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February 19, 1932

Confidential

#8

Honorable J. Hamilton Lewis,
United States Senate,
Washington, D. C.

Dear Senator Lewis:

I am returning herewith the letter, and its inclosures, addressed to you under date of January 23, 1932, by Mr. D. E. Aylward, President of the First National Bank, Livingston, Illinois, which you referred to the Federal Reserve Board. The correspondence relates to a requirement of the Federal Reserve Bank of St. Louis that borrowings by the First National Bank of Livingston from the Federal Reserve Bank be handled on a collateral note basis.

The correspondence was brought to the attention of the Federal Reserve Bank of St. Louis and the Board is advised that the bank has made a careful study of the condition of the First National Bank of Livingston and the situation with respect to the community in which it is located. The Federal Reserve Bank has reached the conclusion that a review of the situation every fifteen days, which would result from the borrowing of the bank being placed on a collateral note basis, would be helpful to the board of directors of the First National Bank of Livingston as well as to the officers and directors of the Federal Reserve Bank. Furthermore, the Bank feels that under the collateral note procedure it is in a position to render more satisfactory service than might otherwise be the case.

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Honorable J. Hamilton Lewis - (2)

In this connection it is the practice of Federal reserve banks to require additional collateral in individual cases where it seems to be necessary or advisable from a credit standpoint. This practice frequently enables them to extend credit accommodations to member banks which could not be safely or reasonably granted without a margin of collateral and it appears that the First National Bank of Livingston has assets with which it can meet the requirements of the Federal Reserve Bank without difficulty.

The Board regrets that Mr. Aylward evidently has misunderstood the attitude of the Federal Reserve Bank. However, it is essential to the proper administration of the Federal reserve system that the determination of conditions under which a Federal reserve bank will extend credit to a particular member bank and the procedure in connection therewith be left primarily to the judgment of the officers and directors of the Federal reserve bank, within the limitations of the law and the general regulations and rulings of the Board thereunder, and it appears that the bank has given the matter sympathetic consideration from the standpoint of a desire to be as helpful as possible in the circumstances.

Very truly yours,

For APPROVAL
Gov. Meyer ✓
Mr. Hamlin ✓
Mr. James ✓
Mr. Magee ✓
Mr. Miller ✓
Mr. Pelt ✓
Secretary. Mr. _____

Formally
appd
AT BOARD MEETING

FEB 25 1932

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Please initial file copy
if you approve and return
to Secretary's Office.

FEDERAL RESERVE BANK
OF
ST. LOUIS

February 4, 1932

Federal Reserve Board,
Washington, D. C.

Gentlemen:

I am returning letter of Mr. D. E. Aylward, dated January 23, protesting against our requirement that borrowing by the First National Bank, Livingston, Illinois, be on a collateral note basis, with attached enclosures referred to you by Honorable J. Hamilton Lewis, United States Senator.

The last examination of the First National Bank, Livingston, Illinois, on March 24, 1931 showed that the bank had a capital of \$25,000, surplus of \$10,000 and undivided profits and reserves \$8,500. Loans were \$70,000 of which \$12,500 were rated slow, \$1,400 doubtful, and \$2,100 loss. Bonds and securities were \$112,000, of which \$7,600 were rated slow, \$17,000 doubtful and \$5,000 loss. Other real estate \$7,000 was rated slow. The total doubtful and loss are sufficient to exhaust the surplus, undivided profits and reserve and impair the capital.

In addition to the condition of the bank itself, it is situated in territory where there have been several bank failures in neighboring towns and where throughout the entire community there is considerable nervousness among depositors, which could very easily start withdrawals from the First National Bank of Livingston. One of the banks in that locality that is closed is the First National Bank, Mt. Olive, Illinois, of which Mr. Aylward was Cashier until a few weeks prior to its failure.

Under the circumstances we felt that a review of the situation every fifteen days, as would result from the borrowing being on a collateral note basis, would be helpful to the board of directors of the First National Bank of Livingston as well as to our own committee. Furthermore, experience has shown us that a bank confronted with the circumstances surrounding the First National of Livingston could very easily develop into a condition where it is needing the quickest assistance possible in the quickest time. With the collateral note and additional collateral we are in a position to give quicker service or, in fact, service that otherwise we would not be able to give in the event of an emergency.

As the additional collateral may be in the form of ineligible paper, such as ineligible notes, bonds, real estate or other good securities, and the bank has bonds and securities to the amount of \$112,322.50 in addition to loans and discounts of \$69,913.83, such a requirement could not work any hardship on the bank nor keep it from borrowing from other sources if it so desired.

#2.

Some of our officers have discussed this matter personally with Mr. Aylward and it is unfortunate that he insists on demanding from us what I am sure he would not ask of his correspondent or anyone else that he requested to lend him money. It is rather unusual for one of our bankers not to realize that when we ask for a fifteen day note with additional collateral that while protecting ourselves we are at the same time doing our utmost to help him in the situation he has found himself. I am attaching excerpts from the minutes of our Discount Committee meetings covering the applications for loans of the First National Bank of Livingston, Illinois.

Yours very truly,

Wm. Mc. Martin,

Governor.

FIRST NATIONAL BANK, LIVINGSTON, ILLINOIS

From minutes of Discount Committee meeting:

December 21, 1931. After considering the application for discount of this bank, and reviewing the last report of examination, it was agreed that its borrowings should be on a collateral note basis with a margin of collateral amounting to not less than 50%. The last report of examination showed a very unsatisfactory condition, and the bank will no doubt be affected by the closing of the Gillespie National Bank.

December 23, 1931. At the meeting on December 21 it was agreed that the borrowings of this bank should be on a collateral note basis, with a margin of collateral amounting to not less 50%. At today's meeting there was submitted a letter from the bank, dated December 22, stating that it preferred to rediscount, but the Committee still felt that the bank's borrowings should be on a collateral note basis with a margin of not less than 50%.

December 28, 1931. The Committee approved our letter of today's date to this bank, in answer to its letter of December 26 stating that its Board of Directors had declined to offer a margin of collateral to secure its indebtedness to us.

January 5, 1932. On December 21 application for discount covering notes amounting to \$8,121.75 was received from this bank; and an item for \$3,500.00 was declined for the reason that we did not have current statement of the maker. It was decided that the bank's borrowings should be on a collateral note basis with a margin of collateral amounting to not less than 50%. We accordingly put through a collateral note for \$4,600.00 secured by the items other than the note declined, and sent the bank a collateral note and collateral pledges for signature, asking that it sign these forms and deposit the margin of collateral. The forms were not signed and returned, and the bank in its letter of December 28 advised that its Board of Directors declined to furnish a margin of collateral. In the meantime, one of the collateral items was returned due to the fact that certain information asked for was not submitted, and a credit for a like amount was placed on the note which matured today, leaving a balance due of \$3,290.00. At today's meeting there was submitted a letter from the bank dated January 2, requesting that its account not be charged covering the note, but that the items held as collateral be carried as rediscounts, to maturity. In view of the fact that the bank did not comply with the conditions under which we made the advance, it was decided that the note should be charged to its account and that the paper held as collateral should be returned. It was suggested, however, that we write the bank, going over the case in detail, and stating that if it desired to send a collateral note supported by the same collateral, and by margin of not less than 50% in acceptable collateral, it would be given due consideration. (After the meeting our letter of today's date to the bank, was approved).

United States Senate

Washington, D. C., Jan. 25, 1932, 192

Respectfully referred to

Federal Reserve Board,

Washington, D. C.

Respectfully,

Hamilton Lewis

9-345

U. S. S.

3323-3

FIRST NATIONAL BANK
of Livingston

Livingston, Ill.

January 23, 1932

Hon. J. Ham Lewis,
U. S. Senator,
Washington, D. C.

Dear sir:

Am writing to call your attention to the fact that The St. Louis Federal Reserve Bank has discontinued rediscounting for member banks at least so far as this bank is concerned.

When several banks hereabout closed and when this bank held 60% of our demand deposits in cash we sent in a number of eligible notes for rediscount.

You will note from enclosed correspondence that they credited our account with proceeds of certain notes but demanded that we sign a 15 day not with 50% margin of collateral.

This we refused to do and insisted upon our rights to rediscount eligible paper.

We have no other bills payable and refuse to put up 50% margin of our depositors assets with the possibility of being sold out in 15 days.

We instructed them not to impare our reserve account by charging the notes which they had taken against it but on Jan. 5th they charged said notes against our reserve which the law requires us to carry with them. Since that date our reserve has been defficient and we would violate the law if we should make a loan. We have not made any but cannot operate without doing so at some time.

I wish you could call to the attention of Senator Glass the fact that the Federal Reserve Banks as operated today have strayed far from the intent of the manner in which they were supposed to operate.

We have carried from \$10,000.00 to \$15,000.00 with them practically since the system was organized but if they cannot extend us a limited credit under present conditions we see no reason why we should as member banks furnish them capital to stay in business and deposits upon which to operate.

Sorry to bother you but this is a serious matter to our little bank and we think you should know why banks are unable to meet the needs of customers at the present time.

Very resp. yours,
(s) D.E.Aylward. Pres.

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January 28, 1932.

Mr. Wm. McC. Martin, Governor,
Federal Reserve Bank,
St. Louis, Missouri.

Dear Governor Martin:

Honorable J. Hamilton Lewis, United States Senator, has referred to the Federal Reserve Board the attached letter, with enclosures, addressed to him by the President of the First National Bank of Livingston, Illinois, protesting against the requirement of the Federal Reserve Bank of St. Louis that a rediscount offering made by the bank in December be handled on a collateral note basis.

Will you please advise the Board fully regarding the circumstances involved in this case in order that the Board may be in position to communicate with Senator Lewis regarding the matter. Please return the attached letter and enclosures with your reply.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

EMM/rkt

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EXCERPT FROM THE MINUTES OF THE FEDERAL RESERVE BOARD

6/11/31

3323-3

There was then called up for consideration letter dated March 2nd from the Federal Reserve Agent at St. Louis in reply to the letter approved at the meeting of the Board on February 20, 1931, with regard to the policy of the St. Louis bank, reported by the Board's Examiner, of endeavoring to put all borrowing member banks in that district on a collateral note basis and also with regard to the requiring of a margin of collateral on such borrowings.

Governor Martin stated that the bank does not have any fixed policy but that each application for credit received from a member bank is determined upon its merits. He stated that the bank has endeavored in all instances to be as helpful as possible to borrowing member banks and that the use of the 15-day collateral note has enabled the Federal Reserve bank to extend credit in some cases where it would otherwise have felt unable to do so. He stated that it has been the practice of the bank to permit member banks in good condition to use either the 15-day collateral note or the re-discount form of borrowing; to permit other banks which are in fairly satisfactory condition to use the rediscount form of borrowing if they prefer, requiring, however, some additional margin of collateral; but in the case of banks which are in an unsatisfactory condition, in order that their borrowings may be reviewed every fifteen days, to require the member bank to borrow on bills payable, with various margins of collateral, never in excess of 50%.

