The Papers of Charles Hamlin (mss24661)

361_13_001-	Hamlin, Charles S., Scrap Book – Volume 189, FRBoard Members

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date July 25, 1941

To The Files

Subject:

From Mr. Coe

MPC.

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

VOLUME 189

Page 47 - Letter to Governor Young from Governor Harding re Section 13 of the Federal Reserve Act.

Page 95 - Deficiencies in Reserves of Member Banks During the Quarter Ending December 31, 1928.

Page 97 - Earnings & Expenses of F.R. Banks - February 1929.

Page 105 - Memo to Mr. Hamlin from E. H. Cunningham re Analysis of member banks in Chicago and Detroit.

Page 113 - Member Banks Borrowing Continuously in Excess of Capital and Surplus During January 1929.

Page 119 - Memo to Mr. Hamlin from Mr. Smead re What the effect would have been in 1924 and in 1928 had the Federal Reserve Banks been required to pay an additional non-cumulative dividend of 2 per cent on their paid-in capital stock out of net earnings for the year, as provided in Senator Glass' bill - S. 5571.

Page 121 - Memo to Mr. Hamlin from Mr. Smead attaching table showing aggregate "Basic Line" of All Member Banks and Borrowings from Reserve Banks on February 6, 1929.

Page 122 - Memo to Mr. Hamlin from Mr. Smead re Member Banks Borrowing For Capital Purposes.

Page 123 - Memo to Mr. Hamlin from Mr. Smead attaching statement showing Loans on Securities of Weekly Reporting Member Banks, 1927-1929.

Page 127 - Memo to Mr. Hamlin from Mr. Goldenweiser re Speculative Situations, 1922 - 1929.

Page 129 - Memo to Mr. Hamlin from Mr. Goldenweiser re Willis' article on emergency character of the financial situation (February 23, 1929).

Page 131 - Letter to Governor Young from Governor Harding re financial situation in Boston District.

Page 133 - Memo to Governor Young from Mr. Smead attaching statement showing what the effect would be on the F.R. Banks if member bank collateral notes were ruled to be ineligible as collateral security for F.R. notes.

Page 134 - Excerpts and analysis of Mr. Wyatt's opinion re Board's Power to prescribe restrictions, etc., governing rediscounts of notes, etc.

Page 135 - Memo to Mr. Hamlin from Mr. Goldenweiser answering Dr. Anderson's criticisms.

Sa Bk

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COPY

FEDERAL RESERVE BANK OF
BOSTON

February 25, 1929.

Dear Governor Young:

In the first paragraph on page 2 of the other letter which accompanies this, you will note that I say - "A Federal Reserve Bank can use its rediscounted paper as security for Federal Reserve notes while it is questionable whether it should use member banks' collateral notes in this way." I know that it is the custom for Federal Reserve banks to use member banks' collateral notes secured by government obligations as security for Federal Reserve notes, but I have serious doubts whether it was the intent of Congress that such notes should be used in this way. In the first place, none of the government obligations issued during the war or since, have the circulation privilege and where a Federal Reserve bank uses a member bank's note secured by such obligations as collateral for Federal Reserve notes, it is using a government obligation indirectly in a way where it is clear that it could not make such use of it directly.

Section 13 of the Federal Reserve Act as originally enacted, contained no provision for advances to member banks on their fifteen day collateral notes, and Section 16 of the original Act which relates to Federal Reserve note issues, contains this language:

> "The collateral security thus offered shall be notes and bills, accepted for rediscount under the provisions of Section thirteen of this Act, and the Federal Reserve Agent shall each day notify the Federal Reserve Board of all issues and withdrawals of Federal Reserve notes to and by the Federal Reserve bank to which he is accredited."

In the amendment to the Federal Reserve Act approved September 7, 1916, the following paragraph was inserted in Section 13:

> "Any Federal Reserve bank may make advances to its member banks on their promissory notes for a period not exceeding fifteen days at rates to be established by such Federal Reserve bank, subject to the review and determination of the Federal Reserve Board, provided such promissory notes are secured by such notes, drafts, bills of exchange, or bankers' acceptances as are eligible for rediscount or for purchase by Federal Reserve banks under the provisions of this Act, or by the deposit or pledge of bonds or notes of the United States."

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In the same Act of September 7, 1916, Section 16, paragraph 2, relating to note issues was amended as follows:

> "Any Federal Reserve bank may make application to the local Federal Reserve Agent for such amount of Federal Reserve notes hereinbefore provided for as it may require ...... The Collateral security thus offered shall be notes, drafts, bills of exchange, or acceptances rediscounted under the provisions of Section thirteen of this Act, or bills of exchange indorsed by a member bank of any Federal Reserve district and purchased under the provisions of Section fourteen ......"

It is clear that under the original Act, fifteen day collateral notes could not be used as security for Federal Reserve notes for there was no provision permitting Federal Reserve banks to acquire such collateral notes. It seems to me that it is equally clear that under the Act of September 7, 1916, which permitted Federal Reserve banks to take fifteen day collateral notes from their member banks that the amendment to Section 16 above referred to specifically precludes the use of such notes as security for Federal Reserve notes for they were not "rediscounted." However, in the amendment to the Federal Reserve Act approved June 21, 1917, Section 16, paragraph 2, was amended by striking out the word "rediscounted" and substituting the word "acquired" so that this section now reads -

> "The collateral security thus offered shall be notes, drafts, bills of exchange, or acceptances acquired under the provisions of Section thirteen of this Act, or bills of exchange indorsed by a member bank of any Federal Reserve district and purchased under the provisions of Section fourteen of this Act ....
> The said Federal Reserve Board may at any time call upon a Federal Reserve Bank for additional security to protect the Federal Reserve notes issued to it."

The substitution of the word "acquired" for the word "rediscounted" has been taken as authorizing the use of member banks' fifteen day collateral notes as security for Federal Reserve notes, but in view of the fact that the original act provided that the collateral security thus offered shall be -

> "Notes and bills accepted for rediscount under the provisions of Section thirteen of this Act."

and that the amendment of September 7, 1916, provided that the collateral security thus offered shall be

> "Notes, drafts, bills of exchange or acceptances rediscounted under the provisions of Section thirteen of this Act."

it is my belief that the intent of Congress was merely to provide that any bills of exchange or acceptances which were "acquired" or bought in the open market and not necessarily rediscounted could be used as collateral security for Federal Reserve notes.

You will note that there is no direct reference in the amendment of June 21, 1917 to Section 16, which is the present law, to member banks' collateral notes, and the only possible authority for the use of such notes as collateral for Federal Reserve notes is to have them included in the word "notes" which precedes the words "drafts, bills of exchange or acceptances." As the amendment is so specific in describing the collateral it seems to me that had Congress intended to include member banks' fifteen day collateral notes it would have done so in plain language.

In the original Act reference is made only to notes and bills accepted for rediscount. In the amendment of September 7, 1916, the reference is to "notes, drafts, bills of exchange, or acceptances rediscounted under the provisions of Section thirteen of this Act" and in the amendment of June 21, 1917, the reference is to "notes, drafts and bills of exchange, or acceptances acquired under the provisions of Section thirteen of this Act."

Under Section 13 of the Act as originally passed, any Federal Reserve bank

> "may discount notes, drafts and bills of exchange arising out of actual commercial transactions, etc."

There was then no provision for member banks' fifteen day collateral notes. In Section 13 as it now stands, the language is identical, and two pages further on may be found the provision that any Federal Reserve bank

> "may make advances to its member banks on their promissory notes for a period not exceeding fifteen days, etc."

