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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date August 5, 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 214 of Mr. Hamlin's scrap book and placed in the Board's files:

VOLUME 214

Page 9 - Memo to Board from Mr. Smead re Loans and investments of member banks on March 25, 1931.
Page 15 - Memo to Mr. Hamlin from Mr. Goldenweiser re collateral requirements against F.R. notes.
Page 20 - (X-6870) re Applications for Trust Powers.
Page 21 - Memo to Board from Mr. Smead re Branch, Group and Chain Banking, December 1930.
Page 25 - Memo to Mr. Hamlin from Mr. Wingfield on trust powers in the District of Columbia.
Page 45 - Memo to Mr. Hamlin from Mr. Smead on national banks during panics.
Page 49 - Memo to Mr. Hamlin from Mr. Goldenweiser re changes necessary to be made in F.R. Act in order to repeal collateral requirements against F.R. notes.
Page 74 - Earnings & Expenses of F.R. Banks, April 1931.
Page 97 - (X-6892) Progressive Penalties on Deficient Reserves.
Page 100 - Memo to Mr. Hamlin from Mr. Goldenweiser re decrease in member bank credit between November 15, 1920, and March 10, 1922.
Page 101 - Memo to Board from Mr. Smead re Member banks borrowing from F.R. Banks 80 per cent or more of the time during 1929 and 1930.
Page 107 - Memo to Mr. Hamlin from Mr. Goldenweiser re Mr. Duggan's document objecting to purchase of U.S. Gov. securities by the F.R. Banks.
Page 109 - Letter to all Governors re Condition of member banks as of March 25, 1931.
Page 110 - Deficiencies in Reserves of Member Banks During the Quarter Ended March 31, 1931.
Page 147 - Memo to Mr. Hamlin from Mr. McClelland re application of the Fid. Trust Co. of New York for membership in the System.
Page 157 - Copy of letter sent by Mr. Hamlin to Professor Bullock of Harvard Economic Society re Mr. Lippmann's article.

MR. HAMLIN

Sec Bk

April 21, 1931
B-317

TO: Federal Reserve Board SUBJECT: Loans and investments of member banks on March 25, 1931

FROM: Mr. Smead

CONFIDENTIAL

Attached hereto is a table giving a preliminary classification of loans and investments of all member banks on March 25, 1931, based on summaries furnished by the Federal reserve agents pending the completion of the Board's consolidated Call Report.

For all member banks the table shows a net reduction, for the first quarter of the year, of approximately $110,000,000 in total loans and investments. Loans to customers other than banks declined nearly $1,100,000,000, of which $400,000,000 was in security loans to non-broker customers and $570,000,000 in other loans to customers (largely commercial). These declines in customer loans were nearly offset by an increase of over $900,000,000 in holdings of United States securities. Weekly reports of member banks in leading cities indicate that about half of the increase in holdings of Government securities represents gradual open-market purchases by the member banks, while the remainder represents the increase that took place on March 15, at which time the interest-bearing debt of the Treasury increased about $500,000,000.

It is interesting to note that, during the first quarter of the year, loans made by member banks to other banks declined by $190,000,000 to the lowest level reached since October 1928, when separate figures of loans to banks were first reported. It will also be noted that acceptances increased $100,000,000 during the quarter to $462,000,000, the largest amount reported for any quarterly call date since October 1928, when such figures first became available. Holdings of acceptances and open market commercial paper aggregated $825,000,000 on March 25, 1931, as compared with $736,000,000 on December 31, 1930 and $753,000,000 a year ago.

The changes for banks in central reserve and reserve cities follow closely the trends already indicated by the figures published weekly for reporting banks in leading cities. At country banks total loans and investments declined $200,000,000 during the first quarter of the year, as the result largely of decreases of $50,000,000 in security loans to non-broker customers, $190,000,000 in other loans to customers and $40,000,000 in holdings of securities other than Government, partly offset by an increase of $110,000,000 in Government security holdings.

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ALL MEMBER BANKS -- PRELIMINARY CLASSIFICATION OF LOANS AND INVESTMENTS ON MARCH 25, 1931, COMPARED WITH PRECEDING CALL DATES
(Amounts in millions of dollars)

B-317

Date	Total loans and invest-ments	Loans to banks		Loans to customers, exclusive of banks						Open market loans					Investments		
		On securi-ties	All other	Total	On securities		On real estate		Other loans to cus-tomers	Total	Accept-ances payable in U.S.	Accept-ances payable abroad	Com-mercial paper	Security loans to New York brokers	Total	U. S. Government securities	Other securi-ties
					To brokers outside New York	To other cus-tomers	Farm land	Other real estate									
TOTAL-ALL MEMBER BANKS																	
1929, Mar. 27	35,393	*548		21,903	1,014	6,526	403	2,720	11,240	2,494	146	93	376	1,879	10,448	4,454	5,994
1930, Mar. 27	35,056	260	267	21,495	706	7,024	394	2,776	10,595	3,097	175	79	499	2,344	9,937	4,085	5,852
1930, Dec. 31	34,860	315	316	21,006	675	7,266	387	2,847	9,831	2,234	315	55	366	1,498	10,989	4,125	6,864
1931, Mar. 25	34,748	218	228	19,927	570	6,866	387	2,828	9,277	2,454	361	101	363	1,629	11,920	5,045	6,875
NEW YORK CITY**																	
1929, Mar. 27	7,726	*251		4,253	52	1,692	-	148	2,361	1,250	59	52	37	1,102	1,972	1,135	838
1930, Mar. 27	8,238	92	107	4,338	60	1,876	-	150	2,252	1,655	89	40	49	1,477	2,046	1,150	897
1930, Dec. 31	8,582	132	151	4,338	104	2,033	-	147	2,054	1,525	188	22	34	1,281	2,435	1,239	1,197
1931, Mar. 25	8,471	70	84	4,005	119	1,853	1	150	1,882	1,651	199	51	35	1,366	2,662	1,466	1,196
CHICAGO**																	
1929, Mar. 27	1,793	*62		1,353	311	477	2	19	544	41	8	5	10	18	337	164	172
1930, Mar. 27	1,717	50	8	1,160	194	474	2	18	472	187	3	11	33	140	310	146	164
1930, Dec. 31	1,861	42	13	1,194	201	472	2	18	501	95	18	14	18	45	518	240	277
1931, Mar. 25	1,852	35	6	1,051	159	452	2	16	422	171	14	25	21	111	590	329	261
RESERVE CITY BANKS																	
1929, Mar. 27	12,132	*196		7,933	538	2,415	112	1,376	3,492	603	35	27	136	405	3,400	1,732	1,668
1930, Mar. 27	11,858	104	101	7,790	360	2,576	113	1,411	3,330	757	55	24	209	469	3,105	1,516	1,590
1930, Dec. 31	11,897	125	106	7,713	312	2,671	120	1,491	3,119	436	104	15	194	123	3,517	1,486	2,031
1931, Mar. 25	12,113	101	93	7,359	231	2,523	122	1,476	3,006	474	144	23	191	116	4,086	1,984	2,102
COUNTRY BANKS																	
1929, Mar. 27	13,741	*39		8,364	114	1,942	289	1,176	4,843	598	44	8	192	354	4,740	1,424	3,316
1930, Mar. 27	13,243	14	51	8,206	93	2,097	279	1,196	4,541	496	27	4	207	258	4,475	1,273	3,202
1930, Dec. 31	12,519	15	46	7,762	59	2,090	264	1,191	4,158	177	5	3	120	49	4,519	1,159	3,359
1931, Mar. 25	12,313	13	45	7,513	61	2,038	262	1,185	3,967	159	5	2	116	36	4,582	1,266	3,316

*Represents total loans to banks - segregation not available.
**Central reserve city banks only.

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS
APRIL 20, 1931

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date April 18, 1931

To Mr. Hamlin

Subject:

From Mr. Goldenweiser

GPO 2—8495

Collateral requirements against Federal reserve notes are a part of a plan contemplated by the Federal Reserve Act, the object of which was to make the note issue function of the Federal reserve system separate from its banking operations, to surround it by special safeguards, and to place it under direct control of the Federal Reserve Board. In practical operation this separation of functions has not materialized. The Board has never exercised its power to restrict note issues, nor has it ever charged interest on Federal reserve notes. Neither has the collateral proved to be an additional safeguard for the redemption of Federal reserve notes, because practically all of the eligible paper with the reserve banks has been at all times pledged with the agent and, therefore, the paper back of the notes has been no better than the paper discounted or purchased by the reserve banks; in fact, it has been the same paper. Since the notes are a first lien on all the assets of all the reserve banks, in addition to being an obligation of the United States Government, they have back of them all the security that the Federal reserve system can offer and no impounding of collateral can increase this security.

One reason for limiting the collateral against Federal reserve notes to commercial paper and acceptances arose from the belief that the elasticity of the currency depended on having the collateral back of it be based on commercial transactions. The thought was that when a merchant needed money, he discounted paper with a member bank, the member bank rediscounted it with the Federal reserve bank, the Federal reserve bank in turn pledged it with the agent

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and obtained Federal reserve notes which it passed on to the member banks and so ultimately to the merchant. When the merchant had cleared his shelves, he used the Federal reserve notes received for his goods to retire his note; the member bank redeemed itts rediscount with the reserve bank, and the reserve bank returned the Federal reserve notes to the agent and thus released the merchant's paper. As a matter of fact, the system has not operated in this manner. When additional currency is wanted for the purpose of meeting seasonal requirements, member banks borrow from the reserve banks, it is true, in order to obtain the currency, but they borrow on whatever paper they happen to have that is the most convenient and the cheapest means of obtaining reserve bank credit. There is no connection between the paper on which the member bank obtains credit from the reserve banks and the paper which the member banks receive from the person who wants the currency. There is, therefore, no connection between the termination of the original transaction for which the currency was needed and the repayment of the note to the reserve bank. One reason for this is that the volume of eligible paper in the hands of the member banks is many times larger than the amount of discounts with the reserve banks; and this is true even excluding United States Government securities held by the banks. On the latest call report date the amount of eligible paper was in excess of $3,500,000,000 and in addition there were Government securities of over $4,000,000,000. Member banks have never borrowed anything approaching this amount and, therefore, they have paper available for reserve bank credit that in no way depends on particular transactions occurring at a particular time. They have a supply of paper for use at the reserve banks at all times, and the particular link between the currency demand and the reserve banks, which the proponents of the Federal Reserve Act had contemplated, has not materialized.

Nevertheless currency is extremely elastic for the reason that the public has no desire to keep currency in excess of its current needs and the member banks have an incentive for returning currency to the Federal reserve banks where it creates reserves for them rather than to keep it in their own vaults where it does not count as reserves. The elasticity of our currency is based on the entire credit and currency system under which we function rather than on the particular collateral that is eligible against Federal reserve notes. It is my opinion, therefore, that the collateral requirements against Federal reserve notes are not serving the purposes that were contemplated by the proponents of the Federal Reserve Act who believed that the collateral provisions would safeguard and limit the asset currency and protect it against demands arising from sources other than trade and industry.

As things actually operate, the demand for currency arises at a much later time than the original commitments on which the demand rests; and when currency is demanded it must be paid, so long as the banks are solvent. Control of currency issues as such, therefore, is futile; it is the credit that results in the demand for currency that needs to be controlled. The volume of currency is a part of the picture on the basis of which general credit policies are determined and there is no particular mechanical safeguard that can protect the country from currency inflation. This particular kind of inflation does not fit our credit structure in any case, because currency has been relegated to serve as a medium for hand-to-hand payments, while the real purchasing power in large volume rests upon bank deposits rather than upon currency. For this reason the Federal reserve system has to exercise whatever control it has over credit developments through the medium of member bank reserve balances, on which a credit structure of 15 to 1 is built and which constitute the basis of member bank deposits that are used in settling 95 per cent of financial transactions. Currency, which can be issued only on a 1 to 1 basis and which is issued to settle only a small fraction of transactions, does not play the part in our business and credit structure which was cast for it by the original proponents of the Federal Reserve Act.

There is one other point of view, from which the desirability of having special collateral against Federal reserve notes consist of eligible paper or gold has been advocated, and that is from the point of view that this procedure limits the freedom of the Federal reserve system's operations in the open market. United States Government securities are not eligible as collateral against Federal reserve notes and, therefore, if the Federal reserve banks should buy a great many Government securities and put the member banks out of debt, the only thing that would be available for collateral against notes would be gold, and if the supply of gold were limited, this might constitute a limitation on open market operations of the Federal reserve banks, Such a limitation on open market operations of the Federal reserve banks may be considered desirable by those who feel that it is through operations in the open market that the Federal reserve system has exerted an unfavorable influence on the credit situation. From this point of view, however, an important consideration is that collateral requirements increase the amount of available gold at the very time when a restraining influence by the Federal reserve system is desirable and absorb a lot of gold at a time when conditions favor an easing policy. This is illustrated by the attached chart, which shows that excess reserves based on legal reserve requirements fluctuate in accordance with the credit situation, declining when credit conditions are tight and rising as credit conditions ease. In contrast to this, free gold (that is the gold left after reserves against deposits and collateral against notes have been provided) rises in a tight situation and contracts in an easy situation. This is for the reason that when credit conditions are tight, as they were in 1929, for instance, there is a large amount of member bank discounts available as collateral, and therefore less gold is required, while at a time like the present, notwithstanding the much smaller total volume of reserve notes outstanding, the scarcity of eligible paper results in a tying up of a considerable amount of gold, with the consequence that the volume of free gold is much lower than it was in the autumn of 1929. In other words, collateral requirements work backwards, tending towards ease during a time when credit restraint is desirable and towards contraction during a time when credit ease is indicated. Collateral requirements, therefore, would be of no real service to those who may believe in having a mechanical device for limiting open-market operations of the Federal reserve system. They limit at the wrong time.

In view of all of these considerations, I believe that nothing would be lost if collateral requirements against Federal reserve notes were to be abolished. This move, however, is not urgently required at this time, because our gold supply is so large that we are not short of gold no matter how extravagantly we use it. The abolition of collateral requirements would be helpful chiefly as a step in the direction of conserving the world's gold by not tying it up unnecessarily. It would also make it possible to absorb national bank notes without causing any further drain on the gold supply than the required 40 per cent reserve. In this way it would facilitate the simplification of our currency system.

I think, therefore, that the abolition of collateral requirements against Federal reserve notes, though not immediately urgent, would be a constructive move, in keeping with the system's experience of how the currency function actually works, and would pave the way for a simplification of our currency system and a more economical use of the world's gold supply.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6870

April 22, 1931.

SUBJECT: Applications for Trust Powers.

Dear Sir:

In 1915 the Federal Reserve Board addressed a letter to the Federal reserve agents of the various Federal reserve banks setting forth certain principles for their guidance in making recommendations to the Board on applications of national banks for authority to exercise trust powers. Attention is again invited to this letter, copy of which is attached.

The procedure in handling these applications has since been amended, in that the Federal reserve agents now transmit them with a recommendation of the Executive Committee or Board of Directors of their respective banks. In most cases, however, little, if any, information is given the Board as to the basis of the recommendation, other than is furnished in the analysis, which accompanies the application, of the report of the last examination of the applying bank. The Board feels that it should have the benefit of more detailed comment from the Federal reserve agents regarding the condition of an applicant bank, the need of the community which it serves for trust powers, the character of its general management and, particularly, with reference to the type of supervision which will be given to trust activities if and when authorized by the Board. The Board requests, therefore, that the Federal reserve agents hereafter supplement each such report with a statement as to the reasons for the recommendation made, <u>and specific information as to the qualifications and experience of the person or persons selected to discharge the duties of trust officer in the applicant bank.</u>

Very truly yours,

E. M. McClelland,
Assistant Secretary.

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Enclosure.

TO ALL F. R. AGENTS.

MR. HAMLIN

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date April 21, 1931

Sec Br

To Federal Reserve Board

Subject: Branch, Group and Chain Banking, December 1930.

From Mr. Smead

GPO 2—8495

Attached hereto is a memorandum on changes in branch, group and chain banking during the last half of 1930, prepared by Mr. Horbett.

In addition to the points brought out by Mr. Horbett, it is interesting to note that of the 28 branch systems that suspended during the last half of 1930, 16 banks had 28 branches -- all outside head office cities, and the 12 remaining banks had 99 branches -- all in head office cities. The four principal branch banking systems which suspended operations during the last six months of 1930 operated 89 branches, all in head office cities, as follows:

Bank of United States	New York	58 branches
Bankers Trust Company	Philadelphia	19 branches
Louisville Trust Company	Louisville	6 branches
Chelsea Bank & Trust Company	New York	6 branches

In the group and chain field, the reports show that the 17 groups and chains in which bank suspensions occurred controlled 155 banks in June 1930. Of these 155 banks, however, only 87 suspended, in fact in only 3 cases out of the 17 did all the banks in the chain suspend. The largest group or chain to suspend operations was the Rogers Caldwell - A. B. Banks group, which controlled 63 banks in June, of which 44 suspended -- 42 of these 44 banks being in Arkansas. The 11 banks in the A. T. Hudspeth chain, all of which suspended, were also in Arkansas.

The suspended banks in the BancoKentucky Corporation, of which the principal bank was the National Bank of Kentucky, had loans and investments of about $72,000,000; in the Caldwell group the suspended banks had loans and investments of about $48,000,000; and in the Albert N. Greenfield chain of Philadelphia, of which the Bankers Trust Company was the largest bank, $34,000,000. In no other chain did the suspended banks have loans and investments of as much as $4,000,000.

