

THANOREH

RETURN TO  
FILES SECTION  
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332-3

332,3(1)

November 24, 1920

Dear Sir:

Replying to your telegram of November 23rd, in further reference to the eligibility for rediscount by a Federal reserve bank of member banks' fifteen day collateral notes, secured by bonds of the District of Columbia, due August 1, 1924, issued under an Act of Congress approved June 20, 1874, as amended by an Act approved February 29, 1875, I hand you herewith copy of a memorandum from the Board's Counsel in which he takes the position that the Bonds in question are not bonds or notes of the United States within the meaning of Section 13 of the Federal Reserve Act, and are, therefore, not eligible as collateral for member banks' fifteen day notes.

11/24/20  
Very truly yours,

Governor

Mr. W. B. Geary, Deputy Governor,  
Federal Reserve Bank,  
Minneapolis, Minn.

## Office Correspondence

FEDERAL RESERVE  
BOARD

Date Nov. 24, 1920

332,3(9)

To The Federal Reserve Board

Subject: District of Columbia bonds as  
collateral for member bank  
fifteen day notes.

From Walter S. Logan

2-8495

The telegram dated November 23, from W. B. Gerry, Deputy Governor of the Federal Reserve Bank of Minneapolis raises the question of the eligibility as collateral for member bank fifteen day notes of the 3.65% District of Columbia bonds, due August 1, 1924, issued under the Act of Congress approved June 20, 1874, as amended by the Act approved February 20, 1875. Member bank fifteen day notes must be secured by "such notes, drafts, bills of exchange or bankers' acceptances as are eligible for rediscount or for purchase by Federal Reserve Banks under the provisions of this Act or by the deposit or pledge of bonds or notes of the United States." District of Columbia bonds are not, of course, eligible for rediscount or purchase and the question is, therefore, whether they are "bonds or notes of the United States" within the meaning of this provision of Section 13.

Section 7 of the Act of Congress approved June 20, 1874, as amended by the Act approved June 20, 1875, provides in part as follows:

"That the sinking-fund commissioners of said District are hereby continued; and it shall be the duty of said sinking fund commissioners to cause bonds of the District of Columbia to be prepared \* \* \* to be signed by the Secretary and the Treasurer of said sinking fund commissioners and countersigned by the comptroller of said district, and sealed as the Board may direct \*\*\*. And the faith of the United States is hereby pledged that the United States will, by proper proportional appropriations as contemplated in this act, and by causing to be levied upon the property within said District such taxes as will provide the revenues necessary to pay the interest on said bonds as the same may become due and payable, and create a sinking fund for the payment of the principal thereof at maturity. \* \* \* Said bonds shall be numbered consecutively, and registered in the office of the comptroller of said District, and shall also be registered in the office of the Register of the Treasury of the United States, for which last named registration the Secretary of the Treasury shall make such provision as may be necessary.

\*\*\*\*\* "

I am of the opinion that the District of Columbia bonds issued pursuant to this Act are not bonds or notes of the United States within the meaning of Section 13 of the Federal Reserve Act. The bonds are called District of Columbia bonds, and are not signed by any officer of the United States. In my opinion the United States is not in any sense the obligor upon such bonds. It is true that the faith of the United States is pledged that proper appro-

priations will be made and that taxes will be levied upon the property within the District to meet the interest and principal of such bonds. This would not seem, however, to obligate the United States upon the bonds but merely creates a moral obligation on the part of Congress to enact the necessary legislation to the end that the bonds may be paid.

Furthermore, I believe it is clear from the general purpose of this particular provision of Section 13 that Congress did not intend to include District of Columbia bonds within the term "bonds and notes of the United States."

Respectfully,

*Walter S. Logan*

General Counsel.

WSL-sad



**TELEGRAM**  
**FEDERAL RESERVE SYSTEM**  
(LEASED WIRE SERVICE)

332.3(9)

RECEIVED AT WASHINGTON, D. C., OFFICE OF  
THE GOVERNOR.

364fta

Minneapolis 315pm nov 23

Board

WDC

Your telegram Nov 23rd bonds are district columbia funding 3.65 percent  
due Aug first 1924 issued under act congress approved June 20th, 1874  
amended by act approved Feb 20th, 1875 will appreciate ruling as to eligibility  
as collateral for member bank 15 day notes

W B Gerry, Deputy Governor

625pm

TELEGRAM

## FEDERAL RESERVE BOARD

LEASED WIRE SERVICE

WASHINGTON

November 23, 1920.  
332.3(9)

*First class  
Priority*

Geery,  
Minneapolis.

Your telegram November 22. Board has never ruled as to eligibility of District of Columbia bonds as collateral for member bank 15 day notes, but would not be inclined to consider them "bonds or notes of the United States" within the meaning of section 13 unless the Act of Congress authorizing their issue required that construction. If you wish a definite ruling with reference to particular bonds please give full description of bonds and if possible cite Act of Congress under which authorized. Your attention is called to the fact that even if bonds should be thus eligible as "bonds or notes of the United States" within the meaning of Section 13 member bank notes secured by such bonds would not be exempt from stamp tax unless the bonds were issued after April 24, 1917. See 1919 edition Federal Reserve Act, page 71.

HARDING.

TELEGRAM  
FEDERAL RESERVE SYSTEM  
(LEASED WIRE SERVICE)

7-4716

332,3 (9)

RECEIVED AT WASHINGTON, D. C.,

Bl20fot

Minneapolis 430P Nov 22

Board

Washington

Have you ruled as to eligibility district Columbia bonds as collateral to member  
banks bills payable If eligible would not require revenue stamps.

W B Geery Deputy Governor

542p



#4  
FEDERAL RESERVE BANK OF MINNEAPOLIS  
NINTH DISTRICT

FEDERAL RESERVE BOARD FILE  
332-3

OFFICERS  
THEODORE WOLD, GOVERNOR  
R.A. YOUNG, DEPUTY GOVERNOR  
S.S. COOK, CASHIER  
FRANK C. DUNLOP, ASST. CASHIER  
GRAY WARREN, ASST. CASHIER  
R.E. TOWLE, ASST. CASHIER  
L.E. RAST, ASST. CASHIER

DIRECTORS  
JOHN H. RICH, CHAIRMAN  
MINNEAPOLIS, MINN.  
W.H. LIGHTNER, DEPUTY CHAIRMAN  
ST. PAUL, MINN.  
F.R. BIGELOW, ST. PAUL, MINNESOTA  
JOHN W. BLACK, HOUGHTON, MICH.

E.W. DECKER, MINNEAPOLIS, MINN.  
L.B. HANNA, FARGO, N. DAKOTA  
F.P. HIXON, LACROSSE, WISCONSIN  
N.B. HOLTER, HELENA, MONTANA  
WESLEY C. McDOWELL, MARION, N.D.

CURTIS L. MOSHER, ASST. FEDERAL RESERVE AGENT

332-3(9)  
April 2, 1919.

Hon. W. P. G. Harding, Governor,  
Federal Reserve Board,  
Washington, D.C.

RECEIVED  
APR 5 - 1919

GOVERNOR'S OFFICE

Dear Governor Harding:

The last two or three days you will note that our collateral loans have materially increased. This is due to the fact that there has been a large demand for flour and the U. S. Food Grain Corporation has released a considerable quantity of wheat for milling purposes, which they were carrying for foreign government account. Naturally all the banks are using Treasury Certificates on which to borrow.

The situation may be temporary, but it is possible that it will continue for a period of sixty days, until the wheat is ground into flour, shipped, and collections made.

Yours very truly,

*W. P. G. Harding*  
Governor

TW-C  
✓

#9

112.26  
FEDERAL RESERVE BOARD FILE  
~~332.3~~  
332.3 (9)

February 11, 1918.

OK

Mr. Theodore Wold,  
Governor Federal Reserve Bank,  
Minneapolis, Minnesota.

Dear Governor Wold:

Referring to your letter of January 30th, I would state that I am advised by Assistant Secretary of the Treasury Leffingwell that the Secretary of the Treasury has strongly recommended to the Chairman of the Finance Committee of the Senate, and to the Chairman of the Ways and Means Committee of the House, the passage of the bill to eliminate the stamp tax on fifteen-day notes discounted by member banks with Federal Reserve banks. Treasury officials do not appear, however, to be in favor of going any further than this, and they are unwilling to recommend the exemption from the stamp tax of all notes given to banks for carrying government bonds or which are secured entirely by government bonds.

Very truly yours,

Governor.

112.26

#9

FEDERAL RESERVE BOARD FILE  
332-3

332.3(9)

February 4, 1918.

Mr. Theodore Wold,  
Governor Federal Reserve Bank,  
Minneapolis, Minnesota.

Dear Governor Wold:

I have your letter of the 30th ultimo calling attention to the fact that extended grants of credit by Federal Reserve banks through purchase and resale agreements of government bonds might be embarrassing to the Federal Reserve bank because agreements of this kind are not available as security for Federal Reserve notes. This was one of the points the Board had in mind when your letter of the 17th was considered, and I note your suggestion that Congress enact as early as possible a bill relieving from revenue stamps notes given by member banks to Federal Reserve banks when secured by government bonds. The Board has received similar suggestions from other Federal Reserve banks, and some of them have gone so far as to ask that the bill provide that no notes whether made by banks or individuals which are secured entirely by government bonds, be required to carry revenue stamps. The whole matter has been referred to Counsel, and the Board will doubtless make a recommendation to Congress on the subject in the near future.

Very truly yours,

Governor.



# FEDERAL RESERVE BANK OF MINNEAPOLIS

## NINTH DISTRICT

### OFFICERS

THEODORE WOLD, GOVERNOR  
R. A. YOUNG, ASST. TO THE GOVERNOR  
S. S. COOK, CASHIER  
FRANK C. DUNLOP, ASST. CASHIER  
GRAY WARREN, ASST. CASHIER  
HOWARD HALL, AUDITOR

### DIRECTORS

JOHN H. RICH, CHAIRMAN  
MINNEAPOLIS, MINN.  
W. H. LIGHTNER, DEPUTY CHAIRMAN  
ST. PAUL, MINN.  
J. C. BASSETT, ABERDEEN, S. DAKOTA  
F. R. BIGELOW, ST. PAUL, MINNESOTA

JOHN W. BLACK, HOUGHTON, MICH.  
E. W. DECKER, MINNEAPOLIS, MINN.  
L. B. HANNA, FARGO, N. DAKOTA  
F. P. HIXON, LACROSSE WISCONSIN  
N. B. HOLTER, HELENA, MONTANA

CURTIS L. MOSHER, ASST. FEDERAL RESERVE AGENT

January 30, 1918.

Hon. W. P. G. Harding, Governor,  
Federal Reserve Board,  
Washington, D.C.

RECEIVED  
FEB 4 1918  
GOVERNOR'S OFFICE

Dear Governor Harding:

Your telegram of the 26th in response to our letter of the 17th in regard to dealings in repurchase agreement of Government Bonds as suggested by the Board, for a period exceeding fifteen days, I find upon my return from Helena this morning.

In this connection I beg to call your attention to the fact, although I presume it has been in your mind, that extending credit by way of purchase and re-sale agreement of Government Bonds might be embarrassing to a Federal Reserve Bank, provided the reserves were low, due to the fact that they cannot be used as security for Federal Reserve notes.

In view of the probability of Federal Reserve Banks being required to extend credit in this way to a greater or less extent from now on, it would seem of the greatest importance that the bill, which I understand is before Congress, eliminating the requirement of documentary stamps upon notes given by a member bank to a Federal Reserve Bank, secured by Government bonds, be enacted into law at the earliest possible date.

Yours very truly,

*W. P. G. Harding*  
Governor

TW-C

7/14

332-29

112-26

**TELEGRAM**  
**FEDERAL RESERVE BOARD**  
**WASHINGTON**

341  
FEDERAL RESERVE BOARD FILE  
332.3

November 7, 1917.

332.3(9)

Rich, Federal Reserve Bank,  
Minneapolis, Minn.

Your wire sixth, re part-paid liberty loan receipts. Matter involves a legal question, on which Board cannot rule without further investigation. Will advise decision soon as possible.

WILLIS, Secretary.

## CLASS OF SERVICE SYMBOL

Day Message	
Day Letter	Blue
Night Message	Nite
Night Letter	N L

If none of these three symbols appears after the check (number of words) this is a day message. Otherwise its character is indicated by the symbol appearing after the check.

# WESTERN UNION



# TELEGRAM

NEWCOMB CARLTON, PRESIDENT

GEORGE W. E. ATKINS, FIRST VICE-PRESIDENT

## CLASS OF SERVICE SYMBOL

Day Message	
Day Letter	Blue
Night Message	Nite
Night Letter	N L

If none of these three symbols appears after the check (number of words) this is a day message. Otherwise its character is indicated by the symbol appearing after the check.

RECEIVED AT WYATT BUILDING, COR. 14TH AND F STS., WASHINGTON, D. C. ALWAYS OPEN

665CH VF 35GOVT.

SU MINNEAPOLIS MINN NOV 6 1917 344PM.

FEDERAL RESERVE BOARD

3827

WASHINGTON

HAS THE BOARD MADE ANY RULING FAVORING ACCEPTANCE OF PART PAID LIBERTY  
LOAN RECEIPTS AS COLLATERAL FOR FIFTEEN DAY NOTES AND IF NOT DOES  
BOARD APPROVE OF SUCH COLLATERAL

RICH AGENT

5PM

RECEIVED  
NOV 6 - 1917  
GOVERNOR'S OFFICE

*Ref To Cont  
No. 2.*



#9  
TELEGRAM

FEDERAL RESERVE BOARD  
WASHINGTON

FEDERAL RESERVE BOARD FILE

~~332.3~~

May 8, 1917.

332.3 (9)

*Per Rate*  
Federal Reserve Bank,  
Minneapolis, Minn.

Your telegram May 7. <sup>on</sup> Rate of three percent/fifteen day notes approved as  
already indicated.

WILLIS.

CLASS OF SERVICE	SYMBOL
Day Message	
Day Letter	Blue
Night Message	Nite
Night Letter	N L

If none of these three symbols appears after the check (number of words) this is a day message. Otherwise its character is indicated by the symbol appearing after the check.

# WESTERN UNION TELEGRAM

NEWCOMB CARLTON, PRESIDENT

GEORGE W. E. ATKINS, FIRST VICE-PRESIDENT

CLASS OF SERVICE	SYMBOL
Day Message	
Day Letter	Blue
Night Message	Nite
Night Letter	N L

If none of these three symbols appears after the check (number of words) this is a day message. Otherwise its character is indicated by the symbol appearing after the check.

RECEIVED AT WYATT BUILDING, COR. 14th AND F STS., WASHINGTON, D. C. 1917 MAY 7 PM 10 13

B538NY 30 COLL GOVT NITE

MINNEAPOLIS MINN 7

FEDERAL RESERVE BOARD

01369

WASHINGTON DC

OUR DIRECTORS TODAY FIXED A RATE OF THREE PERCENT UPON FIFTEEN DAY  
NOTES SECURED BY GOVERNMENT OBLIGATIONS TO BE EFFECTIVE AT ONCE  
WOLD GOVERNOR.



#9  
TELEGRAM

FEDERAL RESERVE BOARD  
WASHINGTON

FEDERAL RESERVE BOARD FILE

~~332.3~~

May 7, 1917.

332.3(9)

Federal Reserve Bank,  
Minneapolis, Minn.

Board approves rate of three percent for member banks fifteen day notes secured by Government bonds or certificates. This rate is given to meet a temporary situation and is subject to revision at any time.

TELEGRAM  
FEDERAL RESERVE BOARD  
WASHINGTON

Draft telegram to

May 7, 1917.

Federal Reserve Bank, Kansas City  
Federal Reserve Bank, Minneapolis

Board approves rate of three per cent. for member banks  
fifteen day notes secured by Government bonds or certifi-  
cates. This rate is given to meet a temporary situation

*and is*  
~~and must be understood to be subject to revision.~~ *at any time*

Willis, Secretary.

*W V x*  
*57.14*



TELEGRAM  
FEDERAL RESERVE BOARD  
WASHINGTON

332.3(9)

May 5, 1917.

Rich  
Federal Reserve Agent,  
Minneapolis, Minn.

Board will consider carefully subject of your telegram May third. Ample time as bonds will not be ready for delivery until the end of June. Meanwhile an adjustment of rate might be useful in facilitating subscriptions to Treasury certificates of indebtedness. Will advise you further early next week.

HARDING.

TELEGRAM  
FEDERAL RESERVE BOARD  
WASHINGTON

May 4, 1917  
10:40 AM

332.3(9)

John H. Rich,  
Federal Reserve Agent,  
Minneapolis, Minn.

Governor Harding and Mr. Warburg are in New York today discussing details of the matter. In all probability the principle will be established <sup>authorizing</sup> ~~permitting~~ banks to rediscount <sup>of receivable</sup> with the Federal Reserve Banks fifteen day collateral loans on basis of the bonds or notes at rates close to, and possibly even lower than the rate on the bonds.

Delano.

POSTAL TELEGRAPH-CABLE COMPANY



# NIGHT LETTERGRAM

THE POSTAL TELEGRAPH-CABLE COMPANY (INCORPORATED) TRANSMITS AND DELIVERS THIS NIGHT LETTERGRAM SUBJECT TO THE TERMS AND CONDITIONS PRINTED ON THE BACK OF THIS BLANK.

CLARENCE H. MACKAY, PRESIDENT.

RECEIVED AT

DELIVERY NO.

INDEPENDENT COMPETITIVE PROGRESSIVE

4-623

3 ms ro 415am

~~74-10-0000~~ 75 collect hl lex

MS Minneapolis Minn may 3-4 1917

Hon W P G Harding

Governor Federal Reserve Board

Washn DC

I shall much appreciate information as early as possible as to views of board as to what rate should be established by federal reserve bank for the discount of collateral loans made to members for purpose of enabling them to carry forthcoming liberty bonds for distribution to their customers especially in cases where customer and bank arrange for deferred payments. Think such a rate should be moderate to encourage wide



#9

~~332.3~~

TELEGRAM  
FEDERAL RESERVE BOARD  
WASHINGTON

33 2.3(9)

September 14, 1916.

Federal Reserve Agent,  
Minneapolis, Minn.

Board today approved your rate four percent on fifteen day paper.

Governor.

FILE  
SEP 14 1916  
Federal Reserve Board

OFFICIAL BUSINESS

GOVERNMENT RATES

CHARGE FEDERAL RESERVE BOARD

260.1

#9

# FEDERAL RESERVE BANK OF MINNEAPOLIS

NINTH DISTRICT

OFFICERS

THEODORE WOLD, GOVERNOR      S. S. COOK, CASHIER

DIRECTORS

JOHN H. RICH, CHAIRMAN AND FEDERAL RESERVE AGENT	W. H. LIGHTNER, DEPUTY CHAIRMAN AND DEPUTY FEDERAL RESERVE AGENT
J. C. BASSETT, ABERDEEN, S. DAK.	E. W. DECKER, MINNEAPOLIS, MINN.
F. R. BIGELOW, ST. PAUL, MINNESOTA	L. B. HANNA, FARGO, N. DAKOTA
JOHN W. BLACK, HOUGHTON, MICH.	F. P. HIXON, LA CROSSE, WISCONSIN
N. B. HOLTER, HELENA, MONT.	

332.3(9)

September 12, 1916.

Federal Reserve Board,

Washington, D.C.

Gentlemen:

I beg to report that the Board of Directors at their session yesterday approved of a rate of 4% on paper of fifteen days' maturity, to take effect at once. I should like to request the approval of the Board on this rate.

It is the first time we have established a fifteen day rate, and while there is no particular situation that prompts us to establish this rate, we have had evidence that leads us to believe that a short time rate adopted at this time will be used by our members. The purpose is, of course, to be in a position to afford short accommodation to member banks during the crop moving season, which is now beginning.

