

The Papers of Charles Hamlin (mss24661)

363_05_001-

Hamlin, Charles S., Scrap Book – Volume 203, FRBoard Members

205.001 - Hamlin Charles S
Scrap Book - Volume 203
FRBoard Members

TRANSFER

Box 363 Folder 5

CONFIDENTIAL (F.R.)

RETURN TO
FILES SECTION
DO NOT REMOVE ANY
PAPERS FROM THIS FILE

TRANSFER

CONFIDENTIAL (F.R.)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date August 1, 1941

To The Files

Subject: _____

From Mr. Coe

MPC.

After correspondence with Mrs. Hamlin (see letters of May 25 and June 4, 1941) the items attached hereto and listed below, because of their possible confidential character, were taken from volume 203 of Mr. Hamlin's scrap book and placed in the Board's files:

VOLUME 203

- Page 2 - Memo by Mr. Hamlin - Reasons for Voting in Favor of the 3% Discount Rate Established by the Federal Reserve Bank of New York.
- Page 59 - Principal Resources and Liabilities of All Member Banks on March 27, 1930.
- Page 82 - Earnings & Expenses of F.R. Banks, April 1930.
- Page 87 - Letter to Governor Young from Frederic A. Delano trends of banking business in Richmond District.
- Page 93 - Proposed Reply of F.R.Bk. of N.Y. re Reparation Bonds.
- Page 96 - Memo from Mr. Hamlin to Dr. Miller re unreasonable use of Federal Reserve credit to support speculative loans.
- Page 97 - Direct Pressure - Suggested Addition to Annual Report by C. S. Hamlin.
- Page 98 - Memo to Mr. Hamlin from Mr. Smead re Reduction of Speculative loans.
- Page 99 - Letter of Board to Federal Reserve Banks dated January 23, 1930, re Open Market Policy Committee.
- Page 101 - Open Market Policy Conference.
- Page 105 - Memo to Mr. Hamlin from Mr. Wyatt re Digest of State laws re Branch Banking.
- Page 108 - Memo to Mr. Hamlin from Mr. McClelland re handling of reparation bonds in this country.
- Page 109 - Preliminary memo for the Open Market Investment Committee.
- Page 113 - Report of the Secretary of the Open Market Investment Committee to the meeting of the Committee at Washington on March 24, 1930.
- Page 117 - Letter to Governor Young from Governor Harrison re recent developments in credit and business conditions.
- Page 121 - Memo to Mr. Hamlin from Mr. Smead re Security loans and Federal Reserve Bank Credit.
- Page 131 - Memo to Mr. Hamlin from Mr. McClelland re proposed procedure to be followed in connection with the pending issue of reparations bonds in this country.
- Page 135 - Memo re Reparation bonds.

May 1, 1930.

See Bm

Memorandum - C. S. H.

Reasons for Voting in Favor of the 3% Discount Rate Established by the
Federal Reserve Bank of New York.

C.S.H. stated to the Board that he was in considerable doubt yesterday as to how to vote in this matter; that he realized, however, that the Directors had voted unanimously to establish the 3% rate in the belief that it would help existing conditions; that he, C.S.H., however, felt some doubt as to this; that the action of the Bank of England and the Bank of France in reducing rates, to his mind created a new situation; that he feared that a lower rate at the Bank of England, for instance, than in the United States, would certainly tend to bring gold from England to the United States; that since the 4% rate was established on February 8, 1930, the gold stock in the United States has increased 136 millions, and the money in circulation has declined 62 millions; that while this increase in the gold stock had come largely from South America and Japan, he feared that maintaining a rate higher than that maintained by the Bank of England at the present time would certainly bring much more gold into the United States, which would finally get into the member bank reserves and form the basis of an unhealthy expansion.

CONFIDENTIAL

Dinead

See Rk

PRINCIPAL RESOURCES AND LIABILITIES OF ALL MEMBER BANKS ON
MARCH 27, 1930, COMPARED WITH DECEMBER 31, 1929, AND MARCH 27, 1929

859

(In millions of dollars)

St. 6583

	Mar. 27 1930	Increase or decrease since	
		Dec. 31 1929	Mar. 27 1929
<u>Loans and investments - total</u>	35,056	-878	- 337
<u>Loans - total</u>	25,119	-1,031	+ 174
Acceptances payable in United States	175	- 37	+ 29
Bills, acceptances, etc., payable in foreign countries	79	-	- 13
Commercial paper bought in open market	499	+ 208	+ 124
Loans to banks:			
On securities	260)	- 187	- 21
All other	267)		
Loans on securities, exclusive of loans to banks:			
To brokers and dealers in New York	2,344	+ 684	+ 465
To brokers and dealers elsewhere	706	- 97	- 308
To others	7,024	- 661	+ 498
Real estate loans:			
On farm land	394	+ 6	- 9
On other real estate	2,776	- 28	+ 56
All other loans	10,595	- 920	- 645
Loans eligible for rediscount with F. R. bank	4,204	- 193	- 139
<u>Investments - total</u>	9,937	+ 153	- 511
U. S. Government securities	4,085	+ 222	- 369
Other securities - total	5,852	- 69	- 143
Domestic	5,242	- 50	- 99
Foreign	610	- 19	- 43
Due from banks in United States	1,902	- 266	+ 160
Due from banks in foreign countries	248	- 16	- 40
Net demand deposits	18,489	-1,308	- 344
Time deposits - total	13,519	+ 285	+ 190
Evidenced by savings pass books	9,626	+ 34	- 102
Of banks in United States	103	+ 8)	+ 165
Of banks in foreign countries	176	+ 22)	
All other	3,614	+ 222	+ 127
U. S. deposits	325	+ 182	- 86
Due to banks in U. S. (except F. R. banks)	3,204	- 313	+ 134
Due to banks in foreign countries	498	- 79	+ 35
Bills payable and rediscounts	347	- 532	- 806
Capital and surplus	5,627	+ 5	+ 515
Acceptance liability	1,151	- 155	+ 259

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS
MAY 9, 1930

859

W.

VOLUME 203
PAGE 59

CONFIDENTIAL

PRINCIPAL RESOURCES AND LIABILITIES OF MEMBER BANKS IN
CENTRAL RESERVE CITIES ON MARCH 27, 1930, COMPARED WITH DECEMBER 31, 1929
AND MARCH 27, 1929

(In millions of dollars)

St. 6583a

	New York City			Chicago		
	Mar. 27 1930	Increase or decrease since		Mar. 27 1930	Increase or decrease since	
		Dec. 31 1929	Mar. 27 1929		Dec. 31 1929	Mar. 27 1929
<u>Loans and investments - total</u>	8,238	-536	+512	1,717	-40	-76
<u>Loans - total</u>	6,192	-490	+438	1,406	-41	-50
Acceptances payable in United States	89	-39	+31	3	-5	-4
Bills, acceptances, etc., payable in foreign countries	40	-6	-12	11	+6	+6
Commercial paper bought in open market	49	+29	+13	33	+28	+23
Loans to banks:						
On securities	92)			50)		
All other	107)	-123	-52	8)	-30	-4
Loans on securities, exclusive of loans to banks:						
To brokers and dealers in New York	1,477	+275	+375	140	+129	+122
To brokers and dealers elsewhere	60	+5	+8	194	-47	-117
To others	1,876	-270	+184	474	-59	-2
Real estate loans:						
On farm land	-	-	-	2	-	-
On other real estate	150	-19	+2	18	-1	-1
All other loans	2,252	-343	-109	472	-63	-72
Loans eligible for rediscount with Federal reserve bank	970	-97	-21	223	-19	+14
<u>Investments - total</u>	2,046	-45	+74	310	-1	-26
U. S. Government securities	1,150	+38	+15	146	+30	-18
Other securities - total	897	-83	+59	164	-29	-8
Domestic	827	-63	+60	147	-30	-17
Foreign	69	-20	-1	17	+2	+9
Due from banks in United States	112	-66	-15	123	-10	+55
Due from banks in foreign countries	153	-38	-55	39	+17	+24
Net demand deposits	5,632	-786	+67	1,199	+12	+29
Time deposits - total	1,462	+125	+172	434	+15	+2
Evidenced by savings pass books	636	+19	-1	165	+9	-23
Of banks in United States	42	+3)		22	+2)	
Of banks in foreign countries	144	+11)	+141	19	+11)	+19
All other	639	+93	+31	229	-8	+6
U. S. deposits	91	+72	-45	7	-1	-26
Due to banks in United States (except F. R. banks)	959	-238	+38	338	+27	+28
Due to banks in foreign countries	416	-81	+16	27	-	+13
Bills payable and rediscounts	39	-139	-195	2	-39	-85
Capital and surplus	1,758	-4	+331	270	-	+12
Acceptance liability	783	-113	+144	78	-8	+31

CONFIDENTIAL

PRINCIPAL RESOURCES AND LIABILITIES OF MEMBER BANKS IN RESERVE
CITIES AND OF COUNTRY BANKS ON MARCH 27, 1930, COMPARED WITH DECEMBER 31, 1929
AND MARCH 27, 1929

(In millions of dollars)

St. 6583b

	Reserve city banks			Country banks		
	Mar. 27 1930	Increase or decrease since		Mar. 27 1930	Increase or decrease since	
		Dec. 31 1929	Mar. 27 1929		Dec. 31 1929	Mar. 27 1929
<u>Loans and investments - total</u>	11,858	-171	-275	13,243	-132	-498
<u>Loans - total</u>	8,752	-332	+ 20	8,768	-168	-234
Acceptances payable in United States	55	+ 13	+ 20	27	- 6	- 18
Bills, acceptances, etc., payable in foreign countries	24	-	- 3	4	-	- 4
Commercial paper bought in open market	209	+107	+ 73	207	+ 45	+ 16
Loans to banks:						
On securities	104)			14)		
All other	101)	- 53	+ 9	51)	+ 20	+ 26
Loans on securities, exclusive of loans to banks:						
To brokers and dealers in New York	469	+230	+ 64	258	+ 50	- 96
To brokers and dealers elsewhere	360	- 66	-178	93	+ 11	- 21
To others	2,576	-199	+161	2,097	-134	+155
Real estate loans:						
On farm land	113	+ 3	+ 1	279	+ 3	- 10
On other real estate	1,411	- 17	+ 36	1,196	+ 10	+ 20
All other loans	3,330	-349	-162	4,541	-165	-303
Loans eligible for rediscount with Federal reserve bank	1,349	- 54	- 33	1,662	- 22	- 99
<u>Investments - total</u>	3,105	+ 161	-294	4,475	+ 36	-265
U. S. Government securities	1,516	+ 148	-216	1,273	+ 7	-150
Other securities - total	1,590	+ 13	- 78	3,202	+ 29	-115
Domestic	1,454	+ 12	- 61	2,814	+ 31	- 81
Foreign	135	+ 1	- 17	388	- 1	- 34
Due from banks in United States	849	- 98	+ 83	817	- 91	+ 37
Due from banks in foreign countries	52	+ 6	- 8	4	- 1	- 1
Net demand deposits	6,035	- 256	-146	5,623	- 279	-295
Time deposits - total	4,963	+ 75	+183	6,660	+ 70	-166
Evidenced by savings pass books	3,745	+ 22	+ 57	5,080	- 15	-135
Of banks in United States	32	+ 3)		6	-)	- 4
Of banks in foreign countries	13	- 1)	+ 8	-	-)	
All other	1,173	+ 52	+118	1,574	+ 85	- 28
U. S. deposits	159	+ 83	- 6	67	+ 28	- 10
Due to banks in U. S. (except Federal reserve banks)	1,543	- 61	+ 78	365	- 41	- 9
Due to banks in foreign countries	53	+ 2	+ 6	3	-	-
Bills payable and rediscounts	69	- 223	-403	236	- 131	-124
Capital and surplus	1,732	+ 3	+116	1,867	+ 6	+ 57
Acceptance liability	274	- 33	+ 82	16	- 2	+ 2

FEDERAL RESERVE BOARD

DIVISION OF BANK OPERATIONS, MAY 9, 1930

W.

P 59

Lu BK

St. 6587

EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS, APRIL 1930

Federal Reserves Bank	Month of April 1930					Current net earnings		January - April 1930				
	Earnings from -					Current expenses		Current net earnings	Dividends accrued	Available for reserves, surplus and franchise tax.*		
	Dis-counted bills	Pur-chased bills	U. S. securities	Other sources	Total	Exclusive of cost of F.R. Currency	Total				Amount	Ratio to paid-in capital
									Per cent			
Boston	\$52,224	\$45,752	\$111,412	\$8,003	\$217,391	\$154,156	\$178,141	\$39,250	4.1	\$152,048	\$232,676	(a)81,224
New York	161,489	235,253	557,012	37,439	991,193	522,394	562,750	428,443	7.5	2,626,349	1,363,026	1,498,960
Philadelphia	96,671	25,126	127,236	5,059	254,092	154,902	172,409	81,683	5.9	628,809	331,763	307,304
Cleveland	87,526	51,536	126,929	15,867	281,858	205,423	225,000	56,858	4.3	619,210	316,737	254,058
Richmond	57,399	29,462	33,706	3,951	124,518	118,910	129,460	(a)4,942	-	94,927	120,412	(a)27,360
Atlanta	67,517	54,447	24,773	16,710	163,447	107,306	118,669	44,778	10.	295,407	108,702	184,688
Chicago	78,648	63,668	206,296	32,562	381,174	304,290	361,778	19,396	1.2	665,225	404,228	238,186
St. Louis	51,406	30,204	59,901	1,771	143,282	105,755	111,430	31,852	7.3	215,332	105,776	107,481
Minneapolis	11,571	32,727	54,746	5,786	104,830	76,392	82,367	22,463	8.8	100,342	61,733	45,427
Kansas City	44,078	33,011	16,394	24,413	117,896	141,782	150,513	(a)32,617	-	(a)68,596	86,374	(a)151,879
Dallas	27,586	22,500	72,945	881	123,912	106,331	113,892	10,020	2.8	154,544	88,378	54,066
San Francisco	44,934	87,587	102,973	3,544	239,038	241,043	262,030	(a)22,992	-	70,649	228,170	(a)205,168
AL												
Apr. 1930	781,049	711,273	1,494,323	155,986	3,142,631	2,238,684	2,468,439	674,192	4.7			
Mar. 1930	1,004,564	775,057	1,610,765	178,739	3,569,125	2,173,063	2,484,475	1,084,650	7.4			
Apr. 1929	4,109,097	678,627	531,237	195,624	5,514,585	2,200,228	2,957,181	2,557,404	20.1			
Jan.-Apr. 1930	5,156,168	3,484,783	5,935,472	698,813	15,275,236	8,845,885	9,720,990	5,554,246	9.8	5,554,246	3,447,975	2,224,539
1929	15,150,591	5,072,147	2,529,066	654,258	23,406,062	8,789,498	9,978,971	13,427,091	27.	13,427,091	3,029,433	9,872,460

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS
MAY 13, 1930

(a) Deficit

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

382

777
Mr. Hamilton
COPY

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

Washington, D. C.,
May 10, 1930.

Honorable R. A. Young, Governor,
The Federal Reserve Board,
Washington, D. C.

My dear Governor:

At several of the recent meetings of the Board of Directors of the Richmond Reserve Bank there has been discussion of the trends of the banking business in our District, and even outside of the District. There is considerable alarm felt as to just what is going to happen, for this trend is particularly pronounced in the Carolinas.

At one of our meetings I expressed my views, and was asked by my colleagues to reduce them to writing and present them to the Federal Reserve Board. This I have done, and enclose it in the form of a brief outline memorandum. I am aware that the Comptroller of the Currency, and some members of your Board, have taken an active interest in the subject. I, therefore, contribute this memorandum to the general discussion.

Yours very sincerely,

(Signed) Frederic A. Delano

Enclosure.

ADU
Discussion of Trends
in the Development of Banking in
the United States.

* * * * *

It seems to be evident that there is a strong tendency towards centralization of Banking, due to the same conditions observable in other industries and commercial undertakings.

To some extent, however, this is due to an inherent weakness in the Banking structure itself, and to the excessive competition that has developed between State Banks and National Banks.