As the amendment of June 21, 1917 goes into detail as to the kind of security which may be used and does not mention member banks' fifteen day notes, it seems to me that it is some stretch of the imagination to include them in the word "notes" which word has always occurred immediately before the word "drafts" from the very beginning.

It appears that close reading of the Act seems to preclude the inclusion of the specific term "member banks' fifteen day collateral notes" in the above term "notes" which is used just before the words "drafts and bills of exchange," for paragraph (d) of Section 14 provides that every Federal Reserve bank

> "shall have power 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 shall be fixed with a view of accommodating commerce and business."

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while in Section 13 appears the provision that any Federal Reserve bank

> "may make advances to its member banks on their promissory notes for a period not exceeding fifteen days at rates to be established by such Federal Reserve banks, subject to the review and determination of the Federal Reserve Board, etc."

If it was not intended to make a distinction between these member bank collateral notes and ordinary commercial notes, why should there be a separate provision for rates on these notes as distinguished from the ordinary notes which are covered in paragraph (d) of Section 14?

This, of course, is only a layman's opinion; but if the Board should decide to submit this question to counsel, and should counsel give an opinion which would justify a ruling that member banks' collateral notes may not be used as security for Federal Reserve notes, I think considerable headway would be made in solving the problems which now confront the Federal Reserve System.

Very truly yours,

W.P.G. Harding,

Governor.

Hon. Roy A. Young, Governor,
Federal Reserve Board,
Washington, D. C.

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DEFICIENCIES IN RESERVES OF MEMBER BANKS DURING THE QUARTER ENDING DECEMBER 31, 1928

Federal Reserve District	Total member banks Dec. 31	Number of banks penalized				Number of banks subject to progressive penalties ***	Number of banks subject to maximum penalty	Average daily deficiencies on which penalties were assessed			
		Total	In Federal reserve and branch cities	In other reserve cities	Country banks			Total	Federal reserve and branch cities	Other reserve cities	Country banks
								(In thousands of dollars)			
Boston	408	76	14	-	62	4	-	245	68	-	177
New York	938	307	55	2	250	-	-	928	559	5	364
Philadelphia	778	123	15	-	108	5	1	121	8	-	113
Cleveland	816	180	21	8	151	11	1	413	59	46	308
Richmond	547	222	21	5	196	52	15	585	56	19	510
Atlanta	453	212	18	**4	190	47	26	529	119	**7	403
Chicago	1,252	326	38	20	268	*36	*7	748	149	110	489
St. Louis	587	223	49	-	174	*11	*6	237	55	-	182
Minneapolis	719	103	2	-	101	* 2	*1	128	16	-	112
Kansas City	932	225	15	#16	194	20	1	227	29	#81	117
Dallas	780	193	13	6	174	*26	*4	280	51	14	215
San Francisco	627	201	36	2	163	5	2	267	114	2	151
Total											
Oct. - Dec. 1928	8,837	2,391	297	63	2,031	219	64	4,708	1,283	284	3,141
July - Sept.1928	8,901	2,287	282	53	1,952	255	63	4,603	1,148	462	2,993
Apr. - June 1928	8,929	2,108	284	45	1,779	173	46	4,153	1,052	203	2,898
Jan. - Mar. 1928	8,971	1,859	268	56	1,535	240	60	3,332	1,029	197	2,106

*Represents the number of banks which would have been subject to such progressive penalties if they had been applied, as F. R. bank applies only the basic rate.

**Represents banks in Savannah, Georgia, whose required reserves are computed semi-weekly as in the case of banks in Federal reserve bank and branch cities.

***Represents country banks, except one reserve city bank in the Fourth Federal Reserve District.

#Includes one bank in Kansas City, Kans., whose required reserves are computed semi-weekly as in the case of banks in Federal reserve bank and branch cities.

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS
MARCH 14, 1929

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EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS
FEBRUARY 1929

Total earnings of the Federal reserve banks in February were $5,471,000 - $953,000 less than in January but $1,861,000 more than in February, 1928. All classes of earnings declined during the month, earnings from purchased bills by $437,000, from discounted bills by $288,000, and from U. S. securities by $227,000. Earnings were, of course, accrued for 3 days less than in January.

Current expenses (exclusive of cost of Federal reserve currency) aggregated $2,184,000 as compared with $2,236,000 in the month preceding and $2,137,000 in February 1928.

Current net earnings (total earnings less current expenses) were $3,105,000 for the month which is at the rate of 27.0 per cent per annum on average paid-in capital as compared with 12.6 per cent a year ago.

After providing for all current expense and dividend requirements, the Federal reserve banks on February 28 had a balance of $5,623,000 available for losses, depreciation allowances, surplus and franchise tax, as compared with a balance of $1,653,000 at the end of February 1928.

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(St. 6130)

MR. HAMLIN

C.97 In Bk

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EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS, FEBRUARY 1929

St. 6130

Federal Reserve Bank	Month of February 1929									January - February 1929		
	Earnings from -					Current expenses		Current net earnings		Current net earnings	Dividends accrued	Available for reserves surplus and franchise tax*
	Discounted bills	Purchased bills	U. S. securities	Other sources	Total	Exclusive of cost of F.R. currency	Total	Amount	Ratio to paid-in capital			
									Per cent			
Boston	$238,935	$194,065	$20,910	$5,364	$459,274	$154,694	$189,531	$269,743	34.3	$660,544	$102,019	$539,522
New York	822,933	341,839	69,992	13,400	1,248,164	520,219	551,547	696,617	17.2	1,954,459	517,691	1,413,969
Philadelphia	333,134	92,598	56,304	1,908	483,944	154,712	170,294	313,650	27.9	601,247	145,882	439,230
Cleveland	329,967	129,432	87,460	10,240	557,099	202,965	227,945	329,154	29.4	759,873	145,551	603,151
Richmond	157,215	60,210	7,514	4,763	229,702	118,749	134,649	95,053	20.1	245,054	61,606	175,276
Atlanta	214,944	75,246	12,569	8,201	310,960	108,736	126,197	184,763	45.7	456,530	52,598	400,492
Chicago	627,705	148,886	97,708	37,161	911,460	303,691	314,545	596,915	41.8	1,224,691	185,642	1,011,501
St. Louis	145,006	34,838	62,643	2,117	244,604	107,819	118,330	126,274	30.2	290,526	54,347	226,372
Minneapolis	43,896	52,361	31,223	5,070	132,550	75,919	82,422	50,128	21.5	138,785	30,330	104,859
Kansas City	112,900	36,545	29,437	28,029	206,911	135,223	135,404	71,507	21.8	148,810	42,529	106,854
Dallas	66,407	71,936	29,935	22,758	191,036	104,707	104,765	86,271	25.9	206,218	43,353	162,020
San Francisco	261,677	178,913	46,511	8,413	495,514	196,794	210,426	285,088	34.9	559,951	107,306	439,938
TOTAL												
Feb. 1929	3,354,719	1,416,869	552,206	147,424	5,471,218	2,184,228	2,366,055	3,105,163	27.0			
Jan. 1929	3,642,279	1,854,294	779,199	148,864	6,424,636	2,235,854	2,283,109	4,141,527	33.0			
Feb. 1928	1,412,460	942,402	1,110,802	145,019	3,610,683	2,137,379	2,255,967	1,354,716	12.6			
Jan.-Feb. 1929	6,996,997	3,271,164	1,331,404	296,287	11,895,852	4,420,083	4,649,164	7,246,688	30.1	7,246,688	1,488,854	5,623,184
1928	2,814,979	1,960,200	2,570,933	258,268	7,604,380	4,311,170	4,560,451	3,043,929	13.8	3,043,929	1,344,171	1,653,352

*After adjustment for current profit and loss entries, purchases of furniture and equipment, etc.

