-
Savannah	83,252	*Citizens & Southern Bank	3,000	2,920	61,671	1	8
		Exchange Bank	250	128	1,880	1	-
Senoia	906	**Redwine Brothers, Bankers	25	8	95	-	2
		TOTAL, 3 national banks	5,400	6,607	86,904	6	1
		5 state bank members	3,470	3,189	64,614	1	13
		13 nonmember banks	1,920	1,083	19,167	4	13
<u>INDIANA</u>							
Clay City	1,226	Farmers & Merchants Bank	50	14	425	-	1
Fort Wayne	86,549	Lincoln Trust Company	500	390	5,410	1	-
Indianapolis	314,194	*Fletcher Savings & Tr. Co.	1,500	1,500	20,175	5	-
		Union Trust Company	600	1,893	10,057	1	-
		TOTAL, 1 state bank member	1,500	1,500	20,175	5	-
		3 nonmember banks	1,150	2,297	15,892	2	1
<u>KENTUCKY</u>							
Louisville	234,891	*Citizens Union Nat. Bank	1,000	2,021	25,852	1	-
		*Louisville National Bank	500	520	9,275	5	-
		*National Bank of Kentucky	2,500	4,073	44,431	1	-
		*Liberty Insurance Bank	500	1,374	19,037	5	-
		TOTAL, 3 national banks	4,000	6,614	79,558	7	-
		1 state bank member	500	1,374	19,037	5	-
<u>LOUISIANA</u>							
Alexandria	17,510	Guaranty Bank & Tr. Co.	650	507	7,132	-	1
Arabi	250	St. Bernard Bank & Tr. Co.	50	38	539	1	-
Bogalusa	8,245	First State Bank & Tr. Co.	60	82	1,616	1	-
Colfax	1,449	Bank of Colfax	75	23	704	1	-
Coushatta	962	Bank of Coushatta	50	11	214	-	1

*Member bank.

**Private bank.

BANKS OPERATING DOMESTIC BRANCHES ON FEBRUARY 25, 1927

(Population as of 1920; capital, surplus and undivided profits, and deposits as of December 1926, in thousands of dollars.)

(St. 5656d) 4

Location	Pop-ulation	Name of bank	Cap-ital	Surplus and und. profits	De-posits	Branches	
						In H.O. city	Out-side H.O. city
<u>LOUISIANA (Cont'd)</u>							
Covington	2,942	Commercial Bank & Tr. Co.	50	30	700	-	1
		Covington Bank & Tr. Co.	100	107	1,553	-	1
Crowley	6,108	Bank of Commerce	50	1	319	-	1
Denham Springs	500	Livingston Bank	51	6	500	-	1
Franklin	3,504	Commercial Bank & Tr. Co.	100	145	1,129	-	1
Franklinton	964	Washington Bank & Tr. Co.	50	77	1,105	-	2
Gretna	7,197	Gretna Trust & Sav. Bank	100	53	1,363	-	2
		*Jefferson Trust & Sav. Bank	80	43	1,105	-	2
Haynesville	903	Planters Bank & Trust Co.	100	144	2,984	1	-
Homer	3,305	Homer Trust & Sav. Bank	50	64	1,482	-	1
Houma	5,160	Bourg State Bank & Tr. Co.	50	11	184	-	1
Lafayette	7,855	Bank of Lafayette & Tr. Co.	250	285	2,747	-	5
Lake Charles	13,088	*Calcasieu Nat. Bk. of South-west Louisiana	1,000	253	11,698	-	8
Leesville	2,518	First State Bank & Tr. Co.	100	106	2,106	-	3
Mansura	829	Peoples Svgs. Bk. & Tr. Co.	50	13	950	-	3
Many	663	Sabine State Bk. & Tr. Co.	50	16	559	-	1
Marksville	1,185	Avoyelles Bank & Tr. Co.	75	38	887	-	2
Morgan City	5,429	Bank of Morgan City & Tr. Co.	60	55	1,282	-	1
Napoleonville	1,171	Bank of Napoleonville	40	70	525	-	1
New Orleans	387,219	*Canal Bank & Trust Company	4,750	3,316	76,652	20	-
		*Hibernia Bank & Trust Co.	2,000	2,720	52,122	9	-
		*Interstate Trust & Bank. Co.	750	1,429	13,863	3	-
		*Marine Bank & Trust Co.	2,000	1,302	26,253	6	-
		Whitney-Central Tr. & Svc. Bk.	1,403	1,117	25,692	10	-
Opelousas	4,437	*Parish Bank & Trust Co.	50	18	627	-	1
		Opelousas-St. Landry Bk. & Tr.	200	132	3,251	-	1
Port Allen	920	Port Allen Bk. & Tr. Co.	50	16	222	-	1
Shreveport	43,874	*Continental Bank & Trust	300	216	4,951	1	-
		City Sav. Bk. & Trust Co.	500	585	8,546	1	-
St. Joseph	734	Bk. of St. Joseph & Tr. Co.	50	31	336	-	1
Thibodaux	3,526	Bank of Lafourche	50	112	1,019	-	1
Vidalia	1,256	Concordia Bank & Trust Co.	50	13	504	-	1
Ville Platte	1,364	*Evangeline Bank & Trust Co.	75	42	605	-	4
Winnsboro	1,176	Franklin St. Bk. & Trust Co.	100	32	1,121	-	2
		Winnsboro St. Bk. & Trust Co.	50	45	821	-	1
		TOTAL, 1 national bank	1,000	253	11,698	-	8
		8 state bk. members	10,005	9,086	176,178	39	7
		31 nonmember banks	4,664	3,965	72,092	15	37
<u>MAINE</u>							
Augusta	14,114	Augusta Trust Company	300	627	10,771	-	6
Bangor	25,978	*Merrill Trust Company	500	485	11,838	-	4
		Eastern Trust & Bank Co.	175	940	6,622	-	2
Bar Harbor	3,622	Bar Harbor Bank. & Tr. Co.	100	537	3,795	-	2
Belfast	5,083	Waldo Trust Company	60	15	843	-	3
Calais	6,084	International Tr. & Bank. Co.	50	86	1,350	-	1
Dover-Foxcroft	2,071	Kineo Trust Company	100	241	2,006	-	2
Ellsworth	3,058	*Union Trust Company	100	209	2,964	-	3
Fort Kent	4,237	Fort Kent Trust Company	50	62	762	-	1
Guilford	1,687	Guilford Trust Company	100	265	2,340	-	2
Lewiston	31,791	Lewiston Trust Company	75	345	7,441	-	3
Lincoln	1,586	Lincoln Trust Company	25	54	802	-	1
Old Town	6,956	Old Town Trust Company	50	66	1,256	-	1
Patten	1,498	Katahdin Trust Company	55	54	874	-	1
Portland	69,272	*Fidelity Trust Company	400	1,057	17,832	2	2
		Casco Mercantile Trust Co.	500	577	13,560	2	3
		Forest City Trust Company	150	56	1,647	1	-

*Member bank.

BANKS OPERATING DOMESTIC BRANCHES ON FEBRUARY 25, 1927

(Population as of 1920; capital, surplus and undivided profits, and deposits as of December 1926, in thousands of dollars.)

St. 5656d) - 5 -

Location	Pop-ulation	Name of bank	Cap-ital	Surplus and und. profits	De-posits	Branches	
						In H.O. city	Out-side H.O. city
MAINE (Cont'd)							
Rockland	8,109	Security Trust Company	100	181	4,044	-	4
Rumford	7,016	Rumford Falls Trust Co.	200	405	4,467	-	1
Sanford	10,691	*Sanford Trust Company	100	136	1,978	-	1
Skowhegan	5,981	Skowhegan Trust Company	50	83	1,384	-	1
South Paris	1,793	Paris Trust Company	50	76	1,103	-	1
Westbrook	9,453	Westbrook Trust Company	100	179	2,740	-	2
York Village	883	York County Trust Co.	80	53	2,261	-	2
		TOTAL, 4 state bank members	1,100	1,887	34,662	2	10
		20 nonmember banks	2,370	4,902	70,068	3	39
MARYLAND							
Annapolis	11,214	Annapolis Bank. & Tr. Co.	300	150	2,767	-	2
Baltimore	733,826	*Citizens National Bank	3,000	5,634	32,821	1	-
		*Drovers & Mechanics Nat. Bank	600	1,277	16,728	1	-
		*Farmers & Merchants Nat. Bank	650	457	7,511	2	-
		*Merchants National Bank	4,000	3,002	50,619	2	-
		*Baltimore Com'l. Bank	1,000	486	11,122	5	-
		*Baltimore Trust Company	3,500	4,204	49,623	14	-
		Calvert Bank	200	357	7,892	4	-
		Chesapeake Bank	50	186	3,041	2	-
		Commercial Bk. of Maryland	100	126	1,256	1	-
		Equitable Trust Company	1,250	1,627	20,231	2	-
		Mercantile Savings Bank	25	33	1,564	1	-
		Union Tr. Co. of Maryland	1,000	1,620	25,436	5	1
		#Commercial Savings Bank	-	36	243	1	-
		#Huntingdon Savings Bank	-	3	146	1	-
		#St. James Savings Bank	-	114	1,484	1	-
		#Provident Savings Bank	-	955	13,539	12	1
Bel Air	1,091	Harford Bank	50	32	1,250	-	3
Cambridge	7,467	Eastern Shore-Trust Co.	694	743	14,363	-	20
Chestertown	2,537	Chestertown Bk. of Maryland	27	74	1,071	-	3
		Peoples Bank	25	35	728	-	3
Crisfield	4,116	Bank of Crisfield	50	244	2,162	1	-
		Marine Bank	50	29	543	1	-
Elkton	2,660	Elkton Bank. & Tr. Co.	125	56	1,657	-	3
Frederick	11,066	Central Tr. Co. of Maryland	400	974	7,924	-	5
		Commercial State Bank	150	97	2,618	-	3
Hagerstown	28,064	Maryland Surety & Tr. Co.	250	609	4,310	1	3
Hillsboro	222	Hillsboro-Queene Anne Bank	12	61	551	-	1
Hyattsville	2,675	Prince Georges Bank	60	111	1,604	-	1
Overlea	100	Overlea Bank	50	44	1,695	-	1
Rockville	1,145	Farmers Bank. & Trust Co.	55	92	1,157	-	1
Seat Pleasant	3,000	Southern Maryland Tr. Co.	200	96	810	-	1
Sparrows Point	4,800	Bank of Sparrows Point	100	170	1,331	-	1
Takoma Park	3,168	Takoma Park Bank	50	150	2,298	-	1
Towson	3,700	Baltimore County Bank	125	49	1,617	-	1
		TOTAL, 4 national banks	8,250	10,370	107,679	6	-
		2 state bk. members	4,500	4,690	60,745	19	-
		29 nonmember banks	5,408	8,873	125,288	33	55
MASSACHUSETTS							
Adams	12,967	*First National Bank	100	146	781	1	-
Arlington	18,665	#Arlington Five Cents Sav.Bk.	-	584	6,527	2	-
Belmont	10,749	Waverly Trust Company	100	97	1,932	1	-
		#Belmont Savings Bank	-	107	1,310	1	-
Beverly	22,561	Beverly Trust Company	100	68	1,392	1	-
Boston	748,060	*Atlantic National Bank	6,600	4,569	112,137	7	-
		*Boston National Bank	400	100	3,920	1	-

*Member bank.

#Mutual Savings Bank.

BANKS OPERATING DOMESTIC BRANCHES ON FEBRUARY 25, 1927

(Population as of 1920; capital, surplus and undivided profits, and deposits as of December 1926; in thousands of dollars)

(St. 5656a) - 6 -

Location	Pop-ulation	Name of bank	Cap-ital	Surplus and und. profits	De-posits	Branches	
						In H.O. city	Out-side H.O. city
MASSACHUSETTS (Cont'd)							
Boston	748,060	*Citizens National Bank	750	485	8,173	1	-
		*Federal National Bank	1,500	510	27,835	5	-
		*First National Bank	20,000	24,307	266,586	11	-
		*National Rockland Bank	1,000	2,708	21,812	1	-
		*National Shawmut Bank	10,000	7,867	171,993	9	-
		*American Trust Company	1,500	2,811	27,391	1	-
		*Beacon Trust Company	1,500	2,282	25,620	1	-
		*Exchange Trust Company	1,000	1,140	17,623	1	-
		*New England Trust Co.	1,000	2,880	22,314	1	-
		*Old Colony Trust Co.	12,000	13,297	169,991	4	-
		*State Street Trust Co.	3,000	4,004	64,432	2	-
		Jamaica Plain Trust Co.	200	152	4,672	1	-
		Roxbury Trust Company	200	44	1,876	1	-
		#Brighton Five Cents Sav. Bk.	-	477	5,973	1	-
		#Dorchester Savings Bank	-	271	5,114	2	-
		#Grove Hall Savings Bank	-	95	2,409	1	-
Brockton	66,254	*Brockton National Bank	600	682	9,513	1	-
		Plymouth County Trust Co.	200	125	3,707	1	-
Brookline	37,748	Brookline Trust Company	200	422	9,510	2	-
Cambridge	109,694	*Harvard Trust Company	500	1,189	16,873	2	-
		*Inman Trust Company	200	187	3,304	1	-
		Cambridge Trust Company	100	420	5,737	1	-
		Central Trust Company	500	1,579	13,636	1	-
Fall River	120,485	Fall River Trust Company	200	192	2,954	1	-
Fitchburg	41,029	*Safety Fund National Bank	500	650	6,396	1	-
		*Fitchburg Bank & Tr. Co.	500	513	4,260	1	-
		#Fitchburg Savings Bank	-	1,155	14,355	1	-
Gardner	16,971	Gardner Trust Company	100	116	2,953	-	1
Harwich	1,846	#Cape Cod Five Cents Savings Bk	-	250	2,648	-	1
Holyoke	60,203	*Hadley Falls Trust Co.	500	566	10,838	1	-
Lawrence	94,270	*Merchants Trust Company	300	574	8,628	1	-
Lowell	112,759	#Lowell Institution for Sav.	-	1,241	11,752	-	1
Lynn	99,148	*Security Trust Company	200	634	8,031	1	-
		Sagamore Trust Company	125	67	1,918	1	-
		#Commonwealth Savings Bank	-	123	2,208	-	1
		#Lynn Five Cents Sav. Bank	-	1,187	13,426	-	1
Medford	39,038	Medford Trust Company	100	222	3,630	1	-
		Mystic Trust Company	100	10	51	1	-
		#Medford Savings Bank	-	551	5,990	1	-
Melrose	18,204	Melrose Trust Company	200	129	2,684	1	-
Needham	7,012	Needham Trust Company	150	193	2,455	1	-
New Bedford	121,217	*Merchants National Bank	1,000	1,949	9,752	2	-
		*Safe Deposit Nat. Bank	500	846	7,231	1	-
		#New Bedford Institute for Sav.	-	2,861	30,283	3	-
Newton	46,054	*Newton Trust Company	600	1,223	14,312	5	-
Newton Centre	6,000	#Newton Centre Savings Bk.	-	139	2,095	-	1
North Attle-							
borough	9,238	#Attleborough Savings Bank	-	1,153	11,078	-	1
Palmer	9,896	#Palmer Savings Bank	-	562	5,325	-	2
Pittsfield	41,763	#City Savings Bank	-	467	8,603	1	1
Plymouth	13,045	#Plymouth Five Cents Sav. Bk.	-	475	4,391	1	-
Quincy	47,876	*Quincy Trust Company	200	167	5,151	1	-
		Granite Trust Company	150	667	4,883	1	-
Rockland	7,544	Rockland Trust Company	100	381	4,240	-	1
Somerville	93,091	Highland Trust Company	100	130	3,699	1	-
		Somerville Trust Company	150	190	6,082	1	-
		#Somerville Institution for Sav.	-	221	4,606	1	-

*Member Bank.

#Mutual Savings Bank.

BANKS OPERATING DOMESTIC BRANCHES ON FEBRUARY 25, 1927

(Population as of 1920, capital, surplus and undivided profits, and deposits as of December 1926, in thousands of dollars.)

(St. 5656d) - 7 -

Location	Pop-ulation	Name of bank	Cap-ital	Surplus and und. profits	De-positions	Branches	
						In H.O. city	Out-side H.O. city
MASSACHUSETTS (Cont.)							
South Weymouth	4,000	Weymouth Trust Company	100	125	2,008	2	-
Springfield	129,614	*Chapin National Bank	500	584	7,102	3	-
		*Third Nat. Bank & Trust Co.	1,000	1,905	18,332	1	-
		Commercial Trust Company	350	167	3,865	1	-
Uxbridge	5,384	#Uxbridge Savings Bank	-	93	2,918	-	1
Wakefield	13,025	#Wakefield Savings Bank	-	267	3,794	1	-
Waltham	30,915	*Waltham Trust Company	300	474	6,948	1	1
Watertown	21,457	*Union Market Nat. Bank	400	647	9,155	1	-
Ware	8,525	#Ware Savings Bank	-	178	5,780	-	1
Wareham	4,415	#Wareham Savings Bank	-	447	4,785	-	1
Wellesley	6,224	*Wellesley National Bank	150	319	3,364	2	-
Whitinsville	4,500	#Whitinsville Savings Bank	-	431	4,701	-	1
Worcester	179,754	*Merchants Nat. Bank	1,500	771	26,740	1	-
		*Worcester Bank & Trust Co.	1,500	2,241	33,032	3	-
		Bancroft Trust Company	300	176	4,052	1	-
		#Worcester County Inst. for Sav.	-	3,956	42,106	3	-
		TOTAL, 17 national banks	45,900	49,045	710,822	49	-
		16 state bank members	24,800	34,132	433,748	27	1
		46 nonmember banks	3,825	22,953	290,113	41	15
MICHIGAN							
Adrian	11,878	*Adrian State Bank	150	189	1,800	1	-
Albion	8,354	*Albion State Bank	50	11	728	1	-
Alpena	11,101	*Alpena County Sav. Bank	100	387	3,573	1	-
Ann Arbor	19,516	*Farmers & Mechanics Bank	200	193	3,563	1	-
		Ann Arbor Savings Bank	400	408	6,159	1	-
Baldwin	471	*Lake County Bank	20	15	384	-	1
Battle Creek	36,164	*City National Bank	500	316	5,367	1	-
		Merchants Savings Bank	250	155	3,875	1	-
Bay City	47,554	*Bay City Bank	350	287	4,939	2	-
		*Peoples Com'l. & Sav. Bk.	400	850	8,300	1	-
		Bay County Savings Bank	400	310	6,390	4	-
Detroit	993,678	*First Nat. Bk.	7,500	7,239	99,165	***2	-
		*Griswold National Bank	2,000	1,070	16,203	1	-
		*National Bank of Commerce	2,000	3,202	59,051	1	-
		*American State Bank	2,000	1,006	31,542	24	-
		*Bank of Detroit	4,000	1,451	40,887	17	-
		*Central Savings Bank	2,000	2,132	38,925	29	-
		*Detroit Savings Bank	1,500	2,735	38,329	25	-
		*Dime Savings Bank	1,500	3,559	60,653	24	-
		*First State Bank	2,500	925	21,130	15	-
		*Peninsular State Bank	2,500	2,055	46,735	29	-
		*Peoples State Bank	6,000	14,166	134,108	46	-
		*Wayne County & Home Sav. Bk.	5,000	10,512	104,735	45	-
		Com'l. State Savings Bank	1,000	238	8,079	8	-
		Commonwealth-Federal Sav. Bk.	750	448	14,655	14	-
		Michigan State Bk.	250	62	2,827	4	-
		Northwestern State Bank	25	53	1,764	2	-
Ecorse	4,394	Ecorse State Bank	100	48	1,388	1	-
Flint	91,599	*First National Bank	200	585	7,275	1	-
		*Citizens Com'l. Sav. Bank	450	497	6,246	1	-
		*Genesee County Sav. Bank	500	730	10,877	3	-
		*Industrial Savings Bank	1,000	450	14,645	6	-
Fordson	1,519	Union State Bank	100	87	1,970	1	-
Grand Haven	7,205	*Grand Haven State Bank	100	149	2,092	1	-
Grand Rapids	137,634	*Grand Rapids Nat. Bank	1,000	605	18,332	9	-
		*Grand Rapids Savings Bank	500	927	21,689	15	-
		*Kent State Bank	1,000	1,057	20,657	12	-

*Member bank.

**Private Bank.

#Mutual Savings Bank.

***Deposits also received at branches of Central Savings Bank, an affiliated institution.

BANKS OPERATING DOMESTIC BRANCHES ON FEBRUARY 25, 1927.

(Population as of 1920; capital, surplus and undivided profits, and deposits as of December 1926, in thousands of dollars)

(St. 5655a) - 8 -

Location	Pop-ulation	Name of bank	Cap-ital	Surplus and und. profits	De-posits	Branches	
						In H.O. city	Out-side H.O. city
MICHIGAN (Cont'd)							
Grosse Pointe							
Park	1,355	Jefferson Savings Bank	100	30	925	1	-
Hamtramck	48,615	First State Bank	100	120	1,898	1	-
		Liberty State Bank	100	39	1,332	3	-
		*Merchants & Mechanics Bank	10	41	1,126	-	2
Highland Park	46,499	*American St. Bank of Highland Park	200	120	4,294	2	-
		*Highland Park St. Bank	1,000	1,796	25,651	7	-
		Peninsular State Bank	100	150	2,843	1	-
Ionia	6,935	*State Savings Bank	100	114	1,419	1	-
Ironwood	15,739	*Merchants & Miners Nat. Bank	100	20	1,008	-	1
Jackson	48,374	*National Union Bank	400	336	6,612	1	-
Kalamazoo	48,487	Kalamazoo Trust & Sav. Bank	600	346	6,241	3	-
Lansing	57,327	*American State Sav. Bank	750	410	9,693	2	-
Lenox	350	*Macomb County Sav. Bank	50	34	1,176	-	1
Ludington	8,810	*First National Bank	100	34	1,679	1	-
		*Ludington St. Bank	100	69	2,072	1	-
Menominee	8,907	*Commercial Bank	100	37	1,309	1	-
Monroe	11,573	*Dansard State Bank	200	59	2,584	1	-
Muskegon	36,570	*Union National Bank	400	300	3,199	1	-
		Peoples St. Bk. for Savings	100	16	982	1	-
		Muskegon Sav. Bank	100	145	2,344	1	-
Oscoda	864	Oscoda State Sav. Bank	20	-	(a)	-	2
Plymouth	2,857	Plymouth United Savings Bk.	100	166	2,630	1	-
Pontiac	34,273	*First National Bank	400	175	7,077	1	-
		*Pontiac Com'l. & Sav. Bank	800	364	15,255	2	-
Port Huron	25,944	*Federal Com'l. & Sav. Bank	400	314	6,559	4	-
		U. S. Savings Bank	150	111	2,833	2	-
Saginaw	61,903	*Second National Bank	1,250	1,720	13,828	1	-
		*American State Bank	200	228	4,459	1	-
		*Bank of Saginaw	1,000	1,339	16,836	3	-
Shelby	1,288	*Churchill & Wilber, Bankers	23	5	(a)	-	1
Three Rivers	5,209	First State Savings Bank	60	27	1,521	1	-
Wyandotte	13,851	Wyandotte Savings Bank	400	364	7,049	1	-
Total, 12 national banks			15,850	15,602	238,796	20	1
33 state bk. members			36,700	49,152	707,460	324	1
24 nonmember banks			5,258	3,384	79,215	52	6
MINNESOTA							
Minneapolis	380,582	*First National Bank	5,500	5,900	82,905	3	-
		*Northwestern Nat. Bank	4,000	2,749	78,041	3	-
Total, 2 national banks			9,500	8,649	160,946	6	-
MISSISSIPPI							
Batesville	1,050	Bank of Batesville	50	25	750	-	1
Bay St. Louis	3,033	Hancock County Bank	60	139	1,932	-	2
Blue Mountain	654	Bank of Blue Mountain	20	21	310	-	1
Grenada	3,402	*Grenada Bank	250	458	7,163	-	12
Holly Springs	2,113	Merchants & Farmers Bank	20	148	1,240	-	1
Jackson	22,817	The Merchants Bk. & Tr. Co.	450	864	8,029	1	-
Macon	2,051	Merchants & Farmers Bank	75	100	925	-	1
Moss Point	3,340	*Pascagoula Nat. Bank	75	18	1,299	-	1
Pascagoula	6,082	Merchant & Marine Bank	75	17	1,067	-	1
Tupelo	5,055	Bank of Tupelo	100	85	2,172	-	2
		Peoples Bank & Trust Co.	200	152	3,423	-	2
Total, 1 national bank			75	18	1,299	-	1
1 state bk. member			250	458	7,163	-	12
9 nonmember banks			1,050	1,551	19,848	1	11

*Member bank.

**Private bank.

(a) Not available.

BANKS OPERATING DOMESTIC BRANCHES ON FEBRUARY 25, 1927

(Population as of 1920; capital, surplus and undivided profits, and deposits as of December 1926, in thousands of dollars.)

(St. 5656a) - 9 -

Location	Pop-ulation	Name of bank	Cap-ital	Surplus and und. profits	De-positions	Branches	
						In H.O. city	Out-side H.O. city
<u>NEBRASKA</u>							
Omaha	191,601	*Live Stock National Bank	450	64	3,800	1	-
		*Packers National Bank	200	139	3,205	1	-
		Total, 2 national banks	650	203	7,005	2	-
<u>NEW JERSEY</u>							
Asbury Park	12,400	Asbury Park & Ocean Grove Bk.	400	806	7,478	-	1
Bayonne	76,754	Mechanics Trust Company	500	611	10,568	1	-
Camden	116,309	*Camden National Bank	100	627	6,982	-	1
		*First National State Bank	1,000	1,627	21,823	-	1
		Security Trust Company	200	567	4,919	-	2
East Orange	50,710	*Sav. Investment & Tr. Co.	750	787	16,790	-	1
		Essex County Trust Co.	500	488	9,289	1	-
Jersey City	298,103	*Union Trust & Hudson Co. Nat. Bk.	750	1,022	23,160	1	1
		*Commercial Trust Company	2,000	2,670	55,780	2	-
		*N. J. Title Guarantee & Tr. Co.	1,300	1,591	26,609	1	1
		Trust Co. of New Jersey	3,000	3,708	58,605	2	2
Newark	414,524	*Ironbound Trust Company	500	766	15,773	1	-
Paterson	135,875	*Hamilton Trust Company	600	582	12,305	1	-
Union City	63,117	*Hudson Trust Company	1,000	3,036	33,703	-	1
		Total, 3 national banks	1,850	3,276	51,965	1	3
		6 st. bank members	6,150	9,432	160,960	5	3
		5 nonmember banks	4,600	6,180	90,859	4	5
<u>NEW YORK</u>							
Albany	113,344	*Nat. Com'l. Bk. & Trust Co.	1,500	4,103	33,543	1	-
		*First Trust Company	1,000	1,927	25,415	2	-
Buffalo	506,775	*Community Nat. Bank	750	654	14,325	5	-
		*Liberty Bank of Buffalo	3,500	5,932	60,961	10	-
		*Manufacturers & Traders Tr. Co.	3,000	5,289	87,169	9	-
		*Marine Trust Company	10,000	17,644	201,927	32	-
		*Peoples Bank of Buffalo	1,000	1,504	28,341	4	-
		**Lunghino, S. & Sons	20	125	901	-	1
Kingston	26,688	*Kingston Trust Co.	250	435	5,326	1	-
Mt. Vernon	42,726	Mt. Vernon Trust Company	500	807	17,435	2	-
New Rochelle	36,213	Huguenot Trust Company	250	213	5,569	1	-
New York	5,620,048	*Bowery & East River Nat. Bk.	3,000	3,525	67,362	14	-
(Bronx)		*Bronx National Bank	300	384	8,656	1	-
		*Capitol National Bank	2,000	1,003	26,788	6	-
		*Chase National Bank	40,000	42,442	840,193	20	-
		*Chatham & Phenix Nat. Bk./Tr. Co.	13,500	13,329	252,909	13	-
		*Chemical National Bank	4,500	19,061	157,987	2	-
(Brooklyn)		*First National Bank	1,000	1,447	17,636	1	-
(Flushing)		*Flushing National Bank	200	198	3,655	1	-
		*Hamilton National Bank	1,500	591	15,924	4	-
(Jamaica)		*Jamaica National Bank	200	167	3,678	1	-
		*Liberty National Bank	1,500	849	14,205	1	-
		*National City Bank	50,000	73,925	859,074	18	-
		*National Park Bank	10,000	24,319	170,372	2	-
(Ozone Pl.)		*Ozone Park Nat. Bank	200	152	2,508	1	-
		*Public National Bank	5,000	8,159	118,294	27	-
(Richmond Hill)		*Richmond Hill Nat. Bank	200	145	5,335	2	-
(Rockaway Bch)		*Rockaway Beach Nat. Bank	200	80	2,111	1	-
		*Seaboard National Bank	6,000	11,101	173,168	2	-
		*Seventh National Bank	1,000	339	9,286	1	-
(Port Richmond)		*Staten Island Nat. Bk. & Tr. Co.	500	161	2,670	1	-
		*American-Exchange Irving Tr. Co.	32,000	30,960	620,321	23	-
		*American Trust Company	4,000	3,597	53,942	5	-
		*American Union Bank	1,500	702	12,653	2	-

*Member bank.

