

## The Papers of Charles Hamlin (mss24661)

365\_01\_001-

Hamlin, Charles S., Scrap Book – Volume 217, FRBoard Members

205.001 - Hamlin Charles S  
Scrap Book - Volume 217  
FRBoard Members

Box 365 Folder 1

TRANSFER

CONFIDENTIAL (F.R.)

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

CONFIDENTIAL (F.R.)

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

## VOLUME 217

Page 3

Memo to Mr. Hamlin from Mr. Goldenweiser re "Acceptances".

Page 11

Extracts from minutes of Board meetings re credit to Bank of Belgium.

Pages 12 & 13

Letter to Mr. Platt from Senator Glass, and reply thereto, discussing right of Federal Reserve Banks to "guarantee tremendous credits to foreign banks"--

Pages 14 & 15

Further correspondence re right of F.R. Banks to "guarantee tremendous credits to foreign banks"--

Page 40

Earnings & Expenses of F.R. Banks, July 1931.

Page 43

Preliminary Memorandum on Governors' Conference.

Page 60

Memo to Mr. Hamlin from Mr. Goldenweiser re French short-term funds in New York.

Page 69

Memo on Reserves of Member Banks.

Page 73

Memo on Bank Reserves (Debit Formula).

Page 93

Memo to Mr. Hamlin from Mr. Parry re Article in Wall Street Journal.

Page 105

(X-6958) Group life insurance carried by Banks.

Page 117

Recommendations of Comptroller of the Currency to Federal Advisory Council.

# Office Correspondence

FEDERAL RESERVE BOARD

2-625

See 154

Date July 30, 1931

To Mr. Hamlin

Subject:

From Mr. Goldenweiser

Acceptances

2-8495

In reply to your inquiry of yesterday relating to the business of member banks in accepting bills based on goods stored abroad, or moving through the channels of trade from one foreign point to another, I find that member banks may legally accept bills of this character whenever the bills "grow out of transactions involving the importation or exportation of goods" (Federal Reserve Act, Sec. 13) and are "drawn for the purpose of financing the sale and distribution \*\*\*\* of imported or exported goods." Such bills may be legally accepted even "after the physical importation or exportation has been completed" (Ruling XIII-E, 224). Under the Board's rulings the underlying transactions need not relate to American exports or imports, but may relate to goods exported from any country to any other country.

The importance of these bills in the American market has been increasing during recent years; at the end of 1930 they represented more than 25 per cent of all dollar acceptances outstanding and amounted altogether to more than \$400,000,000. Since the end of 1926, furthermore, more than half the growth in the American acceptance business has resulted from the increase of bills of this type; This growth has been due principally to the prevalence of lower money rates in this country, but it has been facilitated by the Board's liberalization in November, 1927, of its rulings regarding the eligibility of bills for legal acceptance by member banks. 1/

1/ See "Review of the Month," Federal Reserve Bulletin for November, 1928, (p. 735). For the ruling itself see Bulletin for December, 1927, (p. 860).

33

## Office Correspondence

FEDERAL RESERVE  
BOARD

Date \_\_\_\_\_

To \_\_\_\_\_

Subject: \_\_\_\_\_

From \_\_\_\_\_

\*\*\* 2-8495

- 2 -

The development of this business by American acceptors has arisen from their need to do a full-fledged acceptance business for their customers, on the same basis as the foreign banks with which American acceptors are in active competition, particularly the institutions in London and Amsterdam. Member banks are enabled in this manner to play their full part in the international money market, to render better service to their domestic customers, and to increase their own earnings. It serves also to increase the prestige of dollar exchange and to encourage its use in commercial transactions throughout the world. The risks involved are limited, under ordinary circumstances, since the bills are always secured by claims to the underlying goods, and the problem of appraising the risk is such as banks are in the habit of handling as a part of the day's work. The quality of these bills is reflected in the high investment standing which is enjoyed throughout the world by the acceptances of established British, Dutch, or American banks. Foreign bills constitute in fact an important part of the earning assets of central banks in the majority of the principal countries.

Under these conditions it would appear that the growth of this business among American banks is a constructive development, of value to American bankers and to American exporters and importers, as well as to the money markets of the world. It is an expression of the new position in international finance that has been attained by the United States since the establishment of the Federal reserve system and as a consequence of the economic and financial changes brought about by the World War.

B3

See An

Memorandum to Mr. C. C. Clegg  
1925

October 5, 1926:

Governor Harrison asked approval to join the Bank of England and other central banks of Europe in a credit to the Bank of Belgium for one year, the Federal Reserve Bank of New York to agree to buy prime bills endorsed by the Bank of Belgium up to a certain limited amount, the Bank of Belgium to agree to ship gold, if necessary, in payment, and the Belgian Government to agree to permit the gold to be shipped.

This agreement was conditioned on Belgium obtaining a private bankers' credit of 75 millions to the Belgian Government, which it would pay to the Bank of Belgium in reduction of its liability.

A commission of 1/2 of 1% was to be paid for the credit, and the rate charged for purchasing the bills was to be 1% over the rate of the Federal Reserve Bank of New York, but with a minimum of 5%. (Governor Harrison later said this was an error, as it was 6%).

C.S.H. moved approval.

Dr. Miller moved as a substitute a direct disapproval of any commission. This was lost by a tie vote. C.S.H.'s motion of approval was then lost on a tie vote.

Platt presented a motion of approval, but adding that the Board desires to have the Federal reserve bank endeavor to revise the agreement as to a commission, as the Board did not consider a commission charge on the purchase of a bill endorsed by a central bank as consistent with the Federal Reserve Act or its principles. This, however, was not put as a condition of approval, nor was it so intended.

The Board finally voted approval of Platt's motion.

October 19, 1926:

Governor Harrison reported that his directors tried to have the commission omitted, but have not succeeded, but that they would collect the commission in the first instance but would rebate it up to the time of the expiration of the British credit, on which no commission had been charged.

-----

B 11

## UNITED STATES SENATE

Lynchburg, Virginia,  
July 20, 1931.

My dear Platt:

Responding to yours of July 17th, I think if you will examine the statement made by me you will note that I spoke of "guaranteeing tremendous credits to foreign banks" and not to foreign governments.

You and I are miles apart if you really think the Federal Reserve banks, with or without the sanction of the Federal Reserve Board, have the remotest right to engage in any such business. The Federal Reserve system was unmistakably intended to be primarily a commercial banking system for the United States, with the incidental right to take care of our foreign commerce by the establishment of agencies in foreign countries. At the time the Act was enacted no human being could have envisioned the now existing state of affairs in Europe and not one of the persons who constituted the Congress at Washington had the remotest intention of authorizing the Federal Reserve system to undertake, with reserve trust funds and credits, to sustain tottering banks in Europe. If you will excuse my bluntness, it is utter nonsense for anybody to contend that Congress had any such purpose and it is worse than nonsense for anybody now to undertake to twist the statute into any such meaning.