Among the facts having a bearing on this subject, we note the following:

1. The National Banking Act has for a long time permitted, and some Comptrollers of the Currency have encouraged, the formation of National Banks with a capital of only \$25,000.
2. State Banking Laws are usually more liberal, as well as more flexible and easily amended than the National Banking Act.
3. Whereas, by the Tax on note issues, the National Banks once had a monopoly of general banking, now the National Banks are at a disadvantage.
4. Many States permit State wide branch banking, and banks of very small capital without very close supervision.
5. While many National Banks are small and weak, the failures of National Banks since the Federal Reserve Bank Act was passed, have been far less frequent than among State Banks.
6. The tendency with the large corporations is to drain the cash away from small banks to the banks in larger centers. This tendency, together with the weakening of many country banks, operates in a vicious circle to still further weaken the small town bank.
7. Good roads, the motor vehicle, also operate in the same direction.

* * * * *

Suggestions as to how these Conditions and Trends should be met.

1. No Bank shall be permitted to become a member of the Federal Reserve System with a capital and surplus less than \$250,000.
2. A member bank should be permitted to have branches or annex branches in contiguous territory in its own and immediately contiguous states - either in the same or adjacent Federal Reserve District.
3. A limit (say, \$2,000,000,000) shall be fixed on the capital and surplus of any such bank.

COPY

See M.

MEMORANDUM
-2-

4. No State Bank should be permitted to do a country wide, foreign, or general inter-state business, unless it belongs to the Federal Reserve System, and if a State Bank agrees to comply with the provisions of the National Banking Act.

5. Trust Companies and Savings Banks shall be under State charters, and National Banks shall not be permitted after a definite date to do a savings bank or trust business.



B57

REPARATION BONDS. *CMA*

Proposed Reply of Federal Reserve Bank of New York.

The Federal Reserve Bank of New York has the honor to acknowledge the receipt of your cablegram asking whether it dissents from the offering in the United States of the reparation bonds referred to. In reply I would say that the power of the Federal Reserve Bank of New York is limited by the terms of the Federal Reserve Act, and it can acquire no additional power not enjoyed under said Act from the provisions of Section 20 of the Statutes of the Bank of International Settlements; that under the Federal Reserve Act it has no authority either to approve or dissent from the offering of securities, either domestic or foreign, in the United States; that it is unable, therefore, to answer the question propounded by you, - whether or not it desires to express any dissent to such offering, but that such failure to dissent should carry no implication of either approval or disapproval.

CLM

WHEREAS, Governor Harrison of the Federal Reserve Bank of New York, on May 14, 1930, stated to the Board that if any request should come from the Bank of International Settlements asking whether the Federal Reserve Bank of New York dissents to an offering in the United States of reparation bonds, he would prepare a cable and letter which he would submit to the Federal Reserve Board for approval or disapproval, and that if the Board should disapprove such cable and letter they would not be sent, - C.S.H. introduces the following resolution as a proposed reply of the Federal Reserve Bank of New York to such request, said resolution to be submitted to the Federal Reserve Bank of New York by way of suggestion.

May 15, 1945

REPARATION BONDS.

Suggested Reply of Federal Reserve Bank of New York.

(To be submitted to the Federal Reserve Bank for its consideration)

The Federal Reserve Bank of New York has the honor to acknowledge the receipt of your cablegram asking whether it dissents to the proposed offering in the United States markets of the reparation bonds referred to. In reply I would say that the Federal Reserve Bank of New York does not dissent, for the reason that under the Federal Reserve Act it has no power to pass upon such securities as a condition precedent to their offering in said United States markets. Its failure to dissent, therefore, should not be construed either as an approval or disapproval of the terms, conditions, or worth of such securities, or as a waiver of any of its lawful powers to take necessary action at any time to protect the credit stability of the United States.

Office Correspondence

FEDERAL RESERVE
BOARDDate Feb. 17, 1930. S. M. H.

To Dr. Miller

Subject: _____

From Mr. Hamlin

2-8405

Dear Dr. Miller:

I have read over your draft, and I think it is in very good shape. The only suggestions I would make are as follows:

1. On page 2, in the last paragraph, the 6th line from the bottom, I would suggest inserting after the word "stated" a comma and dash, and then adding the following: "referring to the present strained condition in the general credit situation, -"

My reason for the above is that some construed this letter as a ruling that under no circumstances would a bank be entitled to discount to maintain reserves against speculative loans, which I assume we never intended to rule, but what we really had in mind was that a bank is not entitled to an unreasonable use of Federal reserve credit to support speculative loans.

2. At the bottom of page 2, you refer to the public statement of February 7th, but do not quote it. I would suggest that you quote one sentence from this statement of February 7th contained in the 5th paragraph, as follows:

"which, in the immediate situation, means to restrain the use, either directly or indirectly, of Federal reserve credit facilities in aid of the growth of speculative credit."

This latter sentence, I believe, contains the real gist of the letter of February 2nd and the statement of February 7th. What we were after was to restrain further growth in speculative credit.

Kindly let me know how this strikes you.

Very sincerely yours,

996

February 13, 1930.

DIRECT PRESSURE.

Suggested Addition to Annual Report, by C. S. Hamlin,
February 13, 1930:

Strike out, on page 2, the 7th line from the bottom, beginning "The continued growth of the use of credit, etc." through the words "unfavorable condition of the bond market" on page 3, 10th line from the bottom, and substitute the following:

At the beginning of the year 1929, the Board felt much disturbed at the alarming increase in speculative security loans, sustained in material measure by the use of Federal reserve credit.

During the period 1922 to 1928, security loans of reporting member banks increased from 3.6 billions to 7.5 billions, - an increase of 3.9 billions, or over 100%; on the other hand, commercial loans increased from an average of 7.4 billions to 8.7 billions, - an increase of 1.3 billions, or only 18%.

During the same period, the percentage of security loans to total loans and investments, increased from 25% to 34%, while the percentage of commercial loans to total loans and investments, decreased from 51% to 39%.

Member bank reserves during this period increased from an average of 1.7 billions to 2.4 billions in January, 1928, - an increase of 700 millions, or 40%.

Federal reserve credit in December, 1928, was 1.8 billions, taking daily averages, while the corresponding figure for the year 1927 was 1.5 billions, - an increase of 300 millions.

The Members of the Board felt that in view of the speculative conditions, there might not be the customary liquidation of credit

during the first part of the year, and that decisive action was necessary.

Requests had been made by several Federal reserve banks to increase discount rates from 5 to 6% to correct this situation. The Board felt, however, that an increase to 6% would have little effect on speculative activity, and that to bring about any restriction through discount rates would require drastic progressive increases, perhaps up to 7 and 8% or even higher, and that such a policy would bear heavily upon business and agriculture, the cost of whose credit was already enhanced by the unreasonable diversion of Federal reserve credit into reserves against deposits created by speculative loans.

The Board determined, therefore, to keep the 5% rate in effect, but to bring direct pressure on the member banks to reduce, or at least not to increase, their borrowings for the purpose of maintaining reserves against deposits arising from such speculative credits.

A warning was accordingly issued by the Board on February 7th, the gist of which was that further increase in speculative credits must cease.

The banks, as a whole, complied with this warning, and while it was in effect, - from February 7th to about June 15, 1929, there resulted a great decline in security loans. Taking the average for January, 1929, and comparing it with June 12, 1929, we find that security loans for reporting member banks decreased from 7.5 to 7.2 billions, - a reduction of 297 millions; that commercial loans, on the other hand, for the same period, increased from 8.7 billions to 9.1 billions, - an increase of 361 millions. Member bank reserves

for the same period decreased from 2,387 millions, the average for January, 1929, to 2,331 millions for the week ending June 15th, - a decrease of 56 millions.

The percentage of security loans to total loans and investments decreased during this period from 33.6% to 32.6%; on the other hand, the percentage of commercial loans increased from 39.4% to 41.4%.

Federal reserve credit, comparing the averages for January and May during 1928 and 1929, had decreased 310 millions during 1929, as against an increase of 84 millions in the same period of 1928.

While this decline in Federal reserve credit was caused primarily by the seasonal return flow of currency and gold imports, it was nevertheless true that, in the absence of direct pressure, some part of the funds released would have found its way into member bank reserve balances, and would have formed a basis of further expansion.

On June 12, 1929, the Board prepared a letter to the Federal Reserve Bank of New York which was given to Governor Young and Mr. Cunningham as a Committee, to deliver to the New York Bank. This letter was not left with the New York Bank at this meeting, but on June 14th the Board voted to send the letter to the New York Bank.

This letter stated that the Board was willing to suspend direct action for the present, except as to certain offending banks, in view of the need for more Federal reserve credit; that the Board recognized that some banks were so involved that they could not immediately cease to be frequent borrowers; that the 5% rate should continue for the present, and that the need for further Federal reserve credit, when

it arose, should be met by easing the bill market, and if absolutely necessary, by the purchase of Government securities; that if speculation started up again unreasonably, because of any such easing, direct action would be resumed, and if such policy were not believed to be quick enough, other action would be taken.

This suggested policy of easing the market, outlined in the letter, was followed, in fact, by an increase in Federal reserve credit and loans on securities. Finally, on August 8, 1929, following a conference with the Governors of the Federal reserve banks, the Board voted that it would approve an increase to 6% at New York and other financial centers, together with a lower bill rate, on the assurance of the Governors that the Federal reserve banks at other than the financial centers could and would retain the 5% rate.

The purpose of the increase to 6%, as stated by the Governor of the New York Bank, was to bring some pressure upon the member banks to take down their rediscounts with the proceeds of the purchase of acceptances at lower rates by the Federal reserve bank, and to prevent the banks from using the proceeds as the basis of further expansion of security loans.

It was under this policy of easing the market, in fact, that the Stock Exchange collapse in October took place.

The Board adopted this policy of direct pressure because it felt that the banks owed a duty to their stockholders, depositors, and to the public, to conduct their banking operations on sound

banking principles, and that when the banks by unreasonably large and increasing security loans were threatening the soundness of the general credit situation, relying in material part upon Federal reserve credit to support this unreasonable and unsound banking condition, it became the duty of the Federal reserve banks and the Federal Reserve Board to see to it that this dangerous condition should be corrected, at the same time protecting business and agriculture from the higher rates, so far as was humanly possible.

Although, as above stated, the banks generally cooperated with the Federal Reserve System to restrain the growth of speculative credit during this period of direct pressure, there was decided opposition on the part of some banks, which maintained that in a period of general credit or speculative expansion, a customer having a good balance and offering acceptable security, could not be denied a loan, but that he was entitled to the loan provided he was willing to pay the discount rate determined upon by the member bank. In other words, the contention was made that while individual banks loaning more on speculative securities than the other banks of their class, could be restrained, yet when all banks were expanding no restraint could be put upon this expansion except by increasing discount rates.

The Board does not accept this principle of banking. On the contrary, it believes that the individual member bank, as above stated, owes a duty to its stockholders, its depositors, and to the public, to conduct its bank on sound banking principles, and when it

deviates from this rule, it becomes the duty of the Federal reserve banks and the Federal Reserve Board to bring about a return to such sound banking principles.

The Board is gratified at the success attained by this policy of direct pressure, and feels that it has established a new technique in regulating the volume of Federal reserve credit to the productive needs of the country.

B97

Office Correspondence

FEDERAL RESERVE
BOARDDate April 24, 1930 L. A.To Mr. Hamlin

Subject: _____

From Mr. Smead

... 2-8495

In your memorandum of April 23, you raised the following question: "If the banks of the country had forced their customers to reduce their speculative loans (apart from brokers' loans) would not that very fact have tended to reduce the size of brokers' loans and exercise a stabilizing effect on the credit situation, which might possibly have averted the crash which came in October?"

If the banks of the country had forced their customers to reduce their speculative loans (apart from brokers' loans) such customers would have had open to them two courses of action: (1) to sell part of their securities or (2) to transfer their accounts from their banks to their brokers. Had the banks followed such a policy security loans as a whole would no doubt have been reduced but brokers' loans would have increased by the extent to which speculative accounts were transferred from the banks to the brokers.

In view of the attitude of the banks the increase in brokers' loans would have had to come for the most part from non-bankers and the additional demand for such non-banking loans would presumably have resulted in higher call money rates. If, therefore, the banks had followed the practice you refer to, beginning say in 1928, greater pressure would have been placed on the market, higher call rates would have prevailed, and a check on expansion would have no doubt occurred much earlier than October 1929. In such case security prices presumably would not have reached the heights that they did and the crash which came in October would have been somewhat less severe.

398

Open Market Policy Committee

Letter of Board to Federal Reserve Banks dated
January 23, 1930.

Replies of the Federal Reserve Banks:

#1. Boston.

Approves general theory of the plan. Suggested amendments:

1. Paragraph 2. Each bank to be represented by the Governor or by an officer designated by the Board of Directors.
2. Amend paragraph 3 so that Executive Committee can hold meetings on own initiative as well as on call of Board.
3. Amend paragraph 6 so that conclusions or recommendations of Open Market Policy conference shall be subject only to the approval of the Board.
4. Amend paragraph 7 so as to give Executive Committee power to carry out policies agreed on by the conference through open market operations, subject to the review and coordinating authority of the Federal Reserve Board.

Will participate in all open market operations, without, however, surrendering any authority, rights, or powers of independent action conferred by the Federal Reserve Act.

299

#2. New York.

Will not make any detailed suggestions, as in some respects not clear as to the purport of the Board.

Will express general views as to open market operations in Government securities for System account.

② We favor continuing Open Market Committee composed of representatives of the Federal reserve banks.

④ Its duty should be the initiating and recommending of plans and policies with regard to purchase and sale of Government securities through the open market.

⑦ It should have authority to execute approved plans and policies in behalf of such banks as care to participate.

②
⑦ The Committee should include representatives of the 12 banks, provided an effective operating committee is appointed with full authority to execute approved plans or policies.

Otherwise, the Directors feel the procedure will become too cumbersome.

② The Committee should be composed of Governors.

② We do not object, however, if other Boards of Directors should appoint other representatives.

③ We assume that meetings of the Committee, or the Executive Committee, will be called by the Chairman of the Committee after consultation with the Governor of the Federal Reserve Board, whenever desired by the Board or by the Committee.

⑥ The policy as to purchase or sale of Government securities should be made subject to review at any time that may seem wise either to the Board or to the participating banks.

Any Federal reserve bank may decline to participate in any purchases or sales at any particular time.

Any Federal reserve bank may withdraw from the Committee procedure altogether, if it deems it advisable.

We recognize that the banks and the Board have a joint interest in matter of open market policies with respect to purchase and sale of Government securities.

We will be agreeable to continue our participation as long as the composition and functions of the Committee will insure and facilitate the formulation and expeditious execution of sound System open market policies.

The views of some banks may at times be at variance with the views of the majority of the Committee.

Without waiving the powers conferred upon us by law to make purchases and sales of Government securities, we would naturally assume, certainly so long as we continue a part of any approved open market committee procedure acting for the System, that we would not exercise our power to buy and sell Government securities in conflict with approved System policies, except as that might be necessary in an emergency in our own market.

Our Directors are agreeable to continue participation in System open market procedure worked out and agreed upon by the Board and the Committee, provided it is not inconsistent with these general views.

#3. Philadelphia.

Our Directors unanimously adopted a report of Committee of our Board of Directors as follows:

We favor the resolution at the Joint Conference of Agents and Governors in November, 1929, adopting the recommendation of the Federal Advisory Council. This resolution recognizes:

1. The right of any bank to participate or not in open market System operations.
- ③ 2. The right of the Committee to meet whenever in the judgment of the Executive Committee a meeting is advisable.
- ⑥ 3. The function of the Federal Reserve Board as a supervising and coordinating authority, rather than as an originating or operating body.

The Federal Reserve Board letter transforms the Committee into a Conference, the conferees consisting of a representative of each Bank and the Federal Reserve Board.

② Not material whether the bank be represented by the Governor or by a representative designated by the Board of Directors.

③ Objects to (3) of Board's letter, - a provision that the representatives of the banks shall meet with the Board.

It fails to observe the distinction running through the Act that the banks are the initiators of all transactions, subject to the review and coordinating authority of the Federal Reserve Board.

The Board can not properly review policies in the framing of which it participates, nor should it take any part in the routine execution of policies which it has approved.

③ Objects to provision that the conference shall meet only at such times as may be arranged by or with the Board.

This would give Board an absolute veto power over any meeting of the committee.

The Board has a veto power over the recommendations of the Committee, but should not have a veto power over its meetings.