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS
MARCH 15, 1929

W.

Form No. 131.

Office Correspondence

FEDERAL RESERVE
BOARD

See Bk

Date 1/17/28

To Mr. Hamlin

Subject: Analysis of member banks in Chicago and Detroit.

From E. H. Cunningham.

2—8495

P105

I hand you herewith an analysis of six member banks in Chicago, and six member banks in Detroit, showing the average borrowings of those banks from the Federal Reserve Bank of Chicago, for the last six months of the year, 1928; and also the weekly holdings in brokers' loans for own account, for the same period.

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DAILY LIABILITY TO FEDERAL RESERVE BANK OF CHICAGO, from July 1, 1928, to December 31, 1928.

CALUMET NATIONAL BANK, Chicago, Illinois..................CAPITAL-$300,000; SURPLUS-$200,000

Total Monthly Borrowings:		No. of Borrowing Days	Daily Average for Month
July	$ 9,400,000	26	$ 361,538.46
Aug	18,900,000	31	609,677.41
Sept	24,400,000	30	813,333.33
Oct	27,900,000	31	900,000.
Nov	12,500,000	21	595,238.09
Dec	7,800,000	27	288,888.88
	$100,900,000.	166	

Grand Total for entire six months period..............$100,900,000.
Total no. of borrowing days in six months period...... 166 days
DAILY AVERAGE FOR SIX MONTHS PERIOD..............................$607,831.32
AVERAGE WEEKLY HOLDINGS IN BROKERS LOANS FOR OWN ACCOUNT - LAST 6 MOS. 1928 - $746,962.97

CAPITAL STATE SAVINGS BANK, Chicago, Illinois...........CAPITAL-$300,000; SURPLUS-$100,000

Total Monthly Borrowings:		No. of Borrowing Days	Daily Average for Month
July	$ 16,600,000	31	$535,483.87
Aug	18,600,000	31	600,000
Sept	18,000,000	30	600,000
Oct	16,050,000	31	517,741.93
Nov	16,900,000	30	563,333.33
Dec	15,750,000	27	583,333.33
	$ 101,900,000	180	

Grand Total for entire six months period............$ 101,900,000
Total No. of borrowing days in six months period..... 180 days
DAILY AVERAGE FOR SIX MONTHS PERIOD..............................$ 566,111.11
AVERAGE WEEKLY HOLDINGS IN BROKERS LOANS FOR OWN ACCOUNT-LAST 6 MOS. 1928 None.

CENTRAL TRUST COMPANY OF ILLINOIS, Chicago, Illinois.......CAPITAL-$8,000,000; SURPLUS-$6,000,000

Total Monthly Borrowings:		No. of Borrowing Days	Daily Average for Month
July	$ 197,800,000	26	$ 7,607,692.30
Aug	183,950,000	31	5,933,870.96
Sept	94,000,000	27	3,851,851.85
Oct	37,600,000	21	1,790,476.19
Nov	81,700,000	25	3,268,000.
Dec	228,200,000	31	7,361,290.32
	$ 823,250,000	161	

Grand Total for entire six months period.............$823,250,000
Total no. of borrowing days in six months period..... 161 days
DAILY AVERAGE FOR SIX MONTHS PERIOD............................$ 5,113,354.03

AVERAGE WEEKLY HOLDINGS IN BROKERS LOANS FOR OWN ACCOUNT-last 6 mos. 13,750,518.52
(1928)

CONTINENTAL NATIONAL BANK AND TRUST COMPANY, Chicago, Ill...CAPITAL-$35,000,000; SURPLUS-$30,000,000

Total Monthly Borrowings:		No. of Borrowing Days	Daily Average for Month
July	$ 559,650,000.	31	$ 18,053,225.80
Aug	1,140,950,000	31	36,804,838.71
Sept	452,400,000	28	16,157,142.86
Oct	1,118,800,000	31	36,090,322.23
Nov	1,028,280,000	30	34,276,000.
Dec	1,290,527,000	31	41,629,903.22
	$5,590,607,000.	182	

Grand Total for entire six months period.................$5,590,607,000
Total number of borrowing days in six months period...... 182 days
DAILY AVERAGE FOR SIX MONTHS PERIOD............................$30,717,620.87

AVERAGE WEEKLY HOLDINGS IN BROKERS LOANS FOR OWN ACCOUNT-last 6 mos. 87,571.777.78
(1928)

DROVERS NATIONAL BANK, Chicago, Illinois..............CAPITAL.....$1,000,000; SURPLUS.....$500,000

Total Monthly Borrowings:		No. Borrowing Days	Daily Average for Month
July	$ 46,803,265.74	31	$ 1,509,782.76
Aug	32,512,250.84	31	1,048,782.29
Sept	20,262,788.50	30	675,426.28
Oct	19,214,666.10	31	619,827.94
Nov	26,910,145.53	30	897,004.82
Dec	27,324,038.21	26	1,050,924.55
	$173,027,154.92	179	

Grand Total for entire six months period.............$173,027,154.92
Total no. of borrowing days in six months period..... 179 days
DAILY AVERAGE FOR SIX MONTHS PERIOD...............................$ 966,632.15

AVERAGE WEEKLY HOLDINGS IN BROKERS LOANS FOR OWN ACCT-last 6 mos. 1928..$2,960,703.71

FIRST NATIONAL BANK, Chicago, Illinois...............CAPITAL-$15,000,000; SURPLUS-$15,000,000

Total Monthly Borrowings:		No. Borrowing Days	Daily Average for Month
July	$428,150,000.00	31	$ 13,811,290.33
Aug	197,200,000.00	31	6,361,290.33
Sept	79,700,000.00	30	2,656,666.67
Oct	339,150,000.00	31	10,940,322.23
Nov	348,775,000.00	30	11,625,833.34
Dec	276,160,000.00	27	10,228,148.15
	$1,669,135,000.00	180	

Grand Total for entire six months period...............$1,669,135,000
Total number of borrowing days in six months period.... 180 days
DAILY AVERAGE FOR SIX MONTHS PERIOD..............................$ 9,272,972.23.

AVERAGE WEEKLY HOLDINGS IN BROKERS LOANS FOR OWN ACCT-last 6 mos. 1928..$ 51,029,629.63

AMERICAN STATE BANK, Detroit, Michigan.........................CAPITAL-$2,000,000; SURPLUS-$750,000

Total Monthly Borrowings:		No. Borrowing days	Daily Average for Month
July	$ 44,350,000	31	$ 1,430,645.17
Aug	73,650,000	31	2,375,806.46
Sept	57,750,000	30	1,925,000.
Oct	68,500,000	31	2,209,677.42
Nov	110,000,000	30	3,666,666.67
Dec	118,300,000	31	3,816,129.04
	$ 472,550,000	184	

Grand Total for entire six months period............... $ 472,550,000.
Total number of borrowing days in six months period.... 184 days
DAILY AVERAGE FOR SIX MONTHS PERIOD................................$ 2,568,206.53

THE DIME SAVINGS BANK, Detroit, Michigan....................CAPITAL-$1,500,000; SURPLUS-$3,000,000.