The proposal of the New York Federal Reserve Bank, according to press dispatches, is to buy foreign finance bills, having not the remotest relation to any commercial transaction by merchants or industries of the United States, but purely for the purpose of undertaking the hazardous experiment of aiding dangerously extended foreign banks. This transaction is not intended to insure the use of idle funds or to derive profits for defraying the expenses of any Federal Reserve bank, as was contemplated by the open market provision of the law, but it is intended to entangle the Federal Reserve system in the questionable operations of foreign banks. This sort of thing had its origin in the assumption of the New York Federal Reserve Bank officials that their institution is "the central bank of America." It is my considered judgment that unless an end is put to this sort of exploitation, the Federal Reserve system will not have an outstanding friend in Congress who will be willing to speak in its defense. I knew perfectly well that you sanctioned the English agreement and I thought then, as I still think, "more is the pity."

Sincerely yours,

(sgd.) CARTER GLASS

Hon. Edmund Platt,  
Marine Midland Group, Inc.,  
120 Broadway,  
New York, N. Y.

July 21, 1931.

Dear Senator Glass:

Of course, I agree with your statement that it is utter nonsense "for anybody to contend that Congress had any such purpose" as to authorize credits to foreign central banks, but I do not think it is utter nonsense for anybody now to "undertake to twist the statute into any such meaning." The Federal Reserve System has developed in a great many ways that none of us had the remotest idea of when we were passing the Act in the 63rd Congress. One of the best things about the Federal Reserve Act, and one of the things that you have reason to be proudest of, is that it is broad enough to cover many things that should be done for the security of our own commercial banking system which we did not foresee. Certainly the Act authorizes the opening of an agency or correspondent account at a foreign central bank and the opening of an account is an extension of credit. I am not a lawyer (although I was a member of the Law Committee of the Federal Reserve Board all of my term of service on the Board) and I do not intend to argue the legal phases of the matter, but as to the usefulness of such credits to the commercial banking system of the United States I do not think there is a shadow of a doubt. If our member banks can't safely accept grain and cotton bills or any other bills drawn to finance foreign trade on the opening guarantee of leading European banks, foreign trade acceptance business is likely to come largely to a standstill. The Federal Reserve created the acceptance business and the acceptance business depends upon confidence between banks in this country and banks in other countries. A German merchant desiring to import American cotton goes to his German bank and asks that bank to arrange for an acceptance credit with a New York bank. In most cases neither the American exporter nor the American accepting bank knows much about the reliability of the German importing firm, but the New York bank upon which the bill is drawn knows or believes that the German bank which guarantees the credit is sound. I believe President Hoover is right in saying that "there is no reason to doubt the soundness of the basis upon which these credits rest." If the credit of the German guaranteeing bank is impaired because of a panicky feeling abroad, due to unreasonable withdrawals, the Federal Reserve System would certainly be aiding our own banking system and our own commerce if it could allay the feeling of panic by extending credit to, or by buying bills endorsed by, the German Reichsbank. If the newspapers conveyed the impression that the Federal reserve bank is expected to buy "foreign finance bills, having not the remotest relation to any commercial transactions by merchants or industries of the United States," they are wrong. The recent commitment of the Federal reserve banks to the Reichsbank was to buy "prime commercial mark bills from the Reichsbank up to \$24,000,000," and I think Beckhart of Columbia is probably right when he says that in effect the Reserve banks "would take over that amount of the portfolio of the Reichsbank." We always had the provision when I was a member of the Federal Reserve Board in credits extended to foreign central banks - to buy "prime commercial bills" - and I do not see how there can be any legal objection to it. The Federal reserve banks certainly have the legal right

VOLUME 217  
PAGE 13

313

to buy commercial bills in foreign currencies even without a foreign central bank endorsement, and the Federal Reserve Bulletin shows that the System has had a small amount of foreign commercial bills, bills in foreign currencies, continuously for a long time.

I was wrong in my statement of the mechanics of the Reichsbank credit. The Federal Reserve Bank of New York did not buy German marks in the New York market, but, I am told, gave the Reichsbank credit on its books for approximately \$24,000,000, and the Reichsbank set aside from its portfolio and with its endorsement prime commercial mark bills of an equivalent value for the account of the Federal Reserve Bank of New York. The Reichsbank then uses its dollar credit at the Federal Reserve Bank in making payments in New York, or in our own money market. Even if the Reichsbank uses a part of the credit to buy sterling exchange or French francs the funds are paid out here.

One sentence in your letter tempts me to a further answer. You state "This transaction is not intended to insure the use of idle funds or to derive profits for the defraying of expenses of any Federal reserve bank as was contemplated by the open market provisions of the Federal Reserve Act." Not so intended, but the result is increased profits. The prime commercial mark bills held for the Reserve banks in the Reichsbank have a much higher yield rate than any American bills or than any of the rediscounts of the Federal reserve banks. Nobody seems to want Federal reserve credit in this country and with total resources of \$5,252,000,000, the System has extended credit, according to the July 15th statement, amounting to only \$951,000,000, of which only \$182,000,000 is composed of bills rediscounted for member banks and only \$70,000,000 bills bought. That \$70,000,000, by the way, includes whatever bills were bought under the Reichsbank credit, and is certainly a very low item, 99 millions less than a year ago. More than two-thirds of the total amount of Federal reserve credit outstanding is comprised in the item "U. S. Securities," \$678,000,000. Certainly when the Federal Reserve Act was passed none of us had the remotest idea that Government securities were likely to be purchased in any such amount or in anything more than nominal amounts. The System would be a good deal more useful to our banking system right now if half of that item, U. S. Securities, were converted into prime commercial bills in foreign currencies with central bank endorsement, and the profits to the Reserve banks would be much greater than the yield on the U. S. Securities the Reserve banks now hold. If the present depression should continue another two or three years (which isn't impossible, and I am beginning to think isn't improbable) the Reserve banks, all with one exception now in the red, may be compelled to curtail some of their services.

Yours very sincerely,

(signed) EDMUND PLATT

Hon. Carter Glass, U. S. S.,  
Lynchburg,  
Virginia.

B 13

x A

# MARINE MIDLAND GROUP, INC.



EDMUND PLATT  
VICE-PRESIDENT

ROOM 820  
120 BROADWAY

NEW YORK, N.Y.

July 23, 1931.

Dear Mr. Hamlin:

You and perhaps some other members of the Federal Reserve Board may be interested in some of my recent correspondence with Senator Glass. As you know, I have for many years been rather closely in touch with him and often write him with relation to Federal reserve matters or statements which he has made, etc.

