

The Papers of Charles Hamlin (mss24661)

362_01_001-

Hamlin, Charles S., Scrap Book – Volume 190, FRBoard Members

205.001 - Hamlin Charles S
Scrap Book - Volume 190
FRBoard Members

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Office Correspondence

Date July 25, 1941

To The Files

Subject: _____

From Mr. Coe

m.p.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 190 of Mr. Hamlin's scrap book and placed in the Board's files:

VOLUME 190

Page 26

Letter addressed to Governor McDougal of Chicago by Director Geo. M. Reynolds informing him that Chicago would be obliged to call loans in order to reduce Federal Reserve borrowings.

Page 31

Copy of telegram to Governor Young from Harry A. Wheeler asking that the Board be not swayed from their judgment in handling speculative group.

Page 55

Correspondence with Board re termination of designation of Albany, N. Y., as a Reserve city.

Page 57

Telegram from Paul Warburg to Governor Young concerning readjustment of discount rates—and effect thereof.

Page 59

Memo to Board from Mr. Smead re Request for termination of Albany as Reserve city.

Page 65

Memo to Files re Removal of Officers and Directors of F.R. Banks.

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Earnings & Expenses of F.R. Banks.

Page 81

Letter to Governors of all F.R. Banks re Designation and Termination of Reserve Cities.

Page 151

Memo to Board from Mr. Wyatt re Power of Board to enforce principles regarding use of credit facilities of Federal Reserve System laid down in Board's letter of February 2, 1929.

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LETTER ADDRESSED TO GOVERNOR McDERMID OF CHICAGO
BY DIRECTOR GEORGE M. REYNOLDS.

Dated Mar, 2, 1929
March 1929

"I am thoroughly convinced that we in Chicago will be obliged to make a vigorous campaign of calling loans in order to reduce Federal Reserve borrowings. Arthur and I have just had a talk upon this subject and he is thoroughly in accord with my viewpoint, and he assures me that upon his return, which will be March 13, he is going to take hold of this matter vigorously and force a reduction of our loans, which will enable our bank to materially reduce its obligation at the Federal Reserve.

Being a director of the Federal Reserve, you can understand that I am more or less embarrassed because of the continuation of that loan, but we have lived in the hope that after the turn of the year natural conditions would adjust the matter to the satisfaction of all of us, but this does not now seem to be in the cards, and I shall insist upon our people doing more than trying to sit on the lid to prevent further expansion, because I am now of the opinion that nothing short of a vigorous effort forcing liquidation of many large lines of credit will accomplish our purpose.

" * * * The people seem to have lost their heads over stock gambling, and the time has come when those who are in responsible positions will have to take the bull by the horns and force them to do something which they will not like. With sales of over 6,000,000 shares of stock yesterday, it is clearly shown that the public has not profited by the advice of the Federal Reserve Board, and I think we have now reached the point where it is a matter for each individual bank to get into the game vigorously and do whatever is necessary to at least force a reduction in the amount of money that is borrowed against stock exchange securities."

(COPY)

See 12/11

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Chicago Ill 104 P Apr 2, 1929

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

In face of growing clamor for easing pressure on speculative group and for increase in rediscount rate am expressing hope that Board will not be swayed from own deliberate judgment in matter. Someone must champion cause of commercial loan group whose borrowings are most important and whose rates have been raised by banks in full proportion to rediscount increases. Present increase advocated by many would add to their already heavy burden without in my judgment exercising any permanent restraining influence upon market operations.

Harry A. Wheeler

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National Commercial Bank & Trust Company

Main Office 60 State Street

Park Branch 200 Washington Ave.

Capital \$1,500,000. Surplus \$ 3,000,000.

Member of Federal Reserve System

Albany, New York

March 30th, 1929.

To the Federal Reserve Board,
Washington, D.C.

Gentlemen:-

Under date of September 10th, 1928 the banks in the City of Albany, New York, members of the Federal Reserve System, made application to the Federal Reserve Board to terminate the designation of Albany, New York as a reserve city. (A copy of that application is attached herewith). The application was made through the Federal Reserve Bank, New York City. Since that time the other two banks in Albany, not members of the System, have joined in our request. We are now, therefore, representing all the banks of Albany.

In a letter dated February 26th, 1929 (a copy of which is attached herewith) the Federal Reserve Board denied the request of the Albany banks. In its denial the Board stated that "many inequalities exist, which, in the opinion of the Board, can only be corrected by legislation, enacted after a complete study of the entire problem, which would put reserves on a more scientific basis", and also "the Board is inclined to correct inequalities, as far as possible, by raising the reserve requirements of member banks in cities comparable to those now designated as reserve cities." It might possibly take years to complete a survey with no assurance that Congress will change existing laws and we cannot find that reserve requirements have been increased to any extent to correct inequalities. Meanwhile Albany is forced to do business in the face of what amounts to unfair competition. We therefore again request a redesignation for the City of Albany on the grounds-

(1) That when Albany was designated as a reserve city we were the only city of that class between New York City and Cleveland, Ohio and our banks were, with few exceptions, the largest and strongest between New York City and Chicago. Our large deposits were accumulated because of the fact that Albany made a specialty of the collection of checks at par and country banks, so-called, were glad to carry their accounts in Albany, have their checks collected at par and their balances count as legal reserve. During 1914 the banks of Albany had on deposit from other banks, not including Albany Savings Banks, approximately \$40,000,000. When the Federal Reserve banks installed their collection system these deposits gradually

decreased until at the present time the bank deposits in the member banks in the City of Albany amount to \$9,000,000. The position that Albany once held has been taken from it and the banks in Syracuse, Rochester and other cities have grown into institutions much larger than those in the City of Albany. In the meantime the Albany banks, in an attempt to maintain their position, have found it necessary to reach out into industrial centers and compete for business with these larger banks. In this we have not been successful because of the increased expense of doing business, due largely to reserve requirements.

(2) We have made a comparison of the amount due to banks and trust companies deposited in National Banks located in reserve cities on December 31st, 1914 and on December 31st, 1928. We find that bank deposits increased in fifty-eight of the sixty-four reserve cities and decreased in only six of them. The figures show that of these six reserve cities Albany lost more bank deposits proportionately and actually than any other reserve city in the entire United States. In 1914 the City of Albany was ninth in the list of reserve cities as regards deposits from other banks. The only cities in the entire United States carrying larger deposits from banks than Albany were-

New York
Chicago
Boston
Philadelphia
Pittsburgh
Kansas City
St. Louis
San Francisco

At the present time instead of being ninth among reserve cities, Albany is thirty-third.

(3) Notwithstanding the statement of the Federal Reserve Board that the situation can only be corrected by legislation enacted after a complete study of the entire problem, we find that a number of changes have been made by the Federal Reserve Board. The banks of St. Louis made application for a reclassification from a central reserve city to a reserve city and it was granted. Charleston, S.C. and Tacoma, Wash., formerly reserve cities, have been taken out of that class upon request from the banks interested. It hardly seems to us that these requests have more justification than ours.

(4) We wish to state most emphatically that the banks of Albany believe in and have supported, to the limit, the Federal Reserve System. When the System was organized we felt,

because of the large volume of collection business accumulated in our city, that we would suffer a loss in bank deposits larger than any other city in the country. Notwithstanding this we assisted, in every way possible, in laying the foundation for the present collection system. Because of our years of experience in this business the Federal Reserve Bank of New York called on some of our men for assistance and we gave it unhesitatingly. We believe the officials of the New York bank will testify as to our loyalty and we certainly do not desire to be forced out of the System.

The First Trust Company of Albany, N.Y., now a member of the System, is not represented here today. Mr. Becker, the President, desired us to say that because of the additional expense of doing business, due to the fact that Albany is a reserve city, that they now had a proposition before their Board of Directors to resign their membership. Should they decide to withdraw from the System it would leave only two members in Albany and we, representing those two members, ask the Board to prevent this withdrawal if possible as we believe it would simply add additional burdens on the two remaining member banks.

Below is a tabulation giving the reserve requirement of a typical Albany bank if it were a non-member, also a member bank in a non-reserve city and a member bank in a reserve city:

RESERVE REQUIREMENTS

	<u>Demand Deposits</u>	<u>Time Deposits</u>	<u>Where carried On Deposit</u>	<u>Cash</u>
Reserve City	10%	3%	100%	0
Non-Reserve City	7%	3%	100%	0
Non-Member	10%	0	60%	40%

If Albany was classified as a non-reserve city, the daily average reserve requirement for the year of 1928 would have been reduced approximately \$2,204,910.00, which capitalized at 5% would effect a reduction of \$110,245.00 in operating costs.

As non-members of the Federal Reserve System Albany banks could further reduce their operating costs approximately \$191,755.00.

National Commercial Bank & Trust Company

Sheet No. 4 To Federal Reserve Board

Continuing letter of March 30, 1929

The difference in operating cost as a non-reserve city and a non-member of the System is \$ 191,755.00 which we are willing to absorb for the privilege of continuing our membership in the System, but we believe it unfair to expect us to continue our membership with the present designation.

We therefore respectfully request the Federal Reserve Board to reconsider our application for a redesignation.

Yours very truly,

NEW YORK STATE NATIONAL BANK OF ALBANY

NATIONAL COMMERCIAL BANK & TRUST COMPANY OF ALBANY

FIRST TRUST COMPANY OF ALBANY

C O P Y

September 10, 1928

Federal Reserve Board,
Washington, D.C.

Gentlemen:-

We understand that under Section 11 of the Federal Reserve Act, the Federal Reserve Bank has the power to "reclassify existing reserve and central reserve cities or to terminate their designation as such."

