

332.3-1 - Member Bank Notes secured by
Government Bonds

(Market value)

(Aug. 1920 - ¹⁹³⁷date)

TRANSFER

(F.R.) CONFIDENTIAL

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

(F.R.) CONFIDENTIAL

RECEIVED IN OFFICE
APR 24 1937
332 3-1

Ben. F. ...
mll

April 23, 1937

Honorable Wilburn Cartwright
House of Representatives
Washington, D. C.

Dear Mr. Cartwright:

This refers to your letter of April 20, 1937 enclosing a letter received by you from Vice President Caldwell of The National Bank of McAlester, McAlester, Oklahoma, relating to the acceptance of Government bonds by the Federal Reserve bank at par as security for member banks' notes. It is understood that Mr. Caldwell refers to the Federal Reserve Bank of Kansas City in whose district McAlester is located.

Mr. Caldwell's reference to an existing agreement on the part of the Federal Reserve bank to accept Government bonds at par is apparently based upon a misapprehension, as the Federal Reserve bank has not entered into any agreement or understanding of this kind. However, it has been the policy of the Federal Reserve Bank of Kansas City for a number of years past to accept Government bonds at par as collateral for member banks' notes and, while the matter is one primarily for the consideration of the board of directors of the Reserve bank, I have received no indication that a change in the present policy in this respect is in contemplation at this time.

I am advised that, in response to an inquiry recently received from Mr. Caldwell, a letter has been addressed to him by President Hamilton of the Federal Reserve Bank of Kansas City explaining the situation with respect to this matter.

I trust that what has been said above gives the information desired. Mr. Caldwell's letter is returned herewith for your files.

Sincerely yours,

(Signed) M. S. Eccles
M. S. Eccles
Chairman

enclosure

LC/fgr *BC*

REC'D IN GENERAL FILES
APR 26 1937
332-3-1

APR 22 1937

Mr. H. L. Martin,
112 West 72nd Street,
New York, New York.

Dear Sir:

This refers to your letter of April 5, 1937, addressed to the Secretary of the Treasury, regarding the right of member banks of the Federal Reserve System to obtain the rediscount or redemption by Federal Reserve banks of United States Government bonds. Your letter has been referred to the Board of Governors of the Federal Reserve System for reply.

The Federal Reserve banks, acting as fiscal agents of the United States, handle the redemption of matured and called Government bonds, but the right of member banks to obtain the redemption of Government bonds through the Federal Reserve banks is no different from that of other holders.

The law does not provide for the discount by Federal Reserve banks of Government bonds held by member banks but does authorize the Federal Reserve banks, under certain conditions, to discount for member banks notes, drafts, and bills of exchange secured by Government bonds and to make advances to member banks on their promissory notes secured by Government bonds. However, the law contains no provision as to whether Government bonds shall be accepted by Federal Reserve banks as collateral security at their face value.

Where a member bank obtains an extension of credit from a Federal Reserve bank upon the security of Government bonds, it has no legal right to require the Federal Reserve bank to accept the bonds in payment of the member bank's obligation, although, of course, if the member bank should default on its obligation, the Federal Reserve bank would have the right to foreclose the pledge of the bonds and apply the proceeds from the sale thereof to the debt owed by the member bank.

It is hoped that the above information will answer the questions which you have in mind.

GENERAL COUNSEL'S OFFICE,

Dictated by: *JTO*
Approved by: *EDU*
Witnessed by:

Very truly yours,

(Signed) L. P. BETHEA

JTO:am *JTO* FILE *LM*

L. P. Bethea,
Assistant Secretary.

WILBURN CARTWRIGHT
3d DIST. OKLAHOMA
MARION UPSHAW
SECRETARY
GOLDEN FREEMAN
CLERK

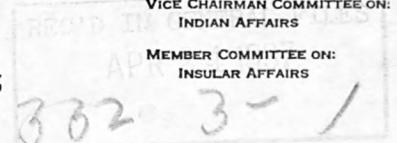
CHAIRMAN COMMITTEE ON:
ROADS

VICE CHAIRMAN COMMITTEE ON:
INDIAN AFFAIRS

MEMBER COMMITTEE ON:
INSULAR AFFAIRS

SEVENTY-FIFTH

CONGRESS OF THE UNITED STATES
HOUSE OF REPRESENTATIVES
WASHINGTON, D. C.



April 20 1937

Hon. Marriner S. Eccles, Chairman,
Board of Governors,
Federal Reserve System,
Washington, D.C.

My dear Mr. Eccles:

I am enclosing for your consideration a letter from Mr. Roy Caldwell, Vice President, The National Bank of McAlester, Oklahoma, urging an extension of The Federal Reserve Bank's agreement to accept government bonds from member banks at par as collateral on bills payable.

Sincerely yours,

Wilburn Cartwright
Wilburn Cartwright.

see memo 4/23/37

C O P Y

THE NATIONAL BANK OF McALESTER
McALESTER, OKLAHOMA

April 2, 1937

Honorable Wilburn Cartwright
Washington, D. C.

Dear Mr. Cartwright:

The Federal Reserve Bank's agreement to accept government bonds from member banks at par as collateral on bills payable, will expire on June 1, 1937. In view of the tremendous amount of government bonds held by the banks, it may become necessary for some to use a part of their government holdings to meet the demand of the depositor. I will deeply appreciate your assistance in getting this agreement extended.

With kindest regards,
we are,

Very truly yours,

(signed) Roy Caldwell

Vice President

RC:AMY

REC'D IN GENERAL FILES

APR 20 1937

332 3-1

APR 17 1937

Honorable Josh Lee,
United States Senate,
Washington, D. C.

Dear Senator Lee:

This refers to your communication of April 5, 1937, enclosing a letter received by you from Vice President Caldwell of The National Bank of McAlester, McAlester, Oklahoma, together with a copy of your reply thereto, relating to the acceptance of Government bonds by the Federal Reserve bank at par as security for member banks' notes. It is understood that Mr. Caldwell refers to the Federal Reserve Bank of Kansas City in whose district McAlester is located.

Mr. Caldwell's reference to an existing agreement on the part of the Federal Reserve bank to accept Government bonds at par is apparently based upon a misapprehension, as the Federal Reserve bank has not entered into any agreement or understanding of this kind. However, it has been the policy of the Federal Reserve Bank of Kansas City for a number of years past to accept Government bonds at par as collateral for member banks' notes and, while the matter is one primarily for the consideration of the board of directors of the Reserve bank, I have received no indication that a change in the present policy in this respect is in contemplation at this time.

I am advised that, in response to an inquiry recently received from Mr. Caldwell, a letter has been addressed to him by President Hamilton of the Federal Reserve Bank of Kansas City explaining the situation with respect to this matter.

I trust that what has been said above gives the information desired. In accordance with your request, Mr. Caldwell's letter and the copy of your reply to him are returned herewith for your files.

Very truly yours,

(Signed) Marriner S. Eccles
M. S. Eccles,
Chairman.

Inclosure
GBV:li

GENERAL COUNSEL'S OFFICE

FILE COPY
Dictated by...
Approved by...
Revised by...

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

REC'D IN GENERAL FILES

APR 15 1937

332^a 3-1Date April 14, 1937*File
332^a
3-1*
Office CorrespondenceTo Chairman Eccles

Subject: _____

From Mr. Carpenter

There is attached an excerpt from the minutes of the meeting of the Board held yesterday with respect to the policy of the Federal Reserve banks in making loans to member banks on Government securities. It will be noted that no objection was made to your ascertaining the present policy of the banks and, in the event that any of them do not have a policy of lending at par, suggesting that they consider the advisability of adopting such policy.

Attachment.

[Signature]
SIC: sb

Excerpt from the minutes of the meeting of the Board held
on April 13, 1937

Chairman Eccles referred to the question considered at the meeting of the Board on April 9, 1937, of the policy of the Federal reserve banks with respect to making loans to member banks on Government securities at par. The Chairman said that he recalled that at a previous time when he made inquiry regarding this matter it appeared that there were two or three banks that did not have a definite policy of loaning at par and that he would like to communicate informally with these banks for the purpose of ascertaining their present policy in this respect and in the event that any of them did not have a policy of lending at par to suggest that they consider the advisability of adopting such a policy. The question was discussed and no action was taken but no objection was made to the Chairman's making the inquiry if he so desired.

FILE COPY

33203-1



TREASURY DEPARTMENT

WASHINGTON

APR 10 1937

Hon. Marriner S. Eccles,
Chairman,
Board of Governors,
Federal Reserve System,
Washington, D. C.

Sir:

There is enclosed for your attention a copy of a letter dated April 5, 1937, from Mr. H. L. Martin, 112 West 72nd Street, New York City, requesting certain information concerning the operations of member banks of the Federal Reserve System.

Mr. Martin has been informed that a copy of his letter has been referred to you for reply, inasmuch as the Federal Reserve System operates under the supervision of your Board.

Very truly yours,

A handwritten signature in cursive script, appearing to read "H. L. Thompson".

Acting Administrative Assistant
to the Secretary.

Enclosure.

4/22/37

Counsel

FEDERAL RESERVE BANK
OF
KANSAS CITY

RECD IN FEDERAL FILES
APR 20 1937
302-3-1

April 10, 1937

Mr. Chester Morrill, Secretary
Board of Governors of the
Federal Reserve System
Washington, D. C.

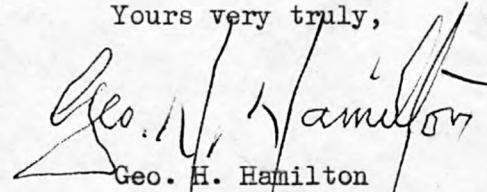
Dear Mr. Morrill:

This will acknowledge receipt of your wire of April 9 wherein you quote from a letter written by Vice President Caldwell of the National Bank of McAlester, Oklahoma to Senator Josh Lee of Oklahoma. Apparently Mr. Caldwell is laboring under a misapprehension as evidenced by copy of a letter enclosed herewith addressed to me. In my reply to his letter, a copy of which is enclosed, I endeavored to disabuse his mind of the notion that he had, and probably if my letter is convincing we will hear nothing more about it. His letter to me was probably written about the same time that he addressed one to Senator Josh Lee, and it is likely that Senator Lee will hear nothing further about it.

I have received two or three other letters from country bankers in various parts of the district similar to the one from Mr. Caldwell from which it is evident that the impression prevails that the Federal reserve banks have by regulation or otherwise agreed to accept Governments at par for security for a member bank's note. I have no idea where this theory originated for we have not by circular letter or otherwise indicated that there was such an understanding in effect, and I doubt if any commitment of the kind has been issued in any of the Federal Reserve districts. It is true that we have accepted, for collateral, Governments at par since August 1922, and I can see no reason for changing this policy at this time, but we have never committed ourselves to any member bank to an indefinite continuation of the policy.

As far as Mr. Caldwell of the National Bank of McAlester is concerned, I believe the incident is closed, and I doubt the advisability of taking the matter up with him again in the absence of further communication from him.

Yours very truly,



Geo. H. Hamilton

President

enc. 2

APR 12 1937

2:45 P.M.
NUMBER 3

FEDERAL RESERVE BANK
OF
KANSAS CITY

RECEIVED IN GENERAL
APR 10 1937
332 3-1

April 3, 1937

Mr. Roy Caldwell, Vice President & Cashier
National Bank of McAlester
McAlester, Oklahoma

Dear Mr. Caldwell:

There is no agreement on the part of the Federal Reserve banks to accept government bonds from member banks at par as security on bills payable nor is there a regulation to this effect.

The lending policy of a Federal Reserve bank within any Federal Reserve District is wholly in the hands of the directors of said bank, subject to such restrictions and limitations as are provided in the Federal Reserve Act. The Board of Governors therefore does not issue regulations concerning collateral to loans as the directors of a Federal Reserve bank are responsible for the sufficiency of collateral.

There seems to be a quite widespread belief that the Federal Reserve banks have agreed or announced that they will accept government bonds at par as collateral to a member bank's note, but such is not the case, and I doubt the advisability of a Federal Reserve bank making such an unqualified promise.

From 1920 to August 1922 this bank had a rule that it would lend 85% to 90% of par on governments, but since 1922 it has accepted at par all governments as collateral to a member bank's note. I cannot, of course, speak for our board of directors, but it is highly improbable that the policy which has been followed since 1922 will be changed.

Yours sincerely,

Geo. H. Hamilton

President

COPY

REC'D IN GENERAL FILES
APR 20 1937
332 3-1

THE NATIONAL BANK OF MC ALESTER

McAlester, Oklahoma
April 2, 1937

Mr. George H. Hamilton, President
Federal Reserve Bank,
Kansas City, Missouri.

