

**Minutes**  
**EXECUTIVE COMMITTEE OF THE**  
**FEDERAL ADVISORY COUNCIL**

April 19, 1915.

A meeting of the Executive Committee, called by the President, was held in the Federal Reserve Board room in the Treasury Department, Washington, D. C., Monday, April 19, 1915, at 10.30 A.M.

Present: Messrs. James B. Forgan, in the chair, L. L. Rue, Daniel G. Wing, W. S. Rowe, and Merritt H. Grim, Secretary.

Absent, Mr. J. P. Morgan (in Europe).

The President presented to the meeting a copy of a letter from Mr. F. A. Delano, Vice Governor, Federal Reserve Board, dated March 5th, 1915, on the subject of Rediscounts between Federal Reserve Banks, and his reply thereto, dated March 7, 1915. Mr. W. S. Rowe, moved seconded by L. L. Rue, that the President's reply of March 7, 1915, be approved. Motion unanimously carried.

Mr. Delano's letter is as follows:

Washington, March 5, 1915.

Dear Mr. Forgan:

The Board will soon have to deal for the first time with the question of rediscounting between Federal reserve banks, and has already discussed the matter informally.

As the first transaction of this kind may be regarded as establishing a principle, the Board deems it wise to advise you that this question is now under consideration, in order that you may have an opportunity of giving it the benefit of any suggestions that you may deem proper to make.

There seem at present to be no serious difficulties in connection with rediscount operations between districts, and the Board does not feel that the matter warrants calling the Advisory Council together for conference. Should you, however, entertain a contrary opinion, we would be glad at any time to meet the Council or its Executive Committee for a discussion of the question.

The Federal Reserve Bank of Atlanta has now under discount for its member banks commercial paper aggregating approximately \$5,200,000, and its net cash reserve against its net liabilities is but a little more than 45%. We are approaching a season when southern banks begin to rediscount freely, and it is probable that the Federal reserve banks in the southern districts will before long have occasion to ask other Federal reserve banks to discount for them. The suggestion has been made that any Federal reserve bank so desiring should have an opportunity of participating pro rata in the purchase of paper from the southern reserve institutions.

As you recall, the Board early in January favored a reduction of interest rates in the southern districts in order to en-

courage the retirement of Aldrich-Vreeland currency, and the low rates obtaining have been effective in materially reducing the amount of Aldrich-Vreeland currency outstanding in the south. It seems probable in fact that by April 1st there will be practically no National Bank Notes in circulation in the south except those secured by United States Bonds.

When the Board approved the present discount rates for the southern banks it was realized that the banks would sooner or later reach a point where they must rediscount, thus giving an opportunity for Federal reserve banks in other sections to employ profitable some of their funds in the south.

As you know, Section 11, of the Federal Reserve Act imposes upon the Board the duty of permitting or requiring Federal reserve banks to rediscount for each other, at rates to be fixed by the Federal Reserve Board. While the Board would prefer to adopt a policy, as far as the public interests will permit, of leaving the initiative in these transactions to the Federal reserve banks, from whom it expects shortly to receive suggestions as to rates, it seems proper that the Board should formulate its own views regarding the subject, particularly as these rates must ultimately be fixed by the Board.

It seems to the Board that in considering the question, that the Federal Reserve banks may be properly regarded as component parts of a unified system, as the prestige and success of the entire Federal Reserve System is involved.

Just now it is a problem with some of the Federal reserve banks to earn their operating expenses and dividends without adding to the dangers inherent in a great abundance of money, which condition now exists in certain districts. On the other hand, the country at large, not yet thoroughly understanding the problems peculiar to Federal reserve banks, may view with disappointment, even though without reason, the inability of any of the banks to earn a proper return.

These Federal reserve banks which will have occasion to negotiate for a rediscount of their paper will have found locally ample opportunities of employing their funds. For example: the bank of Atlanta has at present invested more than 310% of its capital, which even at 4% should mean a gross return of 12½%, so that the organization and operating expenses and a dividend of 6% would appear assured. Whatever this bank would earn in excess of 6% would go, one-half to its surplus account and the other half to the government. An abnormally low discount rate granted by other Federal reserve banks to Atlanta might, therefore, bring about the anomalous position of a profit to the government from that bank at the expense of other Federal reserve banks which might not be making their dividends. As dividends are cumulative, the ultimate result to the government and the banks will be the same. It appears, therefore, that it would be more rational, satisfactory and helpful for all the banks to earn their dividends if it can be done with due regard to conservatism. Present conditions are