At present Albany, New York is a reserve city and was so appointed years ago. Because of this fact the banks here accumulated a large volume of bank deposits up to the time of the organization of the Federal Reserve System.

Since the organization of that System the bulk of this business has left our city. In June 1914 the banks of Albany had a total of \$39,215,808. due to banks, and in June 1928 the total was \$10,235,830. This is a reduction of practically \$29,000,000.

The banks of this city, members of the Federal Reserve System, feel that Albany should be reclassified and taken from the reserve city list. The bank deposits are gradually being transferred from Albany, each year showing a further decline. We therefore would formally request your Board to terminate our classification as a reserve city.

Yours very truly,

National Commercial Bank & Trust Co. of Albany

(Signed) Robert C. Pruyn
President

New York State National Bank of Albany

(Signed) Frederick McDonald
President

First Trust Company of Albany

(Signed) John A. Becker
President

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C O P Y

FEDERAL RESERVE BOARD
WASHINGTON

February 26, 1929

Dear Mr. Case:-

This will acknowledge receipt of your letter of February 19th, with regard to the application of member banks in Albany for the termination of the designation of that city as a reserve city. The Board has again reviewed the application and has given careful consideration to all of the arguments presented.

Under the present law, where the same character of deposit subject to the same conditions and possible withdrawals may carry a reserve of seven, ten or thirteen per cent because of location, it is not an easy problem for the Board to put reserves on an entirely equitable basis and naturally many inequalities exist, which, in the opinion of the Board, can only be corrected by legislation, enacted after a complete study of the entire problem, that would put reserves on a more scientific basis.

The Board has received many other applications for lowering reserves at certain points, but it is inclined to correct inequalities, so far as possible, by raising the reserve requirements of member banks in cities comparable to those now designated as reserve cities.

The Board, therefore, has decided to deny the request of the Albany member banks and at the same time assures them that it will use its efforts towards higher reserves in other cities where conditions exist similar to those in Albany.

Very truly yours,

(Signed) R. A. Young,
Governor

Mr. J. H. Case, Deputy Governor,
Federal Reserve Bank,
New York City

TREASURY DEPARTMENT

Telegraph Office.

Q57

CD New York N Y April 1 1929

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

In order to demonstrate the utter anomaly of the prevailing open market rates on the Federal reserve banks the International Acceptance Trust Co. sent on Thursday to the Federal Reserve Bank for rediscount at the rate of five percent a bankers acceptance of some twelve thousand dollars from a batch of bills we had received from South American banks to be credited it under discount Stop The Federal Reserve Bank had of course no choice but to rediscount it at five percent unless it would have wished to adopt the impossible attitude of treating a bankers acceptance endorsed by a member bank as inferior to a promissory note similarly endorsed Stop You can readily see what confusion and embarrassments result from present conditions Stop In the practice of central banks open market rates in the bill market have never been employed except when central banks desired to buy prime paper below the official discount rate at which all entitled to deal with them may put in their paper Stop Whenever the open market rate reaches the official rate it naturally ceases to exist Stop It would be as incomprehensible to central bank managers in Europe as it is to me how a central bank can have an open market rate for the finest paper at a higher rate than the wide open rediscount rate at which the central bank buys the lower quality plus of course the finest Stop Customers who remit acceptances for discount through a member bank are entitled to expect that the bill will be credited to them at the lowest rate available to such member bank minus a reasonable compensation for endorsing the bill of say one eighth one quarter percent per annum Stop As it is a customer dealing with two member banks at the same time might find that one operates by rediscounting with a Federal reserve bank while the other out of consideration for the Federal reserve bank might place the bills five eighth percent higher in the open market and naturally would lay himself open to reprimands and claims on the part of his customer Stop I cannot see how these conditions within the briefest space of time will fail to lead to all acceptances being endorsed to the Federal reserve banks and in this process the further anomaly will arise that acceptances of identical character might be rediscounted at San Francisco at four one half percent while in Eastern Federal reserve banks they would be rediscounted at five percent Stop May I urge you and your colleagues with all the seriousness of which I am capable to end the present confusion at the earliest possible moment unless all the work that has been done in the past to develop a bill market on which eventually the Federal Reserve System must rest is to be destroyed and the prestige that we have gained in foreign lands is to be broken down Stop Moreover when one observes that the rediscounts of the Federal Reserve System amount today to an aggregate of over one billion dollars at a period when they

should be low it is impossible to indulge in the belief that the relatively low rediscount rates are not in full effect today Stop A continuation of the experiment in the face of the unbroken stock exchange speculation and a continuation of the present controversy with all the incidents that it provokes both in Washington and New York create a situation of the gravest danger and the Board is playing with fire if not with dynamite Stop May I respectfully suggest that a way out of the present dilemma might be found by increasing the rediscount rate for commercial paper to five one half percent raising at the same time the rate for fifteen day member bank notes whether secured by commercial paper or by Governments to six percent This would enable the banks to rediscount bonafide commercial paper at the lower rate which would satisfy business while for the fifteen day note which is the main instrument for the type of bank borrowing from which a seepage into the stock exchange most readily occurs the six percent rate would be applied Stop If together with the readjustment of the rediscount rates it would be announced that further advances might follow if the Boards hands were forced in that direction I believe that a dampening effect would result such as the Board desires with hardly any harm to business Stop In any case the Board would then have done its duty in the normal way plainly indicates by existing market rates and would to that extent relieve itself of a grave responsibility Stop Hoping you will pardon this intrusion and with warm regards

(Signed) Paul M. Warburg

2000

March 29, 1929

Federal Reserve Board

Request for termination of Albany

Mr. Smead

as reserve city.

M. Hamilton

B59

In connection with the hearing which the Board has granted to representatives of member banks in Albany, which have applied for the termination of the designation of that city as a reserve city, we have prepared two tables attached hereto showing:

- (1) Deposits and required reserves on December 31, 1928 of member banks in reserve cities in which no Federal reserve bank or branch is located and the excess of reserves required to be carried by such banks over what they would be required to carry as country banks;
- (2) Deposits and required reserves on December 31, 1928 of member banks in 33 non-reserve cities and the additional reserves which such banks would be required to carry if the cities were designated as reserve cities.

From the first statement mentioned it will be seen that member banks in the 27 reserve cities in which no Federal reserve bank or branch is located are required to carry approximately \$27,000,000 more reserves with the Federal reserve banks than they would be required to carry as country banks, and that the member banks in Albany are required to carry about \$1,900,000 more. On December 31, 1928 there were 8 reserve cities in which no Federal reserve bank or branch is located which had a larger volume of bank deposits than did member banks in Albany, and 18 such cities in which the bank deposits of member banks were less than in Albany.

As will be seen from the table attached hereto, there was no non-reserve city on December 31, 1928, in which member banks had bank deposits of as much as \$10,000,000. Consequently, bank deposits of the three member banks in Albany, which were \$13,000,000 on December 31, were materially above those of member banks in any non-reserve city.

DEPOSITS AND REQUIRED RESERVES ON DECEMBER 31, 1928 OF MEMBER BANKS
IN RESERVE CITIES IN WHICH NO FEDERAL RESERVE BANK OR BRANCH IS LOCATED, AND THE
EXCESS OF SUCH RESERVES OVER RESERVES THAT WOULD BE REQUIRED OF COUNTRY BANKS

(Amounts in thousands of dollars)

	Popula- tion in 1927*	Due to banks **		Net demand deposits	Time deposits	Total deposits	Required reserves	
		Amount	Ratio to total deposits				At present	Excess over country- bank-basis
Albany	120,000	13,342	13.1	63,861	24,544	101,997	7,122	1,916
Washington	540,000	13,897	10.0	76,278	44,006	138,365	8,948	2,289
Milwaukee	536,000	33,099	15.8	111,325	67,261	209,948	13,151	3,340
Indianapolis	374,000	23,602	20.9	64,393	24,968	113,145	7,188	1,931
Toledo	305,000	8,295	8.4	38,309	49,898	98,733	5,328	1,149
Columbus	291,000	14,127	13.2	63,502	28,179	107,387	7,195	1,905
Oakland	267,000	5,650	16.7	22,523	6,961	33,892	2,461	675
St. Paul	250,000	26,162	20.7	64,616	39,627	126,133	7,651	1,939
Fort Worth	164,000	24,370	27.6	52,310	15,608	88,272	5,699	1,569
Grand Rapids	162,000	6,301	7.4	33,749	43,944	85,210	4,693	1,013
Tulsa	150,000	26,871	24.1	75,520	17,790	111,384	8,086	2,266
Des Moines	149,000	10,830	20.4	34,464	10,579	53,077	3,763	1,034
Kansas City Kans.	118,000	3,774	28.0	7,616	3,290	13,467	861	229
Savannah	100,000	16,155	20.5	33,731	30,066	78,992	4,275	1,012
Wichita	96,000	10,190	26.2	24,790	6,975	38,941	2,688	744
Peoria	84,000	4,512	13.8	16,354	12,588	32,643	2,013	490
Sioux City	79,000	8,060	28.5	13,342	8,207	28,262	1,580	400
St. Joseph	79,000	9,621	32.8	15,817	7,847	29,345	1,817	475
Lincoln	70,000	7,276	31.0	13,761	3,485	23,460	1,481	413
Topeka	62,000	3,644	16.5	15,912	2,642	22,084	1,670	477
Cedar Rapids	54,000	10,461	34.1	13,501	11,354	30,646	1,691	405
Galveston	50,000	8,569	27.4	13,848	13,994	31,319	1,805	416
Waco	46,000	2,541	11.6	11,695	7,417	21,813	1,393	351
Pueblo	44,000	5,850	28.1	9,098	5,587	20,832	1,078	273
Dubuque	42,000	848	7.0	4,447	6,911	12,116	652	134
Ogden	38,000	4,793	40.5	7,279	1,541	11,831	774	218
Muskogee	33,000	1,949	14.8	6,209	4,754	13,184	764	186
TOTAL, 27 cities	4,303,000	304,789	18.2	908,250	500,023	1,676,478	105,827	27,249

Census Bureau estimates, except that population marked () is taken from July 1928 Rand-McNally Bankers Directory.