Dear Mr. Hamilton:

Will you please advise us when the agreement to accept government bonds from member banks at par as security on bills payable will expire. If you have a copy of this regulation, Mr. Hamilton, I will deeply appreciate your sending it to me. Do you think there is a possibility of this privilege being extended?

With kindest regards, I am

Yours very truly,

/s/ R. C. Caldwell

Vice President

TELEGRAM
BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
LEASED WIRE SERVICE
WASHINGTON

332 3-1

APR 9 1937

FRBL-10

HAMILTON - KANSAS CITY

Senator Josh Lee of Oklahoma has referred to Board letter received by him from Vice President Caldwell of the National Bank of McAlester, Oklahoma, reading as follows:

"The Federal Reserve Bank's agreement to accept government bonds from member banks at par as collateral on bills payable, will expire on June 1, 1937. In view of the tremendous amount of government bonds held by the banks, it may become necessary for some to use a part of their government holdings to meet the demand of the depositor. I will deeply appreciate your assistance in getting this agreement extended."

Mr. Caldwell is apparently under a misapprehension, but it will be appreciated if you will supply any information which you may have as to any agreement or understanding which Mr. Caldwell may have in mind in this connection or as to what may have prompted his inquiry.

(Signed) Chester Morrill

MORRILL.

GBV:li

GENERAL COUNSEL'S OFFICE,

Dictated by... *GBV*

Approved by.....

Revised by..... *JEM*

FILE COPY

see ans 4/10/37

copy
mvqBOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEMREC'D IN GENERAL
JUN 15 1937
332° 3-1

Office Correspondence

Date April 7, 1937

To Mr. Morrill

Subject:

From Mr. Clayton

C O P Y

The Chairman would like the following items put on the docket:

1. The question whether the Board should make a prompt effort to bring about a uniform examining policy in the FDIC, the Comptroller's office and throughout the System with reference to the valuation by examiners of government bonds held by all insured banks. If such bonds are listed at par or at the bank's book figure, whichever is the lower, it might strengthen and supplement the action of the Federal Open Market Committee with reference to the government bond market.

2. In connection with this same problem, should the reserve banks notify all member banks that should they prefer to borrow against their governments instead of disposing of them on the present market, they can borrow up to par at the prevailing rate for fifteen day advances.

L. C.

File Copy 241-053

C
O
P
Y

332-03-1

112 West 72nd Street,
New York, N. Y.

Getfield

April 5, 1937.

Honorable Henry Morgenthau,
Secretary of the Treasury,
Washington, D. C.

Dear Sir:

Are member banks of the Federal Reserve System offered an option of rediscount or redemption in connection with their U. S. Government bond issues? To clarify this question, let us assume a member bank desires to increase its fund for commercial loans by \$5,000,000 and withdraws from their investment portfolio an equal amount of U. S. Government $2\frac{1}{2}\%$ 1953-49, currently selling at 97.12. Has this bank the privilege of

- (a) Redeeming through the Federal Reserve System the tender at par and accrued interest.
- (b) Discounting the tender at par and receiving therefor \$5,000,000 in currency, giving in exchange the usual approved form of collateral note duly executed, and
- (c) the legal right to determine at maturity of the note (referred to in paragraph "B") whether to pay the collateral note and receive the bonds back into their account or offer the issue pledged in full payment of their maturing obligation - with adjustment of interest.

Very truly,

X
(Signed) H. L. MARTIN

see ans 4/22/37

gitized for FRASER
http://fraser.stlouisfed.org
see letter 4/10/37 from Secretary of Treasury

CHAIRMAN ECCLES' OFFICE

Gov. Broderick
Gov. Davis
Gov. McKee

Gov. Ransom
Gov. Szymczak

Mr. Bethea
Mr. Carpenter
Mr. Clayton
Dr. Currie
Mrs. Fitzgerald
Mr. Foulk
Dr. Goldenweiser
Mr. Hamlin
Miss Lally
Mr. Morrill
Mr. Noell
Mr. Parry
Mr. Paulger
Miss Rackstraw
Mr. Smead
Mr. Thurston
Mr. Wyatt

REMARKS:

Please reply for ^{Mr.}
Bethea's signature
PC

RECEIVED
OFFICE OF THE CHAIRMAN
APR 12 1937
P.M.
NUMBER 6

REC'D IN GENERAL FILES
APR 20 1937
3320 3-1

Carded

x Lee, Josh - Sen
x Caldwell, Roy
x Mt. Bk. of Md. & Va.
x Dist. Sec. at Par
Account of
x Dist. Sec. at Par
Account of
x 7 R. B. Linn

United States Senate

Washington, D.C., Apr. 5, 1937

Respectfully referred to

Mr. Marriner S. Eccles, Chairman
Board of Governors,
Federal Reserve System.

Please return all
correspondence for my files.

J. L.

*Check what this
"agreement" is. reply.
to [unclear] [unclear] [unclear]
[unclear] [unclear] [unclear]*

Respectfully,

Josh Lee

U.S.S.

C O P Y

GENERAL FILES
APR 20 1937
332-3-1

April 5, 1937

Mr. Roy Caldwell, Vice President,
The National Bank of McAlester,
McAlester, Oklahoma.

Dear Mr. Caldwell:

May I acknowledge receipt of your favor of April 2, regarding the agreement of the Federal Reserve Bank to accept government bonds from member banks at par as collateral on bills payable.

I appreciate being advised of your views regarding this matter, and am taking the liberty to forward your letter to Mr. Marriner S. Eccles, Chairman of the Board of Governors of the Federal Reserve System, in order that he may apprise himself of your wishes in this matter.

Whenever I can help, do not hesitate to call on me.

Yours very sincerely,

Josh Lee,
U. S. S.

JL:GJM

C O P Y

REC'D IN GENERAL FILES
APR 20 1937
382 3-1

THE NATIONAL BANK OF McALESTER

McALESTER, OKLA.

April 2, 1937.

Honorable Josh Lee,
Washington, D. C.

Dear Mr. Lee:

The Federal Reserve Bank's agreement to accept government bonds from member banks at par as collateral on bills payable, will expire on June 1, 1937. In view of the tremendous amount of government bonds held by the banks, it may become necessary for some to use a part of their government holdings to meet the demand of the depositor. I will deeply appreciate your assistance in getting this agreement extended.

With kindest regards, we are

Very truly yours,

(Signed) Roy Caldwell

Vice President.

RC:AMY

TO Mr. Woot

FROM _____

REMARKS:

Please prepare a
to Sen. Lee
reply, commenting on
the misunderstanding
of Mr. Caldwell.

RECEIVED
OFFICE OF GENERAL COUNSEL

APR 8 1937

~~11:45~~ A.M.
NUMBER 3 P.M.

CHAIRMAN'S OFFICE

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

332.3-1

16-794

RECEIVED AT WASHINGTON, D. C.

153gfa

StLouis Feb 7 ¹⁹³⁴ 1247pm

1934 FEB 7 PM 2 08

Black

Washington

Our Board passed the following resolution this morning "Be it resolved that the general policy of this bank shall be to loan par on Government securities offered as collateral by member banks".

Martin

208pm

Phila

FEDERAL RESERVE BANK OF PHILADELPHIA

925 CHESTNUT STREET

332.3-1

GEORGE W. NORRIS, GOVERNOR
WILLIAM H. HUTT, DEPUTY GOVERNOR
C. A. MEILHENNY, CASHIER

ASSISTANT CASHIERS
W. J. DAVIS JAMES M. TOY
R. M. MILLER, JR. S. R. EARL

RICHARD L. AUSTIN
CHAIRMAN OF THE BOARD AND
FEDERAL RESERVE AGENT
ALBA B. JOHNSON
DEPUTY CHAIRMAN OF THE BOARD

ARTHUR E. POST
ASSISTANT FEDERAL RESERVE AGENT
ERNEST C. HILL
ASSISTANT FEDERAL RESERVE AGENT

January 31st, 1934.

My dear Governor Black:-

I have delayed replying to your wire of the 24th inst., in reference to loans to member banks on government bonds, because, before replying, I wanted to make sure of what our present policy is, and what was the view of our Board of Directors as to our future policy.

Our Minutes show that the subject came up for discussion in October, 1931, when a motion was adopted that we should "continue to accept government obligations at their par value, when making loans to member banks". The matter came up again in March, 1932, at which time some of the Treasury obligations were selling between 82 and 90. A resolution was then adopted, rescinding the resolution of October 21st, 1931, and providing "that discretion be left with the officers to loan on governments above the market prices where such loans can be made with safety, and the equities of the situation seem to call for it."

This last resolution was practically a resolution to loan on governments at the market, but with the power reserved to the officers to loan above the market "where such loans can be made with safety, and the equities of the situation seem to call for it." I brought the matter up at our Executive Committee meeting this morning, and the feeling was that this arrangement had better be continued unless and until the discretion vested in the officers became burdensome to them, and they desired further and more explicit instructions from the Board.

In practice, it amounts to this - that we accept governments at par, unless the particular notes or certificates offered are selling at a heavy discount, and the borrowing bank is in such condition that the application for a "loan" appears to be practically a sale to us above the market. The resolution, as we now have it on our Minutes, avoids the constant friction that would result from taking

- 2 -

such securities only at the market, but does not constitute a commitment to take them at par. I am,

Very truly yours,

Geo. H. Rorick
Governor

Hon. E. R. Black, Governor,
Federal Reserve Board,
Washington, D. C.

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

3323-1

16-794

RECEIVED AT WASHINGTON, D. C.

413ghb

Sanfrancisco Jan 30 411pm

1934 JAN 30 PM 8 16

Governor Black

Washington

Replying your wire twenty fourth It has been our policy to accept Governments as security for member bank notes at market not exceeding par. While we think this ordinarily the consistent policy, we are willing to join in making a system policy that of accepting governments at par in all cases.

Calkins

8pm

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

332-3-1

16-794

RECEIVED AT WASHINGTON, D. C.

162bmr

Boston Jan 24-328p

1934 JAN 24 PM 3 39

Black

Washington.

In reply to the First part of your telegram of this morning I advise that it has not been the policy of the Federal Reserve Bank of Boston to lend to member banks on United States Government securities at par if the market was below par. However, after discussing the situation with our directors today they have authorized the officers in their discretion to lend at par. It will be the policy of the officers for the present to lend at par.

1/24/34

Young

338p

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

3323-1

16-794

RECEIVED AT WASHINGTON, D. C.

96bs

New York 111P Jan 24

Black

Washington

Replying to your today's telegram it is our present policy to loan to member banks at par on Government Securities. We are following your suggestion regarding subscriptions to current Government offerings which have been well received here and indications point to substantial oversubscription will wire you at three o'clock today amount of subscriptions received on each class of offering

Burgess

132PM

TELEGRAM

FEDERAL RESERVE SYSTEM

3323-1

76dea

(LEASED WIRE SERVICE)

Cleveland Jan 24 314p

1934 JAN 24 PM 3 32

RECEIVED AT WASHINGTON, D. C.

13-794

Black,

Washn

Replying your wire today on policy in connection with loans on

United States Government securities, last circular letter from this bank to all members July 10, 1922, was notification that we would lend par on bonds, notes, certificates of indebtedness and Treasury notes.

This has been our general policy since except that early in 1932 certain members whose condition was unsatisfactory and whose borrowings were out of range with capital structure and reserve balance were notified that the loan value would be predicated on market. Each loan was handled on its own merits, and many banks so notified are now in hands of conservators or receivers.

Some of our directors have, in the past expressed themselves as of the opinion that loan value on governments, especially long term, should be predicated on market not to exceed

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

332.3-

13-794

RECEIVED AT WASHINGTON, D. C.

par.

As a general policy loans to member banks will be made at par on short-term issues . Shall be glad to place whole matter before our directors at next meeting.

Have been keeping close check on subscriptions to current government offerings. Our totals at three oclock are \$140,000,000 for notes and \$75,000,000 for certificates. All our large banks have responded adequately.

Fancher

330p

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

3323-1

16-794

RECEIVED AT WASHINGTON, D. C.

b6rh m

1934 JAN 24 PM 12 15

Richmond 12p Jan 24

Governor Black

Washn

1/24/34

Answering your telegram we approve the general policy of lending on governments at par and even up to present conditions have pursued that policy with only an occasional exception. We will follow your suggestion and request with respect to subscriptions and reports. Wrote you yesterday about matters closely wound up with this subject

Seay

1214p

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

3373 - 1

16-794

RECEIVED AT WASHINGTON, D. C.

46fy

Atlanta 1047a Jan 24

Black

1934 JAN 24 PM 12 26

Washn.

It is the policy of the Federal Reserve Bank of Atlanta to lend our member banks at par value on Government securities and in my opinion no change in this procedure is contemplated at this time. The amount of all subscriptions received at this bank will be advised as requested

Johns

1226p

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

3323-1

13-794

RECEIVED AT WASHINGTON, D. C.