On the 17th of July there was a statement in the newspapers by Senator Glass in which he declared that there was no semblance of statutory warrant for any Federal reserve credit to foreign banks. The statement published in the New York Times said "foreign governments." I wrote him on the 17th, told him I believed credits to foreign central banks were entirely legal and that the credit to the Bank of England at the time the gold standard was restored "was not only entirely legal but one of the most constructive actions the System ever took," and went on to say that, presuming that measures have been taken in Germany to prevent further flight of the mark from German sources, I believed further substantial Federal reserve credit to the Reichsbank would be highly beneficial to the commerce of our own country. I enclose copy of Senator Glass's vigorous reply, dated the 20th, and also my reply to him, dated the 21st.

I hope you are all standing the hot weather with your usual imperturbability. I haven't found the hot weather in New York nearly as oppressive as in Washington. The New York papers talk about the terrible heat when it seems to me reasonably comfortable. The pleasant feature of New York hot weather as I have experienced it so far is that it is nearly always more comfortable in the afternoon than in the morning. Along about eleven o'clock there comes up a little breeze frequently from the east - evidently a sea breeze.

With best regards,

Yours very sincerely,

*Edmund Platt*

Hon. Charles S. Hamlin,  
Federal Reserve Board,  
Washington, D. C.

VOLUME 217  
PAGE 14

B 14

August 4, 1931.

Dear Mr. Platts:

I had intended answering your note of July 23rd much sooner, but I laid it aside and am ashamed to say that I mislaid it. I agree entirely with you that the credit given the Bank of England by our System in 1925 was a most constructive action. Had it not been for that, I doubt whether England would have resumed the gold standard, and this would have prevented other countries taking the same step, and the result would have been such a disorganization on the exchanges that the purchasing power of Europe for our exports would have been severely interfered with, to our consequent damage.

I also believed at the time that the credit was perfectly legal. Looking back I can see that it might have been better not to have tied up the credit for a period of two years. The power to deal in gold coin and bullion, and the power to buy bills at home and abroad, are certainly broad powers, and in my opinion, we have never exceeded those powers.

Some students seem to think that the Federal Reserve Act constructed a system of banking so narrow that it was almost like the miniature golf courses you see scattered over the cities. In reading over various articles by Dr. Willis, he apparently takes the position that the Federal

Reserve Act was intended to admit only banks doing practically solely a commercial business. At that time there may have been a few banks which would fall into that category, but I know of none.

To my mind, Senator Glass has constructed a system of banking which is one of the wonders of the world. Undoubtedly, the problems then in his mind were very different from those obtaining today. For example, we were then a debtor country, and now we are the principal creditor country of the world. The Act, however, was broad enough to deal with any problems which have arisen, or which, in my opinion, can arise.

If ever you are coming our way during the summer, do let us know. We should be delighted to take you in.

With kindest regards to Mrs. Platt, I am

Sincerely yours,

Hon. Edmund Platt, Vice-President,  
The Marine Midland Corporation,  
120 Broadway,  
New York City, N. Y.

B 15

EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS, JULY 1931

Federal Reserve Bank	Month of July 1931					January - July 1931						
	Earnings from					Current expenses		Current net earnings		Current net earnings	Available for reserves, surplus and franchise tax*	
	Dis-counted bills	Pur-chased bills	U. S. secu-rities	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	\$15,304	\$19,362	\$60,158	\$5,963	\$100,787	\$150,034	\$168,380	-\$67,593	--	-\$347,401	--	-\$764,265
New York	33,286	72,833	215,932	23,372	345,423	517,596	560,914	-215,491	--	-751,967	--	-2,280,843
Philadelphia	42,573	20,693	73,646	4,222	141,134	150,645	171,005	-29,871	--	-97,771	--	-658,956
Cleveland	34,290	25,254	98,534	16,138	174,216	204,840	220,344	-46,128	--	-191,683	--	-782,758
Richmond	44,779	9,728	35,771	4,038	94,316	115,961	128,745	-34,429	--	-271,672	--	-478,670
Atlanta	34,085	14,934	29,395	11,691	90,105	100,097	106,342	-16,237	--	-183,060	--	-369,640
Chicago	25,935	32,415	153,696	37,111	249,157	285,391	311,692	-62,535	--	-217,079	--	-906,930
St. Louis	18,971	9,608	44,256	2,714	75,549	105,230	106,506	-30,957	--	-189,409	--	-312,593
Minneapolis	12,720	6,381	47,676	1,928	68,705	71,884	76,725	-8,020	--	-33,945	--	-146,959
Kansas City	25,726	9,198	43,475	23,967	102,366	137,048	140,841	-38,475	--	-163,719	--	-315,216
Dallas	28,762	8,358	49,584	3,014	89,718	98,035	103,494	-13,776	--	-113,078	--	50,615
San Francisco	55,119	19,023	84,733	8,490	167,365	178,483	213,248	-45,883	--	-299,807	--	-708,575
TOTAL												
July 1931	371,550	247,787	936,856	142,648	1,698,841	2,115,244	2,308,236	-609,395	--			
June 1931	407,969	120,887	897,925	371,852	1,798,633	2,108,007	2,143,358	-344,725	--			
July 1930	700,570	274,763	1,471,903	138,631	2,585,867	2,185,027	2,209,221	376,646	2.6			
Jan.-July 1931	3,131,256	1,403,678	7,417,368	1,082,593	13,034,895	14,902,916	15,895,486	-2,860,591	--	-2,860,591	--	-7,674,790
1930	7,429,701	4,516,248	10,385,110	1,398,677	23,729,736	15,400,150	16,784,158	6,945,578	7.0	6,945,578	7.0	1,481,756

FEDERAL RESERVE BOARD  
DIVISION OF BANK OPERATIONS  
AUGUST 11, 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.

340

See B4

*Emergency Conference Aug 11, 31*

PRELIMINARY MEMORANDUM, SUBJECT TO REVISION

CONFIDENTIAL

August 3, 1931.

MEMORANDUM ON CREDIT CONDITIONS FOR THE MEETING OF  
THE OPEN MARKET POLICY CONFERENCE AUGUST 11, 1931.

In the past six weeks there has been no evident improvement in business. In fact the available indexes rather show some decrease in activity. The complete figures for June show a volume of activity considerably reduced from the two preceding months and nearly as low as the lowest point reached in January as indicated by the following principal indexes.

	<u>Jan.</u>	<u>Feb.</u>	<u>Mar.</u>	<u>Apr.</u>	<u>May</u>	<u>June</u>
F. R. Bank of N. Y. Volume of Trade Index <sup>(1)</sup>	81	83	83	84	83	82p
F. R. Bd. Production Index <sup>(2)</sup>	83	86	88	90	89	86p

- (1) In per cent of calculated normal. p Preliminary
- (2) In per cent of 1923-1925 average.