③ Executive Committee should have power to call a meeting at any time.

⑥ Objects to (6) in Board's letter that the recommendations of the conference should be submitted to each bank for consideration and, - or - action.

A very cumbersome requirement which might prevent prompt action and prove disastrous.

The Board should not be put in the position of having to consider and decide policies which it had assisted in framing.

These policies would not represent, as they now do, the uninfluenced and independent views of the banks, subsequently allowed or approved by the Board, but would be the outcome of a wholly extra-legal conference, in which the reviewing authority had participated ab initio.

⑦ Objects to (7) of Board's letter, that Open Market Committee shall merely execute purchases and sales which have been approved by the banks and the Board. This would put the Committee in a position little better than that of a broker or dealer.

The Executive Committee should continue to keep close watch upon financial developments, and anticipate as far as possible situations likely to arise, and be prepared to formulate recommendations and suggestions for the consideration of the full Committee.

The Committee finds itself in full accord with the Federal Advisory Council, the Agents, and the Governors, and out of accord with the letter of the Federal Reserve Board.

#4. Cleveland.

We agree with Board that all banks should take part in formulation of open market policies.

We believe the plan of Federal Advisory Council, Agents, and Governors will tend to operate more smoothly than proposed plan of Board, for following reasons:

- ① (a) The title should continue to be the Open Market Investment Committee.
- ② (b) We believe that meetings of the Committee should be called either by the Board or by the Executive Committee. Two of the regular meetings of the full Committee should be held at the time of the semi-annual Governors Conference.
- ③ (c) The Executive Committee should have power to carry into effect the policies recommended by the full committee and approved by the Board, as recommended by the Governors. Membership of the Executive Committee should be rotating, so that the Governor of each bank within over-night traveling distance from Washington would serve at appropriate times.

The Governor of the New York Bank should be a permanent member and act as Chairman of the full Committee, and of the Executive Committee, as the Committee's operations must obviously be carried on in New York.

- ④ (d) Objects to (6) of Board's letter as cumbersome, retarding action particularly in emergencies. Prefers recommendation of Governors that the full Committee shall consider and act upon the recommendations of the Executive Committee, and shall then meet with the Board to discuss these recommendations before action by the Board.

Will cooperate with Committee, reserving our legal right to engage in open market operations under Section 14. We have declined to participate only when, in our judgment, the legitimate demands of our member banks made it necessary so to do. We will continue to support the open market policies approved by the Board, reserving the right to purchase at our option, Government securities and bills in limited or reasonable amounts when offered to us by our own member banks, and will exercise our right to engage in open market operations for our own account only in unforeseen emergencies.

#5. Richmond.

⑥ Fear the Board's procedure is too cumbersome. Have appointed a Committee and will consider their report when rendered.

#6. Atlanta.

We approve the policy outlined in Board's letter.

Understood that we may continue ordinary every-day practice of buying acceptances within our own District, and of buying from and selling to our member banks Government and other securities authorized by Section 14.

Above practice will not hamper or interfere with the operations of the Open Market Conference.

Any action necessary in a large amount, in case of emergency, would be submitted to Board for approval.

#7. Chicago.

Our Executive Committee duly authorized and unanimously approved following expression:

- ② 1. Each Federal reserve bank should be represented on Open Market body.
- ⑦ 2. The Open Market Conference should have an Executive Committee clothed with authority to function.
- ③ 3. The Chairman of the operating body should be authorized to call a meeting of the body on the request of two or more members. The Federal Reserve Board could always call the body together.
4. Board does not indicate that existing procedure of buying and selling daily in nominal or reasonable amounts will be changed. This practice should continue as at present.
- ④
⑤
⑥ 5. Approves 4 and 5 of Board's memorandum. Objects to (6) as unworkable. Each Federal reserve bank should delegate authority to its representative on the Conference to act for his bank at all meetings of the Conference. This clause should also be amended to clearly indicate that each Federal reserve bank retains the powers conferred upon it by Section 14 to the extent that it may protect any sudden or extreme emergency.

Three of our individual Directors have approved of this expression.

#8. St. Louis.

Our Bank approves letter of Board.

⑦

Believe that there should be some method of rotation on proposed Executive Committee, excepting only the Governor of the New York Bank.

#9. Minneapolis.

Our Board is heartily in accord with procedure indicated in Board's letter.

#12. San Francisco.

Resolution passed by Board of Directors February 20, 1930:

1. Approves Board letter without waiving any right, or delegating any power conferred upon this bank under the Federal Reserve Act.

Designates the Governor as its representative.

Provided:

The conclusions and (or) recommendations of the Conference shall be submitted to the Federal Reserve Board for consideration, and, if approved by it, shall thereupon become immediately operative, to be participated in by each Federal reserve bank as it may deem expedient.

Provided:

This Board, in approving the establishment of said Conference does not surrender but expressly reserves to the Federal Reserve Bank of San Francisco, the right to determine whether this Bank will participate in transactions recommended by the Conference and, if it does participate, the extent of such participation.

Provided:

No present or future participation by this Bank in the transactions of said Conference shall be interpreted as a commitment to further participation.

899

*. COT analysis
of Mober's minutes*

Open Market Policy Conference.

The principal objection to the Board's new circular is that it tends to submerge the Executive Committee and the full Committee with the Federal Reserve Board. It seems to be desired that the Executive Committee may meet at any time, and make, from time to time, a careful review of financial conditions, reporting the same to the full Committee, and that meetings of the full Committee may be called at any time when the Chairman or the Board desires.

The feeling is strongly expressed that the Board's function should be that of a reviewing body, and not of an initiating or operating body.

Opposition is expressed to referring conclusions of the Committee approved by the Board to the individual banks, and it is suggested that each bank delegate authority to its representative on the Committee to act for it, and that the review and determination of the Board shall be final.

OPEN MARKET POLICY COMMITTEE

Analysis of Replies of the Federal Reserve Banks to Board's Letter dated January 23, 1930.

(No replies received from the Richmond, Kansas City or Dallas Banks.)

1. Board's letter: - Changes name to Open Market Policy Conference.

New York prefers present name.

Cleveland objects, and prefers old name.

Richmond objects

Other banks do not mention this.

2. Board recommendation: - Each Federal reserve bank to be represented on the Open Market Policy Conference.

Boston:

Suggests representation by the Governor, or by an officer designated by the Board of Directors.

New York:

To be composed of representatives of the twelve Federal reserve banks, provided an effective operating committee is appointed with full authority to execute approved plans or policies.

Committee should be composed of Governors.

We do not object if other Boards of Directors should appoint other representatives.

Philadelphia:

Not material whether Governor or other representative be designated by Directors.

Chicago:

Each Federal reserve bank should be represented.

San Francisco:

The Board of Directors has designated the Governor as its representative.

3. Board letter: - The Conferences should meet with the Federal Reserve Board at such times as may be arranged by or with the Board.

Boston:

Suggests amendment so that Executive Committee can hold meetings on own initiative as well as on call of Board.

New York:

We assume that meetings of the Committee, or the Executive Committee will be called by the Chairman of the Committee after consultation with the Governor of the Federal Reserve Board, whenever desired by the Board or by the Committee.

Philadelphia:

Asserts the right of the Committee to meet whenever in the judgment of the Executive Committee a meeting is advisable.

Objects to the provision of (3) that the representatives of the banks shall meet with the Board.

This fails to observe the distinction running through the Act that the banks are the initiators of all transactions, subject to the review and coordinating authority of the Federal Reserve Board.

The Board cannot properly review policies in the framing of which it participates, nor should it take any part in the routine execution of policies which it has approved.

Objects to provision that the Conference shall meet only at such times as may be arranged by or with the Board. This would give the Board an absolute veto power over meeting of the Committee.

The Board has a veto power over the recommendations of the Committee, but should not have a veto power over its meetings.

The Executive Committee should have power to call a meeting at any time.

Cleveland:

We believe that meetings of the Committee should be called either by the Board or by the Executive Committee.

Two of the regular meetings of the full Committee should be held at the time of the semi-annual Governors' Conference.

Chicago:

The Chairman of the operating body should be authorized to call a meeting of the body at request of two or more members. The Federal Reserve Board could always call the body together.

Recommended: meetings to be called by Chairman of Board Com⁴, or by Exec. Com⁴ or by Board

- 4. Board letter:- The function of the Open Market Policy Conference should be to consider, develop, and recommend plans with regard to the purchase or sale of securities in the open market.

Recommended

Make sure initiate all transactions

*Board letter
recommends that better committee
right of type. Com⁴ to call meetings
of Board Com⁴*

Chicago approves this.

The other banks do not mention it.

5. Board letter: - The time, character, and volume of such purchases and sales to be governed with the view of accommodating commerce and business, and with regard to their bearing upon the credit situation.

The banks do not comment on this.

6. Board letter: - The conclusions and (or) recommendations of the Open Market Policy Conference to be submitted to each of the Federal reserve banks and to the Federal Reserve Board for consideration, and (or) action.

Boston:

Suggests amendment so that conclusions or recommendations of the Open Market Policy Conference shall be subject only to the approval of the Board.

New York:

The policy as to purchase or sale of Government securities should be made subject to review at any time that may seem wise either to the Board or to the participating banks.

We recognize that the banks and the Board have a joint interest in the matter of open market policies with respect to purchase and sale of Government securities.

Philadelphia:

Feels that the function of the Federal Reserve Board is as a supervising and coordinating authority, rather than an originating or operating body.

The Federal Reserve Board letter transforms the Committee into a Conference, the conferees consisting of a representative of each Bank and the Federal Reserve Board.

The Board's draft that the recommendations of the Conference should be submitted to each bank for consideration and, - or - action, is a very cumbersome requirement which might prevent prompt action and prove disastrous.

The Board should not be put in the position of having to consider and decide policies which it has assisted in framing.

These policies would not represent, as they now do, the uninfluenced and independent views of the banks subsequently allowed or approved by the Board, but would be the outcome of a wholly extra-legal conference, in which the reviewing authority had participated ab initio.

Cleveland:

Objects to (6) as cumbersome, retarding action, particularly in emergencies.

Prefers recommendation of Governors that the full Committee shall consider and act upon the recommendations of the Executive Committee, and shall then meet with the Board to discuss those recommendations before action by the Board.

Chicago:

Objects to (6) as unworkable.

Each bank should delegate authority to its representative on the Conference to act for his bank at all meetings of the Conference.

San Francisco:

Suggests that the conclusions and (or) recommendations of the Conference shall be submitted to the Federal Reserve Board for consideration, and if approved by it, shall thereupon become immediately operative, to be participated in by each Federal reserve bank as it may deem expedient.

Recommends no amendments

7. Board letter: - A Committee to be known as the Open Market Executive Committee to be constituted for the purpose of executing such purchases and sales of securities as have been approved by the Federal reserve banks and the Federal Reserve Board.

Boston:

Suggests amendment to give Executive Committee power to carry out policies agreed on by the Conference through open market operations, subject to the review and coordinating authority of the Federal Reserve Board.

New York:

The Committee (presumably also the Executive Committee) should have authority to execute approved plans and policies in behalf of such banks as care to participate.

The meetings of the Committee, or the Executive Committee, should be called by the Chairman of the Committee after consultation with the Governor of the Federal Reserve Board, whenever desired by the Board or by the Committee.

Philadelphia:

Objects to provision that the Open Market Committee shall merely execute purchases and sales which have been approved by the banks and the Board.

This would put the Committee in a position little better than that of a broker or dealer.

The Executive Committee should continue to keep close watch upon financial developments, and anticipate as far as possible

situations likely to arise, and be prepared to formulate recommendations and suggestions for the consideration of the full Committee.

Cleveland:

The Executive Committee should have power to carry into effect the policies recommended by the full Committee and approved by the Board, as recommended by the Governors. Membership of the Executive Committee should be rotating, so that the Governor of each bank within over-night traveling distance from Washington would serve at appropriate times.

The Governor of the New York Bank should be a permanent member and act as Chairman of the full Committee, and of the Executive Committee, as the Committee's operations must obviously be carried on in New York.

Chicago:

The Open Market Conference should have an Executive Committee clothed with authority to function.

St. Louis:

There should be some method of rotation on the proposed Executive Committee, excepting only the Governor of the New York Bank.

Resubmitted - full Council should appoint 4 ppl. Committee should function in Washington. See Fed - Mar 22, '23

Suggestions by the Banks as to Participation:

Boston:

Will participate in all open market operations, without, however, surrendering any authority, rights, or powers of independent action conferred by the Federal Reserve Act.

New York:

Any Federal reserve bank may decline to participate in any purchases or sales at any particular time.

Will continue our participation as long as the composition and functions of the Committee will insure and facilitate the formulation and expeditious execution of sound System open market policies.

Our directors are agreeable to continue participation in System open market procedure worked out and agreed upon by the Board and the Committee, provided it is not inconsistent with these general views.

Cleveland:

will cooperate with the Committee, reserving our legal right to engage in open market operations under Section 14.

We have declined to participate only when, in our judgment, the legitimate demands of our member banks made it necessary so to do.

We will continue to support the open market policies approved by the Board, reserving the right to purchase at our option, Government

securities and bills in limited or reasonable amounts when offered to us by our own member banks, and will exercise our right to engage in open market operations for our own account only in unforeseen emergencies.

San Francisco:

Our Board expressly reserves to the Federal Reserve Bank of San Francisco, the right to determine whether the bank will participate in transactions recommended by the Conference and, if it does participate, the extent of such participation.

No present or future participation by this bank in the transactions of said Conference shall be interpreted as a commitment to further participation.

Reservations.

Boston:

Reserves all authority, rights, or powers of independent action conferred by the Federal Reserve Act.

New York:

Without waiving the powers conferred upon us by law to make purchases and sales of Government securities, we would naturally assume, certainly as long as we continue a part of any approved open market committee procedure acting for the System, that we would not exercise our power to buy and sell Government securities in conflict with approved System policies, except as that might be necessary in an emergency in our own market.

Richmond, Same
Cleveland:

Will cooperate with the Committee, reserving our legal right to engage in open market operations under Section 14.

We will continue to support the open market policies approved by the Board, reserving the right to purchase at our option, Government securities and bills in limited or reasonable amounts when offered to us by our own member banks.

Will exercise our right to engage in open market operations for our own account only in unforeseen emergencies.

Atlanta:

It is understood that we may continue ordinary every-day practice of buying acceptances within our own District, and of buying from and selling to our member banks, Government and other securities authorized by Section 14.

The above practice will not hamper or interfere with the operations of the Open Market Conference.

Any action necessary in a large amount, in case of emergency, will be submitted to Board for approval.

San Francisco:

Approves Board letter without waiving any right, or delegating any power conferred upon this bank under the Federal Reserve Act.

This Board, in approving the establishment of said Conference, does not surrender, but expressly reserves to the Federal Reserve Bank of San Francisco, the right to determine whether this bank will participate in transactions recommended by the Conference and, if it does participate, the extent of such participation.

No present or future participation by this bank in transactions of said Conference shall be interpreted as a commitment to further participation.

Joint Interest.

New York:

We recognize that the banks and the Board have a joint interest in the matter of open market policies with respect to purchase and sale of Government securities.

Revised, same

Right of Withdrawal from the Conference.

New York:

Any Federal reserve bank may withdraw from the Committee procedure altogether, if it deems it advisable.

Exigencies.

New York:

We would not exercise our power to buy and sell Government securities in conflict with approved System policies, except as that might be necessary in an emergency in our own market.

Cleveland:

While we reserve the right to purchase at our option Government securities and bills in limited or reasonable amounts when offered to us by our own member banks, we will exercise our right to engage in open market operations for our own account only in unforeseen emergencies.

Atlanta:

Any action necessary in the way of buying acceptances within our own District, and buying from and selling to our member banks Government and other securities authorized by Section 14, in a large amount, in case of emergency, would be submitted to the Board for approval.

Chicago:

The Federal reserve bank retains the powers conferred upon it by Section 14 to the extent that it may protect any sudden or extreme emergency.

3101

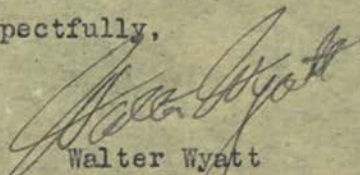
Office Correspondence

FEDERAL RESERVE
BOARDDate *See M*
Mar. 10, 1930To Mr. HamlinSubject: Digest of State Laws reFrom Mr. Wyatt-General Counsel.Branch Banking.

v 79 2-6405

I am handing you herewith for your information, a copy of the final draft of the Digest of State Laws regarding Branch Banking, which was prepared in this office with the assistance of Counsel to the Federal Reserve Banks.