Very truly yours,

*John H. Rich*  
Chairman



#9 260.1

# FEDERAL RESERVE BANK OF MINNEAPOLIS

NINTH DISTRICT

OFFICERS

THEODORE WOLD, GOVERNOR S. S. COOK, CASHIER

DIRECTORS

JOHN H. RICH, CHAIRMAN  
AND FEDERAL RESERVE AGENT  
J. C. BASSETT, ABERDEEN, S. DAK.  
F. R. BIGELOW, ST. PAUL, MINNESOTA  
JOHN W. BLACK, HOUGHTON, MICH.  
W. H. LIGHTNER, DEPUTY CHAIRMAN  
AND DEPUTY FEDERAL RESERVE AGENT  
E. W. DECKER, MINNEAPOLIS, MINN.  
L. B. HANNA, FARGO, N. DAKOTA  
F. P. HIXON, LA CROSSE, WISCONSIN  
N. B. HOLTER, HELENA, MONT.

332.3(9)

September 12, 1916.

Federal Reserve Board,

Washington, D.C.

Gentlemen:

At a meeting of our Board of Directors held yesterday, a rate of 4% on fifteen day loans made on obligations of a bank with collateral, as provided for in the amendment to the Federal Reserve Act, was authorized.

Inasmuch as this is the same rate as applies to the thirty day rediscount, I assume it will require no confirmation by the Board. If it does, I trust you will advise us by wire of your approval.

Yours truly,

*Theodore Wold*  
Governor

TW\_C





(10)

*Mr. Sawyer  
10/2/17*

CHAS. M. SAWYER  
CHAIRMAN BOARD OF DIRECTORS  
AND FEDERAL RESERVE AGENT  
FRED W. FLEMING  
DEPUTY CHAIRMAN BOARD OF DIRECTORS  
M. A. THOMPSON  
ASST. FEDERAL RESERVE AGENT

#10

FEDERAL RESERVE BANK  
OF  
KANSAS CITY

J. Z. MILLER, JR.  
GOVERNOR  
J. L. CROSS  
DEPUTY GOVERNOR  
ARCH W. ANDERSON  
SECRETARY-CASHIER  
C. A. WORTHINGTON  
ASSISTANT CASHIER

RECEIVED  
SEP 24 1917  
OFFICE OF  
MR. DELANO

SEPTEMBER  
22nd,  
1917

Honorable F. A. Delano,  
FEDERAL RESERVE BOARD,  
Washington, D. C.

Dear Mr. Delano: -

Our Executive Committee yesterday decided to raise the rate upon member bank 15 day collateral notes from 4 to  $4\frac{1}{2}$  per cent, if approved by your Board.

This action was prompted by the fact that there has been an increased demand of considerable proportions and several of our member banks have been carrying a line of these short-time notes for the past 60 days. While different collateral was used for each note discounted, it was virtually renewal.

We desire to make this rate effective October 1st and would appreciate approval by wire, so we will have time to give reasonable notice.

Very truly yours,

CMS-U

*Chas M Sawyer*  
Chairman, Board of Directors.

RECEIVED



#10  
Treasury Department

TELEGRAM

FEDERAL RESERVE BOARD FILE

*Rate*  
31FO MO 31 Govt

MN KANSAS CITY Mo May 19 1917

Willis Secretary Federal Reserve Board

Washington

*5119/17*  
Your wire the three percent rate for member banks fifteen  
day collateral note secured by government notes or bonds  
became effective May seventh

Miller, Governor

352pm

332.3

337.2610



TELEGRAM  
FEDERAL RESERVE BOARD  
WASHINGTON

k

May 19, 1917.

Federal Reserve Bank,  
Kansas City, Mo.

Please wire date rate of three percent for member banks  
fifteen day notes secured by Government bonds or certificates  
approved May seventh became effective.

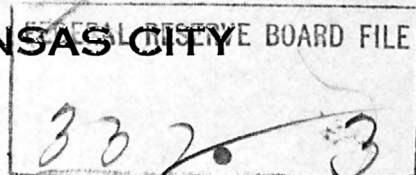
OFFICIAL BUSINESS

GOVERNMENT RATES

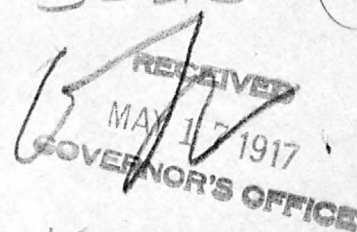
CHARGE FEDERAL RESERVE BOARD

#10  
FEDERAL RESERVE BANK OF KANSAS CITY

TENTH DISTRICT



332.3 (10)



MAY 14th  
1917

Honorable W. P. G. Harding, Governor,  
FEDERAL RESERVE BOARD,  
Washington, D. C.

Dear Mr. Harding: -

I have your letter of May 11th, advising that the preponderance of legal opinion seems to be that fifteen-day promissory notes of member banks are not eligible as security for Federal Reserve Notes, but that the matter is being covered in amendments now pending before congress.

I sincerely hope these amendments will be adopted, for we shall doubtless have considerable demand of this character. If favorable action is had, such advances will not curtail our ability to use our resources to the fullest extent.

Very truly yours,

MAT-U

Chas. M. Mearns  
Federal Reserve Agent.

15 day paper  
as security for  
F.R. Notes.

#70

FEDERAL RESERVE BOARD FILE  
332.3

332.3(10)

May 11, 1917.

Mr. Charles M. Sawyer,  
Federal Reserve Agent,  
Kansas City, Mo.

My dear Mr. Sawyer:

Replying to your letter of May 3rd, I would say that the preponderance of legal opinion seems to be that fifteen-day promissory notes of member banks are not eligible as security for Federal Reserve notes. However, the amendments to the Federal Reserve Act which are now being considered by a Conference Committee of the Senate and House, contain a provision which will make them eligible. As soon as the pending bill becomes a law, all Federal Reserve Agents will be duly advised, and the Board will issue any regulations that may be necessary to carry into effect the provisions of the bill.

Very truly yours,

Governor.

#10  
TELEGRAMFEDERAL RESERVE BOARD  
WASHINGTON

FEDERAL RESERVE BOARD FILE

May 7, 1917.

Federal Reserve Bank,  
Kansas City, Mo.

Board approves rate of three percent for member banks fifteen day notes secured by Government bonds or certificates. This rate is given to meet a temporary situation and is subject to revision at any time.

OFFICIAL BUSINESS  
GOVERNMENT RATES

CHARGE FEDERAL RESERVE BOARD



CLASS OF SERVICE	SYMBOL
Day Message	
Day Letter	Blue
Night Message	Nite
Night Letter	N L

If none of these three symbols appears after the check (number of words) this is a day message. Otherwise its character is indicated by the symbol appearing after the check.

# WESTERN UNION



# TELEGRAM

NEWCOMB CARLTON, PRESIDENT

GEORGE W. E. ATKINS, FIRST VICE-PRESIDENT

CLASS OF SERVICE	SYMBOL
Day Message	
Day Letter	Blue
Night Message	Nite
Night Letter	N L

If none of these three symbols appears after the check (number of words) this is a day message. Otherwise its character is indicated by the symbol appearing after the check.

RECEIVED AT WYATT BUILDING, COR. 14th AND F STS., WASHINGTON, D. C.

A201NY 96 GOVT

KANSAS CITY MO 940A 6

FEDERAL RESERVE BOARD

6489

WASHINGTON DC

1917 MAY 6 AM 11 51



TELEGRAM REGARDING RATE FIFTEEN DAY PAPER RECEIVED OUR  
MOTIVE IN ASKING FOR TWO AND A HALF PER CENT RATE WAS TO FACILITATE  
SUBSCRIPTIONS TO SECOND SERIES OF TREASURY CERTIFICATES AND  
WE FEEL THAT FIFTEEN DAY NOTES OF OUR MEMBER BANKS SECURED BY THESE  
CERTIFICATES SHOULD HAVE PREFERENTIAL RATE NOT TO EXCEED  
THREE PERCENT PREFERABLY TWO AND A HALF MANY IMPORTANT BANKS IN OUR  
DISTRICT WOULD BE WILLING TO INCREASE SUBSCRIPTIONS IF THEY FELT

78

CLASS OF SERVICE	SYMBOL
Day Message	
Day	Blue
Night Message	Nite
Night Letter	N L

If none of these three symbols appears after the check (number of words) this is a day message. Otherwise its character is indicated by the symbol appearing after the check.

# WESTERN UNION TELEGRAM



NEWCOMB CARLTON, PRESIDENT

GEORGE W. E. ATKINS, FIRST VICE-PRESIDENT

CLASS OF SERVICE	SYMBOL
Day Message	
Day Letter	Blue
Night Message	Nite
Night Letter	N L

If none of these three symbols appears after the check (number of words) this is a day message. Otherwise its character is indicated by the symbol appearing after the check.

RECEIVED AT WYATT BUILDING, COR. 14th AND F STS., WASHINGTON, D. C.

A 201 NY SHEET TWO

THEY COULD GET RELIEF IN USE OF NEED BY HPOTHECATING THE CERTIFICATES  
HOPE YOU WILL WIRE APPROVAL

SAWYERS AGENT.

FO 10

TELEGRAM

FEDERAL RESERVE BOARD  
WASHINGTON

3323 (10)

May 5, 1917.

3/2

Sawyer,  
Federal Reserve Agent,  
Kansas City, Mo.

Board will consider carefully subject of your telegram May third. Ample time, as bonds will not be ready for delivery until the end of June. Meanwhile an adjustment of rate might be useful in facilitating subscriptions to Treasury certificates of indebtedness. Rate suggested seems too low. Two districts now have four percent rate, two three percent, balance three and one half. Will advise you further early next week.

HARDING.

#10  
TELEGRAMFEDERAL RESERVE BOARD  
WASHINGTON

May 4, 1917.

23340  
FEDERAL RESERVE BOARD FILE  
33263  
3371310

Sawyer,  
Federal Reserve Bank,  
Kansas City, Mo.

Your telegram this date. Governor Harding and Mr. Warburg are in New York today discussing details of the matter. In all probability the principle will be established authorizing banks to rediscount with the Federal reserve banks of renewable fifteen day collateral loans on basis of the bonds or notes at rates close to, and possibly even lower than the rate on the bonds.

WILLIS

OFFICIAL BUSINESS

GOVERNMENT RATES

CHARGE FEDERAL RESERVE BOARD



Treasury Department

37RU Hg 34 gov v

TELEGRAM

Kansas City MO May 4

Fed Res Board

Washn DC

We request your approval of rate of two and one  
half percent upon fifteen day member bank notes secured by  
treasury certificates or by US Government bonds

Sawyer Agent

332p

*Board thinks 5% should be correct at this time*



# FEDERAL RESERVE BANK OF KANSAS CITY

TENTH DISTRICT

232.3 (10)

MAY 3rd  
1917

Federal Reserve Board,  
Washington,  
D. C.

Gentlemen: -

There appears to be some difference of opinion as to whether or not the fifteen day promissory notes of member banks, as authorized in the amendment passed by the last Congress are eligible for the issuance of Federal Reserve notes, and since we seem unable to locate any ruling on this point, would appreciate your advice.

Very truly yours,

MAT-U

*Geo. M. Dawson*

Federal Reserve Agent.



*111*

# 10  
TELEGRAM

FEDERAL RESERVE BOARD  
WASHINGTON

332.5  
332.310  
September 15, 1916.

Governor,

Federal Reserve Bank,  
Kansas City, Mo.

9/15/16  
Board wired Federal Reserve Agent today approving rate of four  
percent fifteen day paper recommended.

Governor.

FILE

SEP 15 1916

Federal Reserve Board

OFFICIAL BUSINESS

GOVERNMENT RATES

CHARGE FEDERAL RESERVE BOARD

TELEGRAM #18  
FEDERAL RESERVE BOARD  
WASHINGTON

260.1

332.3(19)

September 15, 1916.

Federal Reserve Agent,  
Kansas City, Mo.

Board approves rate four percent fifteen day paper effective  
September eighteen recommended for your bank.

Governor.

FILE  
SEP 15 1916  
FEDERAL RESERVE BOARD



#10  
Treasury Department

TELEGRAM

5PO MO 25 Govt

KANSAS CITY Mo Sept 15 1916

Federal Reserve Board

Washington D.C.



We request approval of four percent rate on bills payable  
or rediscountss up to fifteen days effective September eight-  
eenth

Sawyer, Chairman

1118am

Treasury Department

TELEGRAM

332.3 (19)

33 WU Hg 26 govt

Kansascity Mo Sep 15  
Federal Reserve Board  
Washn ( DC)

TREASURY  
DEPT.  
SEP  
15  
1916  
TELEGRAPH  
OFFICE.

Our board and executive committee has voted four percent rate  
on promissory notes offered by our members please wire approval  
Miller Govr

325p



#11  
TELEGRAM

FEDERAL RESERVE BOARD  
WASHINGTON

FEDERAL RESERVE BOARD FILE  
332-3

June 6, 1918. 3323 (11)

Hoopes,  
Federal Reserve Bank,  
Dallas, Texas.

Your wire today. Form of borrowing makes no difference period. Amount of loans to member bank depends on Federal Reserve bank and is matter of banking judgment.

WILLIS, Secretary.



Treasury Department

TELEGRAM

332.3 (11)

11F MT

Dallas Tex June 6 18

Willis

Washington

Your wire fifth in our telegram yesterday we desired to know if every bank could give bills payable in excess of amount capital and stock your answer referred to discounts.

Hoopes Deputy Governor

1055a

TELEGRAM  
FEDERAL RESERVE BOARD  
WASHINGTON

June 5, 1918.

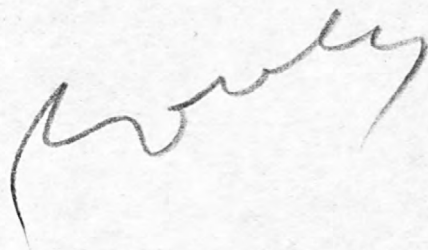
FILE 332.3 (11)  
JUN 5 1918

Federal Reserve Bank,  
Dallas, Texas.

RECEIVED JUN 5 1918

Your wire this date. No limit to amount Federal Reserve banks  
discount for members.

WILLIS, Secretary.



OFFICIAL BUSINESS  
GOVERNMENT RATES  
CHARGE FEDERAL RESERVE BOARD

2-7729

Treasury Department

TELEGRAM

302.3 (11)

54FX

Dallas Tex June 5 1918

Federal Reserve Board

Washington

May National Banks under section fifty two naught two as  
amended borrow from Federal Reserve Bank on thier bills  
payable in an amount in excess of their capital stock

Ramsey

- h. o. y. v.  
- J. L. -

Agent

538pm

#11  
FEDERAL RESERVE BANK  
OF DALLAS

W.F. RAMSEY  
CHAIRMAN OF THE BOARD

FEDERAL RESERVE BOARD FILE

3323

proof

332.3 (11)

November 24, 1916.

Hon. Paul M. Warburg,  
Washington, D. C.  
My dear Mr. Warburg:-

I have yours of the twenty-first instant  
which I have carefully noted.

I hope to have an opportunity of conferring  
with Judge Elliott about the fifteen day note matter  
when I come to Washington.

I am looking forward with pleasure to a prof-  
itable and successful meeting all around.

Very truly yours,

W. F. Ramsey

R/T.



FEDERAL RESERVE BOARD FILE

332.3

proof

332.3 (11)

November 21, 1916.

Dear Judge Ramsey:

Thank you for your letter of November eighteenth,  
which I read with much interest.

You will no doubt have an opportunity to speak  
with Judge Elliott when you will be here in the begin-  
ning of December.

Thank you for sending me the clipping covering a  
synopsis of your address at Phoenix, which I have  
read with very much interest. I am confident that  
addresses of this kind must do a great deal of good  
in your district.

With kindest regards,

Very sincerely yours,

(Signed) PAUL M. WARBURG.

W. F. Ramsey, Esq.,  
Federal Reserve Agent,  
Dallas, Texas.

15 day letter  
collection

#11



FEDERAL RESERVE BANK  
OF DALLAS

FEDERAL RESERVE BOARD FILE

3323

RECEIVED

NOV 23 1916

GOVERNOR'S OFFICE

November 20, 1916.

Hon. W. P. G. Harding, Governor,  
Federal Reserve Board,  
Washington, D. C.  
My dear Mr. Harding:-

I have yours of the sixteenth instant and note with pleasure that you still purpose making a visit to Dallas in the near future. I shall be very glad to talk with you about your contemplated visit. I am expecting to be in Washington on the fourth of December.

Governor Van Zandt will attend the Governors' Conference on the eleventh of December. Naturally we would prefer that you be here when both Governor Van Zandt and myself were here. Whether there will be time for you to make a visit without interfering with the Christmas holidays seems a little uncertain. However, I will be very glad to talk to you about the matter when I come on to Washington.

I have read a copy of the letter of Mr. Cotton, Consulting counsel of the Board, which had been sent me a few days ago by Mr. Warburg. With both Judge Elliott and Mr. Cotton agreeing as to their conclusion, I take it for granted that the Board will accept this interpretation of the Act. I have lived long enough to know how often my own opinions are in error, but nevertheless and notwithstanding, I am still unconvinced. However, the matter is not vital and I assume that there will be little, if any, difficulty in securing an amendment to the Federal Reserve Act which will make such notes available as security for Federal Reserve Notes.

Very truly yours,

*W. J. Rains*

Federal Reserve Agent.

R/T.





FEDERAL RESERVE BANK  
OF DALLAS

332,3 (11)

November 18, 1916.

Mr. Paul M. Warburg,  
Washington, D. C.  
Dear Mr. Warburg:-

4/6/16

I am in receipt of yours of the ninth instant which came in my absence, inclosing copy of letter received from Mr. Joseph P. Cotton. I read Mr. Cotton's letter very carefully and with all due respect to him it is not at all convincing to my mind. I have long since learned not to set too much store by my own opinion about anything and not infrequently found myself in error, where it seemed to me that I was very clearly right. However, with all due respect to Judge Elliott, whom I like very much, and to Mr. Cotton whom I suppose is equally learned and able, I remain entirely unconvinced.

I take it for granted that the matter having gone thus far that the Board will be inclined to follow the advice of its counsel. I wish, however, it had been possible for me to have personally presented my views to Judge Elliott. There is a vice and fallacy in Judge Elliott's conclusion that I believe, if the matter were fully presented to him, he would recognize. Of course, I have not seen his opinion and do not know exactly the line of reasoning on which he proceeds, but it seems to me that he overlooks and ignores some important and controlling considerations which to my mind inevitably leads to a different conclusion.

The suggestions contained in Mr. Cotton's letter as to how indirectly the same results ought to be obtained, do not seem very attractive or feasible. If I have occasion, I will be very glad to discuss this matter with you when I come up on the fourth proximo.

In this connection, I beg to advise further that I have just returned from quite a little trip to Phoenix, Arizona, and Albuquerque, New Mexico, where I attended the State Bankers' Associations of those two states. I am taking the liberty of inclosing you a brief synopsis of my address at Phoenix. The statement of my views is not expressed absolutely accurately, but everything considered it is a fair synopsis of my reflections. *adms*

Very truly yours,

*W. F. Rame*

R/T.

244 1 245.1  
FEDERAL RESERVE BOARD FILE

332.3  
pwp  
November 16, 1916. 332.3(11)

#11  
Mr. W. F. Ramsey,  
Chairman Federal Reserve Bank,  
Dallas, Texas.

Dear Judge Ramsey:-

I returned yesterday from a trip to Atlanta and New Orleans, and read with interest the letters from you which came in my absence. Mr. Delano was with me on the trip and we were both sorry we could not get over to Dallas. I hope to make a special visit to your bank before very long. I presume you will be here on December 4th to attend the conference of Federal Reserve Agents, and I will discuss the date of my Dallas visit with you at that time.

11/6/16  
I enclose herewith copy of a letter from Joseph P. Cotton, Esq., our consulting counsel in New York, from which you will see that he does not agree with your views regarding the eligibility of member banks' fifteen-day notes as security for Federal Reserve notes. I think likely that the Board will recommend to Congress a slight amendment to the Act to provide specifically that notes of this kind may be used with the Federal Reserve Agents.