Total Monthly Borrowings:		No Borrowing Days	Daily Average for Month
July	$ 112,700,000	31	$ 3,635,483.88
Aug	150,775,000	31	4,863,709.68
Sept	133,725,000	30	4,457,500.
Oct	69,600,000	31	2,245,161.30
Nov	52,750,000	30	1,758,333.34
Dec	80,450,000	31	2,595,164.52
	$ 600,000,000	184	

Grand Total for entire six months period............... $ 600,000,000.
Total number of borrowing days in six months period.... 184 days
DAILY AVERAGE FOR SIX MONTHS PERIOD................................$3,260,869.57

FIRST NATIONAL BANK, Detroit, Michigan..................CAPITAL-$7,500,000; SURPLUS-$9,500,000.

Total Monthly Borrowings		No. Borrowing Days	Daily Average for Month
July	$451,200,000	31	$ 14,554,838.71
Aug	325,400,000	31	10,496,774.20
Sept	237,050,000	30	7,901,666.67
Oct	480,000,000	31	15,483,870.97
Nov	436,055,000	30	14,535,166.67
Dec	371,075,000	31	11,970,161.30
	$2,300,780,000	184	

Grand Total for entire six months period.............$2,300,780,000
Total number of borrowing days in six months period.. 184 days
DAILY AVERAGE FOR SIX MONTHS PERIOD..............................$ 12,504,239.14

GRISWOLD FIRST STATE BANK, Detroit, Michigan..........CAPITAL - $5,000,000; SURPLUS-$2,500,000

Total Monthly Borrowings		No Borrowing Days	Daily Average for Month
July	$ 41,230,000	30	$ 1,374,333.34
Aug	56,200,000	31	1,812,903.23
Sept	65,885,000	30	2,196,166.67
Oct	65,450,000	31	2,111,290.33
Nov	34,050,000	30	1,135,000.
Dec	47,864,000	31	1,544,000.
	$ 308,679,000	184	

Grand Total for entire six months period..................$308,679,000
Total number of borrowing days in six months period....... 184 days
DAILY AVERAGE FOR SIX MONTHS PERIOD..............................$ 1,677,603.21

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GUARDIAN DETROIT BANK, Detroit, Michigan....................CAPITAL-$5,000,000; SURPLUS-$3,000,000

Total Monthly Borrowings		No Borrowing Days	Daily Average for Month
July	$ 53,350,000	30	$ 1,778,333.34
Aug	67,560,000	31	2,179,354.84
Sept	58,300,000	30	1,943,333.34
Oct	69,075,000	31	2,228,225.81
Nov	30,400,000	27	1,125,925.93
Dec	106,700,000	31	3,441,935.49
	$ 385,385,000	180	$

Grand Total for entire six months period...................$ 385,385,000
Total number of borrowing days............................ 180 days
DAILY AVERAGE FOR SIX MONTHS PERIOD.................................. $2,141,027.78

THE PEOPLES WAYNE COUNTY BANK, Detroit, Michigan..........CAPITAL-$11,000,000; SURPLUS-$22,000,000.

Total Monthly Borrowings		No. Borrowing Days	Daily Average for Month
July	$ 311,750,000	31	$ 10,056,451.62
Aug	302,000,000	31	9,741,935.49
Sept	241,000,000	30	8,033,333.34
Oct	172,500,000	28	6,160,714.29
Nov	139,500,000	25	5,580,000.
Dec	239,000,000	31	7,709,677.42
	$1,405,750,000	176	

Grand Total for entire six months period..................$ 1,405,750,000
Total number of borrowing days........................... 176 days
DAILY AVERAGE FOR SIX MONTHS PERIOD..................................$ 7,987,215.91

P. 113 Ser Bd

CONFIDENTIAL
For use of Federal
Reserve Board only

MEMBER BANKS BORROWING CONTINUOUSLY IN EXCESS OF CAPITAL AND SURPLUS DURING JANUARY 1929
ALSO BORROWINGS OF ALL MEMBER BANKS AT THE END OF THE MONTH

St. 6137

Federal Reserve District	GROUP I - All banks borrowing continuously in excess of capital and surplus during the month				GROUP II - Banks in Group I whose borrowings at the end of month were at least twice capital & surplus				GROUP III - All member banks in district				
	Number	Capital and surplus	Borrowings on Jan. 31: Amount	Borrowings on Jan. 31: Ratio to capital & surplus	Number	Capital and surplus	Borrowings on Jan. 31: Amount	Borrowings on Jan. 31: Ratio to capital & surplus	Accommodated during month	Total number	Capital and surplus	Borrowings on Jan. 31: Amount	Borrowings on Jan. 31: Ratio to capital & surplus
Boston	4	$755,000	$977,000	129%	-	-	-	-	189	407	$338,833,000	$80,397,000	23.7%
New York	2	265,000	440,000	166	-	-	-	-	413	941	1,729,000,000	174,437,000	10.1
Philadelphia	2	535,000	599,000	112	-	-	-	-	435	778	484,533,000	75,605,000	15.6
Cleveland	-	-	-	-	-	-	-	-	253	816	485,367,000	75,173,000	15.5
Richmond	1	46,000	65,000	141	-	-	-	-	209	545	205,533,000	42,502,000	20.7
Atlanta	18	6,427,000	10,603,000	165	7	$2,189,000	$5,432,000	248%	187	453	175,267,000	59,578,000	34.0
Chicago	8	603,000	995,000	165	1	200,000	500,000	250	406	1,250	619,633,000	132,356,000	21.4
St. Louis	3	530,000	1,217,000	230	2	330,000	1,002,000	304	173	585	180,467,000	40,034,000	22.2
Minneapolis	3	186,000	190,000	102	-	-	-	-	67	717	100,933,000	9,628,000	9.5
Kansas City	24	4,294,000	8,006,000	186	4	1,345,000	3,404,000	253	148	923	141,167,000	23,582,000	16.7
Dallas	1	360,000	1,310,000	364	1	360,000	1,310,000	364	70	771	143,600,000	19,882,000	13.8
San Francisco	2	830,000	851,000	103	-	-	-	-	141	621	356,000,000	57,070,000	16.0
TOTAL													
Jan. 1929	68	14,831,000	25,253,000	170	15	4,424,000	11,648,000	263	2,691	8,807	4,960,333,000	790,244,000	15.9
Dec. 1928	65	22,950,000	37,949,000	165	15	4,969,000	12,636,000	254	2,801	8,844	4,897,866,000	1,043,739,000	21.3
Jan. 1928	54	5,491,000	8,420,000	153	6	461,000	1,039,000	225	2,256	9,013	4,481,367,000	423,310,000	9.4

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS
C MARCH 20, 1929

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Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

See Bu

Date February 7, 1929

To Mr. Hamlin

Subject:

From Mr. Smead

P. 119

2—8495

In accordance with your telephone request we have prepared the two statements, attached hereto, showing what the effect would have been in 1924 and in 1928 had the Federal reserve banks been required to pay an additional non-cumulative dividend of 2 per cent on their paid-in capital stock out of net earnings for the year, as provided in Senator Glass' bill S-5571.

You will note that in 1924, when the net earnings of the System were only $3,718,180, two of the banks had a deficit in net earnings before payment of dividends, and that only four of the banks had any net earnings remaining after dividend payments. Of these four banks only one, Minneapolis, had sufficient net earnings remaining to pay an additional dividend of 2 per cent on its paid-in capital stock. In 1928, when the net earnings of the System aggregated $32,122,021, all of the Federal reserve banks had net earnings more than sufficient to pay the additional 2 per cent dividend provided in the Glass bill.