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Not for publication

BRANCH, GROUP AND CHAIN BANKING, DECEMBER 31, 1930

Changes in last half of 1930. Both the number of branches and the number of group and chain banks declined during the last half of 1930, the total number of branches in operation at the end of the year being 3,539 -- 79 less than at the end of June, and the number of banks belonging to groups or chains 2,088 -- 87 less than in June. The decreases were largely the result of bank suspensions, though quite a number of branches were abolished or merged with other branches, particularly in California. The number of banks operating branches declined during the six-month period from 817 to 776, and the number of groups and chains from 296* to 287.

The gross decrease in the number of branches in the six-month period was 211, including 84 branches that were abolished or merged with other branches and 127 that suspended (with the suspension of the parent bank). Partly offsetting these decreases, 61 branches were opened de novo, 59 banks were absorbed and converted into branches, and 12 branches of suspended banks resumed operations.

There was a gross decrease of 181 in the number of banks belonging to groups and chains, of which 87 resulted from suspensions, 36 from the merger of banks belonging to the same groups, 8 from other mergers, and 50 from withdrawals, sales to other interests, or the dissolution of groups and chains. These decreases were partly offset by the addition of 75 banks to existing groups and chains, and the inclusion of 19 banks in new groups.

These changes in branch, group and chain banking are summarized in Table A.

Classification of banks and branches. At the end of 1930 there were 22,769 banks** and 3,539 branches in the United States, or a total of 26,308 bank offices. Of this total, 3,608 banks and branches belonged to groups and chains -- including 1,948 banks without branches and 140 banks operating 1,520 branches. Loans and investments of all banks in the United States aggregated $56,200,000,000, of which $11,300,000,000 represented loans and investments of banks belonging to groups and chains.

*Revised.

**All reporting national, state, savings, and private banks, and trust companies, except private banks not under State supervision.

The following table gives a classification of the number and loans and investments of all banks and branches at the end of 1930:

CLASSIFICATION OF NUMBER AND LOANS AND INVESTMENTS OF ALL BANKS AND BRANCHES, DECEMBER 31, 1930

	Total	In groups or chains	Not in groups or chains
TOTAL NUMBER OF BANKS AND BRANCHES	26,308	3,608	22,700
Number of banks - Total	22,769	2,088	20,681
Banks without branches	21,993	1,948	20,045
Banks with branches - Total	776	140	636
Local systems*	543	106	437
County systems	143	18	125
State-wide systems	90	16	74
Domestic branches - Total	3,539	1,520	2,019
In head office city	2,398	916	1,482
In own county (outside head office city)	399	85	314
In other counties	742	519	223
LOANS AND INVESTMENTS (millions of dollars)			
All banks and branches - total............	56,209	11,279	44,930
Banks without branches	32,070	5,085	26,985
Banks with branches - Total	24,139	6,194	17,945
Local systems*	21,379	4,117	17,262
County systems	285	92	193
State-wide systems	2,475	1,985	490

*Includes all banks operating branches only in the head office city and contiguous territory, also 5 banks which in the aggregate had 114 branches in the head office city and contiguous territory, 8 other branches in the home county and 4 branches outside the home county.

It will be noted from the table that of the total of 22,769 banks (head offices) in operation at the end of 1930, 776 were operating branches, including 543 "local" branch systems, 143 "county" systems, and 90 "state-wide" systems. A number of these branch systems -- in fact some of the largest ones -- were also members of bank groups or chains.

The large majority of the 3,539 branches, of course, were "local," including 2,398 located in the same cities as their parent banks and 399 in the same counties (though outside the head office cities). Only 742 of the branches were located outside the home counties, and of these 463 were in California.

Branch systems taken as a whole had aggregate loans and investments of approximately $24,000,000,000 as compared with $56,000,000,000 for all banks, but about $21,500,000,000 represents the loans and investments of local and county systems and only $2,500,000,000 of state-wide systems. Furthermore, many of the 90 state-wide systems, with loans and investments aggregating $2,500,000,000, were of relatively small size. This is apparent from the fact that the 4 principal state-wide systems in California account for $1,650,000,000 of the aggregate loans and investments of the entire group.

Principal bank groups. Although group and chain banking is quite wide-spread, comprising 3,608 bank offices (2,088 banks and 1,520 branches) embraced in 287 groups and chains, there are relatively few groups of large size. The largest groups, from the standpoint of the number of bank offices operated, are listed in Table B. It will be noted from this table that of the total of 3,608 bank offices included in bank groups and chains, 1,506 banks and branches with total loans and investments of approximately $5,300,000,000 were embraced in the 10 largest groups. The 40 largest groups comprised 2,089 bank offices with loans and investments of approximately $8,000,000,000, while the remaining 247 groups and chains comprised 1,519 bank offices with loans and investments of approximately $3,200,000,000.

The largest group from the standpoint of total banking offices is the Transamerica Corporation, which had only 13 constituent banks but, in addition, was operating 449 branches, 368 of these being located outside the head-office city. All but one of the banks and nearly all of the branches in this group are on the Pacific coast, the remaining bank with 35 branches being located in New York City. From the standpoint of the number of banks, i.e., exclusive of branches, the largest groups are, of course, the Northwest Bancorporation and the First Bank Stock Corporation, both of Minneapolis, which at the end of 1930 controlled 117 and 103 banks, respectively.

The two groups last mentioned, as is generally known, control banks throughout the Ninth Federal reserve district*, their field of operation being considerably wider than of some other well-known groups. The Detroit Bankers group, for example, comprises only Detroit banks and banks in the surrounding metropolitan area; the Guardian Detroit Union group has a somewhat larger field embracing Detroit and the lower part of Michigan; the banks in the Wisconsin Bankshares Corporation group are all in the State of Wisconsin; those in the First National Old Colony group of Boston are nearly all in the Boston metropolitan area; the 17 banks in the Marine Midland group are located mostly in Western New York, but some

*The Northwest Bancorporation also controls a number of banks in three other districts.

of them are in other parts of the State, including one in New York City. Some of the groups, therefore, correspond closely to local or county branch systems, and others to state-wide branch systems. There are no branch systems that correspond to the district-wide groups in the Ninth district.

During the last six months of 1930 there was a net increase of 9 in the number of banks controlled by the Northwest Bancorporation, 3 in the First Bank Stock Corporation, and 18 in the Wisconsin Bankshares group. Some of the other groups show small reductions in the number of constituent banks due to mergers, in fact there was a net reduction of 36 in the total number of group and chain banks as the result of the merger of constituent banks, principally in the larger groups.

It is of interest, in connection with the recently formed groups, to note that in quite a number of cases the constituent banks are located in towns of small population. This is brought out in the following table which covers five of the principal groups:

Number of banks located in places with population of -	Northwest Bancorporation	First Bank Stock Corp.	Guardian Detroit Union Group	Southwest Bank Shares Corp. Tulsa, Okla.	Wisconsin Bankshares Corporation
In home city	8	6	4	3	14
Outside home city:					
Less than 500	7	9	3	-	2
500 -1000	13	11	2	4	4
1000-1500	17	14	1	1	2
1500-2500	8	9	1	13	2
2500-5000	16	10	1	2	6
5000 and over	48	44	18	13	16
Total	117	103	30	36	46

Principal branch bank systems. While a total of 776 banks were operating branches at the end of 1930, only 90 of these were "out-of-county" systems, and of this number only 14 had more than 10 branches. These 14 state-wide systems had a total of 799 branches, or approximately 75 per cent of all of the branches that were being operated by "out-of-county" systems. In addition, 12 other banks in this group had from 6 to 10 branches each, while the remaining 64 banks in the group were operating an average of two branches each. The largest state-wide systems are, of course, those in California, but as indicated in Table C one system in South Carolina had 41 branches and one in Maryland 20 branches.

There were 543 "local" branch systems at the end of 1930 with a total of 2,301 branches. However, as indicated by Table C, 1,278 of these branches were being operated by only 46 banks, in fact the 14 largest local systems -- each with more than 30 branches -- had in the aggregate 736 branches. All of these 14 systems were located in the cities of New York, Detroit, Los Angeles, Cleveland and Buffalo.

The principal state-wide and local branch systems are listed in Table C.

Changes in branch banking since June 1924. The reduction in the number of branches during the last half of 1930 -- resulting largely from bank suspensions -- is the first decrease reported since June 1924, the first date for which complete branch banking statistics are available. There was a steady growth in the number of branches up to June of last year, the number increasing from 2,293 in June 1924 to 2,900 in February 1927 (when the McFadden branch banking amendment became a law) and to 3,618 in June 1930. The net increase in the number of branches between June 1924 and December 1930 was 1,245.

There has, of course, been a constant reduction in the last decade in the number of banks (head offices), due principally to suspensions and consolidations, and this continued in the last half of 1930. Until last year, however, the decrease in the number of banks was partly offset by an increase in the number of branches. The net decrease in the number of banks between June 1924 and December 1930 was 6,227, while the net decrease in the total number of banking offices (banks plus branches), after allowance is made for the increase of 1,246 branches, was 4,981.

From the standpoint of the individual states, the largest decrease in the number of banking offices occurred, of course, in the states prohibiting the establishment of branches. In these states, 22 in number, the total number of banking offices declined from 16,000 in June 1924 to 12,350 in December 1930 or by approximately 23 per cent. In the 5 states that have no provision in the State law regarding branch banking, the total number of banking offices declined from 2,287 to 1,423 or by 38 per cent. On the other hand, in the 12 states in which the establishment of branches is permitted though restricted generally to head-office cities, the total number of banking offices remained nearly unchanged -- 9,448 in June 1924 and 9,407 in December 1930. In the 10 states (including the District of Columbia) in which state-wide branch banking is permitted, the number of banking offices declined during the 6-1/2 year period from 3,554 to 3,128, or by 12 per cent.

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A distribution by states of the number of banks, branches and total banking offices in June 1924, June 1930 and December 1930, is given in Table 5, and a summary classification is given below:

	Dec. 31 1930	June 30 1930	Dec. 31 1929	Feb. 25 1927*	June 30 1924
Banks operating branches					
Total	776	817	822	779	714
National banks	161	165	166	145	108
State bank members	160	169	180	189	191
Nonmember commercial banks	384	414	407	387	387
Mutual savings banks	68	66	65	50	28
Private banks	3	3	4	8	(a)
Number of branches					
Total	3,539	3,618	3,547	2,900	2,293
In head office city	2,398	2,470	2,432	1,929	1,508
Outside but in own county	399	428	423)	971	785
In other counties	742	720	692)		
Of national banks	1,106	1,041	1,027	390	248
Of state bank members	1,286	1,308	1,299	1,560	1,137
Of nonmember commercial banks	1,039	1,164	1,115	863	908
Of mutual savings banks	104	101	99	76	(a)
Of Private banks	4	4	7	11	(a)

(a) Not separately tabulated; included with "nonmember commercial banks."
* Date of McFadden Act.

Changes in group and chain banking since June 1929. The first statistical summary of group and chain banking was prepared as of June 1929, at which time (on the basis of the latest revised figures) 1,831 banks were members of groups and chains, as compared with 2,088 on December 31, 1930, a net increase of 257 banks for the period of 1-1/2 years. Corresponding figures for each state for June and December in both 1929 and 1930, are shown in Table 4. Increases in the number of constituent banks have, of course, been confined to what are known as bank "groups," nearly all of which came into existence in the last two or three years, while the decreases have been largely due to the suspension of "chain" banks.

Tables by states and classes of banks. All of the data presented herein are shown in greater detail in Tables 1 to 5, which give separate figures for each state, also totals for each class of banks -- national, state member, and nonmember.

National banks, it will be noted from Table 5, were operating 1,106 branches at the end of 1930 as compared with 248 in June 1924, the first date for which complete data are available; state bank members were operating 1,286 branches at the end of 1930 as compared with 1,137 in 1924; and nonmember banks had 1,147 branches at the end of 1930 as compared with 908 in 1924.

In the field of group and chain banking, 824 national banks were reported as members of groups or chains at the end of 1930 as compared with 656 in June 1929, the first date for which comparable data are available. During the same period of 1-1/2 years, the number of constituent state bank members increased from 104 to 120, and the number of nonmember banks in groups and chains from 1,071 to 1,144.

Recent State legislation on branch banking. In the accompanying tables, in which figures of branch, group and chain banking are given for each state, the states have been grouped into four classes -- (1) State-wide branch banking permitted, (2) Branches restricted as to location, (3) Establisment of branches prohibited by law, (4) No provision in State law regarding branch banks.

This is the grouping used in former summaries, and all of the states have been grouped exactly the same as in the June 1930 summary. However, in March of the present year, three states enacted branch banking legislation, as follows:

(1) In Montana the state law now permits the establishment of branches in the same county as the parent bank or in adjoining counties, provided such branches result from the consolidation of two or more banks and the consolidated bank has a paid-up capital of $75,000 or more. In other words, if two or more banks located in the same or adjoining counties consolidate, all offices may continue in operation, one as the parent bank and the remainder as branches.

(2) In Indiana the law now permits the establishment of intra-city branches in county-seat cities of 50,000 population or over, also inter-city branches within the same county as the parent bank provided there is no bank in operation in the town in which the branches are to be established. Banks establishing intra-city branches must have a paid-up and unimpaired capital and surplus of $225,000 for each such branch.

(3) In Iowa the law does not permit the establishment of "branch banks" but it does permit the establishment of "offices" in towns in which no banks are in operation in the county in which the bank is located and in adjoining counties, these offices being authorized simply to receive deposits and cash checks and to perform other clerical and routine duties.

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DIVISION OF BANK OPERATIONS
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Table A -- ANALYSIS OF CHANGES IN BRANCH, GROUP AND CHAIN BANKING

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	Year 1930	First half of 1930	Second half of 1930
Number of branch systems			
At beginning of period	822	822	817
Increases --			
New branch systems	43	32	11
Suspended branch systems reopened	3	2	1
	+46	+34	+12
Decreases through --			
Mergers with other banks (net)	38	20	18
Suspensions	40	12	28
Discontinuance of branches	14	7	7
	-92	-39	-53
At end of period	776	817	776
Number of domestic branches			
At beginning of period	3,547	3,547	3,618
Increases --			
De novo branches	150	89	61
Banks converted into branches	121	62	59
Resumption following suspension	14	2	12
	+285	+153	+132
Decreases--			
Discontinued	144	60	84
Suspended (with suspension of parent bank)	149	22	127
	-293	-82	-211
At end of period	3,539	3,618	3,539
Number of groups or chains			
At beginning of period	297	r/297	296
Increases -- new groups	+19	+13	+6
Decreases through --			
Suspensions	14	3	11
Mergers of banks	5	3	2
Sales and withdrawals	10	8	2
	-29	-14	-15
At end of period	287	r/296	287
Number of group and chain banks			
At beginning of period	2,105	r/2,105	2,175
Number of banks in new groups--			
Transferred from other groups	#4	#4	--
Other banks	78	59	19
Increases in existing groups or chains--			
Transferred from other groups	#27	#15	#12
Other additions	204	129	75
	+282	+188	+94
Decreases through --			
Mergers with banks in same groups	65	29	36
Mergers with banks in other groups	2	-	2
Other mergers	13	7	6
Suspensions	112	25	87
Sales to other groups	#31	#19	#12
Withdrawals or other disposal	58	33	25
Dissolution of group	49	24	25
	-299	-118	-181
At end of period	2,088	r/2,175	2,088

r/ Revised.
\# Not included in the total - represents merely transfers from one group to another.

Table B -- PRINCIPAL BANK GROUPS, DECEMBER 31, 1930

Name and location of group	Number of banking offices: Total	Banks	Branches: H. O. city and county	Branches: Outside	Loans and investments (thousands of dollars)
Transamerica Corporation	462	13	81	368	1,285,840
Detroit Bankers, Inc.	224	21	203	-	657,648
Goldman Sachs Trading Corporation	180	4	118	58	565,671
Security First National Co., Los Angeles	134	4	101	29	462,644
Northwest Bancorporation	120	117	3	-	345,810
First Bank Stock Corporation	106	103	3	-	333,451
Guardian Detroit Union Group	104	30	74	-	375,160
Marine Midland Group	69	17	52	-	477,048
First National Old Colony Corp., Boston	55	21	34	-	577,913
Wisconsin Bankshares Corporation	52	46	6	-	248,877
Total, first 10 groups	1,506	376	675	455	5,330,062
American State Bankers Group, Detroit*	40	11	29	-	61,842
American National group, Nashville, Tenn.	41	20	20	1	74,714
Financial Institutions, Inc., Augusta, Me.	40	14	19	7	78,022
Southwest Bank Shares Corp., Tulsa, Okla.	36	36	-	-	77,515
First Securities Corp., Syracuse, N.Y.	28	15	13	-	104,634
First Security Corporation, Ogden, Utah	28	28	-	-	36,975
Socarnat Corporation, Charleston, S.C.	26	10	4	12	40,965
Old National Corporation, Spokane, Wash.	24	24	-	-	32,743
Western New York Investors, Buffalo, N.Y.	22	3	19	-	141,448
BancOhio Corporation, Columbus, Ohio	21	10	11	-	70,224
Hamilton National Associates, Chattanooga	21	16	5	-	31,181
Anglo National Corporation, San Francisco	18	17	1	-	143,346
Citizens & Southern Holding Co., Savannah	18	7	3	8	67,425
Shawmut Association, Boston	17	6	11	-	177,365
First National group, Atlanta	17	7	10	-	97,817
Industrial Trust Co., Providence, R.I.	17	3	9	5	149,527
Interstate Trust & Banking Co., New Orleans	16	8	8	-	23,443
Federal National Investment Trust, Boston	15	8	7	-	54,988
Commerce Union Bank, Nashville, Tenn.	16	3	3	10	15,559
First National Corporation, Louisville, Ky.	14	6	8	-	43,465
Calcasieu National group, Lake Charles, La.	14	6	3	5	14,694
Worchester County Bk & Tr. Co., Worchester	13	7	6	-	72,299
Exchange National group, Tampa, Fla.	12	12	-	-	15,577
United States National Corp., Portland, Ore.	11	11	-	-	69,264
Central Trust Company, Chicago	10	10	-	-	191,575
National Republic Bancorporation, Chicago	10	10	-	-	170,838
Peoples Trust & Guaranty Co., Hackensack, N.J.	10	10	-	-	26,293
Marine Bancorporation, Seattle, Wash.	10	10	-	-	33,195
First Seattle Dexter Horton Securities Company, Seattle, Wash.	9	7	2	-	75,094
First National group, Chicago	9	9	-	-	539,821
Total, 40 groups	2,089	720	866	503	8,061,910
247 other groups and chains	1,519	1,368	135	16	3,217,090
Total, 287 groups and chains	3,608	2,088	1,001	519	11,279,000

*Group dissolved upon merger of American State Bank, the principal bank in the group, with the Peoples Wayne County Bank of the Detroit Bankers group.