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abnormal, as the demand for banking accommodation is confined mostly to the south. In normal times banks desiring to dispose of paper are the recipients of a service rendered by other banks, and the rates fixed for these rediscount operations generally express this condition. Ordinarily, one Federal reserve bank would regard its first duty as being to its own member banks, and would feel that in placing funds at the disposal of other districts at the rate given its own member banks that it would be according as liberal treatment to others as could be expected. This would suggest a rate of around 4% at this time, as that is the lowest rate now prevailing in any of the districts. However, the argument may be made that the ruling rates in many districts are nominal, as under them but little business is being secured by the banks. The natural eagerness caused by present conditions should not lead the Federal Reserve Board or the banks to a policy of exaggerated liberality, which would not add to the actual profits of the banks which are expected soon to offer their paper for rediscount, but might lead to over-stimulation of expectations, with inevitable disappointment later on.

I have written you at length in order to put the matter before you fully, and will be glad to have an expression of your views by telegraph if possible.

Very truly yours,

(signed) F. A. Delano,

Vice Governor.

Mr. Forgan's reply is as follows:

Augusta, Ga., March 7, 1915

Dear Mr. Delano:

I am in receipt of your favor of the 5th inst. and hasten to answer it.

Under present conditions I assume that such Federal Reserve Banks as lack a local demand for rediscounts will be glad of an opportunity to rediscount for such banks as are having more demand than they can supply.

Under such conditions the accommodation is mutual and the benefits should also be mutual between the Federal Reserve Banks requiring assistance and those furnishing it. It may be assumed that the Southern banks are supplying a legitimate expansive demand for credit created by conditions in the South in connection with the cotton industry. Such a demand should not, however, be supplied at rates which are abnormally low for the particular districts. The strength of the demand for rediscounts should measure and govern the current rate for them in each district and the rate should be promptly raised - not unduly - whenever the demand increases beyond and ability of the local banks to supply it from their

own resources. Under these circumstances the Federal Reserve Banks of the Southern districts may reasonably and equitably be entitled to make some profit on the commercial paper with which they supply the banks in other districts which from the standpoint of earnings need it so much. In other words, they should be paid for their endorsement of the paper they rediscount. It would therefore seem that the local rediscount rate of Federal Reserve Banks reaching the limit of their own resources should be promptly raised say 1% above the rates current in the districts where no such local demand prevails. The banks in the districts having a brisk local demand could then rediscount at a profit with the banks in the districts lacking such demand.

As to establishing a principle governing the fixing of rates of discount between Federal Reserve banks, in my opinion, the Federal Reserve Board will have to recognize and be governed by conditions as they exist from time to time.

If the demand for rediscounts by a particular Federal Reserve Bank should be caused by a falling off in its deposits or reserve resources at a time when all the banks are experiencing similar conditions to a greater or less degree, then such particular bank should not expect to make a profit on the paper it requires to rediscount but should be glad to supply its endorsement without actual profit.

Under conditions as they now exist it would seem to me that the rates current in districts having a rediscount demand beyond the resources of their own Federal Reserve Banks should be established at one per cent above the rates current in districts suffering for lack of such a demand and that rediscounts between Federal Reserve Banks should be made at the rates current at the banks granting the rediscounts.

It would be very desirable, I think, to let any Federal Reserve Bank so desiring have an opportunity of participating pro rata in the re-discounting of paper for the Southern reserve banks. I think most of them would be willing to have the business transacted through the Federal Reserve Bank of New York and to have their accounts with it charged with their pro rata share of any rediscount made. In this way the risk on the paper rediscounted would be equalized among all participating banks. This doubtless would be more convenient for the borrowing banks and the book-keeping between the loaning banks and the New York Bank would be a simple matter.

These are my personal views on the subject of rediscounting between Federal Reserve Banks. A copy of this letter will be sent to each member of the advisory council so that any member desiring to express his views on the subject will have an opportunity of doing so by writing directly to you.

Very truly yours,

President Advisory Council.

The President laid before the meeting two resolutions passed by the Directors of the Federal Reserve Bank of Chicago, on April 10, 1915, as follows :

"RESOLVED, That it is the opinion of the Board of Directors of the Federal Reserve Bank of Chicago that the Federal Reserve Banks should buy Domestic Acceptances only from member banks with their endorsement".

"RESOLVED, That Mr. Forgan be requested to convey to the Advisory Council the opinion of the Board of Directors of the Federal Reserve Bank of Chicago, that the tendency of member banks to put into 'time deposits' or '30 day notice account' a part of their commercial deposits in order to reduce the reserve requirements to 5% inimical to the commercial interests of the country and dangerous to the member banks".