If gold should begin to move to this country again and thus result in a substantial drop in bill and security holdings of the Federal reserve banks, net earnings might again reach a point where some of the banks would have to pay their 6 per cent cumulative dividend out of surplus, as they did in 1924. If this should happen and member banks in the industrial districts, for instance, should get an 8 per cent dividend and member banks in some of the agricultural districts only 6 per cent, there would no doubt be considerable pressure brought upon the Federal reserve banks in the latter districts to increase their earnings to a point where they would be able to pay the full 8 per cent dividend. Member banks, in other words, would have a direct interest in the earnings and perhaps in the expenses of the Federal reserve banks, with the result that it might be difficult to operate the banks strictly in accordance with sound credit principles without reference to resulting earnings.

If the 8 per cent dividend requirement were to become a law it would, in my opinion, be much better for the additional 2 per cent to be made cumulative, as is the present 6 per cent dividend, in which case it would presumably be paid out of surplus in any year in which net earnings were insufficient to meet the full dividend requirement. The advantage of having the dividend cumulative is that member banks would be likely to be much less interested in the financial result of operations of the Federal reserve banks than they would be if the payment of the full dividend depended on current earnings for a given year.

E. L. Smead

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NET EARNINGS AND DIVIDEND PAYMENTS OF EACH FEDERAL RESERVE BANK IN 1924 AND AMOUNT REQUIRED TO PAY AN ADDITIONAL DIVIDEND OF 2 PER CENT

Federal Reserve Bank	Net earnings	Dividends paid (6%)	Balance available for surplus and franchise tax	Amount required to pay 2 per cent additional dividends
Boston	$470,422	$477,798	- $7,376	$159,266
New York	616,852	1,796,530	-1,179,678	598,843
Philadelphia	747,092	615,135	131,957	205,045
Cleveland	-473,153	756,152	-1,229,305	252,051
Richmond	379,791	351,251	28,540	117,084
Atlanta	272,656	272,656	-	90,885
Chicago	909,123	909,123	-	303,041
St. Louis	203,937	304,976	-101,039	101,659
Minneapolis	329,102	202,828	126,274	67,609
Kansas City	-253,182	265,697	-518,879	88,566
Dallas	265,024	249,789	15,235	83,263
San Francisco	250,516	480,561	-230,045	160,187
TOTAL	3,718,180	6,682,496	-2,964,316	2,227,499

NET EARNINGS AND DIVIDEND PAYMENTS OF EACH FEDERAL RESERVE BANK IN 1928 AND AMOUNT REQUIRED TO PAY AN ADDITIONAL DIVIDEND OF 2 PER CENT

Federal Reserve Bank	Net earnings	Dividends paid (6%)	Balance available for surplus and franchise tax	Amount required to pay 2 per cent additional dividends
Boston	$2,316,522	$590,830	$1,725,692	$196,943
New York	11,018,433	2,743,725	8,274,708	914,575
Philadelphia	3,282,641	843,755	2,438,886	281,252
Cleveland	3,180,715	856,843	2,323,872	285,614
Richmond	1,118,960	370,683	748,277	123,561
Atlanta	1,693,985	312,259	1,381,726	104,086
Chicago	4,763,429	1,099,761	3,663,668	366,587
St. Louis	785,159	321,855	463,304	107,285
Minneapolis	614,704	181,203	433,501	60,401
Kansas City	659,760	253,254	406,506	84,418
Dallas	713,455	258,544	454,911	86,181
San Francisco	1,974,258	625,751	1,348,507	208,584
TOTAL	32,122,021	8,458,463	23,663,558	2,819,487

Form No. 131.

Office Correspondence

FEDERAL RESERVE BOARD

Soc Bk

Date February 8, 1929

To Mr. Hamlin

Subject:

From Mr. Smead

P.121

2—8495 GPO

In accordance with your telephone request we have prepared the attached statement showing the aggregate basic discount line of all member banks in each Federal reserve district, borrowings from the Federal reserve banks, and the ratio of such borrowings to the basic lines.

You will note from this statement that the ratio of borrowings to basic line for all member banks was 20 per cent on February 6, and that the ratio ranged between a minimum of 11.7 per cent for the New York district and a maximum of 48.7 per cent for the Atlanta district.

We have examined the reports received for the 620 member banks which submit weekly reports of condition, and find that of the total number 38 were borrowing in excess of their basic lines on January 23, the last date for which figures by individual banks are available. These 38 banks had an aggregate basic line of $55,800,000 and their borrowings from the Federal reserve banks aggregated $80,700,000, or $24,900,000 in excess of their basic lines. The total borrowings of all weekly reporting member banks amounted to $554,000,000, or about 71 per cent of the total borrowings from the Federal reserve banks on January 23. It may be interesting to point out that the 38 banks which were borrowing in excess of the basic line were loaning less than $8,000,000 to brokers and dealers in New York City.

The geographical distribution of the banks borrowing in excess of their basic line was rather general, although the largest relative number of such banks was in the Philadelphia, Richmond and Atlanta districts. None of such banks in the Philadelphia or Atlanta districts and only one in the Richmond district were loaning any money to brokers and dealers in New York City.

E. L. Smead

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P. 121

AGGREGATE "BASIC LINE" OF ALL MEMBER BANKS AND BORROWINGS FROM RESERVE BANK ON FEBRUARY 6, 1929

(Basic Line - 65 per cent of reserve balances plus F. R. bank stock - multiplied by 2½)
(In thousands of dollars)

Federal Reserve District	65 Per cent of member bank reserves	Paid-in capital of F. R. bank	Total	Basic Line (2½ times column 3)	Borrowings from F. R. Bank	Ratio of total borrowings of member bks. to their aggregate basic line (Per cent)
Boston	96,103	10,258	106,361	265,902	62,275	23.4
New York	616,535	52,385	668,920	1,672,300	195,127	11.7
Philadelphia	88,522	14,543	103,065	257,662	70,332	27.3
Cleveland	122,385	14,560	136,945	342,362	80,723	23.6
Richmond	45,214	6,162	51,376	128,440	39,438	30.7
Atlanta	43,614	5,261	48,875	122,188	59,465	48.7
Chicago	229,167	18,712	247,879	619,698	150,712	24.3
St. Louis	54,940	5,414	60,354	150,885	39,052	25.9
Minneapolis	34,891	3,028	37,919	94,798	12,976	13.7
Kansas City	60,059	4,289	64,348	160,870	36,745	22.8
Dallas	45,274	4,310	49,584	123,960	22,975	18.5
San Francisco	114,381	10,643	125,024	312,560	81,801	26.2
TOTAL	1,551,085	149,565	1,700,650	4,251,625	851,621	20.0

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Office Correspondence

FEDERAL RESERVE BOARD

P. 122 See Bk

Date February 13, 1929

To Mr. Hamlin

Subject: Member banks borrowing for capital purposes.

From Mr. Smead

2—8495 GPO

You stated the other day that you believed a number of member banks obtain funds from the Federal reserve banks for capital purposes, rather than solely to take care of temporary requirements, and asked me for a general statement as to whether or not available information would substantiate this assumption.

Available reports indicate that a number of member banks are borrowing from Federal reserve banks practically continuously, and it seems safe to say that some of these banks are obtaining funds from the Federal reserve banks which, under good banking practice, ought to be obtained through the issuance of stock. The Federal reserve banks submitted reports to the Board covering the calendar year 1927, which listed all member banks that borrowed continuously throughout the year. This statement showed that 303 banks were borrowing continuously throughout that year. While the greater number of these banks were borrowing because of financial difficulties, many of them could no doubt have liquidated their borrowings had they so desired. As a matter of fact, one Federal reserve agent stated that out of 47 continuous borrowing banks, only 7 were in an extended or unsafe condition, that the borrowings of 28 were entirely secured by Government obligations, and that the borrowings of all of them could be liquidated during the following year if necessary.