**Private bank.

BANKS OPERATING DOMESTIC BRANCHES ON FEBRUARY 25, 1927

(Population as of 1920; capital, surplus and undivided profits, and deposits as of December 1926, in thousands of dollars.)

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Location	Pop-ulation	Name of bank	Cap-ital	Surplus and und. profits	De-posit	Branches	
						In H.O. city	Out-side H.O. city
NEW YORK (Cont'd)							
	5,620,048						
New York		*Bankers Trust Company	20,000	37,148	421,628	2	-
		*Bank of America	6,500	5,265	168,082	7	-
(Coney Is)		*Bank of Coney Island	200	210	4,706	1	-
		*Bank of the Manhattan Co.	10,700	15,586	281,909	40	-
		*Bank of New York & Tr. Co.	4,000	13,174	103,354	1	-
		*Bank of United States	5,000	4,658	83,953	6	-
(Brooklyn)		*Brooklyn Trust Company	2,000	5,255	56,410	4	-
		*Central Mercantile Bk. & Tr. Co.	2,500	2,025	39,983	5	-
		*Central Union Trust Co.	12,500	32,756	272,088	2	-
		*Commonwealth Bank	300	650	16,094	3	-
		*Corn Exchange Bank	10,000	15,221	241,311	62	-
		*Equitable Trust Company	30,000	22,664	347,349	3	-
		*Farmers Loans & Tr. Co.	10,000	20,798	146,942	2	-
		*Fidelity Trust Company	4,000	3,225	53,094	4	-
		*Guaranty Trust Company	25,000	25,959	560,553	2	-
		*Manufacturers Trust Co.	10,000	15,647	214,382	14	-
(Brooklyn)		*Mechanics Bank	2,150	3,607	56,398	10	-
(Brooklyn)		*Midwood Trust Company	1,000	506	10,147	3	-
(Brooklyn)		*Municipal Bank	2,000	1,214	28,625	8	-
		*New York Trust Company	10,000	23,656	278,647	2	-
		*U.S. Mortgage & Tr. Co.	3,000	5,272	78,336	4	-
(Brooklyn)		Atlantic State Bank	300	160	1,815	2	-
		Banca Com'l. Italiana Tr. Co.	1,000	876	10,540	1	-
		Bank of Washington Heights	400	1,031	10,448	2	-
(Bronx)		Bronx Borough Bank	150	865	9,532	1	-
(Bronx)		Bronx County Trust Co.	1,000	806	15,966	3	-
		Chelsea Exchange Bank	1,500	896	17,640	5	-
		Colonial Bank	1,200	3,305	37,499	12	-
(Bronx)		Commercial Exchange Bank	1,500	1,000	(a)	1	-
		Cosmopolitan Bank	600	359	9,383	3	-
		Empire Trust Company	4,000	4,176	76,476	2	-
		Greenwich Bank	1,000	2,580	28,285	10	-
		Harlem Bank of Commerce	200	150	2,585	1	-
		Lawyers Trust Company	3,000	3,415	22,644	1	-
		Standard Bank	250	469	7,941	1	-
		State Bank	5,000	5,682	114,169	13	-
		Title Guarantee & Tr. Co.	10,000	18,662	45,680	5	-
(Brooklyn)		#Bay Ridge Sav. Bank	-	1,175	20,810	1	-
(Bronx)		#Bronx Savings Bank	-	1,286	18,610	1	-
		#Central Savings Bank	-	23,543	146,460	1	-
		#Emigrant Indust'l. Sav. Bk.	-	38,801	286,887	1	-
(Brooklyn)		#Greater N.Y. Savings Bank	-	1,873	35,676	1	-
		#Greenwich Savings Bank	-	16,286	115,377	1	-
		#Italian Savings Bank	-	2,587	29,128	1	-
(Brooklyn)		#Kings County Savings Bank	-	2,494	27,268	1	-
(Brooklyn)		#Lincoln Savings Bank	-	6,893	79,792	1	-
(L.I. City)		#Long Island City Savings Bk.	-	4,332	39,525	1	-
		#Manhattan Savings Inst.	-	2,619	25,000	1	-
(Flushing)		#Queens County Savings Bank	-	1,475	14,451	1	-
(Brooklyn)		**Sessa, Jos.	100	395	3,873	2	-
(Brooklyn)		#Williamsburgh Savings Bank	-	24,262	166,121	1	-
		**Perera, Lionello & Co.	500	727	11,804	1	-
		**Tarabella, C. & Co.	10	7	71	1	-
Niagara Falls	50,760	*Power City Bank	1,000	896	15,795	1	-
North Tona-wanda	15,482	State Tr. Co.	600	459	7,155	1	-

*Member bank.

**Private bank.

#Mutual Savings bank.

(a) Not available.

BANKS OPERATING DOMESTIC BRANCHES ON FEBRUARY 25, 1927

(Population as of 1920; capital, surplus and undivided profits, and deposits as of December 1926, in thousands of dollars.)

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Location	Pop-ulation	Name of bank	Cap-ital	Surplus and und. profits	De-posit	Branches	
						In H.O. city	Out-side H.O. city
NEW YORK (Cont'd)							
Rochester	295,750	*Lincoln-Alliance Bank	2,000	3,604	52,660	4	-
		Union Trust Company	2,200	1,851	48,175	4	-
		†Rochester Savings Bank	-	6,341	52,793	1	-
Schenectady	88,723	*Schenectady Trust Company	500	1,140	16,493	1	-
Syracuse	171,717	*Liberty National Bank	300	182	4,501	1	-
		*City Bank & Trust Company	2,500	1,420	30,074	3	-
		*First Trust & Deposit Co.	2,500	2,827	50,351	5	-
		*Syracuse Trust Company	1,500	1,497	36,186	1	-
Troy	72,013	*Manufacturers Nat. Bank	1,000	1,652	28,097	1	-
Utica	94,156	*Utica Nat. Bank & Tr. Co.	1,000	377	5,368	2	-
		*Citizens Trust Co. of Utica	1,000	1,235	17,240	1	-
		*First Bank & Tr. of Utica	1,500	2,373	18,879	2	-
		*Utica Trust & Deposit Co.	1,000	955	14,847	2	-
Watertown	31,285	*Jefferson County Nat. Bank	500	579	7,096	1	-
Yonkers	100,176	*First National Bank	300	570	9,850	1	-
		*Yonkers Nat. Bk. & Tr. Co.	200	298	7,167	2	-
		Yonkers Trust Company	350	182	8,191	2	-
		Total, 28 national banks	146,350	209,792	2,861,758	133	-
		39 st. bk. members	241,100	338,533	4,812,571	293	-
		39 nonmember banks	35,630	183,165	1,571,675	91	1
NORTH CAROLINA							
Aberdeen	858	Page Trust Company	250	166	4,938	-	6
Ahoskie	1,429	Bank of Ahoskie	47	47	443	-	1
		Farmers Atlantic Bank	70	15	679	-	2
Asheville	28,504	Central Bk. & Trust Co.	500	560	17,960	1	-
Avondale	525	Haynes Bank	50	21	311	-	1
Biltmore	172	Biltmore - Oteen Bank	35	19	867	-	1
Bonlee	178	Peoples Bank & Trust Co.	26	7	202	-	1
Chapel Hill	1,483	Bank of Chapel Hill	30	103	1,408	-	1
Concord	9,903	Cabarrus Savings Bank	400	150	3,600	-	3
Durham	21,719	Fidelity Bank	100	990	7,165	-	1
		Mechanics & Farmers Bank	114	16	500	-	1
		Merchants Bank	100	159	1,847	-	1
Elizabeth City	8,925	*Carolina Bank. & Tr. Co.	250	12	947	-	2
Erwin	518	Bank of Harnett	35	54	770	-	1
Fayetteville	8,877	La Fayette Bk. & Tr. Co.	50	26	655	-	1
Forest City	2,312	*Farmers Bank & Trust Company	250	281	2,533	-	1
Gastonia	12,871	Commercial Bk. & Trust Co.	400	116	1,885	-	4
Greensboro	19,861	*American Exchange National Bk.	1,000	512	10,399	2	-
		Atlantic Bank & Trust Co.	1,250	977	10,287	1	4
Greenville	5,772	Greenville Bank. & Tr. Co.	100	75	1,742	-	1
Hendersonville	3,720	First Bank & Trust Co.	150	186	2,600	-	1
Leaksville	1,603	Leaksville Bank & Trust Co.	100	11	494	1	1
Marshall	748	Citizens Bank	50	37	648	-	1
Mooresboro	228	Farmers & Merchants Bank	23	5	182	-	1
Mt. Airy	4,752	Surrey County Loan & Tr. Co.	25	6	125	-	1
Mt. Olive	2,297	Citizens Bank of Mt. Olive	50	60	600	-	1
New Bern	12,198	Eastern Bank & Trust Co.	145	51	2,151	-	5
Rutherford- ton	1,693	Citizens Bank & Trust Co.	60	38	609	-	2
Shelby	3,609	Union Trust Company	100	63	617	-	3
Stanley	584	Farmers & Merchants Bank	17	15	300	-	1
Tarboro	4,568	*Farmers Banking & Trust Co.	100	76	834	-	1
Wallace	648	Bank of Duplin	25	50	885	-	1
Walnut Cove	651	Bank of Stokes County	44	70	1,750	-	3
Wendell		Bank of Wendell	100	31	427	-	1

*Member bank.

†Mutual Savings bank.

BANKS OPERATING DOMESTIC BRANCHES ON FEBRUARY 25, 1927

(Population as of 1920; capital, surplus and undivided profits, and deposits as of December 1926, in thousands of dollars)

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Location	Pop-ulation	Name of bank	Cap-ital	Surplus and und. profits	De-posit	Branches	
						In H.O. city	Out-side H.O. city
NORTH CAROLINA(Con.)							
Whiteville	1,664	Bank of Whiteville	25	10	660	-	1
Wilson	10,612	Branch Banking & Tr. Co.	250	346	2,566	-	4
		Planters Bank	100	28	783	-	1
Winston-Salem	48,395	*Farmers Nat. Bank & Tr. Co.	300	52	2,256	1	-
		*Peoples National Bank	150	43	1,539	1	-
		*Wachovia Bk. & Tr. Co.	2,175	2,252	40,176	1	4
		Total, 3 national banks	1,450	607	14,194	4	-
		4 st. bk. members	2,775	2,621	44,490	1	8
		33 nonmember banks	4,821	4,508	70,656	3	58
OHIO							
Akron	208,435	*Central Sav. & Trust Co.	1,000	870	14,932	-	1
		*Depositors Sav. & Tr. Co.	500	563	8,259	1	1
		*First Trust & Sav. Bank	1,500	2,568	28,641	4	-
		Commercial Sav. & Tr. Co.	300	359	5,139	3	-
		Ohio St. Bank & Tr. Co.	500	647	9,505	1	-
Berea	2,959	Bank of Berea County	60	80	2,154	-	1
Berlin Heights	514	Berlin Heights Bank. Co.	50	31	834	-	1
Canton	87,091	First Tr. & Savings Bank	250	400	11,030	4	-
Cincinnati	401,247	*Brighton Bank & Tr. Co.	500	367	15,078	2	1
		*Central Trust Company	2,000	2,527	21,081	4	1
		*Fifth-Third Union Tr. Co.	1,000	5,242	34,754	11	-
		*Pearl Market Bank	400	556	9,577	2	-
		*Provident Sav. Bk. & Tr. Co.	1,620	1,620	31,802	11	-
		*Western Bank & Trust Co.	1,000	1,513	16,806	2	-
		Bank of Commerce & Tr. Co.	500	155	3,917	3	-
		Cosmopolitan Bank & Tr. Co.	350	303	8,418	4	-
		Oakley Bank	100	131	2,877	1	-
		Peoples Bank & Sav. Co.	200	323	4,919	3	-
		Washington Bank & Sav. Co.	250	119	3,014	1	-
Cleveland	796,841	*Brotherhood of Loco. Engineers					
		Cooperative Nat. Bank	1,000	398	23,173	1	-
		*Central National Bank	1,800	3,460	43,752	1	-
		*Cleveland Trust Company	8,600	5,340	205,201	40	12
		*Guardian Trust Company	4,000	5,915	119,115	6	4
		*Pearl St. Sav. & Tr. Co.	1,500	1,091	27,885	3	-
		*Union Trust Company	22,850	14,014	286,461	14	4
		Merchants Tr. & Sav. Bk.	271	73	1,934	1	-
		North American Bk. & Sav. Co.	125	178	3,467	1	-
		Washington Savings Bank	150	77	2,276	1	-
Columbus	237,031	*City-National Bk. of Commerce	300	505	5,802	1	-
		*Citizens Tr. & Sav. Bank	1,500	754	26,495	11	-
Columbus Grove	1,768	Peoples Exchange Bank	60	18	750	-	1
Conneaut	9,343	*Conneaut Mutual Loan & Tr. Co.	125	135	3,098	-	1
Dayton	152,559	City Trust & Savings Bank	250	173	7,157	6	-
		Dayton Sav. & Trust Co.	600	754	17,982	4	-
Findlay	17,021	*American-First Nat. Bank	250	201	3,455	1	-
		Buckeye Com'l. Sav. Bank	400	125	5,202	1	-
Jackson	5,842	Citizens Bank	50	20	786	-	1
Lima	41,326	Lima Trust Company	400	342	4,913	1	-
Lockland	4,007	*First National Bank	50	120	2,344	1	-
Martins Ferry	11,634	Peoples Sav. Bank Co.	200	345	3,192	1	-
Marysville	3,635	Union Banking Company	45	25	535	-	1
Middletown	23,774	*American Tr. & Sav. Bank	150	83	2,475	2	-
Minerva	2,261	*Minerva Sav. & Tr. Co.	125	51	1,391	-	1

*Member bank

BANKS OPERATING DOMESTIC BRANCHES ON FEBRUARY 25, 1927

(Population as of 1920, capital, surplus and undivided profits, and deposits as of December 1926, in thousands of dollars)

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Location	Pop-ulation	Name of bank	Cap-ital	Surplus and und. profits	De-posit	Branches	
						In H.O. city	Out-side H.O. city
<u>OHIO (Cont'd)</u>							
Toledo	243,164	*Commerce-Guardian Tr. & Sav. Bk.	1,400	1,432	25,448	4	-
		*Com'l. Sav. Bk. & Tr. Co.	200	611	15,065	10	-
		*Toledo Trust Company	5,000	3,605	35,192	1	-
		Dime Sav. Bank & Tr. Co.	300	453	10,006	5	-
		Ohio Sav. Bank & Tr. Co.	1,000	2,861	41,728	10	-
		Peoples Bank & Trust Co.	200	150	2,500	2	-
		Security Sav. Bk. & Tr. Co.	800	1,208	13,246	6	1
Troy	7,260	*First-Troy Nat. Bank & Tr. Co.	300	214	2,984	1	-
Youngstown	132,358	*City Trust & Savings Bank	1,000	1,387	10,584	-	1
		*Dollar Savings & Tr. Co.	2,500	2,189	19,932	3	1
		Total, 6 national banks	3,700	4,898	81,510	6	-
		22 st. bk. members	58,470	52,433	959,272	131	28
		25 nonmember banks	7,411	9,350	167,481	59	6
<u>OREGON</u>							
Milton	1,747	*First National Bank	50	21	747	-	1
<u>PENNSYLVANIA</u>							
Altoona	60,331	*First National Bank	150	527	4,575	1	-
		*Second National Bank	100	601	3,294	1	-
Armore	3,700	Merion Title & Trust Co.	750	1,269	8,575	-	2
Bethlehem	50,358	E.P. Wilbur Trust Co.	660	221	5,944	2	-
Chester	58,030	*Delaware County National Bank	650	1,322	5,165	1	-
		*First National Bank	200	334	2,811	2	-
		*Pennsylvania National Bank	150	290	3,239	1	-
		*Cambridge Trust Company	500	933	6,458	-	1
		Delaware County Trust Co.	500	1,643	5,149	-	1
Conshohocken	8,481	Conshohocken Trust Co.	125	12	455	1	-
Erie	93,372	Peoples Bank & Trust Co.	200	328	6,214	1	-
Glenside	1,500	*Glenside Bank & Trust Co.	300	153	2,831	-	1
		Glenside Trust Company	250	86	800	1	-
Hazleton	32,277	*American Bank & Trust Co.	400	496	4,811	1	-
Johnstown	67,324	*First National Bank	400	1,706	14,277	1	-
		U. S. Trust Company	320	66	4,284	1	-
McKees Rocks	16,713	*First National Bank	100	292	3,266	1	-
Media	4,109	Media Title & Trust Co.	250	687	4,197	-	1
Norristown	32,319	*Norristown Penn. Tr. Co.	1,000	1,357	8,491	1	-
Philadel-phia	1,823,779	*Broad Street National Bank	500	524	7,733	2	-
		*Central National Bank	1,500	5,973	39,702	1	-
		*Corn Exchange Nat. Bank	2,700	8,400	74,163	1	-
		*Drovers & Mer. Nat. Bank	1,000	328	3,042	1	-
		*First National Bank	1,950	4,990	58,614	2	-
		*Franklin Fourth St. Nat. Bank	6,000	18,511	133,820	1	-
		*Manayunk National Bank	500	1,456	8,653	1	-
		*Northern National Bank	400	797	8,674	1	-
		*Overbrook National Bank	300	95	3,600	1	-
		*Philadelphia-Girard Nat. Bank	8,000	20,817	200,188	1	-
		*Southwark-National Bank	500	948	12,840	1	-
		*Tenth National Bank	500	752	7,428	1	-
		*Bank of North America & Tr. Co.	5,000	6,604	49,658	1	-
		*Colonial Trust Company	1,000	1,382	13,321	5	-
		*Fidelity-Philadelphia Tr. Co.	6,700	25,093	82,342	4	-
		*Ninth Bank & Trust Company	750	2,080	16,517	1	-
		*Oxford Bank & Trust Co.	500	560	6,097	4	-
		*Penn. Co. for Insurance on Lives & Granting Annuities	4,000	18,277	71,547	1	-
		*Provident Trust Company	2,000	11,650	15,988	1	-
		*The West Philadelphia Title & Trust Company	500	996	8,720	1	-

*Member bank.

BANKS OPERATING DOMESTIC BRANCHES ON FEBRUARY 25, 1927

(Population as of 1920; capital, surplus and undivided profits, and deposits as of December 1926, in thousands of dollars)

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Location	Pop-ulation	Name of bank	Cap-ital	Surplus and und. profits	De-positions	Branches	
						In H.O. city	Out-side H.O. city
<u>PENNSYLVANIA (Cont'd)</u>							
<u>Philadelphia</u>							
	1,823,779	Bankers Trust Company	1,000	257	2,480	1	-
		Belmont Trust Company	227	271	3,242	1	-
		Broad St. Trust Company	500	328	2,368	1	-
		Central Tr. & Savings Co.	750	1,435	12,266	1	-
		Chelton Trust Company	400	348	4,791	1	-
		Columbus Title & Tr. Co.	125	111	1,795	2	-
		Empire Title & Tr. Co.	239	129	1,569	1	-
		First Trust Company	200	3	-	2	-
		Fox Chase Bank & Tr. Co.	125	382	2,295	3	-
		Franklin Trust Company	1,500	2,938	32,473	4	-
		Germantown Trust Company	1,000	2,160	18,468	2	-
		Guarantee Tr. & Safe Dep. Co.	1,000	1,317	12,575	2	-
		Integrity Trust Company	750	4,071	17,429	1	-
		Kensington Trust Company	500	1,406	12,994	1	-
		Manayunk Trust Company	250	564	3,211	2	-
		Metropolitan Trust Co.	500	249	3,483	1	-
		Mitten Men & Management Bank & Trust Company	800	247	9,884	1	-
		Mutual Trust Company	1,000	779	9,410	3	-
		Northern Central Tr. Co.	400	215	3,768	5	-
		Oak Lane Trust Company	500	377	2,267	2	-
		Olney Bank & Trust Co.	250	448	6,986	1	-
		Real Estate Title Ins. & Tr. Co.	2,000	4,153	12,283	1	-
		Southwark Title & Tr. Co.	125	208	1,769	1	-
		Susquehanna Title & Tr. Co.	150	24	551	1	-
		Tacony Trust Company	150	305	2,203	1	-
		Tioga Trust Company	125	156	1,403	1	-
		United Sec. Life Ins. & Tr. Co.	1,000	1,232	6,416	2	-
		#Beneficial Sav. Fund Society	-	2,823	31,837	1	-
		#First Penny Savings Bank	-	981	17,610	1	-
		#Phila. Sav. Fund Society	-	15,088	225,350	4	-
		#Savings Fund Society, of German-town and vicinity	-	1,978	20,529	1	-
		#Western Sav. Fund Society	-	6,621	54,808	3	-
Pine Grove	1,778	**Pine Grove Bank	50	38	609	-	1
Pittsburgh	588,343	Franklin Sav. & Trust Co.	175	345	3,323	1	-
		Peoples Sav. & Trust Co.	4,000	8,563	29,886	1	-
Reading	107,784	*Reading National Bank.	500	1,405	12,599	5	-
		*Berks County Trust Co.	1,000	1,367	6,827	1	-
		*Northeastern Trust Co.	500	300	2,844	1	-
		Pennsylvania Trust Co.	1,000	2,537	13,975	4	-
Salix	200	Salix State Bank	50	25	242	-	1
Upper Darby	500	Suburban Title & Tr. Co.	250	141	1,838	1	-
Williamsport	36,198	*Lycoming Trust Company	2,000	521	14,477	4	-
		*Susquehanna Trust Company	500	764	4,004	1	-
		Total, 20 national banks	26,100	70,068	607,683	27	-
		16 st. bk. members	26,650	72,533	314,933	27	2
		46 nonmember banks	24,146	67,565	624,004	68	6
<u>RHODE ISLAND</u>							
Providence	237,595	*Providence National Bank	850	1,222	7,920	1	-
		*Columbus Exchange Bank	200	121	2,636	3	-
		*Industrial Trust Company	4,000	8,165	138,793	3	10
		*Rhode Island Hospital Tr. Co.	3,000	7,916	97,323	-	2
		*Union Trust Company	1,000	1,096	22,300	1	3
		#Providence Institution for Sav.	-	2,301	48,064	1	-
Greenville	990	#Smithfield Savings Bank	-	70	792	1	-
Wakefield	2,750	Wakefield Trust Company	100	243	3,585	-	1
		*Member bank.		**Private bank.		#Mutual Savings bank.	

BANKS OPERATING DOMESTIC BRANCHES ON FEBRUARY 25, 1927

(Population as of 1920; capital, surplus and undivided profits, and deposits as of December 1926, in thousands of dollars)

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Location	Pop-ulation	Name of bank	Cap-ital	Surplus and und. profits	De-positions	Branches	
						In H.O. city	Out-side H.O. city
<u>RHODE ISLAND (Cont'd)</u>							
Westerly	9,952	Washington Trust Co.	300	726	10,069	-	1
Woonsocket	43,496	Woonsocket Trust Co.	75	175	3,277	1	-
		Total, 1 national bank	350	1,222	7,920	1	-
		4 st. bank members	8,200	17,298	261,052	7	15
		5 nonmember banks	475	3,515	65,787	3	2
<u>SOUTH CAROLINA</u>							
Aiken	4,103	Bank of Western Carolina	289	311	3,343	-	9
Charleston	67,957	*Peoples First Nat. Bank	1,000	553	8,497	2	-
		*South Carolina Nat. Bank	1,100	1,053	23,925	3	2
		*Carolina Savings Bank	200	189	3,258	1	-
Chesterfield	856	Bank of Chesterfield County	125	35	900	-	4
Florence	10,968	*Commercial & Savings Bank	250	100	1,964	-	1
Marion	3,892	Farmers & Merchants Bank	100	94	1,089	-	2
Navy Yard	850	S. C. Savings Bank	100	47	1,873	-	1
		Total, 2 national banks	2,100	1,606	32,422	5	2
		2 state bank members	450	289	5,222	1	1
		4 nonmember banks	614	487	7,205	-	16
<u>TENNESSEE</u>							
Bells	920	Bank of Crockett	25	12	352	-	1
Bolivar	10,318	Hardeman County Savings Bk.	50	24	717	-	3
Bristol	8,047	Bank of Bristol	200	107	1,544	-	1
Chattanooga	57,895	*First National Bank	1,250	1,344	19,741	1	-
		Hamilton Tr. & Savings Bk.	250	231	3,904	-	2
Covington	3,400	Tipton County-Farmers Union Bk.	200	79	1,027	-	6
Jefferson City	1,414	Mossy Creek Bank	60	6	255	-	1
Johnson City	12,442	*Unaka & City National Bank	400	211	2,775	1	-
Knoxville	77,818	*City National Bank	600	514	13,109	1	-
		East Tenn. Savings Bank	200	157	4,204	1	-
Livingston	1,215	Citizens Bank & Trust Co.	50	11	300	-	1
Memphis	162,351	*Union & Planters Bk. & Tr. Co.	2,500	547	26,336	2	-
Monterey	1,445	Bank of Monterey	30	18	236	-	1
Nashville	118,342	*American National Bank	1,500	1,449	19,412	2	-
		*Broadway National Bank	300	348	4,396	1	-
		*Fourth & First National Bank	1,500	1,657	20,420	3	-
		American Trust Company	500	204	4,854	1	-
		Commerce Union Bank	500	378	6,898	1	10
		Fourth & First Bank & Tr. Co.	500	306	7,493	10	2
Trenton	2,751	Givson County Bank	58	42	404	-	1
Waynesboro	357	Bank of Waynesboro	25	15	167	-	1
Winchester	2,203	Home Bank & Trust Company	100	14	585	-	2
		Total, 6 national banks	5,550	5,523	79,853	9	-
		1 state bank member	2,500	547	26,336	2	-
		15 nonmember banks	2,748	1,604	32,940	13	32
<u>VIRGINIA</u>							
Abingdon	2,532	*First National Bank	200	123	2,178	1	-
Bedford	3,243	Bedford Tr. & Savings Bank	185	27	845	-	1
Charlottes-ville	10,688	*Peoples National Bank	400	352	5,764	1	-
Cherrydale	300	Peoples State Bank	50	20	385	-	2
Clintwood	460	Dickenson County Bank, Inc.	100	51	1,200	-	2
Columbia	185	The State Bank	30	5	475	-	1
Drakes Branch	660	State Bk. of Charlotte County	44	46	383	-	1
Falls Church	1,659	Falls Church Bank	100	25	350	-	1
Gloucester	200	Bank of Gloucester	50	59	644	-	1
Keller	200	Eastern Shore Bank Co., Inc.	23	53	316	-	1
Keysville	493	Planters Bank, Inc.	25	8	178	-	1
Lebanon	469	Bank of Russell Co.	25	17	202	-	1

*Member bank.