The practice of the St. Louis bank was then discussed in considerable detail. Governor Martin was advised that while bills payable may be the only safe way of making advances to some member banks, the question was whether his bank had gone too far in requiring bills payable and additional collateral in cases where it was not justified. He was also advised that while the

6/11/31

- 2 -

Board does not wish to dictate the credit policy of any Federal Reserve bank
it feels that the banks should handle applications for credit in such a
manner as not only to protect the Federal reserve bank, but also retain the
good will of the member banks. No action was taken by the Board on the matter.

Office Correspondence

FEDERAL RESERVE
BOARD33213-3
Date March 4, 1931.

To All members of the Board

Subject:

From Mr. McClelland

...

2-8495

There is attached hereto for your information, before presentation to the Board, letter dated March 2nd from the Chairman of the Federal Reserve Bank of St. Louis, replying to the Board's letter of February 20th, regarding the policy and practice of the Federal Reserve Bank of St. Louis with respect to the method of granting credit accommodation to member banks.

Governor Meyer ✓

Mr. Hamlin ✓

Mr. Miller ✓

Mr. James ✓

Mr. Pole ✓

See minutes
AT BOARD MEETING

JUN 11 1931

SR

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

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The Federal Reserve Bank of St. Louis.

On February 20, 1931, the Board asked Chairman Wood the following questions:

1. Whether his Bank declined to rediscount eligible paper, but required member bank collateral notes.
2. Whether marginal collateral on advances made on such notes has been required without regard to the condition of the borrowing bank, the character of the paper offered, the total amount borrowed by the bank, or other similar facts and circumstances.
3. Whether the St. Louis Bank requires a minimum percentage of marginal collateral from all borrowing banks outside of Federal reserve cities, without applying the same requirements to banks located in Federal reserve cities.

The letter contained the expression of opinion that the above action, if correct, would appear to be out of harmony with the spirit of the Federal Reserve Act.

4. The percentages of marginal collateral required of Federal reserve city banks, both under the revised policy lately adopted by your Bank and during the three months preceding the adoption of such policy.

Chairman Wood replied on March 2, 1931:

The only definite policy adopted by our board is expressed in the resolution passed by the Executive Committee February 9, 1931:

States that in a spirit of cooperation with member banks and in order that each borrowing may be reviewed at regular short intervals, it would be desirable to get a 15-day collateral note in every instance * * * If any bank, however, prefers rediscounting, it is to be allowed to rediscount.

Whenever a bank has been a continuous borrower, is borrowing excessively, is in an unsatisfactory condition, or whenever for any reason additional collateral is requested, a 15-day collateral note will be required.

Additional collateral will only be asked where justified by existing conditions surrounding the borrowing.

The above resolution was approved by the Board of Directors February 18, 1931.

Chairman Wood, among other things, stated in said letter, as follows:

We use both rediscounting and bills payable. 54 banks are rediscounting and 90 use bills payable. For past few years the bills payable basis has increased. In a number of cases the member banks preferred bills payable.

Chairman Wood asks Board whether it regards member bank collateral notes as less desirable than rediscounting.

States that if the amendment approved by the Board in its 14th Annual Report, page 49, extending the maturity of bills payable secured by eligible paper to 90 days, should be adopted, he believes most member banks would use bills payable when borrowing.

Additional Margin of Collateral.

Each case acted on as a separate case by the Discount Committee.

Margins are not required in all cases, either in rediscounting or borrowing on bills payable.

Depends on general condition of the bank, the character of its management, and the type of paper offered.

The banks in St. Louis and in other cities where borrowing is in the form of bills payable, are not required to pledge

any margin of collateral, assuming that the paper offered is accompanied by evidence of eligibility, soundness, and proper liquidity, and where the banks are in satisfactory condition and satisfactorily managed.

A few banks in those cities, however, are in such condition as to require marginal collateral.

The same applies to country banks.

In the past 9 months, the quality of the loans in many country banks has greatly deteriorated, and it has become increasingly difficult for them to furnish offerings up to the old standard of eligibility and acceptability.

In a number of cases, it has been necessary to construe rather liberally both eligibility and acceptability and to support the existent doubt by a margin of non-eligible collateral.

In addition to the banks designated by asterisks on list enclosed, there are at least 38 other banks whose condition renders it advisable to request additional collateral.

The average of the banks now borrowing is lower in merit than the average of the non-borrowing banks.

It has been for several years a policy of this bank to require marginal collateral from all member banks whose borrowings have exceeded their capital and surplus, exclusive of loans secured by Government obligations.

All three of the Branch Managers expressed the opinion that no restriction of credit has resulted from the practices, but all three report some objections.

States some objections made to the Credit Department of the parent bank in St. Louis.

3323-3

Gov. Meyer

FEDERAL RESERVE BANK
OF
ST. LOUIS

RECEIVED

March 2, 1931.

Federal Reserve Board,
Washington, D. C.

Gentlemen:-

I have your letter dated February 20 in which you requested me to advise you with respect to the rediscounting practices and policies of the Federal Reserve Bank of St. Louis.

The only definite policy adopted is expressed in the following resolution passed at a regular meeting held by the Executive Committee February 9, 1931:

"Advances to Member Banks

(1) In a spirit of cooperation with member banks and in order that each borrowing may be reviewed at regular short intervals, it would be desirable to get a fifteen day collateral note in every instance and it is believed that if its use can be fully explained to the member bank, it will be perfectly agreeable to most of them and in many instances will be insisted upon by them as a preferred method of borrowing. However, if after careful explanation the bank not borrowing under any of the conditions mentioned in (2) below prefers rediscounting, then it is to be allowed to rediscount. In other words, it is to have its choice of the two methods.

(2) Whenever a bank has been a continuous borrower, is borrowing excessively, is in an unsatisfactory condition, or whenever for any reason additional collateral is requested, a fifteen day collateral note will be required.

(3) Additional collateral will only be asked where justified by existing conditions surrounding the borrowing."

This resolution was discussed and approved at the following meeting of the Board of Directors, February 18, 1931.

The inquiries in your letter are directed to the form in which

credit is advanced to member banks, the margins required of them, and the re-action of member banks to said practices. In this connection I am submitting a list of all member bank borrowings as of January 24, 1931, the date on which the examination was begun of the Federal Reserve Bank of St. Louis. This list was prepared by the credit department of the bank. It shows the form of borrowing, and the margin pledged - if any. You will note that some percentages of collateral as shown in the seventh column are in excess of the required margins as shown in the eighth column. In some cases this is due to the fact that the member bank loans have been reduced and no collateral has been taken down. In other cases eligible paper has been submitted and approved, but the members have not yet used all of their approved borrowing capacities. In no case has a member bank been required to pledge more than 50% margin of collateral.

My connection with this bank began June 2, 1930. During that time I think that I have not missed, unless absent from St. Louis, any meetings of the Executive Committee, and not more than a half dozen meetings of the Discount Committee. Covering that period I feel that I know what was done and what was intended by the two committees. Prior to June 2, 1930, my knowledge is based on information acquired from the records of the bank and from its officers.

As to the form in which credit is advanced, will state that both rediscounting and bills payable are used. The list shows that 54 banks are rediscounting and that 90 use bills payable. Since I have been a member of the bank organization there has been a gradual increase in the number of banks that have borrowed on a bills payable basis instead of a rediscount basis. I am advised that this process of change has been going on for the past few years. In a number of cases bills payable are used as a matter of preference by the member banks. I am advised that in St. Louis, Louisville, Memphis and Little Rock the member banks borrow in this manner because it is a simpler and more convenient form. I am also advised that a number of country banks prefer this form for the same reasons. In this connection I should like to inquire for my information and guidance whether member bank borrowing in the form of bills payable is regarded by the Board as less desirable than is the form of rediscounting. Not being connected with a Federal Reserve Bank during the formative period I missed the discussions as to the relative merits of the two forms of borrowing. Thus far I have not found much record of such discussions. I have found in the Third Annual Report of the Federal Reserve Board on page 225, the following comment relative to the bills payable form of borrowing:

"A recent amendment to the Federal Reserve Act permits a member bank to borrow for not exceeding 15 days from a Federal Reserve Bank on its own note secured by eligible paper or United States bonds. Member banks are thus enabled to borrow for short periods on the security of paper having not more than 90 days to run and without the accounting labor, either to them or to the Reserve Bank, of recording and computing interest on large numbers of small notes."

In the Fourteenth Annual Report on Page 49, the following language appears:

"An amendment to Section 13 of the Federal Reserve Act increasing from 15 days to 90 days the maximum maturity of advances made by Federal Reserve Banks to member banks on their promissory notes secured by paper eligible for rediscount by Federal Reserve Banks. Such an amendment was suggested to the Board under date of October 31, 1925, by Hon. L. T. Mc Fadden, chairman of the Banking and Currency Committee of the House of Representatives, and was favored by the Board after consultation with the Federal Reserve Agents and the Governors of the Federal Reserve Banks. It would save much trouble and expense to both the member banks and the Federal Reserve Bank, since it would eliminate the necessity of listing separately the various pieces of eligible paper offered as collateral and would at the same time eliminate the necessity of frequent renewals. It would be especially helpful to country banks which are now deterred by the necessity of frequent renewals from using this more convenient form of borrowing from the Federal Reserve Banks."

If this amendment should be passed I believe most member banks would use bills payable when borrowing from a Federal Reserve Bank.

In respect to additional margins of collateral will state that in each and every case where this has been required it has been acted upon as a separate proposition by the Discount Committee. In each case conditions have been described to the Committee that seemed to justify the action taken. It may be that some errors in judgment have occurred, but I think that such errors have been few in number. Margins are not required in all cases either in rediscounting or where the borrowing is in the form of bills payable. It depends upon the general condition of the bank, the character of its management and the type of paper offered. For example, I am advised that the banks in St. Louis, and in other cities where borrowing is in the form of bills payable, are not required to pledge any margin of collateral assuming that the paper offered is accompanied by evidence of eligibility, soundness and proper liquidity, and where the banks are in satisfactory condition and satisfactorily managed. However, a few banks in those cities have gotten into such condition as to require marginal collateral. The same applies to country banks. In the past nine months the quality of the loans in many country banks has greatly deteriorated and in such cases it has been increasingly difficult for them to furnish offerings that measure up to the old standard of eligibility and acceptability. In a number of cases, in order to render the desired service to the member banks, it has been necessary to construe rather liberally both eligibility and acceptability and to support the existent doubt by a margin of non-eligible collateral.

Referring again to the enclosed list of borrowing banks you will note that a number of them are marked by asterisks. The banks so designated

are described in the last report of examination on pages 123 to 148 inclusive under the caption - "Banks whose condition warrants special attention". 50 of these banks are on the borrowing list.

I have surveyed the list and am of the opinion that, in addition to the banks designated by asterisks, there are at least 38 other banks whose condition renders it advisable to request additional collateral to secure credit advances made to them by the Federal Reserve Bank. In my judgment the average of the banks now borrowing is lower in merit than the average of the non-borrowing banks.

It has been for several years a policy of this bank to require marginal collateral from all member banks whose borrowings have exceeded their capital and surplus, exclusive of loans secured by government obligations.

As to the reaction of member banks to the bills payable form of borrowing and to the pledge of an additional margin of collateral, will state that I inquired in detail of the three managers of Branch Banks who were here in conference February 24. The inquiries were directed to ascertain whether the member banks objected to the practices, and whether the practices "tend to prevent member banks from availing themselves of the facilities of the Federal Reserve Bank of St. Louis to the extent which might be justified by conditions in the territory".