Respectfully,



Walter Wyatt
General Counsel.

Digest attached

WW sad

VOLUME 203
PAGE 105*P. 105*

X-6528

March 7, 1930.

DIGEST OF STATE LAWS RELATING TO DOMESTIC BRANCH BANKING.

On page 182 of the Federal Reserve Bulletin for March, 1925, there was published a digest of State laws relating to branch banking, which was prepared by the Counsel's Office of the Federal Reserve Board with the assistance of the Counsel to the various Federal reserve banks, and which showed the status of branch banking legislation in the various States at the close of the year 1924. The following digest of the branch banking laws of the several States, which was also prepared by the Office of the Board's Counsel with the assistance of the Counsel to the various Federal reserve banks, supersedes the digest published in the March, 1925, Federal Reserve Bulletin, and shows the status of branch banking legislation in the various States as of December 31, 1929. It contains a digest of only such State laws as relate to branches established within the United States and does not cover laws relating to branches established in foreign countries.

- 3 -

ALABAMA.Branches prohibited:

"No bank, or any officer, agent or director thereof, shall be permitted to establish a branch or office for the transaction of the banking business, other than at its principal place of business." (1928 Combined Banking Laws of Alabama, Sec. 6354, p. 25; Civil Code of Alabama, Sec. 6354.)

ARIZONA.Branches permitted:

Banks and trust companies in this state may establish branches if they have the capital required by law and if the consent of the Superintendent of Banks is obtained. The Superintendent of Banks may give his consent if the public convenience and advantage will be promoted by the opening of such branch, and he may withhold such consent if he is satisfied that the opening of the branch is undesirable or inexpedient. (Banking Laws, 1922, Sec. 21, p. 17; Special S. L. 1922, Ch. 31, Sec. 21, p. 131).

Capital required:

"Before any such branch office is authorized, the corporation proposing to establish the same shall have a paid in capital and surplus of not less than Fifty Thousand Dollars, plus Fifteen Thousand Dollars of additional capital and surplus for each and every branch so authorized." (Banking Laws, 1922, Sec. 21, p. 18; Special Session Laws, 1922, Ch. 31, Sec. 21, p. 131).

ARKANSAS.

Branches prohibited:

"* * * the return of which said copy (certificate of incorporation) so indorsed and the filing of the same for record with the county clerk of the county in which the said institution (bank or trust company) is located, shall authorize it to proceed with its business, but with only one office for the transaction thereof in only the one town or city as to which the application has been made." (Banking Statutes, 1929, Sec. 14, p. 9; Section 13 of Act 113 of the Act of 1913, as amended by Acts of Arkansas, 1923, p. 519).

CALIFORNIA.

Branches permitted:

"No bank in this state, or any officer or director thereof, shall hereafter open or keep an office other than its principal place of business, without first having obtained the written approval of the Superintendent of Banks to the opening of such branch office, which written approval may be given or withheld in his discretion, and shall not be given by him until he has ascertained to his satisfaction that the public convenience and advantage will be promoted by the opening of such branch office; * * * " (Bank Act of California, 1929, Sec. 9).

Capital required:

For each branch office located in the place of business of the parent bank, the paid-in capital, in cash, must exceed by \$50,000 the capital required for the transaction of business by a bank in that place. (Bank Act of California, 1929, Sec. 9).

For each branch office of a bank, other than an exclusive trust company, located in any place in the state other than the place of the

(California, continued)

principal place of business of the parent bank, the amount of paid-in capital, in cash, must exceed the amount required by law in the sum required for the organization of a bank in that locality, exclusive of the capital required for a trust department. (Bank Act of California, 1929, Sec. 9).

For each branch of an exclusive trust company opened or maintained in any place in the State other than the place of the principal business of the parent trust company, the paid-in capital, in cash, must exceed by \$50,000 the amount required by law for the transaction of a trust company business. (Bank Act of California, 1929, Sec. 9)

There are also provisions concerning the discontinuance of a branch, increase of capital upon increase in deposits of branches, fee for the opening of a branch, penalty for violation of the law covering the establishment of branches, advertising by branch, and the establishment of branches by banks located in a city or territory which is annexed by or consolidated with a city or territory of a class requiring a larger capitalization. (Bank Act of California, 1929, Sections 9, 19, 23, 28, 60 and 82.)

COLORADO.

Branches prohibited:

"Every bank shall be conducted at a single place of business, and no branch thereof shall be maintained elsewhere". (Banking Laws, 1928, Sec. 56, p. 31; 1921 Compiled Laws, Sec. 2703; S. L. 1913, Sec. 48, p. 128.)

CONNECTICUT.

Branches prohibited:

" * * * no state bank, trust company, mutual savings bank or

(Connecticut, continued)

building and loan association shall establish any branch office or agency thereof, or employ any agent or person to make loans or discounts at any other place than its banking house." (Banking Laws, 1929, Sec. 3920, p. 18; General Statutes of 1918, Sec. 3920, as amended by Chapter 10, P.A. 1923.)

Persons, partnerships or corporations licensed to transact a "small loan" business may not make any loan provided for in the Connecticut Small Loan Company Act "under any other name or at any other place of business than that named in the license. Not more than one place of business shall be maintained under the same license, but the bank commissioner shall issue more than one license to the same licensee upon the payment of an additional license fee and the filing of an additional bond for each license." (Banking Laws, 1929, Sec. 8, p. 114; Ch. 219, P.A. 1919, as amended by Ch. 223 P.A. 1925.)

DELAWARE.

Branches authorized:

"No bank or trust company shall open any branch office or place of business in this State unless authorized so to do by the certificate of the State bank commissioner." (Banking Laws, 1929, Sec. 4, p. 16; Laws of Delaware, 1921, Ch. 103, Sec. 4, p. 288).

Capital requirements:

"No such certificate shall be issued by the said commissioner, unless satisfied that the applicant has a paid-in capital stock to an amount equivalent to at least twenty-five thousand dollars for each office or place of business then established by said corporation in this State and for the branch sought to be established, and a surplus to an amount

(Delaware, continued)

equivalent to at least twenty-five thousand dollars for each office or place of business then established by said corporation." (Banking Laws, 1929, Sec. 4, p. 16; Laws of Delaware, 1921, Ch. 103, Sec. 4, p. 288).

Must be authorized by charter:

"Nothing in this section contained shall be deemed to confer on any corporation the power to establish branches not expressly authorized by its charter". (Banking Laws, 1929, Sec. 4, p. 16; Laws of Delaware, 1921, Ch. 103, Sec. 4, p. 288)

FLORIDA.

Branches prohibited:

"The place of business of each banking company shall be in the city or town specified in its charter, and the usual business of any such banking company shall be transacted at an office or banking house located in the city or town so specified and not elsewhere." (Banking Laws, 1921, Sec. 4139; General Compiled Laws of Florida, 1927, Sec. 6070.)

GEORGIA.

Branches authorized but restricted as to location:

Under the provisions of an Act of the Georgia legislature approved July 20, 1929, it is provided that "banks chartered under the laws of this State and having their principal office in a city, now, or hereafter having a population of not less than eighty thousand, or more than one hundred and twenty-five thousand, may establish branch banks in the city in which its principal office is located." (Georgia Laws, 1929, p. 214).

An Act of the Georgia legislature approved August 17, 1929, provides "that banks chartered under the laws of this State, and having their

(Georgia, continued)

principal office in a municipality, now, or hereafter having a population of not less than 200,000, according to the last census of the United States or any future census of the United States, may establish branch banks in the municipality in which its principal office is located." This act also provides "that all laws and parts of laws in conflict herewith, be and the same are hereby repealed." (Georgia Laws, 1929, p. 214.)

IDAHO.

Branches prohibited:

"No bank shall maintain any branch bank, receive deposits or pay checks, except over the counter of and in its own banking house. Provided, that nothing in this section shall prohibit ordinary clearing house transactions between banks." (Banking and Public Depositary Law, 1925, Sec. 84, p. 42)

ILLINOIS.

Branches prohibited:

By an Act approved June 28, 1923 (Laws of 1923, p. 164) the Illinois legislature prohibited branch banking, subject to the approval of the people at the general election of 1924; and at an election held on November 4, 1924, the act was approved by the people. This act provides:

"No bank shall establish or maintain more than one banking house, or receive deposits, or pay checks at any other place than such house; and no bank shall establish or maintain any branch bank, branch office or additional office or agency for the purpose of

(Illinois, continued)

conducting any of its business." (Smith-Hurd Ill. Rev. Stat., 1927, sec. 9, p. 193.)

On June 4, 1929, an act was approved prohibiting branch banking; but this act is subject also the approval of the people "at the next general election." This act provides:

"No bank shall establish or maintain more than one banking house, or receive deposits, or pay checks at any other place than such banking house, and no bank shall establish or maintain in this or any other state or country any branch bank, nor shall it establish or maintain in this State any branch office or additional office or agency for the purpose of conducting any of its business." (Cahill Ill. Rev. Stat., 1929, Sec. 9, p. 164; Laws of 1929, p. 178.)

INDIANA.

Branches prohibited:

"That it shall be unlawful for any person, firm or corporation engaged in the business of operating a State bank, private bank, savings bank, or loan, trust or safe deposit company to open, or establish a branch bank or branch office: Provided, That the provisions of this section shall not apply to branch banks or branch offices for which charters have heretofore been granted." (Banking Laws, 1929, p. 139; Acts of 1921, p. 367).

IOWA.

Branches prohibited:

"No banking institution shall open or maintain any branch bank,

or receive deposits or pay checks, other than at its principal place of business." (Banking Laws, 1929, Sec. 9258-b1, p. 32; Act approved April 18, 1927, 1927 S. L. Ch. 206, p. 181).

KANSAS.

Branches prohibited:

"The general business of every bank shall be transacted at the place of business specified in its charter or permit, and it shall be unlawful for any bank to establish and operate any branch bank or branch office or agency or place of business". (Banking Laws, 1929, Sec. 1, p. 2; Laws of 1929, Ch. 85, sec. 1.)

KENTUCKY.

No provision regarding branches:

There is no specific provision in the laws of Kentucky regarding the establishment of branches. The Court of Appeals of Kentucky has held, however, that in the absence of such a provision it is not within the power of a State bank to establish a branch bank, though it may have additional offices or agencies to receive deposits and pay checks or transact other necessary duties not requiring special discretion or business acumen. (Bruner v. Citizens Bank of Shelbyville, 120 S. W. 345; Marvin v. Kentucky Title Trust Company, 291 S. W. 17.)

LOUISIANA.

Branches authorized:

"Every increase or decrease, modification, alteration or addition to the capital or of the number of the shares, shall be submitted to a general meeting of the stockholders, held after thirty days' notice by publication and by mail, and shall be approved by two-thirds of the amount of the capital stock; and shall be executed, recorded and published as

(Louisiana, continued)

provided for the original articles, which shall provide for the location in the parish or domicile of any Banking Association of not more than two branch offices. Provided, that no Banking Association or Savings Bank with capital stock of less than \$50,000 may locate or operate branch offices; but this provision shall not apply to existing branch offices." (Banking Laws, 1928, sec. 7, p. 7; Act No. 184 of 1916, p. 420)

Trust and savings banks, savings banks, and safe deposit companies:

"Any savings, safe deposit, or trust and savings bank may have one or more as hereinbelow provided offices of discount and deposit within the limits of the municipality or parish in which the said bank is located; provided that a savings, safe deposit, or trust and savings bank, of fifty thousand dollars or more capital shall operate not more than one branch; or more than fifty thousand dollars, but not more than seventy-five thousand dollars capital shall operate not more than two branches; or more than seventy-five thousand dollars, but not more than one hundred thousand dollars capital shall operate not more than three branches; of more than one hundred thousand dollars, but not more than two hundred thousand dollars capital shall operate not more than five branches; of more than two hundred thousand dollars, but not more than two hundred and fifty thousand dollars shall operate not more than six branches; of more than two hundred and fifty thousand dollars, but not more than three hundred thousand dollars capital shall operate not more than seven branches; and for each additional hundred thousand dollars capital stock shall operate not more than one additional branch; and provided further that before any savings, safe deposit, or trust and savings bank shall open a branch

(Louisiana, continued)

office under the provisions of this Act, said savings, safe deposit, or trust and savings bank must first obtain a certificate of authority from the State Bank Commissioner; and provided further that whenever any such banks shall have taken advantage of the provisions of this Act and Section, and shall have established one or more offices of discount and deposit within the limits of said municipality or parish, no future political or legal subdivision of said municipality or parish shall have the effect of in anywise affecting the right of such banks aforesaid to continue the existence, maintenance and operation of any such offices already established, nor shall any provisions contained in this Act be construed as in anywise affecting the right of any savings, safe deposit or trust and savings bank to continue the operation and maintenance of such branch offices as may have been lawfully established prior to the enactment of this Act." (Banking Laws, 1928, sec. 1, p. 237; Act No. 146 of 1926, sec. 1)

MAINE.

Trust and banking company branches authorized:

No trust company now or hereafter organized shall establish a branch or agency until it shall have received a warrant so to do from the bank commissioner, who shall issue such warrant only when satisfied that public convenience and advantage will be promoted by the establishment of such branch or agency, * * *. No trust company shall be permitted to establish a branch or agency except in its own or an adjoining county." (Banking Laws, 1927, sec. 88, p. 56; Maine P. L., 1923, ch. 144, sec. 88).

Capital requirements:

Trust companies are required to have a capital varying with the

(Maine, continued)

place in which they are located. Trust companies with branches must have the capital required of trust companies located in a place with a population equal to the aggregate population of the place in which the parent institutions are located and the population of all places in which its branches are located. (Banking Laws, 1927, sec. 69, p. 46; sec. 88, p. 56; Maine P.L., 1923, ch. 144, secs. 69 and 88).

MARYLAND.

Branch banks and trust companies authorized:

The laws of Maryland provide for the capital of branches established by banks and trust companies and, therefore, impliedly authorize the establishment of branches by these institutions. The capital required for the organization of a bank or trust company depends upon the size of the place in which such bank or trust company is located. A bank hereafter establishing a branch outside of the city, town or village in which it is located must increase its capital stock for each branch so established to a sum equal to the amount required for the organization of such bank and the organization of a bank in the place in which the branch is located. A trust company establishing a branch outside of the city, town or village in which it is located must add to the amount of capital stock required for its organization for each branch so established a certain enumerated sum depending upon the size of the place in which the branch is established. No "branch shall hereafter be established" by any bank or trust company "in the city, town or village where said bank (or trust company) is now located, and engaged in business", until said bank or trust company "conforms to the requirements * * *, as to the minimum amount of capital stock for banks (or trust companies) in said city, town

(Maryland, continued)

or village". (Banking Laws, 1927, sec. 20, p. 7; sec. 42, p. 19; 1924 Annotated Code of Maryland, Article 11, sec. 20, and sec. 42, as amended by Acts of 1927, Ch. 188, Sec. 42.)

MASSACHUSETTS.

Branches of trust companies authorized:

"The Board of bank incorporation may authorize in writing any such corporation to maintain one or more branch offices of the town where its main office is located; provided, that in any town the population of which according to the last preceding state or national census does not exceed fifty thousand not more than one such branch, and in any town the population of which according to said census exceeds fifty thousand but does not exceed one hundred thousand not more than two such branches shall be so authorized." These restrictions do not apply to branch offices authorized prior to January 2, 1928. (Act of May 8, 1928.)

"Any office of a trust company the business of which has been taken over under section forty-four by, or any office of a national bank purchased by or merged in, a trust company located in the same town, may be maintained as a branch office of such corporation, if in the opinion of the commissioner public convenience will be served thereby." (Trust Company Laws, 1926, sec. 46, p. 24; General Laws of Mass., ch. 172, 46.)

MICHIGAN.

"Industrial bank" may establish branches:

"To establish branch offices or places of business within the city or village in which its principal office is located, but not elsewhere." (Banking Laws, 1929, sec. 86, p. 49; Mich. Pub. Acts, 1917, Act No. 296, sec. 4; Comp. Laws of Mich., Cahill's 1922 Supplement, sec. 8032 (6))

(Michigan, continued)

There is no specific provision in the laws of Michigan with reference to the establishment of branches by other banks.