Table C -- PRINCIPAL BRANCH BANK SYSTEMS, DECEMBER 31, 1930

Name and location of parent bank	Number of branches	Loans and investments (thousands)
STATE-WIDE BRANCH SYSTEMS		
Bank of America National Tr. & Sav. Assn., San Francisco	351	919,560
Security-First National Bank, Los Angeles	130	461,565
American Trust Company, San Francisco	94	214,910
Bank of America, Los Angeles	63	50,760
Peoples State Bank of South Carolina, Charleston	41	24,179
Eastern Shore Trust Co., Cambridge, Md.	20	16,449
Tennessee Valley Bank, Decatur, Ala.	15	5,862
Industrial Trust Company, Providence, R. I.	14	138,890
North Carolina Bank & Trust Co., Greensboro, N.C.	14	38,446
Commerce Union Bank, Nashville, Tenn.	12	10,077
Grenada Bank, Grenada, Miss.	12	7,078
Valley Bank and Trust Co., Phoenix, Ariz.	11	11,424
South Carolina Savings Bank, Charleston	11	5,472
Page Trust Company, Aberdeen, N. C.	11	3,239
Total, 14 banks with over 10 branches	799	1,907,911
12 banks with 6-10 branches	99	204,938
64 banks with less than 6 branches	129	362,151
Total, 90 banks	1,027	2,475,000
LOCAL* BRANCH SYSTEMS		
Peoples-Wayne County Bank, Detroit	137	353,851
Bank of Manhattan Trust Company, New York	78	342,442
Corn Exchange Bank and Trust Co., New York	66	212,544
Cleveland Trust Company, Cleveland	57	257,204
California Bank, Los Angeles	55	94,186
National City Bank, New York	49	926,918
Chase National Bank, New York	45	1,782,481
Manufacturers Trust Co., New York	44	226,885
Guardian Detroit Bank, Detroit	38	103,959
Bank of American National Assn., New York	35	265,476
Citizens National Trust & Savings Bank, Los Angeles	34	98,626
Marine Trust Co., Buffalo	33	224,244
Public National Bank & Trust Co., New York	33	113,938
First National Bank, Detroit	32	141,462
Total, 14 banks with over 30 branches	736	5,144,216
32 banks with 11-30 branches	542	4,140,612
24 banks with 6-10 branches	184	1,149,437
473 banks with less than 6 branches	839	10,944,735
Total, 543 banks	2,301	21,379,000
143 county systems (each with less than 6 branches)	211	285,000
Total, 776 banks	3,539	24,139,000

*Includes all banks operating branches only in the head office city and contiguous territory, also 5 banks which in the aggregate had 114 branches in the head office city and contiguous territory, 8 other branches in the home county and 4 branches outside the home county.

Table 1 -- TOTAL NUMBER OF BANKS, BRANCH SYSTEMS, AND BRANCHES: Dec. 31, 1930

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State	Total banks and branches	Number of banks					Number of domestic branches			
		Total	Branch systems			Banks without branches	Total	In head office city	Outside but in own county	In other counties
			Local*	County	State-wide					
U.S. Total	26,308	22,769	543	143	90	21,993	3,539	2,398	399	742
National	8,139	7,033	148	3	10	6,872	1,106	705	45	356
St.members	2,305	1,019	145	6	9	859	1,286	1,156	45	85
Nonmembers	15,864	14,717	250	134	71	14,262	1,147	537	309	301
		STATE-WIDE BRANCH BANKING PERMITTED								
Total	3,128	1,834	88	60	58	1,628	1,294	441	209	644
Arizona	68	41	-	4	5	32	27	-	9	18
California	1,249	421	25	20	8	368	828	275	90	463
Delaware	61	48	3	1	3	41	13	3	4	6
Dist.of Col.	65	39	12	-	-	27	26	26	-	-
Maryland	352	221	15	10	4	192	131	71	39	21
No. Carolina	403	318	6	8	15	289	85	13	21	51
Rhode Island	72	35	10	-	2	23	37	17	13	7
So. Carolina	237	160	3	1	8	148	77	8	7	62
Vermont	112	102	2	3	2	95	10	-	8	2
Virginia	509	449	12	13	11	413	60	28	18	14
		BRANCHES RESTRICTED AS TO LOCATION								
Total	9,407	7,212	441	78	28	6,665	2,195	1,931	183	81
Georgia	405	365	5	5	5	350	40	20	8	12
Kentucky	542	519	5	1	1	512	23	20	2	1
Louisiana	316	213	10	28	1	174	103	51	47	5
Maine	196	128	3	11	10	104	68	8	38	22
Massachusetts	616	445	81	5	-	359	171	151	20	-
Michigan	1,148	722	61	-	-	661	426	426	-	-
Mississippi	272	249	1	5	4	239	23	1	6	16
New Jersey	664	556	55	1	2	498	108	98	8	2
New York	1,809	1,099	102	-	-	997	710	710	-	-
Ohio	1,242	965	42	3	1	919	277	245	28	4
Pennsylvania	1,680	1,501	66	7	-	1,428	179	169	10	-
Tennessee	517	450	10	12	4	424	67	32	16	19
		ESTABLISHMENT OF BRANCHES PROHIBITED BY LAW								
Total	12,350	12,301	14	5	3	12,279	49	26	7	16
Alabama	332	315	-	2	1	312	17	-	3	14
Arkansas	305	304	-	1	-	303	1	-	1	-
Colorado	266	266	-	-	-	266	-	-	-	-
Connecticut	231	231	-	-	-	231	-	-	-	-
Florida	201	201	-	-	-	201	-	-	-	-
Idaho	136	136	-	-	-	136	-	-	-	-
Illinois	1,589	1,589	-	-	-	1,589	-	-	-	-
Indiana**	881	873	3	-	1	869	8	7	-	1
Iowa**	1,146	1,146	-	-	-	1,146	-	-	-	-
Kansas	1,012	1,012	-	-	-	1,012	-	-	-	-
Minnesota	998	992	2	-	-	990	6	6	-	-
Missouri	1,146	1,146	-	-	-	1,146	-	-	-	-
Montana**	174	174	-	-	-	174	-	-	-	-
Nebraska	749	747	2	-	-	745	2	2	-	-
Nevada	35	35	-	-	-	35	-	-	-	-
New Mexico	55	54	1	-	-	53	1	-	1	-
Oregon	225	225	-	-	-	225	-	-	-	-
Texas	1,215	1,215	-	-	-	1,215	-	-	-	-
Utah	99	99	-	-	-	99	-	-	-	-
Washington	335	330	1	1	1	327	5	3	1	1
West Virginia	280	280	-	-	-	280	-	-	-	-
Wisconsin	940	931	5	1	-	925	9	8	1	-
		NO PROVISION IN STATE LAW REGARDING BRANCH BANKING								
Total	1,423	1,422	-	-	1	1,421	1	-	-	1
New Hampshire	122	121	-	-	1	120	1	-	-	1
No. Dakota	321	321	-	-	-	321	-	-	-	-
Oklahoma	569	569	-	-	-	569	-	-	-	-
So. Dakota	328	328	-	-	-	328	-	-	-	-
Wyoming	83	83	-	-	-	83	-	-	-	-

*Includes all banks operating branches only in the head office city and contiguous territory, also 5 banks which in the aggregate had 114 branches in the head office city and contiguous territory, 8 other branches in the home county and 4 branches outside the home county.

**State branch banking law amended since last summary - see accompanying text.

Table 2 -- NUMBER OF GROUP AND CHAIN BANKS AND NUMBER OF THEIR BRANCHES: December 31, 1930

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State	Total group and chain banks and their branches	Number of group and chain banks: Total	Branch systems: Local*	Branch systems: County	Branch systems: State-wide	Banks without branches	Number of domestic branches of group and chain banks: Total	In head office city	Outside but in own county	In other counties
U.S. Total	3,608	2,088	106	18	16	1,948	1,520	916	85	519
National	1,579	824	46	1	5	772	755	368	38	349
St. members	659	120	31	1	3	85	539	468	7	64
Nonmembers	1,370	1,144	29	16	8	1,091	226	80	40	106
		STATE-WIDE BRANCH BANKING PERMITTED								
Total	750	75	3	3	7	62	675	161	42	472
Arizona	7	6	-	1	-	5	1	-	1	-
California	694	51	2	2	4	43	643	153	35	455
Delaware	3	3	-	-	-	3	-	-	-	-
Dist. of Col.	-	-	-	-	-	-	-	-	-	-
Maryland	-	-	-	-	-	-	-	-	-	-
No. Carolina	1	1	-	-	-	1	-	-	-	-
Rhode Island	17	3	-	-	1	2	14	4	5	5
So. Carolina	28	11	1	-	2	8	17	4	1	12
Vermont	-	-	-	-	-	-	-	-	-	-
Virginia	-	-	-	-	-	-	-	-	-	-
		BRANCHES RESTRICTED AS TO LOCATION								
Total	1,388	564	96	15	8	445	824	735	43	46
Georgia	45	25	1	-	1	23	20	12	-	8
Kentucky	14	6	1	-	-	5	8	8	-	-
Louisiana	43	20	2	4	1	13	23	6	12	5
Maine	48	17	-	4	3	10	31	3	19	9
Massachusetts	111	51	13	2	-	36	60	58	2	-
Michigan	482	138	28	-	-	110	344	344	-	-
Mississippi	40	28	-	-	1	27	12	-	-	12
New Jersey	126	83	17	1	1	64	43	37	5	1
New York	317	100	19	-	-	81	217	217	-	-
Ohio	21	10	1	-	-	9	11	11	-	-
Pennsylvania	63	50	6	2	-	42	13	11	2	-
Tennessee	78	36	8	2	1	25	42	28	3	11
		ESTABLISHMENT OF BRANCHES PROHIBITED BY LAW								
Total	1,192	1,171	7	-	1	1,163	21	20	-	1
Alabama	26	26	-	-	-	26	-	-	-	-
Arkansas	6	6	-	-	-	6	-	-	-	-
Colorado	11	11	-	-	-	11	-	-	-	-
Connecticut	14	14	-	-	-	14	-	-	-	-
Florida	49	49	-	-	-	49	-	-	-	-
Idaho	45	45	-	-	-	45	-	-	-	-
Illinois	106	106	-	-	-	106	-	-	-	-
Indiana **	29	24	1	-	-	23	5	5	-	-
Iowa**	70	70	-	-	-	70	-	-	-	-
Kansas	89	89	-	-	-	89	-	-	-	-
Minnesota	276	270	2	-	-	268	6	6	-	-
Missouri	27	27	-	-	-	27	-	-	-	-
Montana **	46	46	-	-	-	46	-	-	-	-
Nebraska	67	67	-	-	-	67	-	-	-	-
Nevada	14	14	-	-	-	14	-	-	-	-
New Mexico	6	6	-	-	-	6	-	-	-	-
Oregon	33	33	-	-	-	33	-	-	-	-
Texas	81	81	-	-	-	81	-	-	-	-
Utah	26	26	-	-	-	26	-	-	-	-
Washington	84	80	1	-	1	78	4	3	-	1
West Virginia	-	-	-	-	-	-	-	-	-	-
Wisconsin	87	81	3	-	-	78	6	6	-	-
		NO PROVISION IN STATE LAW REGARDING BRANCH BANKING								
Total	278	278	-	-	-	278	-	-	-	-
New Hampshire	-	-	-	-	-	-	-	-	-	-
North Dakota	96	96	-	-	-	96	-	-	-	-
Oklahoma	97	97	-	-	-	97	-	-	-	-
South Dakota	60	60	-	-	-	60	-	-	-	-
Wyoming	25	25	-	-	-	25	-	-	-	-

(For footnotes, see Table 1)

Table 3 -- LOANS AND INVESTMENTS OF ALL BANKS AND THEIR BRANCHES, AND OF GROUP AND CHAIN BANKS: December 31, 1930

(In millions of dollars) B-313

State	Of all banks and their branches					Of group and chain banks and their branches				
	Total	Branch System			Banks without branches	Total	Branch Systems			Banks without branches
		Local*	County	State-wide			Local*	County	State-wide	
U.S. Total	56,209	21,379	285	2,475	32,070	11,279	4,117	92	1,985	5,085
National	21,426	6,901	31	1,596	12,898	6,566	2,127	27	1,475	2,937
St. members	13,434	9,057	48	460	3,869	2,892	1,683	36	382	791
Nonmembers	21,349	5,421	206	420	15,302	1,821	307	29	128	1,357
	STATE-WIDE BRANCH BANKING PERMITTED									
Total	6,293	1,606	104	2,205	2,378	2,044	6	2	1,816	220
Arizona	69	-	3	19	47	17	-	1	-	16
California	3,285	715	42	1,752	776	1,828	3	1	1,647	177
Delaware	165	65	3	38	59	1	-	-	-	1
Dist.of Col.	248	152	-	-	96	-	-	-	-	-
Maryland	825	286	25	33	481	-	-	-	-	-
No. Carolina	278	16	4	99	159	3	-	-	-	3
Rhode Island	537	218	-	164	155	150	-	-	139	11
So. Carolina	141	10	1	67	63	45	3	-	30	12
Vermont	237	3	16	8	210	-	-	-	-	-
Virginia	508	141	10	25	332	-	-	-	-	-
	BRANCHES RESTRICTED AS TO LOCATION									
Total	35,830	19,307	176	260	16,087	5,587	3,713	90	167	1,617
Georgia	300	99	2	59	140	164	70	-	56	38
Kentucky	458	77	-	3	378	43	18	-	-	25
Louisiana	385	170	33	13	169	61	21	7	13	20
Maine	430	27	25	104	274	89	-	10	51	28
Massachusetts	4,237	1,734	42	-	2,461	906	773	35	-	98
Michigan	1,897	1,148	-	-	749	1,173	959	-	-	214
Mississippi	156	8	5	11	132	27	-	-	8	19
New Jersey	2,350	980	36	57	1,277	518	267	36	29	186
New York	17,046	11,499	-	-	5,547	1,522	1,342	-	-	180
Ohio	2,544	1,415	4	1	1,124	70	29	-	-	41
Pennsylvania	5,659	1,989	22	-	3,648	871	115	2	-	754
Tennessee	368	161	7	12	188	143	119	-	10	14
	ESTABLISHMENT OF BRANCHES PROHIBITED BY LAW									
Total	13,173	464	4	9	12,696	3,432	399	-	3	3,030
Alabama	246	-	1	6	239	66	-	-	-	66
Arkansas	131	-	1	-	130	12	-	-	-	12
Colorado	254	-	-	-	254	25	-	-	-	25
Connecticut	1,326	-	-	-	1,326	92	-	-	-	92
Florida	192	-	-	-	192	118	-	-	-	118
Idaho	74	-	-	-	74	40	-	-	-	40
Illinois	3,704	-	-	-	3,704	1,280	-	-	-	1,280
Indiana**	732	44	-	-	688	57	20	-	-	37
Iowa**	708	-	-	-	708	75	-	-	-	75
Kansas	352	-	-	-	352	43	-	-	-	43
Minnesota	862	161	-	-	701	541	161	-	-	380
Missouri	1,119	-	-	-	1,119	141	-	-	-	141
Montana**	128	-	-	-	128	76	-	-	-	76
Nebraska	320	7	-	-	313	63	-	-	-	63
Nevada	36	-	-	-	36	23	-	-	-	23
New Mexico	36	-	-	-	36	1	-	-	-	1
Oregon	239	1	-	-	238	126	-	-	-	126
Texas	909	-	-	-	909	114	-	-	-	114
Utah	155	-	-	-	155	51	-	-	-	51
Washington	442	64	1	3	374	203	64	-	3	136
West Virginia	319	-	-	-	319	-	-	-	-	-
Wisconsin	889	187	1	-	701	285	154	-	-	131
	NO PROVISION IN STATE LAW REGARDING BRANCH BANKING									
Total	915	-	-	1	914	217	-	-	-	217
New Hampshire	296	-	-	1	295	-	-	-	-	-
North Dakota	93	-	-	-	93	56	-	-	-	56
Oklahoma	360	-	-	-	360	98	-	-	-	98
South Dakota	114	-	-	-	114	45	-	-	-	45
Wyoming	52	-	-	-	52	18	-	-	-	18

(For footnotes, see Table 1)

Table 4 -- CHANGES IN NUMBER AND LOANS AND INVESTMENTS OF GROUP AND CHAIN BANKS: June 1929 to December 1930