We have drafted a letter asking the Federal reserve banks to furnish the Board with a statement covering all member banks borrowing continuously during 1928, as well as banks which were substantially continuous borrowers. This letter is now being considered by Governor Young. Information recently received for one Federal reserve district for the last half of 1928 shows that some of the member banks in that district were borrowing practically continuously and rather heavily from the Federal reserve bank during the entire six-month period. We also find, from the weekly condition statements of reporting member banks, that quite a number of the weekly reporting member banks in New York and Chicago, for example, are shown as borrowing on most of the 52 Wednesday report dates in the year 1928. This is illustrated by the following tabulation:

Number of member banks borrowing from F.R.bank	New York City	Chicago
On 49-52 Wednesday report dates	4	1
" 40-48 " " "	12	6
" 30-39 " " "	7	10
" 20-29 " " "	6	9
" 10-19 " " "	4	3
" 1-9 " " "	6	9
" No " " "	4	5
Total	43	43

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E. L. Smead

Form No. 131.

Office Correspondence

FEDERAL RESERVE BOARD

Su Bk.

Date February 19, 1929

To Mr. Hamlin

Subject:

From Mr. Smead

P 123

2—8495

In accordance with your telephone request I am handing you herewith a statement showing loans on securities of weekly reporting member banks, by quarters, from January 1927 to present time. While the security loans of all reporting banks increased 1,610 millions during the period, the "all other", largely commercial loans increased from 8,623 millions to 8,708 millions or by 85 millions. For New York City the "all other" loans increased by 103 millions as compared with an increase of 649 millions in security loans. For weekly reporting member banks in Chicago the increase in "all other" loans was 52 millions as compared with an increase of 152 millions in security loans.

E. L. Smead

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P. 123

LOANS ON SECURITIES OF WEEKLY REPORTING MEMBER BANKS, 1927-1929

(In millions of dollars)

	All reporting banks		New York City		City of Chicago	
	Amount	Increase since Jan. 1927	Amount	Increase since Jan. 1927	Amount	Increase since Jan. 1927
Monthly average:						
1927 - Jan.	5,915		2,168		747	
Apr.	5,930	15	2,156	*12	741	*6
July	6,191	276	2,281	113	832	85
Oct.	6,403	488	2,370	202	889	142
1928 - Jan.	6,811	896	2,710	542	836	89
Apr.	6,924	1,009	2,675	507	832	85
July	6,955	1,040	2,626	458	854	107
Oct.	6,874	959	2,559	391	854	107
1929 - Jan.	7,496	1,581 (26%)	2,904	736 (34%)	887	140 (18%)
By weeks:						
1929 - Feb. 6	7,555	1,640	2,857	689	889	142
13	7,525	1,610	2,817	649	899	152

*Decrease.

Increase Jan '29 over Jan '28 1581	685 (10%)	194 (7%)	51 (6.1%)
Increase Feb 13 '29 over Jan. 28	714 (10%)	107 (3.9%)	63 (7½%)

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Office Correspondence

FEDERAL RESERVE BOARD

Ser Bd

Date February 21, 1929

To Mr. Hamlin

Subject:

From Mr. Goldenweiser

R. 127

2—8495 GPO

I am sending you a brief memorandum on the Federal reserve action with reference to speculative activity during the past seven years and a smooth curve of Federal reserve credit from the beginning of the system. The curve represents total reserve bank credit on the basis of averages of daily figures. The line is twelve-month moving averages centered on the seventh month. This accounts for the fact that the chart does not begin until about the middle of 1915 and stops soon after the middle of 1928.

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Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date February 21, 1929

To Mr. Hamlin

Subject: Speculative Situations, 1922 - 1929

From Mr. Goldenweiser

EAG

2—8495

Since the beginning of 1922 there have been about seven occasions on which the system appears to have felt some concern with regard to the growth of speculation in stocks. These occasions are enumerated below together with a brief statement of the action, if any, taken by the system with a view to the exercise of a moderating influence.

Early months of 1923

At this time the level of stock prices rose to about as high a level as in 1919, and brokers' loans were at a higher level. It does not appear, however, that the system was much concerned at this time about the stock market. Discount rates were raised on February 23 at Boston and New York, and on March 6 at San Francisco, and more than $300,000,000 of U. S. securities were sold in the first half of the year--but the reasons for these acts of policy, as far as they were appreciated at the time, grew out of the state of the commodities markets, the building situation, and the activity of industry. It may be noted, however, that stock prices receded through the larger part of 1923 and did not again reach the level of the earlier months of that year until November, 1924.

November, 1924 - February, 1925

This was the outburst of speculation which followed the election of Mr. Coolidge. Stock prices rose to a considerably higher level than those of 1919 or 1923, brokers' loans advanced rapidly (after the middle of 1924) and were at the end of 1924 higher than at any previous time. There had been substantial purchases of securities in 1924 for system account and a substantial reduction in discount rates. In the winter of 1924 - 1925 the system was concerned about the stock market and this was an important reason for the sale of about \$250,000,000 of U. S. securities from the investment account between November and March, and the advance of the New York discount rate from 3 to $3\frac{1}{2}$ per cent on February 27, 1925. After a temporary recession, stock prices soon resumed their advance and were again at new high levels before the middle of the year.

Autumn of 1925

From the middle of 1925 until the end of the year, stock prices were not only on new high ground but were rising rapidly. The system took notice of the situation by advancing bill rates in August and September, 1925, and on January 8, 1926; by raising discount rates in November at Boston, Philadelphis, Cleveland, and San Francisco--and at the Federal Reserve Bank of New York on January 8, 1926. In February, 1926, the system began the regular publication of figures on brokers' loans. During this period there was no change in the special investment account except a temporary increase at the end of 1925.

Summer and autumn of 1926.

Stock prices and brokers' loans, after receding sharply about the middle of the first half of 1926, began to advance again. Stock prices were again in new high ground by August or September. The system took notice of the situation by advancing the New York discount rate on August 13 and advancing the buying rates on bills shortly thereafter; there were also at this time some further sales of securities from the system's investment account.

Autumn of 1927

After the middle of 1927, stock prices advanced with great rapidity and brokers' loans again rose to a new high level. This was about the time that the system was adopting, for reasons that are a matter of record, an easy money policy--lowering discount rates and buying rates on bills, and buying U. S. securities for the investment account. Some growth of speculation under these circumstances was expected, but it appears that by November, 1927, advance in stock prices and growth in brokers' loans had proceeded rather farther than had been expected. It was at this time that purchases of securities (to offset losses of gold) were gradually discontinued.

1928.

A. Early in 1928 there was a halt in the advance of stock prices, followed by a recession and by some reduction in brokers' loans; it was during this period that the discount rate of the Federal Reserve Bank of New York was advanced from $3\frac{1}{2}$ to 4 per cent, while substantial sales of securities were made from the investment account.

B. Both stock prices and brokers' loans resumed their advance about the end of February. For about a month, however, the system took no action of moderating character. At the end of March, buying rates on bills were advanced again; in April and May discount rates were raised at almost all of the Federal reserve banks, securities were sold from the investment account, and bill rates were again advanced.