All three of the Branch Managers expressed the opinion that no restriction of credit has resulted from the practices, but all three Branch Managers reported some objections to the practices.

Manager Glasgow reported that the First-Columbus National Bank of Columbus, Mississippi objected to pledging marginal collateral. No objection was made to the bills payable form of borrowing. The same objection was made by the National Bank of Commerce, Columbus, Mississippi. Manager Glasgow reported that after discussing the matter with the managements of the two banks, their objections were withdrawn. My survey of the offerings of the First-Columbus National Bank has convinced me that the objections made by its management were not well taken. Manager Glasgow reported that the Citizens National Bank, Trenton, Tennessee objected to renewals every 15 days on the ground that the discount rate might be increased during the season. Entire willingness was expressed to the pledge of any amount of marginal collateral. The objection still stands. In this connection will state that the operation of the Citizens National Bank, Trenton, Tennessee has not been satisfactory. The bank was formerly a State bank and was converted into the Citizens National Bank, September 19, 1923. Since that time national bank examiners have expressed the opinion that a mistake was made when the bank was permitted to nationalize. In report of examination made by National Bank Examiner Russell E. Mooney, April, 29, 1929 on page 6, he has set out two large lines, one of President W. L. Wade and the other of Cashier Bob Harwood. On page B-1 the examiner comments unfavorably on the management of the bank. On July 25, 1929, Examiner Mooney began a special examination of the bank. On page 11-1 he criticises the large line of President Wade and criticises certain unethical business actions

Federal Reserve Board

of Cashier Harwood. On page B-1 in the confidential report, the examiner has continued his criticism of the business management of the bank. In answer to question 4 on page B, "Do you regard the management as safe?" the examiner states as follows, "No management can be regarded as entirely safe where the lack of proper sense of trusteeship is missing".

Manager Bailey of Little Rock advised that the Farmers National Bank of Clarksville, Arkansas objected to the pledge of marginal collateral. This bank recently closed and was reopened. Its objection was not well taken. The Arkansas National Bank of Heber Springs, Arkansas objected to the bills payable form. This bank recently closed for a few days and reopened. The First National Bank, Mc Gehee, Arkansas also objected to the bills payable form. Manager Bailey reported that after discussing matters with the managements of the three banks objections were withdrawn. The Community Bank and Trust Company of Hot Springs, Arkansas regarded both form and margin as a reflection on its management and objected on that ground. Manager Bailey advised that after a full discussion of the matter with President Hamp Williams he expressed himself as entirely satisfied.

Manager Kincheloe advised that the two National banks at Bowling Green, Kentucky objected to both form and margin. In this connection will state that Vice-President Nahm of the Citizens National Bank, Bowling Green, Kentucky, voiced his objections to the officers of this bank and in a meeting of the Board of Directors. The matter was discussed at length in the Board Meeting after which Mr. Nahm expressed himself as satisfied with the practice. He has since reported to Governor Martin that the management of the Citizens National Bank is now satisfied. Vice-President Nahm expressed the opinion that no objection would have been entertained by the management of the member bank if the letter of advice from the Reserve Bank had been more carefully phrased. The Citizens National Bank of Bowling Green, Kentucky is an excellent bank. The other National bank in Bowling Green is not so good.

The credit department of the St. Louis Federal Reserve Bank has advised that the only objections expressed to the parent bank are:

First National Bank, Carmi, Illinois objected to the form of borrowing and to the marginal collateral. President Hall wrote several letters of objection to both form and marginal collateral. I have known Mr. Hall for 15 years. Disputation is the breath of life to him. He formerly operated a good bank, but am inclined to believe that its assets have deteriorated some in recent years. Am not entirely sure as to the correctness of our judgment in this case, but am inclined to believe it is correct. The type of paper offered led me to join in the judgment of the Committee.

First National Bank, Dexter, Missouri also objected. It is a badly managed bank and is in very unsatisfactory condition. Its objections were not well taken.

If there is any phase of the loaning policy of this bank that I have not covered fully, please advise me.

Very truly yours,

Jno. S. Wood

Federal Reserve Agent.

FEDERAL RESERVE BANK OF ST. LOUIS
LIABILITY AND COLLATERAL (EXCLUSIVE OF GOVERNMENT'S)
CLOSE OF BUSINESS JANUARY 24, 1931

LOCATION	BANK	LIABILITY	REDIS OR B/P	ELIGIBLE COLLATERAL	ADDITIONAL COLLATERAL TO LIAB.	PERCENT OF EXCESS COLL	REQUIRED % OF ADD'L COLLATERAL
ARKANSAS							
BERRYVILLE	FIRST NAT'L BANK	32,551.00	R	32,551.00	-	-	-
DEQUEEN	" " "	17,000.00	B/P	17,150.16	-	01	33-1/3
FAYETTEVILLE	" " "	90,000.00	B/P	137,924.31	-	53	33-1/3
HUNTSVILLE	" " "	-		17,979.93	-	ALL	33-1/3
* PARAGOULD	NEW FIRST NAT'L BK	8,000.00	B/P	10,364.62	5,500.00	98	33-1/3
* MOAM SPGS	HUTCHINGS FIRST	44,931.20	B/P	44,931.20	16,920.00	37	33-1/3
" "	PRODUCERS STATE BK	27,000.00	B/P	31,889.40	6,300.00	41	33-1/3
* WALNUT RIDGE	LAWRENCE COUNTY BK	60,000.00	B/P	63,372.02	5,855.47	15	33-1/3
ILLINOIS							
* ALBION	NAT'L BK OF ALBION	125,000.00	B/P	134,120.12	37,102.93	37	33-1/3
ALTAMONT	FIRST NAT'L BANK	9,700.00	R	9,700.00	-	-	-
AVA	" " "	5,000.00	B/P	5,082.72	-	02	33-1/3
BARRY	" " "	33,280.00	B/P	33,280.00	10,225.42	30	33-1/3
BELLEVILLE	BELLEVILLE NAT'L BK	3,000.00	R	3,000.00	-	-	-
BROOKPORT	BROOKPORT NAT'L BK	-		3,040.00	-	ALL	-
* BROWNSTOWN	FIRST NAT'L BANK	28,000.00	B/P	32,640.54	1,853.00	23	33-1/3
BUNKER HILL	" " "	10,000.00	B/P	18,551.50	-	85	-
* CARBONDALE	CARBONDALE NAT'L BK	31,261.00	B/P	46,807.05	14,775.00	33	33-1/3
" "	" " "	15,246.05	R				
* CARBONDALE	FIRST NAT'L BANK	27,300.00	B/P	37,250.00	8,800.00	69	33-1/3
* CARLINVILLE	CARLINVILLE NAT'L	65,000.00	B/P	69,473.65	25,000.00	45	33-1/3
* CARMI	FIRST NAT'L BANK	13,000.00	B/P	29,384.80	-	24	33-1/3
CENTRALIA	CITY NAT'L BANK	11,384.80	R				
* COBDEN	FIRST NAT'L BANK	30,000.00	B/P	39,337.50	-	31	-
COLLINSVILLE	FIRST NAT'L BANK	14,487.00	R	14,487.00	-	-	33-1/3
DUQUOIN	STATE BANK OF	22,637.00	B/P	26,350.00	-	16	-
FAIRFIELD	FIRST NAT'L BANK	50,000.00	B/P	52,725.00	17,458.80	40	33-1/3
FLORA	" " "	30,000.00	B/P	35,570.00	-	19	33-1/3
* FLORA	FLORA NAT'L BANK	11,680.00	R	11,680.00	-	-	-
" "	" " "	16,100.00	B/P	18,657.94	4,872.50	32	33-1/3
" "	" " "	1,707.94	R				
* GILLESPIE	GILLESPIE NAT'L	84,400.00	B/P	84,430.23	29,048.50	34	33-1/3
* GOLCONDA	FIRST NAT'L BANK	34,000.00	B/P	44,525.00	28,204.74	114	50
* GRANITE CITY	GRANITE CITY TR & S	54,600.00	R	54,600.00	-	-	33-1/3

LOCATION	BANK	LIABILITY	REDIS OR B/P	ELIGIBLE COLLATERAL	ADDITIONAL COLLATERAL	PERCENT OF EXCESS COLL TO LIAB.	REQUIRED % OF ADD'L COLLATERAL
<u>ILLINOIS CONT'D</u>							
* GRAYVILLE	FARMERS NAT'L BANK	24,000.00	B/P	35,647.84	-	49	50
* GRAYVILLE	FIRST NAT'L BANK	48,199.60	B/P	48,199.60	16,275.91	34	50
GREENFIELD	" " "	14,565.00	R	14,565.00	-	-	-
GRIGGSVILLE	GRIGGSVILLE NAT'L	7,700.00	R	7,700.00	-	-	-
HARRISBURG	CITY NAT'L BANK	53,220.00	R	53,220.00	-	-	-
* HERRIN	CITY NAT'L BANK	-		6,500.00	-	ALL	50
HILLSBORO	MONTG.CO. L & TR CO	23,000.00	B/P	30,945.00	-	35	33-1/3
HILLSBORO	PEOPLES NAT'L BANK	9,700.00	B/P	11,500.00	1,400.00	33	33-1/3
* IRVING	IRVING NAT'L BANK	16,000.00	B/P	16,599.00	-	04	-
LITCHFIELD	LITCHFIELD NAT'L	22,675.00	B/P	24,572.46	16,100.00	79	33-1/3
* LIVINGSTON	FIRST NAT'L BANK	10,674.27	R	10,674.27	-	-	-
MADISON	UNION TRUST COMPANY	15,800.00	R	15,800.00	-	-	-
METROPOLIS	CITY NAT'L BANK	67,000.00	B/P	77,146.72	12,100.00	33	33-1/3
METROPOLIS	NAT'L STATE BANK	24,000.00	R	24,000.00	-	-	-
* MOUND CITY	FIRST NAT'L BANK	11,224.00	B/P	11,737.00	4,100.00	41	33-1/3
MOUNDS	" " "	11,000.00	B/P	11,290.00	-	03	33-1/3
* MT.CARMEL	AMERICAN NAT'L BK	80,000.00	B/P	87,410.00	-	09	33-1/3
* MT.OLIVE	FIRST NAT'L BANK	33,368.90	R	33,368.90	-	-	-
MULBERRY GR.	" " "	16,846.98	R	16,846.98	-	-	-
NATL STK Yds	NATL STK Yds N. BK	-		577,521.37	-	ALL	-
* NEWTON	FIRST NAT'L BANK	75,451.50	B/P	91,791.50	42,660.00	78	33-1/3
* NOBLE	" " "	8,250.00	B/P	8,250.00	-	-	-
* NOKOMIS	NOKOMIS NAT'L BANK	70,000.00	B/P	77,031.30	53,189.00	86	50
OBLONG	FIRST NAT'L BANK	-		10,130.00	66,585.00	ALL	33-1/3
* OLNEY	" " "	110,000.00	B/P	115,825.00	50,967.00	52	50
* PALESTINE	" " "	10,000.00	B/P	13,760.00	-	88	33-1/3
* PALMYRA	FIRST STATE BANK	16,000.00	B/P	19,572.00	-	22	33-1/3
* RAYMOND	" NAT'L "	19,000.00	B/P	25,400.00	-	34	33-1/3
* RIDGWAY	" " "	7,631.20	R	7,631.20	-	-	33-1/3
ST FRANCISVILLE	PEOPLES NAT'L BANK	10,000.00	B/P	17,085.00	-	71	-
* VIENNA	FIRST NAT'L BANK	36,500.00	B/P	39,401.39	5,846.18	24	33-1/3
* WAVERLY	FIRST NAT'L BANK	70,000.00	B/P	84,592.79	300.00	21	33-1/3
* WILSONVILLE	" " "	4,000.00	B/P	4,000.00	-	-	-
* WITT	NAT'L BANK OF	4,097.50	R	4,097.50	-	-	-
ZIEGLER	FIRST NAT'L BANK	3,419.51	R	3,419.51	-	-	33-1/3