122gb

Chicago Jan 24 1129am

1934 JAN 24 PM 12 34

Black

Washn

Federal Reserve Bank of Chicago loans to member banks at par on government securities and approves as general policy stop. Reception of present issue favorable will advise you further this afternoon

Schaller

1234p

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

332.3-1

230gb

16-704

RECEIVED AT WASHINGTON, D. C.

Stlouis Jan 24 230p

Black,

1934 JAN 24 PM 3 47

Washington.

11/24/34

Answering your telegram, our present policy is to lend on government bonds to member banks at market or par, whichever is the lowest. This has seemed reasonable to member banks and it is thought by some of us that a change in policy will not affect subscriptions. Will take matter up with our executive committee Friday morning and advise you later. Subscriptions have been coming in very satisfactorily. Up to two oclock our time there have been fourteen million for notes and nine million for certificates. Total twenty three million. Prospects are there will be liberal subscription. Will wire you again three oclock our time.

Martin

347p

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

332,3-1

15-794

RECEIVED AT WASHINGTON, D. C.

120gb

Minneapolis Jan 24 1116am

Black

1934 JAN 24 PM 12 30

Washn

We are loaning par on governments and see no reason to change our policy stop. Will wire as requested at three oclock. Have advised local banks to get in their subscriptions as early as possible.

Geery

1228p

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

332,3-1

121gb

13-794

RECEIVED AT WASHINGTON, D. C.

Kansascity Jan 24 1110am

Governor Black

1934 JAN 24 PM 12 32

Washn.

For several years we have followed policy of lending to member banks at par value on government bonds and see no reason to change policy now. On loans to individuals secured by governments we adopted policy of requiring ten percent margin chiefly for reason that such loans should be carried by member banks. Have had no applications and made no loans to individuals stop. Will advise you at three oclock today the amounts of all subscription received on each class of current offerings.

Hamilton

1232p

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

332.3-1

279gb

RECEIVED AT WASHINGTON, D. C.

Dallas Jan 24 258p

Black

Washn

1/24/24

1934 JAN 24 PM 4 47

Replying your telegram McKinney, who is out of city. It has been the general policy of this bank to lend to member banks at par against government securities ever since we were authorized to make loans of that character except for period during 1921 and 1922. Think it would be helpful if all reserve banks followed that general policy subject to such changes as conditions might require. Will be glad to submit this matter to our board for consideration at next meeting if you desire.

Gilbert

447p

TELEGRAM

FEDERAL RESERVE BOARD
WASHINGTON

311.1
33203
3323-1

January 24, 1934.

Young - Boston
Harrison - New York
Norris - Philadelphia
Fancher - Cleveland
Seay - Richmond
Johns - Atlanta

Schaller - Chicago
Martin - St. Louis
Geery - Minneapolis
Hamilton - Kansas City
McKinney - Dallas
Calkins - San Francisco

Most of the reserve banks lend to member banks at par value on Government bonds. It would be helpful if this were made the policy of all reserve banks. Please advise your present policy in this respect and whether your bank would approve the general policy of lending to member banks at par. Please keep close check today on subscriptions to present Government offerings and when requested suggest advisability of early subscriptions as it would be advantageous for the offering to be quickly absorbed. Kindly advise at three o'clock today amounts of all subscriptions received at your bank on each class of offering.

Black

Cm

[Handwritten initials]

FILE COPY

Market value

FEDERAL RESERVE BOARD FILE
~~332-3~~

332.3-1

February 19, 1932.

Hon. Guy E. Campbell,
House of Representatives,
Washington, D. C.

Dear Mr. Campbell:

In accordance with your request, the subject matter of the letter of February 11 addressed to you by Mr. Harry R. Hosick, Vice President and Secretary of the Potter Title and Trust Company of Pittsburgh, Pennsylvania, which was transmitted with your letter of February 12, was brought to the attention of the Federal Reserve Board. Mr. Hosick's letter is returned herewith.

The Federal Reserve Act contains no provision to the effect that the privilege of borrowing on the security of United States Government bonds shall be granted to member banks on the basis of the par value of such bonds. However, the law does place upon the board of directors of each Federal reserve bank the responsibility of determining what discounts, advancements and accommodations may be safely and reasonably granted to each member bank with due regard to the claims and demands of other member banks, and the Board feels that the question whether the privilege of borrowing on the security of Government bonds should be granted to a particular member bank on the basis of market or

FILE COPY

par value is one primarily for the exercise of the judgment of the board of directors of the Federal reserve bank concerned. In the circumstances, it is suggested that, if Mr. Hosick desires to pursue the question further, he take the matter up directly with the Federal Reserve Bank of Cleveland, in order that its officers may have an opportunity to discuss it more fully with him.

Very truly yours,

(Signed) Chester Morrill

Secretary.

CM/EMM/acw

Handwritten signatures and initials:
A circled stamp with the number 7000.
A large signature that appears to be "C. Morrill".
Other initials and signatures including "EMM", "acw", and "R".

Formally
appd
AT BOARD MEETING

FEB 25 1932

AM

FOR APPROVAL ✓
Gov. Meyer ✓
Mr. Hamlin ✓
Mr. James ✓
Mr. Magee ✓
Mr. Miller ✓
~~Mr. Pale~~
Mr. *Harrison* ✓
Mr.

Please note - initial and
Return to Secretary's Office

FILE COPY

GUY E. CAMPBELL
36TH DISTRICT
PENNSYLVANIA

COMMITTEES:
BANKING AND CURRENCY
EXPENDITURES IN THE
EXECUTIVE DEPARTMENTS
ENROLLED BILLS

Congress of the United States
House of Representatives
Washington, D. C.

3323-1

February 12, 1932.

Honorable Chester Morrill,
Secretary, Federal Reserve Board,
Treasury Department,
Washington, D. C.

My dear Mr. Morrill:

Pursuant to conversation had with you over the telephone on the 10th, I desire to invite your attention to the inclosed letter I have received from the Vice President and Secretary of the Potter, Title and Trust Company of Pittsburgh, Pa., which you will find to be self-explanatory.

I will greatly appreciate your presenting this matter to the Board of Governors, and advise me of action taken.

Appreciating your courtesy and cooperation, I am,

Sincerely yours,

Guy E. Campbell

COPY

POTTER TITLE AND TRUST COMPANY

Fourth Avenue and Grant Street

Pittsburgh, Pa.

February eleventh,
Nineteen thirty-two.

Honorable Guy E. Campbell,
House of Representatives,
Washington, D. C.

Dear friend Guy:

I certainly appreciate your prompt reply to the matter referred to in our telephone conversation yesterday.

The position taken by the Federal Reserve Bank of Cleveland, Fourth District, requiring coverage on Government bonds between the par value and the market value, is in my opinion, a very serious matter, especially during the existing business conditions throughout the country.

I simply refer to our own institution, which as you well know is one of the smaller banks, for an example of how unfair and injurious this rule is at the present time. Although organized under the Pennsylvania State Banking laws, we have been a member of the Federal Reserve System since 1917, having joined the system in great part through patriotic motives. We were given to understand at the time of our becoming a member that we would always have the privilege of borrowing on Government bonds at par. It is our understanding that this provision is a part of the original act creating the Federal Reserve System.

We have always made it a rule to subscribe very liberally to practically all of the Government Bond issues as we felt free to do this knowing that we could always borrow on the Government bonds at par. At the present time our statement shows over \$4,000,000.00 of invested securities, \$2,100,000.00 of which consist of Government Bonds, all of which were purchased by us at par through the Federal Reserve Bank at Cleveland. At the present time there is an average of ten percent depreciation on Government Securities, and the enforcement of this rule will cause us to decrease our cash reserve by at least \$200,000.00 When you consider an institution of this size which carries \$1,000,000.00 for cash reserve and other requirements, if compelled to decrease its cash position to the extent of \$200,000.00 for the coverage required by the Federal Reserve Bank of Cleveland, it not only creates a serious hardship on the bank, also increases the burdens upon the general public which are already entirely too heavy to be borne.

Potter Title and Trust Company
Hon. Guy E. Campbell

page 2.

The municipalities are requiring deposit of Government bonds to secure deposits, accepting them at par, as are also the State and Postal Savings system, if, however, the word gets out that the Government itself, through the Federal Reserve System, is not recognizing its own securities at par, they in turn will take similar action. In my opinion this is a severe blow and really an attack upon the stability and confidence of the people in our government.

According to the information received by us, every banking institution in the City of Pittsburgh has extensive loans, most of it represented by Government securities. It is hard to understand why the Federal Reserve System, which should be constructive and helpful, is taking a step which makes the transaction of business and accommodation of customers still more difficult.

While we wish to state that we are bitterly opposed to the action taken by the Federal Reserve Bank of Cleveland, and consider it a serious mistake, yet you can appreciate the fact that this letter should be considered entirely confidential. It might not tend to increase our popularity with the officials of the Federal Reserve Bank of Cleveland if a communication of this kind were brought to their attention.

Very truly yours,

(Signed) Harry R. Hosick,
Vice President and Secretary.

Office Correspondence

FEDERAL RESERVE BOARD

Date December 24, 1931.

To All Members of the Board

Subject: 3320

From Mr. McClelland

332.3-1

2-8495

12/15/31

There is attached hereto, for the information of the members of the Board, copy of a memorandum, prepared in Counsel's office at the request of Mr. Hamlin, with reference to the positions which the Federal Reserve Board has taken from time to time on the question whether Government securities given as collateral to member banks' promissory notes or as collateral to paper rediscounted by one Federal Reserve bank with another, should be valued at par or at current market price.

- Governor Meyer ✓
- ~~Mr. Hamlin~~ ✓
- Mr. Miller ✓
- Mr. James ✓
- Mr. Magee ✓
- Mr. Pole ✓

Please circulate promptly and return to the Secretary's office.

File

CW

Dec. 15, 1931.

Mr. Wyatt- General Counsel.

3323
Positions Board has taken

Mr. Seitz

re value of Government securities.

In accordance with your request, there are summarized below the various positions which the Federal Reserve Board has taken from time to time with reference to the question whether Government securities given as collateral to member banks' promissory notes or as collateral to paper rediscounted by one Federal reserve bank with another, should be valued at par or at current market price. The only kinds of Government securities with which the Board was concerned from the standpoint of value were Liberty Bonds and Victory Notes and, therefore, wherever the term "Government securities" is used below it refers to these particular classes of obligations.

SUMMARY

The Board's first circular letter on this subject was that of January 2, 1920 (X-1784), wherein the Governors and Chairmen of all the Federal reserve banks were advised that the Board concurred in the suggestion which a Federal reserve bank made to a member bank that credit for Government securities which it had purchased in the open market and wished to use as collateral to its 15-day note, should only be allowed at the market value of the securities.

The next and final circular letter the Board sent out was that of June 15, 1920 (X-1954), wherein the Chairmen of all the Federal reserve banks were instructed that collateral notes discounted by one Federal reserve bank for another should be fully secured from the

standpoint of market value. These instructions were modified to some extent by a plan which the Board sent to some of the Federal reserve banks under which they could discount for another Federal reserve bank, notes of member banks secured by bonds at their par value, but would only pay the offering Federal reserve bank an amount equal to the market value of the bonds, the difference between such market value and the face of the notes being retained until payment was received on the notes.

The Board later instructed certain of the Federal Reserve Agents that, in issuing Federal reserve notes against bond secured collateral, they should insist that the market value of the bonds equal the face amount of the notes tendered as security for the Federal reserve notes. Subsequently, a few Federal Reserve Agents were advised that they could for a short time accept as security for Federal reserve notes, member banks' notes deficient in market value collateral, if the margin of collateral carried by them against issued Federal reserve notes equalled or exceeded the difference between the market value of the Government bonds and the face of the notes which the bonds secured.

It also appears that the Board advised a few of the Federal reserve banks that they should bring about a condition whereby their transactions with member banks would be fully secured with market value as a standard. Furthermore, the Board later gave advice to two of the Federal reserve banks which in effect authorized the temporary ~~recession~~ or suspension of all requirements which it had previously imposed upon these Federal reserve banks.

The Board's records on this general subject are not complete in some instances, but, except as to those Federal reserve agents and Federal reserve banks to whom or which the specific advice or instructions above referred to had been given, it would seem that the only general requirement the Board issued was that which was laid down in circular letter X-1954.

DISCUSSION

The question of the value of Government securities when used as collateral was first presented to the Board in December of 1919, by Mr. Heath, Federal Reserve Agent at Chicago. Mr. Heath asked whether (1) he could accept as collateral for Federal reserve notes a note of a member bank secured by Government securities at their face value when he had knowledge that the securities had been purchased by the member bank at less than par, and (2) the Federal reserve bank could loan against Government securities at par when it knew that such securities had been purchased at a discount.

