

TRANSFER

(F.R.) CONFIDENTIAL

RETURN TO
FILES SECTION
DO NOT ANY
THE

(F.R.) CONFIDENTIAL

RUC

#1
332
December 26, 1922.

337.3-6

Dear Sir:

We are in receipt of your letter of December 16 and note with interest what you have to say regarding the purchase of U. S. securities from dealers under repurchase agreements at rates below the discount rate in effect at your bank.

In reply I beg to advise that this matter was taken up with the Treasury before I wrote you on December 1 and after carefully considering the matter the Board feels that the rates charged on U. S. securities taken under repurchase agreement should not be less than the discount rate on eligible paper.

Very truly yours,
(Signed) W. W. Hoxton

Wm. W. Hoxton,
Secretary.

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

W. W. Hoxton

M...

1

FEDERAL RESERVE BANK
OF BOSTON



3323-6
December 16, 1922.

Federal Reserve Board,
Washington,
D. C.

Gentlemen:

I wish to reply to a letter received from the Federal Reserve Board dated December 1 relating to the question of rates to dealers to be charged by ~~this bank~~ on repurchase agreements on United States securities, and note the request in your letter that this rate should be at no time less than our rediscount rate on notes secured by United States securities.

Of course, we are very glad to comply with this request, but considering the reason why we take these repurchase agreements at all and the apparent agreement of the Federal Reserve Board to this policy, I am a little surprised that this change should be made.

3 (The natural place where dealers should get such loans as we furnish them through repurchase agreements would be the call money market in the financial centers. For reasons which have not yet been overcome, there is no money available for the dealers which they could afford to use to carry the low priced government securities. The Treasury Department definitely requested that the Federal Reserve Banks make every effort to establish a market for short term government securities. These securities are not listed on the stock exchange and one of the financial necessities of aiding the dealers to make the market was to furnish them funds to carry these securities at rates which would be close to the return which the dealers received from purchasing them. Treasury certificates of indebtedness have been issued as low as $3\frac{1}{2}\%$ and $3\frac{3}{4}\%$ and they have sold in the market at rates of income which were fully as low or lower than that point. Our rate of discount today is 4%. The rule which is now inaugurated would throw the dealers out of the market when the rate of return on Treasury certificates was considerably less than 4%. It is of no particular concern to us, however, so long as the Secretary of the Treasury understands what we are doing and agrees to it.

Very truly yours,

Charles A. Morss

Charles A. Morss,
Governor.

...

R.

Repurchase

TELEGRAM
FEDERAL RESERVE BOARD
LEASED WIRE SERVICE
WASHINGTON

3323
3323-6

December 2, 1922.

Young, Minneapolis.

Replying your November 29 wire, U. S. securities purchased with repurchase agreement should continue to be included with other U. S. securities owned by bank. In future all schedules reporting purchase of U. S. securities under repurchase agreement should be marked with words "Repurchase agreement" and should show maturity date of such agreement.

HOXTON.

pk

#1

3260
~~332-3~~

332.3-6

December 4, 1922.

Dear Sir:

Receipt is acknowledged of your letter of November 24 requesting the Board's permission to carry U. S. securities taken by your bank under 15-day repurchase agreements at the purchase price instead of at par as has been the custom in the past.

In view of the difficulties mentioned in your letter of carrying such securities at par, the Board believes that an exception may be made in the case of securities taken under repurchase agreements, and you are therefore authorized to carry such securities at cost.

Very truly yours,

~~Vice Governor.~~

Secretary

Mr. C. C. Bullen,
Deputy Governor,
Federal Reserve Bank,
Boston, Mass.

*Appd by Board - & signed by
the Secretary to expedite*

WWT
12-5-22

12

10
TELEGRAM

FEDERAL RESERVE BOARD

LEASED WIRE SERVICE
WASHINGTON2-9454
~~332-3~~
332-3-6

December 5, 1922.

Bailey - Kansas City

Your wire December 1st. The Board has under consideration the entire matter of Federal Reserve banks purchasing United States Securities under repurchase agreement, however, the Board interposes no object on to purchase you propose to make from Federal Land Bank of Omaha, one and one half million, such bonds should be carried on your records and reports as bonds owned by the Federal Reserve bank.

HOXTON.

Office Correspondence

Date December 2, 1922.

To Mr. Hoxton.

Subject: 332-3

From Mr. Smead.

2-8405

*Lay over for future decision
Ad meeting Dec. 6 + Jan. 332-3-6*

During the past few days the following inquiries have been received by the Board regarding purchases of U. S. securities under repurchase agreements:

Mr. Bullen, Deputy Governor of the Federal Reserve Bank of Boston, requests permission of the Board to carry U. S. securities taken under 15-day repurchase agreements at purchase price instead of at par as has been the custom in the past.

Governor Young of Minneapolis advises that they have at different times purchased for their own account U. S. securities on a repurchase agreement from the Federal Land Bank of St. Paul, and states that they have been reporting such bonds as being owned by the Federal reserve bank. He now requests information as to whether or not the Board wishes them to report such transactions in any other way.

Governor Bailey of Kansas City telegraphed the Board on December 1 that the Federal Land Bank of Omaha desired to sell his bank \$1,500,000 of Liberty bonds under repurchase agreement and requested information as to whether or not the Board considers such a transaction with the Federal Land Bank or any one other than a member bank as authorized by the Federal Reserve Act. He also requests information as to how such bonds should be carried in their records and in reports to the Federal Reserve Board.

Before making replies to these inquiries, it seems that the action heretofore taken by the Board in connection with repurchase agreements should be reviewed. On December 1, 1917, the Board in its letter X-545 advised the banks that in view of the fact that the stamp tax imposed by the War Revenue Act was held to apply to promissory notes of member banks the Federal reserve banks might grant short-time advances to member banks by rediscounting eligible commercial paper of longer maturities under an agreement by which the Reserve bank would resell and the member bank repurchase such paper on whatever date might be agreed upon by both parties. This letter also stated that "It should also be understood that the Federal reserve banks may further aid the situation by purchasing either from member or nonmember banks notes or bonds of the United States under similar agreements of resale."

On April 6, 1918, the Board advised the Federal reserve banks in its letter X-871-A that the War Finance Corporation Act provided that no stamp tax should be required or imposed on a promissory note secured by bonds or obligations of the United States issued since April 24, 1917. This letter also contained the following paragraph -

*EGH
Pocket Income*

*add
to carry
as bonds
owned*

*Interpose
no objection
but entire
matter is
under
consideration
by Board*

*Mr. Smead
by memo 12-6-22*

Subject: _____

From _____

2-8495

-2-

"It is suggested, therefore, that the practice of purchasing Liberty bonds and certificates of indebtedness under so-called repurchase agreements be discontinued and that such borrowings by member banks be made on their own promissory notes secured by such bonds and certificates."

The Federal Reserve Banks of New York, Boston, and Chicago have been purchasing U. S. securities under repurchase agreements from nonmember banks, banking corporations, or bill brokers, notwithstanding the above quoted paragraph of the Board's letter of April 6, 1918. The Federal Reserve Bank of Minneapolis has also been purchasing U. S. bonds from the Federal Land Bank of St. Paul under repurchase agreement.

In case the Board decides to permit the banks to continue to purchase U. S. securities under repurchase agreements, it is suggested that a circular letter be written to all Federal reserve banks advising them of the Board's policy with reference to the rates which should be applied to such purchases and the manner in which they should be reported on schedules submitted to the Board.

3323-6

December 1, 1922.

Dear Sir:

In examining schedules submitted by your bank covering the purchase of U. S. securities under repurchase agreements, we note that occasionally you are taking such securities at a rate which is less than the bank's authorized discount rate on eligible paper. If a member bank were to use U. S. securities as collateral to its own note for the purpose of obtaining accommodation at the Federal reserve bank, it would of course be charged your regular discount rate, which is 4 per cent, and the Board does not feel that it should be possible for any bank, corporation, or individual to obtain a lower rate by selling the securities under a repurchase contract.

It is accordingly requested that in the future the rates charged on U. S. securities taken under repurchase agreements be not less than the discount rate on eligible paper in effect at your bank.

By order of the Federal Reserve Board.

Very truly yours,

Wm. W. Hoxton,
Secretary.

Mr. C. A. Morse,
Governor, Federal Reserve Bank,
Boston, Mass.

Appt

AT BOARD MEETING

DEC 6 - 1922

cowd

EW

Office Correspondence

Date December 1, 1922.

To Mr. Platt.

Subject: _____

From Mr. Smead.

332.3-6 2-8405

Docket letter being prepared by Mr. Owen on this subject with 12-1-22

In examining the schedules reporting purchases of U. S. securities under repurchase agreements by the Boston Bank, we find that the rate charged by the bank is frequently less than the rate borne by these securities, and also less than the authorized discount rate on eligible paper. It would seem that these purchases of U. S. securities under 15-day repurchase agreements are more or less in the nature of collateral loans and if the rate charged on such advances is less than the bank's authorized discount rate, that non-member banks, bill brokers, etc., are able to obtain accommodation on such securities at a lower rate than is accorded the member banks which use such securities as collateral for their own notes.

This matter is brought to your attention for the reason that I do not know whether the Board is aware that the Boston Bank is purchasing U.S. securities under repurchase agreement at a rate below the authorized discount rate.

In the case of the Federal Reserve Bank of New York, I find that in purchasing U. S. securities under repurchase agreement, it advances the full face amount of the securities and takes additional securities from the seller equal to the difference between the market value and par of such securities. New York, however, invariably charges 4 per cent on such advances, which corresponds to their authorized discount rate.

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

3266

33203-6

RECEIVED AT WASHINGTON, D. C.,

156fb

Washn.

See our 248 to Board sined Bailey december first amount first
line should be read one and half million instead of eleven, will
you please correct and request an answer on this

Kas City 4 per svc Chgo

1235p

Form

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

3257

332.3-6

108f fa

RECEIVED AT WASHINGTON, D. C.,

Minneapolis Nov 29 1030am

Hoxton

Washn

We have at different times purchased for our own account United States government securities on a repurchase agreement from the Federal Land Bank in StPaul. The directors of the Federal Land Bank by proper resolution have authorized the executive Committee of the land bank to enter into such agreements with us. Our counsel has approved the transaction from a legal standpoint. Bonds so purchased have been reported by us to the Board as bonds owned by this institution and in reality they are even though only owned temporarily for fifteen or thirty days periods. Does the Board wish us to report such transactions in any other way? At the present time our bank owns two million of government securities covered by such repurchase agreement.

Young

1151a

*To Mr. Smead
WWT
11-29-22*

Office Correspondence

Date Nov. 27, 1922

To Mr. Smead

Subject: 332136

From Mr. Eddy

2-8495

Will you please prepare appropriate reply to the attached letter from the Deputy Governor of the Federal Reserve Bank of Boston, for the signature of the Vice Governor, and submit same to this office.

FEDERAL RESERVE BANK
OF BOSTON

332.3-6

November 24, 1922.



Federal Reserve Board,
Washington, D. C.

Gentlemen:

Reference is made to the Federal Reserve Board's letter of February 4, 1922, (X-3320) indicating the system of accounting to be used in connection with carrying purchases of U. S. securities on the books of Federal Reserve Banks. According to the procedure set forth in that letter, all investments of Federal reserve banks are carried in their earning assets at par and the premium or discount at which they were purchased is carried in an appropriate account and amortized. We have followed this method of accounting without difficulty until recently.

Difficulty arises in connection with securities which we buy from dealers with their agreement to repurchase within 15 days at the price at which they were taken by the Federal Reserve Bank plus interest at an agreed rate. When Certificates of Indebtedness and Treasury Notes which we purchased from dealers with such agreements were quoted at prices above par, we bought them at par and so carried them on our books. Recently, some of the issues have been quoted at a discount from par and in such cases it is our practice to buy them at an arbitrary price less than the market with an agreement that they are to be repurchased by the dealer at the same price plus interest.

It seems impracticable to follow the procedure outlined in the Board's instructions regarding these transactions inasmuch as the contract for sale of these securities is made simultaneously with their purchase. The earnings derived from these transactions are applicable to the purchase price rather than to par. We wish to inquire whether the Board has any objection to our carrying these transactions on our books at the purchase price, it appearing to us to be a cumbersome and unnecessary procedure to write these investments up to par and write them down again within a few days when resold to the dealer.

It may have come to the attention of the Board that another Federal Reserve Bank has adopted a different course in dealing with these transactions in that it has taken from dealers a general collateral agreement securing the performance of the repurchase contract after which it buys securities from the dealers at par which are selling in the market at a discount from par and protects itself by taking general collateral from the dealer representing an amount exceeding the discount on the securities purchased. We would not care to adopt this practice because it seems to be an unnecessarily cumbersome method and also because it has a certain flavor of a loan transaction while our relations with other than member banks must, under the Statute, be confined to selling and purchasing.

*all
any FRB may take*

3263

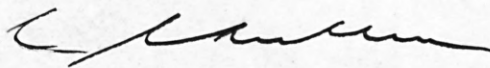
Federal Reserve Board

-2-

November 24, 1922.

We are now carrying such transactions on our books at the purchase price and will be obliged if you will inform us whether that is in any way objectionable to the Federal Reserve Board.

Very truly yours,



C. C. Bullen,
Deputy Governor.

J.

34
Repurchase

#1

FEDERAL 33231

FEDERAL RESERVE BANK
OF BOSTON

~~332-3~~
332.3-6

RECEIVED
APR 1 1922
OFFICE OF
THE GOVERNOR

9

March 31, 1922

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

Dear Governor Harding:

For your information I wish to advise that at a meeting of our Executive Committee last week, the following vote was passed:

"VOTED that the Governor be, and he hereby is, authorized in his discretion, to purchase from bankers or brokers under 15 day repurchase agreements, United States Treasury Notes, having a maturity of four years at the time of issue."

You will recall that the previous authority was limited to Treasury Notes having a maturity of approximately three years, but since that vote was passed, four year Treasury Notes have been issued and it seemed desirable to the Committee to include them in the authority granted to the Governor.

Yours very truly,

Frederic H. Curtiss

Frederic H. Curtiss,
Federal Reserve Agent.

at the meeting about 3

#1
FEDERAL RESERVE BANK
OF BOSTON

FEDERAL RESERVE BANK

504

333

February 10, 1922.

X-3317

332-3-6

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

Dear Governor Harding:

With reference to your letter of February 2 (X3317) concerning temporary advances to dealers against Victory Notes, I wish to advise that this matter was brought to the attention of our Executive Committee at its regular meeting yesterday morning and the following vote was adopted by the Committee:

"VOTED that the Governor be, and he hereby is, authorized in his discretion to purchase from bankers or brokers, under 15-day repurchase agreements, United States Treasury Notes having a maturity of approximately three years at the time of issue, or United States Victory Notes."

The action of our Executive Committee was ratified at the meeting of our Board of Directors in the afternoon.

Yours very truly,

Frederic H. Curtiss FEB 13 1922

Frederic H. Curtiss,
Federal Reserve Agent.

V.

RETURN TO SECRETARY

At Board Meeting

FEB 13 1922

RECEIVED





#11

FEDERAL RESERVE BOARD FILE

FEDERAL RESERVE BANK
OF DALLAS

~~333~~

February 7, 1922.

X-3317
332.3-6

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

Dear Governor Harding:

Referring to your X-3317, of date February 2, on the subject of "Temporary Advances to Dealers Against Victory Notes," I am writing to say that I have conferred with Governor McKinney about this matter and I am inclined to think that, agreeably to the suggestions contained in your letter, we will be able to make some advances to some of our banks and dealers in a way that may be of distinct advantage to them and perhaps profitable to ourselves.

I rather think the Governor contemplates giving out a bulletin on this matter soon.

Yours very truly,

WFR/c

Chairman

W. P. Ramsey



[Handwritten flourish]

[Handwritten mark]

3117 RD FILE

~~333~~

33223-6

X3317

SP

February 8, 1933.

Dear Mr. Secretary:

Referring to your letter of January 31st, I hand you herewith, for your information, copy of a circular letter which the Board has authorized me to send to the Chairmen of all Federal Reserve banks.

Very truly yours,

G o v e r n o r .

Hon. S. P. Gilbert, Jr.,
Under Secretary of the Treasury.

RETURN TO SECRETARY



THE UNDERSECRETARY OF THE TREASURY
WASHINGTON

~~RECEIVED~~
FEB 17 1922
OFFICE OF
February 3, 1922.

X-3317
332.3-6

My dear Governor:

I received your letter of February 2, 1922, and have noted with interest the enclosed copy of the circular letter of February 2, 1922, which you are sending to the Chairmen of all Federal Reserve Banks, on the subject of temporary advances to dealers against Victory notes. This action will be helpful and I am glad it has been taken.

Very truly yours,

S. J. Gilbert

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

[Handwritten checkmark]

*Refund check
Submitt.*

333
FEDERAL RESERVE BOARD FILE
~~332-3~~

FEDERAL RESERVE BOARD
WASHINGTON

ALL ACKNOWLEDGMENTS
RECEIVED
X-3317

332-3-6
②

INDEXED

February 2, 1922.

SUBJECT: Temporary Advances to Dealers Against Victory Notes.