MINNESOTA.

Branches prohibited:

"No bank or trust company organized under the laws of this state shall maintain a branch bank or receive deposits or pay checks within this state except at its own banking house, and the superintendent of banks shall take possession of and liquidate the business and affairs of any state bank or trust company violating the provisions of this act in the manner prescribed by law for the liquidation of insolvent state banks and trust companies." (Banking Laws, 1929, sec. 1, p. 24; Laws of 1923, Ch. 170, sec. 1; Mason's Minn. Statutes, 1927, sec. 7693)

MISSISSIPPI.

Branches in same city authorized:

"The creation or organization of any branch bank in this State shall be and the same is prohibited and forbidden, and no branch bank shall be hereafter established in this State, and no parent bank chartered under the laws of this State shall establish any branch bank either within or without the State: Provided, however, That when the superintendent of banks shall believe the convenience and interest of the public will be served he may permit banks in cities of not less than ten thousand population to establish branch offices within the corporate limits of the city where the bank is domiciled, and such offices shall not be considered branch banks within the meaning of section 261, code of Mississippi of 1906. But an established bank or branch bank may with the consent of the superintendent of banks be removed from one municipality to any other

(Mississippi, continued)

municipality." (Brown's Miss. and Federal Banking Statutes, sec. 79, p. 79; Ch. 174, Laws of 1924.)

Capital requirements:

Every parent bank operating one or more branch banks shall set apart and devote from its capital a sum of not less than ten thousand dollars for the exclusive use of each of said branch banks in its business, and the amount of the capital of the parent bank employed by each branch bank shall never at any time be less than the said amount of ten thousand dollars. (Brown's Miss. and Federal Banking Statutes, sec. 80, p. 80; Heminway's Code, sec. 3522.)

MISSOURI.

Branch banks prohibited:

" * * * no bank shall maintain in this state a branch bank, or receive deposits or pay checks except in its own banking house."
(Laws of Missouri, 1927, sec. 1 (11737), p. 220.)

Branch trust companies prohibited:

" * * * no trust company shall maintain in this state a branch trust company or receive deposits or pay checks except in its own banking house." (Banking Laws, 1919, sec. 11799, p. 98; Rev. Stat. of Mo., 1919, sec. 11799, p. 3702.)

MONTANA.

Branch banks prohibited:

"No bank shall maintain any branch bank, receive deposits or pay check, except over the counter of and in its own banking house. Provided, that nothing in this section shall prohibit ordinary clearing house transactions between banks." (Banking Laws, 1927, sec. 101, p. 58;

(Montana, continued)

Laws of 1927, ch. 83, sec. 101)

NEBRASKA.

Branch banks prohibited:

"No bank shall maintain any branch bank, receive deposits or pay checks, except over the counter of and in its own banking house. Provided, nothing in this section shall prohibit ordinary clearing house transactions between banks." (Banking Laws, 1929, Sec. 1, p. 45; Laws of Nebraska, 1927, p. 153)

NEVADA.

Branches prohibited:

" * * * No bank in this State shall hereafter open or maintain any branch bank or office * * * ." (Banking Laws, 1927, Sec. 8, p. 6; Rev. Laws of Nevada, 1912, Sec. 623.)

"Bank" defined:

"The words 'corporation,' 'banking corporation,' 'bank,' 'trust company,' or 'banker,' as used in this act, shall refer to and include banks, savings banks, and trust companies, individuals, firms, associations, and corporations of any character conducting the business of receiving money on deposit or otherwise carrying on a banking or trust company business, except as herein specially provided." (Banking Laws, 1927, Sec. 75, p. 23; Rev. Laws of Nevada, 1912, Sec. 690.)

NEW HAMPSHIRE.

No provision concerning branches:

There is no specific provision in the laws of New Hampshire regarding the establishment of branches by banks or trust companies.

NEW JERSEY.Bank and trust company branches authorized:

"Banks (other than savings banks) and trust companies, organized under the laws of this State, may establish and maintain branch offices or agencies for the transaction of their business, with the approval in writing, of the Commissioner of Banking and Insurance, which approval shall be given by him only if it shall appear to him that the establishment of such branch office or agency will be of public service; * * * ." (Banking Laws, 1928, sec. 15, p. 136; Laws of 1925, Ch. 27, p. 85, as amended by Laws of 1927, Ch. 20, p. 54.)

Detailed provision is also made for obtaining the consent of the Commissioner of Banking and Insurance to establish branches. (1929 Laws Relating to Banks and Trust Companies, p. 20; Laws of 1929, Ch. 294, p. 686)

Capital requirements:

The Commissioner of Banking and Insurance shall not give his approval to the establishment of branch offices or agencies "unless the capital of such bank actually paid in in cash shall exceed the amount required by law for the incorporation of a bank, to the extent of fifty thousand dollars and the capital of such trust company actually paid in in cash shall exceed the amount required by law for the incorporation of a trust company, to the extent of one hundred thousand dollars for each branch office or agency so established; * * * ." (Banking Laws, 1928, sec. 15, p. 137; Laws of 1925, Ch. 27, p. 85, as amended by Laws of 1927, Ch. 20, p. 54.)

Establishment and number of branches restricted:

The approval of the Commissioner of Banking and Insurance shall not "be given for the establishment of any such branch office or agency

(New Jersey, continued)

outside the city, town, township, borough or village in which such bank or trust company is located, nor shall any bank or trust company maintain and operate a branch office or agency within the corporate limits of a city, town, township, borough or village where the population by the last decennial census is less than twenty-five thousand; nor more than one such branch where such population by said census is more than twenty-five thousand and not more than fifty thousand; nor more than two such branches where such population by said census is more than fifty thousand and not more than one hundred thousand, and where such population by said census is more than one hundred thousand the number of such branches shall be such as may be determined by the Commissioner of Banking and Insurance; provided, that nothing in this act contained shall prevent the maintenance of any branch office or agency heretofore lawfully established." (Banking Laws, 1928, sec. 15, p. 137; Laws of 1925, Ch. 27, p. 85, as amended by Laws of 1927, Ch. 20, p. 54.)

Merger of banks and trust companies:

Banks and trust companies may merge each with the other and branches resulting from such merger may be continued under certain conditions. (Banking Laws, 1928, sec. 11, p.55; sec.19, p.59; sec.19, p. 108; sec.27, p.112; sec.18(1), p.139; sec.18(9), p.143; Laws of 1925, Chapters 197, 198 and 203; Laws of 1927, ch.14, p.39; ch.21, p.55.)

Savings bank branches authorized:

"Any savings bank incorporated under the laws of this State may establish, with the written approval of the Commissioner of Banking and Insurance, and maintain branch offices or agencies for the transaction of its business; provided, that the approval of the Commissioner of Banking and Insurance shall be given by him only if he shall be of the

(New Jersey, continued)

opinion that the establishment of such branch office or agency will be beneficial to the public; * * *." (Act approved March 7, 1927; Laws of 1927, Ch. 34, p. 75.)

Capital requirements:

"And provided, that any savings bank establishing such branch office or agency shall have, according to its last annual report, a surplus of not less than five per centum of the amount of its deposits, and, in addition, fifty thousand dollars of surplus for each branch office or agency established, over and above said five per centum of the amount of deposits; * * * ." (Act approved March 7, 1927; Laws of 1927, Ch. 34, p. 75.)

Establishment and number of branches restricted:

" * * and provided further, that such branch office or agency shall be established only within the corporate limits of the municipality (other than county) in which such savings bank is located; and provided, further, that no such branch office or agency shall be established in any municipality (other than county) if the population thereof be less than twenty-five thousand, according to the latest decennial, State or Federal census, and not more than one such branch office or agency shall be established by any such savings bank if the population of the municipality wherein the same is located be, according to such census, less than fifty thousand, and no more than two such branch offices or agencies shall be established by such savings bank if the population of such municipality, according to such census, be less than one hundred thousand." (Act approved March 7, 1927; Laws of 1927, Ch. 34, p. 75.)

Savings bank branches resulting from mergers or consolidations:

"The merged or consolidated savings bank may continue to maintain branch offices or agencies for the transaction of its business estab-

(New Jersey, continued)

lished pursuant to law by either or both of the merging or consolidating savings banks." (New Jersey Laws of 1929, Ch. 1, Sec. 7. p. 844.)

Savings branch office buildings may be acquired:

"Any savings bank may acquire and hold a lot or lots whereon are erected or may be erected building or buildings requisite for the convenient transaction of the business of any such branch offices or agencies and from portions of which, not required for its own use, revenue may be derived, subject, however, to the restriction and limitations contained in section thirty-three of an act entitled 'An act concerning savings bank,' approved May second, nineteen hundred and six; or may lease space for the transaction of such business." (Banking Laws, 1925, sec. 81, p. 28; Laws of 1925, Ch. 228, sec. 2, p. 552.)

Savings branch office may be discontinued:

"Any savings bank may discontinue any such branch office or agency with the written approval of the commissioner of banking and insurance, and upon such prior public notice as he shall prescribe." (Banking Laws, 1925, sec. 82, p. 28; Laws of 1925, Ch. 228, sec. 3, p. 552.)

NEW MEXICO.

Branches prohibited:

"Every bank shall be conducted at a single place of business, and no branch thereof shall be maintained elsewhere; provided, however, that nothing herein contained shall be construed to prohibit any mercantile corporation which maintains a banking department in accordance with the provisions of this Act, from receiving deposits and buying

(New Mexico, continued)

and selling exchange at any of its branch stores." (Bank Code, 1929, sec. 47, p. 18; Laws of 1915, Ch. 67, sec. 47.)

"Bank" defined:

"The word 'Bank' as used in this act includes every person, firm, company, co-partnership or corporation, except national banks, engaged in the business of banking in the State of New Mexico. Banks are divided into the following classes: (a) Commercial Banks; (b) Savings Banks; and (c) Trust Companies." (Bank Code, 1929, sec. 2, p. 5; Laws of 1915, Ch. 67, sec. 2.)

NEW YORK.

Branch offices of State banks authorized within city limits:

"No bank, or any officer or director thereof, shall transact its usual business of banking at any place other than its principal place of business, except that a bank in a city which has a population of more than fifty thousand may open and occupy in such city one or more branch offices for the receipt and payment of deposits and for making loans and discounts to customers of such respective branch offices only, provided that before any such branch or branches shall be opened or occupied:

"1. The superintendent shall have given his written approval, as provided in section fifty-one of this chapter:

"2. The actual paid in capital of such bank shall exceed by the sum of one hundred thousand dollars the amount required by section one hundred of this article for each branch opened since the twenty-seventh day of April, nine-

(New York, continued)

teen hundred and eight; and by the sum of fifty thousand dollars for each branch opened previous to said date and hereafter maintained." (Banking Law, Sec. 110.)

The approval of the superintendent of banks of an application by a state bank for leave to open a branch office is made dependent upon whether or not he considers that "the granting of such application is expedient and desirable" after he has made "such investigation as he may deem necessary to ascertain whether the public convenience and advantage will be promoted by the opening of such branch office." (Banking Law, Sec. 51.)

Capital requirements:

Before any branch or branches may be established by a state bank the actual paid in capital of an applying bank must exceed by the amounts as set out in the provision quoted above, for each branch opened, the following amounts. (Banking Law, sec. 110.)

"(a) Twenty-five thousand dollars, if the place where its business is to be transacted is an incorporated or unincorporated village the population of which does not exceed two thousand;

"(b) Fifty thousand dollars, if the place where its business is to be transacted is an incorporated or unincorporated village or a city the population of which exceeds two thousand but does not exceed thirty thousand;

(New York, continued)

"(c) One hundred thousand dollars, if the place where its business is to be transacted is a city the population of which exceeds thirty thousand." (Banking Law, sec. 100.)

Trust company branch offices authorized within city limits:

"No trust company or any officer or director thereof, shall transact its usual business at any place other than its principal place of business, except that a trust company may open and occupy in the city in which its principal place of business is located one or more branch offices, provided that before any such branch or branches shall be opened or occupied:

"1. The superintendent shall have given his written approval, as provided in section fifty-one of this chapter;

"2. The actual paid in capital of such trust company shall exceed by the sum of one hundred thousand dollars the amount required by section one hundred and eighty of this article for each branch opened." (Banking Law, sec. 195.)

The approval of the superintendent of banks of an application by a trust company for leave to open a branch office is made dependent upon whether or not he considers that "the granting of such application is expedient and desirable" after he has made "such investigation as he may deem necessary to ascertain whether the public convenience and advantage will be promoted by the opening of such branch office." (Banking Law, Sec. 51.)

(New York, continued)

Capital requirements:

Before branches may be established by a trust company, its actual paid in capital must exceed by \$100,000 for each branch opened, the following amounts (Banking Law, sec. 195.):

"(a) One hundred thousand dollars, if the place where its business is to be transacted is an incorporated or unincorporated village or city the population of which does not exceed twenty-five thousand.

"(b) One hundred and fifty thousand dollars, if the place where its business is to be transacted is a city the population of which exceeds twenty-five thousand but does not exceed one hundred thousand.

"(c) Two hundred thousand dollars, if the place where its business is to be transacted is a city the population of which exceeds one hundred thousand but does not exceed two hundred and fifty thousand.

"(d) Five hundred thousand dollars, if the place where its business is to be transacted is a city the population of which exceeds two hundred and fifty thousand." (Banking Law, sec. 180)

Savings bank branches authorized in cities of "first class":

"2. No savings bank, or any officer or director thereof, shall transact its usual business at any place other than its principal place of business without the written permission of the superintendent of banks.

(New York, continued)

given as provided in subdivision three of this section, except that it may, provided the merger agreement so provides, continue to occupy and maintain as a branch office, the place of business occupied and maintained at the time of the merger by any savings bank which it has received into itself by merger pursuant to article twelve of this chapter.

"3. Upon written approval of the superintendent of banks, given as provided in this subdivision, a savings bank, located in a city of the first class, (city of 175,000 or more inhabitants) may open and occupy within said city one branch office, and if such city comprises more than one county or borough, such branch office may be located only in the same county or borough in which its main office is located. * * * The superintendent shall ascertain by such investigation as he may deem necessary, whether or not public convenience and advantage will be promoted by the opening of such branch office. * * * " (Banking Law, sec. 245)

Provision is made for obtaining the authorization of the superintendent of banks to establish branch offices of savings banks. (Banking Law, sec. 245.)

Savings and loan associations authorized to establish one "station":

"A savings and loan association located in a city which has a population of more than thirty thousand may open and maintain in said city one station for the payment of dues and withdrawals and the payment of interest, premium, fees and fines by its members and payments upon the principal of loans by its borrowing members, provided that before any such station shall be opened or maintained:

"1. Its board of directors shall submit to the superintendent a written application setting forth the reasons therefor and the location of such station.

(New York, continued)

"2. The superintendent shall have given his written approval thereto." (Banking Law, sec. 403)

NORTH CAROLINA.