While the weekly indexes of commodity price movements show a practically stable level for the past two months, a number of important individual commodities have been weak, especially agricultural products. Industrial employment, after showing at least the usual expansion in the spring, declined in June to a new low level for recent years.

The great impediment to business improvement has been a series of financial disturbances both at home and abroad which have unsettled confidence. In June there were 166 bank failures in the United States, the largest number since January, with total deposits involved of \$218,000,000, the largest since last December. The preliminary figures for July indicate 89 failures with deposits of \$45,000,000, the same as in May.

*Volume 217  
Page 43*

*B43*

Bank Suspensions

	<u>Number</u>		<u>Deposits</u> <u>In millions of dollars</u>	
	<u>1930</u>	<u>1931</u>	<u>1930</u>	<u>1931</u>
January	99	202	29	78
February	85	77	33	35
March	76	86	24	35
April	96	64	33	42
May	55	89	19	45
June	66	166	71	218
July	65	89p	32	45p
August	67		22	
September	66		24	
October	72		25	
November	254		186	
December	344		367	p Preliminary

But of considerably greater magnitude than the financial troubles at home have been difficulties abroad, which have included temporary breakdowns of the financial structure in a number of the central European countries. These events in turn have placed such pressure on the London money market as to cause a drain in a few brief weeks of more than \$150,000,000 in gold, with the consequence that the Bank of England has sought and obtained a central bank credit and has arranged by Treasury minute an increase of 15 million pounds in its fiduciary issue. A lesser but contributing factor to financial unrest has been the addition of Chile to the list of South American countries which have suspended payment on their foreign debts.

These financial developments are only the symptoms of a deeper underlying economic disequilibrium. The worldwide drop in commodity prices has thrown out of balance the international trade position of many countries and has increased the burden of the payment of international debts to a point where many of these countries will have grave difficulty in meeting their external obligations. This disturbance to the balance of trade has accompanied a decline in national income

which has forced out of balance the government budgets of many countries. At a time when unemployment is creating great social distress and when government enterprises are being advocated as a means of relief, governments are finding their income insufficient to meet even their ordinary budgetary expenses. Under these circumstances our trade with other countries has been cut to less than half the 1929 figures.

Prior to the recent outbreak of financial difficulties in central Europe there was perhaps some reason to hope for a business improvement in the autumn with some recovery in commodity prices. Recent developments have decreased the probability of any such recovery. It now appears that in this and other countries a winter of severe unemployment and distress is to be expected unless some unusual development now unforeseen occurs to change the situation. Another winter of this sort may bring with it a severe threat to the capitalist system in some countries, the risk of the overthrow of conservative governments and the danger of critical social and political disturbances in many parts of the world. The situation is sufficiently serious to justify the consideration of every sound remedy.

#### Federal Reserve Position

Since June 22 the Federal Reserve banks have purchased \$80,000,000 of Government securities under the authorization to purchase up to \$100,000,000, arranged at the meeting of the open market policy conference on April 29 and approved by the Federal Reserve Board. The changes since that time in the various elements of Federal Reserve credit and other factors influencing the money market are shown in the following table.

(Averages of daily figures. In millions of dollars)

	Week Ended <u>June 20, 1931</u>	Week Ended <u>Aug. 1, 1931</u>	<u>Change</u>
Bills discounted	197	185	- 12
Bills bought	118	66	- 52
U. S. securities	601	678	+ 77
Other reserve bank credit	30	23	- 7
Total reserve bank credit	<u>946</u>	<u>952</u>	+ 6
Monetary gold stock	4,884	4,951	+ 67
Treasury currency - adjusted	1,764	1,788	+ 24
Money in circulation	4,773	4,812	+ 39
Member bank reserve balances	2,407	2,388	- 19
Miscellaneous	414	491	+ 77*

\*Due chiefly to increase in balances of foreign correspondents with Federal Reserve Banks which now total over \$100,000,000.

Bills discounted and acceptances purchased taken together have declined \$64,000,000, nearly offsetting the purchases of Government securities. A gain of \$67,000,000 in gold has been practically absorbed by an increase of currency in circulation, and in addition balances of foreign banks at the Reserve Banks have increased by an amount sufficient to absorb all of the excess reserves and leave the member banks just about even in their reserve position. Thus neither the purchases of securities nor the gain in gold have placed any more funds permanently at the disposal of the member banks, but on the contrary there are now less free funds than a month ago.

Member banks generally did not put to active use the excess reserves in their possession for some weeks past. The temper of the banks has been to make their position constantly more liquid rather than to seek full employment of their funds. In pursuance of this aim they have reduced their loans on securities and their holdings of securities other than Governments and have increased their holdings of bankers acceptances and Government securities. The New York banks, in which the surplus of reserves centered, have indeed increased their extensions of

credit, but not in sufficient amount to offset decreases elsewhere. These tendencies are shown in the following table.

Weekly Reporting Banks - figures in millions of dollars

	<u>Change from June 24 to July 29</u>		
	<u>N. Y. City</u>	<u>Other cities</u>	<u>Total</u>
Loans			
On securities - - - - -	- 106	- 53	- 159
All other* - - - - -	+ 138	- 33	+ 105
Investments			
U. S. Government securities - - -	+ 118	- 79	+ 39
Other securities - - - - -	- 19	- 13	- 32
Total - - - - -	+ 131	- 178	- 47

\* Includes bankers acceptances.

This conservative attitude of the banks and their desire to maintain their funds in very liquid form operates as a limitation to their putting into active use additional funds which become available.

In considering the prospective influences upon the Federal Reserve position for the next few weeks the following comments may be made.

(1) The gold movement appears at the moment to be partly arrested though some imports continue and though there are a number of countries from which more substantial imports might easily come.

(2) Bills discounted and bills purchased appear to be at a practical minimum. The present amount of bills purchased appearing in the statement as \$60,000,000 includes less than \$30,000,000 of domestic bills, the balance consisting of foreign bills. The amount of foreign bills held is not likely to diminish but may well increase, and before many weeks we shall reach the period when more domestic bills come into the market. The System appears now therefore to have

just reached the point where further purchases of Governments will no longer be offset by declines in discounts and bills.

(3) Currency circulation ordinarily reaches approximately its lowest point for the year in the last week of July and thereafter begins to increase. The future movement of circulation depends not a little upon the state of confidence in banks. There is now probably as much as \$500,000,000 of hoarded currency.

(4) The increase in foreign balances with the Reserve Banks has become an important influence on the money market, though this movement is probably nearing its end.