B-313

State	Number of group and chain banks				Loans and investments of group and chain banks			
	Dec. 1930	June 1930r	Dec. 1929r	June 1929r	Dec. 1930	June 1930r	Dec. 1929r	June 1929r
U.S. Total	2,088	2,175	2,105	1,831	11,279	12,151	11,730	8,842
National	824	841	807	656	6,566	6,605	6,383	4,639
State members	120	127	126	104	2,892	3,420	3,391	2,509
Nonmembers	1,144	1,207	1,172	1,071	1,821	2,125	1,955	1,690
	STATE-WIDE BRANCH BANKING PERMITTED							
Total	75	83	74	72	2,044	2,193	2,179	2,123
Arizona	6	6	6	6	17	18	18	18
California	51	59	59	58	1,828	1,974	1,998	1,943
Delaware	3	3	3	3	1	1	1	1
Dist. of Col.	-	-	-	-	-	-	-	-
Maryland	-	-	-	-	-	-	-	-
North Carolina	1	1	-	-	3	3	-	-
Rhode Island	3	3	3	3	150	153	153	153
South Carolina	11	11	2	2	45	44	8	8
Vermont	-	-	1	-	-	-	1	-
Virginia	-	-	-	-	-	-	-	-
	BRANCHES RESTRICTED AS TO LOCATION							
Total	564	586	557	426	5,587	6,277	6,087	4,107
Georgia	25	25	22	20	164	173	166	157
Kentucky	6	13	16	4	43	134	124	8
Louisiana	20	21	21	21	61	60	60	60
Maine	17	17	12	5	89	80	70	53
Massachusetts	51	50	49	33	906	895	879	530
Michigan	138	138	140	91	1,173	1,216	1,246	421
Mississippi	28	32	32	32	27	31	31	31
New Jersey	83	80	72	67	518	522	440	401
New York	100	103	105	82	1,522	2,082	2,032	1,572
Ohio	10	13	6	-	70	99	86	-
Pennsylvania	50	52	49	48	871	809	804	782
Tennessee	36	42	33	23	143	176	149	92
	ESTABLISHMENT OF BRANCHES PROHIBITED BY LAW							
Total	1,171	1,225	1,199	1,083	3,432	3,440	3,233	2,410
Alabama	26	26	22	19	66	37	32	7
Arkansas	6	66	69	55	12	48	49	41
Colorado	11	11	12	12	25	28	28	28
Connecticut	14	10	8	-	92	72	37	-
Florida	49	48	40	43	118	142	134	129
Idaho	45	44	41	41	40	39	37	37
Illinois	106	101	91	86	1,280	1,242	1,217	996
Indiana**	24	27	25	14	57	67	64	31
Iowa**	70	77	90	87	75	67	71	68
Kansas	89	89	88	85	43	47	46	44
Minnesota	270	276	270	230	541	580	567	259
Missouri	27	30	31	30	141	149	148	147
Montana**	46	46	41	28	76	82	80	44
Nebraska	67	67	79	74	63	61	65	30
Nevada	14	14	13	16	23	24	20	23
New Mexico	6	6	9	9	1	2	3	3
Oregon	33	36	36	33	126	135	82	82
Texas	81	83	80	79	114	105	103	92
Utah	26	26	26	27	51	53	50	51
Washington	80	79	74	62	203	207	189	91
West Virginia	-	-	-	-	-	-	-	-
Wisconsin	81	63	54	53	285	253	211	207
	NO PROVISION IN STATE LAW REGARDING BRANCH BANKING							
Total	278	281	275	250	217	243	231	202
New Hampshire	-	-	-	-	-	-	-	-
North Dakota	96	96	92	86	56	59	52	41
Oklahoma	97	98	98	85	98	116	115	102
South Dakota	60	62	60	54	45	48	44	39
Wyoming	25	25	25	25	18	20	20	20

r/ Revised.
** State branch banking law amended since last summary - see accompanying text.

Table 5 -- CHANGES IN TOTAL NUMBER OF BANKING OFFICES, IN NUMBER OF BANKS, AND IN NUMBER OF BRANCHES: June 1924 to December 1930

B-313

State	Total banking offices (banks plus branches)			Number of banks			Number of domestic branches		
	Dec. 1930	June 1930	June 1924	Dec. 1930	June 1930	June 1924	Dec. 1930	June 1930	June 1924
U.S. Total	26,308	27,470	31,289	22,769	23,852	28,996	3,539	3,618	2,293
National	8,139	8,288	8,328	7,033	7,247	8,080	1,106	1,041	248
State members	2,305	2,376	2,707	1,019	1,068	1,570	1,286	1,308	1,137
Nonmembers	15,864	16,806	20,254	14,717	15,537	19,346	1,147	1,269	908
STATE-WIDE BRANCH BANKING PERMITTED									
Total	3,128	3,267	3,554	1,834	1,959	2,719	1,294	1,308	835
Arizona	68	71	83	41	44	63	27	27	20
California	1,249	1,290	1,213	421	437	675	828	853	538
Delaware	61	61	65	48	48	47	13	13	18
Dist. of Col.	65	65	65	39	40	46	26	25	19
Maryland	352	355	338	221	226	250	131	129	88
No. Carolina	403	475	620	318	391	554	85	84	66
Rhode Island	72	71	66	35	35	45	37	36	21
So. Carolina	237	244	431	160	173	411	77	71	20
Vermont	112	113	105	102	103	105	10	10	-
Virigina	509	522	568	449	462	523	60	60	45
BRANCHES RESTRICTED AS TO LOCATION									
Total	9,407	9,710	9,448	7,212	7,453	8,051	2,195	2,257	1,397
Georgia	405	432	665	365	390	612	40	42	53
Kentucky	542	580	624	519	549	612	23	31	12
Louisiana	316	330	344	213	222	251	103	108	93
Maine	196	197	197	128	131	150	68	66	47
Massachusetts	616	617	546	445	449	448	171	168	98
Michigan	1,148	1,165	1,050	722	731	718	426	434	332
Mississippi	272	318	360	249	293	335	23	25	25
New Jersey	664	666	500	556	560	479	108	106	21
New York	1,809	1,872	1,482	1,099	1,122	1,120	710	750	362
Ohio	1,242	1,250	1,310	965	986	1,107	277	264	203
Pennsylvania	1,680	1,735	1,748	1,501	1,541	1,650	179	194	98
Tennessee	517	548	622	450	479	569	67	69	53
ESTABLISHMENT OF BRANCHES PROHIBITED BY LAW									
Total	12,350	12,949	16,000	12,301	12,897	15,939	49	52	61
Alabama	332	338	381	315	321	362	17	17	19
Arkansas	305	399	488	304	396	485	1	3	3
Colorado	266	270	342	266	270	342	-	-	-
Connecticut	231	237	222	231	237	222	-	-	-
Florida	201	207	300	201	207	299	-	-	1
Idaho	136	137	177	136	137	177	-	-	-
Illinois	1,589	1,683	1,906	1,589	1,683	1,906	-	-	-
Indiana**	881	924	1,116	873	915	1,108	8	9	8
Iowa**	1,146	1,216	1,616	1,146	1,216	1,616	-	-	-
Kansas	1,012	1,051	1,293	1,012	1,051	1,293	-	-	-
Minnesota	998	1,021	1,433	992	1,015	1,422	6	6	11
Missouri	1,146	1,235	1,612	1,146	1,235	1,612	-	-	-
Montana**	174	185	248	174	185	248	-	-	-
Nebraska	749	775	1,102	747	773	1,100	2	2	2
Nevada	35	35	34	35	35	34	-	-	-
New Mexico	54	53	76	54	53	76	-	-	-
Oregon	226	229	278	225	228	277	1	1	1
Texas	1,215	1,279	1,522	1,215	1,279	1,522	-	-	-
Utah	99	102	116	99	102	116	-	-	-
Washington	335	338	386	330	333	379	5	5	7
W. Virginia	280	290	350	280	290	350	-	-	-
Wisconsin	940	945	1,002	931	936	993	9	9	9
NO PROVISION IN STATE LAW REGARDING BRANCH BANKING									
Total	1,423	1,544	2,287	1,422	1,543	2,287	1	1	-
New Hampshire	122	122	123	121	121	123	1	1	-
North Dakota	321	366	687	321	366	687	-	-	-
Oklahoma	569	598	808	569	598	808	-	-	-
South Dakota	328	374	553	328	374	553	-	-	-
Wyoming	83	84	116	83	84	116	-	-	-

**State branch banking law amended since last summary - see accompanying text.

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Su Bu

Date April 21, 1931.

To Mr. Hamlin

From Mr. Wingfield.

Subject: Trust Powers which may be granted to National Banks in the District of Columbia.

2—8495

In accordance with your suggestion, I will briefly outline the situation with reference to the right of the Federal Reserve Board to grant trust powers under the provisions of Section 11(k) of the Federal Reserve Act to national banks located in the District of Columbia.

Under the provisions of Section 11(k), the Federal Reserve Board is authorized to grant a special permit to a national bank to act as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, or committee of estates of lunatics or to act "in any other fiduciary capacity in which State banks, trust companies, or other corporations whichcome into competition with national banks are permitted to act under the laws of the State in which the national bank is located."

The Board has granted permission to a number of national banks located in the District of Columbia to exercise the eight powers specifically enumerated in Section 11(k). The Board, however, has consistently ruled that it may not grant the "general" power to act in "any other fiduciary capacity" to national banks in the District of Columbia because the District is not a "State" within the meaning of that term as used in Section 11(k).

The Board first considered the question whether the District of Columbia is included in the word "State" as used in Section 11(k) of the Federal Reserve Act in connection with the amount of capital which national banks located in the District should be required to have in order to be eligible to receive permission to exercise trust powers. Section 11(k) provides that no fiduciary permit shall be issued to any national banking association having a capital and surplus less than the capital and surplus required by State law of State banks, trust companies and corporations exercising such powers. The laws of the District of Columbia require trust companies organized thereunder to have a capital of at least $1,000,000. In 1919 a national bank in the District of Columbia with a capital of less than $1,000,000 applied to the Board for permission to exercise trust powers. The question arose, therefore, whether the Board could lawfully permit this national bank to exercise the powers for which it had applied. After carefully considering the question whether the word "State" included the District of Columbia, the Board ruled that it did not, and issued a permit to this national bank to exercise trust powers. Since that time the Board has granted permission to a number of national banks in the District to exercise trust powers with a capital of less than $1,000,000 and has consistently ruled that the District of Columbia is not a "State" within the meaning of Section 11(k) of the Federal Reserve Act.

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In view of the position taken by the Board with reference to the capital required of national banks in the District exercising trust powers it could not, of course, consistently rule that a national bank in the District may exercise the "general" power to act "in any other fiduciary capacity."

The question whether the word "State" includes the District of Columbia is a close one and the decisions of the courts in cases involving this question are divided. The construction placed upon the use of this word in Section 11(k) by the Federal Reserve Board, however, has been in force since 1919 and a number of fiduciary permits to national banks have been issued under this ruling. Under these circumstances, I am strongly of the opinion that if the Board should now rule that the word "State" as used in Section 11(k) does include the District of Columbia and the question was presented to the courts, the courts would uphold the former ruling of the Board.

In my opinion the proper solution of this matter would be to secure an amendment to the law by Congress, provided, that such a amendment is necessary to enable national banks in the District of Columbia to compete on equal terms with trust companies operating under the laws of the District. Before the Board recommends that any such amendment be made, however, it should have a substantial basis for the recommendation. If, therefore, any national bank in the district desires to exercise trust powers which trust companies are permitted to exercise under the laws of the District, but which are not specifically enumerated in Section 11(k) of the Federal Reserve Act, it would be appropriate for such national bank to request the Board to recommend to Congress that the law be amended so as to authorize the Board to permit national banks in the District to exercise all fiduciary powers which may be exercised by trust companies under the laws of the District. Such a request should be accompanied by advice as to the trust powers which trust companies are permitted to exercise under the laws of the District but which are not specifically enumerated in Section 11(k) of the Federal Reserve Act and a description of the extent to which the right to exercise such powers would enable national banks in the District to compete effectively with such trust companies.

It appears from the information furnished by Mr. Carter, National Bank Examiner, and from the Code of the District of Columbia that the principal trust powers exercised by trust companies under the laws of the District, other than those specifically enumerated in Section 11(k) of the Federal Reserve Act, are transfer agent and collector of estates of decedents. It is possible, however, that there are some other fiduciary powers which trust companies are authorized to exercise under the laws of the District but which are not specifically enumerated in Section 11(k).

Respectfully,

B Magruder Wingfield

B. Magruder Wingfield
Assistant Counsel

BMW OMC

C25

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date May 2, 1931

Sec Bd

To Mr. Hamlin

Subject:

From Mr. Smead

ero 2—8495

629

Following your verbal request for information comparing the operations of the National banks during the crises of 1893 and 1907 with developments following the panic in the market of 1929, I asked Mr. Van Fossen to look into the matter and I am attaching hereto a copy of the memorandum he prepared.

In addition to his comments I may say that in both the 1893 and the 1907 panics the deposits of the National banks showed a very sharp decline due to two factors (1) withdrawal of deposits by customers largely incident to the liquidation of loans and (2) withdrawal by country banks of balances with city correspondents. These declines in deposits were also accompanied by a decline in cash holdings of reserve city banks and some increases in the amount of money in circulation outside the Treasury and the National banks.

In the case of the 1907 panic, which is always referred to as a money panic, I find that the country lost $146,000,000 in gold between the first of June and the first of September and that largely as a consequence the amount of money in circulation, exclusive of cash held by National banks, declined by $162,000,000. As you will recall, it was late in 1907 when the severe break in general business took place, precipitated no doubt in part by the heavy gold movements out of the country. Following the break, however, the trend in gold movements turned and within the following five months we had imported $156,000,000 of gold and had increased our money in circulation by something over $300,000,000. In fact the increase of money in circulation, exclusive of cash held by National banks, between the first of September and the first of December was about $260,000,000.

The movements during the panic of 1893, although in the same direction, were less pronounced as the panic was not so much a money panic as that of 1907. The National banks in New York City, of course, borrowed practically nothing during either of these panics and the National banks outside of New York City borrowed a maximum on any one call date of $61,000,000 during the panic of 1893 and of $100,000,000 during the panic of 1907, or less than 10 per cent of total paid in capital of National banks in 1893 and less than 12 per cent in 1907. No data are available to show the number of banks which were borrowing at that time although it is assumed that the number was relatively small. In this connection it should be borne in mind that under the National Bank System there was practically no means of expanding the currency except by purchasing U.S. securities and pledging them with the Treasury Department as security for National bank notes. This was a slow process and was not resorted to on

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any scale during either of the above mentioned panics, although on the basis of U. S. bonds bearing circulation privilege outstanding the banks could have increased their National bank note circulation by $400,000,000 in 1893 and by $200,000,000 in 1907. The banks were very reluctant to take out additional National currency because of the expense connected therewith. As a matter of fact the banks could not afford to take out National bank currency and pay the expenses connected therewith unless such currency was needed to supply the normal currency requirements of the country. To have taken out such currency for emergency purposes only would have resulted in considerable expense to the banks and perhaps in a substantial loss on resale of the securities. The cost of maintaining National bank notes in circulation was materially reduced March 14, 1900 when the tax on circulation was reduced from 1 per cent to one-half of 1 per cent, the amount of notes issuable increased from 90 per cent to 100 per cent of the par value of the securities pledged and provision made for refunding the public debt at 2 per cent, thereby reducing the premium on bonds with the circulation privilege.

As contrasted with the sharp decline in deposits which took place during the panics of 1893 and 1907 there was no drop in deposits following the break in the market in the latter part of 1929. A substantial increase in deposits accompanied the liquidation of the large volume of loans for others but this increase was only temporary and deposits soon returned to the level existing prior to October 1929. During 1930 deposits have increased materially as was the case following the trough of the 1893 and 1907 panics. Following the 1893 and 1907 panics, as stated above the amount of money in circulation showed a substantial increase. This same trend is noted at the present time and is presumably due in large part to the hoarding of cash by the public. It is estimated that the amount of cash in hoarding at the present time is approximately $250,000,000 above what it was a year ago. It is not feasible to compare borrowings of member banks now with those of National banks during and immediately following the panics of 1893 and 1907 for the reason that at the present time member banks borrow largely for the purpose of obtaining money for circulation purposes whereas formerly additional money for circulation purposes, as pointed out above, could be obtained only against U. S. securities bearing the circulation privilege.

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date May 1, 1931

To Mr. Smead

Subject: Crises under the National Banking System

From Mr. Van Fossen VF

2—8495

In connection with Mr. Hamlin's request for information on the above subject I have looked into the figures on the condition of National banks on call dates during and preceding the 1893 and the 1907 crises and the comments thereon in the annual reports of the Comptroller of the Currency, and have read Professor Sprague's "History of Crises under the National Banking System" written for the National Monetary Commission. The conclusions herein stated as to the defects of the National Banking System are based largely on Professor Sprague's book.

The noteworthy features in this connection of the National banking system may be stated as follows:

1. Banks in central reserve cities (New York, Chicago and St. Louis) were required to maintain cash reserves equal to 25 per cent of their net deposits, banks in other reserve cities were required to maintain similar reserves, except that one-half thereof might be kept on deposit with approved depositaries in central reserve cities, and all other National banks were required to maintain reserves equal to 15 per cent of their net deposits, of which three-fifths might be kept on deposit with central reserve city or reserve city banks.

2. In actual operation this resulted in a very marked concentration of the reserves of all National banks in the hands of New York City banks, since National banks even in Chicago and St. Louis maintained substantial balances with the New York banks and drew upon them freely in time of need. In addition State banks and trust companies also maintained balances with the New York City National banks and by 1907 resources of state banks and trust companies aggregated over 85 per cent of those of all National banks. An indication of the number and activity of these bank accounts is to be found in figures published by the Office of the Comptroller of the Currency in the 90's to the effect that of 3,329 National banks responding to a special inquiry (including all but 109 of the banks in operation) all but 3 drew drafts on New York, the total amount of such drafts being 61.31 per cent of all drafts drawn upon all banks in the country.