BANKS OPERATING DOMESTIC BRANCHES ON FEBRUARY 25, 1927

(Population as of 1920; capital, surplus and undivided profits, and deposits as of December 1926, in thousands of dollars)

(St. 5656a) - 16 -

Location	Popu- la- tion	Name of bank	Cap- ital	Surplus and und. profits	De- posits	Branches	
						In H.O. city	Out- side H.O. city
<u>VIRGINIA (Cont'd)</u>							
Leesburg	1,545	*Peoples National Bank	100	217	2,410	-	1
Louisa	289	Bank of Louisa	53	95	1,001	-	1
Norfolk	115,777	*Norfolk Nat. Bk. of Com. & Tr.	1,200	1,503	17,898	2	1
		*Seaboard National Bank	1,000	798	8,896	1	-
		*Virginia National Bank	500	258	4,814	1	-
		Merchants & Planters Bank	50	394	1,720	1	-
		Morris Plan Bank	100	64	512	1	-
		Virginia Bank & Trust Co.	100	78	146	-	1
Parksley	601	Accomack Bank. Co., Inc.	38	210	678	-	2
Portsmouth	54,387	State Bank of Portsmouth	75	10	485	-	1
Radford	4,627	Peoples Bank	25	10	141	-	1
Richmond	171,667	*American National Bank	2,000	1,538	16,813	4	-
		*First & Merchants Nat. Bank	3,000	3,421	44,984	2	-
		*Bank of Commerce & Trusts	500	740	4,455	1	-
		*State Planters Bk. & Tr. Co.	2,500	2,280	35,734	5	-
		American Trust Company	1,200	308	2	4	-
		Morris Plan Bk. of Richmond	382	161	2,715	3	2
		Richmond Trust Company	1,000	199	3,558	1	1
		West End Bank	100	187	1,534	1	-
Staunton	10,623	Planters Bank	75	41	456	-	1
Tappahannock	422	Southside Bank	93	23	711	-	2
Urbanna	387	Bank of Middlesex	25	21	345	-	1
Wakefield	784	Bank of Sussex & Surry	100	150	711	-	2
Warrenton	1,545	*Fauquier National Bank	150	179	2,121	-	1
Williamsburg	2,460	Peninsula Bank & Trust Co.	100	24	775	-	1
		Total, 9 national banks	8,550	8,389	105,878	12	3
		2 state bank members	3,000	3,020	40,189	6	-
		26 nonmember banks	4,148	2,286	20,468	11	28
<u>WASHINGTON</u>							
Cle Elum	2,661	Cle Elum State Bank	50	25	915	-	1
Colville	1,718	Bank of Colville	100	13	600	-	1
Everett	27,644	*Bank of Commerce	150	43	2,018	1	1
Seattle	315,312	*Dexter Horton Nat. Bank	2,200	1,310	36,528	2	-
		Total, 1 national bank	2,200	1,310	36,528	2	-
		1 state bank member	150	43	2,018	1	1
		2 nonmember banks	150	38	1,515	-	2
<u>WISCONSIN</u>							
De Pere	5,165	State Bank of De Pere	100	81	1,480	-	1
Ellsworth	1,043	Bank of Ellsworth	50	34	1,218	1	-
Madison	33,378	*Bank of Wisconsin	500	183	5,051	1	-
Milwaukee	457,147	*American National Bank	1,000	427	11,648	2	-
		*Marshall & Illsley Bank	1,250	1,701	26,351	1	-
		*Second Ward Savings Bank	1,000	3,708	36,950	2	-
Sturgeon Bay	4,553	*Bank of Sturgeon Bay	100	62	2,787	1	-
		Total, 1 national bank	1,000	427	11,648	2	-
		4 state bank members	2,850	5,654	71,139	5	-
		2 nonmember banks	150	115	2,698	1	1

*Member bank.

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EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS
JANUARY 1928.

Total earnings of the Federal reserve banks in January were \$3,994,000 - \$532,000 less than in December but \$137,000 more than in January 1927. All classes of earnings declined during the month, earnings from U. S. securities by \$226,000, from discounted bills by \$167,000, from miscellaneous sources by \$130,000 and from purchased bills by \$9,000.

Current expenses (exclusive of cost of Federal reserve currency) aggregated \$2,174,000 as compared with \$2,121,000 in the month preceding and \$2,167,000 in January, 1927. Current net earnings (total earnings less current expenses) were \$160,000 more than in January, 1927, and the annual rate of current net earnings on average paid-in capital was 14.9 per cent, as compared with 14.4 per cent a year ago.

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CONFIDENTIAL

Not for publication

EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS, JANUARY 1928

St. 5686

Federal Reserve Bank	Month of January 1928					January 1928		1928		Month of January 1928		
	Earnings from -					Current expenses		Current net earnings		Current net earnings	Dividends accrued	Balance for reserves, surplus, franchise tax, etc.
	Dis-counted bills	Pur-chased bills	U. S. secu-rities	Other sources	Total	Exclusive of cost of FR currency	Total	Amount	Ratio to paid-in capital			
Boston	\$68,911	\$136,105	\$84,911	*\$2,315	\$287,612	\$156,366	\$158,392	\$129,220	15.2	\$129,220	\$47,027	\$82,193
New York	469,942	232,905	326,132	*4,098	1,024,881	497,578	532,197	492,684	14.1	492,684	205,075	287,609
Philadelphia	133,433	98,404	116,666	3,040	351,543	171,602	191,086	160,457	14.3	160,457	66,167	94,290
Cleveland	153,271	69,915	164,301	40,010	427,497	212,677	232,391	195,106	16.3	195,106	70,367	124,739
Richmond	79,597	108,599	29,328	2,306	219,830	112,508	118,564	101,266	19.1	101,266	31,212	70,054
Atlanta	87,466	14,760	32,542	7,555	142,323	96,612	99,778	42,545	9.7	42,545	25,877	16,668
Chicago	177,099	164,354	233,121	26,534	601,108	307,675	332,871	268,237	17.5	268,237	90,024	178,213
St. Louis	49,123	22,207	103,028	*2,806	171,552	107,284	112,210	59,342	13.1	59,342	26,706	32,636
Minneapolis	11,123	43,477	64,551	2,632	121,783	82,055	82,237	39,546	15.4	39,546	15,083	24,463
Kansas City	37,618	25,692	105,082	23,166	191,558	135,114	141,284	50,274	13.9	50,274	21,236	29,038
Dallas	12,569	61,006	85,232	2,726	161,583	102,858	103,304	58,279	16.1	58,279	21,316	36,963
San Francisco	122,365	40,374	115,187	14,499	292,425	191,460	200,171	92,254	11.6	92,254	46,713	45,541
TOTAL												
Jan. 1928	1,402,517	1,017,798	1,460,131	113,249	3,993,695	2,173,789	2,304,485	1,689,210	14.9	1,689,210	666,803	1,022,407
Dec. 1927	1,569,894	1,026,409	1,686,525	242,819	4,525,747	2,121,307	2,267,966	2,257,781	20.1			
Jan. 1927	1,654,187	1,094,772	936,684	171,027	3,856,670	2,167,140	2,327,261	1,529,409	14.4	1,529,409	626,163	903,246

FEDERAL RESERVE BOARD
 DIVISION OF BANK OPERATIONS
 FEBRUARY 16, 1928.

*Debit

C.

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see list

FEDERAL RESERVE BANK OF CHICAGO

230 SOUTH LA SALLE STREET

OFFICE OF THE GOVERNOR

April 22, 1927.

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

Dear Mr. Hamlin:

I have just returned from New York and find your letter of the 18th instant awaiting.

You are quite right in your understanding as to the contention of Mr. James B. Forgan that the Federal reserve banks should be conducted in such a manner as to meet their full commitments with respect to expenses and dividends incurred.

The address referred to in your letter, a copy of which is enclosed herewith, was delivered by Mr. Forgan before the Bankers' Club of Chicago in December, 1915. On pages 6, 7 and 8 thereof the question involved is discussed, and Mr. Forgan's views thereon are fully set forth. I quote from this address the following:

"We cannot afford to have these banks, the custodians of our cash reserves, limping along and creating the impression in the minds of our own public as well as in the minds of our foreign banking competitors, that the Federal Reserve System is a failure or at best a weak institution. This must be the impression created so long as they are not operating on a paying basis and we cannot afford to have it so."

Mr. McKay has endeavored to locate the table to which reference is made in your letter, showing that the competition of Federal reserve banks made necessary by the earning of dividends would not materially affect member banks, but has been unable to find any such tabulation. However, the address referred to contains the following:

"The amount each Federal reserve bank must keep invested in order to meet its expenses and pay its dividends is comparatively insignificant. It does not exceed the amount of the investments of an ordinary city bank of moderate size. When the investments of the Federal reserve banks are sufficient for that purpose, they should be held there pending a change in financial conditions which will legitimately call for an expansion of their credit-making facilities. This much,

Mr. C. S. Hamlin

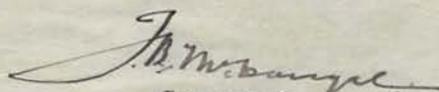
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April 22, 1927.

it seems to me, the member banks can stand without suffering from their competition more than they will be compensated for by the dividends they will receive."

Mr. McKay informs me that Mr. Forgan did prepare a table showing the probable investments of the National Reserve Association which was proposed under the Aldrich Bill some years before the Federal Reserve Act was passed, which showed that he had in mind at that time that it would be necessary for the reserve banks to make investments to pay their expenses. These figures I believe were used in an address by Mr. Forgan at Nashville long before the passage of the Federal Reserve Act. If these figures are of interest to you, I shall be very glad to endeavor to secure the same, and if I can be of any further assistance in respect to the matter under discussion or any other matters, please let me know.

Very truly yours,


Governor.

HS.
Enclosure.

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Continued

May 11, 1927.

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The Open Market Committee, after considering the attached memorandum, and after discussion with the Federal Reserve Board, submits the following recommendations of policy for the period ending August 1 next:

(1) That no further sales of System securities be made in order to offset arrivals of gold from abroad now known or anticipated.

(2) That it shall be the policy of the committee between now and August 1 next, gradually to acquire, if possible to do so without undue effect upon the money market, sufficient additional short-time government obligations to bring the total of the committee's investment account up to \$250,000,000. In interpreting the expression "undue effect upon the money market," the committee would expect to keep in mind any changes which might occur in the general level of money rates, as well as the extent to which these purchases might effect a reduction in the amount of borrowings by member banks.

While this policy is not directed towards bringing about a reduction in discount rates by any Federal reserve bank, nor is that immediately anticipated, it is recognized that some lowering of market rates for money might nevertheless justify such a reduction later in the year, especially at the principal financial centers. The recommendation in paragraph two is also made after consideration of the fact that somewhat lower interest rates ordinarily operate to check gold imports; in fact, that was one of the effects of purchases of securities made in 1924.

See Minutes

(70)

The committee further expects to continue studies of those methods set out in the preliminary memorandum by which increases in the System's portfolio might be brought about without increasing the amount of Federal reserve credit in the market. It expects to discuss with the Treasury Department those methods with which the Treasury is concerned, and requests that the Federal Reserve Board give consideration to those particular items, such as reserves on time deposits, which relate to the regulations of the Federal Reserve Board.

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(Extracts from C.S.H.'s diaries).

November 19, 1919. (Page 66)

At 12:45 the Board and the Governors of the Federal Reserve banks met at the office of the Secretary of the Treasury. Secretary Glass outlined briefly, and Mr. Leffingwell in more detail, the Treasury policy, stating that the coming issue of 500 millions of Treasury certificates would be issued at $4\frac{1}{2}\%$ and the remainder needed, - about 1400 million - probably at $4\frac{1}{8}\%$.

Secretary Glass then cited the action of the Federal Advisory Council advising against further rate increases before January 1, 1920. He said that the rate should not be increased until the Treasury was out of the market, but that what was needed was credit rationing to put down the speculators.

Governor Strong replied to this with some vehemence, saying it could not be done, that the only way was a radical increase in discount rates. Secretary Glass replied with some heat, - that it could be done and must be done; that it was successfully done by the Money Committee at New York during the war. Governor Strong replied that the way it was done was to pay off the loans made to the call loan market, and that that would require today 700 millions of dollars.

Secretary Glass said that the New York Bank had fallen down and had permitted its assets to be encroached upon by speculators. Governor Strong replied with some warmth that the New York Bank had done much to exercise a restraining influence.

The matter will come up again tomorrow, and Governor Strong will try to carry the Governors with him.

Later Secretary Glass came into my office. I reminded him that Governor Strong had said that nothing could be done while money from other districts poured into the call loan market, and that we must meet this and put a stop to it. He agreed and said he would consult with Governor Harding.

C.S.H. fears that Governor Strong's health impairs his ability to cope with the situation, and feels also that he will realize that he cannot stand the strain and will resign.

Secretary Glass told C.S.H. that at one interview Governor Strong denied even the right of the Board to review the New York rates.

At the Board meeting this morning Mr. Forgan came in and read the recommendation of the Federal Advisory Council against rate increases prior to January 1920. He said that before Assistant Secretary Leffingwell came to the meeting, the Council were all for a vigorous advance in rates, ignoring the effect on Treasury policies, but that Mr. Leffingwell convinced them that this would be a grave error and would seriously affect the outstanding securities.

Thursday, November 20, 1919.

The meeting of the Governors was continued.

Most of the Governors said that they did not concur in the recommendation of the Federal Advisory Council against increase in rates.

Governor McDougal pointed out that the Council's recommendation was that rates should not be advanced at present; that the heading of their report, -"rates up to January 1" - was merely the heading of this aspect as made by the Federal Reserve Board.

On this statement some of the Governors changed their opposition. Many, however, followed Governor Strong in wanting a change in rates before the coming issue of Treasury certificates on December 1 at $4\frac{1}{4}\%$.

Governor Strong pointed out that if no change were made prior to this issue, the Federal Reserve banks would be morally bound to keep in a rate of $4\frac{1}{4}\%$ during the life of the issue.

Governor Morss pointed out that there was much speculative activity in business, that, e.g., a cotton concern would be offered a contract for a year ahead; credit being cheap it could borrow at low rates in order to buy raw materials and be able to take advantage of high or higher rates for its unfinished product. He strongly advocated higher rates, even for commercial paper, in order to regulate production and consumption. He said that the country was being flooded with products of the kind known as "luxuries" which also should be restricted by higher rates. He also said that the vast majority of new credits were for business transactions as opposed to stock market transactions.

Governor Strong took the same attitude. He pointed out that the Treasury called, usually, for larger sums than were at once needed, in order to give the subscribing banks a Government deposit for which no reserve was necessary, which they could keep for periods of 60 days or so and loan out; that they made over 6% out of these deposits of the proceeds of the $4\frac{1}{4}\%$ certificates.

He suggested the feasibility of cutting down the offerings to the absolute needs of the Treasury, the proceeds to be drawn by the Treasury at once and put in Federal Reserve banks. And, to compensate for the loss of the use of the deposits, the certificates should be given a higher rate; that in this way the credits could not be used for inflationary purposes.

Friday, November 21, 1919.

Conference with Governors resumed.

They all feel that Mr. Leffingwell is absolutely wrong in putting out Treasury certificates on December 1 at $4\frac{1}{4}\%$, as the banks will loan out the funds created by their purchase of the certificates on the call loan market, thus increasing speculation and inflation. Mr. Leffingwell told me this morning that Governor Harding had no authority to throw out to the Governors the inclination or suggestion that Treasury certificates might be issued in smaller amounts to be paid for by the banks at once and for a higher rate, to compensate them for loss of the deposits. He said the banks would never do this unless they were paid a commission for placing the notes.

C.S.H. feels that Mr. Leffingwell is too positive; that he is in a personal controversy with Governor Strong, and that neither will yield.

Tuesday, November 25, 1919.

Mr. Strauss, at the meeting of the Board, stated that Governor Strong had called him up last evening at 6 p.m. and stated that his directors insisted on putting in new and increased rates, and gave him the schedule. He said that as Governor Strong read it, it apparently put a higher rate than $4\frac{1}{4}\%$ on paper secured by $4\frac{1}{2}\%$ certificates. Mr. Strauss said Federal Reserve Agent Jay would not agree to this, and believed that the rate should be the same as the certificate rate, whether that was $4\frac{1}{4}\%$ or $4\frac{1}{2}\%$.

The Board voted to acknowledge the communication and advise the directors that we would consider the new schedule and advise them shortly.

Mr. Strauss said Boston also had voted to increase rates, and the proposed schedule was ready. Mr. Strauss said Boston kept the certificate rate differing from New York.

The Board then voted to have a special meeting on Governor Harding's return about 4:30 p.m. We also directed Chapman to prepare the schedule showing these rate changes. When the schedule was sent in C.S.H. found that New York had kept the certificate rates, but had put up rates on paper secured by Liberty bonds and Victory notes, and had advanced 90-day commercial paper from $4\frac{3}{4}\%$ to $5\frac{1}{2}\%$.

New York put up paper secured by Liberty bonds and Victory notes 1/4 of 1% and 90-day commercial paper 1/2%, while Boston put up paper secured by Liberty bonds and Victory notes 1/2% and commercial 90-day paper 1/4%.

The meeting was called for 11 a.m. and we were notified that the Secretary of the Treasury wished to talk with the Board. When we got there Mr. Strauss said the Secretary had to go to a Cabinet meeting and Mr. Leffingwell had to go to the State Department, and as Governor Harding was away, we postponed the meeting until 4:30 p.m.

C.S.H. went to the Board room at 4:30 and on his way met Governor Harding's secretary who said the Governor had returned and was in his room. C.S.H. opened the Governor's door and saw Mr. Leffingwell, Strauss, and the Governor in consultation, - evidently on the New York rate question. C.S.H. went back to his room and waited some time, but received no word. He then sent his secretary to Governor Harding's secretary asking when the meeting was to take place, and he came back and said there would be no meeting until tomorrow.

C.S.H. thought this very strange and went to Dr. Miller's office but he had gone for the day. He then went to Mr. Moehlenpah's office, but he had someone with him, but later came into C.S.H.'s office and we had a general talk together while Governor Harding, Strauss and Leffingwell were discussing rates in Governor Harding's room. C.S.H. was disturbed at this as he felt that the other members of the Board should have been in at this conference.

C.S.H. realizes that Governor Strong and Leffingwell are engaged in a bitter personal controversy, and are in danger of forgetting the larger issues.

Wednesday, November 26, 1919.

Before the meeting Secretary Glass came into C.S.H.'s office and said he had almost made up his mind that Governor Strong should be removed. C.S.H. suggested that before considering or taking any such action it would be well to talk with our Governor and the directors of the New York bank, and he agreed to this.

At the meeting Secretary Glass sent word asking the Board to hear Assistant Secretary Leffingwell on the New York bank matter.

Mr. Leffingwell came in and said that Governor Strong had been at the Bank of England meeting and encouraged them to put up rates so as to force the British Treasury to pay higher rates for their borrowings, and that Governor Strong had pledged the Federal Reserve Bank of New York to do the same; that Governor Strong was unable to fulfill his part of the agreement, and was determined to wreck the Treasury policies in revenge; that putting

up the $4\frac{1}{2}\%$ certificate rate to $4\frac{3}{4}\%$ was deliberately designed to prevent the sale of the new $4\frac{1}{2}\%$ certificates; that putting increased rates on paper secured by Liberty bonds would play havoc with the bond market; that a rumor had gotten out that the New York bank was to put up rates just after the Governors had left Washington, and that as a result large quantities of United States securities had been thrown on the market, and the Treasury had to buy a very large amount to steady the market; that yesterday the Treasury had to buy 12 millions; that one grade of Liberty bonds was now selling on a $5\frac{1}{4}\%$ basis; that he believed these bond sales had been made by "insiders" - either directors of the Federal Reserve Bank of New York or their friends who had inside knowledge that rates were to be put up. He also said that Governor Strong had said he did not expect our Board to approve this proposed increase. He also said that friends of his in New York had said that certain of the New York directors had said that they were whipped into agreeing to this increase; also Governor Strong claimed that they had forced him into it. He also said that a prominent banker and intimate friend of Governor Strong said that all of Governor Strong's friends were worried about him; that in his state of health that he and the other New York directors might do something impulsively to rock the boat and do great damage. He said that Governor Strong had dominated the other Governors, mentioning Morss. C.S.H. quickly denied this, and said that Morss was absolutely independent and a man of great wealth who stood on his own feet, and that he said this disagreeing with Morss's opinions.

Leffingwell then said the Governors had dined with Governor Strong twice before coming to our Conference, - once in New York and again in Washington; he also said that Governor Strong had told Secretary Glass that his bank had the right to fix rates wholly apart from the Federal Reserve Board.

Mr. Leffingwell said that Governor Strong had said that he wanted the greatest increase which our Board granted to help him:

1. In an effort to control stock market speculation
2. To do away with the dependence of interest on bank deposits on commercial rates, originally approved by the Board.
3. To cease buying bills in the market at such attractive rates.

Mr. Leffingwell said that having got these rates Governor Strong had done nothing either as to 1, 2, or 3 above, but absented himself from the Bank and played golf in Washington.

Mr. Leffingwell also said that if the bond market kept steady, the floating debt of over 3 billions would be wiped out in 18 months; that the situation was critical and that the Board should act at once to save

Treasury policies and protect innocent bond holders; that if the banks did not take the new $4\frac{1}{2}\%$ certificates the Federal Reserve banks must.

Dr. Miller said he believed on principle that rates should be advanced, but that he should vote to protect the Treasury. Mr. Strauss said he believed there was no occasion for increase in rates, and that it would have little effect on merchants, but would merely add to the cost of credit.

C.S.H. suggested that we summon the Governor and Directors of the Federal Reserve Bank of New York to Washington and ask for their reasons, but that this should not affect an immediate decision.

Governor Harding said they should have consulted us before action, but all opposed this. Mr. Strauss said he had no confidence in Peabody, - that he was too old, etc.

Mr. Strauss said that all of the bankers he and Governor Harding had seen in New York were against increasing rates except Mr. Hepburn, and that Governor Strong brought Hepburn to the Directors meeting, and that he told them he did not concur in the vote of the Federal Advisory Council; that in view of Treasury conditions there should be no increase in rates at present. C.S.H. wrote Mr. Forgan as to this.

Mr. Leffingwell said he thought the Treasury would be safe about January 15th.

C.S.H. said that if anything disastrous occurred, - e.g. as to our reserves in a few weeks, would we not feel at liberty to reopen the matter. Mr. Leffingwell said certainly, - that he had to reserve that right also as to his own predictions. Dr. Miller then said he would support the Treasury even though the reserves went smash, which somewhat surprised us in view of his statement that rates should in theory be advanced. Mr. Leffingwell said that if he sustained the Treasury that Liberty bonds would all reach par in a comparatively short time.

C.S.H. said he was ready to vote and on motion of Mr. Strauss the Board voted to disapprove the action of the New York Bank, and by another motion that of the Boston Bank also.

Saturday, November 29, 1919.

Governor Strong is in Washington. Governor Harding said he was in a panic; that he feared an industrial panic; that he said it would not do to increase rates now; that it should have been done long ago; that to do it now would bring on a crisis.

Thursday, December 9, 1919.

Mr. Leffingwell sent Governor Harding a draft of letter to him which he said he would send formally to him as soon as he got the consent of Secretary Glass who is away.

In this letter Mr. Leffingwell said that the coal strike and other disturbances would probably soon be over, and that he feared there might be a revival of the speculative mania; that he therefore felt that in view of the improved Treasury position he should not longer object to the Federal Reserve banks increasing the rates on war paper to the same level as commercial paper, wiping out the preference. He said, however, that he wanted the rate on Treasury certificates kept at $4\frac{1}{2}\%$, but that he would not object to a rate of $4\frac{1}{2}\%$ even on the $4\frac{1}{2}\%$ certificates because these could be refunded into $4\frac{1}{2}\%$ if anyone wanted it, but as they were tax and not loan certificates people would probably hold them to pay taxes with.

The Board then discussed a proposed circular to the banks stating that if they offered such rates we would approve them.

Mr. Leffingwell has evidently been impressed with the fact pointed out by Governor Strong and others that the Board must do something in the way of rate increase even while at the same time rationing credit.

Monday, December 29, 1919.

Secretary Glass tells C.S.H. that if it had not been for Governor Strong's illness he would sometime ago have urged that his resignation be called for. He said that Governor Strong had not been loyal to the Federal Reserve System; that he tried to organize the Governors against the Board; that he tried to smash the Treasury policies by putting up rates in order to force the Treasury to pay higher rates in accordance with his agreement with the Bank of England; that his feeling of domination as Governor was disloyal to the System; that he claimed at one interview that the New York Bank had the right to put in any rate it chose in spite of the Federal Reserve Board. He said, however, that Governor Strong was a desperately ill man, and that he did not want to do anything to retard his recovery, and he added that he had undoubtedly done most brilliant work in connection with the Liberty loans. He said Governor Strong's condition distressed him, and he intimated he might consent to the vote of the bank directors giving him leave of absence for this reason alone.

Tuesday, December 30, 1919.

Governor Harding stated that Mr. Leffingwell had told him of a new issue of tax certificates dated January 2; that Leffingwell said that if the Board would make no change in discount rates (that is, leave the certificate rate of discount at $4\frac{1}{2}\%$) for a week or 10 days, the Treasury would consider itself divorced from the Federal Reserve banks, and henceforth would have no suggestions to make as to rates; that this divorce would be more apparent if we made no change for a week or 10 days. The Board discussed this fully. Strauss raised the point that to leave this rate at $4\frac{1}{2}\%$ with the certainty in the minds of the bank that it would soon be raised, would result in an avalanche of these certificates on the Federal Reserve banks to take advantage of the lower rates. Mr. Strauss said that there was nothing in this, as these were tax certificates. Governor Harding said Governor Strong felt the same way, and was perfectly content to keep the rate at $4\frac{1}{2}\%$ for a week or 10 days.

Dr. Miller wanted the announcement made that after a week or 10 days the rate would be increased. We all agreed that such an announcement would certainly precipitate an avalanche. The departure of Dr. Miller for lunch broke the quorum, but Mr. Strauss, Williams and C.S.H. went over the matter and in view of Governor Strong's statement decided it was best to approve the request of Leffingwell, and Williams made a motion to that effect. We could not vote, however, for lack of a quorum, although Governor Harding before leaving had said he favored this. We then adjourned until afternoon.