Dear Sir:

You are requested to advise your Executive Committee that until further notice the Federal Reserve Board will not object to any arrangements which your Bank may desire to make for temporary advances to dealers against Victory Notes on the same basis as advances have heretofore been made against Treasury Notes and Certificates. Victory Notes are now so near their maturity that they may be treated as short-time obligations. Your Bank cannot, of course, make loans direct to dealers on the security of Victory Notes, but under its open market powers may purchase them or carry them for dealers under agreements by them to repurchase at stated times.

Very truly yours,

G o v e r n o r .

Approved by Bd. 2-1-22

CHAIRMEN ALL F. R. BANKS.

X-3317

SUBJECT: Temporary Advances to Dealers Against Victory Notes.

Dear Sir:

You are requested to advise your Executive Committee that until further notice the Federal Reserve Board will not object to any arrangements which your bank may desire to make for temporary advances to dealers against Victory Notes on the same basis as advances have heretofore been made against Treasury Notes and Certificates. Victory Notes are now so near their maturity that they may be treated as short-time obligations. Your bank cannot, of course, make loans direct to dealers on the security of Victory Notes, but under its open market powers may purchase them or carry them for dealers under agreements by them to purchase at stated times.

Very truly yours,

G o v e r n o r .

CHAIRMEN ALL F. R. BANKS



THE UNDERSECRETARY OF THE TREASURY
WASHINGTON

RECEIVED
FEB 1 - 1922
OFFICE OF
THE GOVERNOR

January 31, 1922.

3323-6

My dear Governor:

I enclose for your information a copy of a telegram of this date, which I have received from Mr. Case of the Federal Reserve Bank of New York suggesting that the Federal Reserve Banks in other districts be requested to make arrangements for temporary advances to dealers against Victory notes on the same basis as advances have heretofore been made against Treasury notes and certificates. Victory notes, as you know, are now within 16 months of maturity and are coming more and more to be treated as short-term obligations, with dealings on the short-term money market rather than on the exchanges. I think it would be helpful to the Treasury's program if the other Federal Reserve Banks would make arrangements similar to those in effect in New York, but I should not wish to make such a request of them without first having some indication of the views of the Board.

Very truly yours,

J. J. Gilbert

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

1 enclosure.

W.P.G.

*3rd Meeting
Feb. 1st*

(COPY)

358

TELEGRAM

FEDERAL RESERVE SYSTEM

Received at Washington, D. C.

5nrgx

New York 1016a jan 31 1922

Gilbert

Washington DC

Referring to our correspondence with regard to recent developments tending to classify Victory notes as obligations which are to be traded in, in the short term money market, it occurs to me that this program might be further accelerated if you were to request the various federal reserve banks in whose districts there is now a real open market for short-term treasury certificates etc to also make similar temporary advances to dealers against victory notes as well as against short-term certificates.

Case

1022 am

*Repurchase
from dealers
Togans opinion
attached*

2

333

FEDERAL RESERVE BANK
OF NEW YORK

~~3323~~
3323-6

RECEIVED
December 22, 1921
OFFICE OF
THE GOVERNOR

Director, Neb., U. S. A.
Miss [unclear]

Dear Governor Harding:

I am in receipt of your letter of yesterday, advising that after consideration the Board has no objection to our proposed plan of taking appropriate collateral to secure the dealers' contracts to repurchase bills bought by us under their agreements to repurchase. We shall, accordingly, have the appropriate collateral agreement prepared and expect to put the plan in operation very shortly.

Very truly yours,

E. R. Kenzel

E. R. KENZEL,
Deputy Governor.

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

ERK.MSB

#2

~~3330~~

332.3-6

Repurchase
bills.

December 31, 1921.

Dear Mr. Kenzel:

I brought to the attention of the Federal Reserve Board this morning your letter of December 20th regarding proposed changes in your method of handling purchases of bills from discount houses under their contracts to repurchase. The Board offers no objection to your plan of taking appropriate collateral to secure the dealer's contract to purchase.

Very truly yours,

Governor.

Mr. E. R. Kenzel, Deputy Governor,
Federal Reserve Bank,
New York, N. Y.

see letter 2/19/25

2
FEDERAL RESERVE BANK
OF NEW YORK

FEDERAL RESERVE BOARD
RECEIVED
DEC 21 1921
OFFICE OF
THE GOVERNOR
332.3-6

December 20, 1921.

*Bills from
dealers*
Dear Governor Harding:

Referring to your letter of December 2nd, addressed to Governor Strong with respect to the changes recommended by him in our method of handling purchases of bills from the discount houses under their contracts to repurchase, we have given careful consideration to your alternate suggestion of making such purchases at discount to an estimated average maturity of the relative bills and rebate to such maturity upon their repurchase.

I have discussed this plan with the principal discount houses and dealers and find they are all of the opinion that it would be much less convenient for them than either providing collateral to their contracts as suggested by Governor Strong, or discounting the particular paper to its actual maturity and rebating to that maturity. They all say that their own accounting methods and records could hardly be adapted to a practice which might involve their dealing in short paper on a basis of discount to a maturity beyond the actual maturity of the short paper. They all very much prefer the collateral plan.

Yesterday, when Mr. Mitchell was with us the matter was discussed with him by our executive committee, who also favor the plan of taking appropriate collateral to secure the dealer's contract to purchase. Particularly, Mr. Alexander suggested that method as the appropriate method of handling the transactions without his having knowledge that such a plan had been suggested by Governor Strong.

From correspondence with the Governors of some of the other banks, it seems that most of them would prefer to continue to take discount to the actual maturity of the paper, except that Governor Morss has come to the conclusion that he is pretty well satisfied with the present method as being convenient and lacking any element of substantial risk.

It was understood at our executive committee that I would write you the result of their consideration of this matter, which is also understood by Mr. Harrison, whom I believe is in Washington for a few days and can speak to you further regarding it if you so desire. If it meets with the Board's approval, we should be glad to proceed with the preparation of a form of collateral agreement and put the suggested plan into operation at an early date.

Very truly yours,

E. R. Kenzel
E. R. Kenzel,
Deputy Governor.

RETURN TO SECRETARY

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

*332-3**332.3-6*

December 10, 1921.

Dear Mr. Attebery:

I acknowledge receipt of your letter of the 8th instant, enclosing copy of reply made by Governor Biggs, under date of December 1st, to a letter addressed to him by Governor Strong, dated November 22nd, on the subject of purchase of bills from dealers under resale agreements. A copy of Governor Strong's letter had already been brought to my attention and I am glad to have an opportunity of reading Governor Biggs reply.

Very truly yours,

Governor.

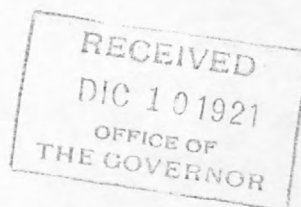
Mr. O. M. Attebery, Deputy Governor,
Federal Reserve Bank,
St. Louis, Missouri.

*As purchase of
bills from dealers*

#8

3323-6

FEDERAL RESERVE BANK
OF
ST. LOUIS



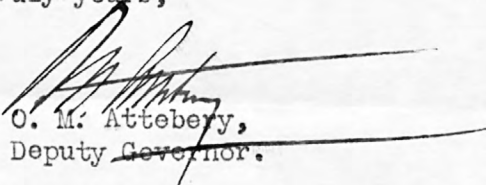
December 8, 1921.

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

Dear Governor Harding:

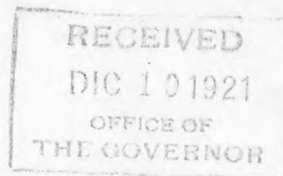
In keeping with your letter X-3244,
bearing date of November 10th, there is enclosed
herewith copy of letter received from Governor
Strong, bearing date of November 22nd, and copy
of Governor Biggs's reply under date of December
1st.

Very truly yours,


O. M. Attebery,
Deputy Governor.

C O P Y

FEDERAL RESERVE BANK
OF NEW YORK



November 22, 1921.

Dear Governor Biggs:

Referring to our discussion of the practice of certain of the reserve banks in the purchase of bills from dealers under resale agreements; this matter has been studied by our Mr. Kennel, who has had conferences with the more important dealers with whom we regularly trade, and I am now writing to give you his conclusions and his suggestions as to how the matter should be dealt with.

Loans made by these dealers from the commercial banks are not in the form of repurchase agreements, but collateral loans, and the amount of bills pledged to secure the loan in each instance is approximately the present value of the bills pledged; that is to say, an amount of paper is handed to the lending bank which at its present worth will just cover the amount of the advance.

Our practice has been to deduct discount for 15 days from the face amount of the paper, thereby advancing to the dealers a larger amount than the present worth of the bills. The reason for this practice has been more convenience, and in order to promote the development of the lending market, than any other reason. We would feel willing at once to change our practice, and discount the paper for its full period, were it not that it will very greatly increase the clerical work in the bank, increase the expense of conducting the business, and cause delay in concluding transactions. We frequently have loans of from \$8 to \$10 millions, sometimes even more, in one day, and in such instance we may take in 500 or 600 pieces of paper. If our discount department were obliged to figure the discount on each piece until maturity, which as you know varies considerably, it would frequently be impossible to conclude the transaction until the following day. It would require a much larger force of clerks, a great deal more bookkeeping in

Why is this more expensive than collateral loans?

November 22, 1921.

recording the paper, and general inconvenience and expense. This inconvenience is further reflected in handling all substitutions of collateral which take place daily.

Mr. Kenzel suggests that we should continue the practice of discounting the paper for 15 days, or such number of days as relates to each transaction, figuring the discount upon the entire amount of paper at its face value rather than figuring it to its maturity, and that each dealer making such resale contract with us deliver to us, in the case of 90 day bills a margin of 2% of the amount of the advance, and a correspondingly greater or lesser margin, according to the maturity of the paper. This can be done roughly and without much work or inconvenience to anybody. It enables substitutions to be made and the amount of discount readjusted with the least amount of work. The business can be conducted more promptly and economically, and the bank will always have in its hands an amount of paper which will cover the amount of the contract, even though the dealer is unable to make good his repurchase agreement.

I am convinced that this is the desirable way to handle the business, and recommend that it be adopted just as soon as assets are received from each of the banks now handling such transactions. Will you not be good enough to write me upon receipt of this?

Yours very truly,

(Signed) BENJ. STRONG

Benj. Strong,
Governor.

D. C. Biggs, Esq.,
Governor, Federal Reserve Bank of St. Louis,
St. Louis, Mo.

BS:MM

FEDERAL RESERVE BANK OF ST. LOUIS

December 1, 1921.

Mr. Benjamin Strong, Governor,
Federal Reserve Bank,
New York, N. Y.

Dear Governor Strong:

The subject of your letter of the 22nd ultimo has been given consideration in our office and the matter has also been discussed with our local dealers, only one of whom is carried by us more or less regularly.

While we have been following the same plan as adopted in your office, that is in respect to the majority of the bills carried for dealers under a fifteen day re-purchase arrangement, the only reason for our having pursued this policy appears to be as a result of the fact that the first bills carried for our dealers were shipped into this District from New York and the payment, therefore, handled through your bank.

We have always realized that we were advancing the dealer more than the present worth of the bills but the bill business in this District has been of such insignificant proportion that the danger in connection therewith has not been of sufficient importance for us to make a change in our relations with New York so as to harmonize same with Chicago and local transactions.

Strange as it may seem, the local dealer with whom we trade the most has from the beginning objected to our giving him more than the present worth of the bills. It appears however that his objection was principally one as applying to book-keeping.

Our dealers now indicate a preference to having the paper discounted to maturity rather than putting up a margin of 2% as suggested by Mr. Kenzel and, while we can appreciate the reasons for Mr. Kenzel's suggestion, we are inclined to the opinion that the discounting of paper to maturity is the preferable plan.

The volume of such bills which is shipped to us from New York is not of great consequence and we do not believe

FEDERAL RESERVE BANK OF ST. LOUIS

Page #2

Mr. Benjamin Strong, Governor,
Federal Reserve Bank,
New York, N. Y.

the work of figuring discount should, in many instances, delay the handling of such transactions in New York sufficiently to carry them over to the next day.

Would it not be possible to relieve the situation in your office by taking the dealers' figures, providing you are dealing with a reputable concern? It would seem that such a procedure would be perfectly safe, especially in view of the fact that we have heretofore been giving such dealers in actual cash an amount in excess of the present worth of the bills.

Yours very truly,

D. C. Biggs,
Governor.

COPIES

Office Correspondence

FEDERAL RESERVE
BOARD

Date December 5, 1921.

To Governor Harding.

Subject:

From Mr. Smead.

~~3323~~

2-3495

332.3-6

Attached hereto is a statement showing the amount of bankers' acceptances, purchased by each Federal reserve bank during October 1921, classified according to import, export, and domestic trade transactions, and according to general classes of commodities which the acceptances were used to finance. It will be noted that of the total amount of acceptances purchased during the month \$36,000,000, or 26 per cent represented import transactions, \$47,000,000, or 34 per cent - export transactions, and \$44,000,000, or 32 per cent domestic transactions, while about \$7,000,000 represented dollar exchange bills, and \$5,000,000 - acceptances in the foreign trade which were not classified as to import and export transactions on the banks' investment schedules.

In regard to the commodity classification, it will be noted that a very large percentage of the acceptances purchased by the New York Bank are classified as miscellaneous. This is due to the fact that no information regarding the underlying commodities is shown on New York schedules covering acceptances taken under so-called repurchase agreements. The Federal Reserve Banks of Kansas City and San Francisco also fail to show commodities for acceptances purchased locally, i.e., not through another Federal reserve bank.

There are certain difficulties in connection with the classification of acceptances taken under repurchase agreements, as for example, brokers who have sold acceptances to the Reserve bank under a repurchase agreement frequently ask permission to take up certain of the acceptances within two or three days from the day they were acquired by the Reserve bank, and later on either sell the same acceptances to the Reserve bank under another repurchase

Acceptance Correspondence

FEDERAL RESERVE
BOARD

Date _____

To _____

Subject: _____

From _____

2-8496

- 2 -

agreement or sell them outright. If these acceptances were included in a commodity classification, the figures would be misleading to a certain extent because of the duplications which they would contain. It is possible of course for the New York Bank to "ear-mark" all acceptances purchased and to indicate by a special symbol on schedules furnished the Board those acceptances which are purchased for the second time. This, however, would require a considerable amount of work.

In case, however, you desire a commodity classification of all acceptances bought in the open market the matter will be taken up with New York with the view of making some practical arrangement regarding acceptances taken under repurchase agreements. There should be no difficulty in having the Kansas City and San Francisco Federal Reserve Banks indicate commodities on schedules covering acceptances purchased locally.

COMMODITY CLASSIFICATION OF
BANKERS' AND TRADE ACCEPTANCES PURCHASED BY EACH FEDERAL RESERVE BANK DURING OCTOBER, 1921.

(In thousands of dollars)

Classification	Boston	New York	Phila- delphia	Cleve- land	Rich- mond	Atlanta	Chicago	St. Louis	Minnea- polis	Kansas City	Dallas	San Francisco	TOTAL
<u>SUMMARY</u>													
Imports	4,293	25,981	2,398	880	--	--	368	131	--	--	--	1,740	35,791
Exports	2,840	28,001	3,472	1,449	932	2,516	5,690	163	--	--	--	2,052	47,115
Domestic	5,770	22,813	2,558	1,702	2,007	1,367	4,352	460	--	882	155	2,145	44,211
Unclassified foreign	150	3,366	--	152	--	225	216	--	--	691	--	207	5,007
Dollar Exchange	827	5,117	350	300	--	--	--	--	--	--	--	363	6,957
Total - - - - -	13,880	85,278	8,778	4,483	2,939	4,108	10,626	754	--	1,573	155	6,507	139,081
<u>Acceptances based on imports.</u>													
<u>COMMODITIES</u>													
Wheat and wheat flour	--	--	--	--	--	--	--	--	--	--	--	--	--
Other foods and kind- red products - - -	3,158	4,064	1,069	359	--	--	64	81	--	--	--	231	9,026
Cotton (unmanufactured)	--	--	125	--	--	--	--	--	--	--	--	30	155
Other textiles and their products - -	251	1,551	319	96	--	--	--	--	--	--	--	16	2,233
Metals and metal pro- ducts - - - - -	--	50	135	--	--	--	--	--	--	--	--	--	185
Chemicals and allied products - - - - -	14	57	--	30	--	--	--	9	--	--	--	19	129
Coal and coke - - - -	--	--	--	--	--	--	--	--	--	--	--	--	--
Tobacco and manufactures	75	467	227	155	--	--	50	--	--	--	--	96	1,070
Leather and its finished products - - - - -	--	--	--	--	--	--	--	--	--	--	--	--	--
Miscellaneous - - - -	795	19,792	523	240	--	--	255	40	--	--	--	1,348	22,993
Total - - - - -	4,293	25,981	2,398	880	--	--	369	130	--	--	--	1,740	35,791

COMMODITY CLASSIFICATION OF

BANKERS' AND TRADE ACCEPTANCES PURCHASED BY EACH FEDERAL RESERVE BANK DURING OCTOBER, 1921.