**Does not include amounts due to Federal reserve banks, certified and officers' checks, and cash letters of credit and travelers' checks.

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS
MARCH 29, 1929.

(St. 6148a)

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DEPOSITS AND REQUIRED RESERVES ON DECEMBER 31, 1928, OF MEMBER BANKS
IN 33 NON-RESERVE CITIES, AND ADDITIONAL RESERVES THAT WOULD BE REQUIRED
IF THEY WERE DESIGNATED AS RESERVE CITIES

- (1) Cities with \$5,000,000 or more of bank deposits
(2) Other cities with population of 125,000 or more.

(Amounts in thousands of dollars)

	Popula- tion in 1927*	Due to banks **		Net demand deposits	Time deposits	Total deposits	Required reserves	
		Amount	Ratio to total deposits				At present	Additional on reserve- city basis
(1) CITIES WITH \$5,000,000 OR MORE OF BANK DEPOSITS								
Newark	467,000	9,353	2.9	201,770	101,515	322,790	17,169	6,053
Syracuse	197,000	5,675	3.6	107,924	42,787	156,578	8,339	3,237
Duluth	115,000	7,261	13.9	24,452	21,158	52,086	2,346	734
Tampa	108,000	7,130	15.8	18,043	20,227	45,080	1,870	541
Shreveport	78,000	9,473	21.9	25,646	9,513	43,180	2,081	769
Winston Salem	77,000	7,468	15.6	22,227	17,712	47,933	2,087	667
Sacramento	75,000	8,349	22.0	20,819	10,743	37,919	1,780	624
Knoxville	102,000	5,116	14.5	14,926	14,212	35,248	1,471	448
Charleston	75,000	5,179	11.7	13,840	23,494	44,361	1,674	415
Chattanooga	73,000	6,718	15.4	18,725	17,940	43,519	1,849	562
E. St. Louis & Nat. Stk. Yds.	73,000	7,918	29.4	16,213	7,647	26,974	1,364	487
Joliet	42,000	5,083	17.0	15,223	11,172	29,843	1,401	456
TOTAL, 12 cities 1,482,000		84,723	9.6	499,808	298,120	885,511	43,931	14,993

(2) NON-RESERVE CITIES NOT INCLUDED ABOVE, WITH POPULATION OF
125,000 OR MORE

Rochester	325,000	771	1.3	18,194	39,647	58,887	2,463	546
Jersey City	322,000	3,520	2.1	85,539	72,162	166,346	8,153	2,566
Providence	281,000	4,588	1.5	124,094	175,339	306,181	13,947	3,723
Akron	*208,000	1,517	1.9	29,498	45,699	79,193	3,436	885
Worcester	196,000	3,983	5.1	57,011	16,401	78,424	4,483	1,710
New Haven	185,000	859	1.6	28,113	24,302	54,521	2,697	843
Dayton	181,000	455	1.1	25,409	13,443	41,506	2,182	762
Norfolk	179,000	4,344	8.9	24,651	18,696	48,870	2,286	740
Youngstown	169,000	1,107	1.6	24,511	42,555	69,120	2,992	736
Hartford	168,000	2,448	3.1	70,442	3,869	78,159	5,047	2,113
Springfield	147,000	1,800	3.5	23,666	24,654	51,317	2,396	710
Scranton	144,000	4,396	4.9	36,135	47,920	89,948	3,967	1,085
Bridgeport	*144,000	1,020	3.0	16,459	14,455	34,165	1,586	494
Patorson	144,000	1,345	2.0	24,533	39,726	66,804	2,909	736
Flint	143,000	322	.6	15,722	41,117	57,780	2,334	472
Miami	140,000	1,243	5.1	12,781	9,982	24,211	1,194	384
Trenton	137,000	610	1.5	24,247	15,695	41,370	2,168	728
Camden	133,000	1,248	2.6	24,265	21,768	47,356	2,352	728
Fall River	133,000	1,050	5.6	15,872	2,273	18,812	1,179	476
Long Beach	*129,000	582	2.3	14,826	9,895	25,689	1,335	444
Wilmington	126,000	1,084	2.3	40,716	5,054	47,905	3,002	1,221
TOTAL, 21 cities 3,734,000		38,292	2.6	736,684	684,652	1,486,564	72,108	22,102

Census Bureau estimates, except that population marked () is taken from
July 1928 Bankers Directory.

**Does not include amounts due to F. R. banks, certified
and officers' checks, and cash letters of credit and travelers' checks.

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS
MARCH 29, 1929.

(St. 6148)

See Bu
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MEMORANDUM FOR THE FILES

Subject: Removal of Officers and Directors of Federal Reserve Banks.

When the original Federal Reserve Act first passed the House Section 12(f), which is now Section 11(f) thereof, read as follows:

"To suspend the officials of Federal reserve banks and, for cause stated in writing with opportunity of hearing, require the removal of said officials for incompetency, dereliction of duty, fraud, or deceit, such removal to be subject to approval by the President of the United States."

In the Senate this Section was changed to read as follows:

"To suspend or remove any officer or director of any Federal reserve bank, the cause of such removal to be forthwith communicated in writing by the Federal Reserve Board to the removed officer or director and to said bank."

The Senate amendment was accepted by the House and written into the original Federal Reserve Act as finally enacted.

The following extract from a speech made in the Senate by Senator Reed, while the original Federal Reserve Act was being debated in that body, throws much light on the purpose of this amendment (Congressional Record, Volume 51, Part I, Page 174; Dec. 4, 1913, 63rd Congress, 2nd Session):

"POWERS OF RESERVE BOARD INCREASED.

"The Federal reserve board, appointed by the President, is, by the two amendments I have set out, given absolute command of the system. It can make the regional directors perform their full duty with fairness and impartiality to all.

"We followed these amendments with others of equal importance. We gave the reserve board the unrestricted right to remove any of the directors of a regional bank. Here is the language: 'The Federal Reserve Board shall have 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 by the Federal Reserve Board to the removed officer or director and to said bank.' The House bill only gave a restricted right of removal."

Mr. BORAH. "Mr. President--

Mr. REED. "I will yield in one moment. The lawyers of the Senate will observe that that power of removal is absolute. There is no trial demanded. It vests in the Federal Reserve Board the right to remove. The solitary requirement is that after removal has taken place, or coincident with it, the reason shall be put upon the public records in order that the board may be judged by its acts."

The PRESIDING OFFICER. "Does the Senator from Missouri yield to the Senator from Idaho?"

Mr. REED. "I yield to the Senator."

Mr. BORAH. "As I understand the change which was made as to the power of removal, it rests now solely and exclusively within the discretion of the Federal Board."

Mr. REED. "Yes, sir."

Mr. BORAH. "There is no one to review it and no reasons need be assigned for the removal, but after the removal the reasons shall be communicated to the bank."

Mr. REED. "That is the fact. It was intended to vest the power of removal absolutely -- to give the Federal Board the right to remove, without question, any director, and the Board is not compelled to specify any particulars and have trials and hearings; its mandate of removal is final."

"The safeguard against an abuse of that power (and it is a very great power) is found in the fact that this board will be composed of men of the highest character. It will be the supreme court of finance. The board will be appointed by the President himself, and must be confirmed by the Senate. It is required to state its reasons for the removal. If it states trifling reasons that do not justify its action, it will place itself in a sad position before the bar of public opinion. We need not therefore fear an abuse of its powers."

"But another reason why the power will never be misused is that the board can not appoint the successor of the director removed. There is no incentive to remove a man except for real cause, because the power that removes can not, in pursuit of any scheme it may have,

put some favorite man in the place of the man removed. The power may be thought to be somewhat arbitrary, but I believe that it is necessary to vest this power in the Federal Government if we give to the banks the majority of the directorate of the regional banks.

"Putting together, then, these several provisions to which I have adverted, I believe we can say to the country with a clear conscience that while we have drawn these banks together into this great system, while we have given them a common stock ownership, while we have placed the control of the regional banks in the hands of the bankers, we have at the same time so safeguarded every avenue and so locked every door that the people may be content. In the last analysis the Federal reserve board, appointed by the President and representing the entire country, has complete and absolute power, and will control the entire system and prevent discriminations, combinations, or other wrongs."

March 30, 1929.

P65

Memorandum for the Files.

SUBJECT: Removal of Officers and directors of Federal Reserve Banks.

The following quotation from the Congressional Record, Volume 51, Part I, Page 530, throws further light upon the purpose and legislative history of this provision of the Federal Reserve Act :

MR. O'GORMAN. "I merely desire to say a word supplementary to what has been said by the Senator from Colorado (Mr. Shafroth), and I think it is quite pertinent. The members of the committee who subscribed to the so-called Owen amendment were not unmindful of the view entertained by the Senator from Nebraska (Mr. Hitchcock) regarding the need of safeguarding member banks from possible discrimination on the part of the officers of the regional banks. To make discrimination impossible, it was the suggestion of the Senator from Nebraska that the members of the regional banks be deprived of all discretion and be compelled to make loans or allow discounts up to a certain figure, even though their own judgment condemned the transaction."