In the consideration of any further purchases of Government securities or equally of credits to foreign countries question arises as to the gold position of the Reserve System and how much leeway the System has for further such operations. It may reasonably be assumed that at the present time for the first time in recent years purchases of Government securities would cause very little if any reduction in discounts or acceptances, but would be followed mainly by an increase in member bank reserve balances, (unless some other cause not now foreseen operated to absorb the funds). On this assumption \$35 of gold would be required to be set aside for every \$100 of Government securities purchased. To the extent, however, that purchases were accompanied by decreases in discounts or acceptances \$100 of gold would have to be set aside for every \$100 of security purchases, since this amount would be required as collateral for Federal Reserve notes to replace the discounts or bills liquidated. The effect of investments in foreign bills which are not under present arrangements eligible as collateral for Federal Reserve notes would be somewhat similar to the effect of buying Government securities. The various possible effects are shown in the attached table.

The amount of free gold available to meet these or other requirements, such as an emergency demand for currency, is shown in the following table both for

the system as a whole and for the several Reserve banks. The first column shows the amounts of free gold on the assumption that Federal Reserve notes are treated as at present, with considerable amounts of notes in the tills of most of the Reserve banks that have been issued to the banks but not put into circulation. The second column shows the results if these notes in till are reduced to a reasonable minimum in accordance with computations made by the Federal Reserve Board on the basis of information from the Reserve banks.

"FREE GOLD" OF THE FEDERAL RESERVE SYSTEM

(Figures as of July 29, 1931 - In millions of dollars)

<u>District</u>	<u>Actual Free Gold*</u>	<u>Potential Free Gold**</u>
Boston - - - - -	32	48
New York - - - - -	469	623
Philadelphia - - - - -	40	68
Cleveland - - - - -	60	75
Richmond - - - - -	8	7
Atlanta - - - - -	5	7
Chicago - - - - -	69	149
St. Louis - - - - -	7	11
Minneapolis - - - - -	5	5
Kansas City - - - - -	13	8
Dallas - - - - -	6	9
San Francisco - - - - -	<u>34</u>	<u>76</u>
System - - - - -	748	1,086

\* After providing collateral for all notes actually issued to Federal Reserve Banks.

\*\* Computed by Division of Bank Operations of Federal Reserve Board assuming provision for collateral for only a minimum supply of Federal Reserve notes issued to the banks but not in actual circulation.

CHANGES IN FEDERAL RESERVE SYSTEM POSITION  
RESULTING FROM \$100,000,000 CREDIT TO A FOREIGN BANK OF ISSUE

Assumptions

1. That the credit is entirely used.
2. That foreign bills purchased are not available as collateral for Federal Reserve Notes.

	Actual Statement July 8 (millions)	Position after buying \$100,000,000 of Foreign Bills		
		If Proceeds Are Used to Earmark or Export Gold (millions)	If Proceeds Are Used to Create Deposit At Reserve Banks (millions)	If Deposit so Created is Used to Make Payments (millions)
Total Reserves	\$ 3592	→ \$ 3492	\$ 3592	\$ 3592
Earning Assets				
Bills discounted	162	162	162	162
Bills bought	92	→ 192	→ 192	→ 192
Gov. securities	668	668	668	668
Other securities	10	10	10	10
Total	932	→ 1032	→ 1032	→ 1032
Due from Foreign Banks	4	4	4	4
Note Circulation	1737	1737	1737	1737
Deposits				
Member Banks	2439	2439	2439	→ 2539
Foreign Banks	40	40	→ 140	40
Other	48	48	48	48
Total	2527	2527	→ 2627	→ 2627
Reserve %				
Combined	84.2%	→ 81.9%	→ 82.3%	→ 82.3%
Against deposits after providing for note collateral	66.3%	→ 62.4%	→ 63.6%	→ 63.6%
Free Gold Remaining	792	→ 692	→ 757	→ 757
Effect on Market		None	None	Gain of 100 million

If instead of buying bills the credit should take the form of placing a deposit in a foreign bank, the only change in the above would be that bills bought would show no increase from the actual amount on July 8 and due from foreign banks would be increased \$100,000,000. The effects on the reserve percentage, free gold, or the money market would be the same as those shown above.

→ indicates items showing change

## Office Correspondence

FEDERAL RESERVE  
BOARD

Date August 18, 1931

*See RN*

To Mr. Hamlin

Subject:

From Mr. Goldenweiser

French short-term funds in New York

... 2-8495

The volume of French short-term funds in New York as reported by New York bankers and brokers to the Federal Reserve Bank of New York was \$750,000,000 on August 5, 1931. The division of these funds between those held for account of the Bank of France and those held for account of other French banks is not available here; nor are they divided according to types of investment.

It may be of interest to know that total foreign exchange held by the Bank of France (mostly in New York and London) was \$1,054,000,000 on August 7, 1931 - 55 per cent in foreign bills, and 45 per cent in sight balances abroad.

Of all short-term funds held by foreigners in New York on August 5, 1931, deposits constituted 72 per cent; bills, 18 per cent; short-term United States Government obligations, 6 per cent; and other loans (including acceptances made by foreign banks for own account), 5 per cent.

*B 60*

Reserve Commission

any 18 51 Dec 21

RESERVES OF MEMBER BANKS

Regulation \_\_\_\_\_

(Debit formula)

Definition of gross deposits and of debits to deposit accounts.

Gross deposits shall comprise all deposits, whether or not immediately available, and all outstanding certified cashiers' and other officers' checks, cash letters of credit and travelers' checks, and any other similar instruments. Debits to deposit accounts shall consist of total charges to all accounts included in gross deposits as defined by the Federal Reserve Board, except charges resulting from the payment of certified and cashiers' or other officers' checks.

Computation of required reserves. Required reserves of each member bank shall represent 5 per centum of its net deposits at the close of business on the preceding business day plus 50 per centum of its average daily debits to deposit accounts during the eight weeks preceding the beginning of its current reserve computation period: Provided, that the daily average reserve required to be carried by a member bank during a given reserve computation period shall not exceed 13 per centum of its average daily gross deposits during such period.

Reserve computation periods. Required reserves of member banks located in Federal reserve bank and branch cities shall be averaged over weekly periods and required reserves of member banks in all other cities shall be averaged over four week periods: Provided, that if a member bank located in a Federal reserve bank or branch city has a deficiency in reserves for three or more consecutive business days in any reserve computation period or any other member bank has a continued deficiency for 12 or more consecutive business days in any reserve computation period it shall not be permitted to average its reserve

369

requirements for such reserve computation period but shall pay a penalty to its Federal reserve bank on the actual amount of any deficiencies occurring during such period.

Penalties. Penalties for deficiencies in a member bank's reserve shall be assessed by its Federal reserve bank at a rate of 2 per centum per annum above its rediscount rate on 90-day commercial paper in effect on the first day of the reserve computation period in which the deficiency occurs, but in no case shall such penalty rate be less than 6 per centum per annum.