Branches authorized:

"Any bank doing business under this act may establish branches in the cities in which they are located, or elsewhere, after having first obtained the written approval of the Corporation Commission, which approval may be given or withheld by the Corporation Commission, in its discretion, and shall not be given until it shall have ascertained to its satisfaction that the public convenience and advantage will be promoted by the opening of such branch." (Banking Laws, 1927, sec. 220 (r), p. 26; North Carolina Code, Annotated Edition, 1927, sec. 220 (r))

Capital requirements:

"Provided, that the Corporation Commission shall not authorize the establishment of any branch, the paid-in capital stock of whose parent bank is not sufficient in an amount to provide for the capital of at least twenty-five thousand dollars for the parent bank, and at least twenty-five thousand dollars for each branch which it is proposed to establish in cities or towns of three thousand population or less; nor less than thirty thousand dollars in cities and towns whose population exceeds three thousand but does not exceed ten thousand; nor less than fifty thousand dollars in cities and towns whose population exceeds ten thousand but does not exceed twenty-five thousand; nor less than one hundred thousand dollars in cities and towns whose population exceeds twenty-five thousand. All banks operating branches prior to February 18, 1921, shall, within a time limit to be pre-

(North Carolina, continued)

scribed by the Corporation Commission, cause said branch bank to conform to the provisions of this section." (Banking Laws, 1927, sec. 220(r), p. 26; North Carolina Code, Annotated Edition, 1927, sec. 220(r))

"Bank" defined:

"The term 'bank' when used in this act shall be construed to mean any corporation, partnership, firm, or individual receiving, soliciting, or accepting money or its equivalent on deposit as a business; Provided, however, this definition shall not be construed to include building and loan associations, Morris plan companies, industrial banks or trust companies not receiving money on deposit." (Banking Laws, 1927, sec. 216(a) p. 3; North Carolina Code, Annotated Edition, 1927, sec. 216(a))

"Industrial bank" branches authorized:

Every industrial bank is given the power "To establish branch offices or places of business within the county in which its principal office is located, and elsewhere in the State, after having first obtained the written approval of the Corporation Commission, which approval may be given or withheld by the Corporation Commission in its discretion: Provided, that the Corporation Commission shall not authorize the establishment of any branch the paid-in capital of whose parent bank is not sufficient in an amount to provide for the capital of at least \$25,000 for the parent bank and at least twenty-five thousand dollars (\$25,000) for each branch which it is proposed to be established in cities or towns of fifteen thousand population or less; nor less than fifty thousand dollars (\$50,000) in cities or towns whose population exceeds fifteen thousand but does not exceed twenty-five thousand; nor less than one hundred thousand dollars (\$100,000) in towns whose population exceeds twenty-five thousand." (Banking Laws,

(North Carolina, continued)

1927, sec. 225(f) p. 42; North Carolina Code, Annotated Edition, 1927, sec. 225 (f)

"Industrial Bank" defined:

"The term 'Industrial Bank', as used in this act, shall be construed to mean any corporation organized, or which may hereafter be organized under the general corporation laws of this State, which is engaged in lending money to be repaid in weekly or monthly or other periodical installments, or principal sums, as a business: Provided, however, this definition shall not be construed to include building and loan associations or commercial or savings banks." (Banking Laws, 1927, sec. 225(a), p. 41; North Carolina Code, Annotated Edition, 1927, sec. 225(a))

NORTH DAKOTA.

No provision concerning branches:

There is no specific provision in the laws of North Dakota regarding the establishment of branches.

OHIO.

Branch banks authorized:

"No branch bank shall be established until the consent and the approval of the superintendent of banks has been first obtained, and no bank shall establish a branch bank in any place other than that designated in its articles of incorporation, except in a city or village contiguous thereto. If such consent and approval is refused, an appeal may be taken therefrom in the same manner as is provided in section 45 of this act." (Banking Laws, 1928, sec. 710-73, p. 28.)

"Bank" defined:

"The term 'bank' shall include any person, firm, association, or corporation soliciting, receiving or accepting money, or its equivalent,

(Ohio, continued)

on deposit as a business, whether such deposit is made subject to check or is evidenced by a certificate of deposit, as passbook, a note, a receipt, or other writing, and unless the context otherwise requires as used in this act includes commercial banks, savings banks, trust companies and unincorporated banks; provided that nothing herein shall apply to * * * building and loan associations or title guarantee and trust companies incorporated under the laws of this State." (Banking Laws, 1928, sec. 710-2, p. 5.)

OKLAHOMA.

No provision concerning branches:

There is no specific provision in the laws of Oklahoma regarding the establishment of branch banks.

OREGON.

Branches prohibited:

"No bank or trust company or any officer or director, agent or employee thereof, shall open or maintain any branch in this State or receive deposits or pay checks other than at its principal place of business; provided, that this section shall not apply to branch banks or trust companies now existent or authorized to do business in this State as a foreign bank or trust company, under the provisions of this act; provided further, that every such foreign branch bank or trust company shall hereafter in every respect be governed by and comply with the provisions of this act to the same extent as other State banks or trust companies now organized and doing business in this State; provided, that any State bank may effect a consolidation on the same terms and conditions now or hereafter permitted to national banks." (Banking Laws, 1925, Sec. 113, p. 44; General

(Oregon, continued)

Laws of Oregon, 1925, Ch. 207, Sec. 113.)

PENNSYLVANIA.

General establishment of branches prohibited:

"No bank, banking company, banking institution, savings bank, trust company, title insurance company, or other corporation now or hereafter authorized to receive deposits or to carry on a banking or trust business, whether incorporated under the laws of Pennsylvania or of any other State or of the United States of America, * * * shall establish, maintain, or operate, either directly or indirectly, any branch bank, branch office, agency, sub-office, sub-agency, or branch place of business, within the Commonwealth of Pennsylvania, for the transaction of any part of its * * * business, but all of the business of such corporation, * * * shall be carried on solely and exclusively at its * * * principal place of business." (Act approved April 27, 1927, Laws of Pennsylvania, 1927, sec. 1, p. 400).

Exception - Establishment permitted within corporate limits of places where national banks were operating branches on March 1, 1927:

"This act shall not apply to any bank, banking company, banking institution, savings bank, trust company, title insurance company, or other corporation, now or hereafter authorized to receive deposits or carry on a banking or trust business, whether incorporated under the laws of Pennsylvania or of any other State or of the United States of America, * * * which has its * * * principal place of business in a city, borough, or township within the Commonwealth of Pennsylvania, in which one or more national banking associations, * * * was, on March 1, 1927, operating one or more branch banks, branch offices, agencies, suboffices, subagencies,

(Pennsylvania, continued)

or branch places of business, for the transaction of any part of its business; and any such corporations * * * may hereafter establish, subject to the approval of the Secretary of Banking, and thereafter maintain and operate branch banks, branch offices, agencies, suboffices, subagencies, and branch places of business for the transaction of any part of its * * * business, but only within the corporate limits of the city, borough, or township in which its principal office is located and in which such national banking association was, on March 1, 1927, operating one or more branch banks, branch offices, agencies, suboffices, subagencies, or branch places of business. The right to establish and maintain branch banks, branch offices, agencies, suboffices, subagencies, or branch places of business, under the provisions of this section, shall be limited to the territory included within the corporate limits on March 1, 1927, of the respective cities, boroughs, or townships in which such national banking associations were on that date operating one or more branch banks, branch offices, agencies, suboffices, subagencies, or branch places of business as aforesaid; and such right shall not extend to additional territory which may, after March 1, 1927, be added to such cities, boroughs, or townships, by annexation, consolidation with one or more municipal corporations or otherwise, nor shall it extend to other portions or divisions of municipal corporations to which such cities, boroughs, or townships may be annexed, or with which they may be consolidated after that date; the intention being to limit to the respective corporate limits of such cities, boroughs, or townships as they existed on March 1, 1927, the right to establish and maintain the branch banks, branch offices, agencies, suboffices, subagencies, and branch places of business authorized

(Pennsylvania, continued)

in this section.") Act approved April 27, 1927, Laws of Pennsylvania, 1927, sec. 3, p. 401.)

Other exceptions are that the act does not apply to branches established for which locations had been secured prior to March 1, 1927, or to branches resulting from consolidations of banks effective prior to April 1, 1927; "and such corporations * * * shall have the right to relocate the same within the corporate limits of the city, borough, or township in which the principal place of business is located at the time of such relocation, subject to the approval of the Secretary of Banking." (Act approved April 27, 1927, Laws of Pennsylvania, 1927, sec. 2, p. 400.)

RHODE ISLAND.

Branches authorized:

"Any bank or trust company may establish a branch or branches within this State at any other place than its principal place of business upon obtaining the consent of the board of bank incorporation thereto. * * *"
(Banking Laws, 1929, Sec. 9, p. 6).

Detailed provision is also made for obtaining the consent of the board of bank incorporation to establish branches. (Banking Laws, 1929, Sec. 9, p. 6; General Laws, 1909, Ch. 229, Sec. 9.)

SOUTH CAROLINA.

Branch banks authorized by implication:

" * * * for each branch bank that is established the parent bank must have a total unimpaired capital of at least Twenty-five Thousand (\$25,000.00) Dollars above the minimum requirements herein set forth."
(Banking Laws, 1928, sec. 20, p. 11; Acts of 1928, Ch. 701, sec. 2)

Provision is also made for the publication of statements of the assets and liabilities of branch banks or offices, for the examination of

(South Carolina, continued)

branch banks, and for the taxation of banks having branches. (Banking Laws, 1928, sec. 61, p. 29; sec. 86, p. 45; sec. 106, p. 54; Code of 1922, sections 3984, 3989; Act approved March 21, 1924, p. 1116, Acts of 1924.)

SOUTH DAKOTA.

No provision regarding branches:

There is no specific provision in the laws of South Dakota regarding the establishment of branch banks.

TENNESSEE.

Branches authorized in county where located:

"That no corporation, firm or individual now or hereafter doing or carrying on a banking business in the State of Tennessee shall have, maintain, create or operate any branch bank, office or agency, for the purpose of receiving deposits, paying checks, making loans or receiving or discounting bills or notes in any place whatsoever other than the county of this State wherein such banking business is carried on."

(Act approved April 6, 1925, sec. 3.)

TEXAS.

Branch banks prohibited:

"No banking corporation organized under the laws of this State shall ever engage in business at more than one place, which shall be designated in its charter. No such corporation shall maintain a branch bank, receive deposits or pay checks except in its own banking house. County or State depositories or county depositories not located at the county seat, and ordinary clearing house transactions between banks, are not affected by this article." (Banking Laws, 1929, Art. 538, p. 51.)

UTAH.

Branches prohibited:

"The business of every banking institution shall be conducted only at its banking house, and no bank in this State or any loan, trust, or guaranty company or trust company conducting a banking business, or any officer, director, or agent thereof, shall open, establish, or maintain any branch bank or office, and shall receive deposits and pay checks only at its banking house; provided, that all branch banks or offices in operation at the time of the approval of this chapter shall be closed and discontinued within one year from the date this chapter goes into effect." (Banking Laws, 1927, sec. 1005, p. 12; Comp. Laws of Utah, 1917; Title 19, Ch. 6, sec. 1005).

VERMONT.

No provision regarding branches but "agencies" authorized:

"Section 1. Before a savings bank, trust company or a savings bank and trust company opens an agency of such corporation it shall petition the bank commissioner to hold a public hearing in the town where the proposed agency is to be located, to determine whether the establishment and maintenance thereof will promote the general good of the State. * * * If after the hearing said commissioner finds and adjudges that the establishment and maintenance of the proposed agency will promote the general good of the State, he shall give said bank a certificate to that effect under his seal. A savings bank, trust company or savings bank and trust company shall not operate any agency not certified by said commissioner as herein provided."

"Section 2. An Agency of a bank in operation prior to February 1, 1929, permission to operate such agency having been procured

B105

(Vermont, continued)

from the commissioner of banking and insurance, shall be permitted to continue." (Act of March 13, 1929.)

VIRGINIA.

Branches authorized:

"No bank or trust company heretofore or hereafter incorporated under the laws of this State shall be authorized to engage in business in more than one place, except that, in its discretion the State Corporation Commission may authorize banks having a paid-up and unimpaired capital and surplus of fifty thousand dollars or over to establish branches within the limits of the city, town or village in which the parent bank is located or in other cities having a population of not less than fifty thousand inhabitants. This section, however, shall not apply to branch banks already established, and this section shall not be construed to prohibit the merger of two banks in the same or adjoining counties and the operation by the merged company of the two banks. But any branch bank heretofore or hereafter established shall not be operated or advertised under any other name than that of the identical name of the home bank, unless permission be first had and obtained from the State Corporation Commission, and unless such different name shall contain or have added thereto language clearing indicating that it is a branch bank and of what bank it is a branch. Any bank or trust company violating the provisions of this section shall be liable to a fine of one thousand dollars, to be imposed and judgment entered therefor by the State Corporation Commission, and enforced by its process." (Banking Laws, 1929, sec. 4149 (14), p. 30; Acts of 1928, Ch. 507, sec. 13)

Branches prohibited:

" * * * nor shall any bank or trust company establish any branch. The practice of collecting or receiving deposits or cashing checks at any place or places other than the place where the usual business of a bank or trust company and its operations of discount and deposits are carried on shall be held and construed to be establishing a branch: * * ." (Banking Laws, 1929, sec. 25, p. 12; Laws 1919, Sec. 7, p. 730.)

Definition of "bank":

"The term 'bank', where used in this act, unless a different meaning appears from the context, means any corporation organized under the laws of this State engaged in banking, other than a trust company or a mutual savings bank." (Banking Laws, 1929, sec. 24, p. 11; Laws 1917, sec. 14, p. 275.)

Definition of "branch":

"The term 'branch bank', where used in this act, means any office of deposit or discount maintained by any bank or trust company, domestic or otherwise, other than its principal place of business, regardless of whether it be in the same city or locality." (Banking Laws, 1929, sec. 24, p. 11; Laws 1917, sec. 14, p. 275.)

Mutual savings bank branches:

"No (mutual) savings bank or any officer or director thereof shall receive deposits or transact any of its usual business at any place other than its principal place of business." (Banking Laws, 1929, sec. 181, p. 84; Laws 1925, Ex. Ses., Sec. 10, p. 107).

WEST VIRGINIA.Branch banking prohibited:

"No banking institution chartered and authorized to engage in business hereunder shall hereafter install any branch bank, or engage in business at any place other than at its principal office in the State of West Virginia; * * * " (1929 S.L., Ch. 23, sec. 5, p. 113.)

WISCONSIN.Branch banks prohibited:

" * * * but no bank shall establish more than one office of deposit and discount or establish branch offices or branch banks, provided that this prohibition shall not apply to any branch office or bank established prior to May 14, 1909." (Banking Laws, 1927, sec. 221.04 (1-f), p. 28; Wisconsin Statutes, 1927, sec. 221.04 (1-f))

Branch trust companies prohibited:

" * * * nor shall such corporation (trust company bank) establish more than one office of deposit nor establish nor maintain branches." (Banking Laws, 1927, sec. 223.06, p. 59; Wisconsin Statutes, Ch. 223).

WYOMING.No provision covering branches:

There is no specific provision in the laws of Wyoming in regard to the establishment of branch banks.

8 103

Office Correspondence

FEDERAL RESERVE
BOARD

Date May 16, 1930

To Mr. Hamlin

Subject:

From Mr. McClelland.

... 2-8405

At the meeting of the Federal Reserve Board yesterday, discussion was had with regard to the procedure to be followed by the New York Bank in connection with the pending issue of reparations bonds in this country, as outlined by Governor Harrison at the meeting on May 14.

The proposed letter to the Attorney General of the United States, requesting an opinion as to the responsibility of the Board in the matter, on which no action was taken at the meeting on April 22nd, was again brought before the Board, and Mr. James submitted the following motion:

"Whereas, the Bank for International Settlements has come into existence since the enactment of the Federal Reserve Act and obviously Congress has not given any consideration to its relationships with American institutions, particularly, the Federal Reserve System;

"Be It Resolved, That the Federal Reserve Board ask the Attorney General of the United States for an opinion as to what its responsibility is in the premises."

Mr. Hamlin submitted the following as a substitute for the motion made by Mr. James:

"Whereas, Governor Harrison of the Federal Reserve Bank of New York, on May 14, 1930, stated to the Board that if any request should come from the Bank for International Settlements asking whether the Federal Reserve Bank of New York dissents to an offering in the United States of reparations bonds, he would prepare a cable and letter which he would submit to the Federal Reserve Board for approval or disapproval, and that if the Board should disapprove such cable and letter they would not be sent;

"Be It Resolved, That the following proposed reply of the Federal Reserve Bank of New York to such request, be submitted to the Federal Reserve Bank of New York by way of suggestion:

"The Federal Reserve Bank of New York has the honor to acknowledge the receipt of your cablegram asking whether it dissents to the proposed offering in the United States markets of the reparations bonds referred to. In reply I would say that the Federal Reserve Bank of New York does not dissent, for the reason that under the Federal Reserve Act it has no power to pass upon such securities as a condition precedent to their offering in said United States markets. Its failure to dissent, therefore, should not be construed either as an approval or disapproval of the terms, conditions, or worth of such securities, or as a waiver of any of its lawful powers to take necessary action at any time to protect the credit stability of the United States."

The two motions were discussed further, but no action was taken.

