

MEETING BETWEEN FEDERAL RESERVE BOARD

and

EXECUTIVE COMMITTEE OF THE NATIONAL BANK SECTION OF
AMERICAN BANKERS' ASSOCIATION

and

EXECUTIVE COMMITTEE OF GOVERNORS.

At a joint conference between the Federal Reserve Board and the Executive Committee of the National Bank Section of the American Bankers' Association and the Executive Committee of the Governors held in the office of the Board at 3:00 p. m., on Wednesday, December 15,

PRESENT:

Mr. Hamlin, presiding	Mr. Harding
Mr. Delano	Mr. Willis, Secretary
Mr. Warburg	Mr. Elliott, Counsel
Mr. Allen, Assistant Secretary.	

PRESENT ALSO:

Mr. Strong	Mr. Hendricks
Mr. Fancher	Mr. Seay
Mr. Rhoads	Mr. McDougal

PRESENT ALSO:

Mr. Fred W. Hyde,
President, National Bank Section, A.B.A.,
Jamestown, New York.

Mr. J. S. Calfee,
Chairman, Executive Committee,
St. Louis, Missouri.

Mr. J. Elwood Cox,
Member, Executive Committee,
High Point, North Carolina.

Mr. W. H. Bucholz,
Member Executive Committee,
Omaha, Nebraska.

Mr. H. E. Otte,
Member Executive Committee,
Chicago, Illinois.

Mr. W. M. Van Deusen,
Member Executive Committee,
Newark, New Jersey.

Mr. Fred E. Farnsworth,
General Secretary, American Bankers Assn.,
New York City.

Mr. Thomas B. Paton,
General Counsel, American Bankers Assn.,
New York City.

Mr. Theodore R. Wilson,
Assistant to General Secretary, A. B. A.,
New York City.

Mr. Hamlin called on Mr. Strong who stated the object of the meeting and expressed the desire of the National Bank section to hold a conference with the Board. He said Mr. Cox would state topics under consideration.

Mr. Cox, as chairman of the Executive Committee of the National Bank section stated that five topics had been thought of for discussion, the subject of interlocking directorates, (referred to in

the Clayton Act), domestic acceptances, uniform bills of lading, capital stock of reserve banks and treatment of reserves. The latter was the subject in which the bankers were primarily interested and the one he had asked Mr. Otte to present. Mr. Otte said that at a meeting of the National Bank section held in Seattle he had been designated to ask the Board to support the following amendment to Section 19 of the Act:

A BILL
PROPOSING AN AMENDMENT AS TO SECTION 19
OF THE FEDERAL RESERVE ACT RELATING TO RESERVES.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled; that Section 19, sub-section (a) of the Act approved December twenty-third, nineteen hundred and thirteen, known as the Federal Reserve Act be amended and re-enacted so as to read as follows:

Section 19, (a) A bank not in a reserve or central reserve city as now or hereafter

defined shall hold and maintain reserves equal to 12 percentum of the aggregate amount of its demand deposits, and five percentum of its time deposits, as follows:

In its vaults for a period of thirty-six months after said date five twelfths thereof and permanently thereafter four twelfths.

In the Federal Reserve Bank of its district, for a period of twelve months after said date two twelfths, and for each succeeding six months an additional one twelfth, until five twelfths have been so deposited, which shall be the amount permanently required.

For a period of thirty-six months after said date the balance of the reserves may be held in its own vaults or in the Federal Reserve Bank, or in National Banks, in reserve or central reserve cities as now defined by law.

After said thirty-six months' period said reserves, other than those hereinbefore required to be held in the vaults of the member bank and in the Federal reserve bank, shall be held in the vault of the member bank, or in the Federal Reserve Bank or in member banks in reserve or central reserve cities as now or hereafter defined by law within a radius of three hundred miles of the member bank or within the Federal Reserve District in which the member bank is located, at the option of the member bank.