Very truly yours,

Governor.



332.3

CHARLES S. HAMLIN, GOVERNOR  
FREDERIC A. DELANO, VICE GOVERNOR  
PAUL M. WARBURG  
W. P. G. HARDING  
ADOLPH C. MILLER

H. PARKER WILLIS, SECRETARY  
SHERMAN P. ALLEN, ASST. SECRETARY

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

EX-OFFICIO MEMBERS  
WILLIAM G. MCADOO  
SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD *purp*  
WASHINGTON

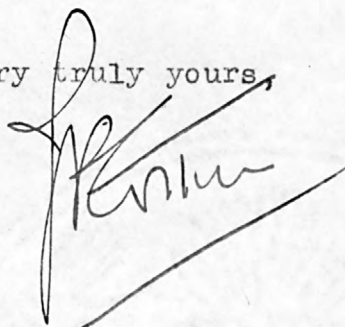
332.3(11)

November 11, 1916.

My dear Mr. Warburg:-

I have your letter of the 9th. I quite appreciate what you say, but you cannot go directly against the language of the Act.

Very truly yours,



Paul M. Warburg, Esq.,  
Federal Reserve Board,  
Washington, D. C.

JPC...B.

*Cotton  
Ramsey  
Agent*

*#11* *332.3 (11)*

FEDERAL RESERVE BOARD FILE  
332.3

November 9, 1916.

My dear Judge Ramsey:

I have your letter of November sixth and thank you for the same.

I inclose herewith copy of letter *(11/6/16)* received from Mr. Cotton. Both our Counsel and Associate Counsel, unfortunately, do not agree with your point of view; though they agree that the same result can be reached by indirect methods.

Very sincerely yours,

(Signed) PAUL M. WARBURG.

W. F. Ramsey, Esq.,  
Federal Reserve Agent,  
Dallas, Texas.

\*Inc.

332,3 (11)

November 9, 1916.

Dear Mr. Cotton:

I have your letter of November sixth, which I have read with much interest, as also your opinion concerning the eligibility as collateral of fifteen day notes.

Your conclusion is that, by a rather complicated process, the same result can be reached and, therefore, it ought to be done by the complicated process rather than by straining the law. The trouble, however, is that in order to get our system working and popular with the member banks we ought to avoid all unnecessary complications, and that was why I was so anxious to get the ruling permitting the simplest *modus procedendi*.

Very truly yours,

(Signed) PAUL M. WARBURG.

J. P. Cotton, Esq.,  
Sixteen Wall Street,  
New York.

332,3 (11)

RECEIVED  
NOV 8 1916  
GOVERNOR'S OFFICE

FEDERAL RESERVE BOARD

*To Mr. Warburg  
12/1*

November 8, 1916.

My dear Governor:

I am handing you herewith  
Mr. Cotton's opinion on the question  
whether 15-day notes of member banks  
are eligible as collateral security  
for the issue of Federal reserve  
notes.

Respectfully,

*J. L. Harrison*

Hon. W. P. G. Harding,  
Governor.

RECEIVED  
NOV 10 1916  
GOVERNOR'S OFFICE



EX-OFFICIO MEMBERS

WILLIAM G. MCADOO  
SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

CHARLES S. HAMLIN, GOVERNOR  
FREDERIC A. DELANO, VICE GOVERNOR  
PAUL M. WARBURG  
W. P. G. HARDING  
ADOLPH C. MILLER

H. PARKER WILLIS, SECRETARY  
SHERMAN P. ALLEN, ASST. SECRETARY

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

332-3(11)  
November 6, 1916.

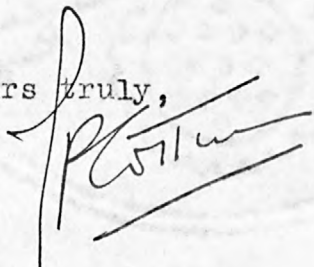
My dear Mr. Warburg:-

I enclose copy of an opinion I am sending today in answer to your letter of November 1. It is, you will see, an adaptation of your argument that the

"note made out by the . . bank is nothing but a binding agreement of the rediscounting bank to buy back the paper which it has given as collateral on a date prior to the maturity of the paper given as collateral".

When the fifteen-day advance takes on the form of such a sale with the agreement to repurchase within fifteen days, the lawyers' difficulties as to issue of Reserve Notes vanish. I have no doubt that the Reserve Bank is empowered to make the agreement to resell and it can safely do so, as it has an absolute right to redeem its collateral from the Reserve Agent on deposit of lawful money. And the fact that the amendment of the Act permits issue of Reserve Notes against paper purchased does away with the difficulties of machinery and bookkeeping attendant on the job of discounting a mass of commercial paper.

Yours truly,

  
Paul M. Warburg, Esq.,  
Federal Reserve Board,  
Washington, D. C.

JPC..B.  
Enc.

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO  
SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

CHARLES S. HAMLIN, GOVERNOR  
FREDERIC A. DELANO, VICE GOVERNOR  
PAUL M. WARBURG  
W. P. G. HARDING  
ADOLPH C. MILLER

H. PARKER WILLIS, SECRETARY  
SHERMAN P. ALLEN, ASST. SECRETARY

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

332.3 (11)

November 6, 1916.

S i r s:-

You have asked my opinion in regard to the question of law stated and discussed in Mr. Elliott's opinion to the Board dated October 10, 1916.

I am in agreement with the result of Mr. Elliott's opinion and with the reasons given by him.

I have also considered the memorandum by Mr. Ramsey, Federal Reserve Agent, on this point which urges a contrary view--it is in effect an argument that the fifteen-day advances are just as good as, and in effect equal to, eligible paper and that the Reserve Act does not show an intention to put what he tersely calls "the mark of Cain" on the fifteen-day advances. It is impossible not to sympathize with his point of view, and it is, I think, possible for him to accomplish the end he has in view even if the Board do not accept his legal argument.

The Reserve Act, as amended, sets out in detail and with precision the terms on which Reserve Notes may be issued--nothing is left to anybody's discretion as to the fulfillment of the legal prerequisites of such issues. One of such prerequisites is that the Notes must be issued against eligible commercial paper and nothing else--a fifteen-day advance may be secured by United States notes or bonds--and in that respect the

fifteen-day advance fails, in a substantial respect, to comply with the conditions of Reserve Note issue prescribed by the Act. Again the Act by its terms states that notes are issuable against eligible commercial paper discounted or purchased by the Reserve Bank--i.e. paper in which the Reserve Bank has complete legal ownership. The Reserve Bank does not get such complete legal ownership of collateral for fifteen-day advances (though the difference is really one of form)--so in that respect also the fifteen-day advance fails to comply with the conditions of Reserve Note issues prescribed by the Act. We may very well grant that the recent amendment of the Reserve Act might well have permitted Reserve note issues based on advances, but the language of the Act, as amended, does not carry that meaning.

Mr. Ramsey's argument says, in effect, I am offering something just as good, why be technical about it merely because the transaction takes a slightly different form? He argues that the advance is tantamount to a temporary discount of eligible paper, and, therefore, should be considered such a temporary discount for purposes of Reserve note issues. The answer to him is I think somewhat as follows: If the fifteen-day advance note is tantamount to a fifteen-day discount, then if the transaction takes that form (i.e. of a fifteen-day discount), you can have the Reserve note issue. For example, if member bank X comes to its Reserve Bank with paper eligible for rediscount of an amount equal to the accommodation it de-

sires for a period not longer than fifteen days, then bank X may, under the Reserve Act, as amended, sell such paper to the Reserve Bank for any sum agreed upon, and the Reserve Bank may validly contract to resell such paper to bank X at the end of fifteen days (or any less period) for a sum agreed upon--e.g. for the price paid and fifteen days interest. The moneys paid to bank X by the Reserve Bank may be in Reserve Notes (if the Reserve Bank have a surplus of them), and the Reserve Bank during the fifteen-day period obtain more notes from its Reserve Agent on deposit of the paper in question. When bank X is ready to pay up, it may get back its paper (when the Reserve Bank redeems it from the Reserve Agent). Now the only difference between this transaction which gives Mr. Ramsey all he asks for and the issue of notes direct against the fifteen-day advance is a difference of form. And if that be so, Mr. Ramsay should not object to putting his papers in the form required by law. There is one difference in machinery to be noted--when the paper is thus purchased by the Reserve Bank it must pass through the books of the Reserve Bank, that will mean simply the extra bookkeeping of listing the commercial paper in question (that does not mean that it must be separately valued item by item or that the discounts be separately figured, neither would be necessary). The commercial paper would have to be endorsed by bank X in precisely the same way whether it be thus purchased or pledged as collateral for a fifteen-day advance.



Before the amendment of the Reserve Act the scheme above outlined could not have been put into effect because Reserve Notes were not issuable against paper purchased by a Reserve Bank--before the amendment each commercial instrument must have been separately discounted--but that is no longer required by the Act.

The Board may be of opinion that it does not desire to encourage such special arrangements between Reserve Banks and member banks--I have heard that view expressed--but there is no argument (so far as I can now see) which could be urged against such a scheme which is not equally an argument against the issue of Reserve Notes against fifteen-day advances.

Therefore, the answer to Mr. Ramsey is that he can accomplish practically all that he wishes to accomplish by changing the form of his transaction and that is a much sounder method of administration than straining the language of the Act and reading into it something which perhaps ought to be there but is not.

Respectfully yours

Joseph P. Emery

The Federal Reserve Board,  
Washington, D. C.

JPC...B.



FEDERAL RESERVE BANK  
OF DALLAS

332.3 (11)

W.F. RAMSEY,  
FEDERAL RESERVE AGENT  
W.B. NEWSOME,  
DEPUTY FEDERAL RESERVE AGENT  
CHAS. C. HALL,  
ASST TO FEDERAL RESERVE AGENT

November 6, 1916.

Hon. Paul M. Warburg,  
Washington, D. C.  
My dear Mr. Warburg:-

I am to-day in receipt of your valued favor of the third inst. and am naturally gratified at your good opinion of the memorandum I submitted in support of the proposition that fifteen day notes of banks are available and eligible as collateral for the issuance of Federal Reserve Notes.

10/24/16

The little brief was prepared in great haste and under considerable pressure. If I had ample leisure I could have strengthened it very much and believe I could have demonstrated beyond the possibility of a doubt that such notes are available.

I sincerely hope that Judge Elliott and our counsel will so hold. With all due respect to them, it is absolutely inconceivable how any other conclusion than one in favor of our position can in fairness to the intent of Congress be held.

Very truly yours,

R/T.

332.3(11)

November 3, 1916.

My dear Judge Ramsey:

Just a line to tell you how much I enjoyed reading your brief concerning the power of Federal Reserve Banks to use fifteen day notes as collateral for the issue of Federal Reserve Notes.

I am delighted to have your convincing argument all the more since it is exactly along the lines of reasoning that I, myself, pursued. As a matter of plain common sense, there cannot be any doubt but that you and I are right. We cannot deny, however, the fact that technically, there is a good deal to be said on the other side, and the question is simply whether or not in a process in which the Government is concerned, we have a right to let sound reasoning prevail over strictly technical interpretation of the law.

Very sincerely yours,

W. F. Ramsey, Esq.,  
Federal Reserve Agent,  
Dallas, Texas.

(Signed) PAUL M. WARBURG.

332.3 (11)

November 1, 1916.

Dear Mr. Cotton:

Mr. Harrison is sending you ~~herewith~~ a memorandum which Mr. Elliot has written and a brief written <sup>see 10124/16</sup> by Judge Ramsey, dealing with the question whether or not 15 day notes issued by member banks and secured by eligible paper could be accepted by the Federal Reserve Agent as collateral to secure the issue of Federal reserve notes.

I have read both documents and while I think that both are right, I agree with Judge Ramsey. Viewing the problem exclusively from a legal point of view and accepting the strict language of the Act as our basis, I think we cannot, probably, help but reach the same conclusions as Mr. Elliott. The ridiculous part of this would be that this is our own language and we, of course, know what we want, and when we are talking about the intent of Congress we ought to ask ourselves what was our own intent because Congress accepted our language without a change.

I agree with Judge Ramsey that there must be some reasonable interpretation and not one which would lead to absurdities. Just to illustrate where we would go by legal interpretation, I want you to bear this in mind: if the Bank of Commerce "took an advance" against its 15 day note, depositing as collateral an acceptance of the City Bank running for 90 days, its note -



(2)

according to Mr. Elliott, could not be accepted as collateral. If the Bank of Commerce rediscounted the acceptance of the City Bank, deducting, let us say as an illustration, 90 days at  $3\frac{1}{2}\%$ , and after 15 days the Federal Reserve Bank would resell these acceptances made by the City Bank to the Bank of Commerce, <sup>resting 75 days at  $2\frac{1}{2}\%$</sup>  the acceptance of the City Bank in the interval for these 15 days would have served as good collateral for the issue of Federal reserve notes. Now, if instead of indorsing this acceptance, the Bank of Commerce puts its indorsement on a separate sheet of paper which is its own note, we reach a conclusion that the same acceptance of the City Bank could no more be eligible for collateral for issue of Federal Reserve notes. In other words, the collateral note ~~to be~~ made out by the Bank of Commerce is nothing but a binding agreement of the <sup>rediscounting</sup> ~~indorsing~~ bank to buy back the paper which it has given as collateral on a date prior to the maturity of the paper given as collateral.

A few days ago our Counsel ruled that single name paper, if otherwise eligible, unendorsed by a member bank could be accepted as collateral for these 15 day notes, holding the single name paper as eligible even though the Federal Reserve Bank could not consider it eligible for <sup>rediscount</sup> ~~purchase~~ unless actually endorsed by the member bank - the idea being that the 15 day note of the member bank constitutes the missing indorsement. I think that this is perfectly sound in law and in business,

(3)

but I think in a similar way we ought to take collateral  
and note together <sup>as one</sup> in this case and consider them 15 day note  
of the member bank as nothing more than an evidence of an  
agreement to repurchase before maturity.

From the point of view of the Government there is less  
risk, of course, in issuing Federal reserve notes against a  
collateral maturing within 15 days than in issuing the notes  
against <sup>the same</sup> collateral having to run 90 days. Any how, that is  
the general business idea that the longer the advance, the  
greater the risk.

I shall be very much *interested* in hearing what you are  
going to find in the matter.

Very truly yours,

Joseph P. Cotton, Esq.,  
14 Wall Street,  
New York.

*execute*  
*excuse this rough dictation, but I am in a*  
*hurry + must get off*

3323 (11)

No. 3-52

Date November 9, 1916. 272.

FEDERAL RESERVE BOARD

MEMORANDUM

For Mr. Harding

At a meeting of the Federal Reserve Board on  
November 8, the following matter  
(as Chairman, Committee on Law:  
was referred to you (as member, " "  
(as

An opinion of Counsel as to eligibility of 15  
day notes as security for Federal reserve notes.

Papers in the hands of Mr. Hamlin.

RECEIVED  
Secretary

DEC 6 1916

Federal Reserve Board

Please return this memorandum with copy of  
documents resulting from action taken, if any.

Date \_\_\_\_\_

Documents \_\_\_\_\_

Signature \_\_\_\_\_

*Ramsey's  
brief of 15 day  
paper #11.*

FEDERAL RESERVE BOARD FILE  
332. B

October 31, 1916. 332.3 (11)

Mr. W. F. Ramsey,  
Chairman Federal Reserve Bank,  
Dallas, Texas.

Dear Mr. Ramsey:- 10/24/16

Your letter enclosing three copies of your brief holding the view that member banks' fifteen day collateral notes are eligible as security for Federal Reserve notes, was duly received and your briefs have been referred to the Board's committee on law.

To my mind you have made a very ingenious and convincing argument, but your brief will be referred to counsel in regular course and you will hear from us further regarding it.

Very truly yours,

(Signed) W. P. G. HARDING

Governor.



NO. 8-43

Date Oct. 31, 1916.

272.

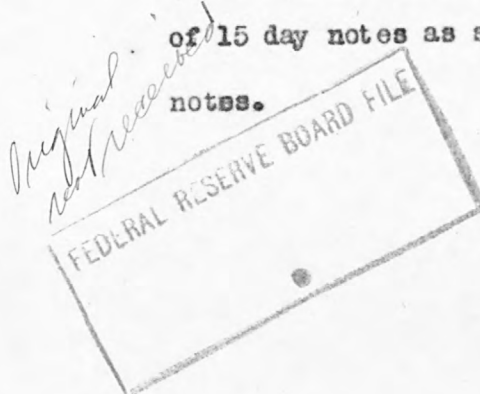
FEDERAL RESERVE BOARD

MEMORANDUM

For Mr. Harding

At a meeting of the Federal Reserve Board on  
Oct. 31, the following matter  
(as Chairman, Committee on Law:  
was referred to you (as member, " "  
(as

The attached letter, dated Oct. 24, and mem-  
orandum, from F.R.A. Ramsey, re the availability  
of 15 day notes as security for Federal reserve  
notes.



Secretary.

Please return this memorandum with copy of  
documents resulting from action taken, if any.

Date \_\_\_\_\_

Documents \_\_\_\_\_

Signature \_\_\_\_\_



#11  
FEDERAL RESERVE BANK  
OF DALLAS

FEDERAL RESERVE BOARD FILE  
332 / 3

W.F. RAMSEY,  
FEDERAL RESERVE AGENT  
W.B. NEWSOME,  
DEPUTY FEDERAL RESERVE AGENT  
CHAS. C. HALL,  
ASST TO FEDERAL RESERVE AGENT

332.3 (11)  
FILE

NOV 1 1916

Federal Reserve Board

October 24, 1916.

Hon. W. P. G. Harding, Governor,  
Federal Reserve Board,  
Washington, D. C.  
My dear Mr. Harding:-

I am inclosing herewith memorandum with  
reference to the availability of fifteen day notes  
as security for Federal Reserve Notes. If I had  
had more time, I could have made it shorter. 2

As a matter of convenience, I am inclos-  
ing you three copies of the memorandum- one for  
Judge Elliott, one for your consulting counsel, and  
one for your own files.

To my mind there is not a shadow of a  
doubt that these notes are available.

Very truly yours,

R/T.  
Encl.

*W. F. Ramsey*  
Federal Reserve Agent.



Ramsey's  
opinion on  
15 day paper

REV.  
3320 ✓  
purp.

The question having arisen as to whether or not fifteen day notes of member banks are eligible and available as security for the issuance of Federal Reserve Notes, the following memorandum is modestly submitted in the hope that it may furnish some aid in the correct solution of this question.

It may aid us, in undertaking to correctly solve this question, to recur to some of the settled rules of statutory construction. It was said many years ago by Chief Justice Hemphill, in the case of *Cammon v. Vaughan*, 12 Texas, 399, (quoted with approval in *Fulmore v. Lane*, 104 Texas, 525):

"Among the most important of these rules are the maxims that the intention of the Legislature is to be deduced from the whole and every part of a statute, when considered and compared together; that the real intention, when ascertained, will prevail over the literal import of the terms; and that the reason and intent of the legislator will control the strict letter of the law, when the latter would lead to palpable injustice, contradiction, and absurdity; that when the words are not explicit the intention is to be collected from the occasion and necessity of the law, and from the mischief and objects and remedy in view; and the intention is to be presumed according to what is consonant to reason and good discretion. It is another established rule that all acts in *pari materia* are to be taken together, as if they were one law, and that if it can be gathered from a subsequent statute, in *pari materia*, what meaning the Legislature attached to the words of a former statute, this will amount to a legislative declaration of its meaning, and will govern the construction of the first statute. These and other rules by which the sages of the law have been guided in seeking for the intention of the lawgiver, have been accumulated by the experience and ratified by the approbation of ages."

It necessary follows as a corollary that the proper interpretation and meaning of any statute may be aided by a fair consideration of the purpose and intent of the lawmaker and I have always understood that all rules of construction are valuable only as they enable one to correctly ascertain such intent.