LOCATION	BANK	LIABILITY	REDIS OR B/P	ELIGIBLE COLLATERAL	ADDITIONAL COLLATERAL	PERCENT OF EXCESS COLL TO LIAB.	REQUIRED % OF ADD'L COLLATERAL
<u>INDIANA</u>							
* VINCENNES	FIRST NAT'L BANK	36,800.00	R	36,800.00	-	-	-
WASHINGTON	PEOPLES NAT'L B & T	7,698.47	B/P	7,708.10	-	-	33-1/3
* WINSLOW	FIRST NAT'L BANK	22,000.00	B/P	24,710.75	8,300.00	50	33-1/3
<u>MISSOURI</u>							
APPLETON CITY	FIRST NATIONAL BK	34,000.00	B/P	54,900.00	-	61	33-1/3
* BOONSVILLE	BOONVILLE NAT'L	45,226.00	B/P	56,938.00	25,500.00	82	33-1/3
BRAYMER	FIRST NAT'L BANK	10,000.00	B/P	43,440.55	-	334	33-1/3
* BRUNSWICK	" " "	54,800.00	B/P	55,365.00	26,662.00	50	50
* JAINESVILLE	" " "	22,536.53	B/P	23,612.53	9,114.16	45	33-1/3
* CAPE GIRARDEAU	" " "	20,900.00	B/P	20,900.00	-	-	-
* CHILLICOTHE	" " "	105,884.10	B/P	112,778.10	36,250.00	41	25
CLINTON	CLINTON NAT'L	54,000.00	B/P	54,724.90	-	01	33-1/3
* COWGILL	FIRST NAT'L BANK	21,000.00	B/P	21,125.00	2,950.00	15	33-1/3
* DEXTER	FIRST NAT'L BANK	23,482.57	B/P	23,482.57	2,967.50	13	33-1/3
* IBERIA	FARMERS & TRACERS BK	7,264.80	R	7,264.80	-	-	-
LAPLATA	BANK OF LAPLATA	-	-	28,865.76	-	ALL	-
MAPLEWOOD	PEOPLES STATE BANK	12,000.00	R	12,000.00	-	-	-
* MARCELINE	FIRST NAT'L BANK	3,900.00	R	3,900.00	-	-	-
MT. GROVE	" " "	36,198.00	B/P	39,262.60	10,931.00	39	33-1/3
ROLLA	NAT'L BANK OF	41,095.89	R	41,095.89	-	-	-
SALEM	FIRST NAT'L BANK	27,798.00	R	27,798.00	13,235.00	48	33-1/3
SEDALIA	SEDALIA TRUST CO.	7,500.00	R	7,500.00	-	-	-
SEYMOUR	PEOPLES NAT'L BANK	33,076.80	B/P	39,533.37	6,896.22	40	33-1/3
* SPRINGFIELD	MCDANIEL NAT'L	200,000.00	B/P	201,250.00	108,280.00	55	33-1/3
STEELEVILLE	FIRST NAT'L BANK	4,145.24	R	4,145.24	-	-	33-1/3
STOUTLAND	" " "	6,085.00	R	6,085.00	-	-	-
TRENTON	TRENTON NAT'L	55,858.10	B/P	72,942.97	7,500.00	44	33-1/3
* VERSAILLES	FIRST NAT'L BANK	-	-	4,360.00	-	ALL	33-1/3
WASHINGTON	FRANKLIN CO. BANK	8,034.00	R	8,034.00	-	-	-
WEST PLAINS	FIRST NAT'L BANK	50,000.00	B/P	54,954.05	14,025.00	38	33-1/3

LOCATION	BANK	LIABILITY	REDIS OR B/P	ELIGIBLE COLLATERAL	ADDITIONAL COLLATERAL TO LIAB.	PERCENT OF EXCESS COLL TO LIAB.	REQUIRED % OF ADD'L COLLATERAL
<u>MISSOURI (CONT'D)</u>							
* ST. LOUIS	FIDELITY BK & TR	247,605.03	B/P	249,176.21	63,490.00	26	33-1/3
" "	FIRST NAT'L BANK	-		3,700,000.00	-	ALL	-
" "	FRANKLIN-AMERICAN	-		1,792,000.00	-	ALL	*
* " "	GRAND NAT'L BANK	269,522.75	B/P	269,522.75	-		33-1/3
" "	LAFAYETTE SO. SIDE	-		450,000.00	-	ALL	-
" "	LINDELL TRUST CO.	51,000.00	B/P	52,500.00	-	03	-
" "	SCRUGGS-V-BARNEY BK	50,000.00	R	50,000.00	-		-
" "	VANDEVENTER NAT'L BK	82,500.00	R	82,500.00	-		-
" "	WATER TOWER BANK	100,000.00	B/P	100,000.00	-		-
<u>TENNESSEE</u>							
UNION CITY	THIRD NAT'L BANK	-		17,753.00	-	ALL	-

* INDICATES BANKS WHOSE CONDITION WARRANTS SPECIAL ATTENTION.

LITTLE ROCK BRANCH
FEDERAL RESERVE BANK OF ST. LOUIS
LIABILITY AND COLLATERAL (EXCLUSIVE OF GOVERNMENT'S)
CLOSE OF BUSINESS JANUARY 24, 1931

LOCATION	BANK	LIABILITY	REDIS OR B/P	ELIGIBLE COLLATERAL	ADDITIONAL COLLATERAL	PERCENT OF EXCESS COLL TO LIAB.	REQUIRED % OF ADD'L COLLATERAL
<u>ARKANSAS</u>							
* BRINKLEY	MONROE COUNTY BANK	26,240.00	B/P	26,240.00	-	-	33-1/3
CAMDEN	FIRST NAT'L BANK	61,222.90	R	61,222.90	-	-	-
* CONWAY	FARMERS STATE BANK	180,000.00	B/P	181,897.50	47,774.55	27	25
* DEWITT	FIRST NAT'L BANK	83,110.23	B/P	84,579.44	44,148.89	54	50
* DUDORA	FIRST NAT'L BANK	26,875.75	B/P	28,875.75	21,846.08	88	50
HEBER SPRINGS	ARKANSAS NAT'L BK	19,188.05	R	19,188.05	-	-	33-1/3
* HOPE	FIRST NAT'L BANK	45,000.00	B/P	98,378.64	-	4	-
	" " "	49,396.00	R				
HOT SPRINGS	COMMUNITY B & T CO	100,000.00	B/P	108,708.74	30,067.75	38	25
* JONESBORO	BANK OF JONESBORO	199,600.00	B/P	216,631.56	76,200.00	39	25
	" " "	6,126.93	R				
LAKE VILLAGE	FIRST NAT'L BANK	34,000.00	B/P	34,655.00	12,416.50	38	33-1/3
LITTLE ROCK	BANKERS TRUST CO.	500,000.00	B/P	647,500.00	-	29	-
* " "	FED. BK & TR CO.	122,186.30	B/P	124,716.08	60,250.00	51	50
" "	PEOPLES TRUST CO.	224,500.00	B/P	327,319.26	-	45	-
" "	UNION TRUST CO.	380,000.00	B/P	641,829.19	170,000.00	113	-
MCGEE	FIRST NAT'L BANK	52,990.00	B/P	56,901.00	18,650.00	42	33-1/3
* MALVERN	FIRST NAT'L BANK	25,000.00	B/P	28,702.55	5,889.00	38	50
* MINERAL SPGS	FIRST NAT'L BANK	-	-	14,633.47	-	ALL	33-1/3
* MIZARK	FIRST NAT'L BANK	12,166.31	B/P	12,564.73	4,610.98	41	25
* RUSSELLVILLE	BANK OF RUSSELLVILLE	-	-	9,725.36	-	ALL	-
"	PEOPLES EXCH. BANK	61,829.54	B/P	98,029.71	-	58	33-1/3
TEXARKANA	STATE NAT'L BANK	-		212,513.49	-	ALL	-
WALDRON	BANK OF WALDRON	-		8,658.17	-	ALL	-

* INDICATES BANKS WHOSE CONDITION WARRANTS SPECIAL ATTENTION.

LOUISVILLE BRANCH
FEDERAL RESERVE BANK OF ST. LOUIS
LIABILITY AND COLLATERAL (EXCLUSIVE OF GOVERNMENT'S)
CLOSE OF BUSINESS JANUARY 24, 1931

LOCATION	BANK	LIABILITY	REDIS OR B/P	ELIGIBLE COLLATERAL	ADDITIONAL COLLATERAL	PERCENT OF EXCESS COLL TO LIAB.	REQUIRED % OF ADD'L COLLATERAL
<u>INDIANA</u>							
CANNELTON	FIRST NAT'L BANK	5,510.00	R	5,510.00	-	-	-
MUNTINGBURG	FIRST NAT'L BANK	29,719.09	R	29,719.09	-	-	-
* NEW ALBANY	NEW ALBANY NAT'L BK	9,875.00	R	9,875.00	-	-	-
* NEW ALBANY	SECOND NAT'L BANK	51,500.00	R	51,500.00	-	-	-
TELL CITY	CITIZENS NAT'L BANK	5,500.00	R	5,500.00	-	-	-
TELL CITY	TELL CITY NAT'L BK	49,828.08	R	49,828.08	-	-	-
<u>KENTUCKY</u>							
BOWLING GREEN	CITIZENS NAT'L BANK	64,037.10	R	64,037.10	-	-	-
* CARROLLTON	CARROLLTON NAT'L BK	54,600.00	B/P	54,600.00	15,000.00	27	25
DAWSON SPGS	FIRST NAT'L BANK	6,193.00	R	6,193.00	-	-	-
ELIZABETHTOWN	FIRST-HARDIN NAT'L BK	8,907.50	R	8,907.50	-	-	-
* HODGENVILLE	LINCOLN NAT'L BANK	---		19,976.20	17,796.55	ALL	50
LOUISVILLE	LIBERTY BK & TR. CO.	---		1,248,567.50	-	ALL	-
LOUISVILLE	LINCOLN BK & TR CO.	---		745,985.86	-	ALL	-
OWENTON	FARMERS NAT'L BANK	22,920.00	R	22,920.00	6,092.00	26	25
OWENTON	FIRST NAT'L BANK	24,301.45	R	24,301.45	8,129.35	33	25
* PADUCAH	CITY NATIONAL BANK	174,000.00	B/P	174,170.00	-	-	-

* INDICATES BANKS WHOSE CONDITION WARRANTS SPECIAL ATTENTION.