"The bill as it stood at that time provided, in substance, that any aggrieved bank could communicate its complaint of discrimination or favoritism to the members of the reserve board in Washington. It was said in that connection that that would involve delay and some conceived the possibility of a member bank being forced to the wall before it could secure suitable redress in that manner, because the bill at that time provided that the Federal reserve board in Washington would be required to give a hearing to the six of the nine members of the regional bank before any one of the six could be removed."

"The bill at that time provided, in substance, that the three governmental appointees in each regional bank could be removed by the Federal reserve board after a hearing. It also provided that the three representatives of business in the district, or any one of them, could be removed after a hearing; but no power was conferred upon the Federal reserve board to remove the three representatives of the bankers who would be on the Federal reserve board."

"At that stage of the matter, having in mind the objection of the Senator from Nebraska, we changed the bill and conferred upon the members of reserve board in Washington arbitrary, unrestricted, and unlimited power to remove every one of the nine officers of a reserve bank, including even the three representatives of the bankers. It was thought that with that summary power lodged in the Federal reserve board in Washington no officer of a Federal reserve bank could be induced to discriminate against any of the member banks in the district affected because, as the provision in our bill stands now, if a member bank has reason to believe that the officers of the regional bank are not treating it fairly and impartially it can at once communicate its complaint to the Federal reserve board and if the evidence laid before the board is satisfactory the offending officer of the regional bank will be at once decapitated without a hearing, the only requirement of the statute being that when the removal takes place the Federal reserve board shall state its reasons for the removal."

B77

EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS

March 1929. Total earnings of the Federal reserve banks in March were \$524,000 more than in February, as a result of an increase during the month of \$690,000 in earnings from discounted bills, \$114,000 from U. S. securities, and \$14,000 from miscellaneous sources, offset in part by a decrease of \$294,000 in earnings from purchased bills. As compared with March 1928 there was an increase of \$1,970,000 in total earnings.

Current expenses (exclusive of cost of Federal reserve currency) aggregated \$2,169,000, as compared with \$2,184,000 in the month preceding and \$2,168,000 in March of last year.

First Quarter 1929. During the first three months of the year earnings totaled \$17,891,000 as compared with \$11,667,000 for the corresponding period last year, and \$10,349,000 for the first quarter of 1928.

Current expenses (exclusive of cost of Federal reserve currency) amounted to \$6,590,000 during the 3-month period, an increase of about \$111,000 over the corresponding period last year.

After providing for all current expenses and dividend requirements, the Federal reserve banks on March 31 had a balance of \$8,419,000 available for losses, depreciation allowances, surplus and franchise tax as compared with a balance of \$5,623,000 at the end of February and of \$2,659,000 at the end of March 1928.

B47

See 124

CONFIDENTIAL
Not for publication

EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS, MARCH 1929

St. 6161

Federal Reserve Bank	Month of March 1929					Current net earnings		January - March 1929				
	Earnings from -					Current expenses		Current net earnings	Ratio to paid-in capital	Current net earnings	Dividends accrued	Available for reserves surplus and franchise tax*
	Dis-counted bills	Pur-chased bills	U. S. securi-ties	Other sources	Total	Exclusive of cost of F.R. currency	Total					
Boston	\$238,863	\$136,565	\$22,761	\$6,881	\$405,070	\$152,763	\$173,492	\$231,578	26.4	\$892,122	\$151,957	\$716,687
New York	974,752	236,270	145,999	27,426	1,384,447	521,613	557,237	827,210	17.8	2,781,669	790,655	1,973,920
Philadelphia	435,985	89,329	64,115	2,763	592,192	156,642	181,596	410,596	32.3	1,011,843	220,705	762,703
Cleveland	328,064	112,038	90,422	12,241	542,765	204,903	228,385	314,380	25.2	1,074,252	219,004	842,097
Richmond	183,406	52,802	6,190	3,795	246,193	119,101	132,061	114,132	21.6	359,186	92,668	254,123
Atlanta	219,379	52,812	12,538	10,814	295,543	102,514	110,069	185,474	41.1	642,004	79,166	552,445
Chicago	891,833	110,048	105,733	35,915	1,143,529	301,583	315,844	827,685	51.7	2,052,376	279,744	1,740,376
St. Louis	204,180	36,866	65,114	1,610	307,770	106,273	118,521	189,249	40.5	479,775	81,859	355,928
Minneapolis	60,132	40,305	33,573	9,361	143,371	73,879	83,359	60,012	22.8	198,798	45,799	150,253
Kansas City	121,867	42,321	33,124	29,423	226,735	137,788	161,707	65,028	17.8	213,838	64,012	149,811
Dallas	61,044	67,767	38,408	12,532	179,751	101,949	113,036	66,715	17.7	272,933	65,603	205,691
San Francisco	324,992	145,673	48,448	9,146	528,259	190,451	197,319	330,940	36.1	890,891	161,309	714,907
TOTAL												
Mar. 1929	4,044,497	1,122,796	666,425	161,907	5,995,625	2,169,459	2,372,626	3,622,999	27.9			
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			
Mar. 1928	1,715,862	982,810	1,211,562	115,409	4,025,643	2,167,555	2,274,050	1,751,593	15.2			
Jan.-Mar. 1929	11,041,494	4,393,960	1,997,829	458,194	17,891,477	6,539,542	7,021,790	10,869,687	29.4	10,869,687	2,252,481	8,418,941
1928	4,530,841	2,943,011	3,782,497	410,806	11,667,155	6,478,725	6,834,503	4,832,652	14.4	4,832,652	2,026,380	2,659,067

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS
APRIL 9, 1929.

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

FEDERAL RESERVE BOARD

April 12, 1929
St. 6148

Smith
81

WASHINGTON
SUBJECT: Designation and Termination
of Reserve Cities

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

Dear Sir:

As you were advised at the recent Governors' conference, the Board has under consideration a request from member banks in Albany, N.Y., to terminate the designation of that city as a reserve city, and in connection therewith the Board had two statements prepared, copies of which are enclosed, showing

1. Deposits and required reserves on December 31, 1928 of member banks in reserve cities in which no Federal reserve bank or branch is located, and the excess of such reserves over those that would be required of country banks.
2. Deposits and required reserves on December 31, 1928 of member banks in 33 non-reserve cities, and additional reserves that would be required if they were designated as reserve cities.

You were also advised at the conference that a member of the Board has introduced a resolution which, if adopted, would require that all cities in which the ratio of amounts due to banks to total deposits of member banks is 10 per cent or more, be classified as reserve cities. The Board has this resolution under consideration and is endeavoring to work out some formula whereby either the ratio of bank deposits to total deposits or the aggregate amount of bank deposits, or a combination of the two, might be used as the basis of determining whether or not a given city should be designated as a reserve city.

The Board would like to have you give consideration to this question in the light of conditions existing in your district, and advise it whether or not in your opinion some formula along the line mentioned can be worked out for use as guide in designating reserve cities, also how any formula that you may develop would work out for each city in your district that would be affected. It is also requested that you advise the Board whether in your opinion some modification of the formula might be used in designating central reserve cities.

By order of the Federal Reserve Board.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

VOLUME 190
PAGE 81

Enclosure

LETTER TO ALL GOVERNORS*

DEPOSITS AND REQUIRED RESERVES ON DECEMBER 31, 1928 OF MEMBER BANKS
IN RESERVE CITIES IN WHICH NO FEDERAL RESERVE BANK OR BRANCH IS LOCATED, AND THE
EXCESS OF SUCH RESERVES OVER RESERVES THAT WOULD BE REQUIRED OF COUNTRY BANKS

(Amounts in thousands of dollars)

	Popula- tion in 1927*	Due to banks **		Net demand deposits	Time deposits	Total deposits	Required reserves	
		Amount	Ratio to total deposits				At present	Excess over country- bank-basis
Albany	120,000	13,342	13.1	63,861	24,544	101,997	7,122	1,916
Washington	540,000	13,897	10.0	76,278	44,006	138,365	8,948	2,289
Milwaukee	536,000	33,099	15.8	111,325	67,261	209,948	13,151	3,340
Indianapolis	374,000	23,602	20.9	64,393	24,968	113,145	7,188	1,931
Toledo	305,000	8,295	8.4	38,309	49,898	98,733	5,328	1,149
Columbus	291,000	14,127	13.2	63,502	28,179	107,387	7,195	1,905
Oakland	267,000	5,650	16.7	22,523	6,961	33,892	2,461	675
St. Paul	250,000	26,162	20.7	64,616	39,627	126,133	7,651	1,939
Fort Worth	164,000	24,370	27.6	52,310	15,608	88,272	5,699	1,569
Grand Rapids	162,000	6,301	7.4	33,749	43,944	85,210	4,693	1,013
Tulsa	150,000	26,871	24.1	75,520	17,790	111,384	8,086	2,266
Des Moines	149,000	10,830	20.4	34,464	10,579	53,077	3,763	1,034
Kansas City Kans.	118,000	3,774	28.0	7,616	3,290	13,467	861	229
Savannah	100,000	16,155	20.5	33,731	30,066	78,992	4,275	1,012
Wichita	96,000	10,190	26.2	24,790	6,975	38,941	2,688	744
Peoria	84,000	4,512	13.8	16,354	12,588	32,643	2,013	490
Sioux City	79,000	8,060	28.5	13,342	8,207	28,262	1,580	400
St. Joseph	79,000	9,621	32.8	15,817	7,847	29,345	1,817	475
Lincoln	70,000	7,276	31.0	13,761	3,485	23,460	1,481	413
Topeka	62,000	3,644	16.5	15,912	2,642	22,084	1,670	477
Cedar Rapids	54,000	10,461	34.1	13,501	11,354	30,646	1,691	405
Galveston	50,000	8,569	27.4	13,848	13,994	31,319	1,805	416
Waco	46,000	2,541	11.6	11,695	7,417	21,813	1,393	351
Pueblo	44,000	5,850	28.1	9,098	5,587	20,832	1,078	273
Dubuque	42,000	848	7.0	4,447	6,911	12,116	652	134
Ogden	38,000	4,793	40.5	7,279	1,541	11,831	774	218
Muskogee	33,000	1,949	14.8	6,209	4,754	13,184	764	186
TOTAL, 27 cities	4,303,000	304,789	18.2	908,250	500,023	1,676,478	105,827	27,249

Census Bureau estimates, except that population marked () is taken from July 1928 Rand-McNally Bankers Directory.