The President then called the attention of the meeting to the memorandum of subjects upon which the Federal Reserve Board desired the views of the Federal Advisory Council, dated April 8, 1915, copy of which is hereto attached and made a part of these minutes.

After some discussion of these questions it was decided that Mr. Forgan should inform the Federal Reserve Board that the Executive Committee would be glad to meet them for an informal exchange of views in regard to the various questions, contained in their memorandum dated April 8th, 1915. Thereupon Mr. Forgan called on the Federal Reserve Board and arranged a joint meeting at 2:30 P.M.

The committee then adjourned until to 2:30 P.M.

JOINT MEETING OF THE  
EXECUTIVE COMMITTEE OF THE FEDERAL ADVISORY  
COUNCIL AND THE FEDERAL RESERVE  
BOARD .

April 19, 1915.

A joint meeting of the Federal Reserve Board and the Executive Committee of the Federal Advisory Council was held in the Board room in the Treasury Department, April 19, 1915, at 2:30 P.M.

Present: Messrs. F. A. Delano, Presiding, Paul H. Warburg, W.P.G. Harding, A. C. Miller, J. S. Williams, and H. Parker Willis, Secretary of the Board, and Messrs. J. B. Forgan, L. L. Rue, W. S. Bove, D. G. Wing and Merritt H. Grim, Secretary, of the Federal Advisory Council.

Mr. Delano stated that the meeting would be considered informal and that no minutes would be taken.

All the questions referred to in the memorandum of subjects submitted by the Board to the Council were then informally discussed at length.

Mr. Delano asked the Executive Committee to suggest any changes they would advise in Federal Reserve Board circulars 11 and 12, series of 1915, and regulations J and K, series of 1915.

At 6:10 P.M. the meeting adjourned.

MINUTES  
EXECUTIVE COMMITTEE OF THE  
FEDERAL ADVISORY COUNCIL

April 20, 1915

A meeting of the Executive Committee called by the President, was held in the Federal Reserve Board room in the Treasury Department, Washington, D. C., Tuesday, April 20, 1915, at 10, A.M.

Present: Messrs. James B. Morgan, in the chair, L. L. Rue, Daniel G. Wing, V. S. Rowe, and Merritt H. Gris, Secretary.

Absent: Mr. J. P. Morgan (in Europe).

Minutes of the Executive Committee held on April 19th were read and approved.

The committee proceeded to consider the memorandum of questions submitted to the Federal Advisory Council by the Federal Reserve Board.

The following answers were unanimously adopted by the Committee as its recommendations to the Federal Advisory Council:

No. 1. The Federal Advisory Council after careful consideration of the subject of acceptances as set forth in the first question submitted by the Federal Reserve Board under date of April 8, 1915, begs to advise that it has not changed its opinion in relation to this question as stated in its communication of January 19, 1915, as follows:

"That for the present at least we deem it wise for the Federal Reserve banks to buy in the open market under Section 14, bankers' acceptances and bills of exchange only when such bankers' acceptances or bills of exchange are the acceptances or bear the endorsement of member banks. Such purchases should also be subject to the following limitations provided for acceptances under Section 13, as amended, when offered for discount, as follows:

"Any Federal Reserve Bank may discount acceptances which are based on the importation or exportation of goods and which have a maturity at time of discount of not more than three months. The amount of acceptances so discounted shall at no time exceed the paid up capital stock and surplus of the bank for which the rediscounts are made".

But as the Federal Reserve Board has decided to allow Federal Reserve Banks to purchase acceptances of State banks and bankers in the open market, it is the opinion of the Federal Advisory Council that such purchases should be limited to such State banks and bankers whose issue of acceptances does not exceed one hundred per cent of their capital and surplus fund."

No. 2. It is the opinion of the Federal Advisory Council that acceptances based upon the movement of goods or merchandise between foreign countries should be eligible for discount or purchase by the Federal Reserve Banks.

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No. 3. We do not believe that the present is a propitious time for the Federal Reserve banks to go into the foreign exchange business.

It is the opinion of the Federal Advisory Council that present financial and business conditions do not make it desirable or necessary for the Federal Reserve banks to go into the open market to purchase domestic acceptances of merchants and manufacturers.

No. 4. The Federal Advisory Council appreciates the desirability of securing the admission of the State banks into the Federal Reserve system. We would therefore suggest that the Federal Reserve Board proceed to formulate such regulations as in its judgment are proper and would request that before their circular on the subject is issued this Council be given an opportunity to consider it.

The time having arrived for the convening of the Federal Advisory Council the Executive Committee meeting adjourned.