The Federal Reserve Act is bottomed and based on the proposition that member banks might, by deposit and endorsement of eligible obligations due them, receive from the Federal Reserve Bank their notes which should perform practically all the offices of gold and silver. Such a construction ought, therefore, if possible, to be adopted as would facilitate and aid in accomplishing this result. No limitation ought to be placed on the use obligations taken by the Federal Reserve Bank which would limit their ability to accomplish the wise purposes for which they were designed.

Bearing in mind these views and rules, which are believed to be both intrinsically just and thoroughly well settled by authority, let us see whether, under the Reserve Law as amended, such fifteen day notes made directly payable to Federal Reserve Banks are available as security for Federal Reserve Notes.

The original Act provided (Corporation Trust Company Service, page 481) that the collateral security "thus offered shall be notes and bills accepted for rediscounted under the provisions of Section 13 of this Act."

It is manifest from this provision that it was the intention of Congress to make all obligations which the bank was permitted to accept available as security for Federal Reserve Notes. At this time no provision was made for member banks to give their direct obligations to the Federal Reserve Banks but it was contemplated that each eligible piece of paper would be rediscounted and the indebtedness, both of the bank's customer and the bank itself, preserved and evidenced in the form of a note given to the member bank and by the member bank endorsed to the Federal Reserve Bank.

When this Act was amended on the 7th of September, 1916, (page 554, Corporation Manual), the following provision was inserted in the Act:

"Any Federal reserve bank may make advances to its member banks on their promissory notes for a period not exceeding fifteen days at rates to be established by such Federal reserve banks, subject to the review and determination of the Federal Reserve Board, provided such



promissory notes are secured by such notes, drafts, bills of exchange, or bankers' acceptances as are eligible for rediscount or for purchase by Federal reserve banks under the provisions of this Act, or by the deposit or pledge of bonds or notes of the United States."

The effect of this addition merely changes the form in which the obligation, both of the makers of the notes and the member banks liability was to be evidenced. Under the terms of the original Act, the Federal Reserve Bank discounted the notes offered, if eligible, thereby assuring to itself, both the obligation of the maker of the notes, as well as the obligation of the member bank, but treating each note offered for discount as a separate item, the maturity of which was fixed by its own terms. The amendment quoted above, for obvious reasons unnecessary here to state, made provision for a stated maturity for the bank's entire offering, evidenced by its note with provision that same should be secured by notes, drafts etc. eligible for rediscount or purchase. No reserve bank, of course, would be authorized under the law to take a fifteen day note unless it were buttressed and supported by eligible paper. There was, therefore, a change in the mere form of the indebtedness and not otherwise. There was no change in the eligibility of the security, no lessening of the liability of the makers of such paper and no diminution of the obligation of the bank. The mere form in which the obligation might clothe itself was changed. It will be seen that the provision quoted above does not by its terms place any limitation upon the availability of such fifteen day notes as security for the issuance of Federal Reserve Notes. It simply enables Federal Reserve Banks to grant an accommodation to banks of these fifteen day notes secured by eligible paper instead of following the former practice of discounting the notes themselves having varying dates of maturity. There is no other difference in the law.

Paragraph 120, Corporation Manual, provides that

"The collateral security thus offered shall be notes, drafts, bills of exchange, or acceptances rediscounted under the provisions of Section 13 of this Act or bills of exchange endorsed by a member bank

of any Federal Reserve district and purchased under the provisions of Section 14 of this Act."

This broadened the scope of the law as it stood originally by making drafts, bills of exchange and acceptances available as security for Federal Reserve Notes but does not, as I conceive, have the effect to deny such eligibility to fifteen day notes. If Federal Reserve Agents are prohibited from accepting such fifteen day notes as a basis of security for Federal Reserve Notes, such inhibition is to be gathered by implication and must depend upon the meaning of the word "rediscounted" in the sentence last quoted. In the first place, it is not clear that "rediscounted" was intended to be applied to notes. It is easily possible to reconcile the correct meaning of the word "rediscounted" as here used with the idea that same was intended to be applied to acceptances and bills of exchange, though to give it such meaning would contradict and do violence somewhat to the ordinary sense in which that term is used as applicable to acceptances and other paper of that sort. However this may be, it seems to me clear that if it had been the intention of Congress to deny fifteen day notes availability as collateral for Federal Reserve Notes, that such denial would have found expression in definite and certain language. Again, if it had been the intention of Congress to have denied such notes availability as collateral for Federal Reserve notes, does it not seem reasonable that when the lawmaking body was providing for the grant of credit on fifteen day notes that they would in such grant have limited the use and usefulness of such notes? Again, does it not seem strange that, while extending eligibility to acceptances and thus broadening and liberalizing the law, Congress would have intended to discriminate against fifteen day notes which are in all respects as good as the eligible notes securing them.

If it can be said, however, (and there is much strength in this view) that the word "rediscounted" in the clause last quoted was intended to have reference to notes, as well as bills of exchange and acceptances, then it seems to me clear that the word "rediscounted", as here used, is used in the broad, general sense of being "acquired" by the bank in any way known to the law and was not intended to be



construed in the highly technical sense, which must be accepted as the correct construction of the word if fifteen days notes are to be rejected as security for Federal Reserve Notes. It does not appear to me that we are to give the word "rediscounted" its purely technical meaning. Such bald and shrivelled literalism would, I think, defeat the true intent of the statute.

It is in most jurisdiction a well settled rule of construction that words are to be construed according to their ordinary significance and not according to their technical sense unless the contrary distinctly appears. Now, the purpose of Congress in enacting the Federal Reserve Law was to permit banks to make use of their eligible paper with the Federal Reserve Bank of their district. Ordinarily it might not be a matter of much concern as to whether fifteen day notes were eligible and available as security for Federal Reserve Notes. It is, however, easily conceivable that in the larger centers of trade and commerce an emergency might arise in which many millions of dollars of such notes would be taken and, since it would not ordinarily happen that each particular member bank would want accommodation for the same fifteen days, it might easily occur that through a considerable period of time the holdings of a Federal Reserve Bank would be made up largely of its fifteen day notes. It would or might, therefore, result that the usefulness of Federal Reserve Banks would be paralyzed and the useful functions of these notes would be destroyed.

Now, was it the purpose of Congress to put the ban and seal of condemnation on these fifteen day notes, to ostracise them, to put the mark of Cain on them, and to say that, while Federal Reserve Banks may take them and while the notes which secure them would be available for the issuance of Federal Reserve Notes, that these fifteen day notes themselves can in no emergency and in no storm or stress of danger or weather, be made available for the issuance of Federal Reserve Notes? It seems to me that to support the conclusion of their unavailability is to attach undue importance to mere phraseology and to deny what it was the obvious intent of the lawmakers to grant.

It is an elementary rule that any construction of a statute which leads to absurdity or works great inconvenience ought to be rejected if any other fair and reasonable interpretation of the language used is permissible.

It will be observed that the general term "rediscounted" is used with reference to practically all operations of Federal Reserve Banks including what are popularly known as Open Market Purchases. Bank acceptances are becoming, and will undoubtedly become, the favorite children of commerce. In our own limited activities, we have them from the most distant parts of the world. They are bought in the open markets and protected by their quality of negotiability. They are indeed couriers without luggage and are being traded in, bought and sold in every counting house of the world and yet they are available as security and while, in the computation of the discount on same in the mere office of bookkeeping, it may be said they are discounted, they are not discounted in the sense that either lawyers or bankers understand that term. True they are, in a limited sense, rediscounted, and yet in a more accurate sense they are purchased in active seasons with the same freedom and with no more ado than the operations of the tanner who buys green hides or the silversmith in Maiden Lane who buys uncut diamonds.

With all due respect to those whose opinions are entitled to greater weight than my own, it seems to me to be a conclusion both obvious and irresistible that the true meaning of the statute is to make all paper, included in the paragraph quoted, available as collateral for Federal Reserve Notes. It seems to me to be utterly inconceivable that Congress meant, or could be understood to mean, that it would clothe eligible paper, made to the member bank and by it endorsed to the Federal Reserve Bank, with all the charm and quality of availability but to deny the direct notes of banks such useful functions, merely because they wore a different apparel and were clothed in a different garb. It is an axiom in mathematics that things that are equal to the same thing are equal to each other. Ought a different rule to apply here?



#11  
FEDERAL RESERVE BOARD FILE

~~332-3~~

kwop

October 19, 1916.

332.3(11)

Mr. W. F. Ramsey,  
Chairman Federal Reserve Bank,  
Dallas, Texas.

Dear Judge Ramsey:-

I have your letter of the 16th instant  
from which I understand that you would be  
willing to submit an opinion as to the avail-  
ability of member banks' fifteen day notes as  
security for Federal Reserve notes.

The Board will be very glad indeed to have  
your views on this subject.

Very truly yours,

(Signed) W. P. G. HARDING  
Governor.



FEDERAL RESERVE BANK  
OF DALLAS

332.3 (11)

W.F. RAMSEY,  
FEDERAL RESERVE AGENT  
W.B. NEWSOME,  
DEPUTY FEDERAL RESERVE AGENT  
CHAS. C. HALL,  
ASST TO FEDERAL RESERVE AGENT

RECEIVED  
OCT 19 1916  
GOVERNOR

October 16, 1916.

Hon. W. P. G. Harding, Governor,  
Federal Reserve Board,  
Washington, D. C.  
My dear Mr. Harding:-

I have yours of the 13th inst. and note  
that further investigation is being made as to the a-  
vailability of fifteen day notes as security for Federal  
Reserve Notes.

I think I have no pride of opinion about  
this matter but in view of my belief that a holding that  
such notes are not available would be bad for the system  
generally, I venture to make the suggestion if Judge El-  
liott has not finally made up his mind by the time this  
reaches you that I will be willing, if desired, to submit  
a brief argument on this question. I am very thoroughly  
of the opinion, after some further study on the matter,  
that these notes are available as such security.

Very truly yours,

R/T.

*W. F. Ramsey*  
Federal Reserve Agent.



10/19

*Collateral on  
15-day notes*

*#11*

FEDERAL RESERVE BOARD FILE  
332.3

*332.3 (11)*

October 13, 1916.

Mr. W. F. Ramsey,  
Chairman Federal Reserve Bank,  
Dallas, Texas.

My dear Judge Ramsey:-

I have your letter of the 9th instant.

Our Consulting Counsel agrees with Mr. Elliott regarding the ineligibility of municipal warrants as collateral on fifteen day notes of member banks, but there is some difference of opinion as to the availability of such member bank notes as security for Federal Reserve notes. The Board is anxious to rule that they are eligible, but counsel so far has not seen any way to give such construction to the law. He is studying the matter very carefully, however, and I hope that we will have a definite opinion from him in the course of a few days.

Very truly yours,

(Signed) W. F. G. HARDING

Governor.

FEDERAL RESERVE BOARD

332.3 (11)

WASHINGTON October 11, 1916.

M.C. ELLIOTT  
COUNSEL

My dear Mr. Warburg:-

In accordance with our understanding I am handing you draft of opinion *see memo 10/11/16* on the subject of the right of Federal reserve agents to accept promissory notes of member banks, secured by collateral, as security for Federal reserve notes.

I am fully in accord with your views that the security afforded would be equally as great, if not greater, than that provided for under the Act and if in the amendment the word "acquired" had been used instead of the word "rediscount" we would have been able to reach the other conclusion. In construing an act, however, we are bound by the settled rules of construction as laid down by the courts that language must be given its usual or ordinary interpretation wherever this is possible and that Congress must be presumed to have meant what it said. Any departure from this established rule in making official rulings will inevitably lead to subsequent complication and while I have every desire to reach a conclusion which will facilitate in every way the operations of the System, I have been unable to find any authority to sustain the conclusion which it seems desirable to reach.

I shall be glad to have any suggestions that you care to make before filing officially this opinion.

Sincerely,

Hon. Paul M. Warburg,  
Vice Governor.





## FEDERAL RESERVE BOARD

WASHINGTON

October 10, 1916,  
332.3M.C. ELLIOTT  
COUNSEL

332.3 (11)

My dear Governor:-

This office has been asked for an opinion on the question of whether or not a promissory note of a member bank, secured by collateral and endorsed by a Federal reserve bank, may be deposited with the Federal reserve agent as security for Federal reserve notes under the provisions of Section 16 of the Federal Reserve Act.

Section 16 provides in part that -

"Any Federal reserve bank may make application to the local Federal reserve agent for such amount of the Federal reserve notes hereinbefore provided for as it may require. Such application shall be accompanied with a tender to the local Federal reserve agent of collateral in amount equal to the sum of the Federal reserve notes thus applied for and issued pursuant to such application."

This Section further provides that the collateral security thus offered shall be

- (a) Notes, drafts, bills of exchange, or acceptances rediscounted under the provisions of Section 13 of this Act, or
- (b) Bills of exchange endorsed by a member bank of any Federal reserve district and purchased under the provisions of Section 14 of this Act, or
- (c) Bankers' acceptances purchased under the provisions of said Section 14.

Section 13 of the Federal Reserve Act as amended provides that -

"Any Federal reserve bank may make advances to

See 29127 116

its member banks on their promissory notes for a period not exceeding fifteen days \* \* \* provided such promissory notes are secured by such notes, drafts, bills of exchange, or bankers' acceptances as are eligible for rediscount or for purchase by Federal reserve banks under the provisions of this Act, or by the deposit or pledge of bonds or notes of the United States".

The question to be determined, therefore, is whether or not promissory notes of member banks above referred to may be said to be notes rediscounted under the provisions of Section 13. Giving the language "notes rediscounted" its usual or ordinary interpretation, an advance or money loaned to a member bank on its promissory notes would not be equivalent to a rediscount of notes owned by the member bank. In discussing this question in the case of United States National Bank v. First National Bank, 79 Fed. Rep., 296-98, the court said:

✓ "There is an obvious difference between a transaction where a bank goes into the market as a borrower, giving its own notes, bills, or other obligations for the money borrowed, and a transaction where it disposes of the notes and bills of third parties which it has previously discounted. In the former case it becomes primarily bound; it is the principal debtor; while in the latter, even if it endorses the paper, it only incurs a contingent liability which may never ripen into an absolute obligation to pay".

In a later part of the same decision the court says:

"In Bank v. Armstrong, 152 U. S. 346, 14 Sup. Ct. 572, it was decided that the borrowing of money by a national bank is such an unusual proceeding that when persons or corporations are solicited by a bank president to loan money to his bank they 'must see to it' that the requisite authority to borrow money has been conferred by the board of directors. But the decision referred to did not go beyond that point, and-

as we have already held that the conversion of bills receivable into cash by rediscounting them differs essentially from borrowing money, it is not a controlling authority in the case at bar".

That there is a distinction between the discount of a promissory note of a member bank and the rediscount of notes or bills receivable owned by the member bank, is recognized in the Act of September 7, 1916, which amends certain sections of the Federal Reserve Act. From a reference to the original Act it will be observed that Section 13 provided that -

"The rediscount by any Federal reserve bank of any bills receivable, and of domestic and foreign bills of exchange, and of acceptances authorized by this Act, shall be subject to such restrictions, limitations, and regulations as may be imposed by the Federal Reserve Board."

As originally enacted this Section did not authorize Federal reserve banks to make loans to member banks on their promissory notes, and bills receivable or notes acquired under Section 13 were necessarily acquired by rediscount. By the Act of September 7th that part of Section 13 last above quoted was amended to read -

"The discount and rediscount, and the purchase and sale by any Federal reserve bank of any bills receivable, and of domestic and foreign bills of exchange, and of acceptances authorized by this Act, shall be subject to such restrictions, limitations, and regulations as may be imposed by the Federal Reserve Board".

This change was obviously made because Section 13 had been amended so as to permit Federal reserve banks to acquire bills receivable of member banks other than by rediscount and this amendment was clearly a recognition of the distinction between the discount of the note of the

borrower and the rediscount of notes owned by the member bank.

It is no doubt true that the bill payable or promissory note of a member bank secured by collateral consisting of notes, drafts, bills of exchange or bankers' acceptances would afford equally as great security for Federal reserve notes as notes, drafts, bills of exchange or bankers' acceptances rediscounted by the member bank with the Federal reserve bank. This fact, however, could not be taken into consideration by the Federal reserve agent or by the Federal Reserve Board in determining whether such promissory notes secured by collateral may be accepted as collateral for Federal reserve notes. The Act, as amended, specifies in detail the forms of security which may be deposited as collateral for Federal reserve notes and the Federal Reserve Board cannot by regulation permit the acceptance of any other form of security even though it may be of value equal to or greater than the securities enumerated in the Act. Unless, therefore, the promissory note of the member bank upon which advances are made by the Federal reserve bank can be construed to be a note rediscounted by the Federal reserve bank it cannot be accepted as security for Federal reserve notes.

It has been suggested that the collateral security hypothecated with the promissory note of the member bank, when it consists of notes, drafts, bills of exchange or bankers' acceptances, becomes the property of the Federal reserve bank to the same extent that it would become if such notes,



drafts, bills of exchange or bankers' acceptances had been rediscounted with such Federal reserve bank, and that the Federal reserve agent would, therefore, be justified in accepting such promissory notes with the collateral attached since he would thereby acquire practically the same title to such securities as he would acquire if they had been rediscounted with the Federal reserve bank and subsequently tendered to him as security for Federal reserve notes.

From a practical standpoint it is true that the lien of the United States would cover such securities in either case but the method of enforcing this lien would not be the same, and even though the same protection might be afforded this fact would not justify treating the discount of promissory notes as synonymous with the rediscount of bills receivable.

In this connection it will be observed that these promissory notes may be secured by the deposit or pledge of bonds or notes of the United States and if we view the transaction from the standpoint of the collateral security a situation might arise where Federal reserve notes would be issued against the security of United States bonds, a situation which was clearly not contemplated by the Act.

Attention is also called to the fact that the courts make a distinction between the duty of the lender when a bank borrows money on its promissory notes and when a bank rediscounts its bills receivable.

As pointed out in the case of Bank v. Armstrong 152 U. S., 14 Sup. Ct. 572, where a national bank borrows on its promissory notes the lender "must see to it that the requisite authority to borrow money has been conferred by the board of directors", whereas, according to the decision in the case of the United States National Bank v. First National Bank, supra, there is no such obligation on the part of the lender where a bank rediscounts its bills receivable..

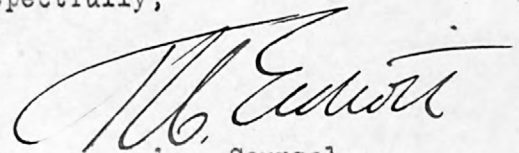
It is true that in the later case of Aldrich v. Chemical National Bank, 176 U. S., 626, the court held the bank liable for money borrowed on a promissory note by an officer without specific authority from the directors on the ground that the bank had received the benefit. This case, however, was distinguished from the case of Western National Bank v. Armstrong and the decision in that case was not reversed.

It is also true that the specific authority given to Federal reserve banks by amendment to Section 13 to make loans on the promissory notes of member banks might be held to relieve the Federal reserve bank of the responsibility of seeing that the officer executing the note had been specifically authorized to do so by the directors but in view of the decisions referred to it might be contended that a Federal reserve agent receiving a promissory note of a member bank as security for Federal reserve notes would be charged with the duty of seeing that such notes

had been executed under proper authority on the ground that as chairman of the board of directors of the Federal reserve bank he would be charged with notice of the circumstances under which the note was discounted..

While this would be a somewhat extreme view, in the opinion of this office, this phase of the situation is discussed merely to emphasize the fact that there is a distinction between the discount of a promissory note of a member bank secured by collateral and the rediscount of notes, drafts, bills of exchange or bankers' acceptances for a member bank by a Federal reserve bank. Since this distinction does exist and the two transactions cannot be considered as synonymous, it is the opinion of this office that a Federal reserve agent is without authority to accept promissory notes secured by collateral as security for Federal reserve notes.

Respectfully,



Counsel.

Hon. W. P. G. Harding,  
Governor.