(In thousands of dollars)

Classification	Boston	New York	Phila- delphia	Cleve- land	Rich- mond	Atlanta	Chicago	St. Louis	Minnea- polis	Kansas City	Dallas	San Francisco	TOTAL
<u>Acceptances based on exports.</u>													
<u>COMMODITIES</u>													
Wheat and wheat flour	577	679	500	264	--	--	54	11	--	--	--	122	2,207
Other foods and kin- dred products - - -	365	3,507	868	206	--	--	4,189	13	--	--	--	441	9,589
Cotton - (unmanufactured) - -	829	1,995	869	426	932	2,445	130	67	--	--	--	118	7,811
Other textiles and their products - -	17	99	10	51	--	--	--	--	--	--	--	--	177
Metals and metal products - - - - -	45	888	96	164	--	--	830	--	--	--	--	25	2,048
Chemicals and allied products - - - - -	42	262	28	50	--	71	30	--	--	--	--	13	496
Coal and coke - - - -	155	16	--	--	--	--	--	--	--	--	--	--	171
Tobacco and manufac- tures - - - - -	--	490	436	200	--	--	275	--	--	--	--	225	1,626
Leather and its fin- ished products - -	3	63	--	--	--	--	--	--	--	--	--	--	66
Miscellaneous - - - -	807	20,002	665	86	--	--	182	72	--	--	--	1,108	22,924
Total - - - - -	2,840	28,001	3,472	1,449	932	2,516	5,690	163	--	--	--	2,052	47,115

COMMODITY CLASSIFICATION OF

BANKERS' AND TRADE ACCEPTANCES PURCHASED BY EACH FEDERAL RESERVE BANK DURING OCTOBER, 1921.

(In thousands of dollars)

	Boston	New York	Philadelphia	Cleveland	Richmond	Atlanta	Chicago	St. Louis	Minneapolis	Kansas City	Dallas	San Francisco	TOTAL
<u>Acceptances based on domestic transactions</u>													
<u>COMMODITIES</u>													
Wheat and wheat flour	25	336	375	83	--	--	--	--	--	--	40	51	910
Other foods and kindred products - - -	395	950	957	312	1,291	52	3,940	120	--	--	--	336	8,353
Cotton - (unmanufactured) - - - -	3,989	751	809	190	551	1,270	200	27	--	732	100	50	8,669
Other textiles and their products - -	484	423	364	138	--	--	--	--	--	--	15	49	1,473
Metals and metal products - - - - -	29	600	--	252	--	--	65	262	--	--	--	--	1,208
Chemicals and allied products - - - - -	423	308	4	350	--	45	--	37	--	--	--	--	1,167
Coal and coke - - - -	--	32	--	241	--	--	--	--	--	--	--	--	273
Tobacco and manufactures - - - - -	--	9	--	27	--	--	50	--	--	--	--	--	86
Leather and its finished products - -	37	--	--	--	--	--	--	--	--	--	--	--	37
Miscellaneous - - - -	388	19,404	49	109	165	--	97	14	--	150	--	1,659	22,035
Total - - - - -	5,770	22,813	2,558	1,702	2,007	1,367	4,352	460	--	882	155	2,145	44,211

2

332.3
FEDERAL RESERVE BOARD FILE
402
~~333~~

December 2, 1921

332.3-6

Dear Governor Strong:

Receipt is acknowledged of your letter of November 22, 1921, enclosing a copy of a letter addressed to some of the Governors of the other Federal Reserve banks, in which you recommend that when bills are purchased from dealers with an agreement on the part of the dealers to repurchase the bills at the end of fifteen days, discount be deducted for the fifteen day period rather than for the full period for which the bills have to run. As you say, this practice results in paying to the dealers a larger amount than the present worth of the bills, but in order to protect the Federal reserve banks it is further suggested that each dealer selling bills upon these terms deliver to the Federal reserve banks a margin to cover the price paid in excess of the present worth.

After consideration of the matter by the Board and its Counsel, the Board is of the opinion that the practice in question is legal. It seems desirable, however, that the amounts paid by the Federal reserve banks should be as little as possible in excess of the present worth of the bills purchased, and the Board would like to have you consider whether it would be practicable to require each dealer offering bills to a Federal reserve bank under a repurchase agreement to state the estimated average maturity of the bills, the Federal reserve bank deducting discount for this period rather than for the fifteen day period for which the repurchase agreement is to run. In this way the amount paid by the Federal reserve bank in excess of the present worth of the bills would be minimized. The Federal reserve bank could from time to time check the accuracy of any dealer's estimate of the average maturity.

Section 14 of the Federal Reserve Act expressly provides for the issuance of rules and regulations by the Federal Reserve Board covering open market transactions and the Board should, therefore, be kept fully advised regarding the open market practices of Federal Reserve banks. Since the practice of deducting discount for some arbitrary period, when purchasing bills from dealers, appears to be

RETURN TO SECRETARY

desirable for the reasons of convenience stated in your letter, and since the practice seems also to be legal, the Board has no objection to its adoption in some form. The Board feels, however, that it is only proper to give careful consideration to the question of whether it is advisable to modify in any way the practice as outlined in your letter. It is with a view to aiding in the determination of this question to the satisfaction of all concerned that this letter is written.

Very truly yours,

G o v e r n o r .

Mr. Benjamin Strong, Governor,
Federal Reserve Bank,
New York, N. Y.

FEDERAL RESERVE BOARD

332.3-6

WASHINGTON

November 30,
1921.

Mr. Benjamin Strong, Governor,
Federal Reserve Bank of New York,
New York City.

Dear Governor Strong:

Receipt is acknowledged of your letter of November 22, 1921, enclosing a copy of a letter addressed to some of the Governors of the other Federal reserve banks, in which you recommend that when bills are purchased from dealers with an agreement on the part of the dealers to repurchase the bills at the end of 15 days, discount be deducted for the 15 day period rather than for the full period for which the bills have to run. As you say, this practice results in paying to the dealers a larger amount than the present worth of the bills, but in order to protect the Federal reserve banks it is further suggested that each dealer selling bills upon these terms deliver to the Federal reserve banks a margin to cover the price paid in excess of the present worth.

After consideration of the matter by the Board and its Counsel, the Board is of the opinion that the practice in question is legal. It seems desirable, however, that the amounts paid by the Federal reserve banks should be as little as possible in excess of the present worth of the bills purchased, and the Board would like to have you consider whether it would be practicable to require each dealer offering bills to a Federal reserve bank under a repurchase agreement to state the estimated average maturity of the bills, the Federal reserve bank deducting discount for this period rather than for the 15 day period for which the repurchase agreement is to run. In this way the amount paid by the Federal reserve bank in excess of the present worth of the bills would be minimized. The Federal reserve bank could from time to time check the accuracy of any dealer's estimate of the average maturity.

Section 14 of the Federal Reserve Act expressly provides for the issuance of rules and regulations by the Federal Reserve Board covering open market transactions and the Board feels, therefore, that it should be kept fully advised regarding the open market practices of Federal reserve banks. Since the practice of deducting discount for some arbitrary period, when purchasing bills

Always

Governor Strong.

Page 2.

November 30, 1921.

from dealers, appears to be desirable for the reasons of convenience stated in your letter, and since the practice seems also to be legal, the Board has no objection to its adoption in some form. The Board feels, however, that it is only proper to give careful consideration to the question of whether it is advisable to modify in any way the practice as outlined in your letter. It is with a view to aiding in the determination of this question to the satisfaction of all concerned that this letter is written.

Yours very truly,

G o v e r n o r .

Office Correspondence

Date Nov. 28, 1921

To Governor Harding
From Walter S. Logan, General Counsel.Subject: Open Market Purchases of
Bills under Repurchase
Agreement.

2-8495

0:14
CLO

332.3-6

You have asked me to consider the legality of the practice, which I understand has for some time been in effect at the Federal Reserve Bank of New York, of purchasing eligible bills from dealers under a repurchase agreement whereby the dealers agree to repurchase the bills at the end of fifteen days, the Federal Reserve Bank deducting discount for the fifteen day period only, instead of for the full period of the bills. Governor Strong, in a letter dated November 22 to the Governors of some of the other Federal reserve banks, recommends that this practice be adopted by the other banks. As Governor Strong says, this practice results in paying to the dealers a larger amount than the present worth of the bills but it is proposed to protect the Federal reserve banks by requiring the dealers to put up a margin, (which I assume is to consist of other eligible bills.)

You will recall that prior to the enactment of the War Finance Corporation Act all member bank fifteen day collateral notes were subject to stamp tax, including notes secured by Government obligations. In order to facilitate the sale of Liberty Bonds pending the enactment of an amendment exempting notes secured by Government obligations from the stamp tax, the Board suggested that member banks might properly obtain short-time advances from Federal reserve banks by rediscounting eligible commercial paper of longer maturities under agreements by which the Federal reserve banks would re-sell and the member banks repurchase on whatever dates might be agreed upon by both parties. This suggestion was contained in the Board's circular letter X-545 dated December 1, 1917, which also contained the following:

It is suggested by the Board, however, that, in order, to expedite these rediscount operations and to simplify the bookkeeping incident to such operations so that they will be practicable during the rush and pressure of the banks' activities in connection with the payment of the next installment of the Liberty Loan subscriptions, Federal Reserve Banks may adjust the rebate of discount in advance. That is, instead of deducting interest for the full period of the note or bill when making the credit in favor of the member banks, the reserve bank may charge interest only for the period covered by the agreement, that is, from the date of rediscount to the date of repurchase. Or the reserve bank may, if it desires, credit the member bank with the full amount of the paper rediscounted at the time of making the rediscount and at the date of repurchase charge the member bank with that amount plus the amount of discount earned up to the date of repurchase."

This paragraph relating to repurchase agreements covering rediscounts clearly authorized the deduction of discount for the period of the repurchase agreement only. In my judgment there can be no valid distinction so far as this particular feature is concerned between repurchase agreements covering rediscounts and repurchase agreements covering open-market purchases. Consequently, a ruling by the Board at the present time that the deduction of discount only for the period of the repurchase agreement is illegal, as applied to open market transactions, would be inconsistent with the position previously taken by the Board with respect to repurchase agreements covering rediscounts. The circular of December 1, 1917, has never been revoked and the authorization contained in that circular is still effective.

In my opinion the Board should rule that the practice of the Federal Reserve Bank of New York with regard to the deduction of discount on open market purchases under repurchase agreements is legal. The question is I think a close one but the fact that the same practice has been permitted by the Board since 1917 in connection with repurchase agreements covering rediscounts would be a strong argument in favor of the legality of the present practice and in my judgment would probably influence a court to this conclusion.

I have prepared a draft of reply to Governor Strong's letter to you of November 22nd stating that in the Board's opinion the practice is legal but suggesting as a possible alternative that the dealers be required to state the estimated average maturity of the bills and that the discount for that period be deducted. I have also requested that the Board be furnished with the form of repurchase agreement. I think the Board should know whether the Federal Reserve Bank merely has an option to re-sell or whether it binds itself to re-sell. The bills acquired under repurchase agreement are I assume pledged as collateral for Federal reserve notes and when so pledged cannot be released, except with the approval of the Federal reserve agent acting under rules and regulations prescribed by the Federal Reserve Board. The Board and the agent should decline to release collateral if there is any valid reason for so doing and it occurs to me that it might be embarrassing to decline to release bills which the Federal Reserve Bank is under contract to sell. The possibility of this complication is perhaps so remote as to exist in theory only, but I thought it best to suggest it for your consideration. In this connection I should say, however, that the Board has approved forms of repurchase agreements covering rediscounts which obligated the Federal Reserve Banks to re-sell.

Respectfully,

Walter J. Logan
General Counsel.

WSL-sad

FEDERAL RESERVE BANK
OF NEW YORK

404
332.3-6

November 22, 1921.

RECEIVED
NOV 25 1921
OFFICE OF
THE GOVERNOR

Dear Governor Harding:

Enclosed is a copy of a letter which I am sending to the Governors of those reserve banks which are now in the habit of making 15 day purchases of bills under contract of resale to the dealer from whom they are purchased.

We find upon investigation that the inconvenience, delay and expense of figuring discount to maturity on transactions of this character, would put a very heavy burden upon the bank, and be a very great inconvenience to all concerned. The method proposed is simple and effective, and protects the bank, and will enable us to cultivate a development of this business, which is in all respects desirable.

Yours very truly,



Benj. Strong,
Governor.

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

BS:MM
Enc.

Board Meeting
Nov: 25th

BANK
K

COPY

405

November 22, 1921.

Dear Governor

Referring to our discussion of the practice of certain of the reserve banks in the purchase of bills from dealers under resale agreements; this matter has been studied by our Mr. Kenzel, who has had conferences with the more important dealers with whom we regularly trade, and I am now writing to give you his conclusions and his suggestions as to how the matter should be dealt with.

Loans made by these dealers from the commercial banks are not in the form of repurchase agreements, but collateral loans, and the amount of bills pledged to secure the loan in each instance is approximately the present value of the bills pledged; that is to say, an amount of paper is handed to the lending bank which at its present worth will just cover the amount of the advance.

Our practice has been to deduct discount for 15 days from the face amount of the paper, thereby advancing to the dealers a larger amount than the present worth of the bills. The reason for this practice has been more convenience, and in order to promote the development of the lending market, than any other reason. We would feel willing at once to change our practice, and discount the paper for its full period, were it not that it will very greatly increase the clerical work in the bank, increase the expense of conducting the business, and cause delay in concluding transactions. We frequently have loans of from \$8 to \$10 millions, sometimes even more, in one day, and in such instance we may take in 500 or 600 pieces of paper. If our discount department were obliged to figure the discount on each piece until maturity, which as you know varies considerably, it would frequently be impossible to conclude the transaction until the following day. It would require a much larger force of clerks, a great deal more bookkeeping in

BANK

COPY

November 22, 1921.

406

recording the paper, and general inconvenience and expense. This inconvenience is further reflected in handling all substitutions of collateral which take place daily.

Mr. Kenzel suggests that we should continue the practice of discounting the paper for 15 days, or such number of days as relates to each transaction, figuring the discount upon the entire amount of paper at its face value rather than figuring it to its maturity, and that each dealer making such resale contract with us deliver to us, in the case of 90 day bills a margin of 2% of the amount of the advance, and a correspondingly greater or lesser margin, according to the maturity of the paper. This can be done roughly and without much work or inconvenience to anybody. It enables substitutions to be made and the amount of discount readjusted with the least amount of work. The business can be conducted more promptly and economically, and the bank will always have in its hands an amount of paper which will cover the amount of the contract, even though the dealer is unable to make good his repurchase agreement.

I am convinced that this is the desirable way to handle the business, and recommend that it be adopted just as soon as assents are received from each of the banks now handling such transactions. Will you not be good enough to write me upon receipt of this?

Yours very truly,



Benj. Strong,
Governor.

H1
FEDERAL RESERVE BANK OF BOSTON

FEDERAL RESERVE BOARD FILE

FREDERIC H. CURTISS
CHAIRMAN

332 3
August 11, 1920.
332.3 - L
St. 1314

Mr. Smead
Federal Reserve Board,
Washington, D.C.

Dear Sirs:

Answering the Board's circular letter (St.1314) on the subject
"Rediscount of Eligible Paper under Repurchase Agreements":

I find that we have had very few rediscounts of eligible paper under repurchase agreements, and since receiving your letter have adopted the policy of advising each bank that has rediscounted in this way that it should include the amount of paper so rediscounted from its loans and discounts in compiling weekly condition reports.

Yours very truly,

Frederic H. Curtiss

Federal Reserve Agent.

FHC/D



9

FEDERAL RESERVE BANK OF MINNEAPOLIS

NINTH DISTRICT

OFFICE OF THE CHAIRMAN
AND FEDERAL RESERVE AGENT

JOHN H. RICH
CHAIRMAN AND FEDERAL RESERVE AGENT
CURTIS L. MOSHER
ASSISTANT FEDERAL RESERVE AGENT
J. FEBERSOLE
ASSISTANT FEDERAL RESERVE AGENT

FEDERAL RESERVE BOARD FILE
332.3

St. 1314
332.3-6

Mr. Smead

August 10, 1920.

Federal Reserve Board,
Washington, D. C.

Gentlemen,

In reply to your circular letter, St. 1314, under date of July 23rd regarding interpretation of the word "rediscount" when making up form St. 51a, we are glad to report that this bank discontinued the use of repurchase agreements about a year and a half ago; so that this obviates the necessity for revision of the figures which we have been sending to you.

Yours very truly,

J. Febersole
Asst. Federal Reserve Agent.

JFE-RD.

RECEIVED
FEDERAL RESERVE BOARD
AUG 18 1920

FEDERAL RESERVE BANK OF RICHMOND

FIFTH DISTRICT

332,3-6

OFFICERS

DIRECTORS

GEORGE J. SEAY, GOVERNOR

CALDWELL HARDY, CHAIRMAN AND FEDERAL RESERVE AGENT

CHAS A. PEPE, DEPUTY GOVERNOR

C. V. BLACKBURN, ASST. CASHIER

HOWARD BRUCE, BALTIMORE, M. D.

JAMES A. MONCURE, DEPUTY CHAIRMAN

R. H. BROADDUS, DEPUTY GOVERNOR

THOMAS MARSHALL, JR., ASST. CASHIER

JOHN F. BRUTON, WILSON, N. C.

JAMES F. OYSTER, WASHINGTON, D. C.

GEORGE H. KEESEE, CASHIER

W. W. DILLARD, ASST. CASHIER

D. R. COKER, HARTSVILLE, S. C.

CHAS. E. RIEMAN, BALTIMORE, M. D.