L. M. H.
(March 20, 1930.)

PRELIMINARY MEMORANDUM FOR THE
OPEN MARKET INVESTMENT COMMITTEE

The most important development in the credit situation since the last meeting of the Open Market Investment Committee on January 28 and 29, is that business conditions have not improved as rapidly as had been hoped at that time. The January figures for business and trade were slightly better than those for December, and February in turn was very slightly better than January. But the improvement in both months was so small as to leave the total volume of production and trade below the corresponding period in any recent year. The recession appears to have been more severe than in either 1924 or 1927. Accompanying the business recession unemployment has become serious, probably more so than in any year since 1921. In both 1924 and 1927 business was supported in recessions by a continued substantial volume of building construction, but in the past few months building has continued at a low ebb without any indication yet of substantial recovery.

MONEY RATES

The trend toward easier money conditions which was observed at the time of the last meeting has continued even more rapidly than was then anticipated, partly due to a reduced demand for credit and currency for business, but more largely to a heavy flow of gold imports, mostly from Japan and Brazil, which has totaled about \$100,000,000 in the period. In the past two weeks Treasury operations in connection with the March 15 tax period have been an additional important factor toward ease. For ten days before the tax period the Treasury balance at the Reserve banks was drawn down to exceptionally low figures, thus putting funds into the market, and at the time of the tax period the excess of funds in the market as a result of large Treasury disbursements covered by an overdraft could not be absorbed in the usual way by a reduction in member bank indebtedness. And as a consequence there was a considerable volume of free funds available in the

B. 109

market which tended to depress money rates rapidly. On March 19 total bills discounted for the Federal Reserve System were \$206,000,000 as compared with \$407,000,000 on January 29. The decline in money rates in this period is indicated in the accompanying table:

	January 29, 1930		March 21, 1930
Rates for Commercial paper	4 3/4 - 5		4
90 day bills (offered)	4		2 1/2
Call money (renewal)	4 1/2		3
Time money	4 1/2 (nominal)		3 3/4
Bank rates to customers in New York	Jan. 15 5.41	Feb. 15 5.09	Mar. 15 4 3/4 4.93

On March 18 the New York Clearing House reduced deposit rates by 1/2 of one per cent except for the rate on bank deposits which remained unchanged.

In the early part of this period rates tended to move rather sluggishly and to reflect rather slowly the fundamental changes in the credit position, but during the latter part of the period the decline became precipitous and during the tax period even more rapid than the fundamental credit situation appeared to justify.

BOND AND STOCK MARKETS

The effects of easy money and freely available credit have been in the first place to stimulate a vigorous recovery in the bond market. Bond prices have risen to the highest points in more than a year, and the bond market has been opened to new issues; so that bond financing is now in substantial volume and well absorbed. This is of particular importance with relation to the business situation because it makes possible the carrying forward of many business undertakings which had been postponed because of the condition of the bond market.

The stock market remained irregular until the past week when it made a considerable recovery with more active trading than for some time. Brokers loans as reported to the Federal reserve banks have risen \$500,000,300 since the last

meeting of the committee. This probably represents in part an increase in loans by banks to replace loans withdrawn because of low rates by lenders whose operations do not appear in the Federal reserve reports, but it reflected in part also the recent recovery in stock prices.

BANK CREDIT

The total volume of bank credit continued to decline until the end of February but since that time has risen about \$300,000,000 and is now about as large as at the middle of January. The increase has been mostly in security loans, as so-called commercial loans have remained close to the lowest point of the year. In the week ended March 19 bank investments showed their first sizable increase, part of which resulted from subscription to the new Treasury issue.

FEDERAL RESERVE POSITION

In the face of continued business depression and a rapid downward movement of money rates changes in Federal reserve bank discount rates have taken place more rapidly than was anticipated at the time of the last meeting. Since that time two changes have been made in the rates of the New York and Cleveland banks and one change in the cases of Boston, Philadelphia, Richmond, Chicago, St. Louis, Minneapolis, Kansas City and Dallas.

During the early part of the period the Reserve banks were successful in pursuing the policy adopted at the January meeting of holding their bill portfolio at a level close to the level of the latter part of January, which was between \$275,000,000 and \$300,000,000. Early in March, however, it became clear that, with a decline in the total volume of bills in the market, and an increasing demand for bills from banks and others seeking short term investments, it would be impossible to maintain the bill portfolio. In these circumstances and in view of the unfavorable business situation the New York reserve bank, after consultation with the Federal Reserve Board, undertook to purchase \$50,000,000 of Government securities. All reserve banks were advised of this operation

B. 189

and offered participations in the purchase, and eight of the reserve banks took participations.

The following table compares system figures for March 19 with those for January 22. March 19 figures are distorted somewhat by the Treasury overdraft. More normal figures for this week will show an increase in bills and discounts, replacing the overdraft.

(In millions of dollars)

	<u>January 22</u>	<u>March 19</u>
Bills discounted	433	206
Bills bought	298	185
U. S. securities	477	561*
Other securities	<u>15</u>	<u>9</u>
Total bills and securities	1,223	961

* Includes \$29,000,000 of the \$44,000,000 special one-day Treasury certificate of indebtedness to cover overdraft on that date; a \$15,000,000 participation in the certificate was held by a New York Member bank.

See MA

CONFIDENTIAL

REPORT OF THE SECRETARY OF THE OPEN MARKET INVESTMENT COMMITTEE
TO THE MEETING OF THE COMMITTEE AT WASHINGTON ON MARCH 24, 1930

At the time of the last meeting of the Open Market Investment Committee, which was held at Washington on January 28 and 29, 1930, the total holdings of government securities in the System Special Investment Account amounted to - - - - - \$277,500,000

There was no change in the total amount of holdings in the System Account during the period January 28 to March 5, 1930. In view of declines in the bill portfolio of the System and pending a meeting of the Open Market Committee, the Federal Reserve Bank of New York, with the approval of the Federal Reserve Board, purchased approximately \$50,000,000 of government securities which have been allotted to such reserve banks as desired to participate, and made a part of the special investment account. These purchases were made during the following statement weeks.

Week ending Wednesday, March 12, 1930	- - - - -	26,750,000
" " " " 19, 1930	- - - - -	<u>23,000,000</u>

Total amount of holdings close of
business Wednesday, March 19, 1930 - - - - - \$327,250,000

The Federal Reserve Bank of San Francisco, at its request, was apportioned a sufficient amount of the new purchases of governments to increase its participation in the System Account to approximately its proportionate share of the total holdings in the Account. The reserve banks that expressed a desire to participate in these purchases and the amount that each bank received were as follows:

Boston	\$ 3,482,500
New York	6,219,000
Philadelphia	3,234,000
Cleveland	4,726,000
Richmond	2,736,000
Minneapolis	1,617,000
Kansas City	2,860,500
San Francisco	<u>24,875,000</u>
Total	<u><u>\$49,750,000</u></u>

3113

The principal changes in the make-up of the government securities in the System Account since January 28, 1930, none of which affected the total amount of holdings, were as follows:

<u>February</u>	On February 18, the Federal Reserve Bank of Dallas asked to be relieved temporarily of \$5,000,000 of its participation of government securities in the System Account. These securities were taken over temporarily by the Federal Reserve Bank of New York on February 18 and apportioned on February 19 to the other reserve banks which cared to participate, with the understanding that the Federal Reserve Bank of Dallas would repurchase these securities within sixty days.
<u>February</u>	Exchange in the market of \$15,000,000 5 1/8% Treasury certificates due March 15, 1930, for a like amount of 3 1/2% Treasury notes due 1930-32, anticipating the maturity of the certificates.
<u>February</u>	Exchange in the market of \$25,250,000 of the \$50,250,000 Treasury Bills due March 17, 1930, held in the Account for a like amount of 3 1/2% Treasury notes due 1930-32, in anticipation of the bill maturity.
<u>March 15</u>	Exchange of \$14,000,000 - 5 1/8% Treasury certificates due March 15, 1930, for a like amount of the new Treasury 3 1/4% certificates, pursuant to the terms of the Treasury's offering.
<u>March 17</u>	Redemption of the balance of \$25,000,000 Treasury Bills due March 17, 1930, which was offset by purchase in the market of a like amount of short-term governments.

There were also changes in the issues of governments which have had the effect of decreasing the amount of the longer maturities and increasing the amount of the shorter maturities.

The Federal Reserve Bank of New York is still holding in its investment account approximately \$112,000,000 of short-term governments which were purchased in the market last fall as previously reported. At the present time these securities consist of the following issues:

U. S. Treasury Bills due May 15, 1930	\$ 11,000,000
4 7/8% Cert. of Ind. " June 16, 1930	10,301,000
3 1/8% " " " Sept. 15, 1930	28,463,000
3 1/4% " " " Dec. 15, 1930	1,615,000
3 1/2% Treasury Notes " Mar. 15, 1930-32	30,941,900
3 1/2% " " " Sept. 15, 1930-32	29,851,750
Total	<u>\$112,172,650</u>

In addition to the foregoing the Federal Reserve Bank of New York has purchased \$50,000,000 short-term governments, consisting principally of June, September and December 15 certificates, to replace a sale to be made to the Treasury, account Sinking Fund, during the latter part of March and early part of April of \$50,000,000 3 1/2% Treasury notes, Series A-1930-32; \$25,000,000 of which notes are in the System Account and the balance of \$25,000,000 in the investment account of the Federal Reserve Bank of New York.

TRANSACTIONS RELATING TO
SYSTEM PURCHASES OF BANKERS ACCEPTANCES

On February 21, the Federal Reserve Bank of Kansas City resumed participation in System purchases of bills and asked to be allotted \$5,000,000 additional bills. At its request, \$5,000,000 of bills were sold to the Kansas City Reserve Bank from the portfolio of the New York Reserve Bank, and again on March 15, by request, a similar sale was made in the amount of \$3,000,000.

On March 4, owing to its low earnings, the Federal Reserve Bank of Minneapolis asked for a larger allotment of bills. As it seemed unlikely that the System's purchases of bills would be sufficient in the near future to increase the Kansas City Reserve Bank's allotment, it was sold \$5,000,000 of bills from the portfolio of the New York Reserve Bank.

The Federal reserve banks that are participating at present in the System purchases of bills are as follows:

*Boston	Chicago
New York	St. Louis
*Philadelphia	Minneapolis
Cleveland	Kansas City
Richmond	Dallas
Atlanta	San Francisco

* Participations at present confined to purchases in own district.

Attached are statements showing:

- Exhibit "A" - Outright holdings of government securities by individual Federal reserve banks, also their participation in the System Special Investment Account, and classification of issues held in the System Account by maturities, all as of close of business March 19, 1930.
- Exhibit "B" - Bills purchased outright by the System by weeks from January 3, 1929 to March 19, 1930.
- Exhibit "C" - Earning asset holdings of all Federal reserve banks March 19, 1930, as compared with previous week and March 20, 1929, also weekly average of earning assets from January 2, 1930 to March 19, 1930, as compared with corresponding period 1929 and entire year 1929.
- Exhibit "D" - Actual net earnings of all Federal reserve banks for the months of January and February 1930.

EXHIBIT "A"

STATEMENT SHOWING HOLDINGS OF GOVERNMENT SECURITIES BY FEDERAL RESERVE BANKS
(Excluding Sales Contracts)

	Outright Holdings of Government Securities by Federal reserve banks as at the close of business March 19, 1930	Participation by Federal reserve banks in System Special Investment Acct. Government Securities as at the close of Business March 19, 1930	Total
Boston	\$ 706,600	\$ 30,162,500	\$ 30,869,100
New York	116,402,600*	105,571,000	221,973,600
Philadelphia	15,010,100	31,697,500	46,707,600
Cleveland	10,164,800	25,251,000	35,415,800
Richmond	1,152,100	11,670,000	12,822,100
Atlanta	2,599,500	6,226,000	8,825,500
Chicago	19,927,400	51,412,000	71,339,400
St. Louis	8,625,000	10,641,000	19,266,000
Minneapolis	7,790,250	10,957,000	18,747,250
Kansas City	3,000	5,920,500	5,923,500
Dallas	9,987,800	10,647,500	20,635,300
San Francisco	9,642,650	27,094,000	36,736,650
Totals	<u>\$202,011,800</u>	<u>\$327,250,000</u>	<u>\$529,261,800</u>

* Exclusive of Special one-day Certificate of Indebtedness issued to cover the overdraft, and includes \$4,000,000 held temporarily for resale to Treasury.

CLASSIFICATION OF ISSUES OF GOVERNMENT SECURITIES
HELD IN THE SYSTEM SPECIAL INVESTMENT ACCOUNT
CLOSE OF BUSINESS MARCH 19, 1930

U. S. Treas. Bills due May 19, 1930	\$ 26,000,000
4 7/8% C/I due June 16, 1930	60,610,000
3 1/8% " " Sept. 15, 1930	80,075,000
3 1/4% " " Dec. 15, 1930	36,000,000
3 1/2% T/N " March 15, 1932	37,555,000
3 1/2% " " Sept. 15, 1932	31,635,000
3 1/2% " " Dec. 15, 1932	34,925,000
4 1/4% 4th L/L bonds Oct. 15, 1938	20,450,000
Total	<u>\$327,250,000</u>

CLASSIFICATION BY MATURITIES OF BILLS PURCHASED
BY FEDERAL RESERVE BANKS IN THEIR RESPECTIVE DISTRICTS
DURING THE PERIOD FROM JANUARY 3 TO DECEMBER 31, 1929
AND FROM JANUARY 2 TO MARCH 19, 1930
(EXCLUDING SALES CONTRACTS)

(000 Omitted)

	January 3 to December 31, 1929				Total
	1-30 days	31-60 days	61-90 days	Over 90-days	
Boston	\$ 24,461	\$ 27,309	\$ 45,645	\$ 3,059	\$ 100,474
New York	362,675	178,190	261,554	19,993	822,412
Philadelphia	28,019	19,535	33,063	0	80,617
Cleveland	6,065	3,848	7,440	0	17,353
Richmond	2,858	4,222	5,573	0	12,653
Atlanta	29,939	5,387	7,356	374	43,056
Chicago	21,690	12,838	7,381	0	41,909
Dallas	13,254	14,709	7,035	4,432	39,430
San Francisco	17,275	34,343	34,454	2,778	88,850
Totals	<u>\$506,236</u>	<u>\$300,381</u>	<u>\$409,501</u>	<u>\$30,636</u>	<u>\$1,246,754</u>

	January 2 to March 19, 1930				Total
	1-30 days	31-60 days	61-90 days	Over 90-days	
Boston	\$ 2,512	\$ 4,593	\$ 4,306	\$ 743	\$ 12,154
New York	182,869	103,884	44,623	1,063	332,439
Philadelphia	1,778	5,267	6,893	0	13,938
Cleveland	0	0	0	0	0
Richmond	949	1,038	1,085	0	3,072
Atlanta	3,621	1,147	1,565	0	6,333
Chicago	2,551	6,300	203	0	9,054
Minneapolis	625	1,005	479	0	2,109
Dallas	2,524	1,682	543	340	5,089
San Francisco	4,702	14,211	7,639	285	26,837
Totals	<u>\$202,131</u>	<u>\$139,127</u>	<u>\$67,336</u>	<u>\$2,431</u>	<u>\$ 411,025</u>

STATEMENT SHOWING EARNINGS
OF ALL FEDERAL RESERVE BANKS
FOR JANUARY AND FEBRUARY 1930

	Ratios Based on Each Bank's Expenses and Dividends for Year 1929	Gross Earnings January and February 1930	Percentage of Each Bank's Gross Earnings to Total Gross Earnings	Actual Net Earnings Available for De- preciation Allowances, Reserves, Surplus and Franchise Tax
Boston	7 %	\$ 445,949	5.21	\$ 38,553 (A)
New York	20 1/2%	2,807,262	32.78	1,048,797
Philadelphia	6 1/2%	738,354	8.62	224,090
Cleveland	9 1/2%	897,052	10.48	279,050
Richmond	5 1/2%	361,695	4.22	19,431
Atlanta	7 3/4%	406,830	4.75	136,796
Chicago	13 %	1,253,816	14.64	354,478
St. Louis	6 3/4%	368,754	4.31	76,380
Minneapolis	3 1/4%	216,516	2.53	18,810
Kansas City	5 3/4%	287,316	3.36	61,488 (A)
Dallas	5 %	335,257	3.91	71,816
San Francisco	9 1/2%	444,679	5.19	71,796 (A)
Totals	100 %	<u>\$8,563,480</u>	100%	<u>\$2,057,811</u>

Total for same period 1929 - - - - - \$5,623,183

(A) Deficit

STATEMENT SHOWING APPROXIMATE AMOUNT OF NET PROFIT THAT WAS REALIZED ON VARIOUS
 SALES OF UNITED STATES GOVERNMENT SECURITIES HELD IN THE SYSTEM ACCOUNT AND
 IN THE FEDERAL RESERVE BANK OF NEW YORK INVESTMENT ACCOUNT
 DURING PERIOD OCTOBER 31, 1929, TO MARCH 20, 1930.