**Does not include amounts due to Federal reserve banks, certified and officers' checks, and cash letters of credit and travelers' checks.

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS
MARCH 29, 1929.

(St. 6148a)

P-81

DEPOSITS AND REQUIRED RESERVES ON DECEMBER 31, 1928, OF MEMBER BANKS
IN 33 NON-RESERVE CITIES, AND ADDITIONAL RESERVES THAT WOULD BE REQUIRED
IF THEY WERE DESIGNATED AS RESERVE CITIES

- (1) Cities with \$5,000,000 or more of bank deposits
(2) Other cities with population of 125,000 or more

(Amounts in thousands of dollars)

	Popula- tion in 1927*	Due to banks**		Net demand deposits	Time deposits	Total deposits	Required reserves	
		Amount	Ratio to total deposits				At present	Additional on reserve- city basis
(1) CITIES WITH \$5,000,000 OR MORE OF BANK DEPOSITS								
Newark	467,000	9,353	2.9	201,770	101,515	322,790	17,169	6,053
Syracuse	197,000	5,675	3.6	107,924	42,787	156,578	8,839	3,237
Duluth	115,000	7,261	13.9	24,452	21,158	52,086	2,346	734
Tampa	108,000	7,130	15.8	18,043	20,227	45,080	1,870	541
Shreveport	78,000	9,473	21.9	25,646	9,513	43,180	2,081	769
Winston Salem	77,000	7,468	15.6	22,227	17,712	47,933	2,087	667
Sacramento	75,000	8,349	22.0	20,819	10,743	37,919	1,780	624
Knoxville	102,000	5,116	14.5	14,926	14,212	35,248	1,471	448
Charleston	75,000	5,179	11.7	13,840	23,494	44,361	1,674	415
Chattanooga	73,000	6,718	15.4	18,725	17,940	43,519	1,849	552
E. St. Louis & Nat. Stk. Yds.	73,000	7,918	29.4	16,213	7,647	26,974	1,364	487
Joliet	42,000	5,083	17.0	15,223	11,172	29,843	1,401	456
TOTAL, 12 cities	1,482,000	84,723	9.6	499,808	298,120	885,511	43,931	14,993

(2) NON-RESERVE CITIES NOT INCLUDED ABOVE, WITH POPULATION OF
125,000 OR MORE

Rochester	325,000	771	1.3	18,194	39,647	58,887	2,463	546
Jersey City	322,000	3,520	2.1	85,539	72,162	166,346	8,153	2,566
Providence	281,000	4,588	1.5	124,094	175,339	306,181	13,947	3,723
Akron	*208,000	1,517	1.9	29,498	45,699	79,193	3,436	885
Worcester	196,000	3,983	5.1	57,011	16,401	78,424	4,483	1,710
New Haven	185,000	859	1.6	28,113	24,302	54,521	2,697	843
Dayton	181,000	455	1.1	25,409	13,443	41,506	2,182	762
Norfolk	179,000	4,344	8.9	24,651	18,696	48,870	2,286	740
Youngstown	169,000	1,107	1.6	24,511	42,555	69,120	2,992	736
Hartford	168,000	2,448	3.1	70,442	3,869	78,159	5,047	2,113
Springfield	147,000	1,800	3.5	23,666	24,654	51,317	2,396	710
Scranton	144,000	4,396	4.9	36,135	47,920	89,948	3,967	1,085
Bridgeport	*144,000	1,020	3.0	16,459	14,455	34,165	1,586	494
Paterson	144,000	1,345	2.0	24,533	39,726	66,804	2,909	736
Flint	143,000	322	.6	15,722	41,117	57,780	2,334	472
Miami	140,000	1,243	5.1	12,781	9,982	24,211	1,194	384
Trenton	137,000	610	1.5	24,247	15,695	41,370	2,168	728
Camden	133,000	1,248	2.6	24,265	21,768	47,356	2,352	728
Fall River	133,000	1,050	5.6	15,872	2,273	18,812	1,179	476
Long Beach	*129,000	582	2.3	14,826	9,895	25,689	1,335	444
Wilmington	126,000	1,084	2.3	40,716	5,054	47,905	3,002	1,221
TOTAL, 21 cities	3,734,000	38,292	2.6	736,684	684,652	1,486,564	72,108	22,102

Census Bureau estimates, except that population marked () is taken from July 1928 Bankers Directory.

**Does not include amounts due to F. R. banks, certified and officers' checks, and cash letters of credit and travelers' checks.

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS
MARCH 29, 1929.

(St. 6148b)

Baker concerns, May 3, 29. 192-45

Summary on pp 2+3

P151

X-6260

March 7, 1929.

COPY

TO: The Federal Reserve Board
FROM: Mr. Wyatt, General Counsel.

SUBJECT: Power of Board to enforce principles regarding proper use of credit facilities of Federal Reserve System laid down in Board's letter of February 2, 1929.

C O N F I D E N T I A L

At the Board meeting on March 5th, I was requested "To report as to what powers the Board has under the Federal Reserve Act for the enforcement, should it become necessary, of the principles regarding the proper use of the credit facilities of the Federal Reserve System, laid down in the Board's letter of February 2nd to all Federal reserve banks."

The following paragraphs of the Board's letter contain the statement of principles referred to:

"The Federal Reserve Act does not, in the opinion of the Federal Reserve Board, contemplate the use of the resources of the Federal reserve banks for the creation or extension of speculative credit. A member bank is not within its reasonable claims for rediscount facilities at its Federal reserve bank when it borrows either for the purpose of making speculative loans or for the purpose of maintaining speculative loans.

"The Board has no disposition to assume authority to interfere with the loan practices of member banks so long as they do not involve the Federal reserve banks. It has, however, a grave responsibility whenever there is evidence that member banks are maintaining speculative security loans with the aid of Federal reserve credit. When such is the case the Federal reserve bank becomes either a contributing or a sustaining factor in the current volume of speculative security credit. This is not in harmony with the intent of the Federal Reserve Act nor is it conducive to the wholesome operation of the banking and credit system of the country."

It would appear, therefore, that the Board desires to be informed as to the powers which it has under the Federal Reserve Act which could

be used to prevent member banks from using Federal reserve credit for the purpose of making or maintaining speculative security loans.

In view of the further remarks contained in the press statement issued by the Board under date of February 5th (X-6233) and published on page 33 of the Federal Reserve Bulletin for February, 1929, to the effect that, "the great and growing volume of speculative credit has already produced some strain, which has reflected itself in advances of from 1 to $1\frac{1}{2}$ per cent in the cost of credit for commercial use," I assume that the Board does not wish to know what powers it might exercise with a view of tightening the general credit situation, such as the power to increase the rediscount rates or further restrict the volume of open market investments of the Federal reserve banks.

With this understanding, I shall endeavor to point out certain powers which the Board possesses under the Federal Reserve Act and which might be exercised with a view of accomplishing the above purposes. In suggesting these powers, however, it is my intention merely to inform the Federal Reserve Board of its lawful rights; and the mention of these rights is not intended as a suggestion that they should be exercised. The question whether these rights ought to be exercised is a question of policy on which I intend to express no opinion.-

OPINION.

(1) Under Section 13 of the Federal Reserve Act, the Board has ample power to prescribe such restrictions, limitations and regu-

lations governing the rediscount of notes, drafts, bills of exchange and bankers' acceptances, the making of advances to member banks on their promissory notes, and the purchase of bills of exchange, bankers' acceptances and government, State, and municipal securities (including purchases under so-called repurchase agreements), as may be necessary to prevent member banks from using the credit resources of the Federal Reserve System for the purpose of making or maintaining speculative security loans.

(2) Thus, the Board could, if it deems it advisable, prescribe a regulation forbidding any Federal reserve bank to rediscount any paper for, make any loan or advance to, or purchase any bills of exchange, bankers' acceptances, or government, State, or municipal securities (under repurchase agreements or otherwise) from, any member bank which at the time: (1) Has loans outstanding to brokers or dealers in stocks, bonds or other investment securities; or (2) has unreasonably large amounts of speculative loans outstanding to customers secured by stocks, bonds, or other investment securities, or the proceeds of which have been or are to be used for the purpose of carrying or trading in stocks, bonds, or other investment securities.

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

(4) The Board has no independent power under Section 4 of the Federal Reserve Act to issue orders restricting or qualifying the right of member banks to demand of their Federal reserve banks "such discounts, advancements, and accommodations as may be safely and

reasonably made with due regard for the claims and demands of other member banks".

(5) This right of member banks, however, is expressly made subject to the exercise of such powers as the Federal Reserve Board has under other provisions of the Federal Reserve Act, including the power under Section 13 to prescribe restrictions, limitations and regulations governing 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; and 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 could, if it so desires, prescribe a special rate (higher than the rediscount rate on industrial, commercial or agricultural paper) for advances to member banks on their promissory notes secured by bonds or notes of the Government of the United States.

DISCUSSION

I.

Section 13 of the Federal Reserve Act contains the following provision:

"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."