At 3 p.m. Governor Harding told the Board that Jay had called him up and said the New York directors were unanimous in favor of at once increasing all certificate rates to $4\frac{3}{4}\%$, and that Mr. Alexander who was consulted, favored this. The Board then decided to call in Mr. Leffingwell who said he thought the directors were in error, but that if he were a member of the Board he would vote to sustain them, and he felt it would not injure the sale of the new certificates.

The Board accordingly voted to approve this, although Mr. Williams for some unaccountable reason voted No.

Wednesday, December 31, 1919.

Meeting called to decide on Governor Strong's salary and leave of absence; Secretary Glass presided. Harding and Strauss strongly favored approving the vote of the New York directors - leave of absence for one year at $1/2$ the salary, Case to act as Acting Governor. Miller and Williams approved this. C.S.H. said he had opposed certain views and actions of Governor Strong; that Leffingwell had told the Board that he made an agreement with the Bank of England directors to put up New York rates in order to force the Treasury to pay more for its money, but that he dismissed all

these considerations from his mind, as he regarded Governor Strong as practically a dying man, and that he was prepared to vote to approve the action of the Board; that if Governor Case could not fill the position the Board at any time could call for Strong's resignation. Secretary Glass said we might agree to give Governor Strong an indefinite leave, and C.S.H. agreed to this, but Williams raised the question whether we could legally vote a gratuity, and C.S.H. pointed out that we had done this in Governor Seay's case, and that Harrison, our Counsel, had said we could do this. C.S.H. pointed out that an officer of the Government could draw full salary whether he did any work or not, under the decision of the Supreme Court, and that while Governor Strong was not a public officer the analogy seemed to hold. Secretary Glass then said that if Governor Strong was a well man, he would favor calling for his resignation; that his views and actions were not consistent with the underlying principles of the Federal Reserve Act.

Governor Harding said that Governor Strong had written him a personal and confidential letter practically recanting all his past views criticised by Glass, and that this letter would satisfy anyone, and that he would try to get authority from him to show it to the Board. Secretary Glass finally said he regarded Governor Strong as a dying man, but he had done most brilliant work for the Liberty loans and that he entertained almost an affectionate feeling towards him; that while he should prefer an indefinite leave, he would not vote against a year's leave on half pay. Strauss moved to approve the vote of the New York directors. Williams moved to substitute indefinite leave. C.S.H. moved as an amendment to the amendment that the vote of the New York directors be approved and that the action in making Case Acting Governor be merely noted, as this did not require approval. Governor Harding, Strauss and C.S.H. vote Aye, and Williams and Miller No. Am not sure whether Secretary Glass voted, but he had previously said he would vote to approve the New York directors' vote.

Office Correspondence

FEDERAL RESERVE
BOARD

See 124

Date October 19, 1927.To Mr. Hamlin.From Mr. Wingfield.

Subject: Illustration of conclusion reached in memorandum of Sept. 30, 1927, with reference to limitation on loans by a State member bank to one borrower.

Page 87

You have requested a concrete illustration of the conclusions reached in my memorandum of September 30th. These conclusions may be applied to the facts in a concrete case as follows:

A makes a note payable to B, the note arising out of a commercial transaction. B. endorses the note and discounts it with a State member bank. At maturity the note is not paid but is renewed. Under the Comptroller's rulings and the conclusion reached in my memorandum this note when renewed no longer constitutes commercial or business paper within the meaning of the exception to section 5200. If, therefore, the liabilities of A, the maker of the note, to the State member bank including his liability on this note are more than 10% of the bank's capital and surplus, a Federal Reserve Bank may not rediscount any of A's paper for such State member bank. Under the further conclusion reached in my memorandum, however, B, the endorser on this note, is not to be considered the borrower within the meaning of section 9 and his liabilities as endorser on this or any other paper (except when the maker is an accommodation maker) are not to be considered as part of his liabilities to the State member bank in determining whether the Federal Reserve Bank may rediscount any of his paper for such State member bank.

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PAGE 87

Respectfully,

B.M. Wingfield
B.M. Wingfield
Assistant Counsel

BMW
OMC

October 12, 1927.

Mr. Hamlin

Mr. Wingfield.

Short statement of conclusions reached with reference to the amount of renewed commercial or business paper which may be discounted for any one borrower by a State member bank.

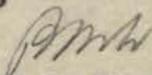
In accordance with your request, there is set out below a short statement of the conclusions reached in my memorandum to the Board of September 30, 1927, with reference to the amount of renewed commercial or business paper which a State member bank may discount for any one borrower without rendering the paper of such borrower ineligible for rediscount with a Federal reserve bank.

(1) In computing the amount which may be loaned by a State member bank to any one borrower under the provisions of section 9 of the Federal Reserve Act and section 5200 of the Revised Statutes of the United States as imported into that section renewed commercial or business paper should not be considered as commercial or business paper within the meaning of section 5200 so as to come within exception 2 to that section, but such paper should be counted in determining whether a State member bank has loaned to any one borrower an amount in excess of the limitation set out in section 5200 of the Revised Statutes, *i.e.*, 10% of the capital and surplus of the bank. (Page 4 of memorandum of September 30, 1927).

(2) The provisions of Section 5200 of the Revised Statutes of the United States requiring both the maker or acceptor and the endorser to be considered in determining whether a national bank has loaned in excess of the limit to any one person are not applicable in determining who is the "borrower" from a State member bank under the provisions of section 9 of the Federal Reserve Act. The definition of the word "borrower" which the Board has applied to that word as used in Section 13 of the Federal Reserve Act should be applied to it as used in Section 9, *i.e.*, the word "borrower" as used in section 9 should be taken to mean the maker of the note unless it appears that he is an accommodation maker, in which event the endorser who receives the benefit of the loan should be considered the borrower. (Page 5 of memorandum of September 30, 1927).

(3) The application of the interpretation which the Board has placed upon the word "borrower" as used in section 13 of the Federal Reserve Act to that term as used in section 9 of the act will place State member banks in a position of some advantage over national banks with reference to rediscounts with Federal reserve banks. This inequality is brought about by the terms of the law and is not one which can be lawfully remedied by a ruling of the Board. In order for State and national banks to be placed upon a position of equality in this respect, it will be necessary for section 9 to be amended by Congress. (Page 8 of memorandum of September 30, 1927.)

Respectfully,


B.M. Wingfield
Assistant Counsel.

BMW-cmc-sad

September 30, 1927.

The Federal Reserve Board.

Mr. Wingfield.

Limitation on renewed commercial or business paper of any one borrower which may be rediscounted with a Federal reserve bank.

There is attached hereto a request by the Board's supervisor of examinations, Mr. Gilbert, for an opinion by this office as to whether renewed commercial or business paper should be charged to the endorser who offered the paper for discount to a State member bank as part of his direct line of accommodation in undertaking to determine whether he is borrowing in excess of the limitation prescribed in Section 9 of the Federal Reserve Act.

O. K.
W. W.

It is provided in Section 9 of the Federal Reserve Act that :

"No Federal reserve bank shall be permitted to discount for any State bank or trust company notes, drafts, or bills of exchange of any one borrower who is liable for borrowed money to such State bank or trust company in an amount greater than that which could be borrowed lawfully from such State bank or trust company were it a national banking association."

The limitation on the amount which may be loaned by a national bank to any one borrower to which the above provision of Section 9 refers and with which a State member bank is required to comply in order that the borrower's paper may be eligible for rediscount with a Federal reserve bank is contained in Section 5200 of the Revised Statutes of the United States. This section reads in part as follows:

"The total obligations to any national banking association of any person, copartnership, association, or corporation shall at no time exceed 10 per centum of the amount of the capital stock of such association actually paid in and unimpaired add 10 per centum of its unimpaired surplus fund. The term 'obligations' shall mean the direct liability of the maker or acceptor of paper discounted with or sold to such association and the liability of the indorser, drawer, or guarantor who obtains a loan from or discounts paper with or sells paper under his guaranty to such association and shall include in the case of obligations of a copartnership or association the obligations of the several members thereof. Such limitation of 10 per centum shall be subject to the following exceptions:

* * * * *

(2) Obligations arising out of the discount of commercial or business paper actually owned by the per-

"son, copartnership, association, or corporation negotiating the same shall not be subject under this section to any limitation based upon such capital and surplus.

"(4) Obligations as indorser or guarantor of notes, other than commercial or business paper excepted under (2) hereof, having a maturity of not more than six months, and owned by the person, corporation, association, or copartnership indorsing and negotiating the same, shall be subject under this section to a limitation of 15 per centum of such capital and surplus in addition to such 10 per centum of such capital and surplus."

It will be noted that under the provision of exception 2 to Section 5200 above quoted, commercial or business paper actually owned by the person, copartnership, association or corporation negotiating such paper is excepted from the limitation. Hence a state member bank may discount any amount of commercial or business paper for one borrower without rendering the paper of such borrower ineligible for rediscount with a Federal reserve bank. It will also be noted at this point that as to certain other paper which comes within exception 4 to Section 5200, above quoted, the obligation of the endorser or guarantor thereon is excepted from the limitation to an amount equal to 15 per centum of a national bank's capital and surplus in addition to the 10% limitation on loans to one person contained in that section. As I understand Mr. Gilbert's question he wishes to know whether if commercial or business papers renewed the renewed paper can properly be considered as commercial or business paper within the meaning of exception 2 to Section 5200. If it cannot be so considered, Mr. Gilbert wishes to know who should be considered as the borrower under the provisions of Section 9 of the Federal Reserve Act in determining whether a state member bank has granted loans to one borrower in excess of the limitation.

Under the provisions of Section 9 the amount which a state member bank may lend to one borrower is made to depend upon the provisions of Section 5200 of the Revised Statutes; therefore, it may be well at this point to set out briefly that part of the legislative history of these two sections which throws light on the reason why the provision in Section 9 was enacted.

At the time of the passage of the Federal Reserve Act in 1913 and until September 24, 1918, Section 5200 of the Revised Statutes contained only two exceptions -- commercial or business paper actually owned by the person negotiating such paper and bills of exchange drawn in good faith against actually existing values -- to the limitation on the amount which a national bank might lend to one borrower. When Section 9 of the Federal Reserve Act was enacted in 1913 it was provided that State member banks should be required to conform to the provisions of law imposed on national banks respecting the limitation of liability which might be incurred by any person, firm or corporation to such banks. When Section 9 was amended by the Act of June 21, 1917, this provision was amended so as to provide that no Federal reserve bank should be permitted to discount for any State member bank the paper of any one borrower who was liable for borrowed money to such bank in an amount greater than 10% of the capital and surplus of the state bank. Bills of exchange drawn against actually existing values and commercial or business paper actually owned by the person negotiating such paper, however, were excepted in computing the amount loaned to any one borrower. It will be noted that this provision of Section 9 as amended was substantially the same as that contained in Section 5200 of the Revised Statutes at that time so that national banks and state banks were still on a basis of equality as to the amount which might be loaned to any one borrower. By Acts of September 24, 1918, and October 22, 1919, however, Section 5200 of the Revised Statutes was amended so as to make additional exceptions to the paper which should be counted in computing the amount which a national bank could loan to one borrower. After these amendments state member banks were, of course, not on an equal basis with national banks in making rediscounts with Federal reserve banks for a national bank might lawfully make loans in excess of 10 per centum of its capital and surplus to one borrower which came within the exceptions to Section 5200 as amended while if a state member bank made similar loans in excess of 10 per centum of their capital and surplus it could not rediscount any of the paper of the borrower with a Federal reserve bank. Congress, therefore, in order to put state member banks on an equal basis with national banks in this respect on July 1, 1922, amended Section 9 of the Federal Reserve Act so as to make it read as it is above quoted. That this was the purpose of Congress in passing the amendment of July 1, 1922, is clearly shown by the statements made by various members of Congress when the amendment was before the House and Senate and which may be found in the Congressional Record (Volume 62 of the Congressional Record, pages 8355, 9217, 9292, 9644). In this connection attention is also called to a statement made by Mr. Platts as Vice Governor of the Board in a letter addressed to ~~Senator~~ McLean on June 23, 1922, with reference to this amendment. This statement is as follows:

"My attention has just been called to the amendments made upon the floor of the House to S. 831 on June 7, 1922, just prior to the passage of that bill by the House. The purpose of this bill is to amend the 10th paragraph of Section 9 of the Federal Reserve Act so as to put State member banks

"upon a basis of equality with national banks in regard to the privilege of making rediscounts with Federal reserve banks."

In view of the fact that the amount which may be borrowed from a state member bank by one borrower depends upon the provisions of Section 5200 which section comes under the jurisdiction of the office of the Comptroller of the Currency and since it is clear that the amendment of July 1, 1922, was enacted so as to place State banks on a basis of equality with national banks in making rediscounts with Federal reserve banks, I am of the opinion that any ruling made by the Board with reference to the amount which may be loaned by a state member bank to any one borrower should be in harmony with the interpretation which the Comptroller's office has put upon Section 5200.

I understand that the Comptroller of the Currency has ruled that in order for paper to be classed as business or commercial paper under the provisions of Section 5200 it must have been given in payment for a commodity and that if such paper is renewed the renewal is equivalent to granting a loan and cannot be considered as commercial or business paper within the meaning of exception no. 2 of Section 5200. It appears that these rulings of the Comptroller of the Currency have been in effect for a number of years and that the courts have never defined commercial or business paper in connection with Section 5200 nor rendered a decision as to whether a renewal of such paper should be considered as commercial or business paper within the meaning of that section.

Since the Comptroller's rulings above referred to have been in effect for a number of years and have not been reversed by the courts and in view of the obvious intention of Congress that state member banks should be on the basis of equality with national banks in computing the amount which might be loaned to any one borrower, I am of the opinion that the Comptroller's interpretation of Section 5200 should be controlling in this matter and that his rulings should be applied to state member banks. I am accordingly of the opinion that in computing the amount which may be loaned by a state member bank to one borrower under the provisions of section 9 of the Federal Reserve Act and Section 5200 of the Revised Statutes as imported into that section renewed commercial or business paper should not be considered as commercial or business paper and that such paper should be counted in determining whether a state member bank has loaned an amount in excess of 10 per centum of its capital and surplus to one borrower.

counted against whom?

Since renewed commercial or business paper does not come within exception no. 2 of Section 5200, the question arises as to who should be considered the borrower under the provisions of Section 9 of the Federal Reserve Act.

Under the provisions of Section 13 of the Federal Reserve Act a Federal reserve bank may not rediscount notes, drafts, and bills bearing the signature or endorsement of any one borrower for any one bank whether a state member bank or a national bank in an amount greater than 10% of the unimpaired capital and surplus of the bank. In this connection the Board has ruled that the word "borrower" means the maker of the note unless it appears that he is an accommodation maker, in which event the endorser who receives the benefit of the loan should be considered as the borrower. Under the provisions of Section 5200 of the Revised Statutes as amended by the McFadden Act, both the maker or the acceptor of paper rediscounted with a national bank and the endorser who discounts the paper with the national bank must be considered in computing the amount which may be lawfully loaned to any one person. In Section 9 of the Federal Reserve Act it is provided as noted above that a Federal reserve bank may not discount for a state member bank any of the paper of any one borrower who is liable for borrowed money to such state bank in an amount greater than that which could be lawfully borrowed if the state bank were a national bank. The question to be determined, therefore, is whether the Board's definition of the word "borrower" made in connection with the provisions of Section 13 should be applied to that term as used in Section 9, or whether the provisions of Section 5200 should determine who should be considered in computing the amount which may be lawfully loaned to any one person by a state member bank under the provisions of Section 9.

It will be noted that under the provisions of Section 9 of the Federal Reserve Act, Section 5200 of the Revised Statutes is referred to only with respect to the amount which may be loaned by a state member bank to one borrower. No reference, however, is made by Section 9 to the provision of Section 5200 with reference to who should be considered the borrower. I am of the opinion, therefore, that the provisions of Section 5200 of the Revised Statutes are not applicable in determining who is the borrower from a state member bank under the provisions of Section 9 of the Federal Reserve Act. I am further of the opinion that the definition of the word "borrower" which the Board has made of that word as used in Section 13 of the Federal Reserve Act should be applied to the provision in Section 9. The reasons for these conclusions may be more fully set out as follows:

that : Section 13 of the Federal Reserve Act provides in part

"The aggregate of such notes, drafts, and bills bearing the signature or indorsement of any one borrower, whether a person, company, firm or corporation, re-discounted for any one bank shall at no time exceed ten per centum of the unimpaired capital and surplus of said bank; but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values."

As originally enacted in 1913 this portion of Section 13 read as follows:

"The aggregate of such notes and bills bearing the signature or endorsement of any one person, company, firm or corporation rediscounted for any one bank shall at no time exceed 10 per centum of the unimpaired capital and surplus of said bank; but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values."

Under the law as it was originally enacted, it was found that paper which was otherwise eligible for rediscount with a Federal reserve bank became ineligible by the endorsement of any person who was already indebted to the discounting member bank in an amount in excess of 10% of the member bank's capital and surplus. At the instance of the Federal Reserve Board, therefore, the law was changed by the amendment of September 7, 1916, to read as it does at present.

In a letter from Governor Hamling of the Federal Reserve Board to Senator Owen, Chairman of the Senate Committee on Banking and Currency, dated March 10, 1916, several amendments to the Federal Reserve Act were suggested, among which was the amendment to the provision of Section 13 above quoted. With reference to this amendment, the letter states:

"The paragraph beginning in line 20 on page 3 has been changed so as to restrict the rediscount of notes, drafts and bills bearing the signature or endorsement of any one borrower. This amendment is suggested because as the Federal Reserve Act reads at present a bill which may otherwise be eligible for rediscount is rendered ineligible by the extra or additional endorsement of a person, firm, or corporation which has already borrowed up to its limit. By inserting the word 'borrower' the restriction is made analogous to that contained in Section 5200 of the Revised Statutes, which limits the liability of a national 'bank for money borrowed.'"

This letter of March 10, 1916, is included in the report of the Senate Committee on Banking and Currency on H.R. 13391 which became the Act of September 7, 1916.

The word "borrower" seems to be susceptible of several meanings according to the sense in which it is used but it is clear that as used in Section 13 it cannot be taken to mean both the maker and the endorser of a note for it is evident that the purpose of the amendment of September 7, 1916, was to prevent the limitation in Section 13 from applying to the signature or endorsement of more than one party to a note, draft or bill of exchange. The Board, after a very careful consideration as to the interpretation which should be placed upon the word "borrower" as used in Section 13 determined that the maker of a note should be considered the borrower unless it appears that he is an accommodation maker in which event the endorser who receives the benefit of the loan should be considered the borrower. This definition was in harmony with the provisions of Section 5200 of the Revised Statutes as it then read.

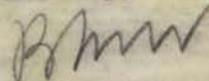
At the time of the amendment to Section 13 it was provided by Section 5200 of the Revised Statutes, as interpreted by the Comptroller's office, that only the maker should be considered the borrower in determining whether a national bank had made loans to any one person in excess of the limitation, unless it appeared that he was an accommodation maker in which case the endorser who received the benefit of the loan should be so considered. On February 25, 1927, however, Section 5200 was amended by the McFadden Act. As thus amended Section 5200 requires that both the maker and the endorser shall be considered in determining whether any one person is liable to a National Bank in excess of the limitation. The amendment to Section 5200 does not by its terms amend Section 9 or 13 of the Federal Reserve Act and in my opinion it does not amend either of these sections by implication with reference to who shall be considered a "borrower" under the provisions of Section 9 or 13.

In 1917 as noted above, Section 9 of the Federal Reserve Act was amended so as to provide that a Federal reserve bank should not discount for any State member bank the paper of any one borrower who was liable for borrowed money to such State bank in an amount greater than 10% of the capital and surplus of such State bank. In 1922 this section was further amended so as to provide that a Federal reserve bank should not discount for any State member bank the paper of any one borrower who was liable for borrowed money to such State bank in an amount greater than that which could be borrowed lawfully from such State bank were it a national bank. It will be noted that in both of these amendments the same term "borrower" is used as was used in the amendment to Section 13 above noted. It will also be noted that the term is used in substantially the same connection in both sections, that is, it is used with reference to rediscounts with Federal reserve

banks in both instances. In view of these facts and since the amendments to Section 9 were made subsequent to the amendment to Section 13, it seems evident that Congress used the word "borrower" in Section 9 in a sense similar to that in which it was used in Section 13. I am accordingly of the opinion that the term as used in Section 9 has the same meaning as it has in Section 13 and that the definition that the Board has applied to Section 13 should be applied to Section 9.

As stated heretofore, it was apparently the intention of Congress when it amended Section 9 of the Federal Reserve Act on July 1, 1922, to place State member banks on a basis of equality with national banks in making rediscounts with Federal reserve banks. The language used in the amendment to Section 9 was appropriate to maintain this basis of equality with reference to the amount loaned to any one borrower. Congress, however, did not, in my opinion, use language appropriate to maintain the basis of equality between State and National banks with reference to who should be considered the borrower, for it did not make the provision in Section 9 depend upon the provisions of Section 5200 in this respect. It should be noted that if the Board applies the definition it has heretofore made of the word "borrower" to that term as it is used in Section 9 of the Federal Reserve Act, State member banks and National banks will no longer be on the same basis but State member banks will be in a position of some advantage. For, under the Board's definition State member banks can discount an unlimited amount of paper for an endorser unless the maker is an accommodation maker so long as the loans to any one maker do not exceed 10% of the bank's capital and surplus and the paper of such endorser will still be eligible for discount with a Federal reserve bank while a National bank will be limited by the provisions of Section 5200 of the Revised Statutes as to the amount which may be discounted for an endorser. Although the application of the Board's definition of the word "borrower" as that term as used in Section 9 of the Federal Reserve Act will thus bring about a condition of inequality between State and National banks, with reference to rediscounts with Federal reserve banks, I am of the opinion that the Board cannot lawfully adopt the provisions of Section 5200 in determining who is the borrower under the provisions of Section 9, but it will be necessary for Section 9 to be amended by Congress if it wishes to carry out its apparent intention that State and national banks shall be on an equal basis with reference to rediscounts with Federal reserve banks.

Respectfully,



B.M. Wingfield
Assistant Counsel.

BMW OMC-SAd MD

Office Correspondence

FEDERAL RESERVE
BOARD

See 1A

Date Oct. 22, 1927

To Mr. Hamlin
From Mr. Wyatt- General Counsel.Subject: The Board's power over
foreign transactions of Federal
reserve banks.

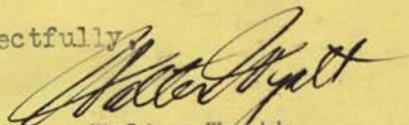
Page 91

2-4405
GPO

Dear Mr. Hamlin:

For your information I am handing you herewith a copy of an opinion on the above subject which I filed with the Law Committee on October 20th. In view of the unusual importance of this subject I am furnishing a copy of this opinion to each member of the Board.

Respectfully,



Walter Wyatt,
General Counsel.

Opinion attached.

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October 20, 1927.

To: The Federal Reserve Board,
From: Mr. Wyatt- General Counsel.

Subject: The Board's power over foreign
transactions of Federal Reserve Banks.

The Board has requested an opinion with respect to what regulations, limitations and restrictions it is authorized to prescribe as to foreign or international transactions of Federal reserve banks, and as to its general authority over such transactions. I understand that the Board desires to have the following points covered in this opinion:

(1) Whether the Board has power to regulate, limit, or restrict transactions involving the opening of accounts, the appointment of correspondents, or the establishment of agencies in foreign countries;

(2) Whether the Board has power to regulate, limit, or restrict dealings in bills of exchange and bankers' acceptances between Federal reserve banks and foreign central banks;

(3) Whether the Board has power to regulate, limit, or restrict dealings in gold between Federal reserve banks and foreign central banks; and

(4) Whether the Federal reserve banks may lawfully charge a commission or fee in connection with such foreign transactions.

CONCLUSIONS.

After careful consideration of these questions, I have reached the following conclusions:

(1) Under the specific terms of section 14(e) of the Federal Reserve Act, no Federal reserve bank may lawfully open or main-

tain accounts, appoint correspondents, or establish agencies in foreign countries without first obtaining the consent of the Federal Reserve Board; and the opening and maintenance of such accounts, the appointment of such correspondents, the establishment of such agencies and the conduct through such correspondents or agencies of "any transaction" authorized by section 14 of the Federal Reserve Act for or on behalf of other Federal reserve banks is expressly made subject to such rules and regulations as the Federal Reserve Board may prescribe. In addition, the Board has the power to order or direct Federal reserve banks to open and maintain accounts, appoint correspondents and establish agencies in foreign countries.

(2) By virtue of specific provisions of the Federal Reserve Act, the Federal Reserve Board is authorized and empowered to prescribe regulations, restrictions and limitations governing dealings in bills of exchange between Federal reserve banks and foreign central banks.

(3) By virtue of its right to exercise general supervision over Federal reserve banks, and by virtue of certain other powers specifically granted in the Federal Reserve Act, the Federal Reserve Board is authorized to regulate, limit or restrict important dealings in gold involving large amounts between Federal reserve banks and foreign central banks under section 14(a) of the Federal Reserve Act.

(4) Whenever the Federal reserve banks enter into any lawful transaction involving the extension of credit to, or the performance of any service for, a foreign central bank, they may lawfully charge a reasonable commission or fee for the extension of such credit or the rendition of such services.

DISCUSSION.

The only one of these questions which presents any difficulty is the question whether the Board has the power to regulate, limit or restrict dealings in gold between Federal reserve banks and foreign central banks. I shall, therefore, discuss the other questions first and take up this more difficult question last.

FOREIGN ACCOUNTS, CORRESPONDENTS AND AGENCIES.

The authority for Federal reserve banks to open and maintain accounts, appoint correspondents, and establish agencies in foreign countries is conferred by the following language of Section 14:

"Every Federal reserve bank shall have power:

"(e) To establish accounts with other Federal reserve banks for exchange purposes and, with the consent or upon the order and direction of the Federal Reserve Board and under regulations to be prescribed by said board, to open and maintain accounts in foreign countries, appoint correspondents, and establish agencies in such countries wheresoever it may be deemed best for the purpose of purchasing, selling, and collecting bills of exchange, and to buy and sell, with or without its indorsement, through such correspondents or agencies, bills of exchange (or acceptances) arising out of actual commercial transactions which have not more than ninety days to run, exclusive of days of grace, and which bear the signature of two or more responsible parties, and, with the consent of the Federal Reserve Board, to open and maintain banking accounts for such foreign correspondents or agencies. Whenever any such account has been opened or agency or correspondent has been appointed by a Federal reserve bank, with the consent of or under the order and direction of the Federal Reserve Board, any other Federal reserve bank may, with the consent and approval of the Federal Reserve Board, be permitted to carry on or conduct, through the Federal reserve bank opening such account or appointing such agency or correspondent, any transaction authorized by this section under rules and regulations to be prescribed by the board."

From a mere reading of this language it is obvious that the Federal Reserve Board is given full control of all transactions conducted thereunder. No Federal reserve bank may open or maintain accounts, appoint correspondents, or establish agencies in foreign countries except with the consent and subject to the regulations of the Federal Reserve Board; and any Federal reserve bank must open and maintain accounts, appoint correspondents, or establish agencies in foreign countries if ordered or directed to do so by the Federal Reserve Board. The opening and maintaining of such accounts, the appointment of such correspondents, and the establishment of such agencies is expressly made subject to "regulations to be prescribed by said board." No Federal reserve bank may open and maintain banking accounts through such foreign correspondents or agencies without the consent of the Federal Reserve Board. Other Federal reserve banks may participate in such transactions only with the consent and approval of the Federal Reserve Board. And all transactions through such correspondents or agencies in which other Federal reserve banks participate must be conducted "under rules and regulations to be prescribed by the Board."