MINUTES  
FEDERAL ADVISORY COUNCIL

April 30, 1915

A statutory meeting of the Federal Advisory Council was held in the Federal Reserve Board room in the Treasury Department, Washington, D. C., Tuesday, April 30, 1915, at 11 A.M.

Present: Messrs. James B. Forgan, in the Chair, L. L. Rue, W. S. Rowe, George J. Seay, Charles A. Lysterly, Rolla Wells, E. F. Swinney, J. Howard Ardrey, and Merritt H. Grim, Secretary.

Absent, Messrs. J. P. Morgan, C. T. Jaffray and Archibald Kains.

Mr. Forgan explained that Mr. Morgan was in Europe, that Mr. Jaffray was away on a Western trip and that Mr. Kains was detained on account of the absence of several officers of his bank.

The minutes of the Federal Advisory Council of Jan. 19th and 20th, copies of which had been sent members were approved.

The minutes of a meeting of the Executive Committee of April 19th were read.

The President stated that the Executive Committee had held a meeting this morning at which answers were drafted to four of the questions submitted to the Federal Advisory Council for its consideration by the Federal Reserve Board and that they would be taken up later.

The resolutions passed by the directors of the Federal Reserve Bank of Chicago referred to in the minutes of the Executive Committee on April 19th, were read for the information of the Council. Mr. Rue then moved that the minutes of the Executive Committee of April 19th be approved and that the resolutions of the Federal Reserve Bank of Chicago therein referred to be submitted to the Federal Reserve Board for its consideration. Motion unanimously carried.

The President reported that he had arranged with Mr. Willis, Secretary of the Federal Reserve Board, to have all circulars and regulations issued and to be issued by the Board forwarded when and as issued to the members of the Council; also that each of the Federal Reserve banks had contributed \$150.00 towards the payment of the secretary's salary and incidental expenses for the current year. He also drew attention to the letter he had written Vice-Governor Delano on March 7, 1905, in answer to his letter of March 5th on the subject of rediscounts between Federal Reserve Banks. (See minutes of Executive Committee April 19, 1915.)

The President then submitted to the meeting the Executive Committee's suggested answers to four of the questions in the memorandum of subjects submitted to the Federal Advisory Council for its consideration by the Federal Reserve Board.

After due consideration the answers recommended by the Executive Committee to questions 1, 2, 3, and 4, were unanimously adopted as the answers of the Federal Advisory Council to these questions and

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ordered sent to the Federal Reserve Board. (See minutes of Executive Committee meeting of this date.)

The President stated that the Executive Committee did not have sufficient time to consider answers to Numbers 5 and 6 which were then placed before the meeting for consideration.

On motion of Mr. Seay, seconded by Mr. Wells, the following answer to No. 5 was adopted and ordered sent to the Federal Reserve Board:

"No. 5: In the opinion of the Federal Advisory Council it is unsound in principle, and in general practice would be destructive, to allow member banks to reduce their reserves below the legal requirement. Legal reserves should be maintained in the Federal Reserve banks as a basis for credit to be extended by the Federal reserve banks to their members. Therefore a sufficient penalty should be imposed and strictly enforced to discourage the practice, and to induce member banks to rediscount with the Federal Reserve banks for the purpose of maintaining their own reserves and providing themselves with necessary funds to meet their obligations".

In answer to No. 6, it was decided that the Federal Advisory Council had nothing to add to the views expressed in the letter of the President on this subject addressed to Vice Governor Delano on March 7, 1915.

The President stated that he had arranged with Mr. Delano for a joint meeting with the Federal Reserve Board at 2:30 P.M. and there being no further business the Council adjourned until that time.

MINUTES OF THE FEDERAL ADVISORY COUNCIL  
AT ITS JOINT MEETING WITH THE FEDERAL RESERVE BOARD.

APRIL 20, 1915.

A joint meeting of the Federal Reserve Board and Federal Advisory Council was held as arranged in the Board room in the Treasury Department, Washington, D.C., April 20, 1915.

Present: Messrs. F. A. Delano, Vice-Governor, presiding, W. P. G. Harding, Paul M. Warburg, John S. Williams, A. C. Miller, and H. Parker Willis, Secretary, of the Federal Reserve Board, and Messrs. James B. Forgan, L. L. Rue, Daniel G. Wing, W. S. Rowe, George J. Seay, Charles A. Lyerly, Rolla Wells, E. F. Swinney, J. Howard Ardrey and Merritt H. Grim, Secretary, of the Federal Advisory Council.

Mr. Delano stated that the Federal Reserve Board were now ready to hear from the Federal Advisory Council in regard to the subjects referred to in its Memorandum of April 8, 1915.