3. The concentration of bank reserves in practice was even greater than would be inferred from the above since six or seven of the larger New York City banks held much the greater portion of the balances on deposit by outside banks in New York City, such deposits commonly amounting to more than double the cash holdings of these banks and constituting more than half of their deposits. Other banks in New York City did a largely local business.

4. Banks in New York City apparently had no real appreciation of the responsibility attached to the acceptance of reserve deposits of other banks. Banks were in active competition for such balances and paid 2 per cent interest thereon, thereby necessitating the investment of such funds. That a large part of the resources of these banks were commonly invested in call loans gave them a false sense of security, since in practice it was found to be impossible in an emergency for the banks as a whole to bring about any substantial liquidation of these loans. Professor Sprague comments on this phase of the National banking system as follows: "The same elements of weakness have been uniformly disclosed by the analysis of the experiences of the National banks during successive periods of financial strain. The normal condition of the banks was one of lack of preparation for emergencies. No adequate lending power or surplus cash reserve was available at any time except during periods of trade depression when the banks were unable to find borrowers for all the loans they were prepared to make."

5. Aside from international gold movements the currency was inelastic, notwithstanding the fact that there was a wide margin of unused note issuing power. Prices of United States securities available as collateral for National bank notes were so high as to make the issuance of the notes unprofitable, and to the extent that the volume of National bank notes outstanding was increased there was a tendency to a permanent expansion of the monetary stock. In other words while it was possible to expand the currency to meet emergency requirements, there was little tendency to do so and a pronounced tendency not to retire National bank notes in times of currency redundancy. A contributing factor was the statutory requirement for the monthly purchases of silver and the issuance of Treasury notes of 1890 in payment therefor.

The causes of the several financial crises experienced under the National banking system have varied and in some cases are differently appraised but whatever the proximate causes, the effect upon the banking system was essentially the same.

Whatever the circumstances that precipitated a financial crises it was invariably marked by a withdrawal of balances from the New York banks by their correspondent banks, with a consequent depleting of the reserves of the New York banks. The New York banks thereupon resorted to attempts to liquidate some of their own loans with an attendant reduction in their deposits and in their required reserves, at the same time raising interest rates so as to attract funds to the New York market. If these measures did not suffice to enable the New York City banks to maintain their required reserves, resort was had to the issuance of clearing house loan certificates, followed sooner or later by at least a partial cessation of cash payments, by the purchase and sale of currency at a premium and by the use of currency substitutes. When the financial disturbance had at length run its course, aided perhaps by imports of gold and by financial operations of the United States Treasury, the banks invariably found themselves in possession of cash beyond any immediate needs and unable to find borrowers for funds that they would gladly lend. It is noteworthy in this connection that member banks came to regard their reserves not as a fund maintained in normal times for use in an emergency but as a fund to be maintained intact even at the hazard of suspension of cash payments.

In 1893 machinery for the issuance of clearing house loan certificates was set up on June 15 although none of the New York City banks were at the time in difficulty. These certificates were issued to member banks by the clearing house association against acceptable bills and securities and were receivable in payment of clearing house debit balances. These loan certificates, which were interest bearing, were not intended for and not used for general circulation. Their immediate effect was to maintain the existing distribution of cash among the member banks, relieving them of the danger of loss of cash through the clearings and to some extent no doubt made banks the more willing to part with cash in the ordinary course of business. The loan certificates were not, of course, available for making out-of-town payments and hence their issuance brought special stress on the banks which had large amounts of bank deposits and, with no provision for the equalization of reserves, suspension of cash payments by such banks became inevitable. Both in 1893 and in 1907 suspension of cash payments was resorted to by banks in almost all of the principal cities of the country, this action being taken at a time in the opinion of Professor Sprague when conditions were by no means such as to preclude the possibility of the banks passing safely through the crises by a policy of boldly paying out cash on demand.

Suspension of cash payments by the banks was naturally followed by hoarding of money and the cutting off of the return flow of cash to the banks and by the appearance of a currency premium. Speaking of the 1893 crisis, Professor Sprague states that purchases of currency at a premium were first made by banks in the interior and later chiefly for payroll purposes. The maximum premium reached was 4 per cent, and the premium persisted for 4 weeks, although during the last 2 weeks imports of gold rapidly built up reserves and suspension of cash payments during this period was indefensible. It is estimated that $300,000,000 of money and substitutes for money was added to the supply outside the banks during the month of August, 1893, the substitutes for money taking the form of clearing house certificates (not the loan certificates previously described), cashiers' checks, and pay checks payable to bearer. In 1907, according to the estimate, during the two months that cash payments were restricted, gold imports, Government deposits, new issues of National bank notes and payments of cash by banks increased money in circulation by something like $300,000,000 in every day use or in hoards, while at the same time "a vast amount" of substitutes for money was set afloat in the community. During this crisis money was bought and sold at a premium from October 31 to December 31.

The root of the trouble as regards financial stringencies under the National banking system is revealed perhaps most clearly in the following quotations from Professor Sprague.

"Again, the fundamental characteristics of our banking system was illustrated, that for any extraordinary cash requirements the reserves of the country banks are an unused asset."

"Somewhere in the banking system of a country there should be a reserve of lending power, and it should be found in its central money market. Ability in New York to increase loans and to meet the demands of depositors for money would have allayed every panic since the establishment of the national banking system. Provision for such reserve power may doubtless be made in a number of different ways."

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Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

See ~~BH~~

Date April 25, 1931

To Mr. Hamlin

Subject:

From Mr. Goldenweiser

EAG

GPO 2—8495

I attach a statement indicating the changes that would have to be made in the Federal Reserve Act in order to repeal collateral requirements against Federal reserve notes. I also attach a typewritten copy of the relevant section of the Act as it would appear after the changes were made. You will note that while the proposed amendment would take out all reference to collateral requirements, it would leave to the Board full power to grant or reject applications of Federal reserve banks for Federal reserve notes, as well as to charge interest on the notes. The Board would, therefore, continue to have the power over note issues, which it now has, but has never exercised.

You asked me to indicate why this removal of collateral back of Federal reserve notes would not be an inflationary measure. The reason is that the control over inflation lies in the limitations on what Federal reserve banks can acquire through discount or purchase and in the influence exercised by rate and open market policy. The gold reserve requirements of 40 per cent against Federal reserve notes are in no way affected by this amendment, and they constitute the upper limit of expansion. The extent to which the Federal reserve banks issue notes within these limits will be determined, as it is at present, by the offerings of bills for sale or for discount at existing rates by the market and by security purchases or sales undertaken by the reserve banks. There is no way in which the banks can force Federal reserve notes into circula-

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tion, except through the controlled channels of Federal reserve bank discounts or open market operations. It is true, as was pointed out in my other memorandum, that the removal of collateral requirements would theoretically remove the limitation on open market operations arising from the fact that Government securities are not eligible as collateral against notes. This, however, has so far been a purely theoretical limitation, and it is likely to continue so, because, as pointed out in my other memorandum, collateral requirements by their very nature cease to limit the supply of gold at a time when credit conditions are tight, because at such a time there is plenty of eligible paper available to serve as collateral.

Changes necessary in the Federal Reserve Act to abolish collateral requirements. The lines cited are those published in the Index Digest of the Federal Reserve Act, 1924.

Page 34, section 16, strike out line 25 to line 38.

Page 35, strike out on line 4 sentence beginning "The said Federal Reserve Board," etc. Strike out lines 5, 6, and 7. Strike out on line 12 section beginning "Provided however." Strike out lines 13 to 17 inclusive.

Page 36, lines 15 and 16, strike out "issued less the amount of gold or gold certificates held by the Federal reserve agent as collateral security," and substitute "in actual circulation." Line 28, insert "thereon" after "interest." Line 29, insert period after "Board." Strike out remainder of line 29 and all of lines 30, 31, and 32. Strike out lines 39 to 45. Strike out all of page 37 and first two lines on page 38.

SECTION OF FEDERAL RESERVE ACT DEALING WITH NOTE ISSUES AS IT WOULD APPEAR WITH THE REFERENCES TO COLLATERAL REQUIREMENTS OMITTED.

NOTE ISSUES

Sec. 16. Federal reserve notes, to be issued at the discretion of the Federal Reserve Board for the purpose of making advances to Federal reserve banks through the Federal reserve agents as hereinafter set forth and for no other purpose, are hereby authorized. The said notes shall be obligations of the United States and shall be receivable by all national and member banks and Federal reserve banks and for all taxes, customs, and other public dues. They shall be redeemed in gold on demand at the Treasury Department of the United States, in the city of Washington, District of Columbia, or in gold or lawful money at any Federal reserve bank.

Any Federal reserve bank may make application to the local Federal reserve agent for such amount of the Federal reserve notes hereinbefore provided for as it may require. . . . . The Federal reserve agent shall each day notify the Federal Reserve Board of all issues and withdrawals of Federal reserve notes to and by the Federal reserve bank to which he is accredited. . . . .

Every Federal reserve bank shall maintain reserves in gold or lawful money of not less than thirty-five per centum against its deposits and reserves in gold of not less than forty per centum against its Federal reserve notes in actual circulation. . . . . Notes so paid out shall bear upon their faces a distinctive letter and serial number which shall be assigned by the Federal Reserve Board to each Federal reserve bank. Whenever Federal reserve notes issued through one Federal reserve bank shall be received by another Federal reserve bank, they shall be promptly returned for credit or redemption to the Federal reserve bank through which they were originally issued or, upon direction of such Federal reserve bank, they shall be forwarded direct to the Treasurer of the United States to be retired. No Federal reserve bank shall pay out notes issued through another under penalty of a tax of ten per centum upon the face value of notes so paid out. Notes presented for redemption at the Treasury of the United States shall be paid out of the redemption fund and returned to the Federal reserve banks through which they were originally issued, and thereupon such Federal reserve bank shall, upon demand of the Secretary of the Treasury, reimburse such redemption fund in lawful money or, if such Federal reserve notes have been redeemed by the Treasurer in gold or gold certificates, then such funds shall be reimbursed to the extent deemed necessary by the Secretary of the Treasury in gold or gold certificates, and such Federal reserve bank shall, so long as any of its Federal reserve notes remain outstanding, maintain with the Treasurer in gold an amount sufficient in the judgment of the Secretary to provide for all redemptions to be made by the Treasurer. Federal reserve notes received by the Treasurer otherwise than for redemption may be exchanged for gold out of the redemption fund hereinafter provided and returned to the reserve bank through which they were originally issued, or they may be returned to such bank for the credit of the United States. Federal reserve notes unfit for circulation shall be returned by the Federal reserve agents to the Comptroller of the Currency for cancellation and destruction.

The Federal Reserve Board shall require each Federal reserve bank to maintain on deposit in the Treasury of the United States a sum in gold sufficient in the judgment of the Secretary of the Treasury for the redemption of the Federal reserve notes issued to such bank, but in no event less than five per centum of the total amount of notes . . . . . in actual circulation, but such deposit of gold shall be counted and included as part of the forty per centum reserve hereinbefore required. The board shall have the right, acting through the Federal reserve agent, to grant in whole or in part, or to reject entirely the application of any Federal reserve bank for Federal reserve notes; but to the extent that such application may be granted the Federal Reserve Board shall, through its local Federal reserve agent, supply Federal reserve notes to the banks so applying, and such bank shall be charged with the amount of notes issued to it and shall pay such rate of interest thereon as may be established by the Federal Reserve Board. . . . . Federal reserve notes issued to any such bank shall, upon delivery, together with such notes of such Federal reserve bank as may be issued under section eighteen of this act upon security of United States two per centum Government bonds, become a first and paramount lien on all the assets of such bank. . . . . .

In order to furnish suitable notes for circulation as Federal reserve notes, the Comptroller of the Currency shall, under the direction of the Secretary of the Treasury, cause plates and dies to be engraved in the best manner to guard against counterfeits and fraudulent alterations, and shall have printed therefrom and numbered such quantities of such notes of the denominations of $5, $10, $20, $50, $100, $500, $1000, $5000, $10,000 as may be required to supply the Federal reserve banks. Such notes shall be in form and tenor as directed by the Secretary of the Treasury under the provisions of this Act and shall bear the distinctive numbers of the several Federal reserve banks through which they are issued.

When such notes have been prepared, they shall be deposited in the Treasury, or in the subtreasury or mint of the United States nearest the place of business of each Federal reserve bank and shall be held for the use of such bank subject to the order of the Comptroller of the Currency for their delivery, as provided by this Act.

The plates and dies to be procured by the Comptroller of the Currency for the printing of such circulating notes shall remain under his control and direction, and the expenses necessarily incurred in executing the laws relating to the procuring of such notes, and all other expenses incidental to their issue and retirement, shall be paid by the Federal reserve banks, and the Federal Reserve Board shall include in its estimate of expenses levied against the Federal reserve banks a sufficient amount to cover the expenses herein provided for.

Any appropriation heretofore made out of the general funds of the Treasury for engraving plates and dies, the purchase of distinctive paper, or to cover any other expense in connection with the printing of national-bank notes or notes provided for by the Act of May thirtieth, nineteen hundred and eight, and any distinctive paper that may be on hand at the time of the passage of this Act may be used in the discretion of the Secretary for the purposes of this Act, and should the appropriations heretofore made be insufficient to meet the requirements of this Act in addition to circulating notes provided for by existing law, the Secretary is hereby authorized to use so much of any funds in the Treasury not otherwise appropriated for the purpose of furnishing the notes aforesaid: Provided, however, That nothing in this section contained shall be construed as exempting national banks or Federal reserve banks from their liability to reimburse the United States for any expenses incurred in printing and issuing circulating notes.

CONFIDENTIAL
Not for publication

B-344

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EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS, APRIL 1931

Federal Reserve Bank	Month of April 1931									January - April 1931		
	Earnings from					Current expenses		Current net earnings		Current net earnings		Available for reserves, surplus and franchise tax*
	Discounted bills	Purchased bills	U. S. securities	Other sources	Total	Exclusive of cost of F.R. Currency	Total	Amount	Ratio to paid-in capital	Amount	Ratio to paid-in capital	
									Per cent		Per cent	
Boston	$17,465	$18,378	$67,618	$4,489	$107,950	$147,944	$170,102	-$62,152	--	-$172,546	--	-$413,950
New York	73,984	75,275	283,598	11,829	444,686	531,512	581,247	-136,561	--	-235,547	--	-1,006,666
Philadelphia	46,489	154	78,795	1,351	126,789	151,491	202,348	-75,559	--	-55,913	--	-356,740
Cleveland	34,840	25,741	98,073	12,991	171,645	202,502	220,700	-49,055	--	-69,845	--	-414,571
Richmond	38,240	169	24,851	3,201	66,461	117,220	127,778	-61,317	--	-185,949	--	-303,933
Atlanta	27,458	8,907	22,167	5,739	64,271	101,144	108,764	-44,493	--	-112,105	--	-219,207
Chicago	31,884	27,256	154,332	34,397	247,869	282,619	304,334	-56,465	--	-60,066	--	-463,889
St. Louis	19,504	11,139	42,451	3,720	76,814	110,307	110,968	-34,154	--	-86,007	--	-138,507
Minneapolis	9,952	7,197	50,708	530	68,387	73,668	77,309	-8,922	--	-9,848	--	-77,038
Kansas City	25,962	10,058	48,909	22,909	107,838	138,843	142,970	-35,132	--	-70,959	--	-158,737
Dallas	21,780	6,688	56,564	2,230	87,262	102,766	108,011	-20,749	--	-70,356	--	-159,571
San Francisco	23,788	25,666	70,573	7,274	127,301	181,892	182,975	-55,674	--	-178,277	--	-409,842
TOTAL												
April 1931	371,346	216,628	998,639	110,660	1,697,273	2,141,908	2,337,506	-640,233	--			
March 1931	436,994	172,067	1,124,917	111,681	1,845,659	2,100,377	2,262,167	-416,508	--			
April 1930	781,049	711,273	1,494,323	155,986	3,142,631	2,238,684	2,468,439	674,192	4.7			
Jan.-Apr. 1931	1,969,206	870,927	4,596,193	451,221	7,887,547	8,562,236	9,194,965	-1,307,418	--	-1,307,418	--	-4,122,651
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	9.8	2,224,539

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS
MAY 12, 1931.

*After making allowance for accrued dividends and current debits and credits to profit and loss account but not for profit or loss on sales of U. S. securities held in special investment account.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6892

May 14, 1931.

SUBJECT: Progressive Penalties on Deficient Reserves.

Dear Sir:

The attached memorandum, addressed to the Governor of the Federal Reserve Board by the Chief of the Division of Bank Operations, on the subject "Progressive Penalties on Deficient Reserves of Member Banks" was read to the recent Conference of Governors which requested that the Federal Reserve Board forward a copy to each Federal reserve bank which now applies progressive penalties for continued deficiencies in reserves. It is being forwarded to the other Federal reserve banks as a matter of information.

The suggestion has been made that the Federal Reserve Board amend its Regulation D, so as either (a) to abolish the progressive penalty altogether, or (b) to make it mandatory and applicable uniformly to all Federal reserve districts. Accordingly, the Board has requested the System Committee on Reserves to make a special study and report as to the effectiveness and desirability of assessing progressive penalties.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

Enclosures.

TO GOVERNORS OF ALL F. R. BANKS.

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COPY

April 25, 1931.

TO Governor Meyer SUBJECT: Progressive penalties on

FROM Mr. Smead deficient reserves of member banks.