Daily maintenance of reserves. A Federal reserve bank may, with the consent of the Federal Reserve Board, require any member bank in its district to maintain reserves each day in accordance with requirements for that day subject to the penalties for deficient reserves prescribed by this Regulation.

Q69

Reserve Com. *Aug 18. 21*

*San A.*

BANK RESERVES

(Debit formula)

Section 19. Every bank, banking association, or trust company which is or which becomes a member of any Federal reserve bank, shall establish and maintain reserves equal to 5 per centum of the amount of its net deposits plus 50 per centum of the amount of its debits to deposit accounts, but in no case shall the reserves required to be carried by a member bank exceed 13 per centum of its gross deposits.

The Federal Reserve Board shall by regulation define gross deposits and debits to deposit accounts. Net deposits shall be determined by subtracting from gross deposits as defined by the Federal Reserve Board the sum of all balances due from member banks in the United States and their domestic branches and all checks in process of collection and other cash items payable upon presentation in the United States.

The Federal Reserve Board may by regulation fix periods over which reserves may be averaged, determine the manner in which reserve requirements are to be computed, and establish penalties for deficiencies in reserves.

The reserve required by this act to be maintained by a member bank shall consist of an actual net balance with its Federal reserve bank and of cash in its vault or in transit to and from its Federal reserve bank: Provided, however, That member banks and branches of member banks located in Federal reserve bank and branch cities, other than such banks in outlying sections as may be excepted by the Federal Reserve Board, shall hold not less than four-fifths of their total required reserve on deposit with their Federal reserve bank, and that all other member banks and branches of member banks shall hold not less than two-fifths of their total required reserve on

*673*

deposit with their Federal reserve bank: Provided, further, That a member bank may be required to sell any gold or gold certificates in its possession to its Federal reserve bank, when in the opinion of the Federal Reserve Board such action is necessary to protect the gold reserves of the Federal Reserve System. As used in this section the term "cash" shall include all kinds of coin issued by the United States Treasury, and paper currency issued by the United States Treasury, by Federal reserve banks, and by national banks.

The reserve required to be carried by a member bank may, subject to penalties prescribed by the Federal Reserve Board, be used by such member bank for the purpose of meeting existing liabilities: Provided, however, That if a member bank in a Federal reserve bank or branch city is continuously deficient in its reserve for six business days or a member bank located outside such cities is continuously deficient in its reserve for twelve business days, the directors of such bank shall be jointly and severally responsible for any losses to the bank arising out of any new loans and investments made following such period and prior to the restoration of its reserve to the amount required by this act.

No member bank shall keep on deposit with any state bank or trust company which is not a member bank a sum in excess of ten per centum of its own paid-up capital and surplus. No member bank shall act as the medium or agent of a nonmember bank in applying for or receiving discounts from a Federal reserve bank under the provisions of this act, except by permission of the Federal Reserve Board.

National banks, or banks organized under local laws, located in Alaska or in a dependency or insular possession or any part of the United States outside the continental United States may remain nonmember banks, and shall

in that event maintain reserves and comply with all the conditions now provided by law regulating them; or said banks may, with the consent of the Federal Reserve Board, become member banks of any one of the Federal reserve districts, and shall in that event take stock, maintain reserves, and be subject to all of the other provisions of this act.

The provisions of this act shall become effective 90 days after this amendment has been signed by the President of the United States.

273

## Office Correspondence

FEDERAL RESERVE  
BOARDDate September 2, 1931See NKTo Mr. HamlinSubject: Article in Wall Street JournalFrom Mr. Parry

... 2-8495

CEP

Replying to your request of ~~yesterday~~ that we point out the fallacies in Mr. Macaulay's article (attached) in the Wall Street Journal of August 18:

The article alleges "contraction in the credit basis" in this country since about 1928 and affirms the need for "expansion of the credit basis."

In an early paragraph the article defines "the credit basis" as "gold plus reserve bank credit." Gold plus reserve bank credit--at \$5,922,000,000 on August 5, the latest date to which the article refers--was in fact \$60,000,000 larger than on the corresponding date of 1928, and larger than on the corresponding date of any year since 1920; as measured by this test, therefore, there has been no "contraction of the credit basis," but an expansion instead.

The true measure of the credit base, however, is the volume of member bank reserve balances--as the article seems in some places to realize (e.g., column 4)--and as measured by this test there has been a small reduction. Member bank reserve balances for the week ending last Saturday (August 29) were \$2,336,000,000, which compares with the average of \$2,358,000,000 for the year 1928 as a whole, showing a decline of \$22,000,000.

Without adhering strictly to either of these tests, but by using instead the measure of "total reserve bank credit," the article at one point (column 3) makes a comparison between \$900,000,000 (apparently for last May) and \$1,300,000,000 (assumed to be necessary at present, apparently because reserve bank credit was at this level early in 1928). The decrease of \$400,000,000 obtained in this manner compares with an actual increase of \$50,000,000 from March, 1928 to May, 1931, in member bank reserve balances.

Use of correct figures to measure "the credit base" would substantially

393

weaken the argument presented in the article, since they could obviously not be used to support the suggestion made (column 3) that the Federal reserve banks should be considering the purchase of a volume of Government securities as large as the proposed \$500,000,000.

In discussing this \$500,000,000 proposal, with special reference to conditions in March, 1930, it is said that its adoption might have been expected to result in (1) liquidation of rediscounts by \$100,000,000, (2) purchase by member banks of \$50,000,000 of acceptances from the reserve banks, and (3) addition of \$350,000,000 to the credit base. While the \$100,000,000 may be considered a good estimate, as rediscounts at that time approximated \$275,000,000, the \$50,000,000 is quite far from the mark; the reserve banks at that time held about \$250,000,000 of acceptances, almost all due to run off within 90 days, and within this period member banks flooded with excess reserves would have absorbed all the acceptances available. This would leave, to increase the credit base, not \$350,000,000 as stated in the article but \$100,000,000. To produce \$350,000,000 increase in the credit base as of March, 1930 would have required the purchase of a much larger volume of Government securities by the reserve banks--not the \$500,000,000 suggested, but \$700,000,000.

The statement is made (columns 3-4), on the authority of Mr. Carl Snyder, that the increase in "the normal credit requirements of business" at an "almost uniform rate" of 4 per cent per annum, and the further statement, apparently on the writer's own authority, that this requires an increase of approximately \$100,000,000 per annum in the credit base. This 4 per cent formula, which represents an average, was characterized as follows by Mr. Goldenweiser in a paper presented last December: "No times are average times or normal times. If you look on the variations in the percentages of change of bank credit from year to year since 1895, you will find that they vary from plus 16 to minus 5. \*\*\*\*\* And by the time cognizance has been taken of unusual

factors in a given situation, there is nothing left for the average to do, but to retire." The \$100,000,000 derived in some manner from the 4 per cent formula, is open to the same objections as the formula itself; quoting Mr. Goldenweiser again: "It is too crude, too little tested and subject to too many accidental and unforeseeable variations to be trustworthy as a guide to current credit policy." In 1929, for example, when the formula would have required a policy of monetary ease, the overgrowth of speculative activity necessarily dictated a credit policy of restraint. Mr. Macaulay's article itself, in another connection (column 3), ignores this assumed necessity for an increase of \$100,000,000 per annum in the credit base, since it affirms to be necessary for 1930 or 1931 a credit base equal to that of 1928, not one \$200,000,000 or \$300,000,000 higher.