MEMPHIS BRANCH
FEDERAL RESERVE BANK OF ST. LOUIS
LIABILITY AND COLLATERAL (EXCLUSIVE OF GOVERNMENT'S)
CLOSE OF BUSINESS JANUARY 24, 1931

LOCATION	BANK	LIABILITY	REDIS OR B/P	ELIGIBLE COLLATERAL	ADDITIONAL COLLATERAL	PERCENT OF EXCESS COLL TO LIAB.	REQUIRED % OF ADDITIONAL COLLATERAL
<u>ARKANSAS</u>							
BLACK ROCK	FIRST NAT'L BANK	12,500.00	R	12,500.00	-	-	-
COTTON PLANT	FARMERS NAT'L BANK	25,476.12	R	25,476.12	-	-	-
* MARIANNA	LEE CO. NAT'L BANK	10,978.13	R	99,733.78	23,924.69	29	33-1/3
		84,500.00	B/P				
<u>MISSISSIPPI</u>							
COLUMBUS	1ST COLUMBUS NAT'L	169,400.00	B/P	169,457.81	7,383.87	04	33-1/3
COLUMBUS	NAT'L BK OF COM.	39,845.50	R	39,845.50	-	-	-
* CORINTH	FIRST NAT'L BANK	240,678.49	B/P	304,311.86	126,449.87	79	50
<u>TENNESSEE</u>							
* BROWNSVILLE	FIRST STATE BANK	68,900.00	B/P	68,936.25	20,586.71	30	33-1/3
DYERSBURG	1ST CITIZENS NAT'L BK	17,750.00	R	17,750.00	-	-	-
HALLS	PEOPLES SAV BK & TR	9,878.60	B/P	15,910.46	5,415.15	115	25
LEXINGTON	FIRST NAT'L BANK	27,628.34	R	27,628.34	-	-	-
MEMPHIS	BK OF COM & TR CO.	200,000.00	B/P	1,750,797.41	-	776	-
MEMPHIS	UNION PLANTS NAT'L BANK & TRUST CO.	-		719,000.00	-	ALL	-
* DIPLEY	FIRST NAT'L BANK	21,000.00	B/P	21,029.17	10,123.60	48	33-1/3
RENTON	CITIZENS NAT'L BANK	11,282.00	R	11,282.00	-	-	-
* HENNING	BANK OF HENNING	68,150.00	B/P	68,181.81	23,636.73	29	25

* INDICATES BANKS WHOSE CONDITION WARRANTS SPECIAL ATTENTION

Office Correspondence

FEDERAL RESERVE
BOARD33213-3
Date Feb. 20, 1931.

To Governor Meyer

Subject:

From Mr. Drinnen and Mr. Wyatt

2-8495

In accordance with the request which you made of us yesterday afternoon, we respectfully submit herewith a revised draft of the letter to the Governor of the Federal Reserve Bank of St. Louis which is much milder than the letter submitted to you yesterday. It omits anything in the nature of a positive reprimand and merely requests that Governor Martin address a letter to the Board clearly describing the policy and practices of the Federal Reserve Bank of St. Louis and the reaction of the member banks thereto.

We also respectfully submit herewith a third form of letter, which takes a middle ground between the two extremes represented by the rather severe letter submitted to you yesterday and the very mild letter described above. This third draft is a modification of the letter submitted yesterday. It expresses the Board's views without the use of severe language and merely requests a letter from Governor Martin describing and explaining the policy and practices of the Federal Reserve Bank of St. Louis and the reaction of the member banks thereto, instead of reprimanding the Bank and requesting that the matter be submitted to the Board of Directors.

Letter app'd as amended
AT EXECUTIVE COMMITTEE

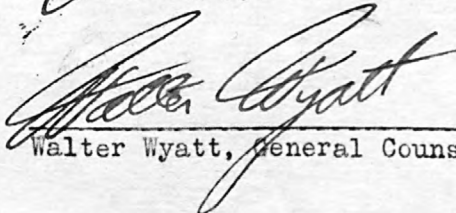
MEETING

FEB 20 1931

Respectfully,

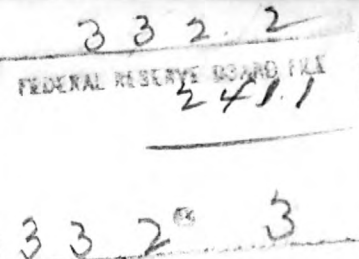


F. J. Drinnen, Federal Reserve Examiner.



Walter Wyatt, General Counsel.

Letters herewith.



#8
February 20, 1931

Dear Mr. Wood:

Your attention is invited to the statement appearing on page 11 of the report of the examination of the Federal Reserve Bank of St. Louis as of January 24, 1931, under the caption, "Collateral Requirements".

If the Federal Reserve Bank of St. Louis has adopted a general policy or practice of (1) declining to rediscount eligible commercial and agricultural paper and granting credit accommodations to its member banks on paper of this character only in the form of advances for periods not exceeding fifteen days on their promissory notes secured by such paper, (2) requiring marginal collateral on advances made by it to member banks without regard to the condition of each borrowing bank, the character of the paper offered, the total amount borrowed by such bank or other similar facts and circumstances affecting each individual case, or (3) requiring a certain minimum percentage of marginal collateral of all borrowing banks outside of Federal reserve cities, without applying the same requirements to banks located in Federal reserve cities, such action would appear to be out of harmony with the spirit and purpose of the Federal Reserve Act, if not contrary to the provisions of the Act itself. It is also believed that the adoption of any such policy or practice might add to any feeling of uneasiness existing in your district and tend to prevent member banks from availing themselves of the facilities of the Federal Reserve Bank of St. Louis to the extent which might be justified by conditions in the territory.

You are requested to address a letter to the Federal Reserve Board clearly describing the policy and practice of the Federal Reserve Bank of St. Louis with respect to the method of granting credit accommodations to member banks on eligible commercial and agricultural paper, the requiring of marginal collateral, and the percentages of marginal collateral required of Federal reserve city banks and of banks outside of Federal Reserve cities, both under the revised policy adopted by your Executive Committee during the recent examination of your bank and during the three months preceding the adoption of such revised policy. Please advise the Board whether any general policy or practice adopted by your bank on this subject was authorized or approved by your Board of Directors and also whether you have received any unfavorable reaction from your member banks.

By Order of the Federal Reserve Board.

Very truly yours,

(Signed) E. M. McCLELLAND

E. M. McClelland,
Assistant Secretary

Mr. John S. Wood, Chairman,
Federal Reserve Bank,
St. Louis, Mo.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

February 20, 1931.

John S. Wood, Chairman,
Mr. William McG. Martin, Governor,
Federal Reserve Bank of St. Louis,
St. Louis, Missouri.

Mr. Wood
Dear ~~Governor Martin~~:

Your attention is invited to the statement appearing on page 11 of the report of the examination of the Federal Reserve Bank of St. Louis as of January 24, 1931, under the caption, "Collateral Requirements."

If the Federal Reserve Bank of St. Louis has adopted a general policy or practice of (1) declining to rediscount eligible commercial and agricultural paper and granting credit accommodations to its member banks on paper of this character only in the form of advances for periods not exceeding fifteen days on their promissory notes secured by such paper, (2) requiring marginal collateral on advances made by it to member banks without regard to the condition of each borrowing bank, the character of the paper offered, the total amount borrowed by such bank or other similar facts and circumstances affecting each individual case, or (3) requiring a certain minimum percentage of marginal collateral of all borrowing banks outside of Federal reserve cities, without applying the same requirements to banks located in Federal reserve cities, such action would appear to be out of harmony with the spirit and purpose of the Federal Re-

serve Act, if not contrary to the provisions of the Act itself. It is also believed that the adoption of any such policy or practice might add to any feeling of uneasiness existing in your District. (V)

You are requested to address a letter to the Federal Reserve Board clearly describing the policy and practice of the Federal Reserve Bank of St. Louis with respect to the method of granting credit accommodations to member banks on eligible commercial and agricultural paper, the requiring of marginal collateral, and the percentages of marginal collateral required of Federal reserve city banks and of banks outside of Federal reserve cities, both under the revised policy adopted by your Executive Committee during the recent examination of your bank and during the three months preceding the adoption of such revised policy. Please advise the Board whether any general policy or practice adopted by your bank on this subject was authorized or approved by your Board of Directors and also whether you have received any unfavorable reaction from your member banks.

By Order of the Federal Reserve Board.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

and tend to prevent member banks from availing themselves of the facilities of the FR Bank of St. Louis to the extent which might be justified by conditions in the territory.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

3323-3
February 20,
1931.

Mr. William McC. Martin, Governor,
Federal Reserve Bank of St. Louis,
St. Louis, Missouri.

Dear Governor Martin :

Your attention is invited to the following statement appearing on page 11 of the report of the examination of the Federal Reserve Bank of St. Louis which was commenced on January 24, 1931 :

"It was noted that the Reserve Bank held an unusually large number of member bank collateral notes secured by customers' notes. Upon inquiry, your examiner was advised that since the latter part of 1930 it had been the practice of the Reserve Bank to require that borrowings of all member banks, except those secured by U. S. Government obligations, be on a member bank collateral note basis with a margin of collateral amounting to at least $33\frac{1}{3}\%$ except that the requirement of $33\frac{1}{3}\%$ margin did not apply to all banks in the Federal reserve cities; and while it might be desirable in certain cases in those centers, other cases would be handled individually, depending upon the amount of borrowings or other circumstances.

"A number of banks have objected to the requirements, some objecting to being deprived of the use of the long term rediscount facilities and others to the requirement for margin.

"The policy of requiring all country banks to pledge marginal collateral regardless of their condition or the class of paper offered, and the apparent discrimination between Federal reserve city banks and country banks was discussed with the management.

"During the examination a revised policy was adopted by the Executive Committee under which additional collateral will be requested only where justified by the conditions,

"and banks whose condition and borrowing record are satisfactory will be given the choice of rediscounting or borrowing on a member bank collateral note basis, although the Reserve Bank will continue to urge that all borrowings be on a member bank collateral note basis. "

While the Federal Reserve Act does not require a Federal reserve bank to accept any particular offering of eligible paper for rediscount, but permits the Federal Reserve Banks, in the exercise of a reasonable banking discretion, to accept or decline eligible paper which is offered for rediscount, the Act contemplates that Federal reserve banks will function through the rediscount of commercial paper having maturities not in excess of ninety days and through the rediscount of agricultural paper having maturities not in excess of nine months, as well as by rediscounting paper secured by Government obligations and by making advances to member banks on their own promissory notes secured by eligible paper or by obligations of the Government of the United States. It would be contrary to the purpose and intent of the Federal Reserve Act for any Federal reserve bank to adopt a general practice of not rediscounting eligible commercial and agricultural paper and of granting credit accommodations to its member banks on paper of this character only in the form of advances for periods not exceeding fifteen days on their promissory notes secured by such paper.