Section 19 of the Federal Reserve Act provides that the required reserve balance carried by a member bank with a Federal reserve bank may, under the regulations and subject to such penalties as may be prescribed by the Federal Reserve Board, be checked against and withdrawn by such member bank for the purpose of meeting existing liabilities. In accordance with this section the Federal Reserve Board has provided in Regulation D that a penalty on the amount of the deficiency in reserves shall be assessed at a basic rate of 2 per cent per annum above the Federal reserve bank discount rate on 90 day commercial paper, also that upon the application of a Federal reserve bank the Board will approve progressive penalties for continued deficiencies in reserves, the total penalty not to exceed 10 per cent.

At the present time 7 Federal reserve banks apply progressive penalty rates on continued deficiencies in reserves, six of them having a maximum penalty rate of 10 per cent, and one 8 per cent. In order to compare the deficiencies in the districts which apply progressive penalties with deficiencies in districts which do not apply progressive penalties, we have prepared the attached table showing:

1. Average number of member banks in operation in 1930.
2. Number of member banks subject to basic and to progressive penalties for deficiencies in reserves.
3. Number of banks out of each 1,000 in operation that were subject to basic and to progressive penalties on deficiencies.
4. Ratio of average deficiencies to average reserve balances of all member banks.

From an examination of the table it appears that the Federal reserve banks that apply progressive penalty rates have relatively more banks with continued deficiencies, than do the reserve banks that do not apply progressive penalty rates. This raises the question whether the progressive penalties are paid by

(a) Member banks which, owing to their overextended condition, are unable to maintain their required reserves, or
(b) Member banks which are in a reasonably satisfactory condition but, through negligence or otherwise, make no attempt to maintain their required reserves.

The Federal Reserve Banks of Chicago, Minneapolis and Dallas, which at one time applied progressive rates, have discontinued them. The reasons given for discontinuing the progressive penalties are as follows:

Governor Young of Minneapolis - "After a thorough investigation of the situation, we are convinced that the banks that pay a ten per cent penalty rate do not do so because of their unwillingness to carry sufficient reserve with us, but solely because of their utter inability to do so."

Mr. Walsh of Dallas - "The progressive rate does not in itself act as a deterrent to member banks, and those banks that have paid the increased rate, even to the maximum, although having every desire to do so, have been unable to maintain their required reserve by reason of having reached their maximum ability."

Mr. Heath of Chicago - "Our observation is that by far the greater number of member banks whose reserves are continually deficient, are unable to maintain such reserves without rediscounting further, and that their condition as a rule is not such as to justify further increase in rediscounts."

Data available in this office indicate that during the past two years, 286 member banks have been subject to the maximum penalty rates of 10 per cent, or would have been subject to such rates had they been applied in all districts. Of these 286 banks, 163 are still members, 79 have suspended, 29 have been absorbed by other banks, 8 have been reorganized or succeeded by new banks, 6 have withdrawn from the System, and 1 has gone into voluntary liquidation.

The fact that Federal reserve banks that apply progressive penalties have relatively more member banks with continued deficiencies than Federal reserve banks that do not apply progressive penalties, and that a relatively large percentage of the member banks that pay the progressive penalties are in an overextended condition, raises the question as to whether the application of progressive penalties does not, in most cases, place additional burdens on those member banks which are least able to bear them.

It occurs to me that you may wish to discuss this question with the Governors at their conference next week.

DEFICIENCIES IN RESERVES OF MEMBER BANKS DURING 1930

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Federal Reserve District	Average number of member banks in district	Average number of banks subject to penalties for deficient reserves: Total	At maximum rate of 10 per cent*	At lower progressive rates*	At normal rate	Number of banks, out of each 1000 in operation, that were --: Deficient in reserves (total)	Subject to maximum penalty of 10%	Subject to lower progressive penalties	Subject to normal penalty	Average daily reserves of all member banks	Average daily deficiencies	Ratio of average deficiencies to average reserves of all member banks
										(In thousands of dollars)		
F.R. BANKS THAT APPLY PROGRESSIVE PENALTIES												
Boston	400	60	-	4	56	150	-	10	140	147,066	125	.085%
Philadelphia	756	110	-	5	105	146	-	7	139	137,819	153	.111
Cleveland	783	124	3	19	103	158	4	24	132	191,745	386	.201
San Francisco	594	139	1	10	128	234	2	17	215	175,653	123	.070
Richmond	492	160	10	26	125	325	20	53	254	63,713	375	.589
Atlanta	411	136	16	21	99	331	39	51	241	61,648	355	.576
Kansas City	885	158	5	14	138	179	6	16	156	87,741	171	.195
Total	4,321	887	35	99	754	205	8	23	175	865,385	1,688	.195
F.R. BANKS THAT DO NOT APPLY PROGRESSIVE PENALTIES												
New York	923	237	-	4	233	257	-	4	252	981,690	476	.048
Chicago	1,132	238	9	24	206	210	8	21	182	344,423	574	.167
St. Louis	548	198	5	16	177	361	9	29	323	76,220	287	.377
Minneapolis	662	114	6	18	91	172	9	27	138	51,086	126	.247
Dallas	716	128	5	16	106	179	7	22	148	60,289	245	.406
Total	3,981	915	25	78	813	230	6	20	204	1,513,708	1,708	.113

*For the last five districts, columns 3 and 4 represent the member banks which would have been subject to progressive rates if such rates had been applied by the respective Federal reserve banks. In the Atlanta district the maximum rate is 8 per cent.

NOTE: Total number of member banks, as shown in column 1, is the average of 12 end-of-month dates; the number of banks deficient in reserves is the average of quarterly reports; daily deficiencies are also averages of quarterly reports.

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS
APRIL 24, 1931

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

See Bk

Date May 20, 1931

To Mr. Hamlin

Subject:

From Mr. Goldenweiser

2—8495

The decrease in member bank credit between November 15, 1920 and March 10, 1922, which was the period of the so-called "nineteen twenty-one deflation," amounted to $2,491,000,000, or in round numbers, $2,500,000,000. The decrease in member bank credit between December 31, 1929 and March 25, 1931 amounted to $1,205,000,000.

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COPY

See B11

May 12, 1931.

Federal Reserve Board

Mr. Smead

Member banks borrowing from Federal reserve banks 80 per cent or more of the time during 1929 and 1930.

In order to bring out what happens to member banks that borrow continuously from the Federal reserve banks we have constructed the attached table, which classifies the member banks that were in operation on December 31, 1929 into three groups, as follows:

1. Banks that borrowed continuously in 1929
2. Banks that borrowed 80 per cent or more of the time in 1929
3. Banks that borrowed less than 80 per cent of the time in 1929 (including banks that did not borrow at all)

The table shows what happened in 1930 to the banks in each of the three groups. For example, it will be noted that of the 363 banks that borrowed continuously during 1929, 53 or 14.6 per cent were lost to membership during 1930, including 26 or 7.2 per cent by suspension, 21 or 5.8 per cent by consolidation with other banks, and 6 or 1.6 per cent by withdrawal from membership or voluntary liquidation. Of the remaining 310 banks, 74 or 20.4 per cent continued borrowing throughout 1930, 73 or 20.1 per cent borrowed 80 per cent of the time in 1930, and 163 or 44.9 per cent were out of debt to the Federal reserve banks more than 20 per cent of the time during 1930. In other words, of the 363 banks that borrowed continuously in 1929, 201 or 55.1 per cent either left the System through suspension or otherwise, or continued to borrow 80 per cent or more of the time throughout 1930.

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The showing for banks that were not continuous borrowers in 1929, as might be expected, was much better than for those that borrowed continuously. For example, only 1.8 per cent of the banks that borrowed less than 80 per cent of the time in 1929 suspended in 1930, as compared with 7.2 per cent of the banks that borrowed continuously during 1929. Likewise, only 12.8 per cent of the banks that were borrowing less than four-fifths of the time in 1929 were lost to membership or borrowed more than four-fifths of the time during 1930, as against 55.2 per cent of the banks that had borrowed continuously throughout 1929 as stated above.

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MEMBER BANKS THAT BORROWED CONTINUOUSLY IN 1929, 80 PER CENT OF THE TIME, AND LESS THAN 80 PER CENT OF THE TIME.

	Total Member banks		Banks that borrowed continuously in 1929		Banks that borrowed 80% or more of the time in 1929*		Banks that borrowed less than 80% of the time in 1929**	
	Number	Per Cent	Number	Per Cent	Number	Per Cent	Number	Per Cent
Member banks in operation Dec. 31, 1929	8,522	100.0	363	100.0	812	100.0	7,347	100.0
Banks lost to membership in 1930 - total	563	6.6	53	14.6	74	9.1	436	5.9
Through suspension	185	2.2	26	7.2	29	3.6	130	1.8
Through consolidation	308	3.6	21	5.8	41	5.0	246	3.3
Through withdrawal or liquidation	70	.8	6	1.6	4	.5	60	.8
Banks still in operation as members on Dec. 31, 1930 ***	7,959	93.4	310	85.4	738	90.9	6,911	94.1
Borrowed throughout 1930	313	3.7	74	20.4	73	9.0	166	2.3
Borrowed 80% of the time in 1930	566	6.6	73	20.1	153	18.8	340	4.6
Borrowed less than 80% of the time in 1930.	7,080	83.1	163	44.9	512	63.1	6,405	87.2

*Excluding continuous borrowers, which are shown separately in the preceding column
**Including banks that did not borrow at all in 1929
***Excluding new banks that opened for business in 1930.

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS.

Ser Bk

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date May 19, 1931

To Mr. Hamlin

Subject:

From Mr. Goldenweiser EAG

GPO 2—8495

Mr. Parry has prepared a memorandum about Mr. Duggan's document, which I transmit to you. Mr. Walter Smith of the Advisory Council told me last night that Duggan has a well established reputation as a crazy man in St. Louis, and that he is quite generally ignored by the banking fraternity there.

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CM

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date May 19, 1931

To Mr. Goldenweiser

Subject: Open letter of W. J. Duggan

From Mr. Parry

2—8495

Mr. Duggan's open letter of May 12 records objection to the purchase of any U. S. Government securities by the Federal reserve banks and to the making of any loans to member banks on collateral note secured by U. S. Government obligations. All reserve bank credit extended by either of these methods seems to him to be illegitimate and "artificial," and the member bank reserve balances so created seem to him to be "fictitious." His own idea, as affirmatively expressed, would be to confine the extension of reserve bank credit to the rediscounting of customers' paper, or other commercial paper, and the purchasing of acceptances. Such procedure he characterizes as "earmarking" credit,

He assumes, in the course of his argument, that all the Government securities purchased by the reserve banks are bought from the member banks--overlooking apparently the fact that purchases from others are just as efficacious in providing member banks with reserve funds.

He also assumes that in case reserve bank operations were confined to rediscounting (and to the purchase of acceptances), every transaction would always involve a "flow" of "real gold money." Under such conditions, as it seems to him, member bank reserve balances would always consist exclusively of gold; consequently they could never exceed 60 per cent of the gold reserves of the Federal reserve banks, which reserves have originated (according to the evident implication of Mr. Duggan's argument) in the deposit of gold by the member banks. The procedure he endorses, therefore, would in his opinion confine the reserve banks to releasing gold to the member banks only as the latter would present in exchange an equivalent amount of commercial paper (including acceptances), and also--a point that seems to him too obvious to mention specifically--would confine the member banks to making loans to the public (i.e., "creating" deposits) only to the amount of "real gold money" thus acquired. It seems to him, therefore, that on April 15, 1931, for example, when the system's gold (exclusive of "gold held exclusively against Federal reserve notes") amounted to only $1,349,-000,000, and the member bank reserve balances amounted to $2,356,000,000, the volume of "fictitious" reserves--about $1,000,000,000--was very large. He does not himself present these figures, and is consequently not disturbed by the difference between them and the reserve bank holdings of securities (and collateral notes), or what he calls "advances" of $638,971,000. Neither does he specify the amount of credit "created" by the member banks on the basis of the "fictitious" reserves; this might be estimated at not less than $10,000,000,000. The existence of this credit, however, he takes for granted, and if we add it to his original $1,000,000,000 of "fictitious" reserves we get a total of $11,000,000,000 against which "the reserve banks and member banks jointly" held but $1,349,000,000 of gold. Thus he arrives at the "huge deficit" mentioned in the telegram to the President that he reprints.

When Mr. Duggan's argument is made altogether explicit, as above, its idiosyncracies become quite obvious. Their existence, however, as distinguished from their identification, is sufficiently indicated by the style which characterizes his writing: "Delusion that governs the action of Reserve authorities," "fatuous belief," "obviously shallow conclusion," "domination of economic illiterates," "ghastly mistake," etc.

PHONE, GARFIELD 0740

W. J. DUGGAN
FINANCIAL ECONOMIST
610 PLAZA-OLIVE BUILDING

ST. LOUIS, MO.

Hon. Eugene Meyer,
Governor, Federal Reserve Board,
Washington, D. C.

May 12, 1931.

Dear Governor Meyer:

In the light of the unfavorable reaction arising from the rate reduction policy exercised by Reserve banks in August, 1927, a repetition of the policy under conditions that, a large and growing number believe, requires an exactly opposite policy, is beyond all understanding.

The delusion that governs the action of Reserve authorities, and the detrimental effects resulting therefrom, can be traced directly to the fatuous belief that "you cannot earmark credit." This false concept is quoted as a "classic" phrase of Governor Strong's, "and one which has the endorsement of leading bankers." This concept is ridiculous on its face, for it presupposes that the banker makes no distinction between money and credit when expanding bank credit.

The school of thought which dissents from this obviously shallow conclusion, and which assert that a first principle in sound banking ordains the earmarking of credit, in numbers, greatly exceed the relatively smaller class holding this fallacious belief. When it is recognized and understood that the maximum of purchasing power, possible of creation by the bankers of the world, can only be attained by the practice of earmarking credit, it is obvious that earmarking credit is an indispensable essential in the practice of every individual banker and by the nation's banking system as a whole.

The larger class of bankers in number, representing world thought, in practice by direct action, restrict their dealings in credit, to the forms of credit earmarked by John Stuart Mill as:

1. "Credit in its simplest form, that of money lent by one person to another and paid into his hands."
2. "The forms of credit which create purchasing power. Credit, as a distinct purchasing power independent of money."

The school of thought representing the largest number engaged in banking throughout the world, discriminate against what passes as credit in the United States, because the credit to a great extent is adulterated and will not measure up to the standards elucidated by Mill.

To illustrate the adulteration of credit and the difference in practice between the two schools of thought, consideration is given to the statements of the Secretary of the Treasury to Congress, December 4, 1930, when he said:

> "During the week ended October 30, 1929, the Reserve banks bought $150,000,000.00 of United States' securities in the open market, reducing by that amount the need for additional member bank borrowing. Subsequent purchases brought the total to about $600,000,000.00 in September, 1930."

What was accomplished by the action of Reserve banks, when investing $600,000,000.00 in government securities was the erection of $600,000,000.00 of fictitious cash capital assets by member banks, and contemporaneously, the erection by Reserve banks, of $600,000,000.00 fictitious deposits, designated as member banks reserves. It is true that Reserve banks have acquired securities in the deal, but these same securities were already an integral part of the banking system's assets. The total cash assets of member banks cannot legitimately be increased by merely changing the ownership of securities from member banks to Reserve banks.

The buying and selling of securities by Reserve banks, has nothing to do with the reserves of either the Reserve banks or member banks. The only legitimate way to expand or contract gold reserves is by the deposit or withdrawal of gold money. The actual, real gold money must flow in every expansion or contraction that is recorded, if the integrity of Reserve bank gold reserves is to be preserved.

The fictitious character of member banks' cash capital assets, and Reserve banks' artificial deposits of member banks, is proved in the reaction, by reversing the procedure. If the $600,000,000.00 securities were resold to member banks, the fictitious cash capital assets of member banks, and the artificial reserve deposits of member banks with Reserve banks, would both disappear and the result would be that member banks would have their security asset of $600,000,000.00, but they would reduce their hypothetical cash capital asset and simultaneously establish a corresponding reduction in their reserves with Reserve banks. The summary is, that what cannot be done directly, cannot be done indirectly.

The delusion as to what functions as the medium of exchange, between Reserve banks as buyers and member banks as sellers, would not exist if the technique for earmarking credit were applied. It is obvious that Reserve banks have no discretionary powers that permits the issue of money by an indirect process and it is also evident that all money issues, directly or indirectly created, must show as a money issue liability by Reserve banks, if true financial statements are to be published, for the benefit of member banks and also if the interests of the general depositors of the United States' banking system are to be adequately protected.

When accommodations are extended by Reserve banks to member banks in buying securities, to avoid the wrongful use of money as exchange, banking technique ordains the earmarking of credit in the form of advances. The utilization of advances by the great majority of the world's bankers, follows the economics of Mill, by identifying the credit exchange thus utilized, as "a distinct purchasing power independent of money," which advances, are redeemable and payable only with gold money.

The system of utilizing advances also requires restriction and regulation, which is attained by establishing a percentage ratio of advances to deposits, which ratio indicates whether the volume is above or below the minimum regarded as safe.

There is no regulating factor at work under the American system as at present conducted. This truth explains the abundance of "easy money" in the New York market, which "easy money" represents the unregulated, unrestricted expansion of bank credit. America does not use a printing press to inflate currency, but does with reckless abandon, utilize the inscribed credit referred to by the National City Bank's monthly letter, for September, 1928, which said:

> "Gold is the basis of bank credits, and the latter must be kept in due proportion to the gold reserves. To grant credit without relation to the gold reserves, would be the same as printing money."