#11.  
FEDERAL RESERVE BANK  
OF DALLAS

332.3 (11)

W.F. RAMSEY,  
FEDERAL RESERVE AGENT  
W.B. NEWSOME,  
DEPUTY FEDERAL RESERVE AGENT  
CHAS. C. HALL,  
ASSISTANT FEDERAL RESERVE AGENT

October 9, 1916.

Hon. W. P. G. Harding,  
Governor, Federal Reserve Board,  
Washington, D. C.  
My dear Mr. Harding:-

9/11/16  
9/22  
10/2 L

I am in receipt of your letters in which you advise that it is the judgment of Mr. Elliott that municipal warrants are not eligible as collateral on fifteen day notes and that he will likely rule that these fifteen day notes are not available for security for Federal Reserve Notes, all of which illustrates what I have long since known, that lawyers, as well as doctors, will differ.

Of course, I have not investigated either question as carefully as Judge Elliott will, but without any great investigation I was very clearly of a different opinion on both propositions. Of course, we will cheerfully conform to any ruling approved by the Board on this question.

While I felt at the time that there was not much doubt on either proposition, still it occurred to me that there might be a difference of opinion on both questions and my submitting these matters was due to my wish to be definitely advised of the opinion of the Board on them.

Very truly yours,

R/T.

*W. F. Ramsey*  
Chairman.

12/13







R. L. VAN ZANDT, GOVERNOR  
J. W. HOOPES, VICE-GOVERNOR  
LYNN P. TALLEY, CASHIER  
SAM R. LAWDER, ASST. CASHIER

#11  
FEDERAL RESERVE BANK  
OF DALLAS

RECEIVED

OCT 12 1916

GOVERNOR'S OFFICE

October 9, 1916.

332-3

✓  
The warrants  
as coll. 15 day advance

332-3 (11)

Hon. W. P. G. Harding,  
Governor, Federal Reserve Board,  
Washington, D. C.

My dear Mr. Harding:

Enclosed I hand you carbon copy of a letter which I am today addressing to the Postmaster at Dallas, which refers to your letter of the 3rd instant, calling my attention to the fact that warrants, although eligible for purchase by Federal Reserve Banks, are not acceptable as collateral to fifteen-day promissory notes of member banks.

Before discounting the note of the First National Bank of Weatherford with this collateral, I referred it to our Counsel, who expressed the off-hand opinion that warrants were in fact the promissory notes of the municipality issuing them and that it was the intent of the amendment to permit member banks to use them as collateral to promissory notes given to Federal Reserve Banks. This was an off-hand opinion, and, although we discounted this one note with that character of collateral, I advised the bank that further similar offerings would not be considered until after we had received a decision from the Federal Reserve Board on the subject.

The note referred to will mature day after tomorrow, and, owing to the delay in the receipt of your letter, it will not be possible for us to get a substitution of the collateral before that time. We will, however, be governed in future by your decision.

Yours very truly,

*R. L. Van Zandt*  
Governor

Enc.  
VZ-RS

✓

? see all notes opinion



FEDERAL RESERVE BANK  
OF DALLAS

R. L. VAN ZANDT, GOVERNOR  
J. W. HOOPES, VICE-GOVERNOR  
LYNN P. TALLEY, CASHIER  
SAM R. LAWDER, ASST. CASHIER

October 9, 1916.

Mr. B. M. Burgher,  
Postmaster,  
Dallas, Texas.

My dear Mr. Burgher:

This morning I had delivered to me a very important letter, from Hon. W. P. G. Harding, Governor of the Federal Reserve Board, which letter was dated and mailed in Washington on October 3rd.

The post marks on the envelope, which is being handed you herein, show that it was mailed in Washington at 7:30 p.m. on October 3rd, and that it later appeared in the railroad postoffice between Tucumanari, N. M., and El Paso, Texas, on October 6th.

Will you kindly have this matter investigated, and see if it will not be possible for us to receive a little better service, particularly on our official mail?

Yours very truly,

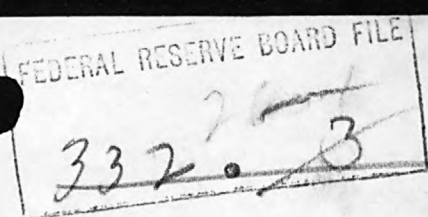
Enc.  
VZ-RS

Governor.

CC to Hon. W. P. G. Harding,  
Governor, Federal Reserve Board,  
Washington, D. C.



#11.  
FEDERAL RESERVE BANK  
OF DALLAS



332.3(11)

W. F. RAMSEY,  
FEDERAL RESERVE AGENT  
W. B. NEWSOME,  
DEPUTY FEDERAL RESERVE AGENT  
CHAS. C. HALL,  
ASST TO FEDERAL RESERVE AGENT

October 9, 1916.

Hon. W. P. G. Harding,  
Governor, Federal Reserve Board,  
Washington, D. C.  
My dear Mr. Harding:-

Your letter of the second inst. with reference to proposed increase in rates on renewal of fifteen day paper came in my absence in St. Louis where I was attending a committee appointed at our last meeting of Federal Reserve Agents.

I am inclined to think that the suggestion of the Board is right and that we had better wait until we have had some further experience with this class of paper.

I doubt a little the wisdom of making an iron-clad rule that under no circumstances would renewals be granted. I can well understand conditions under which such renewals ought to be granted. We have one case to-day where a renewal is requested of a moderate sum where the bank is unable to pay us, due to its inability to secure cotton exchange on which it might ordinarily have relied with the utmost confidence.

Referring to the last paragraph of your letter, I shall regret exceedingly if Judge Elliott should finally conclude that fifteen day paper is not eligible to secure Federal Reserve Notes, but am sure if he shall so ultimately hold, it will be for good reasons.

Very truly yours,

R/T.

*W. F. Ramsey*  
Federal Reserve Agent.





#11  
January 22  
15-day  
paper

FEDERAL RESERVE BANK  
OF DALLAS

RECEIVED

OCT 7 1916

GOVERNOR'S OFFICE

FEDERAL RESERVE BOARD FILE

332.3

W.F. RAMSEY,  
FEDERAL RESERVE AGENT  
W.B. NEWSOME,  
DEPUTY FEDERAL RESERVE AGENT  
CHAS. C. HALL,  
ASST TO FEDERAL RESERVE AGENT

OFFICE OF MR. W. B. G. HARDING  
FILE NO. 332.3(11)

October 4, 1916.

Federal Reserve Board,  
Washington, D. C.  
Dear Sirs:-

Referring to your message of the 2nd with reference to the suggested increase in rates on renewed notes, I beg to advise that I read your letter to our Board of Directors, which met on yesterday and, according to your suggestion, action on the matter was postponed.

Very truly yours,

R/T.

*W. B. G. Harding*  
Chairman.

RECEIVED



OCT 7 1916



No. 8-3

Date October 2, 1916.<sup>272.</sup>

FEDERAL RESERVE BOARD

MEMORANDUM

For Mr. Harding

At a meeting of the Federal Reserve Board on  
Oct. 2, the following matter  
(as Chairman, ~~Committee on Execut.~~  
was referred to you (as member, " Committee:  
(as

An inquiry of Federal Reserve Agent Ramsey  
with reference to a progressively increasing rate  
on renewed notes presented by member banks.

*Original Interviewed*

Secretary.

Letter attached.

Please return this memorandum with copy of  
documents resulting from action taken, if any.

Date \_\_\_\_\_

Documents \_\_\_\_\_

Signature \_\_\_\_\_

Please return this memorandum with copy of  
documents resulting from action taken, if any.

Date \_\_\_\_\_

Documents \_\_\_\_\_

Signature \_\_\_\_\_

332.3(11)

332.3(11)

#1

Nov

272.

No. 8-14

Date Oct. 2, 1916.

FEDERAL RESERVE BOARD

MEMORANDUM

For Mr. Harding

At a meeting of the Federal Reserve Board on  
Oct. 2, the following matter  
(as Chairman, Committee on  
was referred to you (as member, " "  
(as Governor:

The attached letter of F. R. A. Ramsey as to  
whether county warrants may be deposited as security  
for member banks' promissory notes, with power to  
act.

Secretary.

*Original not received*  
FEDERAL RESERVE BOARD FILE

Please return this memorandum with copy of  
documents resulting from action taken, if any.

Date \_\_\_\_\_

Documents \_\_\_\_\_

Signature \_\_\_\_\_

332.3 (11)

October 2, 1916.

Mr. W. F. Ramsey,  
Chairman Federal Reserve Bank,  
Dallas, Texas.

My dear Judge Ramsey:-

On my return this morning I find your letter of the 26th ultimo, from which it appears that we misunderstood your letter of the 19th ultimo, as your board did fix a rate of 3-1/2% on 15 day notes, which was approved by our Board this morning. I understand, of course, that you did not intend your letter as a criticism of Governor Van Zandt for his view, nor should my letter of the 22nd be construed in that way. A telegram will be sent you this afternoon in time to reach you before your board meeting tomorrow, stating that we would suggest that a sliding schedule of rates on 15 day notes be not made until we have had about thirty days experience in observing conditions. With a basic rate of 3-1/2% for the first 15 days it might be well to establish a 4-1/2% rate for the first renewal for 15 days, so as to make the net result a little over the 30 day rate; and it might be well to increase the rate 1/2 of 1% for each additional renewal for 15 days.

Some of us feel, however, that it might be better to discourage any renewals at all and to let the 15 day paper at special rates remain as an emergency matter, in order to enable banks to keep their reserves intact in case of sudden demand.

Your letter relating to the question as to whether or not 15 day notes made by member banks can be deposited with Federal Reserve Agents to secure Federal Reserve notes, has been referred to Counsel who has been studying the subject for the past two weeks. He tells me this afternoon that he will be obliged to hold that such paper is not available to secure Federal Reserve notes, as the language of the recent act amending the original Federal Reserve Act clearly discriminates between discounts and rediscounts. He will have his opinion ready for submission to the Board within the next day or two, and if it should be adopted by the Board I will send you a copy of it promptly. Of course, if these short time notes made by member banks are not going to be available as a basis for Federal Reserve notes, it is desirable that Federal Reserve Banks protect themselves against an excessive amount of this sort of paper. This will add to the argument in favor of declining to renew such paper.

Very truly yours,

(Signed) W. P. G. HARDING

Governor.

332.3 (11)

No. S-10

Date Oct. 2, 1916. 272.

FEDERAL RESERVE BOARD

MEMORANDUM

For Mr. Harding

At a meeting of the Federal Reserve Board on  
Oct. 2, the following matter  
(as Chairman, Committee on Law:  
was referred to you (as member, " "  
(as

The attached communication from F. R. A. Ramsey  
inquiring whether promissory notes made directly in  
favor of a Federal reserve bank and not technically  
rediscounted with it by a member bank, could be accept-  
ed as collateral security to protect issues of Federal  
reserve notes.

*A. B. Howell*  
Secretary.

RECEIVED

DEC 6 1916

Please return this memorandum with copy of  
documents resulting from action taken, if any.

Date \_\_\_\_\_

Documents \_\_\_\_\_

Signature \_\_\_\_\_



332.3 (11)

(4)

130

FEDERAL RESERVE BOARD

September 30, 1916.

Memorandum for Governor Harding:-

9/26/16  
9/27/16  
The attached letters, two of which are  
addressed to you, will be placed on the docket  
Monday.

Will you be so good as to take them with  
you to the Board Room?

*GA.*

RECEIVED  
SEP 30 1916  
GOVERNOR'S OFFICE



FEDERAL RESERVE BANK  
OF DALLAS

332.3 (11)

W.F. RAMSEY,  
FEDERAL RESERVE AGENT  
W.B. NEWSOME,  
DEPUTY FEDERAL RESERVE AGENT  
CHAS. C. HALL,  
ASST TO FEDERAL RESERVE AGENT

September 27, 1916.

Hon. W. P. G. Harding, Governor,  
Federal Reserve Board,  
Washington, D. C.  
My dear Mr. Harding:-

You will remember that the Federal Reserve Law provided, in substance, that "notes rediscounted" by the Bank are available for deposit with me against Federal Reserve notes. At that time the law made no provision for our taking the direct obligation of member banks. When the law was amended recently, permitting us to discount direct notes of banks due within fifteen days, there was no change in the Act describing the character of paper which might be hypothecated with the Federal Reserve Agent.

Recently the Bank here tendered me some of their fifteen day notes for deposit against Federal Reserve note liabilities which I have accepted in the belief that the term "notes rediscounted" in the law as it originally read was broad enough to cover a direct note made to the bank. However, on reflection it occurred to me that it might be well to submit the matter to the Federal Reserve Board with the request that if they deemed it advisable that they refer it to their counsel for an opinion. Clearly there is no reason why fifteen day notes- the direct obligation of the bank- supported and secured by eligible paper, should not be as available as if the paper itself securing the note had been discounted by us.

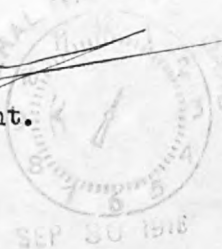
My own opinion is, if I may be permitted to express it, that in the law, as it originally stood, the word "rediscount" was not used in its technical sense but merely as descriptive of the character of paper which might be deposited with the Federal Reserve Agent.

Very truly yours,

*W. F. Ramsey*  
Federal Reserve Agent.

R/T.

*Shall on ask  
Council for  
opinion?*



FEDERAL RESERVE BANK  
OF DALLAS

W. F. RAMSEY  
CHAIRMAN OF THE BOARD

332,3 (11)

GOVERNOR'S OFFICE  
SEP 29 1916  
RECEIVED

September 26, 1916.

Hon. W. P. G. Harding, Governor,  
Federal Reserve Board,  
Washington, D. C.  
My dear Mr. Harding:-

Referring to yours of the 22nd inst. concerning rate on fifteen day notes, I beg to say that evidently I did not express myself as clearly as I intended.

Our Board of Directors did fix a rate of three and one-half per cent on fifteen day notes.

My letter was not of course, intended as criticism of Governor Van Zandt's views, but in view of our action it seemed proper to give briefly the reasons and grounds on which such action was based.

We are already having some demand for loans of this character and in the event of a traffic blockade will undoubtedly be called on for such accommodations to a very considerable extent.

Very truly yours,

R/T.

*W. F. Ramsey*  
Chairman.

10/2

332.3 (11)

September 22, 1916.

Mr. W. F. Ramsey,  
Chairman Federal Reserve Bank,  
Dallas, Texas.

Dear Judge Ramsey:-

I have your letter of the 19th instant referring to the minutes of your directors' meeting of September 15th which I have read, noting the recommendation of Governor Van Zandt that your rate on fifteen day notes should not be lower than your rate on ordinary thirty day paper.

All the Federal Reserve Banks except that of Dallas have now established a preferential rate for member banks' collateral notes running fifteen days, and the Board does not understand why the establishment of a lower rate for such fifteen day notes "would necessarily bring about an abuse of the privilege by the use of renewals," as stated by Governor Van Zandt in his report. The Board's object in requesting Congress to permit the discount of a member bank's own note secured by other notes not themselves eligible for discount, - such transactions being limited to fifteen day maturities, - was to afford member banks an opportunity of providing for temporary contingencies. It was not contemplated that any Federal Reserve Bank would permit a member bank to abuse a privilege and obtain these preferential rates over a period of thirty, sixty, or ninety days by continued renewals of their fifteen day notes. It seems to us that it was made clear to the member banks that they must not ask for the renewal of these fifteen day notes, the danger of abuse would be avoided, and we hope that after further consideration the officers and directors of your bank will feel justified in carrying out a policy which has been suggested by the Board and which has been adopted by all of the other Federal Reserve Banks.

Copies of the revision of the Board's circulars and regulations, series of 1916, printed in pamphlet form, were mailed you a day or two ago. You will notice in Regulation J, "Check Clearing and Collection," page 20, that a penalty for deficiency in reserves has been prescribed. The Federal Reserve Banks will be expected to enforce this penalty hereafter, and I agree with you that a preferential rate upon member banks' fifteen day notes secured by collateral, would be of great assistance to you in keeping the reserves of your member banks intact, and that any tendency toward abuse can be prevented by proper administrative measures.



-2-

I am writing this personally, but will repeat the letter officially if you deem it advisable.

Very truly yours,

(Signed) W. P. G. HARRING



FEDERAL RESERVE BANK  
OF DALLAS

W.F. RAMSEY,  
FEDERAL RESERVE AGENT  
W.B. NEWSOME,  
DEPUTY FEDERAL RESERVE AGENT  
CHAS. C. HALL,  
ASST TO FEDERAL RESERVE AGENT

RECEIVED  
SEP 22 1916  
GOVERNOR'S OFFICE

332.3(11)

September 19, 1916.

Hon. W. P. G. Harding, Governor,  
Federal Reserve Board,  
Washington, D. C.  
My dear Mr. Harding:-

In the minutes of our Board of Directors which I am to-day transmitting to the Federal Reserve Board, it will be noted that there was strong recommendation urged by Governor Van Zandt that our rate on fifteen day notes should not be lower than our rate on ordinary thirty day paper.

I was inclined to the opinion and so urged upon our Board that there ought to be a preferential rate on this class of paper, that it was unusually liquid, that it would attract to the bank some desirable business from the larger banks of the State who, as a rule, have not sent us paper for discount, and that it would unquestionably facilitate our labors in keeping the reserves of such banks intact, and that while liable to abuse such abuse could be prevented by proper administration of the affairs of the bank.

This for your information.

Very truly yours,

*W. F. Ramsey*  
Chairman.

R/T.

9/22



#11  
260.1  
33 2.3 (11)

FEDERAL RESERVE BANK  
OF DALLAS

W.F. RAMSEY,  
FEDERAL RESERVE AGENT  
W.B. NEWSOME,  
DEPUTY FEDERAL RESERVE AGENT  
CHAS. C. HALL,  
ASST TO FEDERAL RESERVE AGENT

RECEIVED  
SEP 21 1916  
GOVERNOR'S OFFICE

September 18, 1916.

Hon. W. P. G. Harding, Governor,  
Federal Reserve Board,  
Washington, D. C.  
My dear Mr. Harding:-

I am in receipt of your telegram of this date  
approving rate of three and one-half per cent for fifteen  
day notes effective September 15th and beg to thank you  
for your prompt notification.

We will give an early notice of our willing-  
ness and ability to handle this class of paper.

Very truly yours,

Federal Reserve Agent.

R/T.

✓

15-day paper  
15  
TELEGRAM #11

FEDERAL RESERVE BOARD  
WASHINGTON

332.3  
332.3(!!)  
September 18, 1916.

Federal Reserve Agent,  
Dallas, Texas.

Board approves your recommended rate three and half percent for  
fifteen day notes effective September fifteenth.

Governor.

FILE

SEP 18 1916

Federal Reserve Board

OFFICIAL BUSINESS  
GOVERNMENT RATES  
CHARGE FEDERAL RESERVE BOARD



Treasury Department

TELEGRAM

15WU MO 80 Collect Govt

FR DALLAS Texas 1014am <sup>332, 3(11)</sup> Sept 18 1916

Harding, Governor, Federal Reserve Board

washington

Our board of directors on Friday last fixed the rate on fifteen day notes at three and one half percent per annum. I anticipate considerable very desirable business from our larger banks on this paper. Cotton is piling up very rapidly. We desire to give notice of this rate and would be glad to have Federal Reserve Board to approve same and wire us their action as soon as reasonably practicable

*OK*  
*[Signature]*  
*[Signature]*  
Ramsey, Chairman

1158am

RECEIVED

APR 28 1916

*Boomer*  
*Harrison*

4/28/16

**Draft of Amendments to Section 13, Federal Reserve Act, as Amended by the Act of March 3, 1915, Proposed as an Alternative or Substitute for the Amendment Submitted by the Federal Reserve Board and Contained in S. 5078.**

[Part struck through is proposed to be omitted. Part in italics indicates new matter.]