ASSISTANT FEDERAL RESERVE AGENTS

EDW. WALLER, JR., ASST. CASHIER

EDWIN MANN, BLUEFIELD, W. VA.

EDMUND STRUDWICK, RICHMOND

A. H. DUDLEY

J. G. FRY

August 6, 1920.

R. G. Emerson, Esq., Ass't. Secretary,
Federal Reserve Board,
Washington, D. C.

Dear Sir:-

Acknowledging yours of the 4th, we find that by some oversight, we apparently failed to acknowledge the Board's letter of July 23, 1920, St. 1314, "Rediscount of Eligible Paper under Repurchase Agreement."

Very truly yours,



Chairman of the Board.



3323-6

August 4, 1920.

Mr. Caldwell Hardy, Chairman,
Federal Reserve Bank,
Richmond, Va.

Dear Sir:

In checking up replies to the Board's circular letters, it appears that no acknowledgment has been received to the Board's letter of July 23, 1920, St. 1314, "Rediscount of Eligible Paper under Repurchase Agreements." Will you kindly advise if you have received the above letter, in order that a duplicate copy may be forwarded in case the original letter did not reach you.

Very truly yours,

(Signed) R. G. EMERSON

RM

Assistant Secretary.

Sp. Repurchase Agreement # 4

FEDERAL RESERVE BANK FILE
~~332.3~~

332.3-6

RT 3/4

August 3, 1920.

SUBJECT: Rediscount of Eligible Paper
under Repurchase Agreements.

Dear Sir:

Referring to your letter of July 27th, replying to the Board's letter St. 1314, dated July 23rd, it was the intention of the Board that the Federal Reserve Banks could from their own reports of rediscount transactions under repurchase agreement furnish the Board with the statement requested in the last paragraph of the Board's letter referred to above, after ascertaining from the reporting member borrowing banks the method of treatment of paper rediscounted under repurchase agreement.

If this statement cannot be furnished readily from your records, it will be satisfactory to issue appropriate instructions to your member banks receiving accommodation through the rediscount of eligible paper under repurchase agreement in order that this matter may be handled correctly in the future.

Very truly yours,

(Signed) R. G. EMERSON

Assistant Secretary.

Mr. J. C. Nevin,
Assistant Federal Reserve Agent,
Cleveland, Ohio.

11

FEDERAL RESERVE BANK FILE
332.3

332.3-6

8/13/20

August 2, 1920.

Dear Sir:

Referring to your letter of July 27, in view of the fact that member banks only infrequently rediscount paper with your Bank under repurchase agreement, it will not be necessary to send general instructions to all member banks in your District with regard to the classification of such discounted paper.

It will be appreciated, however, if in future when such discounts are made for a member bank which submits a Weekly Condition Report, Form St. 51-a, appropriate instructions be given the borrowing bank in regard to the treatment of bills discounted under a repurchase agreement.

Very truly yours,
(Signed) R. G. Emerson

Assistant Secretary.

Mr. Wm. F. Ramsey, Chairman,
Federal Reserve Bank of Dallas,
Dallas, Texas.

312

3323-6

FEDERAL RESERVE BANK
OF SAN FRANCISCO

JOHN PERRIN
CHAIRMAN OF THE BOARD
AND FEDERAL RESERVE AGENT

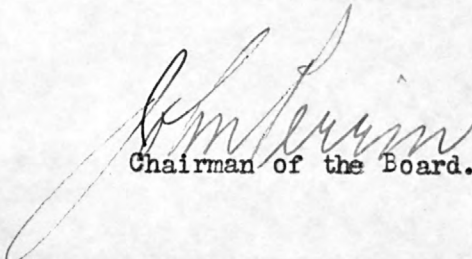
July 28, 1920.

Subject: Rediscount of eligible paper
under re-purchase agreement.

Dear Sirs:

Receipt is acknowledged of your letter
of July 23rd (St. 1314). The practice men-
tioned is not one which this bank has adopted.

Yours very truly,


Chairman of the Board.

Federal Reserve Board,
Washington, D. C.



7/28/20
(Date)

3323-6
X-1599

Federal Reserve Board,
Washington.

Gentlemen:

Receipt is acknowledged of circular letter (St. 1314)

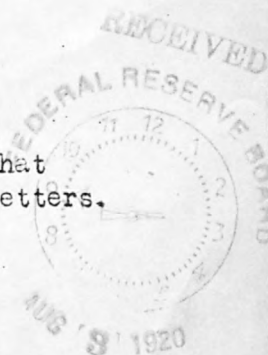
Chairman, Federal Reserve Bank of

SAN FRANCISCO, CAL.

By

E. F. Fuch

Note: This form is intended merely as an acknowledgment in order that the Board may have prompt advice of receipt of its circular letters.



July 20 1920
(Date)

X-1599

332.3-6

Federal Reserve Board,
Washington.

Gentlemen:

Receipt is acknowledged of circular letter (St. 1314)

Chairman Federal Reserve Bank of

W. S. ...

DALLAS, TEXAS.

By

Federal Reserve Board

Note: This form is intended merely as an acknowledgment in order that the Board may have prompt advice of receipt of its circular letters.





FEDERAL RESERVE BANK
OF DALLAS

July 27, 1920

3323-6

Mr. R. G. Emerson, Assistant Secretary,
Federal Reserve Board,
Washington, D. C.

Dear Mr. Emerson:-

I am just now in receipt of your St. 1314, on the subject of "Rediscount of Eligible Paper under Repurchase Agreements," and writing to say that this is so infrequent in this district, that I am strongly inclined to believe that it will be unnecessary to undertake to send out instructions to members banks in reference to wishes and instructions of the Board in this regard.

Of course I can do so if it is the definite wish of the Board that this be done after receiving this statement from me.

Will you kindly advise.

Yours very truly,

W. F. Rowley
Federal Reserve Agent

WFR/MK

Federal Reserve Board



FEDERAL RESERVE BANK
OF NEW YORK

43323-6

July 27, 1920.

R. G. Emerson, Esq.,
Assistant Secretary, Federal Reserve Board,
Washington, D. C.

Dear Mr. Emerson:

I have your letter of July 23 addressed to Mr. Jay on the subject of "rediscount of eligible paper under repurchase agreements."

This matter has already been under discussion between the board and our statistics department, and we have already instructed our banks to report along the lines suggested. On July 22 we sent corrected figures with our regular weekly report covering the year from January 1. I trust that these have been received and will meet the purposes of the board; if not, I hope you will let me know.

Yours very truly,

Shepard Morgan

Federal Reserve Board

Shepard Morgan
Asst. Federal Reserve Agent.

SM:R



X-1599

July 27, 1920.
(Date)

332-3-6

Federal Reserve Board,
Washington.

Gentlemen:

Receipt is acknowledged of circular letter

(A. 1314)

Chairman, Federal Reserve Bank of

KANSAS CITY, MO.

By *C. S. [Signature]*
Assistant Federal Reserve Agent.

Note: This form is intended merely as an acknowledgment in order that the Board may have prompt advice of receipt of its circular letters.

FEDERAL RESERVE BANK OF CHICAGO

79 WEST MONROE STREET

July 27, 1920

FEDERAL RESERVE BOARD FILE
332-3
332-3-2
St. 1314

Mr. R. G. Emerson,
Assistant Secretary,
Federal Reserve Board,
Washington, D. C.

Dear Sir:

Your letter St. 1314 under date of July 23, 1920, referring to Rediscount of Eligible Paper under Repurchase Agreements, and asking that member banks reporting make a list of rediscount of eligible paper and repurchase agreements so that it may be deducted by weeks from the loans and discounts already reported during 1920, is received.

The Federal Reserve Bank of Chicago nearly a year and one-half ago discontinued the repurchase agreements, and consequently there are no corrections of this character to be made in our St. 51a.

Very truly yours,

W. A. HEATH, Chairman

Per *Frank M. Houston*

FMH K

Federal Reserve Board



FEDERAL RESERVE BANK
OF CLEVELAND

3323-6

July 27, 1920

Mr. R. G. Emerson,
Assistant Secretary,
Federal Reserve Board,
Washington, D. C.

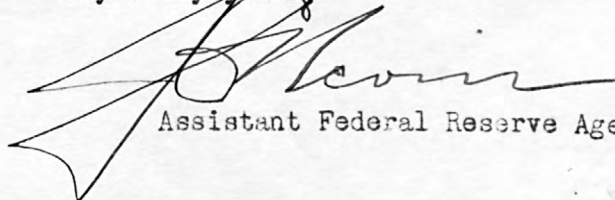
Dear Sir:

Reference is made to your letter of July 23 St. 1314, subject "Rediscount of Eligible Paper under Repurchase Agreements". Upon investigation of the matter in which reporting member banks have handled rediscount and loan items, it is found that to comply with your instructions contained in the above mentioned letter it would be necessary for these banks to revise almost every report made for this year.

It is our belief that these banks will not take kindly to a request for a revision of their reports since the first of the year, and in the majority of cases it will be a hardship. We also believe that in a few cases, the records will not be in shape to furnish the corrected information.

I feel sure that a request to handle these items correctly in the future would be readily acceded to. Will it serve your purpose if the request is handled in this way?

Very truly yours,



Assistant Federal Reserve Agent.

JCN-T

Federal Reserve Board



X-1599

332-3-6

(Date) Federal Reserve Board

Federal Reserve Board,
Washington.

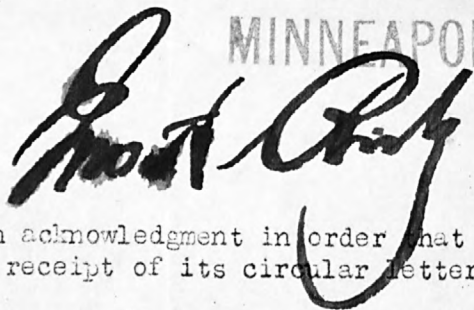
Gentlemen:

Receipt is acknowledged of circular letter (87-1314) ^{JUL 28 1920}

Chairman, Federal Reserve Bank of

MINNEAPOLIS, MINN

By



Note: This form is intended merely as an acknowledgment in order that the Board may have prompt advice of receipt of its circular letters.

X-1599

3323-6

July 26, 1920.
(Date)



Federal Reserve Board,
Washington.

Gentlemen:

Receipt is acknowledged of circular letter (St. 1314)

Chairman, Federal Reserve Bank of

ST. LOUIS, MO.

By *C. M. Stewart*



Note: This form is intended merely as an acknowledgment in order that the Board may have prompt advice of receipt of its circular letters.

FEDERAL RESERVE BANK OF CHICAGO

79 WEST MONROE STREET

332.3-6

July 26, 1920

Federal Reserve Board,
Washington, D. C.


Gentlemen:

Subject: Rediscount of Eligible Paper
under Re-purchase Agreement.

We are in receipt of copies of your letter of July twenty-third ST 1314 on the above subject. The original letter with acknowledgment slip has not yet arrived.

The copies of this letter have been distributed among the proper officers of this institution. However, I will state that the Federal Reserve Bank of Chicago has discontinued the practice of re-discounting for member banks eligible paper under re-purchase agreement, and our member banks have notice to that effect.

Very truly yours,


Chairman.

F

Federal Reserve Board



X-1599

July 26, 1920.
(Date)

332.3-6

Federal Reserve Board,
Washington.

Gentlemen:

Receipt is acknowledged of circular letter (St. 1314)

Chairman, Federal Reserve Bank of Chicago Board

CHICAGO, ILL.

By

Mark A. Lies



Note: This form is intended merely as an acknowledgment in order that the Board may have prompt advice of receipt of its circular letters.

Atlanta, Ga., Jul. 26, 1920.

(Date)

X-1599

Federal Reserve Board,
Washington.

332,3-6

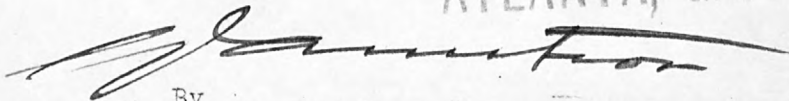
Gentlemen:

Receipt is acknowledged of circular letter (St. 1314)

**SUBJECT: Rediscount of Eligible Paper
under Repurchase Agreement.**

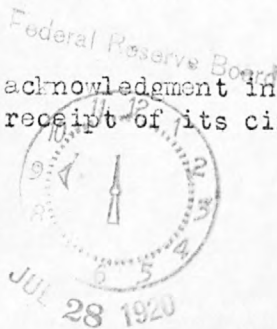
Chairman, Federal Reserve Bank of

ATLANTA, GA.



By **Asst. Federal Reserve Agent.**

Note: This form is intended merely as an acknowledgment in order that the Board may have prompt advice of receipt of its circular letters.



(Date)

X-1599

Federal Reserve Board,
Washington.

Gentlemen:

Receipt is acknowledged of circular letter

H. 1314)

Chairman, Federal Reserve Bank of

BOSTON, 7. MASS.

Frederic H. Lunt

By

Federal Reserve Board

Note: This form is intended merely as an acknowledgment in order that the Board may have prompt advice of receipt of its circular letters.



July 5, 1940
(Date)

X-1599

332.3-6

Federal Reserve Board,
Washington.

Gentlemen:

Receipt is acknowledged of circular letter (*St. 1314*)

Chairman, Federal Reserve Bank of

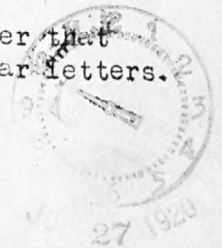
NEW YORK, N. Y.

By

Reginald L. ...
ASST FEDERAL RESERVE AGENT

Federal Reserve Board

Note: This form is intended merely as an acknowledgment in order that the Board may have prompt advice of receipt of its circular letters.



X-1599

JUL 26 1920

(Date)

3323-6

Federal Reserve Board,
Washington.

Gentlemen:

Receipt is acknowledged of circular letter

St. 1314

Chairman, Federal Reserve Bank of

PHILADELPHIA, PA.



By

Arthur E. Post

Note: This form is intended merely as an acknowledgment in order that the Board may have prompt advice of receipt of its circular letters.

X-1599

July 26, 1920

(Date)

332-3-6

Federal Reserve Board,
Washington.

Gentlemen:

Receipt is acknowledged of circular letter (St. 1314)

Chairman, Federal Reserve Bank of Board

CLEVELAND, OHIO

,By

J. Marvin Syc



Note: This form is intended merely as an acknowledgment in order that the Board may have prompt advice of receipt of its circular letters.

EX OFFICIO MEMBERS
DAVID F. HOUSTON
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY
ADDRESS REPLY TO
FEDERAL RESERVE BOARD

FEDERAL RESERVE BOARD

WASHINGTON

W. P. G. HARDING, GOVERNOR
ALBERT STRAUSS, VICE GOVERNOR
ADOLPH C. MILLER
CHARLES S. HAMLIN
HENRY A. MOEHLERPAH
W. T. CHAPMAN, SECRETARY
R. G. EMERSON, ASSISTANT SECRETARY
W. M. IMLAY, FISCAL AGENT

July 23, 1920. 332
X St. 1314. 3323-6

Subject: Rediscount of Eligible Paper
under Repurchase Agreements.

CARDED

Dear Sir:

It has come to the attention of the Board that some member banks, under the assumption that repurchase agreements covering rediscounts with the Federal Reserve Bank are essentially bills payable, have not excluded the amount of paper so rediscounted from their loans and discounts in compiling Weekly Condition Reports, form St.51a. Whenever a Federal Reserve Bank extends accommodation to member banks on eligible paper under the so-called repurchase agreement, member banks should be informed that the transaction is not regarded as a loan on a bill payable, but as an actual rediscount of the individual notes for a uniform fixed period. It follows from the foregoing that the amount of accommodation thus extended must be the exact sum of the individual notes rediscounted under the repurchase agreement, and not an arbitrary amount less than the sum of the notes so rediscounted.

It is particularly important that member banks conform to this treatment of eligible paper rediscounted under repurchase agreements in compiling their Weekly Condition Reports, form St.51a, since if paper so rediscounted is not excluded from their loans and discounts, duplication will result when the Board adds the amount of the member banks' rediscounts with the Federal Reserve Bank, as reported by the latter, to the

figures of loans and discounts, as reported by the member banks to obtain the amount of total loans and discounts (including rediscounts with the Federal Reserve Bank) as published in the Board's weekly statement.

It is requested, therefore, that appropriate instructions be given to member banks seeking accommodation through the rediscount of eligible paper under repurchase agreement, and that, if upon investigation it is found that reporting banks have not, in the past, excluded paper so rediscounted from their figures of loans and discounts as given in their weekly condition reports, the Board be furnished at the earliest practicable date with a statement showing the amount of paper to be deducted from the weekly figures furnished by each bank since January 1.

Very truly yours,

Assistant Secretary.

Copy of this letter sent to Chairman of each F. R. Bank.

#1

SP.
Repurchase
agreement

FEDERAL RESERVE BOARD FILE
~~332-3~~
332.3-6

FEDERAL RESERVE BANK OF BOSTON

53 STATE STREET

June 11, 1920.

IN REPLY
PLEASE QUOTE

Mr. R. G. Emerson, Assistant Secretary,
Federal Reserve Board,
Washington, D. C.,

Dear Mr. Emerson:

I want to acknowledge receipt of your letter of June 8, giving the desired information regarding repurchase agreements covering commercial paper.