This gives the Board the fullest possible measure of control, and it is important to note that the rules and regulations which may be prescribed by the Board governing transactions in which other of the Federal reserve banks participate pertain to all transactions authorized by any part of Section 14, and is not limited to transactions under subdivision (e).

DEALINGS IN BILLS OF EXCHANGE AND ACCEPTANCES.

The power of the Federal reserve banks to deal on the open market in bills of exchange and bankers' acceptances is conferred by the

first paragraph of section 14, which reads as follows:

"Sec. 14. Any Federal reserve bank may, under rules and regulations prescribed by the Federal Reserve Board, purchase and sell in the open market, at home or abroad, either from or to domestic or foreign banks, firms, corporations, or individuals, cable transfers and bankers' acceptances and bills of exchange of the kinds and maturities by this Act made eligible for rediscount, with or without the indorsement of a member bank."

It is obvious that all transactions conducted under authority of this paragraph are expressly made subject to "rules and regulations prescribed by the Federal Reserve Board."

Further and more complete authority to control such transactions is conferred upon the Federal Reserve Board by the following paragraph of section 13:

"The discount and rediscount and the purchase and sale by any Federal reserve bank of any bills receivable and of domestic and foreign bills of exchange, and of acceptances authorized by this Act, shall be subject to such restrictions, limitations, and regulations as may be imposed by the Federal Reserve Board."

It has been suggested that this paragraph pertains only to domestic transactions and gives the Board no power over transactions in foreign countries; but, the broad language used by Congress is not subject to any such restricted interpretation. It will be noted that it applies not only to the discount and rediscount but also to the purchase and sale by any Federal reserve banks of any bills receivable and of domestic and foreign bills of exchange and of acceptances authorized by this Act. It is not limited in terms to domestic transactions but is couched in the broadest possible language and is obviously intended to include all purchases and sales by any Federal reserve bank of any bills receivable, domestic and foreign bills of exchange, or acceptances authorized by the Federal Reserve Act.

It has been suggested that it was intended to apply only to transactions under section 13 and does not apply to dealings under section 14. A glance at the legislative history of this provision, however, shows that it could not possibly have been intended to apply only to section 13. As contained in the original Federal Reserve Act, this provision applied only to rediscounts but it was amended by the Act of September 7, 1916, so as to apply also to purchases and sales. At that time section 13 did not authorize Federal reserve banks to purchase and sell bills receivable, bills of exchange or bankers' acceptances but dealt with discounts and rediscounts and the only authority for the purchase and sale of bills of exchange and acceptances by Federal reserve banks was contained in section 14. Even at this late date, the only authority in section 13 to purchase and sell bills of exchange is the authority added by the Agricultural Credits Act of March 4, 1923, to purchase and sell bills of exchange payable at sight or on demand which are drawn to finance the domestic shipment of nonperishable readily marketable staple agricultural products.

It is obvious, therefore, that the authority conferred upon the Federal Reserve Board by the above quoted provision of section 13 is intended to apply to the purchase and sale of bills of exchange and bankers' acceptances by Federal reserve banks at home or abroad under section 14.

In my opinion, therefore, the specific provisions of the Federal Reserve Act authorize and empower the Federal Reserve Board to prescribe regulations, restrictions, and limitations covering dealings in bills of exchange and bankers' acceptances between Federal reserve banks and foreign central banks.

RIGHT OF FEDERAL RESERVE BANKS TO MAKE A REASONABLE
CHARGE IN CONNECTION WITH FOREIGN TRANSACTIONS.

Assuming that Federal reserve banks have power to engage in transactions whereby they sell or lend gold to foreign banks, purchase bills for the account of foreign banks or extend credit in any way to foreign banks, have the Federal reserve banks the right to charge a reasonable commission or fee for so doing?

In my opinion it is an incidental power of Federal reserve banks to make a reasonable charge for any service lawfully rendered by them, unless such charge is prohibited by statute or is contrary to public policy. There is no statute prohibiting the making of charges by Federal reserve banks in connection with dealings in gold or bills of exchange with foreign central banks, nor is there anything in the Federal Reserve Act to indicate that such a charge should be considered contrary to public policy. Assuming that the Federal reserve banks have power to engage in these foreign transactions, I am of the opinion, therefore, that they are legally authorized to make a reasonable charge for the services which they render in that connection.

GOLD TRANSACTIONS.

Section 14(a) authorizes and empowers the Federal reserve banks:

"(a) To deal in gold coin and bullion at home or abroad, to make loans thereon, exchange Federal reserve notes for gold, gold coin, or gold certificates, and to contract for loans of gold coin or bullion, giving therefor, when necessary, acceptable security, including the hypothecation of United States bonds or other securities which Federal reserve banks are authorized to hold;"

This section does not expressly authorize the Federal Reserve Board to regulate, limit or restrict the exercise of the powers conferred thereby; but I am of the opinion that such authority is to be found else-

where in the Act.

I am not familiar with the details of the arrangements between the Federal Reserve Bank of New York and the various central banks of foreign countries; but it is my understanding that, whenever the Federal Reserve Banks have undertaken to enter into transactions with foreign central banks involving the purchase and sale of bills of exchange or dealings in gold, the Federal Reserve Bank of New York has first entered into mutual arrangements with such central banks whereby each bank appoints the other its correspondent or agent, and that the transactions which take place under these arrangements are conducted by the Federal Reserve Bank of New York on behalf of all Federal Reserve Banks on a pro rata basis. Where this is done there can be no doubt of the Board's power to prescribe rules and regulations governing all such transactions which are authorized by any part of Section 14; because the last sentence of Section 14(e) provides that:

"Whenever any such account has been opened or agency or correspondent has been appointed by a Federal reserve bank, with the consent of or under the order and direction of the Federal Reserve Board, any other Federal reserve bank may, with the consent and approval of the Federal Reserve Board, be permitted to carry on or conduct, through the Federal reserve bank opening such account or appointing such agency or correspondent, any transaction authorized by this section under rules and regulations to be prescribed by the board."

It has been suggested that the words "any transactions" as used here refer only to the purchasing, selling and collecting of bills of exchange under authority of subdivision (e) of Section 14; but, in my opinion, no such restricted interpretation can properly be given to these words. The words "any transaction authorized by this section"

are very broad in their scope and clearly include every transaction authorized by any part of Section 14, including the power granted by Subdivision (a) to deal in gold coin and bullion at home or abroad. In my opinion, therefore, this provision of subdivision (e) of Section 14 specifically authorizes the Board to prescribe rules and regulations governing any and all transactions in gold between a Federal reserve bank and a foreign central bank which has been appointed as the agent or correspondent of such Federal reserve bank, if other Federal reserve banks participate in such transactions.

Independently of the power conferred by section 14(e), however, I am further of the opinion that the Federal Reserve Board is authorized to regulate, limit or restrict international gold transactions of the Federal reserve banks, even when such transactions are not conducted through correspondents or agencies opened or established pursuant to section 14(c). This power in my opinion is included in the power conferred by section 11(j) "to exercise general supervision over said Federal reserve banks" and the power conferred by Section 11(i) to "perform the duties, functions, or services specified in this Act, and make all rules and regulations necessary to enable said Board effectively to perform the same.

In view of the great importance of this question, I shall discuss at length the nature and extent of the Board's power of general supervision, the legislative history of the open market powers of the Federal reserve banks, the respective functions of the Federal reserve banks and the Federal Reserve Board in the Federal Reserve System and the relation of international gold transactions to other

transactions over which the Board has been given specific powers. Before entering upon such a lengthy discussion, however, I shall state briefly my reasons for the above conclusion.

1. It has long been recognized that banking is a business affected with the public interest and that banks are subject to regulation under the police power for the protection of the general welfare of the people.

2. Because of their very nature and because of the far-reaching effects of their policies and transactions on the general welfare of the people, this is especially true of Federal reserve banks.

3. Federal reserve banks are instrumentalities of the Federal government created for public purposes and are at all times and in all respects subject to the paramount authority of the Federal government.

4. The Federal Reserve Board is an arm of the Federal government created for the purpose of administering the Federal Reserve Act and exercising general supervision over the Federal reserve banks, to the end that they may function in a manner best calculated to carry out the purposes of the Federal Reserve Act, to serve the public policy of the United States, and to benefit the people of the United States.

5. The Board's general power of supervision includes the power to see that the Federal reserve banks preserve and protect the banking reserves of the country with which they are entrusted, that they do nothing which may endanger the solvency or soundness of their currency, that they carry out faithfully the purposes of the Federal Reserve Act and that they comply in all respects with both the letter and the spirit of the law. This power carries with it the power to

require the Federal reserve banks to cease doing anything which is ultra-vires or which might defeat the purposes of the Federal Reserve Act or which might be detrimental to the public interest. Moreover, this power is to be construed liberally so as to enable the Board effectively to safeguard the great public interests confided to it.

6. From an examination of the Committee reports and legislative debates on the Federal Reserve Act it is perfectly clear that the power of carrying on the regular routine everyday business of the Federal reserve banks and the power of determining local policies was entrusted to their respective board of directors, but the Federal Reserve Board was created as "a general board of management" entrusted with the power to overlook and direct the general functions of the banks in order that the Board, on behalf of the government, might retain some power over the exercise of the "broader banking functions" affecting the country as a whole.

7. To this end, the Board was given power, among other things, to review and determine the rates of discount to be fixed by each Federal reserve bank from time to time, to regulate the open market transactions of the Federal reserve banks, to exercise general supervision over the Federal reserve banks, and to make all rules and regulations necessary to enable the Board to perform the duties, functions or services specified in the Federal Reserve Act.

8. The power to purchase and sell bills of exchange and bankers' acceptances in the open market was conferred upon the Federal reserve banks in order to enable them to make their rediscount rates effective and to protect their gold reserves, but this power was subjected to

regulation by the Federal Reserve Board in order that the Board might have some control over the reserve positions of the banks, the rediscount rates, and general credit conditions throughout the country.

9. For the same reason, the Board was given a great measure of control over the other open market operations of the Federal reserve banks, over their power to appoint correspondents, open accounts and establish agencies abroad, and over the transactions which might be conducted through such foreign correspondents and agencies.

10. The effectiveness of the powers thus conferred upon the Board would be seriously impaired and the Board's ability to exercise some control over the rediscount rates, open market operations and foreign transactions of the Federal reserve banks with a view to protecting the general credit situation and overseeing the "broader banking functions" affecting the country as a whole might be rendered nugatory if the Federal reserve banks could enter into transactions with foreign banks involving the purchase and sale, lending, borrowing and earmarking of gold, thereby moving great quantities of gold into or out of the country, without being subject to any regulation or check by the Federal Reserve Board.

11. Any statute must be construed as a whole and in such a way as to carry out the intent of the legislature. The intent of the legislature must be obtained by reading the act as a whole and not by construing isolated provisions of the same without any reference to their relation to the other provisions of the act or the effect of such construction upon other provisions of the act.

12. To construe the Board's powers "to exercise general supervision over the Federal reserve banks" and "to perform the duties,

functions or services specified in this act and to make all rules and regulations necessary to enable said Board effectively to perform the same" strictly and in such a way as not to include the power to exercise some control over international gold transactions, would clearly defeat the broad purposes of the Federal Reserve Act and greatly impair the Board's function as a "general board of management" entrusted with the power to overlook and direct the general functions of the banks in order that the Board, on behalf of the government, might retain some power over the exercise of the "broader banking functions" affecting the country as a whole.

13. Dealings in gold between the Federal reserve banks and foreign central banks are transactions of importance to the entire Federal Reserve System and to the public interests of the United States as a whole. Normally large amounts are involved in these dealings. Frequently in such transactions the funds of the Federal reserve banks are invested in or represented by assets located in foreign countries. This use of large amounts of the funds of the Federal Reserve System might cause a serious restriction upon the amount of funds available for use in this country and harmful results upon the Federal Reserve System or upon the business interests of this country might ensue. It could seriously affect the gold reserves of the country and the effectiveness of the rediscount rate.

14. Under these circumstances, the question whether and to what extent Federal reserve banks should engage in transactions of this kind is an important question of policy to the Federal Reserve System as a whole. The practical responsibility of such transactions is one

which in the last analysis, must rest upon the Federal Reserve Board. If the Federal Reserve Board's power of general supervision over Federal reserve banks is to have any practical effect or is to be given any substantial meaning, it must be considered to extend to and include the regulation or restriction of such important activities of Federal reserve banks as these international dealings in gold, which may impair the effectiveness of the rediscount rate and the open market transactions over which the Board is expressly given a large measure of control.

I am of the opinion, therefore, that by virtue of its right to exercise general supervision over Federal reserve banks the Federal Reserve Board is empowered and authorized to restrict or regulate important dealings in gold involving substantial amounts between Federal reserve banks and foreign central banks under section 14(a) of the Federal Reserve Act and that accordingly the Federal Reserve Board may, if it so desires, require Federal reserve banks to obtain its approval before entering into such transactions.

FURTHER DISCUSSION AND CITATION OF AUTHORITIES.

The above is only a summary of the reasons for my conclusions regarding the Board's power to exercise supervision and control over international gold transactions. In view of the vast importance of this subject, I have made a very lengthy and complete study and feel that I should submit below for future reference the results of that study and the citations of such authorities as I have found.

GENERAL SUPERVISORY POWER.

I have made a careful and thorough study of the Board's general supervisory power and of the legal authorities regarding the general supervisory or visitatorial powers in general. I submit the following discussion of that subject for the Board's further information.

It is customary in American law to vest in some board, commission, or officer, the power to exercise general supervision over certain types of corporations such as common carriers, insurance companies, and banks, which are affected with a public interest. Furthermore, under American law all corporations are chartered by the Government and have only such powers as are expressly granted in their charters or in the laws under which they are incorporated and such incidental powers as are necessary to the exercise of the powers expressly granted. It is well settled that by implication they are forbidden to exercise any other powers. The State, therefore, is interested in any attempt by a corporation to exceed its corporate powers and it is well settled that the State is the one to complain of any ultra vires acts of a corporation and is the only one which can institute quo warranto proceedings to compel a corporation to cease performing ultra vires acts. The duties of boards, commissions or officers charged with general supervision over corporations affected with a public interest, therefore, are primarily to see that such corporations do not exceed their lawful powers and that they carry out the purposes of their organization in such a way as to benefit rather than injure the public, and to prevent or check any abuses of any character.

This power, in its general nature and purpose is quite similar to, if not the same as, the common law power of visitation. A discussion of the authorities on the subject of visitatorial powers, therefore, may throw some light on the extent of the Board's duties and powers in the premises.

The visitors of eleemosynary and ecclesiastical corporations at common law, however, frequently performed all the functions and possessed all the powers which are now divided between the directors of banks and the governmental authorities having supervision over them; and it is im-

portant to keep this in mind while reading the authorities quoted below:

Bouvier's Law Dictionary. (p. 3404) discusses this subject as follows:

"Visitation. The act of examining into the affairs of a corporation.

"The power of visitation is applicable only to ecclesiastical and eleemosynary corporations. 1 Bla. Com. 480. The visitation of civil corporations is by the government itself, through the medium of the courts of justice. See 2 Kent, 240. In the United States, the legislature is the visitor of all corporations founded by it for public purposes; Dartmouth College v. Woodward, 4 Wheat. (U.S.) 518 4 L. Ed. 629.

* * * * *

"All eleemosynary corporations who are to receive the charity of the founder have visitors if they are ecclesiastical corporations; and if a particular visitor is not provided by the founder, then the Ordinary of the place is the visitor; if they are lay corporations, the founder and his heirs are perpetual visitors; 5 Mod. 404. It is a necessary incident of an eleemosynary corporation; 1 Mod. 82; "a power to correct abuses and to enforce due observance of the statutes of the charity, but not a power to revoke the gifts, to change uses or divest rights;" Allen v. McKean 1 Summ. 276, Fed. Cas. No. 229, per Story, J.

"A visitor has the right of inspecting the affairs of the corporation, and superintending all officers who have charge of them according to the statutes of the founder, without any control or revision of any other person or body, except the judicial tribunals, by whose authority and jurisdiction he may be restrained and kept within the limits of the granted powers, and made to regard the general laws of the land; in re Murdock, 24 Mass. 303. No. appeal lay from a visitor unless he visits qua Ordinary, when an appeal lay to the Crown in Chancery. It was said by Lord Camden that visitation is despotism uncontrolled and without appeal; Grant, Corp. 534. See, generally, Tudor, Charitable Trusts; Stephens, Statutes Relating to Ecclesiastical, etc., Institutions; Report of Oxford Commission (1852); 7 Com. Dig. 545; 21 Viner, Abr. 587. See 34 L. Mag. and Rev. 40, as to Oxford and Cambridge Universities.

"In Massachusetts it is held that the visitation of eleemosynary corporations according to the common law is in force except as altered by statute; In re Murdock, 24 Mass. 303; such statutes may vest visitatorial power in the courts, in the absence of a personal visitor, or even where there is one; In re Taylor Orphan Asylum, 36 Wis. 534; but where visitatorial power is conferred on certain public officers, the courts may not interfere unless such visitors should act contrary to law; Nelson v. Cushing, 2 Cush. (56 Mass.) 519.

"Even where a testator, in founding a hospital, directed that the trustees should annually report their acts to the court and give bonds, it was held that the court had no visitatorial power or other supervision;

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Jenkins v. Berry, 119 Ky. 350, 83 S.7. 594.

"The visitatorial power of a court over a cemetery association does not authorize it to substitute its own business judgment for that of the association; Roanoke Cemetery Co. v. Goodwin, 101 Va. 605, 44 S.E. 769.

"Under the visitatorial powers of a state over corporations doing business within its borders, it is competent for it to compel such corporations to produce their books and papers for investigation and to require the testimony of their officers and employees to ascertain whether its laws have been complied with, and this power extends to the production of books and papers kept outside of the state, and a statute requiring such production does not amount to an unreasonable search or seizure or a denial of due process of law; Consolidated R. Co. v. Vermont, 207 U. S. 541, 28 Sup. Ct. 178, 52 L. Ed. 327, 12 Ann. Cas. 658; Hammond P. Co. v. Arkansas, 212 U.S. 322, 29 Sup. Ct. 370, 53 L. Ed. 530, 15 Ann. Cas. 645. A corporation, being the creature of the state, has not the constitutional right to refuse to submit its books and papers for an examination at the suit of the state, and an officer of a corporation charged with criminal violation of a statute cannot plead the criminality of the corporation as a refusal to produce its books; Hale v. Henkel, 201 U. S. 43, 26 Sup. Ct. 370, 50 L. Ed. 652. A corporation is bound to furnish information when called for by the state, so far as reasonably possible, and state the facts which excuse them from answering more fully; State v. Express Co., 81 Minn. 87, 83 N.W. 465, 50 L.R.A. 667, 83 Am. St. Rep. 366; by statute the right exists in Kansas; See Western U. Tel. Co. v. Austin, 67 Kan. 208, 72 Pac. 850.

"It may be considered that, to a certain extent, railroad commissions are the machinery created by law for the exercise of visitatorial power.

"This power does not include the common law right of the shareholder to inspect the books of the corporation; Guthrie v. Harkness, 199 U.S. 148, 26 Sup. Ct. 4, 50 L. Ed. 130, 4 Ann. Cas. 433."

In the famous Dartmouth College Case, 17 U.S. (4 Wheat) 517, 672, Mr. Justice Story discusses the subject of visitors of eleemosynary corporations as follows:

"To all eleemosynary corporations, a visitatorial power attaches, as a necessary incident; for these corporations being composed of individuals, subject to human infirmities, are liable, as well as private persons, to deviate from the end of their institution. The law, therefore, has provided, that there shall somewhere exist a power to visit, inquire into, and correct all irregularities and abuses in such corporations, and to compel the original purposes of charity to be faithfully fulfilled. 1 Bl. Com. 480. The nature and extent of this visitatorial power has been expounded with admirable fulness and accuracy by Lord Holt in one of his most celebrated judgments. Phillips v. Bury, 1 Ld. Raym. 5; s.c. 2 T.R. 346. And of common right, by the dotation, the founder and his heirs are the legal visitors, unless the founder has appointed and assigned another person to be visitor. For the founder may, if he please, at the time of the

endowment, part with his visitatorial power, and the person to whom it is assigned will, in that case, possess it in exclusion of the founder's heirs. 1. Bl. Com. 482.

*** But where trustees or governors are incorporated to manage the charity, the visitatorial power is deemed to belong to them in their corporate character. Philips v. Bury, 1 Ld. Raym. 5; s.c. 2 T.R. 346; Green v. Rutherford, 1 Ves. 472; Attorney-General v. Middleton, 2 Ibid. 327; Case of Sutton Hospital, 10 Co. 23,31."

That the power to supervise and examine banks is a visitatorial power is indicated by the following passage in Morse on Banks and Banking (5 Ed.) Vol 1, p.44:

"A state may invest the supervision of banks in a bank commissioner or other examiner, and grant to him visitatorial powers over banks and impose upon him the duty of examination of banks, the investigation of their solvency, and the winding up of their affairs if the protection of the depositors demands such action. He may examine the records of the bank, change the personnel of the board of directors, and establish rules for the proper discharge of his duty. His power should not be unduly narrowed by construction, nor can he be removed by the governor."

In *Guthrie v. Harkness*, 199 U.S. 148, a stockholder in a national bank applied for leave to inspect the books, accounts and loans of the bank for the purpose of ascertaining the value of his stock. Upon refusal to allow such inspection, he instituted proceedings to compel the officers of the bank to permit him to examine the books. One of the defenses made on behalf of the officers was that the common law right of the stockholder to inspect the books of a corporation is cut off as to stockholders of national banks by Section 5241 of the Revised Statutes, which provides that "No association shall be subject to any visitatorial powers other than such as are authorized by this title or are vested in the courts of justice." The court held that the stockholder was entitled to examine the books of the bank and that the officers thereof must permit him to do so.

Mr. Justice Day said:

"But, it is said, the right of the shareholder to inspect the books is cut off by section 5241, providing 'no association shall be subject to any visitorial powers other than such as are authorized by this Title, or are vested in the courts of justice. 'We are unable to find any definition of 'visitorial powers' which can be held to include the common law right of the shareholder to inspect the books of the corporation * * *.

* * * * *

"The meaning of this section was before Judge Baxter in the case of First Nat. Bank of Youngstown v. Hughes, 6 Fed. Rep. 737, and of the meaning of the term 'visitorial powers', as used in section 5241, that learned judge said:

'Visitation, in law, is the act of a superior or superintending officer, who visits a corporation to examine into its manner of conducting business, and enforce an observance of its laws and regulations. Burrill defines the word to mean "inspection; superintendence; direction; regulation." '

"At common law the right of visitation was exercised by the King as to civil corporations and as to eleemosynary ones by the founder or donor. 1 Cooley's Blackstone, 481. 'In the United States the legislature is the visitor of all corporations created by it, where there is no individual founder or donor, and may direct judicial proceedings against such corporations for such abuses or neglects as would at common law cause forfeiture of their charters.' 1 Cooley's Blackstone, 482, note.

"In the case before us the Supreme Court of Utah quotes from Merrill on Mandamus as follows:

'Visitors of corporations have power to keep them within the legitimate sphere of their operations, and to correct all abuses of authority, and to nullify all irregular proceedings. In America there are very few corporations which have private visitors, and in the absence of such, the State is the visitor of all corporations.'

"In no case or authority that we have been able to find has there been a definition of this right, which would include the private right of the shareholder to have an examination of the business in which he interested, and the right of discovery of the methods and means by which the agents of the corporation are conducting its affairs. The right of visitation being a public right, existing in the State for the purpose of examining into the conduct of the corporation with a view to keeping it within its legal powers, Congress had in mind in passing this section that in other sections of the law it had made full and complete provision for investigation by the Comptroller of the Currency and examiners appointed by him, and, authorizing the appointment of a receiver, to take possession of the business with a view to winding up the affairs of the bank. It was the intention that this statute should contain a full code of

"provisions upon the subject, and that no state law or enactment should undertake to exercise the right of visitation over a national corporation. Except in so far as such corporation was liable to control in the courts of justice, this act was to be the full measure of visitorial power."

The Board's power to exercise general supervision over Federal reserve banks and examine into their affairs is quite similar to the corresponding power of the Comptroller of the Currency over national banks, and it would seem that the nature and purpose of the Board's power must be practically the same as that of the Comptroller's.

In the case of State v. Morehead, (Nebr.) 155 N. W. 879, the court in discussing the right of the State Banking Board to refuse to issue a charter to a savings bank said:

"When the general rule of statutory construction is applied and section 16 is considered in connection with the other provisions, it must be held that the board is vested with authority not only to correct evils that may creep into the management of an existing bank, but to guard against dangers, that may threaten institutions about to be formed.

"The power to compel, beforehand, co-operation, and thus, it is believed, to make a failure unlikely and a general panic almost impossible, must be recognized, if government is to do its proper work, unless we can say that the means have no reasonable relation to the end. Noble State Bank v. Haskell, 219 U.S. 104, 112, 31 Sup. Ct. 186, 188 (55 L. Ed. 112, 32 L.R.A.(N.S.) 1062, Am. Cas. 1912A, 487)."

" * * * We think the intention of the Legislature was to vest the banking board with general control and with authority to do all things reasonably necessary for the protection of depositors throughout the state. The Board also stands in the nature of a trustee for this guarantee fund, and it is its duty to take such precautions as may be necessary to protect its integrity. The terms 'general supervision and control' vest the banking board with duties of a very high order, and they are not to be perfunctorily discharged, but to be administered with the highest degree of intelligence and discretion.

"It is customary for Legislatures to grant to administrative bodies of this character the power to adopt rules, by-laws, and regulations reasonably necessary to carry out the purpose for which they are created, and this grant is not an improper delegation

"of authority. *Blue v. Beach*, 155 Ind., 121, 56 N.E. 89, 50 L.R.A. 64, 80 Am. St. Rep. 195 and cases cited. This is held generally to be the rule in matters coming within the police power of the state. That the banking business comes within that power is no longer an open question.

"The police power extends to all the great public needs (*Camfield v. United States*, 167 U.S. 518, (17 Sup. Ct. 864, 42 L. Ed. 260) and includes the enforcement of commercial conditions such as the protection of bank deposits and checks drawn against them by compelling cooperation so as to prevent failure and panic.' (*Noble State Bank v. Haskell*, 219 U. S. 104)

"The business of banking coming within the police power of the state, the same rule of construction may be applied to banking acts and to rules and regulations established by banking boards as applies to acts creating other administrative bodies coming within the police power. The Supreme Court of Judicature of Indiana, in discussing this phase of the question, in *Blue v. Beach*, supra, says:

"While it is true that the character or nature of such boards is administrative only, still the powers conferred upon them by the Legislature, in view of the great public interests confided to them, have always received from the courts a liberal construction, and the right of the Legislature to confer upon them the power to make reasonable rules, by-laws, and regulations, is generally recognized by the authorities."