C. Stock prices receded in May and June, ~~and~~ showed little change thereafter until the middle of August, and then advanced with almost unprecedented rapidity to the accompaniment of a very sharp increase in brokers' loans. Discount rates at New York and at a number of the other reserve banks were raised during July, but thereafter the system took no action designed to restrain speculation until after the turn of the year. There was, notwithstanding, a sharp reaction in stock prices in the first half of December ~~November~~--followed by an equally sharp advance.

Early in 1929

Stock prices advanced in the second half of December and in January almost without interruption. The Board issued its recent statement with regard to speculation on February 7.

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Office Correspondence

FEDERAL RESERVE BOARD

Date February 23, 1929

Sec Bk

To Mr. Hamlin

Subject:

From Mr. Goldenweiser

Willis' article in the Sunday World

2—8495

P. 129

It seems to me that Dr. Willis' article in the Sunday World for February 17 greatly exaggerates the emergency character of the existing situation. Banking conditions in this country appear to be fundamentally sound, as measured by the fact that credit is available for all legitimate needs at fairly reasonable rates, and also as indicated by the decline in number of bank failures. It is true that the diversion of an increasing amount of credit extended by banks and by others to the financing of stock market transactions is an undesirable development, and that the banking authorities are concerned about it. It is not true, however, that the situation is serious enough to warrant war emergency measures, like reviving the Capital Issues Committee, or reestablishing the money pool.

In regard to the Federal reserve system, Dr. Willis' fundamental mistake as I see it is in his belief that there is a necessary connection between the kind of paper on which Federal reserve accommodation is obtained and the use to which the proceeds are put. He thinks that money borrowed on Government securities as collateral for some reason gravitates to the securities market and money borrowed on commercial paper flows into the channels of trade and industry. This is definitely a fallacy arising from his inability to see that the Federal reserve banks are not primary banks, but secondary banks. They do not deal with the public and even where they do to a limited extent the credit obtained from the reserve banks builds up reserves rather than flowing directly into the channels of trade, industry, or speculation. It has been conclusively demonstrated that it does not make any difference whether the borrowing from the reserve bank is on Government collateral; on

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Office Correspondence

FEDERAL RESERVE BOARD

Date February 23, 1929

To

Subject:

From

P.129

eligible paper through discounting; or on bills of exchange. No matter how obtained, reserve funds are added to the reserves of member banks and underlie all of the transactions of these banks.

In line with this fallacy is Mr. Willis' belief that the situation could be greatly improved by discontinuing the practice of lending to the banks on their own notes secured by Government obligations. The only consequence of such a course of action would be to make bookkeeping more complicated and cause annoyance to the member banks and the reserve banks. The direction of credit would not be modified in the least by this procedure.

In my opinion Mr. Willis is all off in his discussion of acceptances also, because he thinks that credit obtained through acceptances in some peculiar way feeds the money market. I am not convinced that Federal reserve policy in regard to acceptances has justified itself and I sometimes wonder whether lower rates applicable to acceptances do not render the discount rate partially ineffective. I cannot, however, discern in the acceptance practice any great inherent evil. On this point Mr. Willis is beautifully inconsistent, because on the one hand he thinks that the Federal reserve banks ought not to buy acceptances as freely as they do, and on the other hand, he wants them to deal more actively in unindorsed two-name paper. This reaches back to his frequently repeated notion that somehow a reserve bank can buy certain kinds of paper that have his blessing without influencing the credit situation.

Sec Bd.

P.131

COPY

FEDERAL RESERVE BANK

OF BOSTON February 25, 1929

Dear Governor Young:

I appreciate very much your kind letter of February 23, with reference to the circular letters which we sent out recently, and wish to say that they seem to have been well received by our member banks. The bankers in this district impress me as being reasonable men and when a situation is explained to them, they are willing to respond to the best of their ability. There is, however, very keen competition between banks throughout New England and many of our banks which have collateral loans tell us that it has been necessary to make such loans in order to prevent shifting of good accounts.

Our reserve is now about 68 per cent, but unless we should reduce our bill holdings to a point below 40 million dollars which, in view of the large volume of bills made in this district, seems to be about our normal line, I do not see any immediate prospect of further increase in our reserve percentage unless some action such as is proposed below is taken.

As you know, there is usually a large amount of money available in this section for investment and the banks, as well as their customers, are very considerable holders of government, municipal and corporate obligations. As a rule, our advances to member banks on their 15-day notes secured by government obligations amount to more than our straight rediscounts for them of eligible paper. For only about two months in the year, usually November and December, do our rediscounts exceed the advances made on 15-day collateral notes, and for the past week our accommodations to member banks have been represented one-third or less by rediscounts, and two-thirds or more by advances on 15-day collateral notes.

I know that for several years past it has been the policy of the Federal Reserve Board in its review and determination of rates, to have only one rate although provision is made in paragraph (d) Section 14, for "rates of discount to be charged by the Federal reserve bank for each class of paper, which shall be fixed with a view of accommodating commerce and business". Our records show that the city banks as a rule use government collateral with us only for temporary advances running for a day or two, while the country banks frequently renew their collateral notes from time to time for a period of six months or more. It does not appear that these country banks send us their collateral notes secured by government obligations for the purpose of enabling them to accommodate commerce and business, but rather to make good a deficiency in reserves created by their advances to customers on collateral. such advances as a rule having nothing to do with commerce and business. It

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seems to me, therefore, that the Board might well take into consideration the establishment of a differential in some districts at least in favor of rediscounts of eligible paper as against advances on member banks' 15-day collateral notes. There is good reason, I think, why this may be done, for a Federal reserve bank can use its rediscounted paper as security for Federal reserve notes while it is questionable whether it should use member banks' collateral notes in this way. Then again, the Federal reserve bank has the responsibility for the custody of the collateral and incurs the cost of transportation of the collateral back to the member bank upon payment of the obligation.

It is my intention to discuss this matter with our directors at their meeting on Wednesday, the 27th instant, and it is possible that they may submit to the Federal Reserve Board for its review and determination, a proposition to make the interest rate on member banks' collateral notes six per cent, letting the rediscount rate on eligible paper remain at five per cent. This would not in my opinion make any difference in the rates charged by member banks to those engaged in industry, commerce or agriculture, for the reason that the notes of such people would be eligible for rediscount at the five per cent rate, but I think that it would tend to raise the rate on collateral notes made for investment or speculative purposes, to 6½ per cent, which would I think discourage such advances, and in fact, bring about the liquidation of many of such notes now held by the banks. In any event, if the Board is inclined to consider the establishment of a differential, it seems to me that the experiment should first be tried out in this district. If such a differential should be once established here, I think it might be our policy to maintain it in any reductions which may be made in the future. For example, should our rediscount rate be reduced to 4 per cent, the interest rate on member banks' collateral notes might be 5 per cent.

I have not yet discussed this matter with any of our directors and I do not know what their reaction will be, but in case you should be advised next Wednesday that they desire to maintain a 5 per cent rediscount rate but advance the interest rate on member banks' collateral notes to 6 per cent, you will understand that the reason therefor has been explained in this letter.

Yours very truly,

(S) W. P. G. Harding,
Governor.

Hon. Roy a Young, Governor,
Federal Reserve Board,
Washington, D. C.

Governor Young

Mr. Snead

133

February 26, 1929

See Bk

In accordance with your request of this morning I am handing you herewith a statement showing what the effect would be on the Federal reserve banks if member bank collateral notes were ruled to be ineligible as collateral security for Federal reserve notes.