This, in my opinion, confers upon the Federal Reserve Board ample power to prescribe such restrictions, limitations and regulations governing the rediscount of notes, drafts and bills of exchange

by Federal reserve banks, the making of advancements by Federal reserve banks to member banks on the promissory notes of such member banks, and the purchase and sale of bankers' acceptances, bills of exchange, and Government, State and municipal securities under Section 14 (including the purchase of such bills, acceptances, and securities under repurchase agreements) as may be necessary to prevent member banks from using the credit resources of the Federal Reserve System for the purpose of making or maintaining speculative loans.

The above quoted provision of Section 13 has heretofore been considered by this office and it has been found that it applies not only to rediscounts under Section 13 but also to purchases and sales at home or abroad under Section 14. (See my opinion of October 20, 1927 (X-4980), pages 5 and 6, a copy of which is attached hereto.) It also applies to the making of advances to member banks on their promissory notes under the seventh paragraph of Section 13 (See opinion of Mr. Vest dated June 21, 1928, (X-6124-a), a copy of which is attached hereto.

The question might be raised whether this paragraph pertains to the rediscount of notes and "drafts" as well as bills of exchange and bankers' acceptances, but it is clear that notes and "drafts" are included in the term "bills receivable". That term has been held by the courts to include promissory notes, bills of exchange or other instruments for the payment of money. (See Words and Phrases, Bouvier's Law Dictionary, and authorities cited therein.)

The term "bills receivable" would seem to apply also to bonds and notes of the United States and bills, notes, revenue bonds and warrants issued by States, counties, districts, political subdivisions and municipalities; since all such obligations are "instruments for the

payment of money". Even if the above-quoted paragraph in Section 13 does not apply to these classes of securities, however, the Board has ample power under Section 14(b) to prescribe rules and regulations governing the purchase of such securities.

The Board has power, therefore, to prescribe rules and regulations governing practically every method by which a member bank obtains credit accommodations from a Federal reserve bank, including not only the rediscount of notes, drafts, bills of exchange and bankers' acceptances, but also borrowings by member banks from Federal reserve banks on the promissory notes of such member banks and sales of bills of exchange, bankers' acceptances and Government and municipal securities to Federal reserve banks under Section 14, including sales under so-called "repurchase agreements".

The exercise of all these powers is by the above quoted paragraph of Section 13 made subject to "such restrictions, limitations and regulations as may be imposed by the Federal Reserve Board." There is no limitation in the law on the character of restrictions, limitations and regulations which the Board may prescribe; and the matter is left to the discretion of the Federal Reserve Board, subject only to the usual qualification that the restrictions, limitations

and regulations prescribed by the Board must not be in conflict with other provisions of the Federal Reserve Act and must not be arbitrary, capricious or unreasonable. Any restriction, limitation, or regulation which is reasonably calculated to carry out the purposes of the Federal Reserve Act and the policies which Congress had in mind when it enacted the Federal Reserve Act would clearly be reasonable and within the Board's power.

Certain of these purposes and policies were summarized as follows on page 33 of the Board's Annual Report for the year 1923:

"The Federal reserve act has laid down as the broad principle for the guidance of the Federal reserve banks and of the Federal Reserve Board in the discharge of their functions with respect to the administration of the credit facilities of the Federal reserve banks the principle of 'accommodating commerce and business.' (Sec. 14 of the Federal reserve act, par.(d).) The act goes further. It gives a further indication of the meaning of the broad principle of accommodating commerce and business. These further guides are to be found in section 13 of the Federal reserve act, where the purposes for which Federal reserve credit may be provided are described as 'agricultural, industrial, or commercial purposes'. It is clear that the accommodation of commerce and business contemplated as providing the proper occasion for the use of the credit facilities of the Federal reserve banks means the accommodation of agriculture, industry, and trade. The extension of credit for purposes 'covering merely investments or issued or drawn for the purpose of carrying or trading in stocks, bonds, or other investment securities, except bonds and notes of the Government of the United States,' is not permitted by the Federal reserve act. The Federal reserve system is a system of productive credit. It is not a system of credit for either investment or speculative purposes. Credit in the service of agriculture, industry, and trade may be described comprehensively as credit for productive use. The exclusion of the use of Federal reserve credit for speculative and investment purposes and its limitation to agricultural, industrial, or commercial purposes thus clearly indicates the nature of the tests which are appropriate as guides in the extension of Federal reserve credit,

"They clearly describe the nature or character of the purposes for which such credit and currency may be extended. The qualitative tests appropriate in Federal reserve bank credit administration laid down by the act are, therefore, definite and ample."

That this is an accurate statement of certain of the purposes which Congress had in mind when it enacted the Federal Reserve Act can be conclusively demonstrated by a review of the legislative history of the Act.

After defining the character of paper which is eligible for re-discount at Federal reserve banks, Section 13 provides that:

"Such definition shall not include notes, drafts or bills covering merely investments or issued or drawn for the purpose of carrying or trading in stocks, bonds or other investment securities, except bonds and notes of the Government of the United States."

Come about

The policy of this provision is indicated by the following passages from the report of the Committee on Banking and Currency of the House of Representatives on the original Federal Reserve Act (H.R. Report No. 69, 63rd Congress, 1st Session, pages 11, 19, 20, 48, 59, 62 and 63):

ESSENTIAL FEATURES OF REFORM.

"The other plans before the committee or examined by it have likewise been found unsatisfactory—some for reasons analogous to those which made the Aldrich bill unacceptable, others because of defective detail, erroneous principle, or faulty construction. An effort was, however, made to ascertain the constituent elements of these measures and of the Aldrich bill, common to all, which should be recognized and provided for in any new plan because representing the fundamentals of legislation. It is believed that these are as follows:

"1. Establishment of a more nearly uniform rate of discount throughout the United States, and thereby the furnishing of a certain kind of preventive against over expansion of credit which should be similar in all parts of the country.

"2. General economy of reserves in order that such reserves might be held ready for use in protecting the banks of any section of the country and for enabling them to go on meeting their obligations instead of suspending payments, as so often in the past.

"3. Furnishing of an elastic currency by the abolition of the existing bond-secured note issue in whole or in part, and the substitution of a freely issued and adequately protected system of bank notes which should be available to all institutions which had the proper class of paper for presentation.

"4. Management and commercial use of the funds of the Government which are now isolated in the Treasury and sub-treasuries in large amounts.

"5. General supervision of the banking business and furnishing of stringent and careful oversight.

"6. Creation of market for commercial paper.

"Other objects are sought, incidentally, in these plans, but they are not as basic as the chief purposes thus enumerated.

* * * *

"TRANSFER OF RESERVES.

"Reference has been briefly made to the fact that the committee's proposals provide for the transfer of bank reserves from existing banks which hold them for others to the proposed reserve banks. At present the national banking act recognizes three systems of reserves:

* * * *

"The original reason for creating this so-called 'pyramidal' system of reserves was that inasmuch as central banking institutions were absent, and inasmuch as banks outside of centers were obliged to keep exchange funds on deposit with other banks in such centers, it was fair to allow exchange balances with such centrally located banks to count as reserves inasmuch as they were presumably at all times available in cash. * * * * As matters have developed, it has been vicious in the extreme. Coupled with the inelasticity of the bank currency, the system has tended to create periodical stringencies and periodical plethoras of funds. Banks in the country districts unable to withdraw notes and contract credit when they have seen fit to do so, because of the rigidity of the bond-secured currency, have redeposited such funds with other banks in reserve and central reserve cities and have thus built up the balances which they were entitled to keep there as a part of their reserves. Moreover,

"the practice of thus redepositing funds having been once established, it has been carried to extreme lengths, and at times has been decidedly injurious in its influence. The payment of interest on deposits by banks in the centers has been used for the purpose of attracting to such banks funds which otherwise would have gone to other centers or to other banks in the same centers or which would have been retained at home. The funds thus redeposited, even when not attracted by any artificial means, have of course constituted a demand liability, and have been so regarded by the banks to which they were intrusted.

"In consequence, such banks have sought to find the most profitable means of employment for their resources and at the same time to have them in such condition as would permit their prompt realization when demanded by the depositing banks which put them there. The result has been an effort on the part of the national banks, particularly in central reserve cities, to dispose of a substantial portion of their funds in call loans protected by stock-exchange collateral as a rule. This was on the theory that, inasmuch as listed stock-exchange securities could be readily sold, call loans of this type were for practical purposes equivalent to cash in hand. The theory is of course close enough to the facts when an effort to realize is made by only one or few banks, but is entirely erroneous whenever the attempt to withdraw deposits is made by a number of banks simultaneously. At such times, the banks in central reserve and reserve cities are wholly unable to meet the demands that are brought to bear on them by country banks; and the latter, realizing the difficulties of the case, seek to protect themselves by an unnecessary accumulation of cash which they draw from their correspondents, thereby weakening the latter and frequently strengthening themselves to an undue degree. Under such circumstances the reserves of the country, which ought to constitute a readily available homogeneous fund, ready for use in any direction where sudden necessities may develop, are in fact scattered and entirely lose their efficiency and strength owing to their being diffused through a great number of institutions in relatively small amount and thereby rendered nearly unavailable. This evil has been met in times past by the suspension of specie payments by banks and by the substitution of unauthorized and extra-legal substitutes for currency in the form of cashiers' checks, clearing-house certificates and other methods of furnishing a medium of exchange. Needless to say such a method of meeting the evil is the worst kind of makeshift and is only somewhat better than actual disaster.

"HOLDING OF FUNDS.