The case of Great Northern Railway Company v. Snohomish County, 48 Wash. 478, 93 Pac. 924, involved the construction of a State statute requiring the State Board of Tax Commissioners to exercise "general supervision" over assessors and county boards of equalization and the assessment of taxable property in order to secure equality in taxation. The case turned upon the proper meaning of the term "general supervision" - whether it authorized the Commissioners to act merely in an advisory capacity or whether it authorized them to classify inter-county railroads and fix the value thereof for the purpose of taxation. The court held that the statute authorized the Commissioners to classify inter-county railroads and fix the value thereof for purposes of taxation; that the words "general supervision" imply something

more than a mere power to advise and suggest; that they confer authority to oversee and review the acts and correct errors of those over whom the right of supervision is granted. In the course of the opinion the court said:

"While these several provisions bear more or less directly on the question under consideration, the case turns principally on the meaning of the term 'general supervision' in the act defining the powers and duties of the state board of tax commissioners. * * * The state board of tax commissioners is given general supervision over assessors and county boards of equalization, to the end that all taxable property shall be placed on the assessment rolls and equalized as between the different counties and municipalities, so that equality of taxation shall be secured according to the provisions of law. What is meant by 'general supervision'? Counsel for respondents contend that it means to confer with, to advise, and that the board acts in an advisory capacity only. We cannot believe that the Legislature went through the idle formality of creating a board thus impotent. Defining the term 'general supervision' in *Vantongerren v. Hefferman*, 5 Dak. 180, 38 N.W. 52, the court said: 'The Secretary of the Interior, and under his direction, the Commissioner of the General Land Office, has a general "supervision over all public business relating to the public lands." What is meant by "supervision"? Webster says supervision means "to oversee for direction; to superintend; to inspect; as to supervise the press for correction." And, used in its general and accepted meaning, the Secretary has the power to oversee all the acts of the local officers for their direction, or, as illustrated by Mr. Webster, he has the power to supervise their acts for the purpose of correcting the same; and the same power is exercised by the Commissioner under the Secretary of the Interior. It is clear, then, that a fair construction of the statute gives the Secretary of the Interior, and under his direction, the Commissioner of the General Land Office, the power to review all the acts of the local officers, and to correct, or direct a correction of, any errors committed by them. Any less power than this would make the "supervision" an idle act - a mere overlooking without power of correction or suggestion.' Defining the like term in *State v. F.E. & M.V. R.R. Co.*, 22 Nebr. 313, 35 N.W. 118, the court said: 'Webster defines the word "supervision" to be "the act of overseeing; inspection; superintending." The board therefore is clothed with the power of overseeing, inspecting, and superintending the railways within the state, for the purpose of carrying into effect the provisions of this act, and they are clothed with the power to prevent unjust discrimination against either persons or places.' It seems to us that the term 'general supervision' is correctly defined in these cases. Certainly a person or officer who can only advise or suggest to another has no general supervision over him, his acts or his conduct."

Similarly, it would seem that the Board's power to exercise "general

supervision" over the Federal reserve banks would include the power to require the Federal reserve banks to carry out the purposes of the Act and to check any practices which would be detrimental to the public interest or inconsistent with the purposes of the Act. Certainly, the Board's power of general supervision should not be construed in such a way as to "make the 'supervision' an idle act - a mere overlooking without power of correction or suggestion."

On the other hand, there are some cases indicating the limitations on this power of general supervision.

One of such cases is that of State v. Bronson, (Mo.) 21 S.W.1125. The constitution of Missouri provides that "The supervision of instruction in the public schools shall be vested in a board of education whose powers and duties shall be prescribed by law." The legislature passed a law creating a commission to purchase the books necessary for use in the schools. This law was objected to by the directors of a school district as being unconstitutional on the ground that it was in violation of the powers vested in the board of education by the constitution.

The court held that the selection and purchase of the school books does not come within the fair meaning of the words "the supervision of instruction" and the law does not violate the constitutional provision. In so holding the court said:

"With such a general system of public schools it must be evident that when the constitution says the supervision of instruction shall be vested in the state board of education, it does not mean that this board shall enter into the details of giving instruction or carrying on the schools. All this is and may be left to subordinate officers. It means no more than a general oversight over the matter of instruction."

In the case of Roanoke Cemetery Co. v. Goodwin, 101 Va. 605, 44 S.E. 769, the lower court had reviewed the reasonableness of regulations prescribed by the cemetery association for the conduct of its business and the fees charged for opening graves and had issued a decree whereby the court undertook to prescribe its own rules and regulations for the management of the affairs of the company, even going to the extent of determining the fund out of which the salary of the superintendent should be paid. The Supreme Court of Appeals in Virginia held that the decree exceeded the power of the court and said:

"It is not permissible for a court to thus substitute its own business discretion and judgment for that of the company; its visitorial powers have no such scope. 1 Clark & Marshall, p. 547. "

Similarly, it might be said that the authority to exercise general supervision over the Federal reserve banks does not carry with it the duty to enter into the details of operating the banks nor the authority for the Federal Reserve Board to substitute its own business judgment and discretion for that of the directors.

Without attempting to lay down a precise definition of the Board's power of general supervision, it may be said that generally it includes the power and carries with it the duty to see that Federal reserve banks do not exceed their corporate powers; that they do not discriminate in favor of or against any class of the public or any member banks; that they preserve and protect the banking reserves of the country with which they are entrusted; that they do not do anything which may endanger their solvency or the soundness of their currency; that they carry out faithfully the purposes of the Federal Reserve Act; and that they comply in all respects with both the letter and spirit of

the law. I am further of the opinion that this power carries with it the power to require the Federal reserve banks to cease doing anything which is ultra vires which might defeat the purposes of the Federal Reserve Act or which might be detrimental to the public interest.

Moreover, this power is to be construed liberally so as to enable the Board effectively to safeguard the great public interests confided to it. *Blue v. Beach*, 155 Ind. 121, 45 N.E. 89. As stated in *State v. Moreland*, supra, "The terms 'general supervision and control' vest the banking board with duties of a very high order, and they are not to be perfunctorily discharged, but to be administered with the highest degree of intelligence and discretion."

On the other hand, I am of the opinion that this power does not carry with it either the duty or the power to interfere in the details of the operation of the Federal reserve banks or to substitute the Board's own business judgment and discretion for that of the directors of the Federal reserve banks.

It does, however, include the power to check any actions on the part of the Federal reserve banks which would nullify or impair the effective exercise of any lawful powers of the Federal Reserve Board or which would constitute an evasion of any control which the Federal Reserve Board is authorized to exercise over the general credit policies of the System as a whole. Within this class of actions which are subject to regulation under the Board's general supervisory power would clearly be included international dealings in gold, which might tend to affect or impair the effectiveness of the rediscount rate, which is expressly made subject to review and determination by the Federal Reserve Board, or which would nullify the effect of the Board's restrictions on the open market operations of the banks.

THE RELATIVE FUNCTIONS OF THE BOARD AND THE BANKS
AS SHOWN BY LEGISLATIVE HISTORY.

That these views, based upon a purely legal interpretation of the Board's powers, are in accordance with the intent of Congress at the time it enacted the Federal Reserve Act appears from the following passages in the report on the original Federal Reserve Act submitted to the House of Representatives by Mr. Glass, on behalf of the Banking and Currency Committee, under date of September 9, 1913 (pages 16, 18, 19, 42 and 46):

"In order that the banks may be effectively inspected, and in order that they may pursue a banking policy which shall be uniform and harmonious for the country as a whole, the committee proposes a general board of management intrusted with the power to overlook and direct the general functions of the banks referred to. To this it assigns the title of 'The Federal reserve board.'"

* * * * *

"The only factor of centralization which has been provided in the committee's plan is found in the Federal reserve board, which is to be a strictly Government organization created for the purpose of inspecting existing banking institutions and of regulating relationships between Federal reserve banks and between them and the Government itself. Careful study of the elements of the problem has convinced the committee that every element of advantage found to exist in cooperative or central banks abroad can be realized by the degree of cooperation which will be secured through the reserve-bank plan recommended, while many dangers and possibilities of undue control of the resources of one section by another will be avoided. Local control of banking, local application of resources to necessities, combined with Federal supervision, and limited by Federal authority to compel the joint application of bank resources to the relief of dangerous or stringent conditions in any locality are the characteristic features of the plan as now put forward. The limitation of business which is proposed in the sections governing rediscounts, and the maintenance of all operations upon a footing of relatively short time will keep the assets of the proposed institutions in a strictly fluid and available condition, and will insure the presence of the means of accommodation when banks apply for loans to enable them to extend to their clients larger degrees of assistance in business. It is proposed that the Government shall retain a sufficient power over the reserve banks to enable it to exercise a directing authority when necessary to do so, but that it shall in no way attempt to carry on through its own mechanism the routine operations of banking which require detailed

knowledge of local and individual credits and which determine the actual use of the funds of the community in any given instance. In other words, the reserve-bank plan retains to the Government power over the exercise of the broader banking functions, while it leaves to individuals and privately owned institutions the actual direction of routine."

* * * * *

"In this section provision has been made for the creation of a general board of control acting on behalf of the national Government for the purpose of over-seeing the reserve banks and of adjusting the banking transactions of one portion of the country, as well as the Government deposits therein, to those of other portions."

"(e) In paragraphs (e), (f), (g), (h), and (i) are conveyed powers which are largely self-explanatory and about which there can be little or no question, granting the general idea of effective Government oversight through a Federal reserve board or some similar organization."

The power of carrying on the regular routine every-day business of the Federal reserve banks, therefore, and of determining the local policies was entrusted to their respective boards of directors, but the Federal Reserve Board was created as "a general board of management" entrusted with the power to overlook and direct the general functions of the banks in order that the Board, on behalf of the Government, might retain some power over the exercise of the "broader banking functions" affecting the country as a whole.

That the open market operations of the Federal reserve banks and their transactions with foreign central banks in gold, credits and bills of exchange is a function affecting the country as a whole, seems perfectly obvious, and it would seem to follow that the Board was intended to have a control over all such operations. This will appear more clearly from a consideration of the history and nature of such transactions.

HISTORY AND NATURE OF OPEN MARKET FUNCTIONS.

The report of the House Banking and Currency Committee (pp. 52 and 53) discusses section 15 of the original Federal Reserve Bill, which later became section 14 of the Federal Reserve Act as follows:

"Section 15.

"It will have been observed that the transactions authorized in section 14 (now section 13 of the Federal Reserve Act) were entirely of a nature originating with member banks and involving a rediscount operation. It is clearly necessary to extend the permitted transactions of the Federal reserve banks beyond this very narrow scope for two reasons:

"1. The desirability of enabling Federal reserve banks to make their rate of discount effective in the general market at those times and under those conditions when rediscounts were slack and when therefore there might have been accumulation of funds in the reserve banks without any motive on the part of member banks to apply for rediscounts or perhaps with a strong motive on their part not to do so.

"2. The desirability of opening an outlet through which the funds of Federal reserve banks might be profitably used at times when it was sought to facilitate transactions in foreign exchange or to regulate gold movements.

"In order to attain these ends it is deemed wise to allow a reserve bank, first of all, to buy and sell from anyone whom it chooses the classes of bills which it is authorized to rediscount. The reserve bank evidently would not do this unless it should be in a position which, as already stated, furnished a strong motive for so doing. Outright purchases in the open market would of course require the payment of the face of the paper less discount, whereas rediscount operations would require simply the holding of a reserve of $33 \frac{1}{3}$ per cent behind the notes issued or deposit accounts created in the course of the rediscount operation. Apart from this fundamental permission, it was deemed wise to allow the banks to buy coin and bullion and borrow or loan thereon and to deal in Government bonds. The power granted in subsection (d) to fix a rate of discount is an obvious incident to the existence of the reserve banks, but the power has been vested in the Federal reserve board to review this rate of discount when fixed by the local reserve bank at its discretion. This is intended to provide against the possibility that the local bank might be establishing a dangerously low rate of interest, which the reserve board,

familiar as it would be with credit conditions throughout the country, would deem best to raise.

"The final power to open and maintain banking accounts in foreign countries for the purpose of dealing in exchange and of buying foreign bills is necessary in order to enable a reserve bank to exercise its full power in controlling gold movements and in facilitating payments and collections abroad."

The open market powers granted to Federal reserve banks under Section 14, therefore, were designed primarily to enable the Federal reserve banks to make their discount rates effective, to facilitate transactions in foreign exchange, and to regulate and control gold movements. The banks were given power to fix discount rates subject to review and determination by the Federal Reserve Board, and it was explained that the power to review discount rates was vested in the Federal Reserve Board in order to provide against the possibility that a Federal reserve bank might establish a dangerously low rate which the Federal Reserve Board, in view of general credit conditions throughout the country, might consider inadvisable.

Having the power to review and determine rediscount rates it would seem necessary that the Federal Reserve Board should also have power to review, regulate, and restrict any transactions which might have a bearing on the effectiveness of the rediscount rate.

Obviously, the investment of Federal reserve funds abroad would have a bearing on the effectiveness of the rediscount rate and the Federal Reserve Board was given specific power to regulate, limit and restrict the purchase and sale of bills of exchange. While no specific power to control gold movements was given to the Federal Reserve Board, it would seem clear that the Federal Reserve Board was intended, in the exercise

of its general supervisory power, to have some control over gold transactions which might have a bearing on the effectiveness of the rediscount rate or which might affect general credit conditions in this country. This is entirely consistent with the theory that the Boards of Directors of the Federal reserve banks are intended to manage the local transactions of the Federal reserve banks, but that the Federal Reserve Board is given power to control any transactions which might have a bearing on general credit conditions in this country, or in the position of this country in the international money market.

RELATIONS BETWEEN OPEN MARKET TRANSACTIONS, REDISCOUNT
RATES AND GOLD RESERVES.

The intimate relation between open market transactions, the rediscount rate and international gold movements is further illustrated by a report submitted to the Federal Reserve Board under date of October 12, 1915, by Messrs. Warburg and Delano. The Board at that time had been giving very careful study to a proposal made by Mr. McAdoo, Secretary of the Treasury, to have the Federal reserve banks establish branches or agencies in Latin-American countries; and the above mentioned report discussed the open market powers of the Federal reserve banks in great detail, pointed out the proper scope and purpose of such transactions, and the disadvantage of having too large a proportion of the Federal reserve banks' funds invested in foreign countries. This entire report is very illuminating and the following passage is of especial interest in this connection:

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"The Federal Reserve Banks have been organized as custodians and conservators of the reserve money of the member banks. The law permits member banks to count as part of their reserve the balances kept by them with these Federal Reserve Banks, and it is the first duty of the Federal Reserve Banks to maintain their funds in a condition so liquid that their member banks may confidently rely upon the ability of the Reserve Banks to provide gold and credit when required. This function of the Federal Reserve Banks is at no time to be considered lightly, and in times of stress involves grave responsibilities and difficulties. It is from this point of view that the law has imposed very distinct restrictions as to the character of the investments which may be made by the Federal Reserve Banks, permitting only a certain proportion of their funds to be normally invested and requiring that such investments as are made be essentially of a self-liquidating character, and of a short maturity. It would be unsafe and would shake the foundations of confidence on the part of the member banks as well as of other nations should Federal Reserve Banks use a substantial portion of their resources for investment in Latin American credits.

"Such procedure would run counter to all banking practice in those countries where banks of the character of the Federal Reserve Banks have been in successful operation for generations. Neither the Bank of England, the German Reichsbank, the Banque of France, nor any other of the government banks of the less important countries has ever adopted such a policy. The operations of these banks are primarily confined to transactions at home, and foreign exchange transactions are engaged in only as far as they may be considered necessary for the protection of the gold holdings of these government banks. The leading government banks normally maintain a substantial holding of ninety-day bills on such foreign countries as are apt to become important creditor nations from time to time, but these bills are drawn only on such countries as have a well-established gold standard, well-developed discount facilities, and a broad market where these bills can be promptly resold. The object of these foreign holdings can best be illustrated by a concrete case, e.g., should the Bank of the Netherlands find that exchange on London advanced to a point where gold began to move from Holland to England, it would offer for sale drafts on London in order to counteract this movement. When its English cash balance had been exhausted, the Bank of the Netherlands would rediscount in London the long bills that it might previously have accumulated and thus create new balances with which to stop the outflow of gold.

"Such foreign bills are taken only on the few foremost financial powers. It is to be expected that American bankers' acceptances will in the future, when peace shall have been restored, become one of the privileged investments of these government banks. In order to maintain their 'position' in the foreign exchange market, it is necessary for government banks to renew from time to time their foreign paper as it matures, and it is for this purpose that they use accounts with correspondents in those few countries, none but the strongest firms being selected to act in this capacity. These firms or banks are permitted to buy only first class banking paper, and they endorse this paper to the government banks so that such government banks do not run any risk of loss of capital in the transactions and so that the government banks hold only paper which can at any time be resold in the open market or to the foreign government banks if need be.

"It was this function of foreign correspondents or agents that the writers of the Federal Reserve Act had in mind when they provided that Federal Reserve Banks should have the right, with the consent of the Federal Reserve Board,

" 'to open and maintain banking accounts in foreign countries, appoint correspondents, and establish agencies in such countries wheresoever it may deem best for the purpose of purchasing, selling, and collecting bills of exchange, and to buy and sell with or without its indorsement, through such correspondents or agencies, bills of exchange arising out of actual commercial transactions which have not more than ninety days to run and which bear the signature of two or more responsible parties.'

"For operations as above described the powers granted by the Act will no doubt be availed of to good advantage, when normal conditions shall have been restored in the important foreign exchange markets.

"Your committee wishes to emphasize the fact that the purpose of this paragraph was to give to the Federal Reserve Banks a greater strength and additional liquidity by enabling them to maintain a secondary gold reserve and to possess themselves of assets upon which the Federal Reserve Banks could realize in case of need without being forced to contract the credit facilities granted at home - the liquid element of these foreign investments and the additional protection that they would give to the Federal Reserve System being the essential ground for permitting Federal Reserve Banks to enter a foreign field."

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The following passage from a preliminary report on this subject prepared by Mr. Warburg under date of October 4, 1915, also throws much light on the history and purpose of Section 14 of the Federal Reserve Act:

"When dealing with interpretations of the Act, a great deal has often been said concerning the 'intention of the writers of the law'. Inasmuch as paragraph (e) of Section 14 has been bodily taken over from the Aldrich Plan, we have to go beyond the writers of the Federal Reserve Act in order to find the true intent of this paragraph, and inasmuch as Senator Aldrich consulted me concerning this particular phase of the intended act, and inasmuch as I suggested to Senator Aldrich the insertion of this very paragraph, I may be pardoned for venturing to explain what its original intention was.

"The two paragraphs read as follows:

Section 14(e) of the Federal Reserve Act provides that every Federal Reserve Bank shall have power:

"with the consent of the Federal Reserve Board, to open and maintain banking accounts in foreign countries, appoint correspondents, and establish agencies in such countries wheresoever it may deem best.

for the purpose of purchasing, selling, and collecting bills of exchange, and to buy and sell, with or without its indorsement, through such correspondents or agencies, bills of exchange arising out of actual commercial transactions which have not more than ninety days to run and which bear the signature of two or more responsible parties.'

Section 36 of the Aldrich Plan reads:

"National Reserve Association to have power

to open and maintain banking accounts in foreign countries; to establish agencies in foreign countries for the purpose of purchasing, selling and collecting foreign bills of exchange; to buy and sell, with or without its indorsement, through such correspondents or agencies, checks or prime foreign bills arising out of commercial transactions having not exceeding 90 days to run and bearing the signature of two or more responsible parties.'

"It will be seen that the only substantial change was the insertion of the words 'bill of exchange' where the Aldrich Plan read 'foreign bills of exchange' and 'prime foreign bills'.

"From actual operation (having been active in several banks

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"in foreign countries acting as correspondents or agents for government banks in other countries) I was in a position to appreciate from my own experience the importance of the functions of foreign correspondents or agents, and was anxious to secure the advantages of such connections for our future financial system. The operations of these foreign agents for their government banks are substantially as follows:

"Let me choose the Bank of the Netherlands as an illustration, though practically all important government banks have been operating on similar lines.

"There will be certain times when, for economic reasons, through the movement of products from or to the Netherlands into or from other countries, or for extraordinary reasons, exchange on Holland will move up to the gold exporting point or down to the gold importing point. When the point is reached where gold may leave the country, the Bank of the Netherlands has two main means of protecting itself; one is by increasing the discount rate, which measure will result in higher interest rates apt to attract foreign money into Holland and thereby to counteract the flow of money from the country. The other is to sell from its portfolio bills on foreign countries in order to create balances in those countries and thereby provide means of payment without shipping the yellow metal. It, therefore, has been the policy of foreign government banks to acquire foreign bills of exchange on such countries as are apt to be creditor nations from time to time and such countries only as have safe gold standards and enjoy first class banking credit. These purchases of foreign exchange on such countries are being carried on whenever exchange is low or when interest rates in the home country are so low that it would seem prudent for the government bank to withdraw its funds from active employment at home and invest the funds thus withdrawn in foreign countries, whence they can be called back whenever rates become active at home and whenever the influence of the government bank may be used to advantage in preventing home rates from becoming burdensome to the borrowing community.

"When acquiring a ninety day draft on a British bank, the Bank of the Netherlands will draw interest on this bill at the discount rate; but when the bill matures or if the Bank of the Netherlands acquires checks on London, it creates a balance which needs to be converted into an interest bearing investment. These balances will then be employed by the correspondents or agencies (whichever name we may give to them) for the purchase of other ninety day drafts on London. According to its requirements, the Bank of the Netherlands will renew from time to time its foreign investments. The Bank

of the Netherlands considers these foreign holdings as a secondary gold reserve and continues them almost perpetually, with such casual interruptions as may become necessary for the protection of its own gold holdings.

"It was the consideration of these conditions that led to the insertion in the Aldrich draft of the clause above quoted, and it will now become apparent what was meant when it was provided that the National Reserve Association - or the Federal Reserve Banks - should have power to 'open and maintain banking accounts in foreign countries * * *, establish agencies in such countries * * * for the purpose of purchasing, selling and collecting bills of exchange' and that they should be able to 'buy and sell with or without its indorsement, through such correspondents or agencies, bills of exchange * * *'. In case of a 'pinch', the Bank of the Netherlands was to be in a position of ordering its correspondent to rediscount with the Bank of England or in the open market millions of its holdings of British acceptances so as to enable the Bank of the Netherlands to draw a check against the balance so produced and so to protect its gold. That is why it was stipulated that the bills to be purchased by these agents should be 'prime bills' and should not run beyond ninety days and should bear the signature of two or more responsible parties, so that these bills should be current bills that the correspondents should be able to sell freely at all times and bills on which a loss should practically be excluded.

"It ought to be stated that the foreign governments select the strongest possible firms in foreign countries to act for them as agents, and that they invariably buy these bills with the indorsement of their agent (or correspondent) so that they could lose only in case, not only the foreign correspondent or agent should fail, but also the two additional signatures on the bill.

"I am well aware of the fact that these banking habits have developed as a protection in times of peace but that in times of war these large foreign balances may be a source of some anxiety. It must be borne in mind, however, that government banks normally work in times of peace and that these methods of protecting their country against acute gold withdrawals or against the tendency of too low rates of interest have effectually met many an acute emergency, and furthermore that even in times of war these balances have eventually been paid. I might draw attention to the fact that a year ago, when we were called upon to meet our large debts abroad, it would have been a great protection for us if at that time balances could have been made available in London to meet this first onrush.

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"My object in reviewing the origin and original intent of this paragraph is to show that this clause was inserted for the sole purpose of providing an additional piece of machinery for the protection of the Federal Reserve System. Clearly, no other intention was underlying this section!"

The question whether the Federal reserve banks should establish branches or agencies in Latin American countries was submitted to the Governors' Conference, the Conference of Federal Reserve Agents and the Federal Advisory Council, and, after obtaining the views of these three different bodies, a further report was submitted to the Federal Reserve Board under date of January 8, 1916, by a committee consisting of Governor Harding and Messrs. Delano and Warburg. This final report reads in part as follows:

"Your Committee is happy to report that complete agreement was found to exist in all three bodies with the principles expressed by the Board at its meeting on October 27th, the substance of which was published on that day in a notice (Mimeograph 385) of which a copy is appended hereto. * * * It is the first duty of the Federal reserve banks to maintain their funds in a condition so liquid that their member banks may confidently rely upon the ability of the Federal reserve banks to provide gold and credit when required. This function of the Federal reserve banks is at no time to be considered lightly and in times of stress involves grave responsibilities and difficulties. * * * It would be unsafe and would shake the foundation of confidence on the part of the member banks as well as of other nations, should Federal reserve banks use a substantial portion of their resources for investment in Latin-American credit. Such procedure would run counter to all banking practices in those countries where banks of the character of the Federal reserve banks have been successfully operated for generations * * *. The operations of these banks are primarily confined to transactions at home, and foreign exchange transactions are engaged in only as far as they may be considered necessary for the protection of the gold holdings of these Government banks. * * * (Discussion of operations of European Central banks). In order to maintain their 'position' in the foreign exchange market, it will be necessary for Government banks to renew from time to time their foreign paper as it matures, and it is for this purpose

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that they use accounts with correspondents in those foreign countries, none but the strongest firms being selected to act in this capacity. * * * It was this function of foreign correspondents or agencies that your committee is confident the writers of the Federal Reserve Act had in mind when they provided that the Federal reserve banks should have the right, with the consent of the Federal Reserve Board, to exercise the powers conferred under Section 14 (e) * * * . Your committee has no doubt that the purpose of this paragraph was to give to the Federal reserve banks greater strength and additional liquidity by enabling them to maintain a secondary gold reserve and to possess themselves of assets upon which the Federal reserve banks could realize in case of need without being forced to contract the credit facilities granted at home - the liquid element of these foreign investments and the additional protection that they would give to the Federal Reserve System being the essential ground for permitting Federal reserve banks to enter a foreign field. * * * Should Federal reserve banks be empowered to lend to foreign Governments notwithstanding the law distinctly provides that Federal reserve banks can now purchase only United States Government securities and warrants of United States municipalities, carefully circumscribed and having a maturity of not exceeding six months ? * * * Should Federal reserve banks be allowed to embarrass the Government by being themselves important creditors of foreign Governments in case of war with, or revolution in, such countries? Your committee is very positive in its view that such enlarged powers should not be granted; * * * "

While these reports arose out of a controversy entirely different from, and extraneous to, the question now under consideration, they serve to show the intimate connection between the open market powers of the Federal reserve banks, the effectiveness of the rediscount rate, and the protection of the gold reserves of the Federal Reserve System.

They show clearly that one of the most important purposes of the rediscount rate and the open market purchase of bills of exchange is to protect the gold reserves of the Federal Reserve System. Over the rediscount rates and the open market transactions the Federal Reserve

Board is given a great measure of control. To say that the Federal Reserve Board could exercise this control over rediscount rates and open market transactions with a view of protecting the gold reserves of the Federal Reserve System but that it could do nothing to prevent the Federal reserve banks from engaging in international transactions in gold in such a way as to impair the gold reserves would be to give the Federal Reserve Act an interpretation which clearly would defeat the will of Congress.

Respectfully,

Walter Wyatt
General Counsel

WW-WLH-OMC-SAD

Office Correspondence

FEDERAL RESERVE
BOARDDate October 29, 1927.

See M

To Mr. HamlinSubject: Page 97From Mr. Eddy2-5495
G.P.O.

On October 13, 1927 the Board conferred with Mr. Kenzel, Deputy Governor of the Federal Reserve Bank of New York, with respect to developments in acceptance practices and possible necessary amendments to the Regulations of the Board relating to the handling of acceptances by Federal Reserve banks and member banks. Mr. Kenzel advised the Board that no amendments to the Regulations appear to be necessary, but that it might be necessary for the Board to consider changes in certain of its rulings. It was suggested to Mr. Kenzel that the developments reported to the Board should be taken up with the General Acceptance Committee, and recommendations made to the Board in writing for any changes which the Committee believes necessary in the existing rulings of the Board.