As I stated this morning, the only material effect such ruling would have on Federal reserve banks at this time would be to reduce the amount of gold and lawful money available as reserves against deposits at a number of the Federal reserve banks below the 35 per cent minimum required by law. From the attached table you will see that the deposit reserves of five of the banks would be less than 35 per cent. Such reserves could, however, be raised above the 35 per cent level at all banks except Atlanta by the sale to other Federal reserve banks of U. S. securities held in the special investment account or in their regular investment portfolio. In the case of the Atlanta bank the reserve ratio would be only 17.2 per cent after the sale of all of its U. S. securities. Atlanta would, in fact, have to rediscount $12,000,000 of member bank collateral notes with other Federal reserve banks in order to bring its deposit reserve up to the 35 per cent minimum.

If member bank collateral notes were ruled to be ineligible as collateral for Federal reserve notes, no doubt a substantial proportion of the borrowings at certain of the Federal reserve banks which are now in the form of member bank collateral notes would be converted into rediscounts and, of course, if this were done on a large scale it would leave the banks in substantially the same position as they now are. As a matter of fact, the Federal Reserve Bank at Boston still follows the practice adopted during the war of rediscounting eligible paper for member banks under a fifteen day repurchase agreement instead of making advances to member banks on their fifteen day collateral notes secured by eligible paper.

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EFFECT ON DEPOSIT RESERVES OF RESERVE BANKS IF MEMBER BANK COLLATERAL NOTES
WERE NOT USED AS SECURITY FOR FEDERAL RESERVE NOTES

(Figures as of Jan. 31, 1929, in thousands of dollars)

Federal Reserve Bank	Federal reserve notes outstanding	Holdings of eligible paper exclusive of member bank collateral notes	Gold collateral required against outstanding Federal reserve notes	Total gold required against outstanding F.R. notes (1)	Reserves held		Total deposits	Deposit reserve ratio - per cent
					Total	Available as reserve against deposits		
Boston	158,554	103,634	54,920	60,102	149,647	89,545	148,085	60.5
New York	443,955	135,306	308,649	315,414	997,269	681,855	941,025	72.5
Philadelphia	181,754	32,701	149,053	150,688	181,676	30,988	137,179	22.6
Cleveland	232,138	51,888	180,250	182,844	265,181	82,337	188,550	43.7
Richmond	97,291	33,930	63,361	65,057	89,589	24,532	73,550	33.4
Atlanta	159,469	55,576	103,893	106,672	113,372	6,700	67,269	10.0
Chicago	307,600	84,255	223,345	227,558	456,499	228,941	359,303	63.7
St. Louis	72,467	14,835	57,632	58,374	84,007	25,633	84,681	30.3
Minneapolis	68,082	21,020	47,062	48,113	80,937	32,824	53,836	61.0
Kansas City	75,501	25,064	50,437	51,690	112,651	60,961	96,077	63.5
Dallas	50,821	22,713	28,108	29,244	61,803	32,559	71,258	45.7
San Francisco	226,671	63,680	162,991	166,175	228,273	62,098	186,728	33.2
Total	2,074,303	644,602	1,429,701	1,461,931	2,820,904	1,358,973	2,407,541	56.4

(1) Including required gold redemption fund (5 per cent of Federal reserve notes secured by eligible paper)

March [illegible], 1929.

analysis

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MR. WYATT'S OPINION.

1. The Board has ample power to prescribe restrictions, limitations, and regulations governing rediscounts of notes, etc. member bank collateral notes, and purchase of bills, etc. as may be necessary to prevent member banks using the credit resources of the Federal Reserve System for the purpose of making or maintaining speculative security loans.

2. The Board can lawfully prescribe a regulation forbidding any Federal Reserve bank to rediscount any paper, or make any advance to, or purchase bills of exchange etc. from, any member bank which at the time, has loans outstanding to brokers or dealers in stocks, bonds, or other investment securities.

3. The Board has power to enforce such a regulation by suspending or removing from office the officers or directors of any Federal Reserve bank which violates it.

4. The Board has no independent power under Section 4 to issue orders restricting or qualifying the right of member banks to demand such discounts, etc. as may be safely and reasonably made, etc.

5. The above right, however, is expressly made subject to the exercise of power the Board has under other provisions of the Act, including the power under Section 13 to prescribe restrictions, limitations, and regulations governing the discount and rediscount, etc. of any bills receivable, domestic or foreign bills of exchange, and acceptances. The Board could order a Federal Reserve bank to cease violations of any such restrictions, limitations, or regulations which it may have prescribed.

6. The Board can, if it desires, prescribe a special rate, higher than the rediscount rate on commercial paper, for advances to member banks on their promissory notes secured by bonds or notes of the Government of the United States.

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Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date March 18, 1929

To Mr. Hamlin

Subject:

From Mr. Goldenweiser EAG

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2—8495

I refer to your memorandum of March 19, and will take the points up in order.

1. Dr. Anderson's statement that member bank reserves were derived from the various sources specified is correct. The figures are correct and the idea is that the amounts mentioned are at the present time back of these reserves. The statement should not refer to how the reserves were actually obtained, but what is back of them at the present time. If stated that way, I believe he is right.

2. The statement that the discount rates were above market rates in the early days of the system, but below them since the war is correct, though the reference to the early part of 1919 appears not to be. The reason that that was possible was that the Federal reserve rate at that time was of no great consequence because the banks were not borrowing and it was a period of great ease in the money market. You will recall that discounts for member banks did not reach $100,000,000 until June, 1917.

3. I think your statement about the rate to customers is correct. Whenever the discount rate is raised, the rate to customers also goes up. We haven't, of course, any detailed data about rates to the particular class of customers to which he refers, but we have data on the average rates charged to customers, and I am attaching a rough chart comparing that rate with the discount rate. I be-

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Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date

To:

Subject:

From

GPO 2—8495

lieve that this supplies the information requested in your second memorandum. It seems to me to be ~~an~~ entirely untenable to maintain that changes in discount rates do not affect rates charged to customers, and particularly customers of the type described. It is true that rates charged to farmers, which are always very much above the discount rate, may not change with that rate, but rates charged to competitive customers invariably respond to discount rate advances.

4. That an advance in the discount rate would have no more effect on the business situation than a rise in the price of coal or cotton is nonsense. The cost of credit enters into the price of all commodities and is, therefore, much more far-reaching than the cost of any one commodity. More important than that, however, is that a high discount rate may affect the availability of credit as well as its cost, because member banks may be unwilling to lend when such lending involves borrowing at the reserve bank at a high rate. I think that it is nothing short of ridiculous to maintain that a discount rate could in no circumstance influence business. I am of the opinion that sometimes the effect of discount rates on business is over-estimated, but Anderson's statement appears to go beyond all reason to the other extreme.

5. I believe the statement that the Board's warning, if successful, would have the same effect on commercial borrowers that a rise in the discount rate would is an incomplete assertion. It is true that if the Board's statement should result in reluctance on the part of member banks to lend, this

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Office Correspondence

FEDERAL RESERVE BOARD

Date

To

Subject:

From

GPO 2—8495

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would cause a tightness in the money market and might spread to all classes of borrowers. On the other hand, the Board directed its warning to a particular kind and it appears not impossible that a discrimination against this class of loans might result in easier conditions for other loans. As a matter of fact, for about a year member banks have shown a certain amount of discrimination in favor of commercial loans, both because they are eligible for discount, and because they have felt that it was sounder and safer to restrict their stock exchange portfolio.

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RATES CHARGED CUSTOMERS
AND DISCOUNT RATE IN NEW YORK