"The committee believes that the only way to correct this condition of affairs is to provide for the holding of reserves by duly qualified institutions which shall act primarily in the public interest and whose motives and conduct shall be so absolutely well known and above suspicion as to inspire unquestioning confidence on the part of the community. It believes

"that the reserve banks which it proposes to provide for will afford such a type of institutions and that they may be made the effective means for the holding of the liquid reserve funds of the country to the extent that the latter are not needed in the vaults of the banks themselves. * * *

* * * * *

"Section 20 (i.e., section 19 of the Federal Reserve Act) seeks to readjust the reserve requirements now provided by the national banking act in such a way as to make them conform to the dictates of scientific banking, and to adjust them to the provisions of the proposed bill. The following main objects have been had in mind:

"1. To abolish entirely the present system of rede-
posited or 'pyramided' reserves.

"2. To establish a moderate required reserve actual-ly to be held in cash in the vaults of the banks.

"3. To prescribe a secondary reserve to take the form of a credit with the Federal reserve banks.

* * * * *

"In outlining the general philosophy of the pro-posed banking bill it was pointed out that the existing system of redeposited reserves gives rise to cheap money for stock-exchange speculation in the centers while it fails to provide in times of panic a reserve upon which the country can draw with assurance, because at such times stock-exchange securi-ties can not be easily liquidated, so that call loans are un-available as a resource, and the city banks in self-defense have deemed themselves warranted in suspending specie payments. It is contended, however, that these difficulties and irregularities of the existing system are mere blemishes upon the surface of an otherwise desirable state of affairs, and that there is good and sufficient economic reason for maintaining the present system of redeposited reserves at least in part. This claim may be reduced to a series of propositions as follows:

"1. The redeposited reserves are placed with the city banks not for stock speculation, but in large measure at least to supply exchange funds upon which the depositing banks may draw.

"2. The redeposited balances must be kept with the banks which now hold them, because the country banks look to these city banks for accommodation and the latter gauge the amount of accommodation to be granted them by the size of the balances.

"3. The country banks, and in general all banks making the redeposits get a rate of interest thereon. They are thus able to make use of a reserve which would otherwise be 'dead,' and which when held in cash or in the Federal reserve banks will yield them no revenue, the latter banks being forbidden by the terms of the bill to pay interest on deposits.

"These contentions are worthy of careful study, because they are widely urged.

* * * * *

"The second point already noted has even less force than the first. Not only does the proposed bill provide more extensive facilities for rediscount than have ever been known, but even if it did not do so, and even if, as alleged, there are many kinds and classes of security not eligible for rediscount under the bill which country banks can use as a basis for accommodation only with city banks, it would still remain true that this does not afford any warrant for demanding the maintenance of the existing situation.* *

* * * * *

"* * In view of the great difficulty of defining 'commercial paper,' the actual definition of the same has been left to the Federal reserve board in order that it may adjust the definition to the practices prevailing in different parts of the country in regard to the transaction of business and the making of paper. For obvious reasons it is forbidden that any such paper shall be admitted to rediscount if made for the purpose of carrying stocks or bonds."

12 of the original note is in made

From this, it is perfectly clear that one of the fundamental purposes of the Federal Reserve Act was to prevent the bank reserves of the country from being tied up in speculative loans on stocks, bonds and other investment securities. It is obvious, therefore, that it would be entirely in accordance with the purposes of the Federal Reserve Act and the policy of Congress when it enacted the Federal Reserve Act if the Board should promulgate restrictions, limitations and regulations designed to prevent member banks of the Federal Reserve System from using the credit resources of the Federal Reserve System for the purpose of making

or maintaining loans, the proceeds of which are used for the purpose of carrying or trading in stocks, bonds or other investment securities.

It is true that the above-quoted provision of the Federal Reserve Act excluding loans of this character from the definition of eligible paper, does not itself prevent member banks from discounting eligible paper and using the proceeds to make loans on stocks, bonds and other investment securities; but it is equally clear that the broad powers of the Federal Reserve Board to prescribe restrictions, limitations and regulations governing the operations of Federal reserve banks were intended to enable the Board to meet just such contingencies and to prescribe such rules, regulations and restrictions as might be necessary to supplement the express provisions of the Act and more fully to carry out the broad purposes of the Act.

It has been argued that it is not inconsistent with the provisions of the Federal Reserve Act for Federal reserve banks to make loans to, or to rediscount eligible paper for, member banks which at the time have surplus funds loaned to brokers or dealers in stocks, bonds and other investment securities; because it is impossible to trace the proceeds of any particular rediscount or advance to a member bank and show that the credit obtained from the Federal reserve bank is used for the purpose of making or obtaining such loans. While it may be true that this is not a technical violation of the Federal Reserve Act, it obviously is contrary to the policy of the Act, as indicated by the above quotations from the Committee report; and it clearly is within the Board's power to prescribe such rules, regulations and restrictions as may be nec-

essary to prevent any such evasion of the express provisions of the Act.

II.

One of the most direct, appropriate and effective powers which the Board could exercise for the enforcement of the principles laid down in its letter of February 2, 1929, therefore, would be to prescribe a regulation forbidding any Federal reserve bank to rediscount any paper for, or to make any loans or advances to, or to purchase any bills of exchange, bankers' acceptances or Government, State, or municipal securities (either outright or under repurchase agreements) from, any member bank which at the time: (1) Has loans outstanding to brokers or dealers in stocks, bonds or other investment securities; or (2) Has unreasonably large amounts of speculative loans outstanding to customers secured by stocks, bonds, or other investment securities, or the proceeds of which have been or are to be used for the purpose of carrying or trading in stocks, bonds, or other investment securities.

If the Board should decide to promulgate such a regulation, it probably would find it necessary, for practical reasons, to incorporate therein certain exceptions which would enable member banks embarrassed by sudden fluctuations in their reserves or their reserve requirements to obtain temporary accommodations at the Federal reserve bank until they could liquidate their investments in loans to brokers or dealers in stocks, bonds or other investment securities. However, exceptions to cover this practical difficulty can be devised; and, if the Board desires to promulgate such a regu-

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lation, I believe that a thoroughly practical and workable regulation can be drawn.

III.

There can be no doubt that the Board has ample power to enforce such a regulation, or any other lawful regulation which it might prescribe; since Section 11 (f) of the Federal Reserve Act authorizes the Board,

"To suspend or remove any officer or director of any Federal reserve bank, the cause of such removal to be forthwith communicated in writing by the Federal Reserve Board to the removed officer or director and to said bank".

This power to removal is subject only to the condition that the Board communicate the cause of such removal in writing to the removed officer and to the Federal reserve bank. The cause of removal is not specified in the law but is left to the discretion of the Federal Reserve Board, the only limitation being that it must be reasonable and not capricious or arbitrary.

Clearly, the willful violation of a lawful regulation prescribed by the Federal Reserve Board would be a reasonable and valid cause for the removal of any officer or director of any Federal reserve bank.

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The question has been raised whether, under the following provision of Section 4 of the Federal Reserve Act, the Federal Reserve Board has power to order a particular Federal reserve bank to cease or suspend the granting of any discounts, advancements or accommodations to a particular member bank.

"Said board shall administer the affairs of said bank fairly and impartially and without discrimination in favor of or against any member bank or banks and shall, subject to the provisions of law and the orders 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 member banks."

In view of the importance of this question, I have made a careful study of the legislative history of this paragraph of the Federal Reserve Act before undertaking to construe it. A complete statement of the legislative history of this paragraph, with lengthy quotations from the debates in Congress, has been prepared by this office and will be furnished to any member of the Board desiring to read it; but I believe that a brief statement of the situation and one or two quotations from the debates will be sufficient for the purposes of this opinion.

The above quoted paragraph was included in Section 4 of the Federal Reserve Act as originally enacted and has never been amended. It was not discussed in the reports on the original Federal Reserve Act either by the House Banking and Currency Committee, by the Senate Committee, or by the conferees. This paragraph, however, was not contained in the

bill when it passed the House of Representatives, but was inserted in the bill by the Senate Committee on Banking & Currency as a compromise between various conflicting views.

It appears that certain Senators feared that the Federal reserve banks would come under the domination of the larger member banks and would discriminate against other member banks. It was feared that, through such discrimination, some member banks might be denied credit accommodations at the Federal reserve banks when it was badly needed in times of emergency; and, in order to prevent such discrimination, it was proposed to amend the bill so as to provide that, "Each member bank shall be entitled as a matter of right to the rediscount of eligible paper to the full amount of its capital stock upon the lowest current rate of discount." This was incorporated in an amendment proposed by Senator Hitchcock and was the subject of a bitter fight both in the committee and on the floor of the Senate.

It was felt, however, that such a provision would be absolutely contrary to accepted banking practices and would be extremely dangerous and unsound; and finally the above-quoted paragraph was inserted in the bill by the Senate Committee as a compromise. Senator Shafroth explained the matter as follows (Congressional Record for Dec. 13, 1913, Vol. 51, Part 1, page 859):

Mr. SHAFROTH. "Mr. President, that clause was placed in that paragraph largely for the reason that the Hitchcock bill contained a provision for compulsory discounts, asserting that any member bank going with paper to a Federal reserve bank should be entitled, as

a matter of right, which it could enforce perhaps by mandamus, to compel the Federal reserve bank to discount that paper. We thought that was too extreme a provision; it was thought wise that there might be conditions of the bank that would not justify the discounting of its paper. For that reason we put in a clause, which to a large extent is advisory to them, but which, nevertheless, indicates the policy that should be pursued by them in making these discounts where they fairly can."

It appears that this compromise was suggested by Senator Reed of Missouri during the meetings of the Senate Committee on Banking and Currency and that the above quoted paragraph was inserted in Section 4 of the Federal Reserve Act at his suggestion. Senator Reed's explanation of the purpose and effect of this paragraph, therefore, is entitled to great weight in construing it.