Your advent as head of the Reserve system was prayerfully looked forward to, as the coming of an emancipator who would free the American nation from the rule of opportunists and the domination of economic illiterates, in the direction of the country's financial system. In the light of the recent rate reduction policy with your approval, when United States' history is written in the near future, it can only be said that you entered the ranks of those who believe in defiance of economic law and those whose ruling passions are what Paul M. Warburg describes as "cupidity and stupidity," regardless of the people's welfare.

It is confidently predicted that events will soon prove the fallacy of present American monetary policies, which will result in dethroning those now in power. With the regeneration of our credit system it is firmly believed that the misery now suffered by the people will be transformed into a state of general prosperity, fully compensating for sacrifices endured. After America is sufficiently chastened by the adversity gratuitously thrust on the people, we will indubitably enter a period of sustained stability, surpassing all past accomplishments by civilized society in the world's history. Nil Desperandum.

"The Way to Resume is to Resume."

Sincerely yours,

W. J. DUGGAN,

c/o National Retail Credit Association,

St. Louis, Missouri.

C C to—
President Herbert Hoover,
Hon. A. W. Mellon,
Hon. Carter Glass,
Hon. Peter Norbeck,
Hon. L. T. McFadden.

The Commercial and Financial Chronicle

NEW YORK

This news-item appeared in the Chronicle, May 2, 1931, issue:

W. J. Duggan of National Retail Credit Association of St. Louis in Communication to President Hoover Criticizes Action of Federal Reserve in Reducing Bill Rates.

In both a telegram and a letter addressed to President Hoover, W. J. Duggan, of the National Retail Credit Association of St. Louis, criticizes the action of the Federal Reserve authorities in reducing the bill discount rate, which Mr. Duggan terms a "ghastly mistake." ... Hoover follows:

President Herbert Hoover,
Washington, D. C.

Reduced bill discount rate by Reserve authori... wholly artificial, while a huge deficit exists in the... member banks jointly. The gold influx was acqui... attempt is now made to create an efflux by an ... react to render more acute the economic stalem...

W. J. DUGGA...
Care of Nation...

We also give Mr. Duggan's letter herewith:

President Herbert Hoover,
Washington, D. C.

Mr. President: To substantiate the assertion made in te... "huge deficit exists in the gold reserves of Reserve Banks and m... the following is a correct statement prepared from figures issued o... eral Reserve Banks" as of April 15, 1931:

Advances on security loans	
Advances on Government securities	
Total advances	
Bills discounted—other bills	
Bills bought in open market	
Total advances and bills	$8...

This correction demonstrates the difference between an "advance" which is "credit", a distinct purchasing power independent of money, and the incorrect figures published which portray a money issue not shown as a liability.

The functions of Reserve Banks are to issue money and credit. The provisions in the Act for the issue of money are prescribed in Section 16 covering the issue of Federal Reserve notes, and the power to issue money is limited and restricted to the issue of Federal Reserve notes.

After setting up required gold reserves for Federal Reserve notes the balance of monetary gold is purely and entirely a reserve on which to build "credit, a distinct purchasing power independent of money" in the form of advances and bills of exchange.

When Reserve Banks create an issue of money indirectly, in the purchase of securities, the delusion is established that "credit, a distinct purchasing power independent of money", is utilized and the statements issued on gold reserves, by Reserve Banks and member banks jointly, are radically incorrect in claiming adequate reserves when actually there exists a huge deficit.

When the true state of Reserve Bank and member bank gold reserves is recognized it is at once obvious that the current rates are "artificial" and should be promptly supplanted with natural rates that will be potentially effective in repairing the deficit in gold reserve, of Reserve Banks and member banks jointly. This step should be taken for America's protection regardless, for the moment, of the effect on other nations.

Yours, faithfully,

W. J. DUGGAN,

National Retail Credit Association,
St. Louis, Mo.

CC to—
Hon. A. W. MELLON,
Hon. EUGENE MEYER,
Hon. CARTER GLASS,
Hon. PETER NORBECK,
Hon. L. T. McFADDEN.

New Developments

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See BH

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

May 19, 1931.
B-353.

SUBJECT: Condition of member banks as of March 25, 1931.

Dear Sir:

For your information there is enclosed herewith a statement showing the resources and liabilities of all member banks in each Federal reserve district as of March 25, 1931, also a statement giving a classification of loans, investments, deposits and borrowings of member banks in each district on the same date.

The Board's Member Bank Call Report (No. 51) giving detailed figures by states, cities and classes of banks, which will include the data shown in the enclosed statements, will be ready for distribution early in June.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

VOLUME 214
PAGE 109

Enclosure.

TO ALL GOVERNORS AND FEDERAL RESERVE AGENTS*

G109

ALL MEMBER BANKS (6,930 NATIONAL BANKS AND 998 STATE BANKS) - CONDITION ON MARCH 25, 1931, BY FEDERAL RESERVE DISTRICTS

(In thousands of dollars)

B-353a

	Total	Federal				Reserve				District			
		Boston	New York	Phila-delphia	Cleveland	Richmond	Atlanta	Chicago	St. Louis	Minn-eapolis	Kansas City	Dallas	San Francisco
RESOURCES													
Loans (including overdrafts)	22,839,946	1,684,028	7,919,303	1,704,053	2,194,309	811,906	675,939	3,256,927	741,917	492,212	672,234	578,700	2,108,418
U. S. Government securities	5,002,262	261,748	1,767,355	351,586	550,281	128,592	145,450	676,599	121,316	120,300	169,042	145,254	564,739
Other securities	6,886,357	555,138	2,193,270	757,108	689,550	204,376	153,214	850,699	284,314	241,256	262,908	102,118	592,406
TOTAL LOANS AND INVESTMENTS	34,728,565	2,500,914	11,879,928	2,812,747	3,434,140	1,144,874	974,603	4,784,225	1,147,547	853,768	1,104,184	826,072	3,265,563
Customers' liability on account of acceptances	1,035,978	67,268	785,140	27,135	19,177	8,073	6,631	78,204	1,452	130	34	3,639	39,095
Banking house, furniture, and fixtures	1,239,935	72,033	336,423	108,436	151,384	59,756	53,899	177,514	36,392	27,527	42,106	46,788	127,677
Other real estate owned	199,935	9,758	30,034	27,514	32,304	15,127	15,232	25,612	12,406	4,798	6,185	9,611	11,354
Cash in vault	461,267	31,391	96,167	39,409	50,541	28,225	25,929	67,185	19,913	16,072	24,164	19,563	42,708
Reserve with F. R. banks	2,364,478	140,399	988,750	151,562	195,891	62,363	59,372	322,183	71,735	49,261	81,275	57,468	184,219
Items with F. R. banks in process of collection	524,765	45,658	188,401	36,651	53,589	24,789	17,018	62,716	23,935	4,139	25,883	17,693	24,293
Due from banks in United States	2,791,204	151,295	325,906	257,646	250,739	130,460	161,700	438,633	156,746	142,433	266,341	204,174	305,131
Due from banks in foreign countries (including own branches)	296,376	43,833	210,034	3,536	2,236	10,438	1,442	7,795	3,758	1,573	1,044	365	10,322
Exchanges for clearing house and other checks on local banks	975,215	21,017	751,795	32,945	21,371	8,355	8,068	58,536	9,025	6,011	9,543	5,859	42,690
Outside checks and other cash items	43,344	2,067	8,040	1,812	3,249	1,351	1,711	7,772	1,440	1,821	2,449	1,748	9,884
Redemption fund and due from U. S. Treasurer	32,264	2,258	4,601	2,785	3,765	2,361	2,188	4,444	1,365	1,296	1,566	2,180	3,455
Acceptances of other banks and bills of exchange or drafts sold with indorsement	524,104	23,896	407,387	4,694	6,229	2,860	1,230	58,066	23	3	253	28	19,435
Securities borrowed	24,822	232	1,515	1,323	9,527	1,410	1,749	1,874	4,846	61	844	606	835
Other assets	300,024	15,256	139,007	23,613	29,846	7,516	4,540	29,073	6,491	13,458	3,569	1,624	26,031
TOTAL	45,542,276	3,127,275	16,153,128	3,531,808	4,263,988	1,507,958	1,335,312	6,123,832	1,497,074	1,122,351	1,569,440	1,197,418	4,112,692

ALL MEMBER BANKS (6,930 NATIONAL BANKS AND 998 STATE BANKS) - CONDITION ON MARCH 25, 1931, BY FEDERAL RESERVE DISTRICTS
(Amounts in thousands of dollars)

B-353b

	Total	Federal				Reserve				District			
		Boston	New York	Philadelphia	Cleveland	Richmond	Atlanta	Chicago	St. Louis	Minneapolis	Kansas City	Dallas	San Francisco
LIABILITIES													
Capital stock paid in	2,657,172	195,779	904,383	184,448	230,250	106,316	96,796	362,816	99,915	62,885	92,732	90,412	230,440
Surplus	2,804,906	177,925	1,204,403	359,457	290,799	78,726	66,190	293,542	57,860	35,810	44,573	46,614	149,007
Undivided profits - net	910,480	71,657	401,752	82,566	76,970	29,438	20,000	87,620	23,894	13,750	24,092	26,096	52,645
Reserves for dividends, contingencies, etc.	225,483	11,456	86,532	21,619	23,290	7,759	5,092	34,819	4,758	4,140	4,398	3,616	18,004
Reserves for interest, taxes, and other expenses accrued and unpaid	158,416	13,700	50,623	7,694	17,536	6,445	3,545	33,113	3,801	5,120	4,254	2,799	9,786
Due to Federal reserve banks	43,323	6,345	17,082	5,125	3,439	4,344	1,546	2,689	163	8	51	1,608	923
Due to other banks in United States	4236,451	184,074	1,452,365	313,745	440,081	132,835	136,980	595,357	156,818	117,756	245,457	148,050	312,933
Due to banks in foreign countries (including own branches)	566,579	18,493	488,274	4,203	4,060	850	1,669	26,776	365	1,080	219	996	19,594
Certified and officers' checks outstanding	626,747	14,643	437,461	14,452	16,675	7,806	5,681	39,240	9,469	11,686	13,656	10,987	44,991
Cash letters of credit and Travelers' checks outstanding	22,506	549	14,393	44	3,869	50	84	1,967	261	26	91	23	1,149
Demand deposits	16,338,728	1,189,756	6,256,142	1,131,391	1,304,103	477,974	483,645	2,135,004	564,927	377,766	704,545	548,503	1,164,972
Time deposits	13,663,258	1,019,255	3,185,017	1,218,702	1,686,448	549,114	398,620	2,155,438	483,920	458,937	385,627	236,135	1,886,045
United States deposits	502,204	55,385	163,275	48,305	25,633	26,035	39,297	54,502	17,160	2,262	5,071	22,179	43,100
TOTAL DEPOSITS	35,999,796	2,488,500	12,014,009	2,735,967	3,484,308	1,199,008	1,067,522	5,010,973	1,233,083	969,521	1,354,717	968,481	3,473,707
Agreements to repurchase U. S. Govt. or other securities sold	23,599	2,000	5,589	630	1,174	132	425	7,609	2,582	5	1,624	1,408	421
Bills payable and rediscounts:													
With Federal reserve bank	165,106	10,742	34,482	17,321	14,026	13,577	11,806	12,740	7,570	3,206	9,087	6,829	23,720
All other	116,336	5,755	26,379	10,022	9,625	4,550	6,367	25,541	6,467	545	410	2,160	18,515
Acceptances of other banks and bills sold with endorsement	524,104	23,896	407,387	4,694	6,229	2,860	1,230	58,066	23	3	253	28	19,435
Acceptances executed for customers	1,063,334	68,670	807,622	26,255	19,097	7,925	7,869	79,314	1,466	135	21	3,812	41,148
Acceptances executed by other banks for account of reporting banks	15,553	832	11,362	1,590	399	175	410	199	-	10	14	-	562
National-bank notes outstanding	642,284	44,916	91,627	55,410	74,798	46,929	43,516	88,685	27,218	25,680	31,207	43,394	68,904
Securities borrowed	24,822	232	1,515	1,323	9,527	1,410	1,749	1,874	4,846	61	844	606	835
Other liabilities	210,885	11,215	105,463	22,812	5,960	2,708	2,795	26,921	23,591	1,480	1,214	1,163	5,563
TOTAL	45,542,276	3,127,275	16,153,128	3,531,808	4,263,988	1,507,958	1,335,312	6,123,832	1,497,074	1,122,351	1,569,440	1,197,418	4,112,692
Number of banks	7,928	393	908	751	735	466	376	1,062	505	632	861	666	573

ALL MEMBER BANKS - CLASSIFICATION OF LOANS, INVESTMENTS, DEMAND AND TIME DEPOSITS, AND BORROWINGS ON MARCH 25, 1931, BY FEDERAL RESERVE DISTRICTS
(Amounts in thousands of dollars)

B-353c

	Total	Federal					Reserve			District			
		Boston	New York	Phila-delphia	Cleveland	Richmond	Atlanta	Chicago	St. Louis	Minn-eapolis	Kansas City	Dallas	San Francisco
Loans - total	22,839,946	1,684,028	7,919,303	1,704,053	2,194,309	811,906	675,939	3,256,927	741,917	492,212	672,234	578,700	2,108,418
Domestic acceptances	361,471	80,614	199,837	110	7,667	3	1,690	15,810	8,330	746	527	3,805	42,332
Foreign bills and acceptances	100,618	7,370	51,052	3,026	934	189	1,554	26,290	696	72	1	494	8,940
Commercial paper bought in open market	361,052	63,697	63,425	44,408	12,798	15,763	6,693	53,180	28,896	18,042	20,830	6,488	26,832
Loans to banks: On securities	218,503	9,078	70,973	31,034	19,641	5,398	3,429	62,933	5,916	1,126	4,054	940	3,981
All other	227,771	9,701	86,557	15,173	13,205	12,976	17,621	23,215	16,303	5,158	17,058	6,985	3,819
Loans on securities, exclusive of loans to banks - Total	9,053,749	625,062	4,114,797	650,887	897,475	237,362	174,891	1,302,454	227,277	106,979	134,027	115,515	467,023
To brokers and dealers in New York	1,630,494	46,463	1,396,919	13,916	13,267	2,553	9,880	119,021	5,364	3,586	3,861	1,992	13,672
To brokers and dealers elsewhere	574,978	56,665	137,981	48,471	46,808	9,561	8,780	186,602	15,785	5,403	6,304	3,124	49,494
To others	6,848,277	521,934	2,579,897	588,500	837,400	225,248	156,231	996,831	206,128	97,990	123,862	110,399	403,857
Real estate loans: On farm land	385,558	7,367	15,665	13,962	30,110	17,971	24,569	74,938	20,939	23,100	22,119	18,904	115,914
On other real estate	2,833,559	261,800	539,595	225,019	479,310	52,504	47,607	462,254	89,897	20,649	22,791	24,810	607,323
All other loans (including overdrafts)	9,297,665	619,339	2,777,402	720,434	733,169	469,740	397,885	1,235,853	343,663	316,340	450,827	400,759	832,254
Loans eligible for rediscount with Federal reserve banks	3,418,472	205,808	1,017,676	223,799	193,064	167,544	158,389	462,333	165,111	178,611	217,754	181,005	247,378
U. S. Government securities - total	5,002,262	261,748	1,767,355	351,586	550,281	128,592	145,450	676,599	121,316	120,300	169,042	145,254	564,739
Bonds	3,771,086	199,177	1,282,230	299,724	501,764	106,845	104,365	376,329	82,544	107,897	136,612	98,478	475,121
Treasury notes	332,295	15,553	164,319	12,608	11,215	3,665	5,158	54,065	8,156	5,731	12,381	4,638	34,806
Certificates of indebtedness	725,852	46,020	218,128	38,346	34,302	18,082	35,420	183,358	30,550	5,671	19,038	42,138	54,799
Treasury bills	173,029	998	102,678	908	3,000	-	507	62,847	66	1,001	1,011	-	13
Other securities - total	6,886,357	555,138	2,193,270	757,108	689,550	204,376	153,214	850,699	284,314	241,256	262,908	102,118	592,406
Domestic securities - total	6,181,525	488,036	1,937,588	682,104	620,176	187,846	141,914	767,600	260,911	212,387	243,694	97,311	541,958
State, county, and municipal bonds	1,553,636	52,422	480,959	80,557	81,736	31,748	45,466	186,299	75,449	62,587	101,629	35,058	319,726
Railroad bonds	1,003,728	80,122	435,071	147,545	112,896	21,723	12,435	64,315	30,900	30,117	21,865	4,271	42,468
Other public service corporation bonds	1,102,961	156,580	311,426	178,931	106,846	29,957	14,651	149,524	38,179	39,079	20,130	5,883	51,775
All other bonds	1,295,253	103,197	302,854	150,542	194,981	54,144	37,642	179,490	56,418	56,264	46,197	27,313	86,211
Stock of Federal reserve banks	167,028	11,833	64,522	16,746	15,714	5,703	5,001	19,832	4,762	3,004	4,226	4,258	11,427
Stock of other corporations	573,611	64,957	264,089	62,129	55,938	20,902	17,453	18,167	38,463	1,853	13,457	6,555	9,648
Collateral trust and other corp. notes	214,222	15,735	59,444	35,478	38,923	20,035	1,714	22,528	5,914	5,364	2,639	2,502	3,946
Municipal warrants	214,169	392	16,462	5,375	9,443	748	4,459	106,869	6,515	12,305	28,027	8,936	14,638
All other	56,917	2,798	2,761	4,801	3,699	2,886	3,093	20,576	4,311	1,814	5,524	2,535	2,119
Foreign securities - total	704,832	67,102	255,682	75,004	69,374	16,530	11,300	83,099	23,403	28,869	19,214	4,807	50,448
Government bonds	369,290	26,724	145,047	36,094	31,800	7,243	5,578	46,086	12,319	12,939	10,524	2,519	32,417
Other foreign securities	335,542	40,378	110,635	38,910	37,574	9,287	5,722	37,013	11,084	15,930	8,690	2,288	18,031