While it is believed that Federal reserve banks may require a margin of collateral on borrowings of member banks, when the circumstances in each particular case warrant it, it would seem that Federal reserve banks are not justified in adopting a general practice of requiring marginal collateral on advances made by them to member banks, without regard

to the condition of each borrowing bank, the character of paper offered, and the total amount borrowed by such bank.

It would also seem that for any Federal reserve bank to require a certain minimum percentage of marginal collateral of all borrowing banks outside of Federal Reserve cities but not to apply the same requirement to banks located in Federal reserve cities, would be contrary to that provision of Section 4 of the Federal Reserve Act which requires the board of directors of each Federal reserve bank to "administer the affairs of said bank fairly and impartially and without discrimination in favor of or against any member bank or banks. "

You are requested to address a letter to the Federal Reserve Board clearly describing and explaining the policy and practice of the Federal Reserve Bank of St. Louis with respect to the method of granting credit accommodations to member banks on eligible commercial and agricultural paper, the requiring of marginal collateral, and the percentages of marginal collateral required of Federal reserve city banks and of banks outside of Federal reserve cities, both under the revised policy adopted by your Executive Committee during the recent examination of your bank and during the three months preceding the adoption of such revised policy. Please also advise the Board whether such policies or practices were authorized or approved by your board of directors, what the reaction of your member banks was to such policies or practices, and whether the officers and directors of your bank have carefully considered the question whether any apparent increase in your requirements under present conditions

might add to any feeling of uneasiness existing in your district.

By Order of the Federal Reserve Board.

Very truly yours,

E. M. McClelland
Assistant Secretary

Office Correspondence

FEDERAL RESERVE
BOARDDate February 19, 1931. 332,33To Federal Reserve Board

Subject: _____

From Mr. F. J. Drinnen and Mr. Walter Wyatt

2-8495

2/19/31

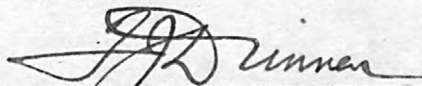
The report of examination of the Federal Reserve Bank of St. Louis, which was commenced on January 24, 1931, was received in the Board's offices yesterday; and, in accordance with the action taken at the Board meeting on February 11th, the undersigned respectfully submit herewith a proposed letter addressed to the Governor of the Federal Reserve Bank of St. Louis with respect to the practice of that bank in endeavoring to put all borrowing member banks in that district on a collateral note basis, requiring a margin of collateral on all such borrowings, and discriminating between Federal Reserve city banks and banks outside of Federal Reserve cities with respect to the amount of collateral.

2/19/31

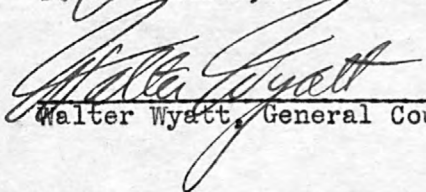
There is also submitted herewith a proposed letter to the Chairman of the Board of Directors of the Federal Reserve Bank of St. Louis enclosing a copy of the letter to Governor Martin and requesting him to present it to the Board of Directors at its next meeting and advise the Federal Reserve Board of the action taken by the Board of Directors.

For the Board's further information, there are attached hereto copies of certain correspondence taken from the files of the Federal Reserve Bank of St. Louis, which, in the opinion of the undersigned, fully support the statements of the Examiner on this subject.

Respectfully,



F. J. Drinnen, Federal Reserve Examiner



Walter Wyatt, General Counsel.

Papers attached.

FEDERAL RESERVE BOARD

WASHINGTON

33213-3

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

February 19,
1931.

Mr. William McC. Martin, Governor,
Federal Reserve Bank of St. Louis,
St. Louis, Missouri.

Dear Governor Martin:

Your attention is invited to the following statement appearing on page 11 of the Report of Examination of the Federal Reserve Bank of St. Louis which was commenced on January 24, 1931:

"It was noted that the Reserve Bank held an unusually large number of member bank collateral notes secured by customers' notes. Upon inquiry, your examiner was advised that since the latter part of 1930 it had been the practice of the Reserve Bank to require that borrowings of all member banks, except those secured by U.S. Government obligations, be on a member bank collateral note basis with a margin of collateral amounting to at least 33 1/3% except that the requirement of 33 1/3% margin did not apply to all banks in the Federal reserve cities; that while it might be desirable in certain cases in those centers, other cases would be handled individually, depending upon the amount of borrowings or other circumstances.

"A number of banks have objected to the requirements, some objecting to being deprived of the use of the long term rediscount facilities and others to the requirement for margin.

"The policy of requiring all country banks to pledge marginal collateral regardless of their condition or the class of paper offered, and the apparent discrimination between Federal reserve city banks and country banks was discussed with the management.

"During the examination a revised policy was adopted by the Executive Committee under which additional collateral will be requested only where justified by conditions, and banks whose condition and borrowing record are satisfactory will be given the choice of rediscounting or borrowing on a

"member bank collateral note basis, although the Reserve Bank will continue to urge that all borrowings be on a member bank collateral note basis."

While the Federal Reserve Act does not require a Federal reserve bank to accept any particular offering of eligible paper for rediscount, but permits the Federal reserve banks, in the exercise of a reasonable banking discretion, to accept or decline eligible paper which is offered for rediscount; it is also clear that the Act contemplates that Federal reserve banks will function through the rediscount of commercial paper having maturities not in excess of ninety days and through the rediscount of agricultural paper having maturities not in excess of nine months, as well as by rediscounting paper secured by Government obligations and by making advances to member banks on their own promissory notes secured by eligible paper or by obligations of the Government of the United States. It is clear, therefore, that it is contrary to the purpose and intent of the Federal Reserve Act for a Federal reserve bank to adopt a general practice of not rediscounting eligible commercial and agricultural paper and of granting credit accommodations to ^{its} ~~their~~ member banks on paper of this character only in the form of advances for periods not exceeding fifteen days on their promissory notes secured by such paper.

While it is believed that Federal reserve banks may require a margin of collateral on borrowings of member banks, when the circumstances in each particular case warrant it, the Federal Reserve Board is also of the opinion that Federal reserve banks are not justified in adopting a general practice of requiring marginal collateral on advances made by it to member banks, without regard to the condition of

the borrowing bank, the character of paper offered, and the total amount borrowed by such bank, as the Federal Reserve Bank of St. Louis is reported to have done.

Moreover, the Federal Reserve Board is of the opinion that, for any Federal reserve bank arbitrarily to require a certain minimum percentage of marginal collateral of all borrowing banks outside of Federal reserve cities but not to apply the same requirement to banks located in Federal reserve cities, is a violation of that provision of Section 4 of the Federal Reserve Act which requires the board of directors of each Federal reserve bank to "administer the affairs of said bank fairly and impartially and without discrimination in favor of or against any member bank or banks." This is exactly the kind of discrimination which the above quoted provision of the Federal Reserve Act was intended to prohibit; and the Federal Reserve Board ~~cannot and will not countenance such a~~ *practice.* ~~will not tolerate it.~~

The Board notes that, on February 9, 1931, after this matter was called to your attention by the examiners, the Executive Committee of the Federal Reserve Bank of St. Louis adopted a revised policy on this subject reading as follows:

"(1) In a spirit of cooperation with member banks and in order that each borrowing may be reviewed at regular short intervals, it would be desirable to get a fifteen day collateral note in every instance and it is believed that if its use can be fully explained to the member bank, it will be perfectly agreeable to most of them and in many instances will be insisted upon by them as a preferred method of borrowing. However, if after careful explanation the bank not borrowing under any of the conditions mentioned in (2) below prefers rediscounting, then it is to be allowed to re-discount. In other words, it is to have its choice of the two methods.

"(2) Wherever a bank has been a continuous borrower, is borrowing excessively, is in an unsatisfactory condition, or whenever for any reason additional collateral is

"requested, a fifteen day collateral note will be required.

"(3) Additional collateral will only be asked where justified by existing conditions surrounding the borrowing."

The Federal Reserve Board is of the opinion that it is reasonable for a Federal reserve bank to require individual member banks to place their borrowings on a collateral note basis, in order that borrowings may be reviewed at regular short intervals, when they are continuous borrowers, are borrowing excessively, are in an unsatisfactory condition, or whenever for any other reason the circumstances are such as to justify such action. For the reasons stated above, however, the Board is of the opinion that it is not reasonable or proper for a Federal reserve bank to suggest that all borrowing member banks place their borrowings on a collateral note basis, without regard to the circumstances *affecting each individual case.* ~~surrounding each individual bank.~~

A copy of this letter is being transmitted to the Chairman of the Board of Directors of the Federal Reserve Bank of St. Louis with a request that it be given consideration at the next meeting of the Board of Directors and that the Federal Reserve Board be advised of the action taken on this subject.

By Order of the Federal Reserve Board.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

February 19, 1931.

Mr. John S. Wood,
Chairman of the Board of Directors,
Federal Reserve Bank of St. Louis,
St. Louis, Missouri.

Dear Mr. Wood:

There is enclosed for your information a copy of a letter which the Board is addressing to Governor Martin with respect to the practice instituted by the Federal Reserve Bank of St. Louis during the latter part of the Year 1930 of endeavoring to place all borrowing member banks in that district on a collateral note basis,, requiring a margin of collateral on such borrowings, and discriminating between Federal Reserve City Banks and banks outside of Federal Reserve cities with respect to the amount of collateral.

You are requested to present this letter to the Board of Directors of the Federal Reserve Bank of St. Louis at its next meeting, have it read, and request the Board of Directors to give it consideration. Please advise the Federal Reserve Board of the action taken by your Board of Directors with respect to this matter.

By Order of the Federal Reserve Board.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

Enclosure.

2/20/31 (Executive Committee Meeting)

332.3-2

Consideration was given to alternative drafts of letters to the Federal Reserve Bank of St. Louis, prepared by Messrs. Wyatt and Drinnen in accordance with instructions given at the meeting of the Board on February 11th, with reference to the alleged policy of the St. Louis bank in the granting of accommodation to member banks, reported by Mr. Drinnen at the meeting of the Board on February 11th and discussed in the report of the examination of the Federal Reserve Bank which was recently completed.

After some discussion, upon motion, it was voted to transmit a letter to the Chairman of the Board of Directors of the St. Louis bank reading as follows:

"Your attention is invited to the statement appearing on page 11 of the report of examination of the Federal Reserve Bank of St. Louis as of January 24, 1931, under the caption, 'Collateral Requirements.'

"If the Federal Reserve Bank of St. Louis had adopted a general policy or practice of (1) declining to rediscount eligible commercial and agricultural paper and granting credit accommodations to its member banks on paper of this character only in the form of advances for periods not exceeding fifteen days on their promissory notes secured by such paper, (2) requiring marginal collateral on advances made by it to member banks without regard to the condition of each borrowing bank, the character of the paper offered, the total amount borrowed by such bank or other similar facts and circumstances affecting each individual case, or (3) requiring a certain minimum percentage of marginal collateral of all borrowing banks outside of Federal Reserve cities, without applying the same requirements to banks located in Federal reserve cities, such action would appear to be out of harmony with the spirit and purpose of the Federal Reserve Act, if not contrary to the provisions of the Act itself. It is also believed that the adoption of any such policy or practice might add to any feeling of uneasiness existing in your District and tend to prevent member banks from availing themselves of the facilities of the Federal Reserve Bank of St. Louis to the extent which might be justified by conditions in the territory.