Mr. Forgan then read the answers of the Federal Advisory Council to the six questions propounded in the Memorandum referred to and a full discussion was had on each answer as it was presented.

The joint meeting adjourned at 4:45 P.M.

Secretary

FEDERAL RESERVE BOARD

Washington, D.C. May 6, 1915.

A coordinated banking system, embracing in its membership State institutions as well as National banks, is the aim of the Federal Reserve System.

There can be but one American credit system of nation-wide extent, and it cannot attain its fullest potentialities if it rests upon an incomplete foundation, and fails to include the greater part of the strong and well managed banks of the country, whether large or small.

In the development of the new banking system, far-sighted and unselfish cooperation is expected of the banking community, and it seems clear that some basis can be found for harmonizing differences of interest or advantage existing among the National banks, State banks or trust companies, so far, at any rate, as may be necessary to secure the effective coordination of these different types of banking institutions in the Federal Reserve System.

Appreciating fully that the strength of the Federal Reserve System is to be gauged by the quality of its members, rather than by their number, the Federal Reserve Board is prepared to use all the broad discretionary powers vested in it by the Federal Reserve Act to bring about this coordination. The Board has sought, in the regulations governing the admission of State banks and trust companies hereto appended, first, to establish only such reasonable standards of admission as will be generally recognized as necessary to protect the Federal Reserve System against the admission of banks which would be a source of weakness rather than of strength, and, second, to prescribe only such regulations governing their conduct as will insure a reasonable conformity to fundamental principles deemed essential to the success of the new banking system.

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Membership in the Federal Reserve System carries with it privileges and guaranties of great value, not only to the banks themselves, but to their customers as well. It may be confidently expected, provided the standard for admission be kept sufficiently high, that with the further development of the system and the fuller appreciation by the public of its meaning and value, membership in the system will come to be regarded as a test of banking solidity, and that the access afforded by membership, to the facilities and resources of the system, will add to the prestige of even the strongest institutions; so that in time the public in differentiating the banking institutions of the country will, instead of drawing the distinction as in the past between "National banks" and "State banks", rather make the distinction between the banks which belong to the Federal Reserve System and the banks which do not, and ultimately recognize but two classes of banks: "MEMBER BANKS" and "NON-MEMBER BANKS".

The Board realizes, however, that membership in the system also carries with it of necessity obligations and responsibilities as well as privileges and safeguards. The National banks are now, and perhaps will be always, the mainstay of the system: their membership is compulsory, the law having left them no option as to whether they would or would not avail themselves of membership. The main responsibility of the system is theirs and they are therefore fairly entitled to expect that membership of non-national banks shall bring into the system only such institutions as can give substantial promise of being able to share the responsibilities as well as the privileges pertaining to membership.

The Reserve Act, in Section 9, imposes certain fundamental conditions governing the membership of State banks in the Federal Reserve System, and prescribes that banks not organized under Federal law must comply with the

capital and reserve requirements applying to National banks, and must conform to the provisions of law imposed upon National banks respecting the limitation of liability which may be incurred by any person, firm or corporation to such banks, and of transactions permitted with its directors, the prohibition against purchases of or loans upon stocks of such banks, and the withdrawal or impairment of capital, the payment of unearned dividends, and to such rules as the Federal Reserve Board may prescribe.

With respect to loans on real estate or mortgages, the Board is not disposed to assume as a matter of principle, either the authority or the duty to impose restrictions of a character calculated to embarrass State banks in applying for membership, or to impair their usefulness in a field which has been well developed. It has endeavored in the regulations merely to provide a reasonable limitation, so that loans or investments of this character shall not be so excessive in amount as to endanger the liquid condition of a bank.

Within the limits thus described, it will be the policy of the Board to determine the eligibility of State banks for membership in the Federal Reserve System by means of examination. Since admission to the system will be looked upon as an evidence of the bank's strength, examinations for admission must disclose clearly the condition of an applying bank and the character of its management. These examinations must, therefore, be thorough and effective, and be under the direction of the Federal Reserve Board, but the Board will endeavor to avoid any unnecessary additional expense to the banks by dispensing with separate and independent examinations so far as possible and by adopting a method of joint or supplementary examination in conjunction with State banking authorities. The Board plans to draw freely upon the examiners and auditors in the employ of the respective Reserve Banks and to use their services for the purpose of thus supplementing examinations conducted by the banking departments of the several states. It is hoped,

therefore, that in passing upon applications for membership, the Board and the several Federal Reserve Banks will have the cooperation of State banking authorities, so that every qualified applying bank may be admitted to membership, and all not qualified be excluded.