Since there has been no "severe contraction of the credit base," it is hard to see why this could have produced "a disastrous fall in commodity prices and the existing depression" (column 2). Whether a large expansion in the credit base might nevertheless cure the depression, by raising prices, is another question. The article maintains that it would, by causing "an overflow into long-term bonds" (column 2), but offers no substantiation of this thesis and makes no attempt to weigh the case against it.

*En 12h*  
▲

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

X-6958

September 3, 1931.

Dear Sir:

The Federal Reserve Board has received replies from the Chairmen of all Federal reserve banks to its letter of June 10th, B-378, requesting certain data with regard to the group life insurance policies carried by the banks, and there are attached hereto, for your information, copy of a memorandum dated August 12th from the Assistant Chief of the Division of Bank Operations, and copy of a tabulation summarizing the information furnished by the various Federal reserve banks.

This information was compiled in connection with the Board's consideration of the opinion expressed by the last Governors' Conference that the question whether any further increase in life insurance for officers and employees of a Federal reserve bank is desirable is a matter for the determination of the board of directors of that bank, subject, if necessary, to the approval of the Federal Reserve Board.

Before taking any definite action on the matter, the Board would be pleased to receive any comments or suggestions which you may care to make in the light of the information submitted by the other Federal reserve banks.

Very truly yours,

E. M. McClelland,  
Assistant Secretary.

TO ALL GOVERNORS AND CHAIRMEN.

VOLUME 217  
PAGE 105

*B 105*

FEDERAL RESERVE  
BOARDTo: Federal Reserve BoardDate: August 12, 1931From: Mr. Van FossenSubject: Group life insurance.

Referring to the Board's request of June 3, I beg to advise that we have received from the Federal reserve banks information in regard to the cost of their group life insurance during the current and the preceding years, together with group life insurance policies taken out and riders attached to group life insurance policies since March 1927 when the Board received copies of all group life insurance policies then in effect.

Amount of insurance and how determined. From the statement attached hereto, it will be noted that all Federal reserve banks, except Boston and St. Louis, carry group life insurance on officers and employees equal in amount to one year's salary with a maximum of \$5,000 at eight reserve banks, \$7,000 at Richmond and \$10,000 at Dallas. The Federal Reserve Bank of Boston carries insurance ranging from \$500 on employees with less than six months' service to \$3,000 on employees with ten years' service or more, and the Federal Reserve Bank of St. Louis carries insurance equal to two years' salary with a maximum of \$10,000.

Employees of all Federal reserve banks, except Philadelphia, Richmond and St. Louis, may take out additional insurance and in the case of Boston, Minneapolis, Kansas City and San Francisco the Federal reserve bank makes a contribution toward the expense of such insurance. Aggregate insurance paid for by the Boston bank amounts to 135.8 per cent of the bank's payroll while in the case of the St. Louis bank such insurance amounts to slightly over 200 per cent of the bank's payroll. The reason why the insurance carried by the St. Louis bank is more than twice the amount of its payroll, notwithstanding the limit of two year's salary on any one life, is that the insurance carried on each employee, instead of being the exact amount of two year's salary, is equal to the next multiple of \$500. In the case of the other ten Federal reserve banks the amount of insurance carried ranges from about 91 per cent of the bank's payroll to over 96 per cent.

Average cost of insurance. For the twelve banks as a whole the average insurance on which the entire expense is borne by the Federal reserve banks is \$1,806 per employee. The average amount of additional insurance carried by such employees as have taken advantage of the opportunity to obtain such insurance was \$1,941. The annual cost per employee of the insurance carried by the bank exclusively is \$12.21 and the average cost of the additional insurance paid for largely by the employee is \$14.28. The average cost per \$1,000 of insurance is \$6.76 per annum on insurance paid for by the bank and \$7.35 per annum on insurance paid for by the employee. The net cost of insurance carried by the banks amounts to about two-thirds of 1 per cent of the total salary roll.

Conversion option. All of the group life insurance policies contain a conversion option permitting an employee on leaving the service of the Federal reserve bank to convert his insurance into one of the standard forms of life insurance other than term insurance. In the case of the Philadelphia

and Kansas City Banks, however, the conversion option is contingent upon the consent of the Federal reserve bank.

Double indemnity for accidental death. The policies of the Kansas City and Dallas Banks contain a provision for double indemnity in the case of accidental death, at an additional cost of 75 cents per one thousand dollars at Kansas City and \$1.11 per one thousand dollars at Dallas.

Accidental death or dismemberment. In the St. Louis and Minneapolis policies there is a provision for double indemnity in the case of accidental death or dismemberment, at a cost of ten cents per month per thousand dollars. The premium on this insurance at Minneapolis is borne entirely by the employees.

Permanent total disability before age 60. All of the group life insurance policies include a provision for the payment of the face amount of the policy in the event of permanent total disability before age 60. The policies issued by the Equitable Insurance Company also contain a provision whereby the insurance on employees receiving permanent disability benefits may be continued at the option of the Federal reserve bank by continuing payment of the regular premium. There is nothing to indicate whether any of the Federal reserve banks have exercised this option.

Beneficiary. The employees are given the right to name the beneficiary under all of the policies except those of the Kansas City and Dallas Banks. The Federal Reserve Bank of Kansas City is specified as the beneficiary in its policy and the Governor of the bank as the beneficiary in the Dallas policy. The reason assigned by Kansas City and Dallas for this arrangement is that they are thereby enabled to make sure that the benefits go to the proper persons.

Mode of settlement. The policies generally provide the usual options as to mode of settlement, with the provision that payment shall be in a lump sum unless otherwise specified. The option as to the mode of settlement is given to the Federal reserve bank in the case of insurance paid for exclusively by the Federal reserve bank and to the employee in the case of the additional insurance, the cost of which is borne at least largely by the employees.

Waiting period. At five Federal reserve banks insurance on new employees is effective immediately, while the other seven Federal reserve banks have a waiting period from one to three months.

Time limit of eligibility for additional insurance. An employee who applies for additional insurance after the expiration of a specified time limit is required to furnish evidence of insurability. This time limit is two months in the case of four banks and three months in the case of the other five banks which make provision for additional insurance.