On pages 173 and 174 of the Congressional Record for December 4, 1913, (Vol. 51, Part 1) Senator Reed explained this paragraph as follows:

"Mr. President, we did not stop at that point. I myself had the honor of offering an amendment prescribing or defining the duties of these directors. It is as follows:

"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 discrimination in favor of or against any member bank or banks, and shall, subject to the provisions of law and the orders 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 member banks.

"Mr. President, the importance of that amendment lies in the fact that for the first time it wrote into the bill

language which commanded the directors of the regional banks to treat all member banks alike. It prohibits favoritism; it forbids discrimination; it gives to member banks the right to demand impartial treatment. The member bank is not left to solicit favors; it may insist upon rights.

"Mr. President, the provisions I have just discussed might be ineffectual if it were not for the fact that at the same time we enlarged the powers of the Federal reserve board so that it can compel regional banks to obey this mandate of the law. We conferred this power by providing in section 11, paragraph J, as follows: The Federal reserve board shall have power--

"To exercise general supervision over said Federal reserve banks.

"When, therefore, we imposed the duty upon the directors of the regional banks to treat all member banks fairly and impartially and without discrimination, and gave the Federal reserve board, which is appointed by the President of the United States, authority to exercise general supervision over the Federal reserve bank, we gave the Federal reserve board power and authority to compel the Federal reserve banks to be impartial in their dealings with member banks. The same authority empowers the Federal reserve board to protect the public against wrongs sought to be perpetrated by the reserve banks. The power conferred is sufficient to accomplish these ends, and if it be wisely exercised there is but slight danger of discrimination in favor of some bank and against others; or in favor of one section of the country and against another; or, I will add, the adoption of a policy by regional banks which will be oppressive to the public.

Powers of Reserve Board Increased.

"The Federal reserve board, appointed by the President, is, by the two amendments I have set out, given absolute command of the system. It can make the regional directors perform their full duty with fairness and impartiality to all.

"We followed these amendments with others of equal importance. We gave the reserve board the unrestricted right to remove any of the directors of a regional bank. Here is the language: 'The Federal Reserve Board shall have 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 by the Federal Reserve Board to the removed officer or director and to said bank.' The House bill only gave a restricted right of removal."

* * * * *

"Putting together, then, these several provisions to which I have adverted, I believe we can say to the country with a clear conscience that while we have drawn these banks together into this great system, while we have given them a common stock ownership, while we have placed the control of the regional banks in the hands of the bankers, we have at the same time so safeguarded every avenue and so locked every door that the people may be content. In the last analysis the Federal reserve board, appointed by the President and representing the entire country, has

complete and absolute power, and will control the entire system and prevent discriminations, combinations, or other wrongs."

In view of this explanation, it is quite clear that this paragraph alone was not intended to confer additional power upon the Federal Reserve Board but was intended to prescribe a rule governing the administration of the affairs of the Federal reserve bank by the board of directors of the Federal reserve bank. This rule was intended to do two things: (1) To prevent discrimination either in favor of or against any member bank; and (2) To make it clear that member banks are entitled as a matter of right to "such discounts, advancements and accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks."

It was contemplated that, if any Federal reserve bank should discriminate against any member bank or should deny it such discounts, advancements and accommodations as might be safely and reasonably made with due regard to the claims and demands of other member banks, the bank so discriminated against could appeal to the Federal Reserve Board and the Board could order the Federal reserve bank to comply with the law and to cease such discrimination. It was pointed out, however, that such power was included in the Board's power under Section 11 (j) to exercise general supervision over the Federal reserve banks and could be enforced by the exercise of the Board's power under Section 11 (f) to suspend or remove any officer or director of any Federal reserve bank.

The power to exercise general supervision over the Federal reserve banks was inserted in Section 11 at the suggestion of Senator Reed, in order to enable the Board to enforce the above quoted paragraph

of Section 4; and this shows clearly that the provision of Section 4 was not intended to confer any independent power upon the Board.

Moreover, the fact that the whole purpose of this paragraph was to make it clear that member banks are entitled to reasonable credit accommodation from the Federal reserve banks without discrimination is clearly inconsistent with the thought that the same paragraph might possibly confer power upon the Federal Reserve Board to order a Federal reserve bank to deny credit accommodations to a particular member bank. Such an order by the Federal Reserve Board might amount to the very kind of discrimination against individual banks which this paragraph was intended to prevent.

The words "subject to the provisions of law and the orders of the Federal Reserve Board" obviously were inserted in this paragraph as a qualifying or saving clause similar to those found elsewhere in the Act and must have been intended to have substantially the following meaning: Subject to the provisions of law and to such orders, regulations, etc., as the Federal Reserve Board may lawfully promulgate pursuant to the power granted the Board under other provisions of the Federal Reserve Act.

I am of the opinion, therefore, that this language does not confer any additional power on the Federal Reserve Board and that any authority which the Board may have to issue orders qualifying the right of member banks to credit accommodations from the Federal reserve banks must be found elsewhere in the Act.

The clause "subject to the provisions of law and the orders of

the Federal Reserve Board", however, is important, since it makes the right of member banks to credit accommodations from the Federal reserve banks subject to such rules, regulations and restrictions as the Federal Reserve Board may lawfully prescribe under authority granted elsewhere in the Act. Thus, it makes this right of the member banks subject to such restrictions, limitations and regulations as may be imposed by the Federal Reserve Board under the paragraph of Section 13 discussed elsewhere in this opinion.

V.

Although the paragraph of Section 4 of the Federal Reserve Act discussed above does not itself confer any such power upon the Federal Reserve Board, it is perfectly obvious that, if the Federal Reserve Board should prescribe a regulation forbidding any Federal reserve bank to rediscount any paper for, grant any loan to, or purchase any bills of exchange, bankers' acceptances or Government, State, or municipal securities from, any member bank which at the time has loans outstanding to brokers or dealers in stocks, bonds or other investment securities, the Board would have power to issue such orders in specific cases as might be necessary to stop violations of this regulation.

Thus, if such a regulation were promulgated and the Board should find that a particular Federal reserve bank is rediscounting paper for, or making loans to, a particular member bank which has loans outstanding to brokers or dealers in stocks, bonds or other investment securities, the Board could order the Federal reserve bank to cease re-

discounting paper for, or making loans to, such member bank; and, if the Federal reserve bank should fail or refuse to comply with such an order, the Board could enforce its order by suspending or removing from office the offending officers and directors of the Federal reserve bank..

VI.

The question has been raised whether the Board could, if it so desires, prescribe a special rate (higher than the rediscount rate on industrial, commercial or agricultural paper) for advances to member banks on their promissory notes secured by bonds or notes of the Government of the United States.

While this does not have a direct bearing on the main question discussed in this opinion, it has been suggested that it might have a very practical and helpful effect on the main problem confronting the Board in this connection. Thus, it has been suggested by one member of the Board that, in practice, most of the credit accommodations obtained from the Federal reserve banks by reserve city member banks which are at the same time lending large sums to brokers and dealers in investment securities are obtained in the form of advances on the promissory notes of such member banks secured by bonds and notes of the Government of the United States; that this practice might be checked if a higher rate of interest should be prescribed for borrowings in this form; and that such a higher rate of interest of interest would not increase the cost of credit to commerce, industry and agriculture. One member of the Board, therefore, requested me to cover this point in this opinion.

The power to make advances to member banks on their promissory notes is conferred by the following paragraph of Section 13 of the Federal Reserve Act:

"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, 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."

It will be noted that this paragraph provided that such advances shall be made at rates to be established by such Federal reserve banks, subject to the review and determination of the Federal Reserve Board. It will be noted that the language here used is very similar to that used in Section 14(d) pertaining to other rates of discount to be charged by the Federal reserve banks and that the qualifying clause "subject to review and determination of the Federal Reserve Board" is precisely the same, word for word, in both sections.

The Attorney General of the United States has held that under Section 14(d) the Federal Reserve Board "has the right under the powers conferred by the Federal Reserve Act, to determine what rates of discount should be charged from time to time by the Federal reserve bank, and under their powers of review and supervision, to require such rates to be put into effect by such bank." (32 Op. Atty. Gen., p. 81.)

It is perfectly obvious that the Board has the same power with respect to the rates at which Federal reserve banks may make advances on the promissory notes of member banks under Section 13 as it has over the rates of discount to be established under Section 14(d).

It is well recognized that the Federal reserve banks may establish

and the Federal Reserve Board may approve, different rediscount rates for different classes of paper; and it would seem that the same power could be exercised in approving or fixing the rates at which advances will be made to member banks on their promissory notes under Section 13. While Section 13 does not contain the phrase "for each class of paper" found in Section 14(d), it is significant that Section 13 uses the plural "rates" and does not merely authorize the fixing of "a rate" at which Federal reserve banks may make advances to member banks.

The fact that the subject is treated separately clearly indicates that the promissory notes of member banks constitute a separate class of paper; and it would seem obvious that this class of paper may be further subdivided into other classes according to the maturity of the notes or the character of collateral security. It would seem perfectly obvious that member banks' promissory notes secured by Government bonds, which are not eligible for rediscount, are clearly in a different class from those secured by agricultural, industrial and commercial paper, which is eligible for rediscount.

I am of the opinion, therefore, that the Board could, if it so desires, prescribe a special rate (higher than the rate of discount on industrial, commercial or agricultural paper) for advances to member banks on their promissory notes secured by bonds or notes of the Government of the United States.

Respectfully,

Walter Wyatt
General Counsel.

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