Continuing Mr. Otte said that this amendment would be an advantage to the non-reserve city

or country banker who would be obliged to carry balances with banks in the natural commercial centers in order that he might get the service which Federal reserve banks did not now offer or probably never would offer. He said that the bankers would then be put in a position in which they would not have to compete with State banks on an unfair basis.

Mr. Williams asked whether Mr. Otte was certain that the small banks would have to maintain operations with the city banks in order to keep up the banking operations. The answer was in the affirmative. Mr. Williams then asked what services were not performed by large banks for the small ones. The reply was that the large banks now render all sorts of service for their correspondent bank even to the point of purchasing theatre tickets, steamer tickets, investigating credits, investments, etc.

Mr. Williams inquired what proportion of the city bank's reserve was thus affected? No

definite reply was given.

Mr. Hamlin asked whether the amendment would strengthen or weaken the clearance system. Mr. Otte responded that he had not given any thought to the matter.

Mr. Delano then asked exactly what the effect of the proposed change would be. Mr. Otte answered that it would be to leave the reserve now actually held as a deposit with the Reserve Agents in cities within 300 miles of the country bank.

Mr. John Bucholz said that country bankers' balances mostly always accumulate in the nearest market and that many services were required which the country banker could not perform for himself. There was a natural "inter-dependence" between the country and city banker.

Mr. Van Dusen said that all were anxious to see State banks come into the system. When they were asked why they did not come in they usually said, it was on account of tying up too much reserve. The amendment would relieve that situation.

Mr. Calfee of St. Louis said he would continue his connection with the system if the amendment were passed, but perhaps not otherwise. At present many country banks were obliged to hold a double reserve. If about 3 per cent could be carried with a National bank in a Reserve city the country bank would go on as a National instead of becoming a State bank.

Mr. Buchholz said the proposed plan would result in but little "pyramiding" of reserves, because no connection was proposed between the reserve and central reserve city.

Mr. Seay argued against the suggestion saying that he had entertained the view that this would result in "pyramiding" just the same as under the old National Bank Law, hence he viewed the plan with disfavor.

Mr. Fancher said while all governors were interested in the discussion and agreed with Mr. Seay, they were not blind to the problem of the country bank. He admitted that the proposed

amendment might cause a greater interest in the system to be felt by the small banks but still it was undesirable.

Mr. Van Dusen described the bill of lading situation in the pending legislation of Congress and asked support of it.

Mr. Warburg thought it would be well to support the bill of lading plan. He was glad the new section of the Bankers' Association had been formed. He was confident all wanted to do what was best for the system. He thought that the proposal of the bankers amounted to a request for a reduction in reserves.

Mr. Delano said during his twenty-nine years railroad experience he had devoted much time to the bill of lading question which he thought was serious and involved difficulties in regard to forged bills of lading, etc.

Mr. Peyton (counsel for the Bankers' Association) said Mr. Delano was in error. The section in the proposed bill of lading measure

was section 22 which called for no provision with respect to forged bills of lading, but merely fixed the responsibility of the carrier for genuine bills.

Mr. Calfee said the Clayton Act in its provision for inter-locking directorates was unwise, and there was great danger of driving out useful men.

Mr. Warburg asked for the views of the committee as to the question of branches of National banks.

Mr. Cox said the majority of the committee was opposed to branch banks.

Mr. Otte, himself, said he favored branch banks but found so much opposition he had withdrawn his views. He favored branch banks within the district in which any National bank is situated. In many communities the small banks charge too high rates while there were many that could not support even a small bank. In Chicago the legal limit of capitalization was \$200,000.

In different sections of the city there had been a tendency to establish small private banks.

Mr. Buchholz said he was opposed to branch banks outside the city where the parent bank was located. He also urged that capital of Federal reserve banks be reduced to one-third of the present amount. He agreed with the suggestion of the governors made at their meeting in Minneapolis on this subject.

At 4:50 p. m. the joint conference adjourned.

H. Parker Willis
Secretary.

APPROVED:

C. S. Hamilton