Membership of State banking institutions in the Federal Reserve System being optional, the Board appreciates that those charged with the management of these institutions might not feel authorized to enter a system which by regulation might restrict the scope of their operations unless a definite assurance were given them of their right to terminate their membership if at any time they should feel it to their advantage to do so. The Board does not apprehend any such development; indeed, it expects that as the system develops membership therein will carry with it guaranties of safety and security which will be of inestimable value. At the same time it recognizes the responsibilities of those entrusted with the management of the State institutions and has, therefore, in the appended regulation, clearly defined the conditions upon which any State institution may withdraw from membership. The Board has taken legal advice from competent sources and has received ample assurances as to its legal powers in this matter. At the same time, the Board has taken the precaution of fixing the aggregate amount that may be withdrawn within any one year so as to fully protect the system in this respect.

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Governor.

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Secretary

Tentative Regulation No. \_\_\_\_\_  
Series of 1915.

F E D E R A L   R E S E R V E   B O A R D

Washington

STATE BANKS AND TRUST COMPANIES AS MEMBERS OF THE FEDERAL RESERVE SYSTEM.

Statutory Requirements.

The Federal Reserve Act provides:

Section 9. Any bank incorporated by special law of any State, or organized under the general laws of any State or of the United States, may make application to the reserve bank organization committee, pending organization, and thereafter to the Federal Reserve Board for the right to subscribe to the stock of the Federal reserve bank organized or to be organized within the Federal reserve district where the applicant is located. The organization committee or the Federal Reserve Board, under such rules and regulations as it may prescribe, subject to the provisions of this section, may permit the applying bank to become a stockholder in the Federal reserve bank of the district in which the applying bank is located. Whenever the organization committee or the Federal Reserve Board shall permit the applying bank to become a stockholder in the Federal reserve bank of the district, stock shall be issued and paid for under the rules and regulations in this Act provided for national banks which become stockholders in Federal Reserve banks.

The organization committee or the Federal Reserve Board shall establish by-laws for the general government of its conduct in acting upon applications made by the State banks and banking associations and trust companies for stock ownership in Federal reserve banks. Such by-laws shall require applying banks not organized under Federal law to comply with the reserve and capital requirements and to submit to the examination and regulations prescribed by the organization committee or by the Federal Reserve Board.

No applying bank shall be admitted to membership in a Federal reserve bank unless it possesses a paid-up unimpaired capital sufficient to entitle it to become a national banking association in the place where it is situated, under the provisions of the National Bank Act.

Any bank becoming a member of a Federal reserve bank under the provisions of this section, shall, in addition to the regulations and restrictions hereinbefore provided, be required to conform to the provisions of law imposed on the national banks respecting the limitation of liability which may be incurred by any person, firm or corporation to such banks, the prohibition against making purchase of or loans on stock of such banks, and the withdrawal or impairment of capital, or the payment of unearned dividends, and to such rules and regulations as the Federal Reserve Board may, in pursuance thereof, prescribe.

Such banks, and the officers, agents, and employees thereof, shall also be subject to the provisions of and to the penalties prescribed by sections fifty-one hundred and ninety-eight, fifty-two hundred, fifty-two hundred and one, and fifty-two hundred and eight, and fifty-two hundred and nine of the Revised Statutes. The member banks shall also be required to make reports of the conditions and of the payments of dividends to the Comptroller, as provided in sections fifty-two hundred and eleven and fifty-two hundred and twelve of the Revised Statutes, and shall be subject to the penalties prescribed by section fifty-two hundred and thirteen for the failure to make such report.

If at any time it shall appear to the Federal Reserve Board that a member bank has failed to comply with the provisions of this section or the regulations of the Federal Reserve Board, it shall be within the power of the said board, after hearing, to require such bank to surrender its stock in the Federal reserve bank; upon such surrender the Federal reserve bank shall pay the cash-paid subscriptions to the said stock with interest at the rate of one-half of one per centum per month, computed from the last dividend, if earned, not to exceed the book value thereof, less any liability to said Federal reserve bank, except the subscription liability not previously called, which shall be canceled, and said Federal reserve bank shall, upon notice from the Federal Re-

serve Board, be required to suspend said bank from further privileges of membership, and shall within thirty days of such notice cancel and retire its stock and payment therefor in the manner herein provided. The Federal Reserve Board may restore membership upon due proof of compliance with the conditions imposed by this section.

Section 19. If a state bank or trust company is required by the law of its State to keep its reserves either in its own vaults or with another State bank or trust company, such reserve deposits so kept in such State bank or trust company shall be construed, within the meaning of this section, as if they were reserve deposits in a national bank in a reserve or central reserve city for a period of three years after the Secretary of the Treasury shall have officially announced the establishment of a Federal reserve bank in the district in which such State bank or trust company is situate. Except as thus provided, no member bank shall keep on deposit with any non-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 non-member 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.