"You are requested to address a letter to the Federal Reserve Board clearly describing the policy and practice of the Federal Reserve Bank of St. Louis with respect to the method of granting credit accommodations to member banks on eligible commercial and agricultural paper, the requiring of marginal collateral, and the percentages of marginal collateral required of Federal reserve city banks and of banks outside of Federal reserve cities, both under the revised policy adopted by your

2/20/31

- 2 -

"Executive Committee during the recent examination of your bank and during the three months preceding the adoption of such revised policy. Please advise the Board whether any general policy or practice adopted by your bank on this subject was authorized or approved by your Board of Directors and also whether you have received any unfavorable reaction from your member banks.

"By Order of the Federal Reserve Board."

2/11/31

332.3-3

Mr. Drinnen then reported that during the examination of the Federal Reserve Bank of St. Louis, now being conducted by the Board's Examiners, it was discovered that a large majority of the borrowing member banks in the district were borrowing in the form of a member bank note secured by customer's paper with a substantial margin of collateral, and upon inquiry it was found that since the fall of last year it has been the practice, if not the policy, of the bank to endeavor to put all borrowing member banks on a member bank collateral note basis and to require at least 33 1/3% margin in the case of country banks and of at least 20% in the case of reserve city banks.

Mr. Drinnen stated that he discussed the matter with various officials of the St. Louis bank and that Governor Martin stated to him that he felt in view of present conditions the practice of having the member banks borrow on a member bank collateral note basis with a margin of collateral is a desirable one and should be continued, although, if the Board desires that it be discontinued and the borrowing banks allowed to elect the form which their indebtedness at the Federal Reserve bank should take, the procedure now followed by the bank and its branches will be abandoned.

Mr. Drinnen also stated that advice has today been received from the examiner in charge of the examination of the St. Louis bank that on February 9, 1931 a policy as outlined below was adopted by the discount committee of the bank and the branches advised accordingly:

"1. In a spirit of cooperation with member banks and in order that each borrowing may be reviewed at regular short intervals, it would be desirable to get a fifteen day collateral note in every instance and it is believed that if its use can be fully explained to the member bank, it will be perfectly agreeable to most of them and in many instances will be insisted upon by them as a preferred method of borrowing. However, if after careful explanation the bank not borrowing under any of the conditions mentioned in (2) below prefers rediscounting, then it is to be allowed to rediscount. In other words, it

2/11/31

- 2 -

"is to have its choice of the two methods.

"2. Wherever a bank has been a continuous borrower, is borrowing excessively, is in an unsatisfactory condition, or whenever for any reason additional collateral is requested, a fifteen day collateral note will be required.

"3. Additional collateral will only be asked where justified by existing conditions surrounding the borrowing."

A discussion ensued as to what action, if any, should be taken by the Federal Reserve Board in regard to the practice of the St. Louis bank, at the conclusion of which the Board's General Counsel and the Examiner in Charge were instructed, upon receipt of the report of examination of the bank, to study the practice from the standpoint of the position of the Federal Reserve Board and to prepare for submission at a later meeting of the Board draft of a letter to the Chairman of the bank outlining the views of the Board with regard to the matter.

(COPY)

January 16, 1931.

332.3-3

Mr. W. H. Glasgow, Managing Director,
Memphis Branch,
Federal Reserve Bank of St. Louis,
Memphis, Tennessee.

Dear Glasgow:

Our Committee at its regular meeting today reviewed the application for discount of Citizens National Bank, Trenton, Tennessee, dated January 15.

This is apparently an initial offering which was brought to your office by one of the officers and in such cases it has been our policy for some time to suggest that the borrowings be on a collateral note basis with a margin of collateral amounting to not less than 33 1/3%.

Our committee suggests that the branches follow a similar policy for the time being, since it is less difficult to place the borrowings on a collateral note basis at the beginning than to change the method of borrowing later. Due notice in the form of a letter should be sent to us at the time such arrangements are made for the completion of our files.

Will you please acknowledge receipt of this letter?

Yours very truly,

S. F. GILMORE

Controller

CC: Little Rock Branch
Louisville Branch

COPY

Memphis Branch
Federal Reserve Bank of St. Louis
Memphis, Tenn.

January 20, 1931.

Mr. S. F. Gilmore, Controller,
Federal Reserve Bank of St. Louis,
St. Louis, Missouri.

Dear Gilmore:

Your letter of January 16, asking us to require the Citizens National Bank of Trenton, Tennessee, to borrow on its promissory note and to pledge 33 1/3% additional collateral, came Saturday.

We do not quite understand your letter. Has our policy been changed so we will require all banks to borrow on a collateral note basis instead of rediscounting as heretofore? Will 33 1/3% collateral be required in all cases and if so, does the Committee mean it should be eligible and acceptable paper or can the collateral be pledged as collateral to its general line of credit and hence need not be eligible?

We suggested that the Citizens National Bank borrow on its bills payable but Mr. Harwood did not take kindly to it.

We see no particular objection nor any specific advantage in a bank's borrowing on its bills payable unless it is extended, but it has not been our practice to require a margin of collateral until the borrowings exceeded, in the old days, about twice its basic line; or more recently, its capital and surplus.

Please discuss this with the Committee and write us again.

Very truly yours,

(Signed) W. H. Glasgow

Managing Director.

COPY

January 21, 1931.

Mr. W. H. Glasgow,
Managing Director, Memphis Branch,
Federal Reserve Bank of St. Louis,
Memphis, Tennessee.

Dear Glasgow:

Answering your letter of January 20 regarding our general letter of January 16 suggesting that in cases of initial offerings that the borrowings be placed on a collateral note basis with a margin of collateral amounting to not less than 33 1/3%.

As mentioned in our letter, we have followed this policy at this office for some time and our Committee feels that the plan is desirable for the time being as it simplifies matters for us and eliminates the necessity of changing the method of borrowing and asking for collateral later on. Since following this policy the minimum requirement as a margin has been 33 1/3% and as heretofore the margin need not necessarily consist of eligible paper.

This, of course, does not apply to all banks in the city of Memphis, as they sometimes have collateral pledged even though they are not borrowing against it. There are cases, however, where the plan might be desirable, one of which would be where the collateral offered is chiefly composed of paper more or less of a border line nature or if the offering bank is not in a satisfactory condition. Other cases can be handled individually, somewhat in the same manner as in the past, depending on the amount of borrowings or other circumstances.

Yours very truly,

S. F. Gilmore
Controller

COPY

January 27, 1931.

Mr. W. P. Kincheloe,
Manager, Louisville Branch,
Federal Reserve Bank of St. Louis,
Louisville, Kentucky.

Dear Kincheloe:

Our Committee at its regular meeting today
agreed that the borrowings of the Citizens
National Bank, Bowling Green, Kentucky,
should be placed on a collateral note basis with
a margin of collateral amounting to not less
than 33 1/3%

Enclosed is a copy of a letter which we have
written the bank today.

Yours very truly,

S. F. Gilmore

Controller

January 19, 1931.

Mr. W. E. Menke, Cashier,
First National Bank,
Huntingburg, Indiana.

Dear Mr. Menke:

Our Committee at its regular meeting today reviewed your application for discount dated January 15, received through our Louisville Branch.

In consideration of our accepting this offering it is suggested that your borrowings, until further notice, be on a collateral note basis, with a margin of collateral amounting to not less than 33 1/3%.

The Louisville Branch will send you the necessary forms and instructions; and it will be appreciated if you will give these matters prompt attention.

Very truly yours,

S.F. Gilmore,

Controller.

THE FIRST NATIONAL BANK,

Huntingburg, Indiana.

January 27, 1931.

S. F. Gilmore, Controller,
Federal Reserve Bank,
St. Louis, Missouri.

Dear Sir:

This will acknowledge receipt of your communication of January 19th together with forms and instructions from the Louisville Branch, also a letter dated January 26th from the Louisville Branch.

In response to these communications, beg to state that we can pay our rediscounts down to \$20,000.00 by February 10th and we are wondering if we can not go along on the old basis or whether you still desire to use the new form as prescribed in your late correspondence. We shall make an earnest attempt to get them all paid within the next 90 to 120 days, which from the present outlook we believe will be possible.

We have been allotted \$25,000.00 in State funds. We have qualified for \$10,000.00 of this, and we are going to apply for another surety company bond of \$7,500.00. This is the one reason why we dislike at this time to pledge additional paper. However, if after giving this your consideration you state that it shall be done, we will do so immediately.

Yours very truly,

W. E. Menke

Cashier

January 28, 1931.

Mr. W. E. Menke, Cashier,
First National Bank,
Huntingburg, Indiana.

Dear Mr. Menke:

Our Committee has given consideration to your letter of January 27 indicating that you will be able to liquidate your indebtedness to us within the next three or four months; but still feels that in the meantime your borrowings should be on a collateral note basis, with a margin of collateral amounting to not less than 33 1/3%.

There is really nothing unusual in our request,
and we believe that you will find the collateral note a convenient method of borrowing.

Will you please send the note and collateral pledges to the Louisville Branch with the required amount of margin as soon as possible?

Very truly yours,

S. F. Gilmore

Controller.

January 20, 1931.

Mr. S. F. Gilmore, Controller,
Federal Reserve Bank,
St. Louis, Missouri.

Dear Gilmore:

We are in receipt of your letter dated January 16th, enclosing copy of letter which you have written to the Memphis Branch regarding the policy in cases of initial offerings to place borrowings on a collateral note basis with a margin of collateral amounting to not less than 33 1/3%.

Your letter was read and discussed at our committee meeting today and it is not clear to us just what you mean with reference to "initial offerings". We assume that you mean that this policy is to be put into effect with banks that have never borrowed from us. We will thank you to please advise us if our assumption is correct.

Yours very truly,

W. P. Kincheloe,
Manager.

January 21, 1931.

Mr. W.P. Kincheloe,
Manager, Louisville Branch,
Federal Reserve Bank of St. Louis,
Louisville, Kentucky.

Dear Kincheloe:

Answering your letter of January 20 regarding initial offerings referred to in our letter of January 16, we had in mind initial offerings from any bank whether it had borrowed from us before or had borrowed previously and paid out.

The Committee at this office feels that the plan is desirable for the time being and simplifies the procedure for us in that it eliminates the necessity of changing the method of borrowing and asking for collateral later on.

This, of course, does not apply to all banks in the city of Louisville, as they sometimes have collateral pledged even though they are not borrowing against it. There are cases, however, where the plan would be desirable, one of which would be where the collateral offered is chiefly composed of paper more or less of a border line nature or if the offering bank is not in a satisfactory condition. Other cases can be handled individually, somewhat in the same manner as in the past, depending on the amount of borrowings or other circumstances.

Yours very truly,

S. F. Gilmore

Controller.

COPY

LITTLE ROCK BRANCH
FEDERAL RESERVE BANK

Little Rock, Ark. January 23, 1931.

Mr. S. F. Gilmore, Controller
Federal Reserve Bank
St. Louis, Missouri.