I do not anticipate that we shall have a very great volume of this class of borrowing. It will probably be from the larger banks where the method will mean the saving of considerable time, provided we do not have to schedule the individual notes securing the agreement. Your last paragraph asks for information on this subject, particularly as to the amount of additional work it would require to furnish this information.

I have had a rough computation made of the time necessary to handle 10 items under the old basis as compared with the proposed method under the repurchase agreement and not scheduling the items individually. As near as can be approximated on 10 items there would be a saving of collectively between 20 and 30 minutes. This is based on the time necessary to figure the discount on the new note; to attach to the note its proper sticker with complete description, as is our custom; for the stenographer to make the individual entry on form B.D.4 sheet; for the card records to be made individually by note against the respective bank; and for the entry of the item under its proper maturity in the maturity files.

These offerings usually come to us well towards the close of business, for they come from the larger banks, when our work is more congested than earlier in the day. The object of the repurchase agreement from the Reserve Bank's point of view would be lost if it were necessary to schedule in detail, and I hoped that the Board would approve our taking them with merely the schedule of the repurchase agreement, with its maturity.

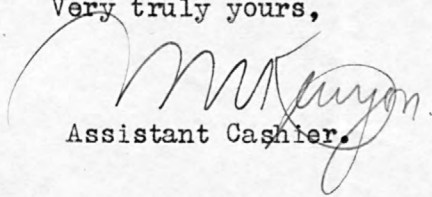
From the member banks' viewpoint the fact that commercial paper can be put in here on repurchase agreement without additional revenue stamps will be a sufficient inducement, so that when it is known among the banks that this can be done I think they will be inclined to avail themselves of the privilege which one or two of them have been particularly seeking. We should require from them a schedule in detail of the notes that we might have the necessary information to ascertain

whether or not they were eligible as commercial paper for normal re-discount.

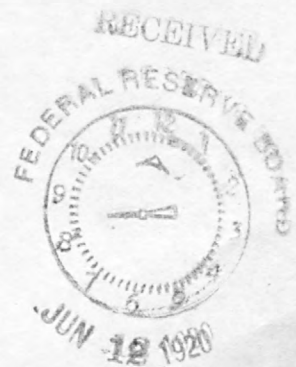
I understand that you are coming to Boston next week to address the Convention. I hope that it may be so that I can get away and hear your address. We all expect and hope that you will visit us, and if you can spare the time I can illustrate the conditions which I have tried to describe, perhaps better than it is in this letter.

With kind personal regards.

Very truly yours,


Assistant Cashier.

WNK:H



243.1
Repurchase agreement

#1

243.1
FEDERAL RESERVE BOARD FILE

332.3

332.3-6

June 8, 1920.

Dear Mr. Kenyon:

X545

Referring to our 'phone conversation of sometime ago and to your letter of June 2, upon investigation of the matter of Federal Reserve Banks purchasing commercial paper under repurchase agreement, I find that the Board sent the enclosed copy of letter under date of December 1, 1917, to all Federal Reserve Agents, which was modified by letter dated April 6, 1918, which is also enclosed. The status, therefore, today is that Federal Reserve Banks have authority from the Board to purchase commercial paper from member banks under repurchase agreement. I understand that the following form is in use by some of the Federal Reserve Banks in connection with repurchase transactions:

X891a

"The items listed above are hereby offered for rediscount for the period ending, on which date you are authorized and instructed to charge to our account the aggregate amount thereof and return the notes to us."

Signature of authorized official.

The following form has also been approved by the Board for use in connection with the above transactions:

"We hereby offer for rediscount the bills and notes listed in the foregoing application, with the understanding that we agree on or before _____ to pay you the face value of said bills and notes, and that you agree to accept such payment and thereupon return the said notes to us.

If such payment is not made before _____ you are hereby authorized and instructed to charge to our account on said date the face value of said bills and notes, and to hold said bills and notes for collection for our account, subject to our order."

Signature of authorized officer .

You will also note that the Board's letter of March 12, 1918, copy of which is enclosed, provided that the Federal Reserve Banks should report paper taken under "repurchase agreement" in the same manner as member banks collateral notes, and your bank under authorization already granted by the Board can, therefore, accept commercial paper from member banks under repurchase agreement, reporting the same to Washington without listing the items separately.

Upon investigation of this subject the Tabulating Section of the Statistical Division have reported to me that only two out of five of the Reserve Banks which accept paper under repurchase agreement are reporting such transactions to the Board without listing the items separately.

The question of requesting Federal Reserve Banks to report in detail all items securing member banks collateral notes and all items taken under repurchase agreement is under consideration by the Board at the present time, and, I would appreciate a statement from you as to the amount of the additional work it would require in your office to furnish the Board with reports in this form.

Very truly yours,

Signed) R. G. Emerson

Assistant Secretary

Mr. W. N. Kenyon, Asst. Cashier,
Federal Reserve Bank of Boston,
Boston, Massachusetts.

FEDERAL RESERVE BANK OF BOSTON
53 STATE STREET

3323-6

IN REPLY
PLEASE QUOTE

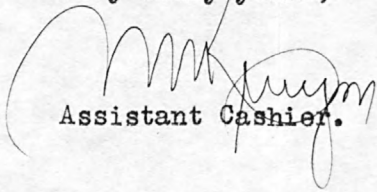
June 2, 1920.

Mr. R. G. Emerson, Assistant Secretary,
Federal Reserve Board,
Washington, D. C.,

Dear Sir:

I was wondering if the Board has had a chance to give any consideration to the suggestion of repurchase agreement secured by eligible commercial paper? One of our banks has been quite a persistent inquirer which prompts me to write you, rather than any impatience on my part.

Very truly yours,


Assistant Cashier.

WNK:H



Office Correspondence

FEDERAL RESERVE
BOARDDate May 21, 1920. 332,3-6To Mr. EmersonFrom Mr. SmeadSubject: Description on BD-4 schedules of
paper taken under repurchase agreements
or accepted as collateral for member
banks' promissory notes.

2-8495

In accordance with your request, there is attached hereto a draft of a letter to be sent to the Chairman of each Federal Reserve Bank, in case the Board approves the recommendation contained in Mr. Jacobson's memorandum of May 11 with reference to the description on schedules BD-4 of eligible paper taken under repurchase agreements or accepted as collateral security for member banks' collateral notes.

332.3-6

W. P. G. HARDING, GOVERNOR
ALBERT STRAUSS, VICE GOVERNOR
ADOLPH C. MILLER
CHARLES S. HAMLIN
HENRY A. MOEHLLENPAH
W. T. CHAPMAN, SECRETARY
R. G. EMERSON, ASSISTANT SECRETARY
W. M. IMLAY, FISCAL AGENT

EX OFFICIO MEMBERS
DAVID F. HOUSTON
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY
ADDRESS REPLY TO
FEDERAL RESERVE BOARD

FEDERAL RESERVE BOARD
WASHINGTON

May 20, 1920.

SUBJECT: Description on Schedules B.D.4 of Eligible Paper Taken under Repurchase Agreements or Accepted as Collateral Security for Member Banks' Promissory Notes.

Dear Sir:

In order that the Board may be advised as to the character of all eligible paper discounted by Federal Reserve Banks, it is requested that beginning with June 1 schedules B.D.4 be made out so as to show the amount, and the name, location and business of the original maker, of each note or bill, accepted as collateral security for a member bank's promissory note, or taken under a repurchase agreement.

In case an item used as collateral for a member bank's note, or taken under a repurchase agreement is secured by United States Government obligations that fact should in addition be stated on the schedule, specifying the class of Government security, i.e. Liberty bonds, other U. S. bonds, Victory notes, or certificates of indebtedness.

Please acknowledge receipt.

Very truly yours,

Assistant Secretary.

Office Correspondence

FEDERAL RESERVE
BOARD

Date May 11, 1920.

To The Board
From M. JacobsonSubject: Recommendation for detailed
information regarding items
securing collateral notes and
repurchase agreements. 2-8495

332.3-6

The Boston Bank inquires whether its Discount Department will be permitted to report paper discounted under re-purchase agreements, merely in toto, giving the name of the bank for which discounted and the number and total amount of bills taken under the agreement. This procedure is at present being followed by the New York and Philadelphia Banks, while the Cleveland, St. Louis and San Francisco Reserve Banks, which likewise report considerable amounts of paper taken under repurchase agreements, continue to describe in detail each item taken by them under such agreements.

During the month of March 19.3 per cent of the total paper discounted by these five Reserve Banks was paper taken under re-purchase agreement. A substantial proportion of the total discounts of these same banks was composed of member banks' collateral notes, secured by customers' paper, the schedules for which likewise fail to give a detailed description of the collateral behind the notes. It is evident that so far as the New York and Philadelphia Reserve Banks are concerned, the Board receives no current information regarding the original borrowers or the nature and maturity of paper taken under repurchase agreement or accepted as collateral security for member banks' promissory notes.

In the case of the other banks the situation is likewise far from satisfactory, since none of the Reserve banks give detailed information regarding the collateral, whenever member bank loans from the Federal Reserve Banks take the form of a collateral note secured by customers' paper. It is believed that the Board is now more than ever interested in having detailed information respecting discounts and accordingly it is recommended that all Federal Reserve Banks be instructed to report, beginning with June 1, uniformly, at least the names of the original makers of the paper, their location and business, and the amounts of each item used as security for member bank collateral notes, likewise of each item discounted under repurchase agreement.

M. Jacobson
Statistician.

Office Correspondence

FEDERAL RESERVE BOARD

Date May 1, 1920

To Mr. Smead

Subject: Discounting commercial paper

From Mr. Emerson

FEDERAL RESERVE BOARD
332-3
2-8495
332-3-6

*Mr. Emerson
Boston*

Mr. Kenyon, Assistant Cashier of the Federal Reserve Bank of Boston, phoned me a day or so ago and asked me if any Bank had ever proposed a scheme whereby Federal Reserve Banks, in discounting commercial paper for member banks, could discount same under repurchase or other form of agreement, so that the total amount of the paper taken could be shown on the BD 4s forwarded to Washington, without showing the individual items.

I told him that I was not familiar enough with the routine in connection with these transactions, but it seemed to me that such a plan was not feasible and would defeat the provisions of the Federal Reserve Act, although we were always glad to receive suggestions here which would relieve the Banks of detail, and that if he could work out some scheme which would be within the law, we would be very glad to make it effective. I told him that I would ask you if a similar plan had ever been proposed, and if not, whether or not you had any ideas you could furnish him in connection with this investigation and study of the matter.

3323-6

15000
paper
[Handwritten signature]

FEDERAL RESERVE BOARD FILE
332.3

FEDERAL RESERVE BOARD

May 31, 1919.

At the meeting of the Executive Committee of the Federal Reserve Board held today the following was ordered circulated:

Memorandum dated May 26, by Mr. Smead, in re purchase by Federal Reserve banks of Treasury certificates under repurchase agreement.

[Handwritten signature]
Assistant Secretary.

- THE GOVERNOR ✓
- MR. STRAUSS ✓
- MR. MILLER ✓
- MR. HAMLIN ✓
- MR. BRODERICK

[Large handwritten flourish]

Office Correspondence

FEDERAL RESERVE
BOARD332.3-6
Date May 26, 1919.

To Mr. Broderick

Subject: Purchase by F. R. banks of
Treasury certificates under repurchase
agreement.

From Mr. Smead

2-5105

During the first four months of the present year Treasury certificates of indebtedness have been taken under repurchase agreements as follows:

	<u>New York</u>	<u>Philadelphia</u>
January	\$15,708,000	--
February	30,045,500	--
March	49,361,500	--
April	62,260,000	\$570,000

Practically all of the above repurchase agreements have been made with nonmember banks and all mature within 15 days or less.

I may say also that the San Francisco Federal Reserve Bank has on several occasions purchased \$1,000,000 of 4 per cent bonds of 1925 from one of its member banks and subsequently resold the same bonds to the bank from which they were purchased. Transactions of this nature have been effected on three or four different occasions and each time the bonds were held by San Francisco for periods considerably in excess of 15 days.

In going over the recommendations made by the Governors at their conference held in Washington March 20-22 I note that the third paragraph of the first recommendation under Topic 2, Bankers' Acceptances - Open Market, reads as follows:

"It is suggested that the reserve banks can facilitate the development of carrying arrangements for dealers by making arrangements for special purchases of bills from them under contract to repurchase within fifteen days, in cases where member banks are not willing to make collateral loans on bills at reasonable rates."

The following is the third recommendation under the same topic:

"That steps be taken by the reserve banks to encourage the development of the business of dealing in bills in each of the reserve bank cities, as a facility for the development of this market, and that dealers be encouraged by having free access to Federal Reserve banks, to sell bills and to carry them under a 15-day repurchase agreement."

After reading the recommendations of the Governors' conference I assumed that the Board was thoroughly familiar with the policy of the Reserve banks with reference to purchase of certificates of indebtedness under repurchase agreements and it was for this reason that I did not submit a memorandum to you on the subject at the time I spoke to you during the early part of April.



EDW. T. BROWN,
DEPUTY CHAIRMAN OF
THE BOARD

JOS. M. SLATTERY,
ASS'T FEDERAL RESERVE
AGENT

WARD ALBERTSON,
GENERAL AUDITOR

M. B. WELLS,
CHAIRMAN OF THE BOARD
AND FEDERAL RESERVE AGENT

JOS. A. MCCORD,
GOVERNOR

J. B. PIKE,
CASHIER

M. W. BELL,
ASSISTANT CASHIER

W. B. ROPER,
ASSISTANT CASHIER

W. R. PATTERSON,
ASSISTANT CASHIER

B. A. SAMS,
ASSISTANT CASHIER

FEDERAL RESERVE BANK OF ATLANTA.

November 29, 1918.

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

Dear Governor Harding:

Your letter of the 25th inst. received and I note that your Board is perfectly willing for our Executive Committee to put in the rule to allow one 15 day agreement purchase on bills receivable, and after that to require that they be discounted for the full term. This is also covered by your letter of the 27th inst.

I put the matter up to our Executive Committee today, and it was finally decided after much discussion of the subject that in view of the fact that cotton is beginning to move some, that we would not make a change in the handling of these items at the present time.

However, I am keeping a record of the discounts placed under these 15 day agreements that seem to us to have the appearance of being bought paper, and should the volume increase, I will take pleasure in corresponding with the banks to know if the firms whose papers are offered carry regular accounts with them, or whether these papers have been bought in the open market.

Yours very truly,

Jose McCord
Governor.

JAM:F

RECEIVED
2 1918
GOVERNOR'S OFFICE

FEDERAL
OFFICE OF THE
FILE # 332-3-6

*Re
No 3320*

H

FEDERAL RESERVE BOARD
3323

332.3-6

November 27, 1918.

Dear Governor McCord:

*11/21/18
11/25/18*

Referring to your letters regarding the
rediscount of paper for member banks under fifteen-day
repurchase agreements, I would state that the Board,
at the meeting this morning, felt that it might be
premature to issue a general regulation on this subject,
but authorized me to say that there will be no objection
made should your executive committee adopt the policy of
limiting these agreements to one transaction, requiring
an actual rediscount of the paper for the full time it
has to run, should any extension be desired.

The Board wishes to be kept advised as to the
outcome of such a policy, ~~and~~ your executive committee
decide to adopt it.

Very truly yours,

Governor.

Mr. Jos. A. McCord,
Governor Federal Reserve Bank,
Atlanta, Ga.

EDW. T. BROWN,
DEPUTY CHAIRMAN OF
THE BOARD

M. B. WELLBORN,
CHAIRMAN OF THE BOARD
AND FEDERAL RESERVE AGENT

JOS. A. MCCORD,
GOVERNOR

J. B. PIKE,
CASHIER

JOS. M. SLATTERY,
ASS'T FEDERAL RESERVE
AGENT

M. W. BELL,
ASSISTANT CASHIER

W. B. ROPER,
ASSISTANT CASHIER

WARD ALBERTSON,
GENERAL AUDITOR

W. R. PATTERSON,
ASSISTANT CASHIER

R. A. SIMS,
ASSISTANT CASHIER

FEDERAL RESERVE BANK OF ATLANTA.

November 25, 1918.

3323-6

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

Dear Governor:

I acknowledge receipt of your letter
of the 23rd inst., quoting the telegram received from
you several days ago.

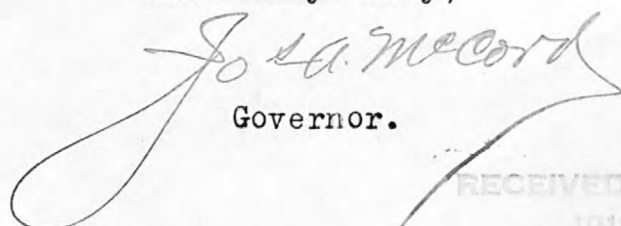
11/21/18

If you will refer to my letter you will
see that I stated I was asking the Branch at New Orleans
to give me a list of the papers that the banks there
were using with the Branch under the 15 day agreement.
It was not our purpose to cut off the 15 day agreement
for local business, but it was our purpose to ask that
in the case of purchased paper that it be confined to
only 15 day agreement, and then discounted for the full
maturity of the paper.