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,*

That section thirteen of the Act of December twenty-third, nineteen hundred and thirteen, known as the Federal reserve Act, as amended by the Act of March third, nineteen hundred and fifteen, be amended and reenacted to read as follows: ~~SECTION 13. Any Federal reserve bank may receive from~~

“SEC. 13. Any Federal reserve bank may receive from any of its member banks, and from the United States, deposits of current funds in lawful money, national-bank notes, Federal reserve notes, or checks, and drafts ~~upon solvent member-banks~~, payable upon presentation, *and also, for collection, maturing bills; or solely for purposes of exchange or of collection purposes,* may receive from other Federal reserve banks deposits of current funds in lawful money, national-bank notes, or checks ~~and drafts upon solvent member~~ *or other Federal reserve banks, and checks and drafts,* payable upon presentation *within its district, and maturing bills payable within its district.* ~~SECTION 14. Any Federal reserve bank may receive from~~

“Upon the indorsement of any of its member banks, ~~with a waiver of demand, notice and protest by such bank,~~ any Federal reserve bank may discount notes, drafts, and bills of exchange arising out of actual commercial transactions; that is, notes, drafts, and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used or are to be used for such purposes, the Federal Reserve Board to have the right to determine or define the character of the paper thus eligible for discount within the meaning of this Act. Nothing in this Act contained shall be construed to prohibit such notes, drafts, and bills of exchange, secured by staple agricultural products or other goods, wares, or merchandise, from being eligible for such discount; but such definition shall not include notes, drafts, or bills covering merely investments or issued or drawn for the purpose of carrying or trading in stocks, bonds, or other investment securities, except bonds and notes of the Government of the United States. Notes, drafts, and bills admitted to discount under the terms of this paragraph must have a maturity at the time of discount of not more than ninety days, *exclusive of days of* grace: *Provided*, That notes, drafts, and bills drawn or issued for agricultural purposes or based on live stock and having a maturity not exceeding six months, *exclusive of days of* grace, may be discounted in an amount to be limited to a percentage of



the capital of the Federal reserve bank, to be ascertained and fixed by the Federal Reserve Board.

"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, *exclusive of days of grace*, and indorsed by at least one member bank. The amount of acceptances so discounted shall at no time exceed one-half the paid-up and unimpaired capital stock and surplus of the bank for which the rediscounts are made, except by authority of the Federal Reserve Board, under such general regulations as said board may prescribe, but not to exceed the capital stock and surplus of such bank.

"The aggregate of such notes, drafts, and bills bearing the signature or indorsement of any one ~~person~~ *known whether a person*, company, firm, or corporation, rediscounted for any one bank shall at no time exceed ten per centum of the unimpaired capital and surplus of said bank; ~~but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values:~~ *← a suggestion G.L.B.* ~~Provided, however, That this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values, nor to commercial or business paper which represents an actual debt for goods sold and which is owned by the person,~~ *Company* ~~firm, or corporation discounting it with such member bank.~~

This portion of the amendment was passed some time ago by the Board but after

the original amendment suggested by the Board has been introduced in the Senate by S. Owen.



4  
"Any member bank may accept drafts or bills of exchange drawn upon it and growing out of transactions involving the importation or exportation of goods having not more than six months' sight to run, *exclusive of grace*; but no bank shall accept such bills to an amount equal at any time in the aggregate to more than one-half of its paid-up and unimpaired capital stock and surplus, except by authority of the Federal Reserve Board, under such general regulations as said board may prescribe, but not to exceed the capital stock and surplus of such bank, and such regulations shall apply to all banks alike regardless of the amount of capital stock and surplus.

"Any Federal reserve bank may also discount acceptances based on domestic transactions of the kinds hereinafter described which have a maturity at the time of discount of not more than three months' sight, *exclusive of grace*, and which are indorsed by at least one member bank. The amount of acceptances so discounted shall at no time exceed one-half the paid-up and unimpaired capital stock and surplus of the bank for which the rediscounts are made, except by authority of the Federal Reserve Board under such regulations as said board may prescribe, but not to exceed the amount of the capital stock and surplus of the bank for which the rediscounts are made.

*over*

"Any member bank may also accept drafts or bills of exchange drawn upon it having not more than ~~six~~ <sup>three</sup> months' sight to run, exclusive of grace—(1) which grow out of transactions involving the domestic shipment of goods, provided shipping documents are attached at the time of acceptance; (2) which are secured at the time of acceptance by a warehouse receipt or other similar document affording security title covering readily marketable staples, or by the pledge of goods the sale of which is the basis of the acceptance; but no bank shall accept such bills to an amount equal at any time in the aggregate to more than one-half of its paid-up and unimpaired capital stock and surplus, except by authority of the Federal Reserve Board, under such general regulations as said board may prescribe, but not to exceed the capital stock and surplus of such bank, and such regulations shall apply to all banks alike regardless of the amount of capital stock and surplus.

"Any Federal reserve bank may make advances to its member banks on their promissory notes for a period not exceeding fifteen days at rates to be established by such Federal reserve banks, subject to the review and determination of the Federal Reserve Board, provided such promissory notes are secured by such notes, drafts, bills of exchange, or bankers' acceptances as are eligible for rediscount or for purchase by Federal reserve banks under the provisions of

That gives the member bank privilege to accept 200% of capital

this would put the 10% limitation on imp & exp drafts but leaves domestic without restriction

*this Act, or by the deposit or pledge of bonds or notes of the United States."*

Section fifty-two hundred and two of the Revised Statutes of the United States is hereby amended so as to read as follows:

"SEC. 5202. No national banking association shall at any time be indebted or in any way liable to an amount exceeding the amount of its capital stock at such time actually paid in and remaining undiminished by losses or otherwise, except on account of demands of the nature following:

"First. Notes of circulation.

"Second. Moneys deposited with or collected by the association.

"Third. Bills of exchange or drafts drawn against money actually on deposit to the credit of the association or due thereto.

"Fourth. Liabilities to the stockholders of the association for dividends and reserve profits.

"Fifth. Liabilities incurred under the provisions of the Federal reserve Act.

"The discount and rediscount and the purchase and sale by any Federal reserve bank of any bills receivable and of domestic and foreign bills of exchange and of accept-



7

ances authorized by this Act shall be subject to such restrictions, limitations, and regulations as may be imposed by the Federal Reserve Board."

8



64TH CONGRESS,  
1ST SESSION.

S. 5078.

315116

IN THE SENATE OF THE UNITED STATES.

MARCH 15, 1916.

Mr. OWEN introduced the following bill; which was read twice and referred to the Committee on Banking and Currency.

**A BILL**

*Section 13 with  
suggested changes.*

To amend the Act approved December twenty-third, nineteen hundred and thirteen, known as the Federal Reserve Act.

1       *Be it enacted by the Senate and House of Representa-*  
2       *tives of the United States of America in Congress assembled,*  
3       That section thirteen of the Act approved December  
4       twenty-third, nineteen hundred and thirteen, known as the  
5       Federal Reserve Act, be amended to read as follows:

6       “Any Federal reserve bank may receive from any of  
7       its member banks, and from the United States, deposits of  
8       current funds in lawful money, national-bank notes, Federal  
9       reserve notes, or checks, and drafts payable upon presenta-  
10      tion, and also, for collection, maturing bills; or solely for

1 purposes of exchange or of collection may receive from  
2 other Federal reserve banks deposits of current funds in  
3 lawful money, national-bank notes, or checks upon other  
4 Federal reserve banks, and checks and drafts, payable upon  
5 presentation within its district, and maturing bills payable  
6 within its district.

7 "Upon the indorsement of any of its members banks  
8 any Federal reserve bank may discount notes, drafts, and  
9 bills of exchange arising out of actual commercial transac-  
10 tions; that is, notes, drafts, and bills of exchange issued or  
11 drawn for agricultural, industrial, or commercial purposes, or  
12 the proceeds of which have been used, or are to be used,  
13 for such purposes, the Federal Reserve Board to have the  
14 right to determine or define the character of the paper thus  
15 eligible for discount, within the meaning of this Act. Noth-  
16 ing in this Act contained shall be construed to prohibit such  
17 notes, drafts, and bills of exchange, secured by staple agri-  
18 cultural products, or other goods, wares, or merchandise,  
19 from being eligible for such discount; but such definition  
20 shall not include notes, drafts, or bills covering merely in-  
21 vestments or issued or drawn for the purpose of carrying  
22 or trading in stocks, bonds, or other investment securities,  
23 except bonds and notes of the Government of the United  
24 States. Notes, drafts, and bills admitted to discount under

1 the terms of this paragraph must have a maturity at the  
2 time of discount of not more than ninety days: *exclusive of days of grace.*

3 "Provided, That notes, drafts, and bills drawn or issued  
4 for agricultural purposes or based on live stock and having  
5 a maturity not exceeding *exclusive of days of grace,* six months may be discounted  
6 in an amount to be limited to a percentage of the capital of  
7 the Federal reserve bank, to be ascertained and fixed by  
8 the Federal Reserve Board.

9 "The aggregate of such notes, drafts, and bills bearing  
10 the signature or indorsement of any one *borrower, whether a* person, company,  
11 firm, or corporation, rediscounted for any one bank shall

12 at no time exceed ten per centum of the unimpaired capital  
13 and surplus of said bank: *Provided, however, That this restriction*  
14 *shall not apply to the discount of bills of exchange drawn*  
15 *in good faith against actually existing values nor to*  
16 *commercial or business paper which represents an*

17 "Any Federal reserve bank may discount acceptances *actual debt*  
18 of the kinds hereinafter described which have a maturity *for goods sold*  
19 at the time of discount of not more than three months' sight *and which*  
20 *is owned by* and which are indorsed by at least one member bank. *the person,*  
21 *firm, or cor-*

22 "Any member bank may accept drafts or bills of ex- *poration*  
23 change drawn upon it having not more than six months *discounting*  
24 *it with* sight to run *such mem-* which grow out of transactions involving the  
25 importation or exportation of goods; or which grow out of  
26 transactions involving the domestic shipment of goods, pro-  
27 vided shipping documents are attached at the time of accep-



*at the time of acceptance*

1 tance; or which are secured by a warehouse receipt or other  
 2 such document affording security title covering readily mar-  
 3 ketable staples, or by the pledge of goods actually sold. No  
 4 member bank shall accept, whether in a foreign or domestic  
 5 transaction, for any one person, company, firm, or corporation  
 6 to an amount equal at any time in the aggregate to more than  
 7 ten per centum of its paid-up and unimpaired capital *stock* and  
 8 surplus unless the bank is secured either by attached docu-  
 9 ments or by some other actual security growing out of the  
 10 same transaction as the acceptance, and no bank shall accept  
 11 such bills to an amount equal at any time in the aggregate to  
 12 more than one-half of its paid-up and unimpaired capital  
 13 stock and surplus except by authority of the Federal Re-  
 14 serve Board, under such general regulations as said board  
 15 may prescribe, but not to exceed the capital stock and  
 16 surplus of such bank, and such regulations shall apply  
 17 to all banks alike regardless of the amount of capital stock  
 18 and surplus.

19 "Any Federal reserve bank may make advances to its  
 20 member banks on their promissory notes for a period not  
 21 exceeding fifteen days at rates to be established by such Fed-  
 22 eral reserve banks, subject to the review and determination of  
 23 the Federal Reserve Board, *provided* such promissory notes *are* ~~to be~~  
 24 secured by such notes, drafts, bills of exchange, or bankers'  
 25 acceptances as are eligible for rediscount or for purchase by

*March 15 - 1914*



1 Federal reserve banks under the provisions of this Act, or by  
2 the deposit or pledge of bonds or notes of the United States.

3 "Section fifty-two hundred and two of the Revised  
4 Statutes of the United States is hereby amended so as to  
5 read as follows: No national banking association shall at  
6 any time be indebted, or in any way liable, to an amount  
7 exceeding the amount of its capital stock at such time  
8 actually paid in and remaining undiminished by losses or  
9 otherwise, except on account of demands of the nature  
10 following:

11 "First. Notes of circulation.

12 "Second. Moneys deposited with or collected by the  
13 association.

14 "Third. Bills of exchange or drafts drawn against  
15 money actually on deposit to the credit of the association,  
16 or due thereto.

17 "Fourth. Liabilities to the stockholders of the associa-  
18 tion for dividends and reserve profits.

19 "Fifth. Liabilities incurred under the provisions of the  
20 Federal Reserve Act.

21 "The discount and rediscount and the purchase and sale  
22 by any Federal reserve bank of any bills receivable and of  
23 domestic and foreign bills of exchange, and of acceptances  
24 authorized by this Act, shall be subject to such restrictions.

1 limitations, and regulations as may be imposed by the Federal  
2 Reserve Board."

3 That section sixteen, paragraphs two, three, four, five,  
4 six, and seven, of the Act approved December twenty-third,  
5 nineteen hundred and thirteen, known as the Federal  
6 Reserve Act, be amended and reenacted so as to read as  
7 follows:

8 "Any Federal reserve bank may make application to the  
9 local Federal reserve agent for such amount of the Federal  
10 reserve notes hereinbefore provided for as it may require.  
11 Such application shall be accompanied with a tender to the  
12 local Federal reserve agent of collateral in amount equal  
13 to the sum of the Federal reserve notes thus applied for  
14 and issued pursuant to such application. The collateral  
15 security thus offered shall be notes, drafts, and bills of ex-  
16 change or bankers' acceptances, rediscounted or purchased  
17 under the provisions of section thirteen or fourteen, respec-  
18 tively, or, with the approval of the Federal Reserve Board,  
19 may be gold, or gold and such notes, drafts, bills of exchange  
20 or bankers' acceptances. Gold thus deposited as collateral  
21 shall be counted and included as part of the forty per centum  
22 reserve hereinafter required. The Federal reserve agent  
23 shall each day notify the Federal Reserve Board of all issues  
24 and withdrawals of Federal reserve notes to and by the  
25 Federal reserve bank to which he is accredited. The said

1 Federal Reserve Board may at any time call upon a Federal  
2 reserve bank for additional security to protect the Federal  
3 reserve notes issued to it.

4 "Every Federal reserve bank shall maintain reserves  
5 in gold or lawful money of not less than thirty-five per cen-  
6 tum against its deposits and reserves in gold of not less than  
7 forty per centum against its Federal reserve notes in actual  
8 circulation, and not offset by gold or lawful money deposited  
9 by it with the Federal reserve agent for the purpose of reduc-  
10 ing its liability on outstanding notes as hereinafter provided.

11 Notes so paid out shall bear upon their faces a distinctive  
12 letter and serial number, which shall be assigned by the  
13 Federal Reserve Board to each Federal reserve bank.

14 Whenever Federal reserve notes issued through one Fed-  
15 eral reserve bank shall be received by another Federal  
16 reserve bank they shall be promptly returned for credit or  
17 redemption to the Federal reserve bank through which they  
18 were originally issued. No Federal reserve bank shall pay  
19 out notes issued through another under penalty of a tax of  
20 ten per centum upon the face value of notes so paid out.

21 Notes presented for redemption at the Treasury of the  
22 United States shall be paid out of the redemption fund and  
23 returned to the Federal reserve banks through which they  
24 were originally issued, and thereupon such Federal reserve



1 bank shall, upon demand of the Secretary of the Treasury,  
2 reimburse such redemption fund in lawful money, or if  
3 such Federal reserve notes have been redeemed by the  
4 Treasurer in gold or gold certificates, then such funds shall  
5 be reimbursed to the extent deemed necessary by the Sec-  
6 retary of the Treasury in gold or gold certificates, and such  
7 Federal reserve bank shall, so long as any of its Federal  
8 reserve notes remain outstanding, maintain with the Treas-  
9 urer in gold an amount sufficient in the judgment of the  
10 Secretary to provide for all redemptions to be made by the  
11 Treasurer. Federal reserve notes received by the Treas-  
12 ury, otherwise than for redemption, may be exchanged for  
13 gold out of the redemption fund hereinafter provided and  
14 returned to the reserve bank through which they were  
15 originally issued, or they may be returned to such bank for  
16 the credit of the United States. Federal reserve notes unfit  
17 for circulation shall be returned by the Federal reserve  
18 agents to the Comptroller of the Currency for cancellation  
19 and destruction.

20 "The Federal Reserve Board shall require each Fed-  
21 eral reserve bank to maintain on deposit in the Treasury  
22 of the United States a sum in gold sufficient, in the judg-  
23 ment of the Secretary of the Treasury, for the redemption  
24 of the Federal reserve notes issued to such bank, but in no  
25 event less than five per centum; but such deposit of gold



1 shall be counted and included as part of the forty per centum  
2 reserve hereinbefore required. The board shall have the  
3 right, acting through the Federal reserve agent, to grant  
4 in whole or in part or to reject entirely the application of  
5 any Federal reserve bank for Federal reserve notes; but  
6 to the extent that such application may be granted the  
7 Federal Reserve Board shall, through its local Federal re-  
8 serve agent, supply Federal reserve notes to the bank so  
9 applying, and such bank shall be charged with the amount  
10 of such notes and shall pay such rate of interest on said  
11 amount as may be established by the Federal Reserve  
12 Board, and the amount of such Federal reserve notes so  
13 issued to any such bank shall, upon delivery, together with  
14 such notes of such Federal reserve bank as may be issued  
15 under section eighteen of this Act upon security of United  
16 States two per centum Government bonds, become a first  
17 and paramount lien on all the assets of such bank.

18 "Any Federal reserve bank may at any time reduce its  
19 liability for outstanding Federal reserve notes by depositing,  
20 with the Federal reserve agent, its Federal reserve notes,  
21 gold, gold certificates, or lawful money of the United States  
22 in an amount equal to the amount of commercial paper cov-  
23 ering such notes and by authorizing and directing such  
24 agent to hold any gold deposited as collateral for such notes

1 as if deposited for the purpose of reducing its liability on  
2 such notes. Federal reserve notes so deposited shall not  
3 be reissued, except upon compliance with the conditions  
4 of an original issue.

5 "The Federal reserve agent shall hold such gold, gold  
6 certificates, or lawful money available exclusively for ex-  
7 change for the outstanding Federal reserve notes when  
8 offered by the reserve bank of which he is a director. Upon  
9 the request of the Secretary of the Treasury the Federal  
10 Reserve Board shall require the Federal reserve agent to  
11 transmit so much of said gold to the Treasury of the United  
12 States as may be required for the exclusive purpose of  
13 the redemption of such notes.

14 "Any Federal reserve bank may at its discretion with-  
15 draw collateral deposited with the local Federal reserve  
16 agent for the protection of its Federal reserve notes issued  
17 to it and shall at the same time substitute therefor other  
18 collateral of equal amount with the approval of the Federal  
19 reserve agent under regulations to be prescribed by the Fed-  
20 eral Reserve Board."

21 That section twenty-four of the Act approved December  
22 twenty-third, nineteen hundred and thirteen, known as the  
23 Federal Reserve Act, be amended to read as follows:

## LOANS ON FARM LANDS.

1  
2       “Any national banking association not situated in a  
3 central reserve city may make loans secured by improved  
4 and unencumbered farm land situated within its Federal  
5 reserve district or within a radius of one hundred miles of  
6 the place in which such bank is located, irrespective of dis-  
7 trict lines, and may also make loans secured by improved and  
8 unencumbered real estate located within one hundred miles  
9 of the place in which such bank is located, irrespective of dis-  
10 trict lines; but no loan made upon the security of such  
11 farm land shall be made for a longer time than five years,  
12 and no loan made upon the security of such real estate as dis-  
13 tinguished from farm land shall be made for a longer time  
14 than one year, nor shall the amount of any such loan,  
15 whether upon such farm land or upon such real estate,  
16 exceed fifty per centum of the actual value of the prop-  
17 erty offered as security. Any such bank may make such  
18 loans, whether secured by such farm land or such real estate,  
19 in an aggregate sum equal to twenty-five per centum of its  
20 capital and surplus or to one-third of its time deposits, and  
21 such banks may continue hereafter as heretofore to receive  
22 time deposits and to pay interest on the same.

23       “The Federal Reserve Board shall have power from  
24 time to time to add to the list of cities in which national  
25 banks shall not be permitted to make loans secured upon  
26 real estate in the manner described in this section.”