Dear Mr. Gilmore:

Mr. L. B. McClure, President, Peoples Exchange Bank, Russellville, Arkansas, was in the bank today and he transferred the two notes, which we are holding under rediscount, from rediscount to collateral to bills payable today. He stated that the 500 bales cotton collateralizing the \$21,250 note of Henry Brothers would be sold within the next few days and this note retired, also, he thought that the \$17,000 note would be paid at maturity.

He said he felt that they should not be required to deposit marginal collateral on these two particular notes as they are secured by cotton and would shortly be retired. It is the recommendation of our Committee that we do not require them to deposit marginal collateral on these two notes with the understanding that the paper is to be retired at maturity, February 5th. If this is not agreeable with your Committee please let us know and we will write the Peoples Exchange Bank, Russellville, Arkansas and request them to forward us marginal collateral on this paper.

At this time it will not be necessary for them to put up any collateral to their general line as they have a large excess in collateral to bills payable. However, it would be necessary for them to deposit marginal collateral in case they borrow on the collateral to bills payable which we accepted and upon which they are not borrowing at this time.

Please let us know if it will be satisfactory to your Committee for us to waive marginal collateral on the two notes secured by cotton totaling \$38,250. with the understanding that these notes will be retired upon maturity dates.

Yours very truly,

(Signed) M. H. Long

Cashier.

COPY

January 24, 1931.

Mr. M. R. Long, Cashier,
Little Rock Branch,
Federal Reserve Bank of Saint Louis
Little Rock, Arkansas

Dear Long:

Our Committee at its regular meeting today discussed your letter of December 23, with reference to our request that the Peoples Exchange Bank, Russellville, Arkansas, maintain a margin of collateral amounting to not less than 33 1/3% of its indebtedness to us.

Even though it is the intention of the bank to liquidate the notes secured by cotton on February 5, we feel that the margin should be maintained in the meantime. However, inasmuch as your letter indicates that the bank has a considerable excess of eligible collateral, the amount of which you did not state, and assuming that this is sufficient to make up the 33 1/3% margin; there is no necessity to ask the bank to send any additional amounts of collateral at this time - as the excess of eligible paper may be taken into consideration in determining whether the margin is sufficient.

In the event that maturing collateral items or an increase in the bank's borrowings should, in the meantime, reduce the margin to below the required amount, it is our view that the bank should submit additional acceptable paper; but as long as the excess of eligible collateral affords sufficient margin, the matter of margin need not be pursued further with the bank.

We believe this will meet with your approval, but if not, please write us further.

Very truly yours,

S. F. Gilmore
Controller.

OCP:CC

(COPY)

Memphis Branch
Federal Reserve Bank of St. Louis
Memphis, Tenn.

February 6, 1931.

Mr. W. McC. Martin, Governor,
Federal Reserve Bank of St. Louis,
St. Louis, Missouri.

Dear Mr. Martin :

Since our telephone conversation this morning Mr. Dillard called up to say that he had a talk with Mr. Snowden and Mr. Dillard understands that our policy is to ask all banks, including the city banks, to borrow on Bills Payable and to deposit a margin of $33 \frac{1}{3}\%$ additional collateral. My impression was that we would do this to the country banks but would not require a margin from the city banks. Mr. Dillard has asked me to see Mr. Snowden and I will try and do this tomorrow morning.

In the meantime, I thought it best to write you because Mr. Snowden is apparently very much upset. They have been making some loans in the delta, expecting to discount them, or pledge them to us, dollar for dollar, and think that a margin would be a hardship.

Will you please drop me a line?

Sincerely yours,

(Signed) W. H. Glasgow
Managing Director

Note-

Mr. Dillard- Head office director living in Memphis.
Mr. Snowden- Branch director; Vice President, Bank of
Commerce and Trust Co., Memphis.

(COPY)

FEDERAL RESERVE BANK OF ST. LOUIS

February 7, 1931.

Mr. W. H. Glasgow, Manager,
Memphis Branch,
Federal Reserve Bank of St. Louis,
Memphis, Tenn.

Dear Sir:

I have received your letter of February 6 and do not understand that we have any rule of thumb in the granting of credits. During this particular period of economic upset in this district, we believe that for both the good of the member bank and this bank the 15 day note is preferable and we prefer to make our advances in this manner. As to additional collateral, it depends upon the notes offered and the condition of the bank. There is no discrimination between the city bank and the country bank. Perhaps this impression has arisen because as a rule the condition of the country banks has required us to ask additional collateral, whereas many city banks have not made this condition necessary. On the other hand, some city banks have been in such condition that we have asked for additional collateral.

Each individual case is to be considered as an individual case. If the condition of the bank and its surroundings are such as to require additional collateral, we should have it, and if the condition of the bank and the surroundings are such that good credit principles would not make additional collateral necessary, then there is no reason for us to ask it.

Yours sincerely,

(Signed) Wm. McC. Martin
Governor

COPY

February 11, 1931.

Mr. W. P. Kincheloe,
Manager, Louisville Branch,
Federal Reserve Bank of St. Louis,
Louisville, Kentucky.

Dear Kincheloe:

For your information I quote from the minutes of the
Executive Committee of February 9:

"Governor Martin presented the following memorandum showing
how and under what conditions advances are made to member banks:

"(1) In a spirit of cooperation with member banks and in
order that each borrowing may be reviewed at regular short intervals,
it would be desirable to get a fifteen day collateral note in every
instance and it is believed that if its use can be fully explained to
the member bank, it will be perfectly agreeable to most of them and
in many instances will be insisted upon by them as a preferred method
of borrowing. However, if after careful explanation the bank not bor-
rowing under any of the conditions mentioned in (2) below prefers
rediscounting, then it is to be allowed to rediscount. In other words,
it is to have its choice of the two methods.

"(2) Wherever a bank has been a continuous borrower, is
borrowing excessively, is in an unsatisfactory condition, or whenever
for any reason additional collateral is requested, a fifteen day col-
lateral note will be required.

"(3) Additional collateral will only be asked where justi-
fied by existing conditions surrounding the borrowing.'"

We will continue, as outlined in Mr Gilmore's letter of
January 16 to Mr. Glasgow, copy of which was sent to you, to suggest
that borrowings be on a collateral note basis with a margin of col-
lateral of not less than 33 1/3% in all instances where initial of-
ferings are brought to our office and we have an opportunity of dis-
cussing the matter with the officer of the borrowing bank presenting
the offering.

Yours very truly,

O.M. Attebery,
Deputy Governor.

(COPY OF LETTER TO ALL BRANCHES)

FEDERAL RESERVE BANK

-of-

ST. LOUIS

C O P Y

February 17, 1931,

Mr. W. H. Glasgow, Manager,
Memphis Branch,
Federal Reserve Bank of St. Louis,
Memphis, Tenn.

Dear Glasgow :

Referring to our letter of February 11, quoting from the minutes of the Executive Committee meeting of February 9, it develops that the last paragraph of this letter has been construed by some as contradicting the action of the Executive Committee. It was not so intended and in order to avoid any possibility of a misunderstanding we wish to point out that as stated in the Executive Committee minutes "additional collateral will only be asked where justified by existing conditions surrounding the borrowing."

This does not mean, however, that when initial offerings are brought to your office and you have the opportunity to talk the matter over personally that you are not to suggest the advisability of using the collateral note and at the same time, in your discretion, the advisability of starting with a margin of collateral of not less than 33-1/3%. It does mean that in no instance will the margin of collateral be required unless justified by existing conditions surrounding the borrowing.

Yours very truly,

(Signed) O. M. Attebery
Deputy Governor

C O P Y

332.3-3

1/15/31

Mr. Gilmore Controller in charge of Credit - Discount Department stated that around the fall of the year the discount committee decided to adopt a general policy of endeavoring to put all borrowing banks on a member bank collateral note basis, requiring at least 33 1/3% margin, the Federal reserve city banks to be considered on separate basis with margin ranging lower if condition warranted. All of the branches were advised of this policy January 16, 1931.

It was definitely stated that a bank's initial offering would not be rediscounted even if it were a good bank and the paper offered were acceptable but that the reserve bank would insist that the member borrow on a member bank collateral note basis and pledge at least 33 1/3% margin. The advantages of this plan from the reserve bank's viewpoint are that:-

1. In case of the failure of the borrowing bank the claim is easier to handle and larger collections are obtained.
2. The reserve bank can more closely check the borrowing bank each 15 days, and that with each offering a condensed report of condition is required.
3. Rate changes are quickly effective.

See minutes
.....
AT BOARD MEETING

FEB 11 1931

SR

(COPY)

January 15, 1931.

Mr. W. H. Glasgow, Managing Director,
Memphis Branch,
Federal Reserve Bank of St. Louis,
Memphis, Tennessee.

Dear Glasgow:

Our Committee at its regular meeting today reviewed the application for discount of Citizens National Bank, Trenton, Tennessee, dated January 15.

This is apparently an initial offering which was brought to your office by one of the officers and in such cases it has been our policy for some time to suggest that the borrowings be on a collateral note basis with a margin of collateral amounting to not less than 33 1/3%.

Our committee suggests that the branches follow a similar policy for the time being, since it is less difficult to place the borrowings on a collateral note basis at the beginning than to change the method of borrowing later. Due notice in the form of a letter should be sent to us at the time such arrangements are made for the completion of our files.

Will you please acknowledge receipt of this letter?

Yours very truly,

S. F. GILMORE

Controller

CC: Little Rock Branch
Louisville Branch

(COPY)

January 27, 1931.

Citizens National Bank,
Bowling Green,
Kentucky.

Gentlemen:

Our Committee at its regular meeting today reviewed your application for discount dated January 24 and in consideration of our accepting this offering suggests that your borrowings until further notice be on a collateral note basis with a margin of collateral amounting to not less than 33 1/3%.

Our Louisville Branch will send you the necessary forms and instructions and it will be appreciated if you will give the matter prompt attention.

Yours very truly,

S. F. GILMORE

Controller.

The policy of the reserve bank is to require the borrowings of all member banks to be on a member bank collateral note basis with a margin of collateral of at least 33 1/3%, except that in the case of Federal reserve city banks the minimum margin of collateral required is reduced to 20%. Borrowings secured by United States Government obligations are expected from this requirement.

February 9, 1931.

F. J. Drinnen,
Federal Reserve Board,
Washington, D. C.

Instructions issued to Head Office and all branches today
eliminating fixed requirement each party to be considered
on its merits and party to have option as to method.

R. H. BRETT.

(1) In a spirit of cooperation with member banks and in order that each borrowing may be reviewed at regular short intervals, it would be desirable to get a fifteen day collateral note in every instance and it is believed that if its use can be fully explained to the member bank, it will be perfectly agreeable to most of them and in many instances will be insisted upon by them as a preferred method of borrowing. However, if after careful explanation the bank not borrowing under any of the conditions mentioned in (2) below prefers rediscounting, then it is to be allowed to rediscount. In other words, it is to have its choice of the two methods. ✓

(2) Wherever a bank has been a continuous borrower, is borrowing excessively, is in an unsatisfactory condition, or whenever for any reason additional collateral is requested, a fifteen day collateral note will be required.

(3) Additional collateral will only be asked where justified by existing conditions surrounding the borrowing."