I am taking the reports of the New Orleans
Branch as they come in, and working out in detail the
paper that is being handled, so as to be in position
to know whether it is purchased paper that is causing
the excess amount of 15 day agreements, or whether it
is local paper in the New Orleans territory. As soon
as I have some figures with which to base a clear esti-
mate, I will let you hear from me further.

We are reproducing your circular letter
No.X-1274, and are going to send it out to all of our
member banks.

Yours very truly,



Governor.

JAM: F



RECEIVED
1918
GOVERNOR'S OFFICE

*Recd
Rememo.
at No.*

#6

FEDERAL RESERVE BOARD FILE
~~332-3~~

332,3-6

November 23, 1918.

Dear Mr. McCord:

I acknowledge receipt of your letter of the 21st instant, and beg to confirm my telegram in reply thereto, as follows:

"Your letter twenty-first instant. Would suggest that you get accurate information as to credit lines of institutions named, following plan suggested in circular letter X-1274 dated November nineteenth, and let us have the benefit of the information obtained. Board will then be in better position to advise you of policy to be pursued."

I think it would be unwise to take any drastic action regarding the repurchase agreement of the New Orleans banks until we have some definite information as to the nature of their actual requirements. If they are taking care of business which is normally and legitimately theirs, I think they should be accommodated as far as it is safe to do so, but if, on the other hand, they are taking advantage of the low rates at the Federal Reserve banks to buy outside paper, or by acquiring new country bank business which normally and properly belongs to some other city, I think they should be discouraged, as suggested in the Board's circular letter X-1274, dated November 19th.

I return herewith the daily report showing member banks' liability with your New Orleans branch, dated November 18th.

Very truly yours,

Mr. Jos. A. McCord,
Governor Federal Reserve Bank,
Atlanta, Ga.

Governor.

TELEGRAM
FEDERAL RESERVE BOARD
WASHINGTON

332.3-6

November 23, 1918.

McCORD

Atlanta.

Your letter twenty-first instant. STOP Would suggest that you get accurate information as to credit lines of institutions named, following plan suggested in circular letter X one thousand two hundred seventy-four dated November nineteenth, and let us have the benefit of the information obtained. STOP Board will then be in better position to advise you of policy to be pursued.

HARDING.

EDW. BROWN,
V. P. CHAIRMAN OF
BOARD

JOS. M. SLATTERY,
ASS'T FEDERAL RESERVE
AGENT

WARD ALBERTSON,
GENERAL AUDITOR

M. B. WELLBORN,
CHAIRMAN OF THE BOARD
AND FEDERAL RESERVE AGENT

JOS. A. MCCORD,
GOVERNOR
J. B. PIKE,
CASHIER
M. W. BELL,
ASSISTANT CASHIER
W. B. ROPER,
ASSISTANT CASHIER
W. R. PATTERSON,
ASSISTANT CASHIER
R. A. SIMS,
ASSISTANT CASHIER

FEDERAL RESERVE BANK OF ATLANTA.

November 21, 1918.

332,3-6

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

RECEIVED
NOV 23 1918
GOVERNOR'S OFFICE

Dear Governor Harding:

Enclosed herewith I hand you daily report of the member banks' liability, New Orleans Branch, under date of November 19th, and wish to call your attention to the large amount of repurchase agreements for 15 days from several of the New Orleans Banks.

We took up the matter with the Manager of the New Orleans Branch yesterday, asking him to furnish us with the names of the makers of the paper, and the dates of maturity. We further asked if he was permitting these banks to enter a new agreement on the maturity of the other agreement; further calling his attention to the fact that we do not permit member banks to enter into a re-agreement on the maturity of the other.

I am convinced that a large amount of this paper being handled under the repurchase agreement is the same paper handled over and over, and even if they do not immediately put it in, I think that they take it down for a day or two, putting up other paper perhaps, and then in a few days put up the same paper first offered.

Our rule in Atlanta is to discount paper per se for 15 days, but under the agreements sent to you for approval, you suggested that the New Orleans agreement was a good plan, and that agreement is simply a contract to repurchase, and does not require the continued re-endorsement of the notes.

I am merely calling your attention to this, because the amount of repurchase agreements in New Orleans leads me to believe that it is commercial paper being bought, and if this commercial paper being handled under the repurchase agreement was out of the way, we would not have to rediscount with other

FEDERAL RESERVE BANK OF ATLANTA

CONTINUATION SHEET No. 1.

Governor Harding,
Federal Reserve Board.

Federal Reserve Banks. Furthermore, the rate on repurchase agreements is $4\frac{1}{4}\%$, whereas we have to rediscount with other Federal Reserve Banks on the basis of 4% , so that there is no profit whatever in handling these transactions.

Will you kindly advise me in the light of these facts if it is still desired to keep open this repurchase agreement? And may I offer the suggestion that where a paper has been handled once on the repurchase agreement of 15 days, that if that paper is offered again, then it must be discounted for the full length of maturity?

As the matter now stands, these banks who can purchase commercial paper on the market at $5\frac{1}{2}\%$ or 6% , can use us on the basis of $4\frac{1}{4}\%$, and it seems to my mind that it is unfair to the other discounting banks, and is also unfair to the Federal Reserve Bank, inasmuch as we have to rediscount practically at the same rate.

Please return the enclosed report for our records.

Yours very truly,

Joseph A. McCord
Governor.

JAM:F
Encls.

11/23

Form

#6

FEDERAL RESERVE BOARD FILE
~~332-3~~

3323-6

September 14, 1918.

Mr. J. A. McCord,
Governor Federal Reserve Bank,
Atlanta, Georgia.

Dear Mr. McCord:

Referring to your letter of the eleventh instant, enclosing forms used in connection with the discount of paper under 15 day repurchase agreement, I wish to say that I can see no objection to the forms used by either the Atlanta or New Orleans offices.

The agreement used by the New Orleans Branch is more nearly in accord with the forms used by other Federal Reserve Banks and, I believe, less troublesome to member banks. Under such agreement it is possible to withdraw notes in advance of maturity without rebating all the notes. Separate authority on each note appears unnecessary.

Very truly yours,

Governor.

B-H

EDW. T. BROWN,
DEPUTY CHAIRMAN OF
THE BOARD

JOS. M. SLATTERY,
ASS'T FEDERAL RESERVE
AGENT

WARD ALBERTSON,
GENERAL AUDITOR

M. B. WELLBORN,
CHAIRMAN OF THE BOARD
AND FEDERAL RESERVE AGENT

JOS. A. MCCORD,
GOVERNOR
J. B. PIKE,
CASHIER
M. W. BELL,
ASSISTANT CASHIER
W. B. ROPER,
ASSISTANT CASHIER
W. R. PATTERSON,
ASSISTANT CASHIER
R. A. SIMS,
ASSISTANT CASHIER

FEDERAL RESERVE BANK OF ATLANTA.

September 11, 1918.

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

332.3-6
RECEIVED
SEP 13 1918
GOVERNOR'S OFFICE

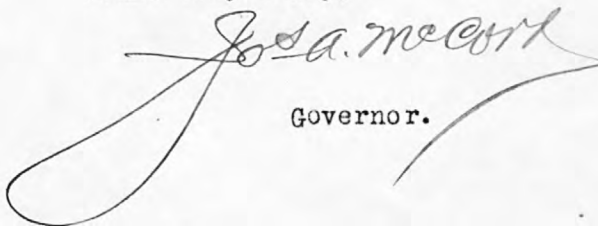
Dear Governor Harding:

Our General Auditor, Mr. Albertson, in a visit to the New Orleans Branch finds that on 15-day repurchase agreements the enclosed form is being used, attached to said notes under this agreement, that are discounted by the Branch Bank. One of the officers of the New Orleans Branch was in Atlanta the other day and left this copy with Mr. Slattery, who mailed it to me at Washington to discuss with you, but it was returned before I reached Washington.

I am therefore enclosing this agreement herewith, and ask an expression of your opinion if it is in accordance with your views as to how this paper should be handled. Here in Atlanta we have a little printed form that is attached to each note offered for discount under the 15-day agreement. This slip is signed by an officer of the bank discounting the paper, wherein they authorize us to charge the note to their account 15 days after the date of discount. We believe this meets the requirements and ruling of the Board. It appears with each paper separately, and if perchance a member bank desires to take up in advance of the 15 days, some of the paper, then it would not be necessary to withdraw all of the paper that was offered under the consolidated agreement as submitted by New Orleans, and to rebate the unearned interest on the whole amount; but only to rebate the unearned interest on the paper that they desire to take up.

Thanking you for an early reply, I beg to remain,

Yours very truly,


Governor.

JAM:F
Encls

FORM USED IN ATLANTA.

WE HEREBY AUTHORIZE THE FEDERAL RESERVE BANK,
ATLANTA, GEORGIA., TO CHARGE THE ATTACHED NOTE
TO OUR ACCOUNT ON (DATE)

_____ BANK.

BY _____

(DATE)

To the NEW ORLEANS BRANCH FEDERAL RESERVE BANK,
NEW ORLEANS, LA.

_____ 191 _____

The _____ Bank of _____

hereby makes application for the re-discount, for _____ days,
of notes, drafts and bills of exchange aggregating \$ _____,
as per list attached. You are hereby authorized to charge
each and every item thereof to our account at the expiration
of _____ days. We reserve the right from time to time
to substitute for any of said items other items satisfactory
to you.

I certify that, to the best of my knowledge and
belief, the notes, drafts or bills of exchange as per list
attached, were made for commercial, industrial, agricultural
or live stock purposes and are eligible for rediscount with
the Federal Reserve Bank.

The liability of this bank at the present time
for borrowed money, exclusive of this offering, is as fol-
lows:

Rediscounts, \$ _____. Bills Payable, \$ _____

Certificates of Deposit issued for money borrowed, \$ _____

_____.

Cashier.

San W. [unclear]
This is for [unclear]
drafts used on
15-day repurchase
notes *[Signature]*

FEDERAL RESERVE BOARD

September 14, 1918.

My dear Mr. Broderick:

I see no objection to the
use of the attached form.

M. C. E.
/

332.2

50% limit *Ph*

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

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

X-1120

332.3-6

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

FEDERAL RESERVE BOARD

WASHINGTON

August 12, 1918.

Handwritten notes and signatures:
346
Dear Sir:

Dear Sir:

There is inclosed for your information copy of an opinion by Counsel as to the treatment as a liability of the maker to the bank for borrowed money, of a note which has been rediscounted by a member bank. The Board does not mean to suggest that member banks should avail themselves generally by rediscounting, of their authority to grant lines of credit in excess of 10 per cent of their capital and surplus as prescribed by Section 5200 of the Revised Statutes, as it is the belief of the Board that wherever compatible with the public interest, credit should be curtailed rather than expanded. Banks should keep in mind their contingent liability on rediscounted paper which, if not paid by the maker, must be taken up by the endorsing bank, and if unable to rediscount a renewal, the bank would find itself encumbered with an excess line. In cases, however, where banks wish to grant larger credits with Government obligations as security, the power outlined in the Counsel's letter may be availed of to advantage.

Very truly yours,

Governor.

The Governor,
Federal Reserve Bank,

Inclosure.

COPY

X-1120a

FEDERAL RESERVE BOARD

WASHINGTON

August 7, 1918.

M. C. Elliott
Counsel

My dear Governor:

In an opinion approved by the Board and published on page 638 of the July, 1918, Bulletin, the question was considered whether a note rediscounted by a member bank should thereafter be treated as a liability of the maker to the bank for borrowed money. In that opinion the following statement appears:

"This question was considered by the Board and by the office of the Comptroller in connection with the limitations prescribed by Section 5200 Revised Statutes on liabilities to a national bank of any one person, firm or corporation.

The conclusion was reached in that case that notes which have been rediscounted by a national bank and which are no longer owned or held by the bank, should not be included as a liability of the maker to the bank for borrowed money within the meaning of Section 5200."

Exception has been taken to this conclusion by some of the officers of the Federal reserve banks, and by certain national bank examiners, and there seems to be some apprehension on their part that this ruling of the Board may be used by member banks for the purpose of evading the limitations prescribed by Section 5200.

You have asked this office to give further consideration to the question involved and to suggest what, if any, action the Board or the Comptroller should take to prevent excessive loans from being made under authority of this ruling.

This question is one which involves the application of the law of negotiable instruments.

Under Section 5136 Revised Statutes, which prescribes the corporate powers of national banks, such banks are authorized, among other things, to discount and "negotiate" promissory notes.

Under the Negotiable Instruments Law (Sec.30)
"An instrument is negotiated when it is transferred from one person to another in such manner as to constitute the transferee the holder thereof".

Under Section 5200 Revised Statutes the liabilities to a national bank of any one person for borrowed money are limited to an amount which must not exceed ten per cent of the capital and surplus of the lending bank.

Under authority of these two sections it is clear that a national bank may discount the note of a customer which does not exceed in amount ten per cent of its capital and surplus and may subsequently negotiate or sell this note to a bona fide purchaser for value without notice.

The question involved is whether the maker of the note continues liable to the bank after the note has been negotiated and is owned by a bona fide holder in due course.

Section 51 of the Negotiable Instruments Law provides that. -

"The holder of a negotiable instrument may sue thereon in his own name and payment to him in due course discharges the debt".

It is clear, therefore, that when such a note is rediscounted by a bank its rights are transferred to the holder in due course and the maker becomes liable to the holder. It necessarily follows that the maker's liability to the bank ceases. If this were not true the maker might obtain a discharge of his liability on the note by paying the bank even after it had transferred its rights by endorsement of the note to a bona fide holder.

To hold that the maker of a note continues liable to a national bank for money borrowed, after the bank has rediscounted the note, would be equivalent to holding that a negotiable promissory note loses its negotiability when discounted for the maker by a national bank. There is clearly no legal justification for such a conclusion.

It has been suggested that the position taken in the opinion under consideration constitutes a radical departure from previous rulings of the Comptrollers office.

It is true that for many years it was customary for national banks to continue to carry as assets notes which had been rediscounted. This practice, which necessarily resulted in a duplication of the assets of national banks, has, however, been discontinued and while the reports of condition now show the amount of bills or notes rediscounted these amounts are not included in the total assets of the bank.

It necessarily follows that unless a note remains an asset of a bank after it has been rediscounted it does not constitute a liability of the maker to the bank but becomes a liability of the maker to the bona fide holder.

This principle has been consistently recognized by the Comptroller's office in the administration of the estates of failed banks. The maker of a note held by a failed bank is ordinarily entitled to offset his deposit balance with the bank against the note but in the administration of receiverships the Comptroller has consistently declined to allow the maker of a note to offset his deposit balance if the note is not in the hands of the receiver but is held by some other bank under rediscount on the ground that he may thereby obtain preference over other creditors to the extent of the offset if the estate of the bank is insufficient to pay the depositors in full. This question was involved in the case of United States Bank v. McNair, 116 N. C. 550; 21 S. E. 389. In that case the maker of the note was endeavoring to have his liability treated as a liability to the bank in order to obtain the benefit of an offset but the court disallowed his claim.

With all due deference to the opinion of those who have taken exception to this ruling of the Board, the fear that it may be successfully used by banks to evade the limitations of Section 5200 seems to be very much exaggerated.

So long as the customer's paper is well secured or is of such intrinsic value as to find a ready market with other banks the contingent liability incurred by the endorsing bank is not of serious consequence. On the other hand, if the paper offered for rediscount is not intrinsically valuable and the offering bank is merely seeking to evade the limitations of Section 5200, it is not likely that other banks would feel disposed to rediscount such paper. They would in such case be much more likely to require the borrowing bank to execute its note secured by its customer's note with a proper margin, in which case the customer's paper would remain the property of the borrowing bank and would have to be included in the liabilities of the makers to the borrowing bank. If the borrowing bank, in order to evade the limitations of Section 5200, should enter into an agreement with its correspondent to repurchase rediscounted paper before maturity, or to leave the proceeds of the rediscount on deposit with it, the transaction would not have been entered into in good faith and an examiner or officers of a Federal reserve bank would be justified in treating such paper as subject to the limitations of Section 5200.

As stated by Daniel on Negotiable Instruments
(Section 779-b, Volume 1, Sixth Edition)-

"Under several provisions of the statute (Negotiable Instruments Law), it is held that merely giving the transferrer credit does not constitute the transferee a holder in due course. Thus when a bank simply discounts a note and credits the amount thereof on the endorser's account, without paying to him any value for it, such bank is not a purchaser for value or a holder in due course as defined by the statute".
(Albany County Bank v. People's Co-operative Ice Co., 86 N. Y. S. 772, 92).

If, however, a bank negotiates a note of its customer in good faith in order to obtain additional funds to take care of the needs of other customers, there would seem to be no justification for treating the liability of its customer to the bona fide holder of the note as a liability to the bank itself. The fact that the bank is contingently liable as endorser and may be called upon to pay the note if the maker defaults should very properly be taken into consideration in determining liabilities that may be incurred by the bank under Section 5202 but should not be taken into consideration in determining the liabilities that may be incurred to the bank under Section 5200.

The Board has heretofore ruled that a national bank may lend to one customer an amount equal to ten per cent of its capital and surplus and may thereafter accept drafts of the same customer under authority of the Federal Reserve Act. In this case the bank assumes a direct and not a contingent liability on the drafts accepted and is the primary obligor. This fact, however, does not justify the Board in requiring banks to treat this liability assumed by the bank as a liability of its customer to the bank for borrowed money within the meaning of Section 5200.