Section 21. The Comptroller of the Currency, with the approval of the Secretary of the Treasury, shall appoint examiners who shall examine every member bank at least twice in each calendar year and oftener if considered necessary:

PROVIDED, however, That the Federal Reserve Board may authorize examination by the State authorities to be accepted in the case of State banks and trust companies and may at any time direct the holding of a special examination of State Banks or trust companies that are stockholders in any Federal reserve bank.

BANKS ELIGIBLE TO MEMBERSHIP

A State bank or a Trust company to be eligible for membership in the Federal Reserve System must comply with the following conditions:

(1) It must have been incorporated under a special or general law of the State in which it is located or of the United States (District of Columbia).

(2) It must have an unimpaired capital stock as follows:

In cities or towns of less than 3000 inhabitants,  
\$25,000;

In cities or towns of more than 3,000 but less than  
6000 inhabitants, \$50,000;

In cities of more than 50,000 inhabitants \$200,000.

(3) They must agree to comply specifically with the requirements of the provisions of Sections 9, 19, and 21 of the Federal Reserve Act.

APPLICATIONS FOR MEMBERSHIP.

Every State bank or Trust company which shall desire to become a member of the Federal reserve system, shall make

application on Form \_\_\_\_\_ to the Federal Reserve Agent of its district for an amount of capital stock in the Federal Reserve Bank of such district equal to six per centum of the unimpaired capital stock and surplus of such State bank or trust company. Such application shall state that it is made in accordance with a vote of its board of directors, and shall be accompanied by a statement of the conditions of the applying bank certified by an examiner to be approved or designated by the Federal Reserve Board.

Upon receiving the aforesaid application and statement from any State bank or trust company within its district, the Federal Reserve Agent shall submit the same to the counsel of such Federal Reserve Bank, who shall certify that in his opinion membership in the Federal reserve system is not in contravention of the laws of the State or District in which the said bank or trust company shall be located. The application and certificate of counsel shall thereupon be submitted to a committee of not less than three members of the Board of Directors of the Federal Reserve Bank. The said committee shall examine the application and if it shall find that the applying bank has complied with the provisions of this regulation, and is in compliance with the State law, it shall

transmit the same to the Federal Reserve Board with its recommendations.

APPROVAL OF APPLICATION.

In passing upon applications of State banks and Trust companies for membership in the Federal reserve system, the following considerations will be taken into account.

(1) Whether the assets of the applying bank or trust company are of such a nature as to entitle it to be considered a commercial banking institution in a liquid condition.

(2) Whether the charter provisions and the nature of the powers exercised by the said bank or trust company are or are not consistent with the proper conduct of the business of commercial banking.

(3) Whether or not the statutes of the State or District in which the applying bank or trust company is located, do or do not contain provisions likely to interfere with the proper regulation and supervision of member banks.

Whenever in the judgment of the Federal Reserve Board an applying bank or trust company fully complies with the requirements thus indicated, the said Board will issue

a certificate of approval of the application, and thereupon the applying bank shall subscribe and pay in its capital stock to the Federal reserve bank of the district in accordance with the conditions provided for member banks.

#### POWERS AND RESTRICTIONS.

Every State bank or Trust company which shall be admitted to membership in the Federal reserve system, shall conform to the following requirements:

(1) It shall observe all those requirements of the law to which State banks and Trust companies which have become member banks are subject.

(2) It shall conform to at least as high a standard of commercial banking as controlled it at the time of its admission to the system; with such improvements and changes in its banking practice as may have been specifically required of it by the Federal Reserve Board as a condition of the admission.

(3) It shall not engage in loans on real estate or mortgages of a character or to an extent which will impair its liquid condition, and it shall carry in its investments liquid loans eligible for rediscount with the Federal reserve bank to an amount not less than its paid in capital and surplus.

(4) If in any case such an applying institution has loans secured by its own stocks or loans to one person, firm or corporation aggregating more than 10% of its capital and surplus, it shall adjust such loans to conform with the requirements of the National Bank Act, the same to be done within a reasonable time to be determined by the Federal Reserve Board.