Under date of December 27, 1919, Governor Harding replied that:

(1) The member bank's note is the collateral upon which Federal reserve notes are issued and that they may be issued upon the face value of the member bank's note even though the Government securities securing it are selling below par. The Board, however, later gave advice to some of the Federal reserve agents, including the Federal Reserve Agent at Chicago, which is directly opposed to that

which it gave in this particular instance.

(2) The Federal Reserve Bank could lawfully make an ^{advice} to a member bank on its notes secured by Government securities even though such securities might be below par.

Subsequently, Mr. Heath advised that his inquiry was occasioned by the action of a member bank in buying Government bonds in the open market below par and using such bonds at their par value as security to its promissory note which it presented to the Federal Reserve Bank of Chicago. Mr. Heath stated that in this particular case the needs of the member bank were taken care of; but when it was suggested to the member bank that, because its acquisition of the bonds was in the open market, it should either deposit additional collateral to margin the transaction up to 100% or reduce it to the market value of the collateral, the member bank agreed to comply with the suggestion.

In replying under date of December 31, 1919, Governor Harding said:

"The Board takes the view that the attitude of the Federal Reserve Bank was entirely sound. The underlying principle of a collateral loan is that aside from the value of the maker's name from a moral standpoint the chief reliance for security is placed upon the collateral, and collateral notes provide as a rule for the maintenance of a certain margin and for the calling for additional security should the market value of the collateral decline.

"We are now getting away from war financing and from the principles which governed the Federal Reserve Banks in facilitating such financing. It is quite probable that there are no longer existent any commitments to carry securities, and the Board feels that it is sound banking policy

"to require notes secured by Government bonds to be limited to the market value of the bonds. It assumes, of course, that it is not the policy of the Federal Reserve Banks, as it certainly is not the Board's policy, to do anything to reflect on the value of Government obligations, but the banks have already established higher rates of discount for paper secured by Government bonds than were in effect several months ago and the adoption of a well-established banking principle as to adequacy of collateral does not constitute, and should not be regarded as any reflection upon the collateral itself."

The facts of Mr. Heath's letter and the text of Governor Harding's reply were sent in the form of a circular letter on January 2, 1920 (X-1784), to the Chairmen and Governors of all the Federal reserve banks.

The language used in this letter is general in its terms and somewhat misleading. In other words, it might be interpreted as requiring that all notes of member banks secured by Government bonds should be fully secured with market value as a criterion when taken by Federal reserve banks; and the following excerpts from two letters which were addressed to Senator Chamberlain under dates of February 2 and 7, 1920, seem to indicate that the Board intended the letter to require such security at least in cases where the bonds had been purchased at less than par:

"Your correspondent has quoted correctly a part of a circular letter sent to all Federal Reserve Banks by the Federal Reserve Board under date of January 21, (2) 1920. It has come to the knowledge of the Board that banks and individuals have been buying Government bonds at the market price and then sought to rediscount notes with the Federal reserve banks for the

"the full face value of the bonds attached as security. The Board has been informed of an instance where bonds of the face value of \$100,000 were bought at around \$92,000, and the purchaser then desired to borrow \$100,000 on the security of the bonds. I think you will agree with me that it is necessary to put a check on transactions of this kind." (From letter of February 2, 1920.)

"I have received your letter of the 4th instant and have discussed it with my colleagues on the Federal Reserve Board.

"While the Board is anxious to do everything that it can consistently to sustain the value of Government bonds, and while it believes that present conditions are only temporary and that the bonds are worth intrinsically much more than present quotations and will ultimately go to par or better, it feels, nevertheless, that it would be a very unsound policy to permit the Federal reserve banks to make loans up to the face value of the bonds in cases where it is known that they have been bought at the prevailing discounts. In view of present conditions, it seems to the Board that any attempt to stabilize the bond market by ~~artificial~~ measures, either as to the value of the bonds or discount rates on paper secured by bonds, would be an incentive for borrowing on a vast scale resulting in further expansion and further disturbance of price levels, and if carried to extreme would jeopardize our credit structure." (From letter of February 7, 1920.)

On the other hand, letters which the Board later addressed to certain of the Federal reserve agents (hereinafter referred to) clearly show that the Board had never intended to prescribe the terms on which Federal reserve banks should take notes from member banks which were secured by Government obligations. It appears, therefore, that the purpose of X-1784 was merely to bring to the attention of the other Federal reserve banks the fact that the Board approved of the position which the

Federal Reserve Bank of Chicago had taken in the case described.

On May 27, 1920, Mr. Heath suggested that he should not accept as collateral to Federal reserve notes any paper which was not secured by Government securities at their market value; and on May 28, 1920, Governor Harding sent him the following telegram which had been approved that day at a Board meeting:

"Board believes that where you accept collateral notes as security for Federal reserve notes issued to Federal Reserve Bank, that collateral security securing such notes should be accepted on basis of market value, and Board approves your contemplated action".

The Board of Directors of the Federal Reserve Bank of Chicago then instructed its Governor and Federal Reserve Agent to bring about a condition whereby loans on collateral would be based on its market value; and on June 4, 1920, the Federal Reserve Bank of Boston also advised that it had adopted a similar policy.

On June 11, 1920, Mr. Morss, Governor of the Federal Reserve Bank of Boston, advised that his bank had discounted for the Federal Reserve Bank of Richmond certain notes secured by Government securities and that, figuring the value of the collateral at the market price, there was a deficiency of approximately 7%. He stated that Federal reserve notes were issued against such notes and collateral for the full amount of the notes, and requested advice as to whether his bank should require collateral from other Federal reserve banks at more than the market price.

The question presented by Governor Morss was considered by the Board at its meeting of June 15, 1920, and as a result, Governor Harding on that same day transmitted a circular letter (X-1954) to the Chairmen of all the Federal reserve banks advising as follows:

"The Board has considered this question and desires that all Federal Reserve Banks be informed that they are expected in their discount transactions for other Federal Reserve Banks to require that all collateral notes discounted be fully secured, that is, that the market price of the collateral be equal to the face of the notes. The Board would suggest, however, that Federal Reserve Banks which hold collateral notes discounted for other Federal Reserve Banks give the borrowing banks a reasonable time, say until July 1st, to make good any deficiency in collateral."

On June 23, 1920, in accordance with action taken by the Board at its meeting of the preceding day, Governor Harding advised the Federal Reserve Agent at Atlanta to the following effect in connection with an inquiry he had made regarding the value of Government bonds:

"You are advised that after careful consideration of the matter the Board has reached the conclusion that in receiving collateral notes from a Federal reserve bank as security for Federal reserve notes, a Federal reserve agent should satisfy himself that the market value of the collateral is equal to the face of the notes tendered as security for Federal

reserve notes."

Governor Harding also stated:

"While the Board does not undertake at this time to lay down any rules to govern the officers and directors of Federal reserve banks in passing on the value of eligible paper offered for discount, it wishes to point out that acting through the Federal Reserve Agent it has the right 'to grant in whole or in part, or to reject entirely the application of any Federal Reserve Bank for Federal reserve notes', and has, therefore, the right to give a Federal Reserve Agent general instructions to guide him in passing on the notes, drafts, bills of exchange, etc. offered by a Federal reserve bank as collateral security for Federal reserve notes."

Under date of June 24, 1920, Governor Harding said the following to the Federal Reserve Agent at Kansas City:

"so far the Board has been inclined to the view that each Federal Reserve Bank should determine for itself the terms on which it will take notes secured by government obligations. It is of the opinion, however, that Federal Reserve Agents should not take from the banks collateral notes as security for Federal Reserve notes unless the market value of the collateral is equal to the face amount of the note pledged."

Similar advice was given to the Federal Reserve Agent at Dallas by Governor Harding in a letter dated June 26, 1920. It was stated that while the Board felt it desirable that all collateral should be valued at its market price

"it has not so far undertaken to determine such a policy for the Federal reserve banks in their own transactions with members" but "that Federal Reserve Agents in taking notes from their members to secure Federal reserve notes should feel assured that the market value of the security held as collateral for notes is equal to the face of the notes."

These three letters show conclusively that the Board had never laid down any rules governing transactions between Federal reserve banks and their member banks and, therefore, support the conclusion that circular letter X-1784 merely advised the Federal reserve banks of the position which the Federal Reserve Bank of Chicago had taken in the case described.

On July 6, 1920, the Governor of the Federal Reserve Bank of Boston advised that his bank had discounted paper for the Federal Reserve Bank of Dallas which was not secured "on the basis of your letter" (X-1954). He stated that the Dallas Bank had informed him that its directors were averse to changing its policy of taking notes secured by Government bonds at the face value of the bonds and that it had offered to give additional collateral in the form of member banks' notes secured by Government bonds to make up the deficiency in the notes discounted. Because the Dallas bank did not give its own note to the Boston bank, the Governor of the latter bank felt that the additional collateral should be deposited with some form of agreement to pledge it for any debts owed to his bank by the offering Federal reserve bank; and he

submitted this proposition to the Board for its consideration.

As a result, Mr. Logan, the Board's General Counsel at that time, was requested to give his opinion as to the legal considerations involved in the following plan :

Federal Reserve Bank A desires to rediscount with Federal Reserve Bank B, 15-day notes of member banks aggregating \$5,000,000 which are secured by Government bonds of a face amount of \$5,000,000, but of a market value of only \$4,500,000. The latter bank desires to make such discount but wishes to abide by the terms of circular letter X-1954. It was proposed, therefore, that both banks agree that Bank B pay for the notes by transferring \$4,500,000 through the Gold Settlement Fund and crediting the account of Bank A with \$500,000 on the books of Bank B, it being understood by both banks that this credit was to protect Bank B for any deficiency in the market value of the collateral, and that Bank A would not draw upon it until Bank B had received payment on the notes discounted.

Mr. Logan also considered the question whether, if Bank A should fail after such transaction had been carried out, Bank B could set off against the \$500,000 credit the liability of Bank A as indorser of the notes rediscounted; and, in the memorandum he addressed to Governor Harding under date of July 20, 1920, discussing this plan, he considered that the asset of Bank A was a debt due from Bank B; and Bank B had the right to offset against this debt any debt from Bank A to it. He held, therefore, that no special agreement between the two

Federal Reserve Banks was necessary to give Bank B protection under the \$500,000 credit. Mr. Logan also stated that:

"In order to comply with the present requirements of the Board with regard to collateral security for Federal reserve notes, the Reserve Agent for Federal Reserve Bank B should issue Federal reserve notes against the collateral notes rediscounted for Federal Reserve Bank A only up to the market value of the security behind such collateral notes. In other words in calculating the collateral for Federal reserve notes collateral notes secured by Liberty bonds and Victory notes should be put in at the market value of the security held therefor."

The details of this plan together with Mr. Logan's comments were sent to the Governor of the Boston Bank and he advised that the plan would be put into operation the next time his bank discounted for another Federal Reserve Bank notes which were deficient from a market value standpoint. The plan was also sent to the Federal Reserve Bank of Dallas and paper was subsequently rediscounted by that bank with the Boston bank under the procedure outlined therein; but it does not appear that it was brought to the attention of any other Federal reserve banks at that time.

In short, the plan provided that, instead of a Federal reserve bank requiring notes discounted for another Federal reserve bank to be fully secured from a market value standpoint, it discount the notes tendered but pay to the offering bank only an amount equal to the market value of the security, and credit the difference between such market value and the face of the notes to the account of the offering bank to become available upon payment of the notes. It, therefore,

qualified to some extent the requirement which the Board had laid down in circular letter X-1954.

In the meantime, the entire question of how member banks' notes secured by Government bonds should be treated had been under consideration by the Federal Reserve Board; and as a proposed solution of the problem, a plan (X-1972) was sent by Governor Harding on July 3, 1920, to the Federal Reserve Banks of Philadelphia, Richmond, Atlanta and Dallas, in whose districts the bond question was most important.

That plan suggested that the Federal Reserve Banks mentioned establish preferential rates for 15-day notes of member banks secured by Government bonds if they were willing to adopt the policy of declining to discount these notes unless they were secured by bonds of an equal market value which were actually subscribed for and owned by the borrowing bank or taken by it from defaulting subscribers before a certain designated date. If the notes were not so secured the deficiency was to be made up by the pledge of additional United States bonds or notes, or by such notes, drafts, etc., as were eligible for purchase or rediscount by Federal reserve banks.

The Federal Reserve Banks of Philadelphia and Richmond were strongly opposed to adopting any such plan. The Federal Reserve Banks of Atlanta and Dallas, however, submitted proposed changes in their discount rates to the Board for its approval in

accordance with its suggestions; but after some correspondence with these Federal reserve banks, Governor Harding advised the respective Federal Reserve Agents under date of July 14, 1920, that the approval of the plans "would invite pressure for like action in other districts and there are so many possible complications that (the) Board desires further time to investigate (the) proposition from (the) standpoint of (the) system as a whole." These letters, which were substantially the same, were approved by the Board at its meeting of July 15, 1920.