ALL MEMBER BANKS - CLASSIFICATION OF LOANS, INVESTMENTS, DEMAND AND TIME DEPOSITS, AND BORROWINGS ON MARCH 25, 1931, BY FEDERAL RESERVE DISTRICTS (Cont'd)
(Amounts in thousands of dollars)

B-353d

	Total	Federal Reserve District											
		Boston	New York	Phila-delphia	Cleveland	Richmond	Atlanta	Chicago	St. Louis	Minn-eapolis	Kansas City	Dallas	San Francisco
Demand deposits - total	16,338,728	1,189,756	6,256,142	1,131,391	1,304,103	477,974	483,645	2,135,004	564,927	377,766	704,545	548,503	1,164,972
Individual deposits subject to check	14,387,465	1,094,539	5,677,065	985,830	1,094,222	419,951	405,466	1,880,012	497,952	288,569	566,376	451,288	1,026,195
Certificates of deposit	179,078	14,203	42,265	5,483	14,370	4,820	3,669	25,602	11,511	11,264	23,887	10,055	11,949
State, county, and municipal deposits	1,478,593	67,304	341,393	119,580	176,240	47,840	71,022	216,871	52,914	75,714	111,678	83,536	114,501
All other	293,592	13,710	195,419	20,498	19,271	5,363	3,488	12,519	2,550	2,219	2,604	3,624	12,327
Net demand deposits	18,481,083	1,258,796	7,449,757	1,240,138	1,548,382	503,255	506,731	2,388,379	600,264	403,327	743,824	568,625	1,269,605
Time deposits - total	13,663,258	1,019,255	3,185,017	1,218,702	1,686,448	549,114	398,620	2,155,438	483,920	458,937	385,627	236,135	1,886,045
States, counties, and municipalities	529,635	8,495	64,955	19,264	60,153	13,450	26,529	83,188	25,076	6,651	13,226	21,374	187,274
Banks in United States	135,463	2,535	41,694	13,099	2,548	3,703	1,848	40,493	5,871	8,046	382	513	14,731
Banks in foreign countries	201,284	16,841	144,130	500	-	-	-	28,500	911	-	-	-	10,402
Other time deposits -													
Evidenced by savings pass books	9,446,356	772,554	2,078,141	883,200	1,308,638	418,190	247,110	1,399,239	247,024	258,499	191,395	164,436	1,477,930
Certificates of deposit	1,928,323	163,886	239,542	178,395	212,029	87,936	81,005	380,647	173,906	149,018	111,055	34,717	116,187
Open accounts, Christmas savings accounts, etc.	1,179,744	44,866	560,427	114,888	90,418	17,232	17,834	193,895	20,078	13,433	43,159	8,466	55,048
Postal savings	242,453	10,078	56,128	9,356	12,662	8,603	24,294	29,476	11,054	23,290	26,410	6,629	24,473
Bills payable and rediscounts - total	281,442	16,497	60,861	27,343	23,651	18,127	18,173	38,281	14,037	3,751	9,497	8,989	42,235
With Federal reserve banks:													
Bills payable	81,242	5,392	23,075	8,437	8,749	2,012	787	3,929	6,804	397	1,089	1,176	19,395
Rediscounts	83,864	5,350	11,407	8,884	5,277	11,565	11,019	8,811	766	2,809	7,998	5,653	4,325
All other:													
Bills payable	112,012	5,686	26,263	9,450	9,134	4,266	6,145	24,155	6,356	480	341	2,001	17,735
Rediscounts	4,324	69	116	572	491	284	222	1,386	111	65	69	159	780

Mr. Hamlin

See Bk

(Confidential)

DEFICIENCIES IN RESERVES OF MEMBER BANKS DURING THE QUARTER ENDED MARCH 31, 1931

B-351

Federal Reserve District	Total member banks March 31	Number of banks penalized on account of deficiencies in reserves				Number of banks subject to progressive penalties	Number of banks subject to maximum penalty	Average daily deficiencies on which penalties were assessed			
		Total	In F. R. bank and branch cities	In other reserve cities	Country banks			Total	F. R. bank and branch cities	Other reserve cities	Country banks
								(In thousands of dollars)			
F.R.BANKS THAT APPLY PROGRESSIVE RATES											
Boston*	393	55	7	-	48	4	-	74	24	-	50
Philadelphia	751	99	6	-	93	4	-	172	19	-	153
Cleveland	740	104	10	2	92	13	2	375	22	11	342
Richmond	466	123	11	4	108	34	7	285	5	1	279
Atlanta	375	119	8	3	108	37	15	399	50	2	347
Kansas City	861	137	6	9	122	15	3	105	6	23	76
San Francisco	573	106	19	-	87	10	1	128	26	-	102
Total, 7 districts	4,159	743	67	18	658	117	28	1,538	152	37	1,349
F.R.BANKS THAT DO NOT APPLY PROGRESSIVE RATES											
New York	907	173	16	-	157	3	-	270	24	-	246
Chicago	1,056	217	16	10	191	30	9	470	69	38	363
St. Louis	503	173	32	-	141	30	6	383	76	-	307
Minneapolis	633	104	1	-	103	18	2	80	1	-	79
Dallas	666	104	12	1	91	19	5	152	24	1	127
Total, 5 districts	3,765	771	77	11	683	100	22	1,355	194	39	1,122
Total, all districts											
1st quarter, 1931	7,924	1,514	144	29	1,341	217	50	2,893	346	76	2,471
4th " 1930	8,052	1,892	195	39	1,658	264	55	4,331	949	266	3,116
1st " 1930	8,407	1,830	208	39	1,583	241	67	3,634	746	461	2,427

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS
MAY 21, 1931.

*The F. R. Bank of Boston has since discontinued the assessment of progressive penalty rates on deficient reserves.

B110

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date June 1, 1931

To Mr. Hamlin

Subject:

From Mr. McClelland

2—8495

There is attached hereto, for your information, copy of a letter addressed to the Governor by Mr. Jay, with further reference to the application of the Fiduciary Trust Company of New York for membership in the System.

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PAGE 147

P147

New York, N. Y.
May 30, 1931

Honorable Eugene Meyer, Governor
Federal Reserve Board
Washington, D. C.

Dear Governor Meyer:

I greatly enjoyed my visit to Washington yesterday because it gave me the opportunity of meeting old friends again, and because it showed me plainly the exact points which appeared to be disturbing members of the Board. The fact is that I did not know the exact angles from which our application was being considered until they developed at the Conference. Accordingly, it seems to me that after looking over the regulations of the Board with these angles in view, I may contribute something further toward clearing them up if I write you a letter.

1. Eligibility

The Board's regulation regarding State bank membership, issued in 1917, just after the amendment to the law of June 21, 1917 provides that the Board in considering applications shall consider

A. The financial condition of the applicant

B. The general character of its management

C. Whether or not the corporate powers exercised are consistent with the purposes of the act.

The letter of May 19, 1931 to us, from the Federal Reserve Bank of New York, asking for further information for the Board regarding our application says "It is not clear to the Board whether membership in the case of a bank exercising these functions alone and not doing a commercial banking business would be consistent with the purposes of the Federal Reserve Act."

Whether or not the clause above quoted regarding corporate powers would permit the Board to insist upon certain powers being <u>actually</u> exercised, is not for me to say. I think I know, however, because I worked with Mr. Warburg for several weeks in drafting the law and in the preparation of this regulation, what the clause on corporate powers was intended primarily to accomplish. The laws of the forty-eight states gave banks a much wider variety of powers, in some instances, than did the National Bank Act. This was even more true in the case of State Banks having special legislative charters. In some states banks could do a surety business or a title guarantee business. There was one bank, I remember which had a right to operate saw-mills. My old institution, The Manhattan Company, had the right to furnish water to the City of New York. The eligibility provision about corporate powers I think was intended primarily to give the Board the right to forbid banks having strange powers of this kind from exercising them while members of the system, and it was customary to deal with them in the Board's certificate of approval. You will remember that either the law or the Board's regulation provided that when a state institution is admitted it "Shall retain its full charter and statutary rights as a State Bank or Trust Company subject to the Federal Reserve Act and the regulations of the Federal Reserve Board including any conditions embodied in the certificate of approval."

I respectfully submit that the wording of the Board's regulation regarding corporate powers above quoted indicates that all the corporate powers granted to a bank need not be exercised. Without going into the various powers granted by State laws I may point out that in the case of the National Bank Act many of the powers there granted are not exercised by all national banks. For example: All national banks do not

Issue circulating notes

Accept drafts

Accept up to 100% of their capital

Accept to create dollar exchange

Receive savings deposits and invest in mortgages

Act as insurance agents

Maintain branches

Maintain foreign branches
Maintain public safe deposit vaults
Act in fiduciary capacities
Do a security business, directly, or through an affiliate

The Fiduciary Trust Company has all the powers granted by the New York State Banking Law and I believe that the fact that it does not propose to exercise all of these powers should not and does not render it ineligible for membership in the Federal Reserve System. In fact the Board has already admitted many Trust Companies in New York and other states which at the time of their admission were not doing a commercial banking business but were doing exactly the business The Fiduciary Trust Company proposes to do, namely, Turst and Investment business plus the receipt of individual,firm and corporation deposits not involving commercial lines of credit. In 1917 and 1918 the following Trust Companies were admitted, none of which according to my best information were at the time of admission doing a commercial banking business:

NEW YORK	PHILADELPHIA
Bankers	Girard
Brooklyn	Fidelity
Central	Pennsylvania Company
Equitable	
Farmers	BOSTON
Fulton	
Guaranty	New England
New York	
Union	CHICAGO
United States	
	First Trust & Savings Bank

In the Rand McNally Directory of 1916 the advertisement of the First Trust & Savings Bank of Chicago states that it "Confines its operations to savings, investment, and trust business."

By way of reinforcing my recollection in regard to the business then done by the above New York Trust Companies, I remember that in 1916,in the original application ofthe Clayton Act interlocking director provisions,the conduct of commercial banking was regarded as prima facie evidence of substantial competition. In the case of the Trust Companies mentioned, no such basis existed. Consequently the Board adopted the principle that any trust company whose resources exceeded a specified sum would,by reason of its general influence on the money market be considered in competition with other institutions of similiar magnitude. This brought the Guaranty, The Bankers, and I think the Equitable within the provisions of the Clayton Act.

Accordingly the Board has established the precedent of admitting banks doing the kind of business The Feduciary Trust Company proposes to do and the fact that many of these institutions have since exercised powers then not exercised does not, it seems to me, their figures. I think it is safe to estimate them at largely in excess of two billion dollars. I should not be surprised if they were twice that amount. Recent investigations by the Trust Company Division of the American Bankers Association indicate that trust funds in banks and trust companies are increasing at a surprising rate. What we hope to do is to get some share of this rapidly growing business. But quite independent of our activities, whatever problem of supervision trust funds raise is already in existence.

III MOTIVE

At the conference the question of our motive in applying for membership was raised. While I could not attempt to state all the motives involved in the vote of a Board of Directors to apply for membership I stated the following: a. The protection membership gives to depositors b. All important trust companies in lower New York, except the Title Insurance Companies, are members. Among these members are the United States and the Fulton Trust Companies doing the same kind of business we intend to do. c. A desire that the Company should cooperate in the mobilization of bank reserves, which was one of the fundamental purposes of the Act. d. The personal reasons which arise out of my former relationship with the System.

I trust that what I have written may be of some assistance to the Board and if any further information is desired, I shall of course be only too glad to furnish it. In as much as we are formally opening for business on Wednesday we should greatly appreciate a decision by the Board on Monday if possible, or on Tuesday, if Monday is not practicable, in order that we may know whether we may clear our checks through the Federal Reserve Bank or shall be obliged to have change the precedent. In fact, to my mind it only reinforces my contention that member-banks whether national or state may exercise the option of selecting the powers under which they will act provided they are not inconsistent with the purposes of the Federal Reserve Act. I therefore submit, that in accordance with the regulation of the Board the financial condition of the Fiduciary Trust Company is good and its assets include paper giving it access to the Federal Reserve Bank; that the general character of its management is good; and that the corporate powers it proposes to exercise are identical with those exercised by at least two other trust companies in New York City and are consistent with the purposes of the Federal Reserve Act.

At our Conference yesterday the question was raised whether the admission of the Fiduciary Trust Company might not lead to applications from other trust companies similiarly restricting their business. My own view would be that each such case would have to be dealt with on its merits, like that of every application, under the provisions above referred to ofthe Board's regulation.

II SUPERVISION

Another question raised at the Conference was whether the trust business done by the Fiduciary trust Company would not raise a difficult question of supervision. While such a question is of course, flattering to the prospects of the Fiduciary Trust Company, I think the fact is, that the question of supervision already exists, and will continue to grow, irrespective of the Fiduciary Trust Company. In some of the states the trust companies are in the habit of announcing the amounts of their trust funds. They are very large. In New York the institutions do not publish them cleared through some member-bank. Of course our reasons for wanting a decision before we open are very much broader than this but I merely mention it as a reason relating to our practical, daily operations.

Respectfully yours

(signed) Pierre Jay

P147

May 21, 1931.

Personal and Confidential.

My dear Professor Bullock:

I have your note of May 19th.

I have read the article of Mr. Lippmann, and enclose, in confidence, a reply I have hastily made for my own use.

You state that Mr. Lippmann is unaware that there was a division of opinion in the Board in 1928 on the subject of discount rates, and you evidently believe there was such a division at that time. While there was a radical division in 1929, it can not fairly be said that such division existed in 1928. During the year 1928, every increase asked for by the Federal Reserve Bank of New York was approved by the Board. There were, you will remember, between January 1 and July 11, 1928, three increases in discount rates, but from July 11, 1928 through the balance of the year, the Federal Reserve Bank of New York did not ask for any further increase. The Federal Advisory Council as late as November 22, 1928, opposed any increase on the ground that it would injure business.

It should further be remembered that between those dates, - January 1 and July 11, 1928, the System sold 400 millions of Government securities. This would have produced a very extreme contraction of credit, had it not been that the banks rediscounted, and had the advantage of gold imports and withdrawals of money from circulation.

As I stated in my testimony before the Glass Sub-committee, looking backward, I am inclined to think it might have been better to have reached a discount rate of 6% by July 11, 1928, rather than 5%, but as I have stated, the policy of the New York bank was against this, and the Board approved every recommendation it made.

My best judgment is that if the Federal Reserve Bank of New York had initiated a 6% rate shortly after July 11, 1928, the Board would probably have approved such action.

In 1929, however, there was a decided division of opinion in the Federal Reserve Board on the subject of discount rates. A majority of the Board refused to increase discount rates on the ground that this would injure agriculture and business of the country, but insisted on direct pressure being placed upon member banks to reduce their total borrowings, and especially the speculative loans. As against this, the New York Bank desired quick, rapid increases in discount rates to cure the situation, and a minority of the Board voted in favor of this view. You refer to the individual votes. Even if you are correct in your understanding of the division, I am unable to give you any information because of a by-law of the Federal Reserve Board.

As I have stated, the policy of the Federal Reserve Bank of New York during the year 1928 was approved by the Board, and every recommendation made by the Bank was so approved, even the request for authority made in August, 1928, to buy acceptances to meet a possible credit strain. As a matter of fact, the New York Bank bought, during this period, for the System and for the account of foreign banks, about 286 millions of acceptances, so that the Federal reserve banks held two-thirds of all the acceptances outstanding. So many acceptances were bought that the banks were able to take down 193 millions of discounts with the proceeds. This was all done during the time, as we supposed, of a steady firming policy as to credit. This purchase of acceptances, however, turned that policy from a policy of firmness into a policy of ease, with a subsequent very material growth in speculative activity, as you will see if you will read my testimony before the Glass Sub-committee.

In the early part of 1929, the Board took matters in hand and issued its warning of February 7, 1929, to the effect that Federal reserve credit had seeped in large measure into speculative markets, and that this credit must gradually be withdrawn. Under the direct pressure which followed, as a fact Federal reserve credit was contracted by 193 millions, and total security loans by 361 millions. This direct pressure, in fact, was so successful that about June 1st, Governor Harrison and Mr. McGarrah came to Washington and begged the Board to adopt an easier policy, as they said the banks were really afraid to borrow, and that more credit was needed, or would shortly be needed, for seasonal purposes. Accordingly, about the middle of June, the

Board suspended its pressure on the banks to reduce their total borrowings for the purpose of accommodating commerce and business.

It is interesting to know that after the suspension of this direct pressure, up to the time of the final crash in October, 1929, Federal reserve credit, while it increased, did not increase as much as the demand for currency in circulation represented by Federal reserve notes. The majority of the Board, I think, felt that direct pressure had succeeded largely in withdrawing Federal reserve credit from the speculative markets, and we felt that the real cause of the crash was the loans "for others" over which the Board had no control.

We felt also, that to approve the New York plan of incisive increases of discount rates, beginning only at 6% and increasing until the situation was corrected, would have surely precipitated the panic, and that later it would certainly be claimed that the Board averted the crash in October 1929 by creating a crash in April or May, 1929. In other words, the majority of the Board felt that under the conditions in 1929, increases in discount rates would be ineffectual in stopping the speculative movement, and that any increases made should have been made in 1928 rather than in 1929.

Personally I believe that when a speculative mania has once got under way, increases in discount rates are ineffectual, and that the only way to meet the situation is to cut off credit directly.

I wish very much I could have a good talk with you and go over these matters in greater detail.

Sincerely yours,

Prof. Charles J. Bullock,
Harvard Economic Society,
Cambridge, Mass.

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