Accordingly, a meeting of the Sub-committee of the General Acceptance Committee was held on October 21st, and there is attached hereto report of the Sub-committee which will be brought up for consideration at a later meeting of the Board.

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REPORT OF
THE SUB-COMMITTEE OF THE GENERAL ACCEPTANCE COMMITTEE
TO THE FEDERAL RESERVE BOARD
OCTOBER 21, 1927.

The Sub-Committee of the General Acceptance Committee held a meeting in New York on October 21, at which the following were present: Messrs. Zurlinden, Paddock, McKay and Wyatt, Mr. Kenzel chairman, and Mr. O'Hara, secretary

Consideration was given to a proposal to recommend to the Federal Reserve Board certain modifications of its existing rulings with reference to acceptances growing out of the importation and exportation of goods which will make it possible for American banks to accept bills drawn upon them for the purpose of financing such transactions where it is necessary for such bills to be drawn after the goods have reached their destination, in order to conform to usual commercial and credit practices.

After full discussion of the subject and consideration of a statement of facts related by the Chairman substantially as expressed in the accompanying memorandum it was unanimously voted by the Committee to recommend to the Board as follows:

That the Board revoke its previous rulings to the effect that a bill cannot be eligible for acceptance by a member bank or for rediscount or purchase by a Federal reserve bank as a bill growing out of the importation or exportation of goods if it is accepted after the goods have reached their destination, and rule in lieu thereof:

That bankers acceptance may properly be considered as growing out of transactions involving the importation or exportation of goods when given for the purpose of financing the sale and distribution on usual credit terms of imported or exported goods into the channels of trade, whether or not the bills are accepted after the physical importation or exportation has been completed.

MEMORANDUM OF STATEMENT BY THE CHAIRMAN OF THE SUB-COMMITTEE OF THE GENERAL
ACCEPTANCE COMMITTEE MADE AT A MEETING OF THE COMMITTEE IN NEW YORK ON
OCT. 21, 1927

The question of the manner and extent to which use of American acceptance credit was hindered in competition with foreign credit in financing foreign trade was the subject of inquiry recently made by the Federal Reserve Board of your Chairman.

On a visit to Washington last week, your Chairman explained to Governor Young and to the Federal Reserve Board that, according to his observations and from information gained from interviews with many bankers from England, Holland, Switzerland, Germany, France and Italy, the only practical obstacles lay in rulings of the Board which had the effect of prohibiting bills from being accepted at all by national banks or as eligible by other banks and bankers after the physical exportation or importation of goods was completed.

He stated that these foreign bankers had told him that industry in the industrial countries of the Continent had always had to look to foreign credit for the purchase of imported raw materials and in the export of finished goods; that due to various causes, such credit was required for longer periods than was customary in the United States. Among the causes named were lack of working capital in the American sense, slow transportation, the closing of river navigation during the cold months, and the economic impracticability of industries closing down temporarily or for longer periods, as is frequently done in the United States without serious economic consequences. The combined effect of these conditions requires manufacturers seasonally to carry raw materials for six months of operation and they, accordingly, require credit up to six months with respect to a considerable portion of their purchases.

The fact that banks on the Continent are much more closely identified with the industries than is the general case in America normally permitted them to discount freely for their manufacturing clients and also to procure for them from abroad the additional foreign credit that they required. England, Holland, Switzerland, and to some extent, France, were normally the creditor countries and the first three continue at the present time to extend the kinds of credits for the time required to the Continental industries; generally through the medium of Continental banks.

It was explained that, owing to the higher price levels at the present time as compared with pre-war, the volume of domestic bills in Germany and other industrial sections of the Continent represented a physical volume of goods considerably less, perhaps 75% of the quantity of goods, than would have been represented by an equal amount of bills pre-war, and that, accordingly, the rise in the price level required relatively greater recourse to foreign credit than before the war.

It was explained that both before and since the war it was the practice of London banks and bankers to extend commercial acceptance credit for the benefit of Continental industry and trade freely and that the restrictions in the American practice had doubtless caused a great deal of financing to go to London that otherwise would have come to New York on account of the ability of America to create credit and the lower American discount rates.

The cutting of acceptance commissions by London banks for Continental banks to attract this kind of business to London was also referred to as constituting a substantial competition but one which would not be so serious if American banks could give the credits that the Continental trade requires on terms otherwise equal with London.

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Since your Chairman advised the Board in these respects, he has conferred with a considerable number of prominent New York bankers who create the large bulk of American acceptances to inquire of them what in their experience had prevented them from giving acceptance credits abroad such as London bankers habitually grant, and he was informed by each of them that the rule against accepting after goods had arrived in the country of import and the rule against permitting customers to redraw after goods had arrived in the country of import were the only two points upon which they felt their disability depended.

They felt that they would not wish to extend credits in Europe for purely domestic purposes, explaining that by that they meant the purchase of goods of domestic origin, the fabrication of such goods and its sale for domestic consumption within any European country, but that they did feel that they should be permitted to finance through acceptance credits the sale within European countries of goods of origin foreign to those countries, and the fabrication and sale of goods for export. Many of them cited the familiar problem of American cotton which is now sent so largely to European countries on consignment by American shippers and is sold to European spinners out of warehouses in Europe. Spinners require credit of ninety days or more. Under the present rules, American banks can give such credits where the cotton crosses a frontier in Europe, that is, where it is exported from one European country to another, but they cannot give such credits if the cotton is sold to spinners located in the same European country in which it is stored pending sale. A similar negative position arises with respect to cotton which is sold and shipped from America on terms that have become quite usual, i. e., that at the buyer's option he may pay cash on arrival or give ninety days bankers credit. It frequently happens that the cotton has arrived and so the physical export completed before the buyer elects how he shall pay. If he elects to give ninety days bankers credit the banker may not accept the bill if the cotton has arrived at the foreign destination named in the shipping documents.

The American bankers consulted felt that the time has certainly arrived in the development of American acceptance business when American accepting bankers should be permitted the free exercise of their discretion within the law and regulations and that, within those limits, full latitude should be granted them in the accommodation of business as it is done in foreign countries. They stressed particularly the point that they regarded it as preferable to give a three months credit with a renewal for a further period, if it were found that a renewal were required at the expiration of the original period, than to grant the credit originally for a period of six months, and that if the rule against accepting a bill after the goods had arrived were rescinded, the end sought would be practically accomplished without a specific ruling in favor of renewal bills. It was pointed out that from the bankers' point of view it was preferable to be able to review credits at more frequent intervals than is the case when credits up to six months are being insisted upon by the borrower as a precaution against being unable to redraw at the end of a shorter period in case of need even for a small part of the credit.

(Copy)

See NH

October 30, 1919.

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My dear George :

I have your memorandum of the 29th, which refers to the right of the Federal Reserve Board to initiate and control discount rates of Federal reserve banks, and note that the Board desires my opinion on this subject.

The determination of this question involves an interpretation of that part of Section 14 which reads as follows:

"Every Federal reserve bank shall have power ****-
(a) to establish from time to time, subject to review and determination of the Federal Reserve Board, rates of discount to be charged by the Federal reserve bank for each class of paper which has been fixed with a view of accommodating commerce and business."

It is, of course, clear from this that any rate established by a Federal reserve bank is subject to review and determination by the Federal Reserve Board, but the question you have under consideration is whether the Board, on its own motion, may initiate or establish discount rates for Federal reserve banks, or if a rate has been established, reviewed and approved by the Board, whether the Board subsequently may require the bank to change this rate. This involves a consideration of the relative powers of the Federal Reserve Board and of the board of directors of a Federal reserve bank to control and supervise the operations of the bank. Section 4 of the Federal Reserve Act provides in part as follows:

"Every Federal reserve bank shall be conducted under supervision and control of a Board of Directors. The Board of Directors shall perform the duties usually appertaining to the office of Directors of banking associations, and all such duties as are prescribed by law. Said board shall administer the affairs of said bank fairly and impartially and without discretion in favor of or against any member bank or banks, and shall, subject to the provisions of law and the order of the Federal Reserve Board, extend to each member bank such discounts, advancements and accommodations as may be safely and reasonably made, with due regard for the claims and demands of other banks."

Section 11 of the Federal Reserve Act, which deals with the powers of the Federal Reserve Board, provides in part as follows:

"The Federal Reserve Board shall be authorized and empowered * * * * * (j) to exercise general supervision over said Federal reserve banks."

Considering these two provisions of the Act which relate to the supervision and control of the operations of the Federal reserve banks, it appears that the directors of the bank are intrusted with the operations or management of the bank's affairs; that they are vested with the power to perform the usual ordinary duties of bank directors. In the exercise of these powers, however, they are subject to the orders and to the general supervision of the Federal Re-

serve Board. Considering the context and the general purposes of the Act, it may be assumed that Congress did not intend that the Federal Reserve Board should perform the functions usually performed by the board of directors of a bank. Congress, however, did give the Federal Reserve Board very broad general powers to supervise the operations of a bank and to see that these operations are conducted in strict accordance with the provisions of the Act and with those regulations and rulings which the Federal Reserve Board, under the terms of the Act, is authorized to make and enforce.

It is hardly necessary to call attention to the various provisions in the Act which sustain the theory, but to illustrate the extent of the control over the bank's operations that is vested in the Federal Reserve Board, it will be recalled that one of the powers enumerated in Section 11, is the power "to suspend or remove any officer or director of any Federal Reserve Bank, the cause of such removal to be forthwith communicated in writing to the Federal Reserve Board, to the removed officer, or director, and to said bank."

To sum up briefly the relative powers of the Federal Reserve Board and of the Board of Directors of a bank, it appears-

- (a) That the Board of directors of a bank may supervise and control the operations of the bank so long as its affairs are conducted in accordance with the provisions of law, the regulations of the Board authorized by law, and such orders issued by the Board as the Board is authorized by law to issue;
- (b) That the Federal Reserve Board is vested with power to see that the operations of the bank are conducted in strict accordance with the law, its authorized regulations and orders, to impose penalties for violations of the law, even to the extent of removing offending officers and directors.

Coming now to consider the particular provision of the Act involved in the pending question, it is necessary to determine first to what extent and subject to what limitations the Board of Directors of a bank is given control over the establishment of discount rates.

Sec. 4, which prescribes the general corporate powers of the bank, contains among others, the following

"Seventh.- To exercise by its board of directors, or duly authorized officers or agents, all powers specifically granted by the provisions of the Act, and such incidental powers as shall be necessary to carry on the business of banking within the limitations prescribed by this Act."

If no limitations were prescribed by the Act and no specific reference had been made to the fixing of discount rates, it would seem to be clear that the Board of Directors would have power from time to time to establish discount rates as an incidental power necessary to carry on the business of banking within the limitations prescribed by the Act.

If no limitations were prescribed by the Act and no specific reference had been made to the fixing of discount rates, it would seem to be clear that the Board of Directors would have power from time to time to establish discount rates as an incidental power necessary to carry on the business of banking within the limitations prescribed by the Act.

Section 14, however, which enumerates certain special powers of the Federal reserve banks, imposes few limitations or restrictions on the power to fix discount rates. It provides in terms that rates so established by the bank

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- (a) shall be subject to review and determination of the Federal Reserve Board.
- (b) shall be fixed with a view of accommodating commerce and business.

Any rate established must, therefore, conform to these two conditions and if the directors of the bank fix a rate which fails to conform to either of these conditions, the establishment of such rate becomes a violation of the provisions of the act and the Board under its supervisory power may clearly require the readjustment or reestablishment of such rate. In other words whenever in the opinion of the Board, an established rate does not accommodate commerce and business, it may require the directors of the bank to change the rate so as to meet this requirement.

It may be argued that the discretion is vested in the board of directors of the bank to determine whether or not a rate fixed is fixed with a view of accommodating commerce and business.

Considering, however, the content and general purposes of the Act it is not believed that this view can be maintained. Congress clearly intended this discretion to be vested in the Federal Reserve Board. To assist the Board in the control of this and other matters, it created by Section 12, the Federal Advisory Council, and authorized that Council "to confer directly with the Federal Reserve Board on general business conditions * * * ; to call for information and to make recommendations in regard to discount rates. A centralized control of the discount rates is fundamental to the purposes of the Act and provision was accordingly made to furnish the Federal Reserve Board with the best possible information to enable it to exercise a proper discretion in this important matter. It is hardly necessary to emphasize the importance of this control. It affects international as well as our domestic banking and trade relations.

My conclusions, therefore, are, first, that the discretion is vested in the Federal Reserve Board to determine whether any discount rate of a Federal reserve bank accommodates commerce and business; second, that the power to review and determine discount rates is a continuing power, which may be exercised at any time. It necessarily follows from this that the Board of its own motion may require a Federal reserve bank to change an existing rate at any time, if in the opinion of the Board such rate does not meet the requirement of the statute.

Very sincerely yours,

(Signed)

Mr. George L. Harrison,
Counsel, Federal Reserve Board

COPY

TREASURY DEPARTMENT

WASHINGTON

See Bd
Page 101

Assistant Secretary.

November 29, 1919.

Dear Governor Harding:

The following is a brief summary of the views which I expressed to the Federal Reserve Board Wednesday concerning the proposed increase of rates of the Federal Reserve Bank of New York.

1. The elimination of the $4\frac{1}{4}\%$ rate on $4\frac{1}{4}\%$ Certificates of Indebtedness, determined upon by the bank after the announcement of the $4\frac{1}{4}\%$ issue dated December 1st, must result in the failure of that issue and grave financial embarrassment to the Treasury.

2. The proposed increase in the rate on Liberty Bonds and Victory Notes would gravely imperil the market for those securities, which is already severely shaken.

"In general the Treasury would regard any increase in rates on Government war securities at this time as fraught with grave peril to the Government's credit", because of the fact that to meet maturities of certificates now outstanding the Government must sell certificates in the average amount of \$500,000,000 semi-monthly beginning December 1st and ending January 15th, a total of roughly \$2,000,000,000. I pointed out that when the discussion of rates became acute in October the Treasury called attention to the fact that it could not long postpone the resumption of certificate issues and that it was of the most urgent importance that the matter should be disposed of at once so that the country might have an opportunity to adjust itself to the new rates and the Treasury to adjust its plans to resulting conditions; that the

rates established early in November eliminated any spread between the Reserve Banks' discount rate and the established rates on Treasury Certificates; and that now the time had come when every effort should be turned to the urgent problem of financing the Treasury's imperative necessities. Though, of course, no commitment was made or exists not to make a further increase in rates at this time, nevertheless it cannot seriously be contended that the increase of 1/4% proposed in the rate on 4 1/2% Certificates and of 1/4% in the rate on bonds and notes would have any other important effect than to embarrass the Treasury.

I may add that from June 6th to November 14th all reporting member banks' reduced their holdings

of Liberty Bonds from	\$ 646,259,000	
to	<u>631,730,000</u>	
or /		\$ 14,529,000
 of Victory Notes from	 438,589,000	
to	<u>278,659,000</u>	
or		159,930,000
 and of Certificates of Indebted- ness from	 1,514,342,000	
to	<u>831,281,000</u>	
or		683,061,000
 and their loans secured by United States securities, ex- clusive of rediscounts, from	 1,420,568,000	
to	<u>1,061,438,000</u>	
or		<u>359,130,000</u>
 making a total reduction of		\$1,216,650,000

and that in the period from June 7th to November 21st Federal Reserve Banks' -

discounts secured by Government war obligations have increased

from	\$1,621,000,000	
to	<u>1,674,000,000</u>	
or only		\$ 53,000,000

while their holdings of bills bought in the open market have increased from

from	198,000,000	
to	<u>480,000,000</u>	
or		282,000,000

and their total earning assets

from	2,264,000,000	
to	<u>2,917,000,000</u>	
or		653,000,000

From this I conclude that the expansion of credit which has taken place since the flotation of the Victory Liberty Loan has not been based upon Government war securities, but that on the contrary there has been a very gratifying normal and healthy absorption of these securities by the investing public; and that therefore there exists no indication of a present necessity for a further increase in the discount rates on Government war securities.

3. "As to the ninety-day rate on commercial paper, without at the moment expressing a view upon the subject in general, the Treasury urged that certainly no increase should at any time be made until effective steps should be taken to put an end to the existing arrangement under which it is understood that that increase would result automatically in an increase in the rate allowed by clearing banks upon interbank deposits and to prevent any increase in such rate or a scramble for deposits which could only be injurious to the Treasury's financial plans, as well as to the general situation."

4. As to the rate for bills, although this is not a matter in which

the Treasury was directly concerned, I ventured the personal opinion that the artificially low rates which had been established and were being maintained could not have the result of creating a normal and healthy bill market, but on the contrary were loading the Federal Reserve Banks with the bills and effectively destroying the possibility of an outside market; that the difficulty here seemed to be not with the published rate for loans and discounts, but with the New York Federal Reserve Bank's open market buying rate.

I have endeavored to summarize as briefly and uncontentiously as possible the views which I expressed at the meeting. If inadvertently I have omitted anything which you regard as material, I shall be glad to supplement this letter in that respect.

May I add that it appears to me that the steps which have already been taken with a view to preventing expansion of credit for illegitimate purposes are entirely sufficient for the time being; that there exists at the present moment grave apprehension concerning the conditions in Europe and the foreign exchanges, the coal strike, the Mexican situation, etc.; that the banks, called upon, for the first time unaided, to move the crops, are being subjected to a particularly heavy strain on account of delay in their movement resulting from transportation difficulties; that they are said to be burdened with loans secured by whiskey, etc., which, under the new prohibition law, will be slow of liquidation; that they are to be called upon December 15th to finance, for the first time in that month, a heavy income and profits tax installment; that the market for Liberty Bonds, which has been subjected to heavy pressure since the discussion of discount rates began in October, has been ex-

tremely weak and very active beginning last Saturday, November 22nd, immediately after the termination of the conference of the Governors of the Federal Reserve Banks in Washington; and that from these and other indications it appears to me that it would be perilous in the extreme to attempt at this time to force contraction of credit, whether by the increase of discount rates or otherwise. As Secretary Glass explained in his letter of November 5, 1919, the rates of the Federal Reserve banks cannot operate internationally under existing conditions. If I am right about affairs at the moment, contraction forced at this time, whether by discount rates or denial of credit, can only penalize legitimate business and the holder of Government securities who was urged to borrow and buy them and is manfully struggling to save and pay for them.

I think there has been too much talk of liquidation. What the country needs is quiet and healthy absorption of the undigested portion of the war debt. The conditions to which I have directed attention can only be remedied by following the Federal Reserve Board's slogan to "work and save." We need production more than we need contraction.

As you know, my own belief is that world conditions are such that an early period of liquidation, probably acute, is inevitable, with or without action by the Federal Reserve Board. I am at the moment profoundly apprehensive that exaggerated anxiety on the part of some of the Governors of the Federal Reserve Banks concerning their reserves, expressed both in increase of rates and denial of credit at

the particular season of the year when some expansion of credit is essential to the transaction of the country's necessary business, may bring about disaster within the few short weeks which remain before the arrival of the season of healthy and normal liquidation.

If I were a member of the Federal Reserve Board, I should at this moment do all in my power to restore confidence which has been subjected to a series of very grave shocks, and when the mid-winter season of liquidation arises I should then, and then only, determine what, if any, steps might be necessary to prevent renewed expansion.

The road before us is a long and difficult one. In consequence of the removal of our embargoes on the export of gold and silver and the maintenance of embargoes by our creditors, our metallic reserves are being, and apparently will continue to be, for an indefinite period, depleted. The demoralization of Europe and European credit in consequence of the protracted delay in the conclusion of peace must result in postponing indefinitely, perhaps for decades, the time when Europe will be able to resume specie payment. We are paying in specie the indebtedness in current account of the occidental world to the oriental, while accepting payment by credit for Europe's indebtedness to us. The problems before us appear to me to be infinitely more difficult than those behind us. The most I can say for the moment is, (1) that this Government's credit must be preserved; (2) that credit must not be denied nor made unduly expensive to legitimate business, nor to the patriotic citizen who was urged to borrow and buy Liberty Bonds and who is working and saving to pay for them; and (3) that as opportunity arises within the limitations above described the Federal Reserve System

should, by rates and ^{by} discrimination against the abuse of its facilities, gradually and with extreme caution, by measures and steps carefully adapted to dealing with the exquisitely delicate financial machinery, (a) prevent such expansion as is not purely seasonal in character, and (b) take up and hold the slack when liquidation occurs.

Very truly yours,

(Signed) R. C. Leffingwell.

Hon. W. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D.C.

(Copy)

TREASURY DEPARTMENT

Washington

See NH
Page 103

Assistant Secretary.

December 10, 1919.

Dear Governor Harding:

Since my letter of November 29th was written the situation has changed materially. The offering of $4\frac{1}{2}\%$ certificates of an average maturity of three months was conspicuously successful and this relieved the Treasury of risk of immediate embarrassment as to its cash position. The Treasury has offered a new series of $4\frac{1}{2}\%$ six-months certificates with the privilege to the holders of outstanding certificates of earlier maturity to make payment for the new certificates in the old, and the Treasury looks forward confidently to the success of this offering. Apprehension concerning the coal strike and the Mexican situation is allayed and there have been some indications of renewed speculative activity and of expansion of credit for speculative purposes. Under these altered circumstances, while I would not be understood as proposing any specific action by the Federal Reserve Board at this time, whether as to rates or otherwise, I should not wish the views expressed in my letter of November 29th to stand in the way of any action which the Federal Reserve Board might now desire to take.

You will, of course, have in mind that on December 15th some \$850,000,000 of income and profits taxes are payable, while the Certificates due on that date amount only to \$640,000,000, and that payment for the new issue of $4\frac{1}{2}\%$ six-months Certificates will be

made on and after December 15th. These things will involve a very heavy strain upon the money market and the possibility of grave financial stringency. The Treasury is taking steps to relieve the situation by offering to redeem on and after December 15th the Certificates due on January 2nd. Danger signals have already been thrown up in the form of high call money rates this week. The situation at the moment is, therefore, one which to my mind suggests the importance of extreme caution on general grounds rather than because of the Treasury's position.

Very truly yours,

(Signed) R. C. Leffingwell.

Hon. W. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D.C.

Office Correspondence

FEDERAL RESERVE
BOARD

See 126

Date November 1, 1927.To Mr. Hamlin.From Mr. Wyatt, General Counsel.Subject: Acceptances Growing Out of
Transactions Involving the Importation
or Exportation of Goods.

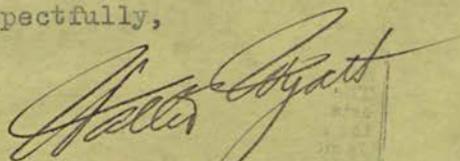
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Dear Mr. Hamlin:

I am handing you herewith for your information a memorandum on the above subject which I prepared at the request of Governor Young and which I have delivered to him.

Respectfully,



Walter Wyatt,
General Counsel.

Memorandum Attached.

VOLUME 177

PAGE 105

November 1, 1927.

Federal Reserve Board
Mr. Wyatt - General Counsel

Acceptances Growing Out of
Transactions Involving the Importation
or Exportation of Goods.

The attached report addressed to the Federal Reserve Board under date of October 21, 1927, by the Sub-Committee of the General Acceptance Committee recommends that:

"That the Board revoke its previous rulings to the effect that a bill cannot be eligible for acceptance by a member bank or for rediscount or purchase by a Federal reserve bank as a bill growing out of the importation or exportation of goods if it is accepted after the goods have reached their destination, and rule in lieu thereof:

"That bankers acceptance may properly be considered as growing out of transactions involving the importation or exportation of goods when given for the purpose of financing the sale and distribution on usual credit terms of imported or exported goods into the channels of trade, whether or not the bills are accepted after the physical importation or exportation has been completed."

OPINION.

In order for the Board to adopt this recommendation it will be necessary for it to reverse certain of its well established rulings to the effect that a bill cannot be eligible for acceptance by a member bank or for rediscount or purchase by a Federal reserve bank as a bill growing out of the importation or exportation of goods if it is accepted after the goods have reached their destination. I am of the opinion, however, that the language of the law is broad enough to justify a ruling such as that recommended in the attached report and that the Board may legally promulgate such a ruling if it so desires.

RECOMMENDATION.

Believing that a ruling such as that recommended in the attached report is entirely consistent with the purposes of the Federal Reserve Act and would be helpful in the promotion of our foreign trade, I concur in the recommendation of the Sub-Committee of the General Acceptance Committee. A

proposed draft of a ruling along the lines recommended by the Committee is respectfully submitted herewith.

DISCUSSION.

The question whether the Board may properly make such a ruling depends upon the proper construction of the following provision of Section 13 of the Federal Reserve Act:

"Any member bank may accept drafts or bills of exchange drawn upon it * * * which grow out of transactions involving the importation or exportation of goods."

This language is very broad and indefinite and is susceptible of different constructions. The Board has heretofore taken the position that Congress intended that the drafts in question should be drawn for the purpose of financing the importation or exportation of goods, and on this theory it has ruled that a bill may not be considered eligible for acceptance by a member bank or for rediscount or purchase by a Federal reserve bank as a bill growing out of the importation or exportation of goods if it is accepted after the goods have reached their destination. It was argued that when the goods reached their destination the import or export transaction is completed and its financing has necessarily been accomplished.

This principle, however, was adopted by the Board at a time when the acceptance business was new to American banks and the Board was exercising great care to restrict it within narrow and very safe limits. In later years the Board has broadened to some extent its rulings regarding bankers' acceptances and particularly those growing out of the importation or exportation of goods, on the theory that the acceptance business has developed to a point where greater latitude may safely be permitted and the accepting banks may be given a broader discretion in determining the propriety of issuing bankers' acceptances under varying circumstances. (See printed letter transmitting Regulation A as amended March 29, 1922, page 433, April 1922 Bulletin). The promulgation of a ruling

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along the line of that recommended above would be a further application of this theory.

The theory heretofore followed by the Board that by acceptances "which grow out of transactions involving the importation or exportation of goods" Congress meant acceptances drawn for the purpose of financing the importation or exportation of goods is entirely plausible and has the added weight of being the accepted interpretation which the Board has placed upon this provision of the Act for several years and was made the basis for several rulings on this subject.

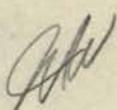
The words "which grow out of transactions involving the importation or exportation of goods," however, are clearly susceptible of a broader interpretation and in my opinion are broad enough to include acceptances arising out of transactions involving imported or exported goods after such goods reach their destination; provided that there is some reasonable connection between such transactions and the importation ^{or} and exportation.

Thus where an American exporter of cotton ships cotton to Germany and stores it in his own warehouse in Germany and later sells it from that warehouse to a German spinner, it seems clear that the sale from the warehouse to the German spinner "grows out of" the exportation of cotton from the United States to Germany. The sale of the American cotton to the German spinner from the warehouse could not take place if the cotton had not first been exported from the United States and placed in the warehouse. Moreover, it is but a continuation and consummation of the export transaction.

Similarly, where an American importer buys foreign goods and, after their arrival in the United States, resells them, it would seem that such resale grows out of the importation of goods within the broad meaning of the Act, and that a draft drawn to finance such resale of the goods might properly be said to grow out of the importation of the goods.

On the other hand, it would seem necessary to place some restriction upon ~~this~~ interpretation; for otherwise it might be argued that all dealings in imported or exported goods, no matter how remote from the original importation or exportation, could be said to grow out of the importation or exportation and thus the principle might be reduced to an absurdity; It was with this thought that the Committee recommended that this principle should be restricted to acceptances "given for the purpose of financing the sale and distribution on usual credit terms of imported or exported goods into the channels of trade". This would seem to confine the financing of the sale and distribution of the goods into the channels of trade and would seem to eliminate the carrying of the goods for unusually long periods, the manufacture of the goods, or their resale subsequent to manufacture.