Governor Harding referred to the difficulty that would be encountered in the Atlanta and Dallas districts in making effective a policy of requiring full market value security without at the same time making some concession in discount rates, and advised that the Board had decided to modify its requirement covering the issuance of Federal reserve notes in cases where Government securities were involved. He said:

"* * * The Board realizes, however, that in a few of the districts, including yours, it would be difficult to make this policy effective at this particular time of the year with the absence of some special inducement in the way of a lower discount rate. Therefore pending final action on the recommendations made by your Board of Directors and awaiting more favorable conditions for making the new policy effective, in case the Board should find itself unable to approve the plan recommended, it has been decided for the present not to require you as Federal Reserve Agent to insist that each collateral note offered by * * * (your) Federal Reserve Bank * * * as security for Federal reserve notes be in itself fully secured, but you should require that in each instance the aggregate of notes,

(counting collateral notes as being worth the market value of the bonds attached thereto) be equal at least to the amount of Federal reserve notes released by you to the bank. The Board's figures show that at present you have in your possession as Federal Reserve Agent an apparent excess of * * * (amount given) million dollars face value of paper above the amount of Federal reserve notes issued. This would indicate that you have ample margin."

With reference to rediscount transaction with other Federal reserve banks, Governor Harding said:

"In your rediscount transactions with other Federal reserve banks, however, it will be necessary for you to meet the requirements of the banks which rediscount for you. The Board does not feel disposed to compel any Federal reserve bank to discount collateral notes for another Federal reserve bank which are inadequately secured. Perhaps the easiest way for you to arrange with other banks which may discount for you would be for your bank to leave with the rediscounting bank a balance as an offset. For example, in case you should rediscount five million dollars of member banks' collateral notes with Boston and the collateral to the notes is worth only four and a half million dollars, it is the Board's view that you might arrange with Boston to transfer four and a half million dollars for you through the Gold Settlement Fund and to retain five hundred thousand dollars as a book credit. While the five million dollar transaction would go through at the regular rate, the Board would have no objection to the lending bank making you the proper reduction on account of the free balance left with it."

With reference to the value of the collateral behind a member bank's note, Governor Harding made the following remarks:

"It is the view of the Board that when a Federal reserve bank discounts a member bank's note secured by collateral the market value of the collateral to the note ought to be equal at least to the face of the note discounted.* * *

"The Board desires, however, to call the attention of your directors to the desirability of having all member banks' collateral notes fully secured with market value as a standard, and will expect, regardless of any action which may finally be taken on the proposition to reduce rediscount rates, that your officers will be able during the next few months to have all collateral notes fully secured."

one of
A copy of these letters was also sent to the Federal Reserve Agents at New York and Philadelphia.

The Federal Reserve Bank of Atlanta seemed to be satisfied with the decision of the Board as above expressed. The Federal Reserve Bank of Dallas, however, through its Federal Reserve Agent, repeatedly urged the Board to approve its preferential rate plan; but on August 4, 1920, the Board wired the Federal Reserve Agent as follows:

"The Board is not yet prepared to approve resolution adopted by your board of directors * * * and would suggest that you defer for the present and until credit situation eases in your district enforcing requirement that notes secured by Government obligations be fully secured on basis of market value. General proposition will come up for discussion at meetings of Federal Reserve Agents and Governors some time this Fall.

This advice had the effect of suspending, until after the 1920 Fall Conferences of Federal Reserve Agents and Governors, all requirements which the Board had previously imposed upon the Federal Reserve Bank of Dallas.

It does not appear that the Board ever approved either of the proposed plans referred to above.

I also wish to call your attention to certain remarks which were made by Governor Harding in a letter he addressed to Mr. Morss, Governor of the Boston bank, under date of August 18, 1920. This bank had been requested by the Federal Reserve Bank of Dallas to rediscount its bond secured paper at the face value of the bonds and Governor Morss advised Governor Harding that he was going to submit the matter to the Executive Committee

of his bank for its consideration. He also said:

"It will bring up the question of whether we ought not recede from our position in this District of requiring market value of bonds for collateral. If the New York bank and other banks think it is sufficient to allow par value on bonds for collateral, why should this District not follow the course, which is more favorable to our member banks?"

In replying, Governor Harding said:

"* * * * * It is noted that you intend to put the whole question up to your Executive Committee at the next meeting and the Board will be satisfied to leave the matter entirely to its determination. It is the view of the Board that no legal question is necessarily involved when a Federal reserve bank rediscounts for a member bank a customer's note which has Government obligations attached as collateral, for the note may have been made for one of the purposes outlined in Section 13 of the Federal Reserve Act, and might, therefore, be eligible without security. In any event the Federal reserve bank would have double protection, the obligation of the maker of the note as well as that of the member bank endorsing it. There may, however, be a legal question involved in discounting a member bank's collateral note.

* * * * *

"It seems clear that a Federal reserve bank could not discount the straight note of a member bank unsecured and that it could not discount the note of a member bank for \$100,000, secured by \$85,000 par value of Treasury certificates. A question arises, therefore, whether a note of a member bank for \$100,000 secured by the same amount par value of Liberty Bonds, which are actually worth on the market, however, only \$85,000 can be legally discounted by a Federal reserve bank. In either case it would seem that an advance of \$15,000 would be made upon the unsecured obligation of the member bank, which the law does not appear to permit.

"However, the Board is content to leave the matter to the discretion of your Executive Committee and the question will be discussed at the Conference in October."

It would seem that this letter authorized the suspension, until after the 1920 Fall Conference of Agents and Governors, of all requirements which the Board had previously imposed upon the Federal Reserve Bank of Boston.

The question "Should member banks' collateral notes be fully secured, taking market value instead of face value as a basis" along with certain other related questions were discussed at the October, 1920, joint conference of the Governors and Agents of the Federal reserve banks (pp. 207-239, Part B, Vol. 1 of Stenographic Report of Proceedings); but it does not appear that any definite recommendations were made in the premises.

Copies of the above mentioned circular letters (X-1784 and X-1954), and memorandum containing the Board's suggestions for preferential discount rates on bond-secured paper (X-1972) are attached hereto for your further information.

Respectfully,

S. E. Seitz

Circular letters and
memorandum attached.

SES/sad/omc

~~TELEGRAM~~

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

RECEIVED AT WASHINGTON, D. C.

RECEIVED
~~332 3~~
DEC 14 1921
OFFICE OF
THE GOVERNOR

332.3-1

~~281~~ 281fmt

Minneapolis 105p dec 14

-1921

Harding

Washn

Our executive committee today passed resolutions to loan ninety
five on Liberty bonds as suggested in your telegram of this
morning

Rich

215p

FEDERAL RESERVE BOARD

LEASED WIRE SERVICE
WASHINGTON

3323-1

The telegram given below is hereby confirmed.

December 14, 1921

2-0454

Rich
Minneapolis

Am informed that your bank is still lending only ninety on Liberty Bonds. Other Federal Reserve banks are lending at least ninety-five and I would earnestly suggest that your bank make loans on such paper based more nearly on present market values. This will silence complaints which we cannot answer as long as present loan basis is sustained

HARDING

Market Value

FEDERAL RESERVE BANK
~~332 3~~
3323-1

November 30, 1921.

MEMORANDUM FOR MR. COOKSEY:

Replying to your request made over the telephone, there is given below the basis on which the several Federal Reserve banks listed will accept (according to the most recent information on file here) Liberty Bonds and Victory Notes as collateral on eligible notes of member banks and customers thereof:

<u>BANK</u>	<u>LIBERTY BONDS</u>	<u>VICTORY NOTES</u>
Boston	Market Value	Market Value
New York	" "	" "
Cleveland	90 per cent	95 per cent
Richmond	95 " "	Par
Chicago	95 " "	"
Minneapolis	90 " "	"
Kansas City	90 " "	"
Dallas	95 " "	"

The Board has no information on file with respect to the basis on which the above bonds and notes are accepted by the Philadelphia, St. Louis and San Francisco banks.

Walter L. Eddy.

g

FEDERAL RESERVE BANK	Date of Circular	Liberty Bonds	Victory Notes	Treasury Notes	Cent. of Ind.	
Boston,	8/1/21	Market Value		Market Value		Joint Obligation
New York,	6/1/21	Market Value		—	Par	
Philadelphia,						
Cleveland,	10/27/21	✓ 90%	95%	—	Par	
Richmond,	11/12/21	✓ 95%	Par	Par	—	
Atlanta,						
Chicago,	11/15/21	✓ 95%	Par	—	Par	
St. Louis,						
Minneapolis,	11/16/21	✓ 90%	Par	Par	Par	
Kansas City,	11/2/21	✓ 90%	Par	Par	Par	
Dallas,	11/23/21	✓ 95%	Par	—	—	
San Francisco,						
TOTAL,						

#7
332-3
FEDERAL RESERVE BANK OF CHICAGO

79 WEST MONROE STREET

November 21, 1921.

332-3-1
RECEIVED

NOV 23 1921

OFFICE OF
MR. PLATT.

Mr. Edmund Platt,
c/o Federal Reserve Board,
Washington, D. C.

My dear Mr. Platt:

I have received your letter of the 18th instant and note therefrom that, in reviewing the circulars sent out by some of the reserve banks, relating to the matter of loans based on Liberty bonds and Victory notes, you find the last circular on this subject issued by the Chicago bank bears date of June 8, 1920, at which time we were loaning 85 and 95, respectively, against Liberty bonds and Victory notes.

The facts are that because of the substantial increase in the market value of such securities, I recommended to our Executive Committee on November 15th, the acceptance of Liberty bonds at 95 and Victory notes at par. This suggestion was promptly approved, effective November 16th, and, consequently, a new bulletin (No. 175) was immediately issued. It is our intention to furnish your Board with copies of all bulletins issued. However, the one referred to may not have been received, or may have been delayed, and, therefore, I shall enclose a copy herewith.

I also observe from your letter that in conference with Representative Green of Iowa, you were informed of a complaint originating from some rather obscure source within his congressional district, indicating that banks were requiring a margin of 25 per cent in connection with loans made to cattle feeders, and that this was made necessary by the requirements of the Federal Reserve Bank when such paper was offered for rediscount.

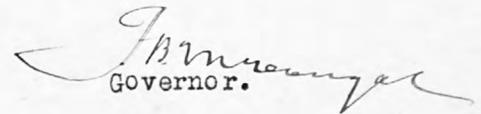
I am very glad to inform you that the foregoing is not at all in keeping with our practice and, consequently, the complaint is not justified. It is quite likely that the report may have originated in connection with the transactions of the Stock Growers Finance Corporation, which corporation, at the outset, required a 25 per cent margin in the security in connection with loans based on live stock, and I understand that, while some concessions have since been made, a substantial margin is required in all cases.

#2 - Mr. Edmund Platt - 11/21/21.

The facts are that we have accepted and are willing to accept for rediscount, notes, the proceeds of which have been used in the purchase of cattle for feeding purposes, even though the notes represent the full purchase price, provided the maker himself is responsible. As a rule, such paper offered here is not accompanied by a chattel mortgage and, under such circumstances, ordinary banking prudence demands that we give consideration to the responsibility of the maker.

While, as indicated, the policy which we are pursuing in connection with loans based on live stock, does not justify the complaint to which you have made reference, nevertheless I am very glad to have been afforded opportunity of replying, and earnestly hope, in case similar questions arise in the future, we may be advised thereof.

Very truly yours,


Governor.

EL
Enc.

332.3-1

November 18, 1921.

Dear Governor McDougal:

Recent circulars sent out by some of the Federal Reserve Banks with regard to loans based upon the collateral of Liberty bonds, Victory notes, etc., caused me, a few days ago, to look over the circulars from other banks, and in the meantime a complaint came in that the Minneapolis bank was requiring a 20 per cent margin on both Liberty bonds and Victory note paper. Minneapolis has since then notified us that they are now loaning par on Victories and 90 per cent on Liberties. It appears that Boston, New York, San Francisco, Richmond and Kansas City are loaning at approximate market value, Kansas City defining market value to be 90 per cent on Liberties and par on Victories, while Richmond defines it as 95 on Liberties and par on Victories. Apparently the last circular we have from the Chicago bank is dated June 8, 1920, when you were loaning only 85 on Liberties and 95 on Victories. Does that circular govern at present, or have you since then changed the margins? In view of present market conditions it would seem to me that the policy of June 8, 1920 was certainly out of date and the bank might safely define market value as 95 and par.