If the Board feels that it is necessary to take any affirmative action to prevent its ruling from being used by member banks as a means of evading the limitations of Section 5200, it is suggested that it might amend Section III of Regulation "A", series of 1917, to read substantially as follows:

III. Applications for Rediscount.

"All applications for the rediscount of notes, drafts or bills of exchange, must contain

a certificate of the member bank in form to be prescribed by the Federal reserve bank, that to the best of the knowledge and belief of the officers of the applicant bank, such notes, drafts or bills of exchange have been issued for one or more of the purposes mentioned in 2 (a); such certificate shall also show whether the notes, drafts or bills discounted for any one borrower whose paper is offered for rediscount, exceeds ten per cent of the capital and surplus of the applicant bank, including notes, drafts or bills held in its own portfolio or under rediscount with other banks.

If the aggregate of such notes, drafts or bills does exceed ten per cent of the capital and surplus of the applicant bank, such certificate shall show (a) the amount held in its own portfolio, (b) the amount rediscounted with other banks, (c) the amount and character of security held, (d) ~~whether or not the member bank is under agreement to repurchase at or before maturity~~ notes, drafts and bills rediscounted, (e) whether or not it has received the actual proceeds of notes, drafts and bills rediscounted or merely a book credit therefor."

With this regulation in force, the Federal reserve bank would be able to determine the amount of secured and unsecured paper discounted by the applicant bank for any one borrower and rediscounted with other banks. If properly secured, the contingent liability of the member bank on the paper rediscounted in good faith would constitute merely a nominal liability. On the other hand, if the intrinsic value of the paper rediscounted appeared to be such as to make it more than probable that the endorsing member bank would be called upon to pay it, the Federal reserve bank could in its discretion determine whether such paper though technically eligible should be accepted for rediscount by the Federal reserve bank.

The Comptroller of the Currency might in like manner require national banks to show in their reports of condition information called for in the Regulation of the Board as amended in accordance with the foregoing suggestion.

The National Bank Examiner might likewise require the officers of the national bank to certify on oath whether the bank is under agreement to repurchase rediscounted paper and whether it has received the proceeds of such paper or merely a book credit and, for reasons hereinbefore stated, might treat all paper rediscounted under an agreement to repurchase or for which merely book credits have been received, as subject to the limitations of Section 5200.

Respectfully,

M. C. Elliott,

Counsel.

Hon. W. P. G. Harding,
Governor,
Federal Reserve Board.

FEDERAL RESERVE BANK
OF NEW YORK

FEDERAL RESERVE BOARD FILE
~~332.3~~
RECEIVED
AUG 13 1918
GOVERNOR'S OFFICE

332.3-6

August 12, 1918.

Dear Governor Harding:

I acknowledge with thanks receipt of your letter of August 9th, (advising me that the Board has decided to suspend action in the matter of making an additional charge of 1/2% where long term paper is discounted for periods within fifteen days, and that the matter should be postponed until such time as a general revision of rates may be deemed advisable.

I am sure that our directors will be very glad to learn of the decision of the Board.

Very truly yours,

Stimpert
Chairman.

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

FEDERAL RESERVE BOARD
332.3
3323-6

August 9, 1916.

X-1080

Dear Mr. Jay:

Your letter of August 2nd in which you express the view of your executive committee as to the expediency of making an additional charge of $\frac{1}{2}\%$ where long term paper is discounted for periods within fifteen days under a repurchase agreement, has been duly considered by the Board, which has decided to suspend action on the matter pending a consideration of the underlying question of discount rates. The Board feels, perhaps, that it would be just as well to let this matter alone until such time as a general revision of rates may be deemed advisable.

Very truly yours,

Governor.

Mr. Pierre Jay,
Chairman Federal Reserve Bank,
New York.

#4
FEDERAL RESERVE BANK
OF CLEVELAND

FEDERAL RESERVE BOARD FILE
~~332.3~~

332-3-6

August 9, 1918

X1080

Mr. L. C. Adelson, Assistant Secretary,
Federal Reserve Board,
Washington, D. C.

Dear Sir:

With further reference to your letter of July 25 and the Board's letter, X-1080, of July 22, it was the informal sense of our directors at their meeting today that the question of an increase in our rate for fifteen day discounts should be taken up as soon as the nine banks which have hitherto maintained a 4% rate, have made an adjustment in their rates.

Very truly yours,

F:B:Mc

E. P. Sanchez
Governor.

*9/13 Read -
Mention
Read at meeting Aug 17/18
File*

RECEIVED
FEDERAL RESERVE BOARD
AUG 12 1918

3323-b

No. _____

Date August 6, 1918

272

FEDERAL RESERVE BOARD

MEMORANDUM

For Mr. Harding, _____

At a meeting of the Federal Reserve Board on August 6, 1918, the following matter
(as Chairman, Committee on
was referred to you (as member, " "
(as Chairman, Executive Committee

Letter of Mr. Pierre Jay, New York, dated Aug. 2, 1918, re rate on long term paper, discounted for short periods under so-called re-purchase agreements, with power to act.

Letter and reply to be circulated.

J. H. Rodman
Acting Secretary

JAH

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

Date _____
Documents _____
Signature _____

Decker
Aug 8/19 *W. H. Clegg*

FEDERAL RESERVE BOARD
WASHINGTON

332-3-6

August 6, 1918

Jay
New York

Adelson / X1080

Adelson's letter was written under misapprehension STOP Board's letter July twenty-second was not a regulation STOP Board has under consideration your letter explaining views of your directors and will reply definitely Thursday or Friday.

HARDING.

Treasury Department

TELEGRAM

40FBWV

332,3-6
RECEIVED

AUG 6 - 1918

GOVERNOR'S OFFICE

New York NY 149PM Aug 6 1918

W F G Harding

Washington

Strong

Governor received a letter from Mr Adelson
yesterday dated Aug 3rd inquiring what action had been taken by our
board of directors in regard to rate of discount of Long paper for fifteen
days or less. Our executive committee discussed this ~~matter~~ matter last Friday
and I wrote you their views Friday afternoon. Have communicated Mr Adelson's
letter to Governor Strong for his attention.

Pierre Jay

230PM

Conford

2

FEDERAL RESERVE BOARD FILE
~~332.3~~ 3

332.3-6

August 6, 1918.

X - 1080

Dear Mr. Jay;

I wired you today as follows, which

I now confirm:

X1080

"Adelson's letter was written under misapprehension. Board's letter July twenty-second was not a regulation. Board has under consideration your letter explaining views of your directors and will reply definitely Thursday or Friday."

Very truly yours,

Governor.

Mr. Pierre Jay,
Chairman Federal Reserve Bank,
New York.

#4
FEDERAL RESERVE BANK
OF CLEVELAND

FEDERAL RESERVE BOARD FILE
~~332.3-6~~

332.3-6

August 5, 1918

Mr. L. C. Adelson,
Assistant Secretary of the Treasury,
Washington, D. C.

Dear Sir:

Your letter of August 3 received. Under date of July 25 (I acknowledged receipt of the Board's letter of July 22, (X-1080), stating that the matter would be brought to the attention of our Board of Directors at its August meeting, which will be held on the 9th.

Mr. Wills had occasion to spend a day in Washington on the 25th, and the matter of rates was discussed fully with Governor Harding and Vice Governor Warburg. I am enclosing herewith a copy of his letter to Governor Harding under date of July 27 bearing on this matter, which we think disposes of it until the 15-day rate is adjusted up to our rate by the other nine banks.

Very truly yours,

Encl.
ERF:Mc

E. R. Tarver
Governor.

C O P Y.

July 27, 1918

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

Dear Sir:

Referring to your letter of July 22nd, concerning rates on fifteen day paper, and to our conversation of Thursday in reference to this subject, beg to say that, at your suggestion, I talked the matter over with Mr. Warburg, and it was agreed that since our fifteen day rate for advances secured for commercial paper is $4\frac{1}{4}\%$ or $\frac{1}{4}\%$ above the fifteen day rate on Government securities, it would be well not to change our rate, at least until such time as the nine banks which have a 4% rate for fifteen day commercial paper change their rates.

Very truly yours,

DCW-a

Chairman of the Board.

Order

FEDERAL RESERVE BANK
OF NEW YORK

332.3 - 6
RECEIVED
AUG 3 1918
GOVERNOR'S OFFICE
FILE

August 2, 1918.

Dear Governor Harding:

71080
Your letter of July 22nd expressing the view of the Board that wherever Federal reserve banks give their member banks the privilege of discounting long term paper for short periods the rate should be $1/2\%$ more than the fifteen day rate was, as I have reported to Mr. Warburg, discussed at our directors' meeting of July 24th and referred to our executive committee for further consideration. They have given a good deal of thought to the matter and when their views were expressed to you this afternoon you suggested that we should communicate them to you frankly in writing, which I now take pleasure in doing.

The theory on which we have operated our short time rate was to make it as nearly as possible a day to day rate, particularly for the New York City institutions which are the ultimate credit institutions of the country. The Board has recognized this by authorizing us to establish in addition to our fifteen day rate a one day rate when the occasion required it. Owing to the immense transfers of funds which the New York banks are called upon to make to interior points whenever the latter are called upon to pay for Government securities, the fluctuations in the reserves of the New York banks are very violent and often very temporary. These fluctuations are reflected in their transactions with the Reserve bank, and we have conceived of our fifteen day rate as a rate for money, irrespective of the kinds of security offered. Last April we waited to change our rates of discount until after the stamp tax had been removed from loans on Government securities and in order to permit banks to have as free access to our resources on commercial paper as on Government securities we voted to establish a rate of 4% for all fifteen day advances and rediscounts and to permit member banks to discount paper of longer maturities for periods not exceeding fifteen days, of which action the Board was advised. This latter

Honorable W. P. G. Harding, 8/2/18.

privilege has been availed of to a considerable extent so that our discounts and advances show a goodly proportion of those secured by commercial paper to those secured by Government securities. This seems to us a desirable position to maintain. We should feel sorry to have our discounts and advances, to a too preponderat^{ing} degree, based upon Government issues. We believe that such a condition might possibly lead to criticism of the System and to a feeling that the System had become too deeply involved in non-liquidating Government paper. Our preference would be to continue our fifteen day rate as a "money" rate irrespective of the kind of collateral. We feel that the plan proposed by the Board would merely lead to the banks substituting Government collateral for the commercial paper they now give us. In fact, the largest discounter of this kind of paper recently told us that their Government obligations were always in excess of their discounts and that they were only giving us paper instead of Government obligations because they understood we desired it.

The suggestion of the Board that our rate for these special short discounts should be raised $1/2\%$, while equivalent to the stamp tax for a fifteen day period, would not be equivalent to the amount of tax on a three or five or ten day note such as most of ours are, and it would be the view of our committee, unless, as we sincerely hope, ^{*} the Board sees no objection to our continuing our present practice, to abandon the practice entirely.

Faithfully yours,

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

P. H. Eddy
Chairman.

PJ/RAH

* Letter amended at this point to read: the, Board sees no objection to our continuing our present policy, that our most logical action would be to abandon the practice entirely.

(By phone from Mr. Jay's
office) Eddy.

FEDERAL RESERVE BOARD FILE

#3
46
332.3

332.3-6
X-1080

August 1, 1918.

Dear Governor Passmore:

I have your letter of July 31st in regard to the Board's suggestion of a $4\frac{1}{2}\%$ rate for member banks which discount under an agreement to repurchase within fifteen days commercial paper of longer maturities.

I note that you hesitate to act except in conjunction with the Federal Reserve Banks of New York and Boston, and the matter will be taken up with those institutions. I wish to call your attention, however, to the fact that it will not be necessary to publish the change, in case it should be made.

Very truly yours,

Governor.

Mr. E. P. Passmore,
Governor Federal Reserve Bank,
Philadelphia, Pa.

FEDERAL RESERVE BANK
OF SAN FRANCISCO

FEDERAL RESERVE BOARD FILE
332.3

332.3-6

JAMES K. LYNCH, GOVERNOR

July 31st 1918

X-1080

RECEIVED
AUG 6 1918
GOVERNOR'S OFFICE

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

Sir:

Your favor of July 22nd (X-1080) is received,
regarding repurchase transactions in commercial paper.

The suggestions outlined therein are carefully
noted, and we shall be guided accordingly.

Yours very truly,

James K. Lynch
Governor.

[Handwritten checkmark]

**FEDERAL RESERVE BANK
OF PHILADELPHIA**

332.3-1

RECEIVED
JUL 31 1918

July 31, 1918. GOVERNOR'S OFFICE

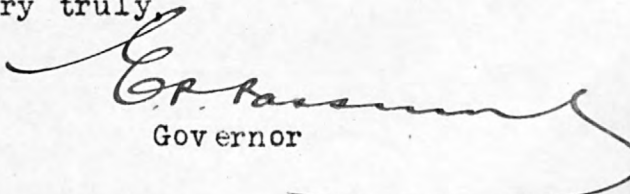
Hon. W. P. G. Harding, Governor,
Federal Reserve Board,
Washington, D. C.

My dear Governor Harding:

Referring further to your letter of the 22nd, X-1080, I beg to advise that the matter of increasing the rate from 4 to 4½% to member banks which discount under an agreement to repurchase within fifteen days commercial paper of longer maturities, was considered at a meeting of our Executive Committee held this morning.

The volume of such discounts in this bank is relatively small and therefore is not a matter of large importance to us except as to policy, in which we concur as a general proposition with the view taken by your Board. However, we feel we should not make the change here unless it is concurred in and made effective at each of the Boston and New York Federal Reserve Banks. If they are willing to increase the rate to 4½% we shall be glad to recommend it to our Board of Directors, which meets next week, upon receipt of advice from you prior to that time.

Yours very truly,


Governor

Q

No publication

8/11

#7
FEDERAL RESERVE BANK OF CHICAGO
79 WEST MONROE STREET

332.3
FEDERAL RESERVE BOARD FILE
~~332.3~~

July 30, 1918
R
10 80
332.3-6

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

GOVERNOR'S OFFICE

My dear Governor Harding:

X1080

In further reference to the subject matter of your letter of the 22nd instant, previously acknowledged on July 25th, I am pleased to advise you that our Board of Directors in the regular session this day, voted to concur in your recommendation that where member banks were given the privilege of discounting for periods of fifteen days or less longer term paper, the rate should be 1/2 per cent higher than that at which collateral notes subject to stamp tax are taken, which plan will be effective as of the first ultimo.

Yours very truly,

J. B. McMane
Governor.

Rad
1080
Aug 1
HAW

GH

8
FEDERAL RESERVE BOARD FILE

~~332.3~~

332,3-6

July 27, 1918

11 - 10 80

Mr. William A. Hexton,
Deputy Governor Federal Reserve Bank,
St. Louis, Mo.

Dear Sir:

Your letter of the 24th inst. addressed to Governor Harding relative to the question of increased rates for 15 day rediscounts or discounts with agreements to repurchase, has been received and brought to the attention of the Board.

The letter will be held pending receipt of advices from our Federal Reserve Banks and you will be advised of the result.

Yours very truly,

JAH

Secretary

#4
FEDERAL RESERVE BANK
OF CLEVELAND

FEDERAL RESERVE BOARD FILE
~~332.3~~ 3

RECEIVED
JUL 29 1918
GOVERNOR'S OFFICE

332.3 - 6

July 27, 1918.

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

Dear Sir:

Referring to your letter of July 22nd, concerning rates on fifteen day paper, and to our conversation of Thursday in reference to this subject, beg to say that, at your suggestion, I talked the matter over with Mr. Warburg, and it was agreed that since our fifteen day rate for advances secured for commercial paper is $4\frac{1}{4}\%$ or $\frac{1}{4}\%$ above the fifteen day rate on Government securities, it would be well not to change our rate, at least until such time as the nine banks which have a 4% rate for fifteen day commercial paper change their rates.

Very truly yours,

H. C. Howell

Chairman of the Board.

DCW-a

✓

#10

FEDERAL RESERVE BOARD FILE
332.3

FEDERAL RESERVE BANK
OF
KANSAS CITY

ASA E. RAMSAY, CHAIRMAN
AND FEDERAL RESERVE AGENT
FRED W. FLEMING
DEPUTY CHAIRMAN
C. K. BOARDMAN
ASST. FEDERAL RESERVE AGENT

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

July 26, 1918.

332.3-6

RECEIVED
JUL 30 1918

GOVERNOR'S OFFICE

X-1080

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

Dear Governor Harding:

We acknowledge receipt
of your letter of the 22d instant, X-1080,
giving the view of the Board with regard to
rates of discount in connection with discount-
ing long term paper, under an agreement to re-
purchase within 15 days as against rates at
which collateral notes subject to stamp tax
are taken.

Yours truly,

[Handwritten Signature]

Governor.

✓

#7
FEDERAL RESERVE BANK OF CHICAGO

79 WEST MONROE STREET

FEDERAL RESERVE BOARD FILE

~~332.3~~ 3

332.3-6

RECEIVED

JUL 29 1918

GOVERNOR'S OFFICE
July 26, 1918.

1080

Mr. W. P. G. Harding, Governor
Federal Reserve Board,
Washington,
District of Columbia.