Except as herein specifically provided, every State bank or trust company becoming a member of the Federal Reserve system, shall continue to retain its full rights as a State bank and shall be entitled to exercise all functions permitted by its charter. *Banking*

Any State Bank or Trust Company which is a member, shall have the right of withdrawal and may withdraw by giving ninety days' written notice of its intention so to do, to the Federal Reserve Bank of the District in which said Bank or Trust Company is located. At the expiration of said ninety days, such member shall surrender all of its holdings of capital stock and it shall be released from its stock subscriptions not previously called. Such shares shall be canceled and the member shall receive therefor a sum equal to its cash paid subscriptions on the shares.

surrendered, and one-half of one per centum a month from the period of the last dividend, not to exceed book value thereof, less any liability of such member to the Federal Reserve Bank; said payments to be made twenty-five per centum (25%) on the expiration of the ninety days' written notice aforesaid, twenty-five per centum (25%) in ninety days, twenty-five per centum (25%) in one hundred eighty days, and twenty-five per centum (25%) in two hundred seventy days after the said first payment; provided, however, that the said Federal Reserve Bank may have the right and option to make the entire payment at any time after the surrender of such stock, provided further, that no Federal Reserve Bank shall be required, in dealing with the voluntary withdrawal of State banks and trust companies, to cancel any stock offered for the purpose of effecting a voluntary withdrawal if such Federal Reserve Bank has previously canceled within the same year ten per centum of its capital stock under the provisions of this regulation. Applications for the voluntary withdrawal shall be dealt with consecutively in the order as they shall be filed. In the case of such voluntary withdrawal of a member bank, the reserve balance kept by it under the provisions of law with its Federal Reserve Bank shall be transferred to the said liquidation account and shall be

paid off in the same proportions and at the same dates as the repayments of balances due on liquidation account with respect to capital stock.

EXAMINATIONS.

In the matter of examinations of State banks, the Federal Reserve Board expects to cooperate with State authorities in making their examinations and avoid, if possible, duplication of this work. It is proposed to accept the examinations made by States wherever these are found to be thorough and complete and of the same standard as the National bank examination, or else to appoint a representative of the Board or of the Reserve Bank of the District to act with the State examination staff, and in that way enable the Board to accept with confidence the report of the State examiners.

FUTURE REGULATIONS.

The Federal Reserve Board reserves the right to make such amendments and adopt and publish, from time to time, such further regulations as it may deem necessary.

CHARLES S. HAMLIN,  
Governor.

H. PARKER WILLIS,  
Secretary.

5/6/15.

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CHICAGO, May 21, 1915

Hon. F. A. Delano, Vice-Governor  
Federal Reserve Board,  
Washington, D. C.

Dear Mr. Delano:-

Referring again to your letter of the 7th inst., I have now heard from the different members of the Federal Advisory Council in regard to the draft of a circular on the subject of the admission of state banks and respectfully submit for the consideration of the Federal Reserve Board the following suggestions:

In connection with applications for membership it is suggested that such applications along with certificates of counsel should be submitted to the Executive Committee of the banks instead of to committees of not less than three directors. The governors of the banks being ex-officio chairmen of the executive committees ought to be parties to the negotiations.

Referring to Clause three, "Powers and Restrictions", it is suggested that instead of requiring State bank members to carry among their investments liquid loans eligible for rediscount with the Federal Reserve Bank to an amount not less than their paid in capital and surplus, it would be better to require that a certain percentage of their demand deposits should be invested in such eligible paper, somewhere from 25 % to 50 %.

It is also suggested that a more definite limitation to the real estate loans made by state banks should be established and that that limitation should also be related to the amount of their deposits by a definitely fixed percentage not exceeding 25 %.

Referring to paragraph 4 under "Powers and Restrictions", it is suggested that in lieu of the payments to be made to retiring banks extending over a period of one year, only a certain amount of capital shall be retired in any six months' period, somewhat along the lines provided by the National Bank Act for the retirement of national bank circulation. Under such an arrangement only a certain number of banks whose capital would aggregate the amount fixed, could withdraw during each six months' period. Whenever the combined capital of banks applying to withdraw aggregates the amount so fixed, the applications of banks for withdrawal subsequently received would have to be postponed until the following six months' period.

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Hon. F. A. Delano # 2

CHICAGO,

The idea is that under the provision proposed in your tentative circular the reserve deposits of retiring banks are to be put into a liquidation account along with their capital and are only to be paid out at fixed periods extending over a year. It might be a serious matter to a State bank to have so large a part of its reserves tied up for so long a time. State banks would probably prefer to have action on their applications to withdraw postponed and remain members until they could withdraw their capital and reserve deposits within a shorter period of time after their withdrawal had become effective.

Mr. Seay of Richmond has gone into the matter much more elaborately than any other member of the Council and I respectfully beg to enclose herewith a copy of his letter along with his suggestions in connection with your proposed circular.

Very truly yours,

(Signed) James B. Forgan

President.