By the way, a week or so ago, Representative Green of Iowa came into see me and stated that he had a complaint from somebody in his Congressional district to the effect that the banks were requiring when they made loans to cattle feeders a statement that 25 per cent of the purchase price of the cattle had been paid in cash. He said that the statement made to him was that the Federal Reserve Bank required this payment though he did not personally believe it to be the fact and thought that the loaning member bank was probably making that as an excuse. I told him I would inquire from you what the policy of member banks and the Federal Reserve Bank was. He stated that it had always been the custom to loan about the full purchase price of the cattle on the theory that they would advance by feeding, increase in weight, etc., about 25 per cent in selling value by the time of sale.

Yours very truly,

Mr. James B. McDougal,
Governor Federal Reserve Bank,
Chicago, Ill.

Edmund Platt

*Trans on
Govt bonds*

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

RECEIVED AT WASHINGTON, D. C..

FEDERAL RESERVE BOARD FILE
~~332.3~~

332-3-1

348fy

Minneapolis Nov 17 145p

Platt

Washn

We are today notifying our member banks that until further notice we will discount eligible notes secured by at least par value of Treasury certificates of indebtedness, Treasury notes and victory notes pledged, and eligible notes not in excess of ninety per cent of the par value of liberty bonds pledged.

Young

340p

EP.

Answers on Liberty Bonds
R. H. G.

332.4
FEDERAL RESERVE BOARD FILE
~~332.3~~

November 16, 1921.

332.3-1
e

My dear Mr. Clague:

In the absence of Governor Harding I am answering your letter of the 14th with regard to the policy of the Federal Reserve Bank of Minneapolis in loans on the collateral of Liberty bonds and Victory notes.

I confess I am surprised to find that the Reserve bank of Minneapolis is still loaning only 80 per cent of par value. Several of the other Federal reserve banks have recently sent out circulars stating that they are prepared to loan 95 per cent on Liberties and par on Victories, which in view of present bond prices would seem to me to be about right. These same banks were, I think, before that loaning either 85 or 90 on Liberties and 95 on Victories. I must add, however, that I don't quite understand why the member banks in the Minneapolis district who elect the directors of the Federal reserve bank have not taken this matter up with their own directors. They should have been able to correct the matter in that way without appealing to anyone else. I shall, however, write Governor Young and call his attention to the fact that other Reserve banks are now loaning, as I said above, 95 per cent on Liberties and par on Victories.

Yours very truly,

Edmund Platt
Vice Governor.

Hon. Frank Clague,
House of Representatives.

SUSPENS
DATE

Margin
on loan

#9

FEDERAL RESERVE BOARD FILE
332.3

332.3-1

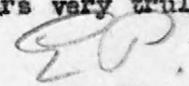
November 16, 1921.

Dear Governor Young:

It seems to members of the Board that your margin on loans secured by Liberty bonds and Victory notes is a good deal larger than necessary, and is certainly larger than any other Federal reserve bank requires so far as I can find from circulars before us. The Richmond bank issued a circular on November 12th stating that they were loaning market value on notes secured by Liberty bonds and Victory notes, which until further notice would mean 95 per cent on Liberties and par on Victories. Boston, New York and San Francisco loans approximate market value, which with the market as it now stands must mean practically the same as the Richmond figures. Kansas City on November 2nd issued a circular defining the approximate value as 90 per cent on Liberties and par on Victories. Cleveland loans 90 and 95. We seem to have no circular from Chicago later than June 8, 1920, which gives 85 and 95, the largest margin of which we seem to have a record excepting that of the Minneapolis bank.

The Board would like to know whether there is any good reason for retaining the large margin of 20 per cent at the present time?

Yours very truly,



Vice Governor.

Mr. R. A. Young,
Governor Federal Reserve Bank,
Minneapolis, Minn.

3323-1

bl47f fa

Minneapolis 422p Nov 15

Platt

Washn

Our latest circular was issued November seventh the last time we changed our rates. On Notes secured by liberty bonds and victory notes we are still requiring margin of twenty percent of par value.

Young

555pm

COPY FOR GENERAL FILES,
ORIGINAL IN SECRETARY'S FILE.

TELEGRAM
FEDERAL RESERVE BOARD
LEASED WIRE SERVICE
WASHINGTON

3323-1

2-9454

November 15, 1921.

Young,
Minneapolis.

Is your circular May tenth Liberty bond loans your latest.
Are you still loaning only 80 per cent par value.

Platt. *P*

Congress of the United States
House of Representatives
Washington, D. C.
14 November 1921

332-3-1

Handwritten signature

The Federal Reserve Board,
Washington, D. C.

Gentlemen:

I have had many letters from banks in my District in southwestern Minnesota, complaining as to the loans made by the Federal Reserve Banks, and particularly the Federal Reserve Bank at Minneapolis, on Liberty Bonds and Victory Notes pledged as collateral.

The last circular sent out by the Federal Reserve Bank at Minneapolis contains the following:

*May 10/21
Ed.*

"Until further notice, member bank's 15 day collateral notes will be accepted only when the amount of the note does not exceed 80% of the par value of the Liberty Bonds or Victory Notes, pledged as collateral thereto. In other words, a member bank's collateral note for \$8,000 must be secured by at least \$10,000 par value Liberty Bonds or Victory Notes to be acceptable."

To me, at this time, in allowing only 80% to be loaned on the par value of Liberty Bonds or Victory Notes is not understandable. It is very difficult for farmers and business men in southwestern Minnesota and in many of the southern and northwestern states to make loans upon personal property such as livestock and



Federal Reserve Board #2

grain by reason of the low prices thereof. Many of these men and many of the bankers are compelled to borrow money on their Liberty Bonds or Victory Notes. And for the Federal Reserve Bank to make a ruling that only 80% of the par value will be loaned upon, seems very stringent and a mighty severe ruling at this time.

Liberty Bonds and Victory Notes are, in my opinion, the best collateral in the world. And why a bank, to-wit: A member bank is not allowed to borrow to the full extent of the Bond or Note is unexplainable to my people. Your Federal Reserve Banks certainly know the financial standing of the member banks. Are not these member banks entitled to any credit?

There is much criticism in my District and throughout the Northwest regarding the action of the Federal Reserve Banks in the making of their loans to member banks in the country and to me, much of the criticism is just.

It is necessary for me to make a reply to these banks and before doing so, I would like to get your views or reasons why only 80% of the par value of Bonds or Victory Notes can be loaned on the same.

Thanking you for a prompt reply, I am

Very truly yours,

Frank Clayton

33203

3323-1

#6

*Excess Collateral
Auto Warehouse*

October 25, 1920

Dear Mr. McCord:

I acknowledge receipt of your letter of the 22nd instant, and note the amount of excess collateral in bills receivable held by you over the above what appears to me to be a reasonable allowance of depreciation of that amount of the collateral which is bond-secured paper.

Very truly yours,

G o v e r n o r

Mr. Joseph A. McCord, Federal Reserve Agent,
Federal Reserve Bank,
Atlanta, Georgia.

W. P. HARDING, GOVERNOR
L. M. BROWN, DEPUTY GOVERNOR
W. BELM, CASHIER
W. B. ROPER, ASS'T CASHIER
W. R. PATTERSON, ASS'T CASHIER
R. A. SIMS, ASS'T CASHIER
J. E. CAMPBELL, ASS'T CASHIER
H. F. DONNIFF, ASS'T CASHIER
A. SLATTERY, SECRETARY

FEDERAL RESERVE BANK OF ATLANTA.

JOS. A. McCORD,
CHAIRMAN OF THE BOARD AND
FEDERAL RESERVE AGENT
EDW. T. BROWN,
DEPUTY CHAIRMAN
WARD ALBERTSON,
ASS'T FEDERAL RESERVE AGT.
CREED TAYLOR,
GENERAL AUDITOR

October 22, 1920.

332.3-1

Dear Governor Harding:

Referring to your instructions that I should keep a sufficient amount of excess collateral in bills receivable, for Federal Reserve notes, wish to say that my estimate as of close of business yesterday, was as follows:

We have practically \$65,000,000 bond secured loans, which are made up of 1st, 2nd, 3rd and 4th Liberty Bonds and Victory Notes, and some secured by Treasury certificates. Therefore, it would be a reasonable conclusion that \$7,500,000 would cover any depreciation from this source.

I wish to advise that the excess collateral in my hands at the same time was practically \$26,000,000, leaving me an excess of \$18,000,000 or \$19,000,000 above any depreciation.

Very truly yours,

Jos. A. McCord
Federal Reserve Agent.

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

332.5

FEDERAL RESERVE BOARD FILE

Re Dallas
1

September 7, 1920

~~332° 3~~

332.3 - 1

X-1972
7/3/20

Dear Governor Morss:

I acknowledge receipt of your letter of the 3rd instant, enclosing copies of your correspondence with Governor VanLandt, of the Federal Reserve Bank of Dallas. I think you have been very liberal in your treatment of the Dallas bank and want you to know that I agree with you thoroughly in your remarks as to the function of discount rates and with your clear statement of the principle that when a note is secured it must be secured for one hundred percent.

This principle is, in my judgment, not merely one of practice but of law. The Federal Reserve Act did not originally permit Federal reserve banks to make advances to member banks on their promissory notes; it provided merely for the rediscount of paper endorsed by the member banks. The amendment which now permits advances to be made to member banks on their promissory notes for a period not exceeding fifteen days contains a proviso that such promissory 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 the Act, or by the deposit or pledge of bonds or notes of the United States. I do not think that anyone would contend that a Federal reserve bank has the right to lend a member bank \$100,000 on its promissory note secured by \$85,000 par value of United States certificates of indebtedness. This would be equivalent to a loan by the Federal reserve bank to the member bank of \$15,000 on its unsecured promissory note. The law is explicit that a member bank's promissory note must be secured. I do not believe that the law intended to permit a Federal reserve bank to lend a member bank \$100,000 on its promissory note secured by the same amount, par value, of United States bonds, the market value of which, however, is only \$85,000, for here again there would be an unsecured loan of \$15,000.

Very truly yours,

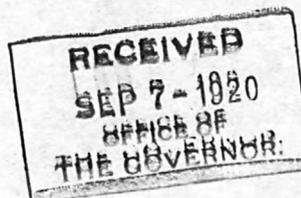
Mr. Charles A. Morss, Governor,
Federal Reserve Bank,
Boston, Mass.

G O V E R N O R

FEDERAL RESERVE BANK OF BOSTON B32.3-1

53 STATE STREET

IN REPLY
PLEASE QUOTE



September 3, 1920

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

Dear Governor Harding:

Enclosed herewith I am sending you copy of the letter which I have received from Governor Van Zandt under date of August 26 and the copy of my reply which I am sending today. The two letters explain themselves.

I will say, however, that in my letter to Governor Van Zandt on August 21, I agreed to rebate all of the discount which we had received from him on the balances which we had retained from their discounts, although I suggested that he might be willing to pay the discount on the 35 per cent reserve which we are required to carry against deposits. As he has declined to accept this compromise, I have acceded to his wishes.

Very truly yours,

A handwritten signature in cursive script that reads "Charles A. Morss".

Charles A. Morss,

Governor

CAM:R
Enclosures 2

A large, stylized handwritten mark or scribble in the bottom left corner of the page.

COPY

September 2, 1920.

Mr. R. L. Van Zandt, Governor,
Federal Reserve Bank of Dallas,
Dallas, Texas.

Dear Governor Van Zandt:

I received your letter of August 26 replying to my letter of August 21 and have read your letter with great interest.

In accordance with my letter of August 21, I have instructed our officers to return to the Federal Reserve Bank of Dallas \$4716.66, being the amount of discount which we have received from you on the balance of your loan which we have retained, to make up the difference between the market and the par value of United States bonds which secured these loans.

In reviewing the correspondence between us, I am impressed by the fact that there seems to be a fundamental difference between the Boston bank and the Dallas bank as to the theory and practice of the use of the discount rates. Our theory in Boston is that the primary use of discount rates is to control credit. When the use of credit is greater than it should be, and is leading to too much expansion and inflation, the rates of discount are raised and it is made expensive for our member banks to borrow, and through them expensive to the commercial community, and by this method the amount of credit asked for from us is kept down to essential necessities. The earnings of the Federal Reserve Bank are not considered but only the effect on the borrowing community.

The result of this practice is that today we have a 7 per cent discount rate on commercial paper, a 6 per cent discount rate on notes secured by United States bonds, and a 5½ per cent rate on notes secured by Certificates of Indebtedness, without any system of graduated discount rates. We are maintaining these rates today not because we think it is necessary for the benefit of the first district, but because we believe that with the low average of the whole Federal Reserve system, it is necessary for the general good to maintain these rates.

Governor Van Zandt

September 2, 1920.

On turning to the practice, however, of the Dallas bank, we find a district which is overloaned, although it may be only temporarily, and while it has a system of graduated discount rates which puts pressure on individual banks, still the standard rates are one-half and one per cent lower than our rates except on loans secured by Certificates of Indebtedness, and therefore the discount paid by member banks in the Dallas district to the Dallas bank must average to be considerably lower than that paid by the member banks of the Boston district. It is for this reason that I say that the theory on which the Dallas bank establishes its discount rates must be different from the theory of the Boston bank.