1       That the Act approved December twenty-third, nineteen  
2   hundred and thirteen, known as the Federal Reserve Act,  
3   be amended by adding a new section as follows:

4   BANKING CORPORATIONS AUTHORIZED TO DO FOREIGN  
5                               BANKING BUSINESS.

6       “SEC. 25a. That banking corporations for carrying on  
7   the business of banking in foreign countries or de-  
8   pendencies of the United States and in aid of the com-  
9   merce of the United States with foreign countries and  
10   to act when required as fiscal agents of the United States,  
11   may be formed by any number of persons, firms, com-  
12   panies, or corporations, not less than five in number,  
13   which shall enter into articles of association upon such  
14   conditions and under such rules and regulations as may be  
15   prescribed by the Federal Reserve Board, which articles  
16   shall specify, in general terms, the object for which the bank-  
17   ing corporation is formed, and may contain any other pro-  
18   visions, not inconsistent with the provisions of this Act,  
19   which the banking corporation may see fit to adopt for the  
20   regulation and conduct of its business and affairs. These  
21   articles shall be signed by the organizing persons, firms,  
22   companies, or corporations, and shall be forwarded to the  
23   Federal Reserve Board to be filed and preserved in its office.

24       “The organizing persons, firms, companies, or corpora-  
25   tions shall make an organization certificate which shall  
26   specify:



1       “First. The name assumed by such banking corpora-  
2       tion which shall be subject to the approval of the Federal  
3       Reserve Board.

4       “Second. The foreign country or countries or the de-  
5       pendencies or colonies of foreign countries, or the depend-  
6       encies of the United States, where its banking operations  
7       are to be carried on.

8       “Third. The place in the United States where its home  
9       office shall be located.

10       “Fourth. The amount of its capital stock and the num-  
11       ber of shares into which the same shall be divided.

12       “Fifth. The name and place of business of each person,  
13       firm, company, or corporation executing such certificate  
14       and the number of shares held by each of them.

15       “Sixth. A declaration that said certificate is made to  
16       enable such persons, firms, companies, or corporations, and  
17       all other persons, firms, companies, and corporations which  
18       may thereafter subscribe to the capital stock of such bank-  
19       ing corporation to avail themselves of the advantages of this  
20       Act.

21       “The said organization certificate shall be acknowledged  
22       before a judge of some court of record or notary public, and  
23       shall be, together with the acknowledgment thereof, authenti-  
24       cated by the seal of such court or notary, transmitted to the  
25       Federal Reserve Board, which shall record and carefully

1 preserve the same in its office. Upon duly making and filing  
2 articles of association and an organization certificate as pro-  
3 vided in this Act, the corporation shall become as from  
4 the date of the execution of its organization certificate a body  
5 corporate, and as such and in the name designated in the  
6 organization certificate it shall have power:

7 " First. To adopt and use a corporate seal.

8 " Second. To have succession for a period of twenty  
9 years from its organization unless sooner dissolved by an Act  
10 of Congress, or unless its franchise becomes forfeited by some  
11 violation of law.

12 " Third. To make contracts.

13 " Fourth. To sue and be sued, complain and defend in  
14 any court of law or equity.

15 " Fifth. To elect or appoint directors, a majority of  
16 whom shall be citizens of the United States, and by its board  
17 of directors to appoint such officers and employees as they  
18 may deem proper, define their duties, require bonds of them  
19 and fix the penalty thereof, dismiss such officers or employees  
20 or any of them at pleasure, and appoint others to fill their  
21 places.

22 " Sixth. To prescribe, by its board of directors, by-laws  
23 not inconsistent with law and the regulations of the Federal  
24 Reserve Board, regulating the manner in which its stock  
25 shall be transferred, its directors elected or appointed, its

1 officers and employees appointed, its property transferred,  
2 its general business conducted, and the privileges granted to  
3 it by law exercised and enjoyed.

4 “Seventh. To purchase and sell or discount and nego-  
5 tiate notes, drafts, checks, bills of exchange, acceptances,  
6 including bankers’ acceptances, or other evidences of debt;  
7 to purchase and sell securities, including securities of the  
8 United States or any State in the Union; to accept bills or  
9 drafts drawn upon it; to purchase and sell exchange, coin,  
10 and bullion; to borrow and to lend money on real or personal  
11 security; to receive deposits and generally to exercise such  
12 powers as are incidental to the banking business as conducted  
13 in the country or countries in which it is doing business.

14 “Eighth. To establish and maintain for the transaction  
15 of its business a branch or branches, agency or agencies in  
16 foreign countries, their dependencies or the dependencies of  
17 the United States at such places and under such rules and  
18 regulations as the Federal Reserve Board may prescribe; and  
19 to establish and maintain such additional branches or agen-  
20 cies as the Federal Reserve Board may from time to time  
21 authorize, even in countries or dependencies not specified  
22 in the original organization certificate.

23 “Ninth. To purchase and hold stock or other certificates  
24 of ownership in any other banking corporation, organized



1 under the provisions of this Act or chartered under the laws  
2 of any foreign country or of any State in the Union, and not  
3 doing any business in the United States, except such business  
4 as, in the judgment of the Federal Reserve Board, is neces-  
5 sarily incidental to its foreign business: *Provided, however,*  
6 That it shall not hold stock in any one corporation in excess  
7 of per centum of its own capital and surplus. So much  
8 of section seven of the Act approved October fifteenth,  
9 nineteen hundred and fourteen, entitled 'An Act to supple-  
10 ment existing laws against unlawful restraints and mo-  
11 nopolies, and for other purposes,' as may be in conflict with  
12 the provisions of this paragraph is hereby amended  
13 accordingly.

14 "Tenth. To exercise by its board of directors or duly  
15 authorized officers or agents, subject to law, all such inci-  
16 dental powers as shall be necessary to carry on the business  
17 of banking authorized by law: *Provided, however,* That no  
18 banking corporation organized under this Act shall carry  
19 on any of its business in the United States except such as,  
20 in the judgment of the Federal Reserve Board, shall be nec-  
21 essarily incidental to the foreign business of such corporation.

22 "But no such corporation shall transact any business  
23 except such as is incidental and necessarily preliminary to  
24 its organization until it has been authorized by the Federal



1 Reserve Board to commence business under the provisions of  
2 this Act.

3 "No banking corporation shall be organized under the  
4 provisions of this Act with a capital of less than one  
5 million dollars, one-fourth of which must be fully paid in  
6 before the corporation shall be authorized to do business.  
7 The capital stock of any such bank may be increased at  
8 any time by a vote of two-thirds of its shareholders, with the  
9 approval of the Federal Reserve Board, and may be reduced  
10 in the same manner, provided the minimum of one million  
11 dollars is maintained.

12 "A majority of the shares of the capital stock of such  
13 banking corporation shall be held and owned by citizens  
14 of the United States, by corporations chartered under the  
15 laws of the United States or of any State of the Union, or  
16 by firms or companies, the controlling interest in which  
17 is owned by citizens of the United States.

18 "The provisions of section eight of the Act approved  
19 October fifteenth, nineteen hundred and fourteen, entitled  
20 'An Act to supplement existing laws against unlawful  
21 restraints and monopolies, and for other purposes,' shall  
22 not be construed to apply to the directors or other officers  
23 of banking corporations organized under the provisions of  
24 this Act.

1       “ No national bank or other member of a Federal reserve  
2 bank shall subscribe for or hold stock in banking corporations  
3 organized under the provisions of this Act aggregating  
4 more than ten per centum of the paid-in capital and surplus  
5 of the subscribing bank.

6       “ Shareholders in such banking corporations shall not be  
7 liable for the contracts, debts, and engagements of such cor-  
8 porations except to the extent of their unpaid stock subscrip-  
9 tions.

10       “ Any member bank may act as agent for any corpora-  
11 tion organized under the provisions of this Act for the  
12 purpose of dealing with any Federal reserve bank, and the  
13 Federal Reserve Board shall promulgate rules and regula-  
14 tions defining and governing transactions which such cor-  
15 porations may have with Federal reserve banks either direct  
16 or through the agency of member banks. No such corpora-  
17 tion, however, shall become a member of any Federal re-  
18 serve bank.

19       “ Should any banking corporation organized under the  
20 provisions of this Act fail to comply with any of the pro-  
21 visions of the laws of the United States, all of the rights,  
22 privileges, and franchises of such corporation granted to it  
23 under this Act shall thereby be forfeited. Any noncom-  
24 pliance with or violation of such laws shall, however, be de-  
25 termined and adjudged by any court of the United States of

1 competent jurisdiction in a suit brought for that purpose in  
2 the district or territory in which the home office of such  
3 corporation is located, by the Federal Reserve Board,  
4 before the corporation shall be declared dissolved. In  
5 cases of such noncompliance or violation every director  
6 who participated in or assented to the same shall be held  
7 liable in his personal or individual capacity for all damages  
8 which said bank, its shareholders, or any other person shall  
9 have sustained in consequence of such violation. Such dis-  
10 solution shall not take away or impair any remedy against  
11 such corporation, its stockholders, or officers for any liability  
12 or penalty which shall have been previously incurred. Any  
13 such banking corporation may go into liquidation or be  
14 closed by a vote of its shareholders owning two-thirds of  
15 its stock.

16 “Whenever the Federal Reserve Board shall become  
17 satisfied of the insolvency of any such banking corporation  
18 it may appoint a receiver, who shall proceed to close  
19 up such corporation in the same manner in which he  
20 would close a national bank, the disposition of the assets  
21 of the branches to be subject to any special provisions of  
22 the laws of the country under whose jurisdiction such assets  
23 are located.

24 “The annual meeting of every such banking corporation  
25 shall be held at its home office in the United States, and



1 every such banking corporation shall keep at its home office  
2 books containing the names of all stockholders of such bank-  
3 ing corporation and members of its board of directors, to-  
4 gether with copies of the reports furnished by it to the Fed-  
5 eral Reserve Board exhibiting in detail and under appro-  
6 priate heads the resources and liabilities of the banking cor-  
7 poration. Every such banking corporation shall make re-  
8 ports to the Federal Reserve Board at such times as it may  
9 require, and shall be subject to examinations when deemed  
10 necessary by the Federal Reserve Board through examiners  
11 appointed by it, the cost of such examination and the com-  
12 pensation of such examiners to be fixed by the Federal Re-  
13 serve Board and to be paid by the banking corporation  
14 examined."

15 That the Act approved December twenty-third, nine-  
16 teen hundred and thirteen, known as the Federal Reserve  
17 Act, be amended by adding a new section, as follows:

18 STOCK IN FOREIGN CORPORATIONS.

19 "SEC. 25b. That any national bank possessing a capi-  
20 tal and surplus of \$1,000,000 or more may purchase and  
21 hold stock in foreign or domestic corporations, other than  
22 national banks, which are authorized by their charter to  
23 do a banking business in foreign countries: *Provided, how-*  
24 *ever,* That the aggregate amount of stock so held by any  
25 one national bank shall not exceed ten per centum of the  
26 capital and surplus of such bank."



1       That the Act approved December twenty-third, nine-  
2   teen hundred and thirteen, known as the Federal Reserve  
3   Act, be amended by adding a new section, as follows:

4                       DOMESTIC BRANCHES.

5       “SEC. 25c. That any national banking association  
6   located in a city or incorporated town or village of more  
7   than one hundred thousand inhabitants and possessing a  
8   capital and surplus of \$1,000,000 or more, may, under  
9   such rules and regulations as the Federal Reserve Board  
10   may prescribe, establish branches within the corporate limits  
11   of the city, town, or village in which it is located.

12       “Any national banking association located in any other  
13   place may, with the approval of the Federal Reserve Board,  
14   and under such rules and regulations as such board may  
15   prescribe, establish branches within the limits of the county  
16   in which it is located, provided that no such branch shall  
17   be established unless the capital of the parent bank is at  
18   least equal to the aggregate of the amounts which would  
19   be required of each branch, under the provisions of section  
20   fifty-one hundred and thirty-eight, Revised Statutes, if it  
21   were organized as an independent association, together with  
22   the amount required of the parent bank itself by that section.”

64TH CONGRESS,  
1ST SESSION.

S. 5078.

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## A BILL

To amend the Act approved December twenty-third, nineteen hundred and thirteen, known as the Federal Reserve Act.

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By. Mr. OWEN.

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MARCH 15, 1916.—Read twice and referred to the Committee on Banking and Currency.

February 14, 1916.

Dear Mr. Willis:

I take pleasure in handing you herewith draft of amendments of Section 13, with several copies attached. *200 copies in files*

This amendment covers both the acceptance amendment and the power to make fifteen day loans to member banks. It also includes, in the first paragraph, the elimination of the words, "Drafts upon insolvent member banks" and the elimination of the words, "with a waiver of demand, notice and protest."

I furthermore append draft of suggested amendment to Section 24, governing loans on real estate in cities; amendment to second paragraph, Section 16, covering notes issued against gold; and furthermore, amendment to Section 25, covering power to organize foreign corporations. (This is already in your hands).

This covers practically all the amendments which we have advised Congress that we shall be ready to submit, accepting the branch banks amendment, concerning which I am somewhat puzzled and *I hereby* shall submit several alternatives.

Very truly yours,

H. Parker Willis, Esq.,

S e c r e t a r y .

\*Inc.

Draft of Jan. 6, 1916.

- 1 Foreign Branches
- 2 Note Issue
- 3 Dom. Accept
- 4 Branch Bks
- 5 Form. Short Term Loans

Practical operation under the Federal Reserve Act has confirmed the Board in the profound conviction that the Federal Reserve Act has been one of the most beneficial pieces of legislation ever adopted by Congress. The principles upon which the Act is based have already been fully vindicated, and in almost all its details the Act has proved itself a workable and wisely framed instrument. It is, however, natural that actual experience should indicate certain points at which the Act might be to advantage altered. No doubt, from time to time, as the country adjusts itself to new conditions created by the Act, it will have to be modified so as to meet this continually progressing development. (There are a few paragraphs where the language is not quite free from ambiguity and where a clarification would be of great assistance to the Board, such, for instance, as the clause concerning the powers of the Board in dealing with the question of redistricting and check clearings.)

The following recommendations are respectfully submitted and prompt action urged concerning the same:



Foreign Branches.

Under the Act as it now stands only the very strongest banks are able single-handed to operate a number of branches in foreign countries. The Board therefore recommends the adoption of an amendment permitting member banks to subscribe for and hold stock in banks organized under Federal charters for the special purpose of doing business in foreign countries. This would enable several banks to act together in foreign fields by joint ownership of such foreign bank.

Note Issue.

It is recommended that the law be amended in such a way as to permit Federal Reserve notes to be issued by Federal Reserve Banks against the deposit of commercial paper, acquired under Section 13 <sup>and</sup> ~~or~~ 14, and gold, - either or both. Should this be permitted, the growth of the Federal Reserve Banks, the basis of which is now limited to the deposits made by member banks, can be increased very materially and, with that, their scope of influence and active operations. Incidentally, a further element of safety would be added by such amendment.

Domestic Acceptances.

It is urged that power be given to member banks to accept for certain domestic operations such as can be clearly restricted to well secured commercial transactions. The Board has in mind particularly acceptances drawn against <sup>shipping documents or</sup> warehouse receipts covering readily marketable commodities, such as cotton, grains and similar products. Nothing, in the opinion of the Board, will help more to equalize rates all over the country than the development of the free use of bankers' acceptances.

Branch Banks.

The Board believes that it will be advisable to amend the Federal Reserve Act so as to permit National banks to establish branch offices within the limits of the cities in which they are located. It may be advisable to extend this privilege with proper safeguards to the counties in which these banks operate.

Power to Make Short Term Loans

It would greatly increase the scope of usefulness of Federal Reserve Banks in dealing with their members if they should be permitted to make loans to member banks, for a period not to exceed thirty days, against deposits of col-

(4)

lateral consisting of such notes, drafts, bills of exchange and bankers acceptances as Federal Reserve Banks are permitted to rediscount or purchase under Sections 13 and 14, or against a collateral of United States Government bonds or such warrants, etc., as Federal Reserve Banks are permitted to acquire. This would enable member banks to have recourse in an easy manner to the services of the Federal Reserve Banks in case their balances should be reduced below the legal limit by unexpected drafts against them through the check clearing or otherwise, and would enable Federal Reserve Banks to render those services to their member banks which the latter are now used to receiving from their reserve correspondents. The rate for such advances could be published from time to time similarly as is done with the discount rates.

It is confidently believed that the enactment of these amendments would tend to benefit the Federal Reserve Banks in two ways: It would strengthen and enlarge the basis of their own operations and at the same time add to the powers of the National banks, so that, as far as it can consistently be done, National banks should enjoy the same advantages as State banks joining the system.

P. M. W.



Draft of December 28, 1915. PMW.

Practical operation under the Federal Reserve Act has given the Board the profound conviction that the Federal Reserve Act has been one of the most beneficial pieces of legislation ever placed upon statute books. The principles upon which the Act is based have already been fully vindicated, and in almost all its details the Act has proved itself a workable and wisely framed instrument. It is only natural that actual experience should develop certain spots in which the Act might be widened to advantage as, no doubt, from time to time, as the country adjusts itself to new conditions created by the Act, it will have to be modified so as to meet this continually progressing development. There are a few paragraphs where the language is not quite free from ambiguity and where a clarification would be of great assistance to the Board, such, for instance, as the clause concerning the powers of the Board in dealing with the question of redistricting and check clearings.

While the Board deems it advisable to proceed with great caution in asking for amendments and believes it should ask for such only as from actual experience will appear wise and timely, there are a few amendments which the Board feels certain might be adopted to advantage at this time. The following recommendations are respectfully submitted and prompt action urged concerning the same:



Foreign Branches.

Under the Act as now written it is possible only for the very strongest banks single-handed to operate a number of branches in foreign countries, and the Board recommends that a clause be added to the Act, permitting member banks to subscribe for and hold stock in banks organized under Federal charters for the special purpose of doing business in foreign countries. This would enable several banks to act together in foreign fields by joint ownership of each foreign bank. Detailed suggestions concerning such an amendment are being prepared by the Board and will be placed at the disposal of Congress.

Several banks have urged the Board to use its influence in securing this amendment, and the Board feels that such an amendment would be timely and helpful in the opening of trade relations with foreign countries.

Note Issue.

It is recommended that the law be amended in such a way as to permit Federal Reserve notes to be issued against collateral of commercial paper and gold. Should this be permitted, the growth of the Federal Reserve Banks, the basis of which is now limited to the deposits made by member banks, can be increased very materially and, with that, their scope of influence and active operations. Incidentally, a further element of safety would be added by such amendment.

Domestic Acceptances.

It is urged that power be given to member banks to accept for certain domestic operations such as can be clearly restricted to well secured commercial transactions. The Board has in mind particularly acceptances drawn against warehouse receipts covering readily marketable commodities, such as cotton, grains and similar products. Nothing, in the opinion of the Board, will help more to equalize rates all over the country than the development of the free use of bankers' acceptances. Moreover, it is important that National banks be placed in as advantageous position as can be done consistently with banking prudence, with State banks and trust companies, and inasmuch as in several important States these latter institutions enjoy the privilege of accepting ~~for~~ domestic transactions, it is also from this point of view desirable to secure this privilege, properly safeguarded, for our National banks.

Branch Banks.

The Board believes that it will be advisable to amend the Federal Reserve Act so as to permit National banks to have branch offices within the limits of the cities in which they are located. It may be advisable to extend this privilege with proper safeguards to the counties in which these banks operate. This privilege is enjoyed by most of the State banks and trust companies and, as with domestic acceptances, it is important to add to the

powers enjoyed by National banks this important privilege. Moreover, it is thought that particularly in the rural districts the customers of the banks will be better served if a number of small and weak banks would be consolidated into larger and stronger banks having branches. Operating expenses will thereby be decreased and the interest charged to customers will probably be decreased in the long run. Proper restrictions would have to be inserted, both as to number of branches and to minimum capitalization. The Board has in preparation for submission to Congress an amendment on these lines.