In a ruling published on page 854 of the 1926 Bulletin, the Board reversed a ruling published on page 610 of the Bulletin for June, 1920, to the effect that "no bank which has purchased a foreign documentary draft may refinance itself by drawing a draft on a member bank secured by the documentary draft" and ruled in lieu thereof that "such acceptances may be said to come within the broad terms of the provisions of section 13 of the Federal Reserve Act which authorize member banks to accept drafts drawn upon them 'which grow out of transactions involving the importation or exportation of goods', provided that such drafts are drawn before the underlying export transaction is completed." In so ruling, the Board stated that it had carefully considered this question and was of the opinion that its previous rulings on this subject contained an unnecessarily strict interpretation of the law. This in itself was a material broadening of the interpretation which the Board had previously placed upon this provision of the Act and was a departure from the strict application of the principle that such



acceptances must be drawn for the purpose of financing the import or export transaction, since the import or export transaction had been financed by means of a documentary draft and the purpose of the acceptance was merely to refinance the bank which had purchased the documentary draft. Before making that ruling the Board had the subject under consideration for many months and had been advised by this office that such a change in its rulings would lead to a change in its fundamental construction of that provision of the Act which authorizes member banks to accept drafts drawn upon them "which grow out of transactions involving the importation or exportation of goods." The Board, therefore, acted with full knowledge of the effect of this action and clearly intended to broaden the strict interpretation which it had heretofore placed upon this provision of the Act. It did not, however, abandon the principle that in order for an acceptance to be considered one which grows out of a transaction involving the importation or exportation of goods it must be drawn before the underlying import or export transaction is completed. On the contrary, it ruled that, "national banks may not legally accept drafts drawn upon them by other banks against the security of import or export bills of exchange previously discounted by such other banks when such drafts are drawn after the underlying import or export transactions are completed."

To adopt the attached recommendation of the Committee on Acceptances would be a further broadening of the Board's rulings on this subject, but in my opinion would be one which could be much more easily justified than the ruling published on page 854 of the 1926 Bulletin. Where a bill is drawn for the purpose of financing the sale and distribution of imported or exported goods into the channels of trade, it is, in my opinion, much more clearly a bill which grows out of a transaction involving the importation or exportation of goods than is a bill drawn by the bank against the security of a documentary

J. W.

draft for the purpose of refinancing the bank which has purchased the documentary draft.

CONCLUSION

In my opinion, therefore, the law is broad enough to justify the Board in reversing its previous rulings on this subject and promulgating the ruling recommended in the attached report.

Among the published rulings which would be reversed, in whole or in part, by the promulgation of such a new ruling are the following:

1915 Bulletin, page 276

1917 Bulletin, page 30

1918 Bulletin, page 435

1921 Bulletin, page 699

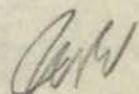
1924 Bulletin, page 638

1926 Bulletin, page 854

Respectfully,

Walter Wyatt,
General Counsel.

WW MD OMC



(PROPOSED RULING OF FEDERAL RESERVE BOARD.)

Acceptances growing out of transactions involving the importation or exportation of goods.

In a number of rulings published heretofore, the Federal Reserve Board has ruled in effect that a bill cannot be eligible for acceptance by a member bank or for rediscount or purchase by a Federal reserve bank as a banker's acceptance growing out of the importation or exportation of goods if it is accepted after the goods have reached their destination.

After careful reconsideration of this question, the Board is of the opinion that such rulings contain an unnecessarily strict interpretation of that provision of the Federal Reserve Act which authorizes member banks to accept drafts drawn upon them "which grow out of transactions involving the importation or exportation of goods" and which authorizes Federal reserve banks to rediscount such acceptances. The Board is now of the opinion that the broad language of this provision of the Act is clearly susceptible of a more liberal interpretation which would facilitate the financing of our foreign trade and particularly the sale of American goods abroad under circumstances similar to those described in the ruling published on page 638 of the Federal Reserve Bulletin for August, 1924.

Usuable term?

The Board, therefore, rules that bankers' acceptances may properly be considered as growing out of transactions involving the importation or exportation of goods when drawn for the purpose of financing the sale and distribution on usual credit terms of imported or exported goods into the channels of trade, whether or not the bills are accepted after the physical importation or exportation has been completed.

All previous rulings in conflict with this ruling are hereby reversed in so far as they conflict with this ruling.

November 1, 1927.

REPORT OF
THE SUB-COMMITTEE OF THE GENERAL ACCEPTANCE COMMITTEE
TO THE FEDERAL RESERVE BOARD

OCTOBER 21, 1927.

The Sub-Committee of the General Acceptance Committee held a meeting in New York on October 21, at which the following were present: Messrs. Zurlinden, Paddock, McKay and Wyatt, Mr. Kenzel chairman, and Mr. O'Hara, secretary

Consideration was given to a proposal to recommend to the Federal Reserve Board certain modifications of its existing rulings with reference to acceptances growing out of the importation and exportation of goods which will make it possible for American banks to accept bills drawn upon them for the purpose of financing such transactions where it is necessary for such bills to be drawn after the goods have reached their destination, in order to conform to usual commercial and credit practices.

After full discussion of the subject and consideration of a statement of facts related by the Chairman substantially as expressed in the accompanying memorandum it was unanimously voted by the Committee to recommend to the Board as follows:

That the Board revoke its previous rulings to the effect that a bill cannot be eligible for acceptance by a member bank or for rediscount or purchase by a Federal reserve bank as a bill growing out of the importation or exportation of goods if it is accepted after the goods have reached their destination, and rule in lieu thereof:

That bankers acceptance may properly be considered as growing out of transactions involving the importation or exportation of goods when given for the purpose of financing the sale and distribution on usual credit terms of imported or exported goods into the channels of trade, whether or not the bills are accepted after the physical importation or exportation has been completed.

MEMORANDUM OF STATEMENT BY THE CHAIRMAN OF THE SUB-COMMITTEE OF THE GENERAL
ACCEPTANCE COMMITTEE MADE AT A MEETING OF THE COMMITTEE IN NEW YORK ON

OCT. 21, 1927

The question of the manner and extent to which use of American acceptance credit was hindered in competition with foreign credit in financing foreign trade was the subject of inquiry recently made by the Federal Reserve Board of your Chairman.

On a visit to Washington last week, your Chairman explained to Governor Young and to the Federal Reserve Board that, according to his observations and from information gained from interviews with many bankers from England, Holland, Switzerland, Germany, France and Italy, the only practical obstacles lay in rulings of the Board which had the effect of prohibiting bills from being accepted at all by national banks or as eligible by other banks and bankers after the physical exportation or importation of goods was completed.

He stated that these foreign bankers had told him that industry in the industrial countries of the Continent had always had to look to foreign credit for the purchase of imported raw materials and in the export of finished goods; that due to various causes, such credit was required for longer periods than was customary in the United States. Among the causes named were lack of working capital in the American sense, slow transportation, the closing of river navigation during the cold months, and the economic impracticability of industries closing down temporarily or for longer periods, as is frequently done in the United States without serious economic consequences. The combined effect of these conditions requires manufacturers seasonally to carry raw materials for six months of operation and they, accordingly, require credit up to six months with respect to a considerable portion of their purchases.

The fact that banks on the Continent are much more closely identified with the industries than is the general case in America normally permitted them to discount freely for their manufacturing clients and also to procure for them from abroad the additional foreign credit that they required. England, Holland, Switzerland, and to some extent, France, were normally the creditor countries and the first three continue at the present time to extend the kinds of credits for the time required to the Continental industries; generally through the medium of Continental banks.

It was explained that, owing to the higher price levels at the present time as compared with pre-war, the volume of domestic bills in Germany and other industrial sections of the Continent represented a physical volume of goods considerably less, perhaps 75% of the quantity of goods, than would have been represented by an equal amount of bills pre-war, and that, accordingly, the rise in the price level required relatively greater recourse to foreign credit than before the war.

It was explained that both before and since the war it was the practice of London banks and bankers to extend commercial acceptance credit for the benefit of Continental industry and trade freely and that the restrictions in the American practice had doubtless caused a great deal of financing to go to London that otherwise would have come to New York on account of the ability of America to create credit and the lower American discount rates.

The cutting of acceptance commissions by London banks for Continental banks to attract this kind of business to London was also referred to as constituting a substantial competition but one which would not be so serious if American banks could give the credits that the Continental trade requires on terms otherwise equal with London.

Since your Chairman advised the Board in these respects, he has conferred with a considerable number of prominent New York bankers who create the large bulk of American acceptances to inquire of them what in their experience had prevented them from giving acceptance credits abroad such as London bankers habitually grant, and he was informed by each of them that the rule against accepting after goods had arrived in the country of import and the rule against permitting customers to redraw after goods had arrived in the country of import were the only two points upon which they felt their disability depended.

They felt that they would not wish to extend credits in Europe for purely domestic purposes, explaining that by that they meant the purchase of goods of domestic origin, the fabrication of such goods and its sale for domestic consumption within any European country, but that they did feel that they should be permitted to finance through acceptance credits the sale within European countries of goods of origin foreign to those countries, and the fabrication and sale of goods for export. Many of them cited the familiar problem of American cotton which is now sent so largely to European countries on consignment by American shippers and is sold to European spinners out of warehouses in Europe. Spinners require credit of ninety days or more. Under the present rules, American banks can give such credits where the cotton crosses a frontier in Europe, that is, where it is exported from one European country to another, but they cannot give such credits if the cotton is sold to spinners located in the same European country in which it is stored pending sale. A similar negative position arises with respect to cotton which is sold and shipped from America on terms that have become quite usual, i. e., that at the buyer's option he may pay cash on arrival or give ninety days bankers credit. It frequently happens that the cotton has arrived and so the physical export completed before the buyer elects how he shall pay. If he elects to give ninety days bankers credit the banker may not accept the bill if the cotton has arrived at the foreign destination named in the shipping documents.

The American bankers consulted felt that the time has certainly arrived in the development of American acceptance business when American accepting bankers should be permitted the free exercise of their discretion within the law and regulations and that, within those limits, full latitude should be granted them in the accommodation of business as it is done in foreign countries. They stressed particularly the point that they regarded it as preferable to give a three months credit with a renewal for a further period, if it were found that a renewal were required at the expiration of the original period, than to grant the credit originally for a period of six months, and that if the rule against accepting a bill after the goods had arrived were rescinded, the end sought would be practically accomplished without a specific ruling in favor of renewal bills. It was pointed out that from the bankers' point of view it was preferable to be able to review credits at more frequent intervals than is the case when credits up to six months are being insisted upon by the borrower as a precaution against being unable to redraw at the end of a shorter period in case of need even for a small part of the credit.

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January 18, 1928.

Dear Mr. Delano:

Some friend was good enough to place on my desk a copy of The Credit World, official organ of the National Retail Credit Association, for December containing your article on the federal reserve banks and the discount rate. I have just finished reading the article and am pleased to find myself in agreement with pretty much everything contained in it. However, you make one statement which was rather startling and to which I feel inclined to demur.

The statement in question is to the effect that your former colleague, Mr. Paul M. Warburg, "was chiefly responsible for the conception and development of what is known as the Gold Clearing Fund of the Federal Reserve System." I should be much interested to have you substantiate this assertion. According to my recollection of events, Dr. Willis, expert of the Banking and Currency Committee of the House of Representatives, and I, as chairman of that Committee, discussed this feature of the Federal Reserve Act before I had ever seen Mr. Warburg or knew of his existence beyond the frequently reported fact that he was foremost among a group of New York bankers in insisting that I should not be made chairman of the Banking and Currency Committee of the House because of my hostility to the Aldrich bank plan.

Dr. Willis and I discussed this central Gold Clearing Fund as a corollary to the exchange and par collection feature of the federal reserve bill. At my request Dr. Willis took the matter up with Secretary McAdoo in order to get the latter's judgment as to the effect of such a proposed provision upon the chances for the legislation in hand. If Mr. Warburg offered or thought of offering a suggestion on the subject I do not recall it nor does Dr. Willis. There was something akin to this provision in the Aldrich scheme, but of such an indefinite nature as scarcely to be tangible; and there was nothing in the Aldrich plan relating to par collections among the individual banks.

My further recollection of the matter is that the Secretary of the Treasury named Dr. Willis as chairman of a committee of experts to prepare a preliminary report for the organization of the reserve banks. The report of this committee embodied the Gold Clearing Fund plan which, as I was told, was adopted by the Federal Reserve Board practically as reported by the committee and I understood that Dr. Willis personally drafted the regulation of the Board relating to this Gold Clearing Fund. Not only so, but I seem pretty distinctly to recall that Mr. Warburg was antagonistic to putting into effect this Gold Clearing Fund as I positively know he so persistently opposed putting into effect the par collection system as to provoke me to prepare an amendment to the Act making it compulsory upon the Board to inaugurate this system. I think it was about this time that you prepared a lucid and convincing brief on the subject of par collections, a copy of which I think I have among my papers in Virginia, which caused me to discard my proposed amendment.

Not only have I no disposition to deprive Mr. Warburg of credit for any

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2. Frederic A. Delano.

part he had in banking reform; but, on the contrary, in my recent federal reserve narrative I treated him with so much generosity as to have drawn the severe criticism of persons who had a peculiar right to comment. I am not, however, inclined to remain silent when his kinsman, Professor Seligman, and others ascribed to him things with which he had nothing whatsoever to do. I am venturing to write you thus because I think you are entirely mistaken in attributing to Mr. Warburg either the conception or development, except in a very reluctant way, of the Gold Clearing Fund.

Always with cordial regards and best wishes,

Sincerely yours,

(Signed) CARTER GLASS.

Frederic A. Delano, Esq.,
2244 S Street, N. W.,
Washington, D. C.

(Letterhead)

COPY

FREDERIC A. DELANO,

407 HIBBS BUILDING.

WASHINGTON, D. C., January 19, 1928.

My dear Senator Glass:

My letter to you of yesterday and yours to me have crossed in transit. My recollection of this matter of the Gold Settlement Fund causes me to think that there is some confusion of ideas in your mind as between the Check Clearing System, which was clearly contemplated by the Federal Reserve Act, and the Gold Settlement Fund which, so far as I can recall, was not referred to in the Act.

I took a very active, and in some respects I think I may claim a leading, part in advocating the Check Clearing System. I had a good deal of opposition in the Board and among the Governors of the Banks. However, as early as December, 1914, I was able to induce the St. Louis and Kansas City Banks to start check clearing operations in their districts. The fight continued through the early months of 1915, and it was not until April, 1915, when Mr. Harding, who had been more or less opposed to me up to that time, changed his attitude and came to my assistance. From that time on we made pretty rapid progress. On June 15, 1915, we began a system of clearing in which member banks could join voluntarily or not as they chose. This system of voluntary clearing remained in effect until July, 1916, when it was made compulsory on all member banks. During the early days of check clearing, Mr. Warburg was among those who claimed that my views of the free clearing of checks by Reserve Banks were not practicable. In fact that was the attitude of ninety-nine out of a hundred of all bankers and of nearly all the Governors of the Reserve Banks. After the plan of voluntary check clearing was adopted by the action of the Board in April, 1915, Mr. Warburg came forward in favor of a plan of creating a Gold Settlement Fund at Washington. Of course, I am aware that Dr. Willis was strongly in favor of the check clearing plan from the start, and when the Gold Settlement Fund was urged he was in accord with it, but I should not have said he had anything to do with originating the idea. Perhaps I am wrong, but that is my recollection. I recognized, of course, that the establishment of a Gold Settlement Fund would help the problem of check clearing as between districts, and I was very strong for it, but I am frank to say that the idea had never occurred to me, and I was, therefore, grateful to Mr. Warburg for suggesting it. As originally started, we got an authorization to put part of the funds required by law to be in the hands of the Federal Reserve Agents, on deposit with the Treasury in a sense as trustee. The Fund, as originally established, was less than \$20,000,000, and the clearances were made once a week beginning with May 27, 1915. In July, 1918, we began to make the clearances daily. I left the service of the Board at the beginning of that very month, but I have always taken a very active interest in this feature of the development.

I have not a full record of the proceedings of the Board, and am speaking largely from recollection, reinforced by the printed annual reports of the Board, which I have checked up in writing this letter. I had no thought of depriving the framers of the Act, or you personally, or Dr. Willis, of any credit in connection with the establishment of the Gold Settlement Fund, and if I had

2. Frederick A. Delano
to Hon. Carter Glass.

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thought that my statement would be questioned, I would have been inclined to omit the mention of any names in my article. As Admiral Schley said in connection with the Battle of Santiago Bay, the achievements of the Federal Reserve Act shed enough glory to satisfy all who took a part, great or small, in bringing it about.

Very truly yours,

(Signed) FREDERIC A. DELANO.

Honorable Carter Glass,
United States Senate,
Washington, D. C.

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January 21, 1928.

Dear Mr. Delano:

Touching my recent letter concerning the Gold Settlement Fund and your reply thereto, I had no confusion of mind with respect to the check clearing system because I know very definitely that that provision of the Federal Reserve Act was among those incorporated upon my own initiative, and I endured with no little impatience the failure of the Board to put it into effect promptly. I recall clearly Mr. Warburg's opposition to doing this and your efforts to have it done.

I have here none of my data on federal reserve matters, all of it being at my home in Virginia, and I wrote hastily and altogether from recollection in respect to the Gold Settlement Fund. I had in mind a provision of the original Federal Reserve Act directing the Federal Reserve Board to establish a system of transfer of funds between federal reserve banks and their branches and authorizing the Board itself to exercise the functions of a clearing house between federal reserve banks.

I seemed to remember that it was in pursuance of this provision of the bill that the committee of experts designated by the Secretary of the Treasury to deal with the preliminary organization of the reserve banks reported in favor of a central Gold Clearing Fund which subsequently was embodied in a regulation of the Board. This report preceded the appointment of the Federal Reserve Board. As I recall, Dr. Willis was chairman of this committee of experts and largely drafted the plan reported by the committee. The report of these experts, I think, was printed as an appendix to the first report of the Board; and, as stated in my previous letter, I had a very distinct impression that Dr. Willis, Secretary of the Board at the time the Gold Settlement Fund was put into effect, drafted the regulation adopted by the Board, which substantively was added as an amendment to the statute itself.

As indicated, I may be mistaken about these things; and, in the light of your letter, I am inclined to abate the measure of my confidence in my own recollection of events, particularly as I have no data at hand to substantiate the impressions I have long held. I have not the remotest disposition to detract from any contributions made by Mr. Warburg to federal reserve legislation or administration. I urged the President to put him on the Board because I thought his banking genius would be of inestimable advantage in the initial stages of the experiment; but I have resented the attempt of some of his friends, with his acquiescence, to disparage everybody else and grossly to exaggerate his part.

Perhaps I would not have bothered you with my hasty demurrer had I taken time, after reading your article, to reflect.

Cordially yours,

Frederic A. Delano,
2244 S Street, N. W.,
Washington, D. C.

(Signed) CARTER GLASS.

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January 23, 1928.

Dear Mr. Delano:

After dispatching my letter of Saturday to you I felt so disturbed to think that I had apparently forgotten a very important incident of federal reserve legislation and administration that I searched my bookcases here for a copy of the first printed report of the Federal Reserve Board to see if I might not confirm my recollection of the event. Failing to find this document I called Dr. Willis on long distance 'phone in New York to ask if he could supply me with a copy of the report on the organization of the system made by the committee of experts of which he was chairman. Dr. Willis suggested that I might procure this from the office of the Secretary of the Board in Washington; and, upon my request, Mr. Eddy's office was good enough to send me to my hotel Saturday night a printed copy of the first report of the Board.

I find in the appendix a copy of the report of this committee of experts with this introduction on pages 119-20:

"In order to promote a desirable uniformity in the organization of the Federal reserve banks, the Federal Reserve Board presents for consideration the outline of a tentative organization for the banks in certain essential aspects of their business. The outline has not been finally approved by the Federal Reserve Board. It represents the work of certain experts who were appointed by the organization committee to examine into the details of organization. It is, therefore, offered simply as a basis for further discussion."

On page 140 of the report, in continuation of this tentative plan of organization, I find, under the sub-head of "Federal Reserve Clearing House" an entire page devoted to the establishment of a central Gold Settlement Fund. As stated in my letter of January 18th and repeated in my letter of the 21st, this report of the committee of experts was prepared and presented to the Secretary of the Treasury, as chairman of the federal reserve organization committee, before the Federal Reserve Board was appointed and, therefore, before Mr. Warburg came into the picture. You will note also that my recollection is confirmed as to this feature of the experts' report being based on that specific authorization of the original Federal Reserve Act which reads:

"The Federal Reserve Board shall make and promulgate from time to time regulations governing the transfer of funds and charges therefor among Federal Reserve Banks and their branches, and may at its discretion exercise the functions of a clearing house for such Federal Reserve Banks, or may designate a Federal Reserve Bank to exercise such functions."

In view of the facts here stated, I do not think it may fairly be

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2. Frederic A. Delano.

said that the central Gold Settlement Fund was the conception of Mr. Warburg, whatever part he may have taken in the development of the system. As to this, my recollection of the circumstances is not in agreement with yours.

I am not disposed to dissent from your suggestion that there was glory enough for all in the establishment and successful administration of the federal reserve system in its initial stages; but Mr. Warburg does not think so, since he would appropriate to himself almost exclusive credit for the entire transaction.

Always with cordial regards,

Sincerely yours,

(Signed) CARTER GLASS.

Frederic A. Delano, Esq.,
2244 S Street, N. W.,
Washington, D. C.

(Letterhead)

FREDERIC A. DELANO,

407 HIBBS BUILDING.

WASHINGTON, D. C., January 30, 1928.

My dear Senator Glass:

I have been out of the city ever since receiving your two letters of January 21st and 23rd, and hence my delay in responding to them. I once read the report of the Organization Committee, and suppose, therefore, that I must have known of the recommendation of that Committee, but that had entirely gone out of my mind; and even now, as I think back, my feeling is very clear and distinct that Mr. Warburg not only suggested the Gold Settlement Fund, but showed us how it could be put through. I remember he told me of an inter-city settlement fund in use in Germany. When it was first suggested there were some doubts expressed as to the legality of putting Federal Reserve Agents' money in the hands of the Secretary of the Treasury as a pool, but when that point was settled it was not difficult to work out the details.

In my rather long railroad experience, I had a good deal to do with inventors and inventions, and found that there is a wide difference between the men who have ideas and the men who are able to carry those ideas through; and I remember particularly well the practical difficulties we had in getting the check clearing scheme to work. The Federal Reserve Act authorized the establishment of a check clearing system, but it did not pretend to go into details. There was nothing new about check clearing, as there were clearing houses in every big city in the country; but clearing checks between different sections of the country for a negligible charge and still meet the views of over-cautious and sometimes selfish bankers, was not easy. There were at least ninety-nine men who could tell us that our scheme was either unjust, unsafe or impossible, to one who was confident that it could be done in spite of difficulties. In spite of the evidence which you supply, I feel that Mr. Warburg made a very real contribution to the Federal Reserve System in his assistance, you may call it, in putting through the Gold Settlement Fund.

I am told that in the Dominion of Canada, although five or six central banks with branches control the entire banking of the country, they have been unable (at least up to six months ago) to work out a Gold Settlement Fund. It was at about that time that a Canadian banker told me that he considered that the greatest single achievement of our Federal Reserve System. I would not go so far as to say that, and believe in the old adage that "Comparisons are odious;" but I do think it was a very important achievement and whoever contributed in originating the idea and in working it out in practice is entitled to an immense amount of credit.

Very sincerely yours,

(Signed) FREDERIC A. DELANO.

Hon. Carter Glass,
United States Senate,
Washington, D. C.

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February 1, 1928.

Dear Mr. Delano:

Acknowledging yours of January 30th, I may say that, in the light of indisputable documentary evidence to the contrary, I must insist that Mr. Warburg had nothing whatsoever to do with the conception of the Gold Settlement Fund. As stated in my previous letters, the idea was embodied in the original Federal Reserve Act itself, was developed in detail in the report of the organization committee before the Federal Reserve Board was even appointed, and I am confirmed in my recollection that Dr. Willis drafted the regulation of the Board putting it into effect.

I am also pretty certain that you are totally mistaken in the supposition that Mr. Warburg showed the Board "how it could be put through." As stated in my first letter to you on the subject, my recollection was that Mr. Warburg vigorously opposed the Gold Settlement Fund as originally put through the Board; and this is now definitely confirmed by Mr. Hamlin, one of the original members of the Board, who sends me an extract from a letter written by him to Mr. Warburg under date of December 30, 1915, having reference to another policy of the Board, in which Mr. Hamlin uses this language:

"You may also remember that originally you vigorously opposed a Gold Settlement Fund at Washington, claiming that the Federal Reserve Bank of Chicago should be permitted to undertake this. May I ask if you have not since radically changed your views upon this important matter?"

I quite agree with you as to the vast importance of this Gold Clearing system and I do not seek to appropriate to myself credit for its conception. I do know perfectly well, however, that Dr. Willis, expert advisor of the House Committee, discussed the matter with me before I knew of the existence of Mr. Warburg. The Federal Reserve Act itself shows that the idea was incorporated in its provisions. The organization committee's report, drafted by Dr. Willis, shows its development in considerable detail. The subsequent modification of the Federal Reserve Act, drafted by Dr. Willis, perfected the system as it now exists. In these circumstances I am not willing that the entire credit for the conception and development of the Gold Settlement Fund shall be appropriated by Mr. Warburg or by his friends for him, any more than I have been willing that Professor Seligman and others should undertake to exploit Mr. Warburg as the father of the federal reserve banking system.

Without desiring to prolong a controversy, I might draw your attention to the fact that, at the first and for quite awhile, Mr. Warburg was openly hostile to the federal reserve system as it was later developed and administered. He regarded it as purely an emergency scheme and urged that the activities of the banks be confined to that conception of the law. In the very first public address he delivered, at Raleigh, North Carolina, after a year of operation, he said that he would have been ashamed of the federal reserve system had the banks

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2. Frederic A. Delano.

cleared the costs of operation. That was his persistent idea of the system; and I could mention various instances in which he opposed or obstructed the development of the system along lines which he considered competitive as to the larger Eastern banks.

I beg you to believe that I have had a high personal regard for Mr. Warburg, and treated him with the greatest consideration when I recently had occasion to write in extenso about the federal reserve system; but, now that I am informed he has employed a college professor to further exploit his imaginary part in federal reserve history, it is my fixed purpose to hold him strictly to the established record.

Sincerely yours,

(Signed) CARTER CLASS.

Frederic A. Delano, Esq.,
407 Hibbs Building,
Washington, D. C.

(Letterhead)

FREDERIC A. DELANO,
407 HIBBS BUILDING.

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WASHINGTON, D. C., February 7, 1928.

Honorable Carter Glass,
United States Senate,
Washington, D. C.

My dear Senator Glass:

I think there is only one thing that I can add to what I have already said, and that is that I would like to make it clear to your mind that my article for the Credit magazine was not written with the knowledge of either Mr. Warburg or Professor Seligman. The latter I scarcely know. While I was trying to give credit to a man I thought deserving of it, and confined my statement to the facts, as I recalled them, I was not trying to pull anybody down.

Sincerely yours,

(Signed) FREDERIC A. DELANO.