The question of security is a different question in my mind. We follow the general practice that when a note is secured, it must be secured for 100 per cent. If you get away from that principle and say that 85 per cent is sufficient, there is no limit to the percentage that could be deemed sufficient. This practice also may lead to abuses for we have known of instances in the Boston district where banks have bought bonds at the market price and attempted to borrow here on the par value of the bonds, before we required notes secured by market value of bonds.

However, the directors of each bank control in their own district and no question arises between us except when there are direct transactions between the Federal Reserve banks.

I have conceded the point of the amount of discount on these balances which you have paid to us and have returned to you the amount which you have so far paid us, but I have maintained the principle that the notes which we discount should have collateral at the rate of 100 per cent of market value. As I explained in a previous letter, considering the policy adopted by the directors of this bank and the collateral which we exact from our member banks, I do not feel justified in conceding this point.

The other points which you discuss in your letter, while interesting in themselves, are not to me a part of this fundamental question and I shall be very glad to discuss them with you in detail when we meet in Washington in October.

I see that this matter is one of the suggestions for discussion in the joint conference and I hope it will be thoroughly thrashed out in that meeting.

Very truly yours,

Charles A. Morss,

Governor.

CAM:R

COPY

Federal Reserve Bank of Dallas

August 26th, 1920.

Dear Governor Morss:

This will acknowledge receipt of your valued letter of August 21st in further reference to matter of balances retained by your bank to offset depreciation of Liberty Loan Bonds securing member banks' notes rediscounted with you by this bank.

First of all, I wish to assure you that there is no disposition whatever on our part to enter into any controversy with you over this matter. I also desire to express my appreciation of your suggestion that you are willing to allow us a rebate of discount on the full amount of these balances in the event we are unable to agree with you that rebate should not apply to 35% of the amount which it was necessary for you to carry as reserve against deposits.

While it is our understanding that the Board's circular letter X-1954 of July 15th is not mandatory, nevertheless we fully appreciate the fact that it is optional with the bank granting the accommodation, and entirely within the discretion of its management, whether it shall require that paper offered by rediscounting bank be secured by bonds having a market value equal to the face amount of the notes offered. As an alternative, of course, if the rediscounting bank is unable to furnish notes fully secured, it may leave on deposit with the bank from which it receives the accommodation an amount sufficient to cover depreciation. The fact remains, however, that it is compelled to pay discount on round amounts that it never uses and, again, it suffers a hardship by having its ability to rediscount reduced accordingly.

You have stated that it is the policy of your bank to require that notes of your member banks carry a margin sufficient to make the market value of Liberty Loan Bonds securing them equal to the face amount of the notes themselves. We cannot doubt the wisdom of this policy, and this bank is working to the same end. As explained to you in previous correspondence, our Board of Directors passed a resolution to this effect, but, owing to the fact that the matter of a preferential rate of discount was incorporated in the resolution, the Federal Reserve Board failed to approve it. Since that time we have been unable to obtain a quorum for another Directors' meeting owing to the absence of several of our Directors, and have, therefore, been compelled to make the best of the situation as it exists.

We believe you will willingly agree with us that the average commercial, agricultural and live stock paper does not present the same degree of strength as notes of member banks secured by a like face amount of Liberty Loan Bonds, regardless of depreciation. You would undoubtedly rediscount the first named class of paper, relying largely, of course, on the endorsement of the Federal Reserve Bank, and without raising the

question of margin, notwithstanding the fact that a large portion of the paper might be wholly unsecured. If this is true, I will ask you whether, in your judgment, it is consistent to require a margin in the case of member banks' notes likewise bearing the endorsement of another Federal Reserve Bank, and all of which are secured by a like face amount of obligations of the United States. This is certainly not a parallel case to that of notes offered you by your member banks without the endorsement of another Federal Reserve Bank, and we do not believe that we should be put in the same category.

It is true that the law requires that Federal Reserve Note issues be fully secured, but it is our understanding of the Board's ruling that this requirement is fully met when excess collateral in the hands of Federal Reserve Agents is sufficient to cover depreciation in Liberty Loan Bonds securing member banks' notes held by them. With the strong position that has been shown by your bank, undoubtedly this excess has been more than sufficient.

As explained to you in previous correspondence, the demand on us prior to crop moving time is very heavy indeed, and will probably continue for the next thirty or forty days, at the end of which time we hope for a substantial liquidation. In the meantime we will be compelled to rediscount extensively. Under these circumstances, while we must, of course, conform to the requirements of the Federal Reserve Banks from whom we receive accommodations, with our reserves declining it is needless to say that it is highly essential that we secure the full benefit of paper rediscounted. As stated before, it works a hardship on us where we are compelled to leave a good percentage of the proceeds on deposit during the period of accommodation, and particularly so when called upon to also pay discount on the amount of such deposits withheld.

In the course of the next three months, we expect to be doing our part towards helping other Federal Reserve Banks carry their burdens, and until that time we do not feel that we should be penalized in our efforts to relieve the situation at home. Frankly, we will state that were we at this time in the position of the Federal Reserve Bank of Boston, should we be called upon to rediscount for them under similar circumstances, we would not require a margin, and in our transactions with other Federal Reserve Banks it is not required. While it is our desire to reconcile our views with your own as far as possible, from a standpoint of equity and fairness we do not believe that we should be compelled to pay discount on funds that we were never allowed to use.

With this letter before you, we hope that you will see the justice of our position and we stand ready to cheerfully and willingly abide by your final decision.

Thanking you in anticipation of your reply, and with kindest personal regards,

Sincerely yours,

(Signed) R. L. VAN ZANDT,

Mr. Charles A. Morss, Governor,
Federal Reserve Bank of Boston,
Boston, Mass.

Governor.

332 5
~~332 3~~
332-3-1
August 18, 1920

Dear Governor Morss:

I acknowledge receipt of your letter of the 16th instant, enclosing copies of letters from Governor VanZandt of Dallas, and Deputy Governor Sailer of New York. X It is noted that you intend to put the whole question up to your Executive Committee at the next meeting and the Board will be satisfied to leave the matter entirely to its determination. It is the view of the Board that no legal question is necessarily involved when a Federal reserve bank rediscounts for a member bank a customer's note which has Government obligations attached as collateral, for the note may have been made for one of the purposes outlined in Section 13 of the Federal Reserve Act and might, therefore, be eligible without security. In any event the Federal reserve bank would have double protection, the obligation of the maker of the note as well as that of the member bank endorsing it. There may, however, be a legal question involved in discounting a member bank's collateral note. X The law did not originally permit the discount of such a note and the amendment contains a proviso that the member bank's note must be "secured by such notes, drafts, bills of exchange or bankers acceptances as are eligible for rediscount or purchase by a Federal reserve bank under the provisions of this Act, or by the deposit or pledge of bonds or notes of the United States".

It seems clear that a Federal reserve bank could not discount the straight note of a member bank unsecured and that it could not discount the note of a member bank for \$100,000, secured by \$85,000 par value of Treasury certificates. A question arises therefore, whether a note of a member bank for \$100,000 secured by the same amount par value of Liberty Bonds, which are actually worth on the market, however, only \$85,000 can be legally discounted by a Federal reserve bank. In either case it would seem that an advance of \$15,000 would be made upon the unsecured obligation of the member bank, which the law does not appear to permit.

However, the Board is content to leave the matter to the discretion of your Executive Committee and the question will be discussed at the conference in October.

Very truly yours,

Mr. Charles A. Morss, Governor,
Federal Reserve Bank,
Boston, Mass.

G O V E R N O R

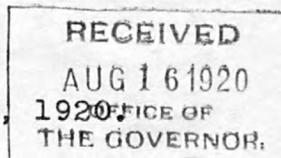
FEDERAL RESERVE BANK OF BOSTON

53 STATE STREET

332.3-1

IN REPLY
PLEASE QUOTE

August 16th,



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

Dear Governor Harding:

I wish to acknowledge receipt of your letter of August eleventh, in reply to my telegram of the tenth instant, relating to the adjustment of discount rates with the Federal Reserve Bank of Dallas.

Enclosed herewith I am sending you copies of two letters received from Governor Van Zandt; the first is a copy of his own letter under date of August ninth, and the second is a copy of a letter to Governor Van Zandt from Deputy Governor Sailer of the Federal Reserve Bank of New York, dated August fifth.

You will see by Governor Van Zandt's letter how he feels about this matter, and the reasons that he brings up for our being easy with them, and he is very much encouraged in continuing his policy and in asking us to treat him liberally by the letter from the Federal Reserve Bank of New York. He seems to feel that we are unreasonably severe on the question which is academic today because there is no question about the value of the endorsements, and if we press our views on him, we shall simply get his ill will. This is something that I do not want to do as there does not seem to be sufficient reason to warrant it.

I shall put this whole matter up to our Executive Committee at the next meeting, to be held on Thursday morning, and see what they think should be done. It will bring up the question of whether we ought not recede from our position in this District of requiring market value of bonds for collateral. If the New York bank and other banks think it is sufficient to allow par value on bonds for collateral, why should this District not follow the course which is more favorable to our member banks?

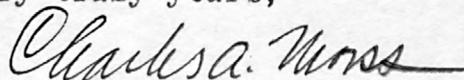
Governor Harding - 2.

August 16, 1920.

Probably you can hardly appreciate the criticisms that we are under in maintaining our present high discount rates, together with our high reserve position. The fact is, there is a disagreement on this subject in our own Board of Directors, and scarcely a meeting goes by but the question is brought up as to whether we should not reduce our discount rates. I should not believe in reducing our present discount rates at this time, but the pressure grows stronger as liquidation in New England continues.

I am sure that after reading the letters which I enclose, you will appreciate the reason why we feel as expressed to you in this letter.

Very truly yours,



Charles A. Morss,
Governor

C O P Y

August 9, 1920.

Dear Governor Morss:

With the regular seasonal liquidation in this District not having taken place last year, necessitating the financing of a new crop before returns have come in from the old, with there being no market for wool, and neither cars nor ships for our grain, we are confronted with the necessary of rediscounting with other Federal reserve banks to a very much greater extent than was ever anticipated by us. This condition will probably obtain for some forty-five to fifty days longer, by which time some real liquidation should take place.

Owing to the splendid reserve position of your bank, most of our rediscounts are arranged with you by the Federal Reserve Board. New York is taking a part and Cleveland the remainder. The Federal Reserve Board has positively refused to approve the resolution of our Board of Directors which I quoted to you in my letter of July 10, and owing to absence from the District and from the United States of a number of our directors, it will be impossible to get another directors' meeting before early in September. Owing to the fact that this matter was so thoroughly discussed and so definitely acted upon by our directors at their last meeting, we are without authority to adopt the policy of receiving Liberty Bonds and Victory Notes as collateral at the market value only.

My attention has been called to the fact that in our rediscounting with you we are required to carry a free balance amounting to the difference between the amount of notes rediscounted with you and the market value of the Liberty Bonds and Victory Notes attached thereto as collateral. In some instances this brings about a glaring inconsistency. For instance, one of our directors who lives in Fort Worth is a wealthy cattle man. Desiring funds with which to operate his ranch business he goes to the First National Bank of Fort Worth and borrows \$100,000, attaching thereto as collateral \$100,000 in Liberty Bonds. The First National rediscounts this note with us with its endorsement thereon; we in turn add our endorsement and rediscount the note with you, and although we only received interest at the rate of 5½% we are required to pay you 6% on the entire \$100,000 and get the use of only \$85,000, while if this director had given the First National Bank of Fort Worth his straight note for \$100,000, with no security attached, and the First National had rediscounted that note with us, you would have given us the use of the entire \$100,000 in case of our rediscounting with you.

Our advances are to such an overwhelming extent made up of small notes rediscounted for our member banks that it requires a very great amount of clerical work to prepare an offering of paper of that kind, and therefore we have to "scrape the bottom" to find enough member bank promissory notes and large loans to meet our rediscount requirements.

X { Bearing that in mind, I am wondering if you can't go a little easy on us and accept the endorsement of our member bank and the endorsement of this bank as furnishing sufficient strength to these notes to make up for the difference in the market value of the Liberty Bonds and Victory Notes. I am certain, like all other Federal reserve banks, you keep a sufficient margin of collateral with your Federal Reserve Agent so that no question would arise concerning the security which you have pledged against your Federal Reserve note issues.

For your information in connection with our request, I am enclosing herewith copy of a letter which I have just received from Mr. L. F. Sailer, Deputy Governor of the Federal Reserve Bank of New York.

With kind personal regards, I am,

Yours very truly,

(Signed) R. L. Van Zandt

Governor.