Percentage of eligible employees required to participate in contributory plan. The earlier policies providing for additional insurance contained a provision requiring 75 per cent of the employees, with a minimum of not less than 50 persons, to participate before the contract became effective. The more recent ones either do not contain any such provision or merely give the insurance company the option of discontinuing the policy at the end of any policy year in the event that the number of employees participating falls below these limits.

COPY

GROUP LIFE INSURANCE CARRIED BY FEDERAL RESERVE BANKS

X-6958-b

919  
6106

	Boston	New York	Phila- delphia	Cleveland	Richmond	Atlanta	Chicago	St. Louis	Minne- apolis	Kansas City	Dallas	San Francisco
Insurance company	Conn. General	Equitable	Aetna	Travellers	Equitable	Equitable	Equitable	Equitable	Equitable	Aetna	Minnesota	Aetna
Participating policy	No	Yes	No	No	Yes	Yes	Yes	Yes	Yes	No	Yes	No
Insurance plan started:												
(a) Bank's insurance	7-1-19	7-20-16	4-22-19	1-2-17	12-2-18	8-20-17	8-16-16	11-27-16	5-1-17	4-15-17	12-23-16	3-1-18
(b) Employees additional insurance*	7-1-24	1- -26	5-13-30	4-15-25	-	11-20-27	6-30-27	-	7-12-27	9- 3-25	9-24-24	7-1-25
Insurance per individual:					(1)							
(a) Bank's insurance	\$500-\$3000 up to 10 yrs service	Years sal.	Years sal.	Years sal.	Years sal.	Years sal.	Years sal.	2 years salary(2)	Years sal.	Years sal.	Years sal.	Years sal.
(b) Employees' additional insurance	do	\$5000(3)	\$3000(4)	Men \$750- \$5000 Women \$500- \$2000	-	do	\$1000-\$5000	-	do	\$1000-5000	\$1000-5000	\$1000-4000
Maximum insurance per individual:												
(a) Bank's insurance	\$3,000	\$5,000	\$5,000	\$5,000	\$7,000	\$5,000	\$5,000	\$10,000	\$5,000	\$5,000	\$10,000	\$5,000
(b) Employees' additional insurance	3,000	5,000	3,000	5,000	-	5,000	5,000	-	5,000	5,000	5,000	4,000
(c) Total	5,000	10,000	8,000(5)	10,000	7,000	10,000	10,000	10,000	10,000	10,000	10,000	9,000
Aggregate insurance carried:												
(a) Bank's insurance	\$1,542,000	\$4,116,663	\$1,095,882	\$1,557,900	\$897,182	\$685,848	\$2,307,461	\$1,718,500	\$536,572	\$995,400	\$781,730	\$1,364,480
(b) Employees' additional insurance	1,095,600	2,846,000	31,000	1,199,250	-	646,400	1,861,500	-	520,600	827,000	740,185	951,000
Number of lives insured:												
(a) Bank's insurance	743	2,429	689	875	575	414	1,435	515	294	593	423	758
(b) Employees' additional ins.	661	751	11	803	-	383	1,114	-	277	532	423	566
Average amount of bank's ins. per individual	\$2,075	\$1,736	\$1,591	\$1,780	\$1,560	\$1,657	\$1,608	\$3,337	\$1,825	\$1,678	\$1,848	\$1,800
Ratio of bank's insurance to total sal.	135.8%	96.5%	93.9%	95.4%	94.5%	91.3%	94.3%	201.4%	96.6%	93.9%	94.0%	94.4%
Net annual premium on bank's ins.	\$12,170.54	\$21,094.00	\$7,660.00	\$11,804.88	\$5,269.36	\$6,270.22	\$19,137.84	\$6,374.07	\$5,076.73	\$9,473.06	\$4,699.49	\$9,886.22
Net contribution of bank to employees additional insurance.	449.47	-	-	-	-	-	-	-	2,323.62	2,386.52	-	540.00
Net annual payment by employees	7,898.56	14,438.03	72.41	9,843.65	-	5,862.51	15,379.59	-	2,738.49	4,962.00	4,454.67	7,066.64

\*Expense borne in part by F. R. bank in case of Boston, Minneapolis, Kansas City and San Francisco.

- (1) To next multiple of \$100, if salary is not a multiple of \$100.
- (2) To next multiple of \$500, if two years' salary is not a multiple of \$500.
- (3) \$2,000 for employees receiving salaries under \$2,000 per annum.
- (4) For officers only.
- (5) Not to exceed one year's salary.

DIVISION OF BANK OPERATIONS  
AUGUST 12, 1931.

3,185

See PA

Fed. Adv. Council  
Sept 15, 31

Recommendations.

1. The Federal Advisory Council has received the recommendations of the Comptroller of the Currency made in his Annual Report for 1930, suggesting certain changes in the Federal laws relating to banking. The Federal Advisory Council is in sympathy with the Comptroller's recommendations, but suggests certain changes:

Under I. Group and Chain Banking the Council suggests that the first paragraph read as follows:

"No national bank should be permitted to become a part of a group banking system, except on the condition that all other banks in the group are members of the Federal Reserve System to the end that the Federal Government have visitatorial powers over the entire group."

Clause (a) read: "No corporation should be permitted to own in excess of 20% of the stock of a national bank if it owns at the same time in excess of 20% of the stock of a state bank unless said state bank is a member of the Federal Reserve System."

Clause (b) read: "The Comptroller of the Currency should be given visitatorial power over any corporation owning in excess of 20% of the stock of a national bank."

Clause (c) read: "No national bank should be permitted to make a loan on the security of the stock of a corporation owning in excess of 20% of the stock of the lending bank."

In reference to II. Branch Banking the Council would suggest substituting "area" in place of "trade area" and the last sentence of this clause to read: "Banks permitted to have branches in the area should have capital adequate to their deposit liabilities, the minimum not to be less than \$1,000,000; the extension of branches should be subject to the approval of the Comptroller of the Currency."

Clause B read: "The National Bank Consolidation Act should be amended to permit any bank within the branch-bank area to consolidate under national charter with the approval of the Comptroller of the Currency."

In V. Liquidation of National Banks, add to the sentence a clause "up to such time as all liabilities other than to stockholders have been paid in full."

2. The Federal Advisory Council suggests that the Federal Reserve Board consider the advisability of permitting Federal reserve banks in times of pressure to accept from member banks bills payable on securities not now eligible, the Federal Reserve Board to issue regulations defining the conditions under which such action may be taken.

3117

3. The Federal Advisory Council commends the instructions given by the Comptroller of the Currency to the chief national bank examiners under date of August 29, 1931, modifying the regulations in reference to depreciation of bonds held by banks so that it will not be necessary to charge off in future any depreciation on the bonds of the United States Government, of states, counties, or municipalities, or other bonds which enjoy a high rating.

B117