#### Power to Make Short Term Loans.

It would greatly increase the scope of usefulness of Federal Reserve Banks in dealing with their members if they would be permitted to make loans to member banks, for a period not to exceed thirty days, against deposits of collateral consisting of such notes, drafts, bills of exchange and bankers acceptances as Federal Reserve Banks are permitted to rediscount or purchase under Sections 13 and 14, or against a collateral of United States Government bonds or such warrants, etc., as Federal Reserve Banks are permitted to acquire. This would enable member banks to have recourse in an easy manner to the services of the Federal Reserve Banks in case their balances should be reduced below the legal limit by unexpected drafts against them through the check clearing or otherwise, and would enable Federal Reserve Banks to render those services to their member banks which the latter are now used to receiving from their reserve correspondents. The



rate for such advances would be published from time to time similarly as is done with the discount rates.

Clayton Act.

It has been represented to the Board with great force that *(particularly in the large cities)* member banks will be severely handicapped as against non member State banks and trust companies when the provisions of the Clayton Act become operative, because it will be more attractive for desirable directors to serve with such State banks than with member banks. Many State banks, the Board is informed, hesitate to join the Federal Reserve System for fear of losing valuable directors, and it has been suggested to the Board that if the Clayton Act were amended so as to permit a director, other than an officer of a bank, to serve upon the Board of one National bank and one State bank (or trust company) provided the two institutions on which he would serve are not of a competing character. What is now considered by many as a great hardship would thus be removed, at least to a certain extent. It has been suggested that, in the case of such twofold directorships the Federal Reserve Board should pass upon the question of whether or not the two institutions are of a competing character.

P. M. W.  
12-28-15.



# *Suggested Amendments*

Draft of December 24, PMW

*Superseded by  
draft 7 Dec 28*

Practical operation under the Federal Reserve Act has given the *Board too* profound conviction that the Federal Reserve Act, ~~as written~~, has been one of the most beneficial pieces of legislation ~~that has~~ ever been placed upon ~~our~~ statute books. The principles upon which the Act is based have already been fully vindicated, and in almost all its details the Act has proved itself a workable and wisely framed instrument. It is only natural that actual experience should develop certain spots in which the Act ~~could~~ <sup>*might*</sup> be widened to advantage as, no doubt, from time to time, as the country adjusts itself to <sup>*created by the act*</sup> new conditions, ~~the~~ <sup>*it*</sup> ~~it~~ will have to be modified so as to meet this <sup>*continually*</sup> ~~(as it is hoped)~~ constantly progressing development. There are a few paragraphs where the language is not <sup>*quite*</sup> free from ambiguity and where a clarification would be of great assistance to the Board, such, for instance, as the clause <sup>*the members of the Board in dealing*</sup> dealing with the question of redistricting <sup>*and check clearings*</sup>.

While the Board deems it advisable to proceed with great caution in asking for amendments and believes <sup>*that at this juncture*</sup> it should ask for such only as <sup>*actual*</sup> from time to time experience will convince <sup>*appears*</sup> the Board are wise and timely, there are a few <sup>*amendments*</sup> suggestions concerning which the Board feels certain <sup>*that already*</sup> at this time might be adopted to advantage. The following recommendations are respectfully submitted and prompt action urged concerning the same:

## Foreign Branches

Under the Act as now written it is possible only for the <sup>*very*</sup> strongest <sup>*single hundred*</sup> banks ~~and bankers~~ to operate <sup>*a number of*</sup> branches in foreign countries, and the Board recommends that a clause be added to the Act, permitting member

*This would enable several banks to act jointly together in foreign fields by joint ownership of each foreign bank.*

(2)

*(for and hold stock in,*

banks to subscribe) ~~to~~ banks organized under Federal charters for the special purpose of doing business in foreign countries. Detailed suggestions concerning such an amendment are being prepared by the Board and will be placed at the disposal of Congress.

Several banks have urged the Board to use its influence in securing this amendment, and the Board feels that such an amendment would be timely and helpful in the opening of trade relations with foreign countries.

#### Note Issue.

It is recommended that the law be amended in such a way as to permit Federal Reserve Notes to be issued against collateral of commercial paper, ~~as prescribed by the law, and also against gold.~~ Should this be permitted, the growth of the Federal Reserve Banks, <sup>the basis of,</sup> which is now limited to the

deposits made by member banks, can be ~~very materially increased,~~ and, <sup>influence and active operations</sup> with that, their scope of ~~usefulness.~~ <sup>a further element of</sup> Incidentally, ~~the~~ safety of the

~~entire system will be still larger increased by such an amendment.~~

#### Domestic Acceptances.

It is urged that power be given to member banks to accept for certain domestic <sup>operations</sup> ~~transactions~~ such as can be clearly restricted to ~~legitimate~~ and well secured commercial transactions. The Board has in mind particularly acceptances drawn against warehouse receipts covering readily marketable commodities, such as cotton, grains and similar products. Nothing, in the opinion of the Board, will help more to equalize rates all over the country than the development of the free use of <sup>bankers'</sup> acceptances ~~for transactions of this kind.~~

*Rider A*

Clayton Act.

~~The Clayton Act will go into effect on .....~~

It has been represented to the Board with ~~a great deal of~~ force that member banks will be severely handicapped as against <sup>non member</sup> State banks <sup>and Trust Co's</sup> ~~who are not mem-~~bers when the provisions of the Clayton Act become operative because it will be more attractive for <sup>desirable</sup> strong directors to serve with <sup>such</sup> State banks than with member banks. Many State banks, the Board is informed, hesitate to join the Federal Reserve System for fear of losing valuable directors, and it has been suggested to the Board that if the Clayton Act were amended so as to permit a director, other than an officer of a bank, to serve upon the Board of one national bank and one State bank (or trust company) <sup>on which he would serve</sup> provided these two institutions are not of a competing character. What is now considered by many as a great hardship would <sup>thus</sup> ~~be removed~~ <sup>to a certain extent</sup>. It has been suggested that, in ~~the~~ <sup>such</sup> case of ~~a~~ twofold directorships the Federal Reserve Board should pass upon the question of whether or not the two institutions are of a competing character.

*branch banks domestic  
power to loan*

FEDERAL RESERVE BOARD

December 24th, 1915.

My dear Mr. Warburg:-

I am handing you herewith a  
draft of amendment to Section 13, along  
the lines indicated in your letter of  
December 22nd, authorizing any Federal  
reserve bank to make loans to its member  
banks upon certain securities.

Respectfully,



Hon. Paul M. Warburg,  
Federal Reserve Board.



SUGGESTED FORM OF AMENDMENT TO SECTION 13  
OF THE FEDERAL RESERVE ACT.

.....

Any Federal reserve bank may make loans to any of its member banks for a period not exceeding thirty days at rates to be established by such Federal reserve bank, subject to the review and determination of the Federal Reserve Board, upon the security of obligations of the kinds and maturities defined in Section 14 (b) of this Act, or upon the security of other notes, drafts, bills of exchange or acceptances eligible for purchase under Section 14, or eligible for rediscount under Section 13 of this Act *and the regulations of the Board*

December 22, 1915.

Dear Mr. Harrison:

Will you please put into legal language an amendment permitting Federal Reserve Banks to make advances for a period not exceeding thirty days to member banks at rates to be established and published by them subject to the review and determination of the Board upon the collateral of

- (1) notes, drafts, bills of exchange and acceptances eligible for rediscount or purchase under Sections 13 and 14 of the Act, and
- (2) bills, notes, revenue bonds, and warrants with a maturity from date of purchase of not exceeding six months, issued in anticipation of the collection of taxes or in anticipation of the receipt of assured revenues by any State, country, district, political subdivision, etc. as provided in Section 14 (b)

It does not appear necessary to cover United States Government bonds as the banks already have the power to make advances against these.

Very truly yours,

G. L. Harrison, Esq.,

Assistant Counsel.

(12)

C C

TELEGRAM  
FEDERAL RESERVE BOARD  
WASHINGTON

FEDERAL RESERVE BOARD FILE

F 1932.3  
AUG 7 1918

Lynch -- San Francisco

AUGUST 7, 1918.

332312

Replying your today's telegram, amount of collateral notes  
held by all federal reserve banks on July twelfth \$511,470,000.

*W*

OFFICIAL BUSINESS  
GOVERNMENT RATES  
CHARGE FEDERAL RESERVE BOARD

2-7729



Treasury Department

TELEGRAM

332.2(12)

75f wp

75

Sanfran 1110a aug 7

Reserve Board Treasury

Washn

8/7/18

Please send figures of collateral notes held by all federal reserve banks  
at close of business july twelfth as shown on form X nine fifty one

FRB

Of Sanfran

511,470 000

22op

#12  
TELEGRAM

FEDERAL RESERVE BOARD FILE

FEDERAL RESERVE BOARD  
WASHINGTON

May 19, 1917.

332.3(17)

*Per Rule*  
Perrin,  
Federal Reserve Bank,  
San Francisco, California.

Board in order to facilitate Liberty Loan has approved rate of three percent on fifteen day collateral notes of member banks in response to applications received from several Federal reserve banks. Has question of three and one-half percent rate on ninety day customers' notes secured by bonds under consideration, but for several reasons, among which is desire to await action of Congress on pending amendments, Board wishes to suspend action.

WILLIS

332,3(12)

No. 109

109

412

May 19, 1917.

FEDERAL RESERVE BOARD

MEMORANDUM

For Mr. Warburg.

Under the regulations of the Board the following matter is referred to you as

Chairman,--Committee-on

Member, " "

The attached telegram of F. R. A. Perrin, dated May 18, with reference to the establishment by F. R. Banks of a rediscount rate not higher than Liberty Bond rate applicable to paper secured by Liberty Bonds.

*H. P. Williams*

Secretary.

Please return this memorandum to the Secretary with copy of documents resulting from action taken, if any, that it may be placed on the docket.

REMARKS.

Date.

CLASS OF SERVICE	SYMBOL
Day Message	
Day Letter	Blue
Night Message	Nite
Night Letter	N L

If none of these three symbols appears after the check (number of words) this is a day message. Otherwise its character is indicated by the symbol appearing after the check.

# WESTERN UNION TELEGRAM

NEWCOMB CARLTON, PRESIDENT

GEORGE W. E. ATKINS, FIRST VICE-PRESIDENT

CLASS OF SERVICE	SYMBOL
Day Message	
Day Letter	Blue
Night Message	Nite
Night Letter	N L

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D89 CH BF 55 COLLECT GOVT

MK SANFRANCISCO CALIF 1208-PM MAY 18 1917

FEDERAL RESERVE BOARD

01120  
~~11174~~  
WASHINGTON

IT IS URGED HERE THAT BOND SUBSCRIPTIONS WOULD BE STIMULATED  
IF FEDERAL RESERVE BANKS WOULD ESTABLISH REDISCOUNT  
RATE NOT HIGHER THAN LIBERTY BOND RATE APPLICABLE TO  
PAPER ACCEPTED BY MEMBER BANKS FROM THEIR CUSTOMERS AND  
SECURED BY LIBERTY BONDS STOP WOULD APPRECIATE EXPRESSION  
OF YOUR VIEWS

PERRINE FEDERAL RESERVE AGENT

437PM



FEDERAL RESERVE BANK  
OF SAN FRANCISCOJOHN PERRIN  
CHAIRMAN OF THE BOARD

October 4, 1916.

15 Days RateProfessor A. C. Miller,  
Federal Reserve Board,  
Washington, D. C.

Dear Professor Miller:

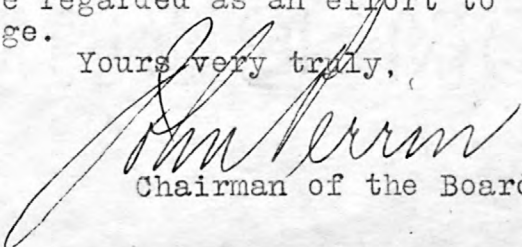
I have yours of 30th ult. I shall bring your letter to the attention of the directors at the next meeting, October 17.

It is my conviction that the privilege will rarely be availed of by our member banks to borrow for 15 days or less, and that it is consequently of small practical consequence whether we fix a rate of 3% or 4%.

The desirability of developing eligible paper and the practice of rediscounting has been so stressed that it is not surprising that some of our directors should now be strongly averse to offering special inducements for borrowing instead. The vital point, however, appears to me not to be in whether an advance should be in one form or the other but that liquid paper should be the basis. As a practice I should prefer rediscounting. If borrowing for 15 days were only an occasional incident, it would seem unimportant whether or not the rate were slightly higher.

There would, I am sure, be no disposition on the part of our Board as you suggest "to nullify 'by imposing penalties' the effect of an amendment passed in good faith, etc" nor does it seem that a higher rate should be considered in that light, any more than that a higher rate for six months agricultural paper should be regarded as an effort to nullify that privilege.

Yours very truly,

  
Chairman of the Board.JP:FK  
fjk

*15 day paper*  
7  
CIRCULATE PROMPTLY

OCT 2 1936  
WARBURG

DELANO  
*good*  
*10/3/36*

MILLER  
*10/3*

HAMLIN  
*10/3/36* ✓

After which return to the  
Secretary's office

#12  
332.3  
332,3(12)  
September 30, 1916.

Mr. John Perrin,  
Chairman of the Board and Federal Reserve Agent,  
Federal Reserve Bank of San Francisco,  
San Francisco, California.

Dear Mr. Perrin:

Your letter of the 19th to the Federal Reserve Board, in re discount rates, is at hand, setting forth briefly the views which led your bank, in recommending a rate upon fifteen day member bank notes authorized by a recent amendment to the Federal Reserve Act, to make a marked discrimination between the rate upon such notes and the rate upon ten day commercial paper. It is particularly noted that the views were "pronounced" that it was "preferable on the ground of soundness to offer inducements for rediscount and to impose penalties for borrowing".

As there are only two members of the Board in Washington this week, and consequently no Board meeting is being held, consideration of the bank's action by the Board will have to go over until next week. In the meantime, however, I felt it advisable to send you an interim reply.

When your telegraphic recommendation of a four per cent rate on fifteen day member bank notes reached the Board, I moved its approval under the impression that no discrimination was to be made in rates so far as ten day paper and fifteen day notes were

September 30, 1916.

concerned, this being in line with action then or since taken at the Federal Reserve Banks of New York, Philadelphia, Chicago, St. Louis, Kansas City, and Cleveland. New York, Cleveland, Chicago, and Philadelphia have established a  $3\frac{1}{2}\%$  rate indifferently for commercial paper or member bank notes with a maturity not in excess of fifteen days, St. Louis a  $3\%$  rate, and Kansas City a  $4\%$  rate for the similar maturities. The Federal Reserve Banks of Richmond, Atlanta, Dallas, and Minneapolis, which had never quoted a rate for ten day paper - their shortest rate being on thirty day paper which was fixed uniformly in all of these banks at  $4\%$  - adopted rates for fifteen day member bank notes of  $4\%$ ,  $3\frac{1}{2}\%$ ,  $3\frac{1}{2}\%$ , and  $4\%$  respectively.

There is little or nothing in the action taken by these banks to indicate disapproval of borrowings by member banks on their fifteen notes (secured by such notes, drafts, bills of exchange, or bankers' acceptances as are eligible for rediscount or for purchase by Federal Reserve Banks) by discriminations in rate against this type of accommodation. The action taken by your bank is, therefore, out of line with what has commended itself thus far to the Reserve Banks in other districts as good policy, and I am inclined to think that it will not commend itself to the Federal Reserve Board either on grounds of administrative propriety or banking expediency; the former because it seems to indicate a



Mr. John Perrin

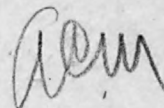
- 3 -

September 30, 1916.

disposition on the part of your bank to nullify "by imposing penalties" the effect of an amendment passed in good faith by Congress, upon recommendation of the Federal Reserve Board and after careful consideration, the latter because the amendment was enacted with a view of making the credit facilities of Federal Reserve Banks more easily and directly available to meet certain needs of their member banks without inviting the development of any practices which could not easily be controlled by good banking administration, should a tendency to abuse the privilege make its appearance.

I believe your directors would do well to give further consideration to this question and see whether they cannot bring their policy more closely into line with that which has commended itself to banking judgment in most of the other Federal Reserve Banks.

Very truly yours,



332.3 (12)  
9/26/16

MEMORANDUM CONCERNING NEW 15-DAY RATE.

I. The following banks have extended their old rate on 10-day maturities to cover all maturities under 15 days, whether commercial paper or promissory notes of member banks. (They, of course, no longer quote a 10-day rate.)

<i>W.M.</i> Philadelphia	3 $\frac{1}{2}$ %
Cleveland	3 $\frac{1}{2}$ %
Chicago	3 $\frac{1}{2}$ %
St. Louis	3%

II. One bank, Kansas City, has abolished its old 10-day rate of 4 $\frac{1}{2}$ % and substituted a new rate of 4% for all maturities under 15 days, whether commercial paper or promissory notes of member banks.

III. The following banks retained their old 10-day rates for rediscounts and established a new rate for 15-day member bank paper, as follows:

	10-day rate for redis- counts.	15-day rate for member bank paper
Boston	3%	(3 $\frac{1}{2}$ %)
New York	3%	(3%)
San Francisco	3%	4%

IV. The following banks had no 10-day rate, (their lowest rate being that on 11-30 day paper) and established a 15-day rate to apply to member bank notes only, as follows:

	<del>11</del> -30 day rate for rediscounts.	15-day rate for member bank paper.
Richmond	4%	4%
Atlanta	4%	3 $\frac{1}{2}$ %
Dallas	4%	3 $\frac{1}{2}$ %
Minneapolis	4%	4%

September 26, 1916.

TELEGRAM

FEDERAL RESERVE BOARD  
WASHINGTON

September 20, 1916.

Federal Reserve Agent,  
San Francisco, Calif.

Board today approved recommendation your directors, rate of four  
percent on fifteen day member bank paper, effective nineteenth.

Governor.

OFFICIAL BUSINESS  
GOVERNMENT RATES

CHIEF FEDERAL RESERVE BOARD

FILE  
SEP 20 1916

Federal Reserve Board

FEDERAL RESERVE BANK  
OF SAN FRANCISCO

332.3(17)

JOHN PERRIN  
CHAIRMAN OF THE BOARD

September 19, 1916.

Discount Rates

Federal Reserve Board,  
Washington, D. C.

S i r s :

At a regular directors meeting held today a resolution was adopted recommending that no change be made in rediscount rates hitherto established.

Subject to your approval a rate of 4 per cent was established for 15 days member bank paper.

The matter of this latter rate was considerably discussed. Views were quite pronounced that it was preferable on the ground of soundness to offer inducements for rediscounting and impose penalties for borrowing. I urged that this form of borrowing would probably be little availed of; that few banks would offer U.S. Bonds as collateral because so few have free bonds, and that a low rate might induce a greater disposition to get paper into eligible shape so as to be available as collateral if required; that, while agreeing in principle with those expressing preference for rediscounts, it appeared to me that as a practical test a 3 per cent rate could have no importantly evil effect and we could change the rate whenever the results were unsatisfactory. But opinion was strongly for the other course. Instead however of a penalty rate higher than any other a middle course was followed in fixing 1 per cent above the 10 days rate.

Respectfully,

*John Perrin*  
Chairman of the Board

JP:FK

*JP*





CLASS OF SERVICE	SYMBOL
Day Message	
Day Letter	Blue
Night Message	Nite
Night Letter	N L

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# WESTERN UNION



# TELEGRAM

NEWCOMB CARLTON, PRESIDENT

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MK SAN FRANCISCO CAGIF 1225P 19

FEDERAL RESERVE BOARD

WASHINGTON

AT REGULAR DIRECTORS MEETING TODAY RATE OF FOUR PERCENT WAS  
ESTABLISHED FOR FIFTEEN DAYS MEMBER BANK PAPER SUBJECT YOUR  
APPROVAL

PERRIN CHAIRMAN.

1916 SEP 19 PM 4 23

332.3 (12)

0563

M. Phil. Chue