C O P Y

August 5, 1920.

Dear Mr. Van Zandt:

We regret exceedingly the delay in replying to your letter of June 29th with reference to the Federal Reserve Board's Letter X1954, dated June 15, 1920, your letter having been received during Mr. Case' absence for a month.

The policy of this bank in making advances to our member banks has not been changed, and we are still making advances on Liberty bonds and Victory notes for the full face value of the bonds.

We have been advised by the Federal Reserve Board that the Board's letter of July 15th was not intended to be mandatory and that if any Federal Reserve Bank desires to effect rediscounts for other federal reserve banks when the paper is secured only by a like face amount of Government bonds, it may do so. We have not deemed it necessary to require 100% collateral at market value on our rediscounts or loans for members and see no reason for a different attitude on our part toward rediscounts for your bank if you rediscount with us this season.

With reference to the ruling of the Federal Reserve Board that collateral pledged with the Federal Reserve Agent as security for Federal Reserve notes in turn be secured by a like market value of Government bonds, we have also been advised that the Board had modified its ruling so that this requirement might be waived in any case where the aggregate of all collateral held by the Federal Reserve Agent exceeds the amount of Federal reserve notes issued, by an amount greater than the discrepancy between the market value of the bonds and the face value of the notes for which they are pledged as collateral. As our excess of security with the agent seems ample to cover any probable deficiency of collateral market value, we apprehend no difficulty or embarrassment on that score.

I trust that this letter answers your inquiry fully, and with kind personal regards, I am,

Very truly yours,
(Signed) L. F. Sailer,
Deputy Governor.



11
FEDERAL RESERVE BANK
OF DALLAS

FEDERAL RESERVE BOARD FILE

332.3-1

RECEIVED
AUG 19 1920
OFFICE OF
THE GOVERNOR.

August 16, 1920.

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

Dear Governor Harding:

I have your letter of the 11th referring to mine of the 4th and Governor Van Zandt's telegram of the 6th. I will discuss this matter with Governor Van Zandt, and we may conclude to take the matter up directly with the Federal Reserve Bank of Boston. In fact, the Governor wrote them the other day what I thought was a very fine letter, and it may be, as a result of this correspondence, that the attitude of the Federal Reserve Bank of Boston will be changed.

Yours very truly,

W. A. [Signature]
Federal Reserve Agent

WFR/c



33213-1

August 11, 1920

Dear Judge Ramsey:

Referring to your letter of the 4th instant and to Governor VanZandt's telegram of the 6th, I would state that it is not feasible to concentrate all of your rediscount transactions with Cleveland.

A telegram was sent to Governor Morse of Boston yesterday, asking if his bank would be willing to make some concession in discount rates on transactions with your bank in consideration of the free balance left with it. He replied that he felt if allowance should be made, it ought not be made on 35% of the deposit which they are required to carry as reserve against the deposit. The Board decided at the meeting this morning that the entire matter had better be left to the determination of the bank making the loan and I would suggest, therefore, that you negotiate direct with the Federal Reserve Bank of Boston.

Very truly yours,

G O V E R N O R

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

3323-1

August 11, 1920

Dear Governor Morss:

Your telegram of the 10th instant was considered by the Board at the meeting this morning and it was decided that the matter of any special adjustments in discount rates on inter-bank transactions be left to the bank making the loan. The Board therefore leaves the entire matter in your hands for such determination as you may deem proper.

The Board considered your suggestion that advances be made only up to the market value of the bonds securing the notes offered, leaving the question of a deposit out of consideration entirely. After discussing the matter with Counsel, however, it was decided that it would not be practicable to do this.

Very truly yours,

G O V E R N O R

Mr. Charles A. Morss, Governor,
Federal Reserve Bank,
Boston, Mass.

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

332.3-1

2-4715

47qhb

RECEIVED AT WASHINGTON, D. C.,

Boston 5pm Aug 10th

Harding

Washington

8/10/20

3

Answering your telegram about allowance to Dallas on portion of rediscount not covered by market value of collateral left with us on deposit, our letter to you of July twent third we claimed full amount of discount. Dallas objects to paying any discount. We think the Board should settle this matter, but if an allowance is to be made to Dallas it should not be made on the thirty five percent of the deposit which we are required to carry as reserve against deposit. Would it be feasible for us to advance only the market value of the bonds and leave out the question of the deposit. In this way no dispute could arise as to the amount of discount.

Morss

444p

FEDERAL RESERVE BOARD

LEASED WIRE SERVICE

WASHINGTON

332.3-1

The telegram given below is hereby confirmed.

August 10, 1920.

Assistant Secretary.

2-9454

MORSS

Boston

Dallas expects considerable liquidation in near future as cotton is moving freely. Meanwhile bank complains that in your rediscount transactions with it you make no allowance for balance maintained. If you are willing to make reasonable allowance Board will interpose no objection.

HARDING

Market value

First Nat. Helena Ark

SP

FEDERAL RESERVE BANK FILE

~~332.3~~

August 10, 1920

332.3-1

Dear Sir:

I acknowledge receipt of your letter of the 2nd instant, in which you question the correctness of the policy of the Federal Reserve Bank of St. Louis in requiring notes secured by Liberty Bonds and Victory Notes discounted with it to be secured on the basis of market value. The law permits member banks to offer to Federal reserve banks for discount their notes maturing within fifteen days when secured by government bonds as collateral. It does not authorize Federal reserve banks to discount the plain note of a member bank without collateral. Is it not a reasonable construction of the law to hold that collateral notes must be fully secured, not on the basis of values two years ago or three years hence, but on the basis of present values?

If a Federal reserve bank should take from a member bank a note for \$10,000 secured by \$10,000 par value of Liberty Bonds, which are worth on the market only \$8,500, it seems clear that it would be discounting \$1,500 of the amount merely on the bank's name without security. No doubt the Federal reserve bank would be perfectly safe in most cases in doing this, but the Board questions the authority of a Federal reserve bank to do so under the law. However, the matter is one which is primarily for the determination of the Board of Directors of the Federal reserve bank, as the Federal Reserve Act imposes upon the Board of Directors the responsibility for the conduct of the bank and assigns to them the duties usually appertaining to the office of directors of banking associations and all such duties as are prescribed by law.

Very truly yours,

G o v e r n o r

Mr. C. C. Agee, President,
The First National Bank,
Helena, Ark.

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

RECEIVED
AUG 7 - 1920
OFFICE OF
THE GOVERNOR.

326fpo

RECEIVED AT WASHINGTON, D. C.,

Dallas 450P Aug 6

3323-1

Harding

Washn

Relative last sentence penultimate paragraph your letter to Judge Ramsey dated July 14th. In rediscount with Boston that bank requires free balance left on deposit as suggested but charges regular rate on entire amount with no refund on account of free balance. This results in our paying rediscount rate one half of one per cent higher than is received and gives us use of only ninety per cent of amount borrowed. Will appreciate more satisfactory arrangement if possible to make same. Suggest reduction in rediscount rate account free balance or arranging all rediscounts for us with Cleveland.

Van Zandt

610P



FEDERAL RESERVE BANK
OF DALLAS

August 4, 1920

3323-1

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

Dear Governor Harding:-

I am just in receipt of your telegram of this date, in which you advise that the Board is not yet prepared to approve resolution adopted by our Board of Directors on July 7th, and suggesting that we defer, for the present and until credit situation eases in our District, enforcing requirement that notes secured by Government obligations be fully secured on basis of market value.

On receipt of this telegram I advised our Board that there will be no meeting on the 7th, as that was practically the only matter of importance to be considered, and some of them, if they could have come at all, would only have done so at a great inconvenience.

As I wrote you quite a while ago, we can get along very well, under present conditions except for the embarrassment of the requirements of other Federal Reserve banks touching our rediscounts. I have noted the reluctance of the Board to make any suggestion to other Federal Reserve banks of the desirability of modifying their attitude and decision, and that ~~you were~~ ^{I am} not at all prepared to urge that this be done. However, if the Board could see its way to drop a gentle hint to the Federal Reserve banks rediscounting with us, ^{that} they might, with safety state, with our endorsement, that notes secured by Liberty bonds and Victory notes be accepted at one-hundred cents on the dollar, it would make our course much easier.

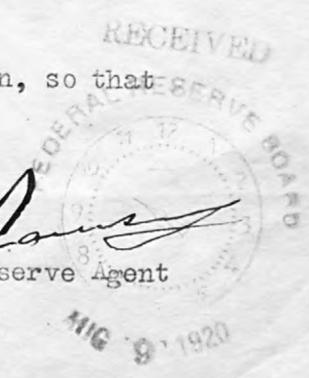
We had, on yesterday, rediscounts in the sum of \$23,500,000, as I recall. This will some higher, just how much higher I do not know. We are in a way to have fairly considerable liquidation soon, but in the meantime cotton will be moving in substantial volume within 10 days, and this always calls for a good deal of money until the cotton can be assembled and ready for shipment to ultimate markets.

Any way, I am ^{merely} gently reminding you of the situation, so that if the Board cares to take any action, they can do so.

Yours very truly,

W. F. Davis
Federal Reserve Agent

WFR/MK



814

FEDERAL RESERVE BOARD

LEASED WIRE SERVICE
WASHINGTON

332.3-1

The telegram given below is hereby confirmed.

August 4, 1920.

Assistant Secretary.

2-9454

RAMSEY

Dallas

Your telegram third. Board is not yet prepared to approve resolution adopted by your board of directors July 7th as quoted, and would suggest that you defer for the present and until credit situation eases in your district enforcing requirement that notes secured by Government obligations be fully secured on basis of market value. General proposition will come up for discussion at meetings of Federal Reserve Agents and Governors some time this Fall.

HARDING.

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

3-6718

332,3-1

RECEIVED RECEIVED AT WASHINGTON, D. C.,
AUG 4 - 1920
OFFICE OF
THE GOVERNOR.

301fly

Dallas 355pm Aug 3

Harding
Washington.

Your telegram this date just received. It seems important if not indispensable that we take some action conforming our treatment of collateral value of government securities to that of other banks. Our board due to meet next Saturday. In advance of settlement of whole rate problem is the board prepared to approve following resolution adopted by our board of directors at meeting July seventh

Quote That within fifteen days after approval federal reserve board and until further notice, advances on member banks fifteen day notes secured by victory notes or liberty bonds either or both shall be made at a valuation of eighty five cents on the dollar for liberty bonds and ninety five cents on the dollar for victory notes and that member banks desiring to borrow the full amount of the bonds offered shall be required to pledge an additional amount of eligible paper at least equal to the difference between the market value of the bonds and the face of note, and that the discount rate on notes secured by at least the face value of liberty bonds or victory notes shall be five per cent UNQUOTE.

Am anxious to have some definite program and expression from the Board when our directors meet on the 7th.

Ramsey.

520p

FEDERAL RESERVE BOARD
LEASED WIRE SERVICE
WASHINGTON

332.3-1

The telegram given below is hereby confirmed.

Assistant Secretary.

August 3, 1920.

2-9454

RAMSEY
DALLAS

Your telegram July 28th. Board discussed this morning your letter July 14 but is not yet prepared to approve recommendations made. No immediate action seems probable.

HARDING

C.C. AGE E, PREST.
W.N. STRAUB, VICE-PREST.

3662

T.H. FAULKNER, VICE-PREST.
ROBT. GORDON, VICE-PREST.

332.3-1

RECEIVED
AUG 5 - 1920
OFFICE OF
THE GOVERNOR.

First National Bank of Helena, Ark.
CAPITAL \$200,000
SURPLUS & UNDIVIDED PROFITS \$240,000.

Helena, Arkansas.
August 2, 1920.

Mr. W. P. G. Harding,
Governor, Federal Reserve Bank,
Washington, D. C.

Dear Sir:-

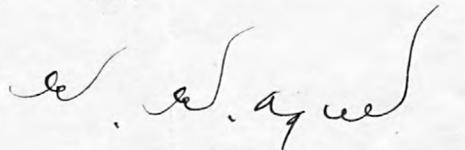
I notice that the branch banks of the Federal Reserve System have decreased the amount loaned on Liberty and Victory Bonds; namely, they loan 85 % on Liberty Bonds and 95 % on Victory Bonds of their face value.

I would like to have an expression from you as to whether you think this is fair when the banks have bought these bonds outright and have paid par for same that they are not permitted to borrow their face value. When these bonds were being sold, everyone expected that they would always remain at par, and possibly sell for a premium, as that has been the case with government securities in former years.

I feel that where we have bought these bonds for the account of the bank, and are carrying same at face value, that we should be permitted to borrow their value from the Federal Reserve Banks. Of course where people go in the open market and buy these bonds for less than the par value, I don't feel that they should be permitted to borrow more than the market value of same.

Thanking you in advance for your reply giving me your idea in this matter, we are,

Yours very truly,


President.