	<u>System Account</u>	<u>Investment Account F.R.B. N. Y.</u>
Net Profit on Sales During Period Oct. 31, 1929, to Mar. 20, 1930 on Various Amount of Holdings	\$180,126.83*	\$540,204.06
Approximate Amount of Profit to be Realized on Sale to Treasury in the Near Future of \$50,000,000 - 3 1/2% Treasury Notes at Par	97,460.85	113,962.50

* \$174,403.53 of this amount is being held by the Federal Reserve Bank of New York in Suspense Account, to be distributed at the end of the current year.

C113

FEDERAL RESERVE BANK OF NEW YORK

April 28, 1930.

Dear Governor Young:

At the meeting of our directors last Thursday, recent developments in credit and business conditions were reviewed at some length in their relation to the rate and credit policies of this bank. It may interest you to have the following brief summary of the principal factors in the situation which were considered:

(a) Wholesale commodity prices continue to decline so that the last available weekly index indicates a level lower than at any time since the United States entered the war in 1917.

(b) March figures for trade and production show considerable declines from February and on the whole were lower than at any time during the current movement.

(c) Such figures as are available for April show that building contract awards continue to run substantially below last year. On the other hand, car loadings of merchandise show some increase in the first two weeks of April, though this may possibly be due to the late Easter trade. Car loadings of heavy freight show about the usual seasonal decline.

(d) Current quarterly reports of many industrial corporations show large declines in volume and profits from a year ago.

(e) Our export trade for the first three months of 1930 shows a decline of about \$280,000,000 from the same period of 1929, -- a net decline of slightly over 20 per cent. Imports have declined about the same percentage.

(f) The bond market has shown some weakness the past two weeks with a slight decline in prices and some backing up of new issues. We have felt that the financing of new enterprises and the restoration of purchasing power for commodities whose prices are still declining, depends in part at least upon the strength and activity of the bond market and that the revival of foreign purchasing power for our exportable surplus is largely dependent upon new capital acquired through the bond markets of the world, including the American bond market.

(g) Gold continues to move to America -- net imports amounting to almost \$200,000,000 so far this calendar year.

(h) Some of the foreign exchanges, especially the South American exchanges, are weak relative to the dollar.

(i) Member bank credit has on the whole shown little expansion in recent weeks and Federal reserve credit continues to decline. On last Thursday total borrowings by all banks in this district were at a low record of recent years -- approximately \$35,000,000.

(j) Our reserve percentage is approximately 82 per cent.

(k) The stock market has been irregular and on the whole weaker during the past few weeks and in all the above circumstances there appears to be less risk of a too rapid expansion of bank credit collateralized by securities.

It is, of course, difficult in the scope of a letter to review in any great detail the various matters discussed by the directors or to give the views of individual directors with respect to them. The above summary, however, refers to some of the main facts which were before the directors when they took action with respect to the discount rate at their meeting last Thursday.

Very truly yours,

GEORGE L. HARRISON

Governor.

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

2117

Office Correspondence

FEDERAL RESERVE
BOARDDate April 22, 1930 *see Dk*To Mr. HamlinSubject: Security loans and Federal ReserveFrom Mr. SmeadBank Credit.

... 2-8495

In reply to your memorandum of April 18 regarding Federal reserve credit, security loans, etc., I beg to advise as follows:

For the year ended April 16, 1930, weekly reporting member banks show an increase of \$885,000,000 in security loans and a decrease in all other, largely commercial, loans of \$471,000,000, or a net increase in total loans of \$414,000,000. Investments of the weekly reporting member banks declined \$162,000,000 with the result that total loans and investments of these banks are now \$252,000,000 above the amount reported a year ago.

The reserves carried with the Federal reserve banks as reported by weekly reporting member banks were \$75,000,000 larger on April 16, 1930, than a year previous. This \$75,000,000 increase was partly due to an increase in net demand and time deposits and partly to a change in the excess reserves carried by such banks on the two dates.

That there was a decrease during the year of \$250,000,000 in reserve bank credit outstanding, notwithstanding an increase of \$78,000,000 in reserve balances carried with the Federal reserve banks by all member banks is accounted for by an increase of \$202,000,000 in our monetary gold stock, chiefly due to gold imports, and by a decline of \$142,000,000 in the amount of money in circulation. The attached table shows changes for the year ended April 16, 1930, in amount of Federal reserve bank credit outstanding, monetary gold stock, money in circulation, member bank reserve balances, etc., and in the loans, investments, deposits and reserves of weekly reporting member banks.

3121

B. 121

CHANGES DURING YEAR ENDING APRIL 16, 1930, IN RESERVE BANK CREDIT OUT-
STANDING AND IN RELATED ITEMS

Bills and Securities held by Federal Reserve Banks:

Bills discounted	-	\$780,000,000
Bills bought	+	161,000,000
United States securities	+	374,000,000
Other reserve bank credit	-	5,000,000
TOTAL RESERVE BANK CREDIT	-	250,000,000

Increase in Monetary Gold Stock	\$202,000,000	
Decrease in Money in Circulation	142,000,000	
Increase in Treasury Currency	<u>13,000,000</u>	
		\$357,000,000

Increase in Member Bank Reserve balances	78,000,000	
Increase in Unexpended capital funds, nonmember deposits, etc	<u>29,000,000</u>	
		107,000,000

CHANGES DURING YEAR ENDING APRIL 16, 1930, IN CONDITION FIGURES OF WEEKLY
REPORTING MEMBER BANKS

Loans and investments - total	+	<u>\$252,000,000</u>
Loans - total	+	<u>414,000,000</u>
On securities to brokers and dealers		
(a) In New York City	+	927,000,000
(b) Outside New York City	-	208,000,000
On securities to others	+	167,000,000
All other loans	-	471,000,000
Investments - total	-	<u>162,000,000</u>
Reserve with Federal reserve banks	+	75,000,000
Net demand deposits	+	265,000,000
Time deposits	+	289,000,000
Government deposits	-	24,000,000
Borrowings from Federal Reserve banks	-	664,000,000

Office Correspondence

FEDERAL RESERVE
BOARDDate May 19, 1930

see Bk

To Mr. Hamlin

Subject: _____

From Mr. McClelland.

... 2-8495

Supplementing the memorandum furnished you under date of May 16, copy of which is attached, with regard to the proposed procedure to be followed in connection with the pending issue of reparations bonds in this country, there is also attached copy of a motion submitted by Mr. Miller at the meeting this morning as a substitute for the motion offered by Mr. Hamlin at the meeting on the 16th.

VOLUME 203
PAGE 131

B131

The following observations are made by the Federal Reserve Board to explain its position in reply to the matter submitted to it by the Governor of the Federal Reserve Bank of New York with regard to contemplated offering of Reparation bonds in the American market:-

The American capital-loan market is a free market: An exception is the informal surveillance exercised over offerings of securities of foreign origin by the State Department since 1922. The assumption of this responsibility by the State Department appears to have been motivated purely by considerations of national and international policy.

In these circumstances it would be a gratuitous assumption of responsibility - certainly extra legal, if not actually illegal - for a Federal Reserve Bank or the Federal Reserve Board to perform the function of a Capital Issues Committee with regard to a special class of securities, as it would if it undertook to pass upon the admissibility of offerings of bonds made by or on behalf of the Bank of International Settlements in the American market. The statutes of the Bank of International Settlements can not alter the authority or responsibilities of a Federal Reserve Bank or the Federal Reserve Board - can not add to or subtract from them, nor prescribe the manner of their exercise. To take cognizance of the request made of the Federal Reserve Bank of New York by the B. I. S., and indirectly, therefore, of the Federal Reserve Board, would involve the Bank and the Board in an extension of their functions and the acceptance of a new order of responsibility at the instance of a foreign institution. If this could legally and properly be done at the instance of the B. I. S., it could also be done at the instance of any other institution or any government. The implications - political, economic and financial - of any such involvement are so far-

reaching as to make it objectionable from a reasonable public point of view.

It appears to the Board that the existing arrangement under which all questions of clearance in connection with the offering of securities of foreign origin are determined by the State Department needs no supplementation at this time for the safeguarding of our national interest. This is particularly true in connection with offerings of Reparation bonds because from their very nature these questions are political rather than economic and financial in character. For the Federal Reserve Bank and the Board to undertake to pass upon offerings of these bonds upon political grounds would carry them far beyond their legitimate functions. For them to give such bonds clearance on financial grounds would involve them, from the public viewpoint, in an approval of the securities so offered.

The Board feels that it, itself, and Reserve Banks should maintain freedom from commitments that might interfere with the unimpeded discharge of their duties in connection with the administration of the resources of the Federal Reserve System.

After careful consideration of the questions raised by the statutes and requests of the B. I. S., the Board has reached the conclusion that it should be informed that the Federal Reserve Bank of New York expresses and can express no dissent to the proposed issue of Reparation bonds in the American market, for the reason that under the Federal Reserve Act it has no power to pass upon such securities as a condition precedent to their offering in our markets, and that its failure to dissent should not be construed either as an approval or disapproval of the terms, conditions or worth of such securities, or as a waiver of any of its lawful powers to take necessary action at any time to protect the credit stability of the United States.

(C O P Y)

May 16, 1930

To Mr. Hamlin
From Mr. McClelland

At the meeting of the Federal Reserve Board yesterday, discussion was had with regard to the procedure to be followed by the New York Bank in connection with the pending issue of reparations bonds in this country, as outlined by Governor Harrison at the meeting on May 14.

The proposed letter to the Attorney General of the United States, requesting an opinion as to the responsibility of the Board in the matter, on which no action was taken at the meeting on April 22nd, was again brought before the Board, and Mr. James submitted the following motion:

"Whereas, the Bank for International Settlements has come into existence since the enactment of the Federal Reserve Act and obviously Congress has not given any consideration to its relationships with American institutions, particularly, the Federal Reserve System;

"Be It Resolved, That the Federal Reserve Board ask the Attorney General of the United States for an opinion as to what its responsibility is in the premises."

Mr. Hamlin submitted the following as a substitute for the motion made by Mr. James.

"Whereas, Governor Harrison of the Federal Reserve Bank of New York, on May 14, 1930, stated to the Board that if any request should come from the Bank for International Settlements asking whether the Federal Reserve Bank of New York dissents to an offering in the United States of reparations bonds, he would prepare a cable and letter which he would submit to the Federal Reserve Board for approval or disapproval, and that if the Board should disapprove such cable and letter they would not be sent;

"Be It Resolved, That the following proposed reply of the Federal Reserve Bank of New York to such request, be submitted to the Federal Reserve Bank of New York by way of suggestion:

"The Federal Reserve Bank of New York has the honor to acknowledge the receipt of your cablegram asking whether it dissents to the proposed offering in the United States markets of the reparations bonds referred to. In reply I would say that the Federal Reserve Bank of New York does not dissent, for the reason that under the Federal Reserve Act it has no power to pass upon such securities as a condition precedent to their offering in said United States markets. Its failure to dissent, therefore, should not be construed either as an approval or disapproval of the terms, conditions, or worth of such securities, or as a waiver of any of its lawful powers to take necessary action at any time to protect the credit stability of the United States."

The two motions were discussed further, but no action was taken.

2131

*In Young's report to Bd
May 21, 30*

DJS

P 135

The Governor stated that he called a special meeting of the Board because he has been informed by the State Department that inquiry has been made of it as to whether it has any objection to the sale of reparations bonds in the American market. As a matter of courtesy, the State Department advises that it will reply to the effect that it has no objection. The Governor, therefore, anticipated that a cablegram will be received tomorrow by the Federal Reserve Bank of New York from the Bank for International Settlements inquiring whether the Federal Reserve Bank of New York would dissent to an offering of the bonds in this market. He reminded the Board that Governor Harrison of the Federal Reserve Bank of New York on May 14th advised the Board of the procedure that would be followed by the New York Bank, namely, that they would prepare a cable reply to the effect that they do not dissent, but before dispatching the same would refer its contents to the Federal Reserve Board, and if the Board did dissent to the issue the cablegram would not be dispatched.

The Governor then reviewed the situation with reference to the Bank for International Settlements, stating that in the Young plan the tentative draft provided for participation by an officer of a Federal reserve bank in the management of the Bank for International Settlements, both directly and through selection. He recalled the position of the State Department, objecting to any officer of a reserve bank participating in the operation or management of the Bank, on what he considered the standpoint of national policy. He further informed the Board that representatives of the Administration conferred with Messrs. Traylor and Reynolds before their departure for Europe to participate in the drafting of the statutes of the Bank for International Settlements, and informed Messrs. Traylor and Reynolds that if foreign central banks of issue and foreign governments were to be given a veto power with reference to operations in their own markets by the terms of the statutes of the Bank for International

Settlements, some such veto power should be lodged with responsible authorities in this country. He has been informed by Administration officials, he stated, that Messrs. Traylor and Reynolds had accomplished their object, insofar as the Administration was concerned, by giving the veto power to the Federal Reserve Bank of New York, which is subject to general supervision and regulation by the Federal Reserve Board, thus vesting ultimate responsibility in the body which represents the Federal Reserve System as a whole and which is responsible for the credit policies of the United States in the same manner as central banks of issue abroad are respectively responsible for the credit policies of their countries.

The Governor stated that taking all things into consideration he thought it highly desirable that the Federal Reserve Board retain this veto power, even though it might not be of any particular importance at the moment, as the time might come when it would be of great importance and it should not be nullified by the precedent of a failure to assume or accept the power at this time.

He also stated and recommended to his colleagues that he thought the best method of procedure for the Board to follow when the inquiry is made by the Federal Reserve Bank of New York with reference to their cablegram expressing no dissent to the flotation of reparations bonds in this market would be to take the position that inasmuch as we have a free securities market the question of the flotation of reparations bonds in our market at the moment is one of national policy rather than economic or financial. He, therefore, suggested that the question be referred to the State Department ^{and} (to secure) an official statement from them ^{to the effect} that they do not object to the flotation of the bonds and that when this is received the Federal Reserve Bank of New York be

advised that inasmuch as the question at the moment is one of national policy rather than economic or financial, to which the State Department does not object, there are, therefore, no grounds for the Board objecting to the dispatch by the New York Bank of the cablegram that had been prepared, it being understood, however, that such failure to dissent shall not be construed either as an approval or disapproval of the terms, conditions, or worth of securities, or as a waiver of any of the lawful powers of the Federal Reserve System to take appropriate action at any time to protect credit conditions in the United States.

May 1930.

Suggested Change in Governor Young's Report to Board as to
Reparation Bonds.

At bottom of Page 2 strike out all of the rest of page 2 and page 3, and substitute the following:

It is therefore suggested that the question be referred to the State Department, and an official statement be secured from it to the effect that it does not object to the flotation of the bonds, and that when this is received, the Federal Reserve Bank of New York be advised that the Board will not interpose objection to a cablegram to the B.I.S. that it does not express dissent to the particular proposed offering of reparation bonds in the markets of the United States, provided it be understood and made clear that the failure to express dissent does not imply approval of the terms, conditions, or worth of such securities, nor does it affect the right of the Federal Reserve System to take appropriate action at any time called for by credit conditions in the United States.

May 1930.

Suggested Change in Governor Young's Report to Board as to
Reparation Bonds.

At bottom of Page 2 strike out all of the rest of page 2 and
page 3, and substitute the following:

It is therefore suggested that the question be referred to the
State Department, and an official statement be secured from it to
the effect that it does not object to the flotation of the bonds, and
that when this is received, the Federal Reserve Bank of New York be
advised that the Board will not interpose objection to a cablegram to
the B.I.S. that it does not express dissent to the particular proposed
offering of reparation bonds in the markets of the United States,
provided it be understood and made clear that the failure to express
dissent does not imply approval of the terms, conditions, or worth of
such securities, nor does it affect the right of the Federal Reserve
System to take appropriate action at any time called for by credit
conditions in the United States.