Dear Sir:

We have your letter of the 22nd inst. and note there-
from that it is the view of the Board that wherever Federal Reserve
banks discount longer term paper under an agreement to repurchase
within fifteen days, instead of requiring the banks to discount
their own notes, that the rate should be $\frac{1}{2}\%$ higher than that at
which collateral notes subject to stamp tax are taken.

(X1080)

This matter was considered at the meeting of our
Executive Committee held this morning and will be referred to our
Board of Directors which will meet on Tuesday, July 30th, at which
time we will be pleased to advise you of our action in the premises.

Very truly yours,

J. M. ...
Governor.

S/-

✓

OFFICERS

R. L. VAN ZANOT, GOVERNOR
J. W. HOOPES, DEPUTY GOVERNOR
LYNN P. TALLEY, CASHIER
SAM R. LAWDER, ASSISTANT CASHIER
R. R. GILBERT, ASSISTANT CASHIER
R. B. COLEMAN, ACTING ASSISTANT CASHIER



FEDERAL RESERVE BANK OF DALLAS

DIRECTORS

FEDERAL RESERVE BOARD FILE
W. F. RAMSEY, CHAIRMAN AND FEDERAL RESERVE AGENT
W. B. NEWSOME, DEPUTY CHAIRMAN
J. J. CULBERTSON, PARIS, TEXAS
FRANK KELL, WICHITA FALLS, TEXAS
B. A. MCKINNEY, DURANT, OKLA.
MARION SANSOM, FT. WORTH, TEXAS
JNO. T. SCOTT, HOUSTON, TEXAS
E. K. SMITH, SHREVEPORT, LA.
H. O. WOOTEN, ABILENE, TEXAS

CHARLES C. HALL, ASSISTANT FEDERAL RESERVE AGENT
W. C. WEISS, AUDITOR

July 25th 1918.

332.3-6
RECEIVED
JUL 30 1918
GOVERNOR'S OFFICE

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

X 1080

Dear Governor Harding:

I beg to acknowledge receipt of your letter of the 22nd inst., (No. X1080), relative to the requiring of a higher rate of interest on banks which are discounting commercial paper of longer maturities for only fifteen days.

In that connection I beg to advise you that this Institution does not discount paper with a repurchase agreement, but will, of course, permit paper to be retired before maturity, rebates of the unearned interest being granted in accordance with our published rules, an additional copy of our circular covering which is being enclosed herein for your information.

Yours very truly,

R. L. Van Zandt
Governor.

VZ-H

#4
FEDERAL RESERVE BANK
OF CLEVELAND

FEDERAL RESERVE BOARD FILE

~~332.3~~

RECEIVED

JUL 27 1918

GOVERNOR'S OFFICE

3323-6

July 25, 1918.

X1080

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

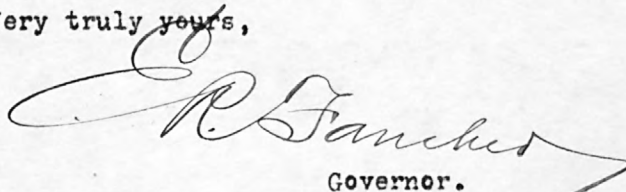
Dear Sir:

I acknowledge receipt of your letter of July 22, X-1080, concerning the rate on fifteen day discounts, which will be brought to the attention of our Board of Directors at its August meeting.

Mr. Wills expects to ask for further light on this subject in conference with you today or tomorrow.

Very truly yours,

F:B:Mc


Governor.

OFFICERS

ROLLA WELLS,
GOVERNOR
W. W. HOXTON,
DEPUTY GOVERNOR
JAMES G. MCCONKEY,
COUNSEL AND SECRETARY
OLIN M. ATTEBERY,
CASHIER
R. R. CLABAUGH,
ASSISTANT CASHIER
A. H. HALL,
ASSISTANT CASHIER
J. W. WHITE,
ASSISTANT CASHIER
J. W. RINKLEFF,
ASSISTANT CASHIER

See to reply

FEDERAL RESERVE BANK

OF

St. LOUIS.

July 24, 1918.

DIRECTORS

W. MCC. MARTIN,
CHAIRMAN OF THE BOARD AND
FEDERAL RESERVE AGENT
JOHN W. BOEHNE, EVANSVILLE, IND.
DEPUTY CHAIRMAN OF THE BOARD
D. C. BIGGS, ST. LOUIS, MO.
WALKER HILL, ST. LOUIS, MO.
C. P. J. MOONEY, MEMPHIS, TENN.
W. B. PLUNKETT, LITTLE ROCK, ARK.
LE ROY PERCY, GREENVILLE, MISS.
FRANK O. WATTS, ST. LOUIS, MO.
S. A. ZIEGLER, ALBION, ILL.

RECEIVED
JUL 27 1918
GOVERNOR'S OFFICE
3323-6

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

Dear Sir:

In the absence of Governor Wells, I
beg leave to acknowledge receipt of your let-
ter of July 22nd, X-1080.

I took up the matter of increased
rate for fifteen day term rediscounts, or rather
discounts with agreements to repurchase, with
the Executive Committee this morning. The
Committee unanimously agreed to request the
Federal Reserve Board to authorize an increase
of 1/2% on the rate for this class of loan as
suggested in your letter.

Very truly yours,

W. W. Hoxton
Deputy Governor.

ans 7/27/18

FEDERAL RESERVE BANK

#3

FEDERAL RESERVE BOARD FILE

FEDERAL RESERVE BANK
OF PHILADELPHIA

~~332.3~~

332.3-6

July 23, 1918.

RECEIVED
JUL 24 1918
GOVERNOR'S OFFICE

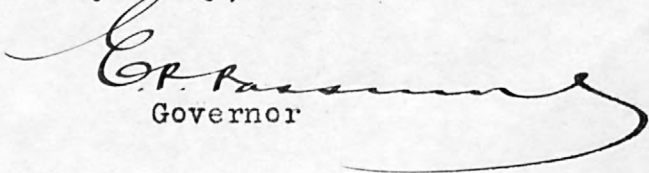
X 1080

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

My dear Governor Harding:

I have your letter of the 22nd,
X-1080, in reference to the discount rate under
an agreement to repurchase within fifteen days
commercial paper of longer maturities, which
shall have attention at the next meeting of our
Board.

Yours very truly,


Governor

Q

332.12

FEDERAL RESERVE BOARD
W. R. HARRIS, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. DELANO
ADOLPH C. MILLER
CHARLES S. HAMLIN
H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

EX OFFICIO MEMBERS

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

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

July 22, 1918.

332.3-6

X-1080

State G. C. S-5

Rateo

CARDED

Dear Sir:

Some of the Federal Reserve banks continue to discount under an agreement to repurchase within fifteen days commercial paper of longer maturities. Transactions of this kind are authorized by the Board's ruling of November 28, 1917, which was made at a time when member banks' fifteen day collateral notes were subject to revenue stamp requirements, even though secured by United States Government obligations. Although the Board's ruling was made for the purpose of facilitating transactions in Government bonds and in Treasury certificates, there is no objection to repurchase transactions in commercial paper, and the Board sees no occasion to withdraw the ruling referred to, although notes secured by Government obligations are now exempt from the stamp tax up to the face value of the Government securities attached as collateral.

The rate for member banks' fifteen day collateral notes secured by commercial paper remains at 4% except at three banks where the rates are $4\frac{1}{4}$, $4\frac{1}{2}$ and $4\frac{3}{4}$ % respectively. This short time rate was left undisturbed at nine of the banks, upon the assumption that the stamp tax on the fifteen day notes would bring the interest rate up to about $4\frac{1}{2}$ %.

It is the view of the Board, however, that wherever Federal Reserve banks give their member banks the privilege of discounting longer term paper, under an agreement to repurchase within fifteen days, instead of requiring the banks to discount their own notes, the rate should be $\frac{1}{2}$ % higher than that at which collateral notes subject to stamp tax are taken.

Very truly yours,

Governor.

The Governor,
Federal Reserve Bank,

Rateo on repurchase paper

Micrograph

1000
FEDERAL RESERVE BOARD
33 2 3

TO ALL GOVERNORS, COPIES TO Agents.

Dear Sir:-

Some of the Federal Reserve banks continue to discount under an agreement to repurchase within fifteen days commercial paper of longer maturities. Transactions of this kind are authorized by the Board's ruling of November 28, 1917, which was made at a time when member banks' fifteen day collateral notes were subject to revenue stamp requirements, even though secured by United States Government obligations. Although the Board's ruling was made for the purpose of facilitating transactions in Government bonds and in Treasury certificates, there is no objection to repurchase transactions in commercial paper, and the Board sees no occasion to withdraw the ruling referred to, although notes secured by Government obligations are ^{now} exempt from the stamp tax up to the face value of the Government securities attached as collateral

The rate for member banks fifteen day collateral notes secured by commercial paper remains at 4% except at three banks where the rates are $4\frac{1}{4}$, $4\frac{1}{2}$ and $4\frac{3}{4}$ % respectively. This short time rate was left undisturbed at a ~~majority~~ ^{minority} of the banks, upon the assumption that the stamp tax on the fifteen day notes would bring the interest rate up to about $4\frac{1}{2}$ %.

It is the view of the Board, however, that wherever Federal Reserve banks give their member banks the privilege of discounting longer term paper, ^{under an} ~~with the~~ agreement to repurchase within fifteen days, instead of requiring the banks to discount their own notes, the rate should be $\frac{1}{2}$ % higher than that at which collateral notes subject to stamp ^{tax} are taken.

Very truly yours,

Governor.

FEDERAL RESERVE BOARD FILE

OFFICERS
ROLLA WELLS,
GOVERNOR
W. W. HOXTON,
DEPUTY GOVERNOR
JAMES G. MCCONKEY,
COUNSEL AND SECRETARY
OLIN M. ATTEBERY,
CASHIER
R. R. CLABAUGH,
ASSISTANT CASHIER
A. H. HALL,
ASSISTANT CASHIER
J. W. WHITE,
ASSISTANT CASHIER
J. W. RINKLEFF,
ASSISTANT CASHIER

FEDERAL RESERVE BANK
OF
St. Louis.

DIRECTORS
W. MCC. MARTIN,
CHAIRMAN OF THE BOARD AND
FEDERAL RESERVE AGENT
JOHN W. BOEHNE, EVANSVILLE, IND.
DEPUTY CHAIRMAN OF THE BOARD
D. C. BIGGS, ST. LOUIS, MO.
WALKER HILL, ST. LOUIS MO.
C. P. J. MOONEY, MEMPHIS, TENN.
W. B. PLUNKETT, LITTLE ROCK, ARK.
LE ROY PERCY, GREENVILLE, MISS.
FRANK O. WATTS, ST. LOUIS, MO.
S. A. ZIEGLER, ALBION, ILL.

April 10, 1918.

3323-6

X-871a

Mr. H. Parker Willis, Secretary,
Federal Reserve Board,
Washington, D.C.

Dear Sir:--

I beg to acknowledge receipt of your favor of
the 6th inst., with reference to the elimination of the stamp
tax in connection with promissory notes secured by bonds or
obligations of the United States.

Your instructions have been duly noted and we will be
pleased to comply with same.

Yours very truly,

W. McC. Martin
Federal Reserve Agent.

RECEIVED
FEDERAL RESERVE BOARD
APR 15 1918

FEDERAL RESERVE BOARD FILE

#10

FEDERAL RESERVE BANK
OF
KANSAS CITY

243
J. Z. MILLER, JR. GOVERNOR
J. L. CROSS DEPUTY GOVERNOR
ARCH W. ANDERSON SECRETARY-CASHIER
C. A. WORTHINGTON ASSISTANT CASHIER
M. A. THOMPSON ASSISTANT CASHIER

ASA E. RAMSAY, CHAIRMAN
AND FEDERAL RESERVE AGENT
FRED W. FLEMING
DEPUTY CHAIRMAN
C. K. BOARDMAN
ASST. FEDERAL RESERVE AGENT

April 9, 1918.

332,3-6
X-871a

FEDERAL RESERVE BOARD,
Washington,
D. C.

Gentlemen:

Receipt is acknowledged of your favor of the 6th relative to the passage of the "War Finance Corporation" Act which was signed by the President on April 5th, and advising that it will no longer be necessary to affix revenue stamps to member banks' collateral notes secured by Liberty Loan bonds or U. S. Certificates of Indebtedness; also giving notice of the discontinuance on Form 34 of the new quotation words "BUCK" and "BOON", and prescribing the manner in which future borrowings secured by Government obligations should be scheduled.

Very truly yours,

Asa E. Ramsay
Federal Reserve Agent.

CKB/W

RECEIVED
FEDERAL RESERVE BOARD
APR 11 1918

#3
**FEDERAL RESERVE BANK
OF PHILADELPHIA**

332-3
FEDERAL RESERVE BOARD FILE

243.1

332-3-6

April 8, 1918

A-871-a

Dear Sir:-

We are duly in receipt of your letter of April 6th, ^{X871a} advising us that as a result of the passing of the "War Finance Corporation" Act it will no longer be necessary to affix revenue stamps to member bank's collateral notes secured by Liberty Loan bonds or U. S. certificates of indebtedness, and suggesting that the practice of purchasing Liberty Bonds and Certificates of Indebtedness under so-called repurchase agreements be discontinued and that such borrowings by member banks be made on their own promissory notes secured by bonds and certificates, and also that we disregard paragraph 1 and 2 of letter X0795 of March 12 and eliminate new code words as soon as the bonds and certificates now held under repurchase agreements mature.

Yours truly,

R. L. Austin

CHAIRMAN

H. Parker Willis, Esq.,
Secretary Federal Reserve Board,
Washington, D. C.

#5

FEDERAL RESERVE BOARD FILE

243-1

FEDERAL RESERVE BANK OF RICHMOND

FIFTH DISTRICT

OFFICERS

GEORGE J. SEAY, GOVERNOR
CHAS. A. PEPE, DEPUTY GOVERNOR
GEORGE H. KEESEE, CASHIER
C. V. BLACKBURN, ASST. CASHIER
THOMAS MARSHALL, JR., ASST. CASHIER

DIRECTORS

CALDWELL HARDY,
CHAIRMAN AND FEDERAL RESERVE AGENT
H. B. WILCOX, BALTIMORE, MD.
JAS. F. OYSTER, WASHINGTON, D. C.
JOHN F. BRUTON, WILSON, N. C.
EDMUND STRUDWICK, RICHMOND

JAMES A. MONCURE,
DEPUTY CHAIRMAN
EDWIN MANN, BLUEFIELD, W. VA.
D. R. COKER, HARTSVILLE, S. C.

332.3-6

April 8, 1918.

1-871a

Dr. H. Parker Willis, Sec'y.,
Federal Reserve Board,
Washington, D. C.

Dear Sir:-

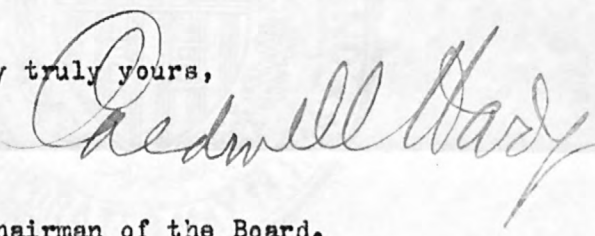
(X871a

Your favor of the 6th inst. to hand referring to the removal of the Stamp Tax on M. B. C's and other notes secured by United States securities.

We also note your advices that the practice of purchasing Liberty Bonds and Certificates of Indebtedness under re-purchase agreements should be discontinued, but we have never adopted the practice of making such purchases.

We also note advices as to reports on Forms 34 and B. D. 4, and will be governed accordingly.

Very truly yours,



Chairman of the Board.



#7
FEDERAL RESERVE BOARD FILE
FEDERAL RESERVE BANK OF CHICAGO

79 WEST MONROE STREET

FEDERAL RESERVE BOARD FILE

2431

3323-6

Chicago, April 8, 1918.

Mr. H. Parker Willis, Secretary,

FEDERAL RESERVE BOARD,

Washington, D.C.

X-871a

Dear Sir:


X-871a

I am in receipt of your letter of

April sixth, which embodies certain suggestions and recommendations in connection with the passage of the War Finance Corporation Act.

Copies of this letter have been placed in the hands of the various officers of the bank.

Yours truly,



Chairman.

H:S.



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

*Repurchase
agreements*

MJ/JCO

FEDERAL RESERVE BOARD

WASHINGTON

FEDERAL RESERVE BOARD

332

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

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

April 6, 1918

332.3-6
Y-891-a

Dear Sir:

The "War Finance Corporation" Act which was signed by the President on April 5, provides among others that no stamp or tax shall be required or imposed upon a promissory note secured by bonds or obligations of the United States issued since April 24, 1917, or secured by the pledge of a promissory note which itself is secured by the pledge of such bonds or obligations: Provided, That in either case the par value of such bonds or obligations shall equal the amount of such note.

Carded

X891-a

In view of the above change in law it will no longer be necessary to affix revenue stamps to member banks' collateral notes secured by Liberty Loan bonds or U. S. Certificates of Indebtedness.

It is suggested, therefore, that the practice of purchasing Liberty Bonds and Certificates of Indebtedness under so-called repurchase agreements be discontinued and that such borrowing by member banks be made on their own promissory notes secured by such bonds and certificates.

Paragraphs 1 and 2 of our letter X-795 of March 12 may also be disregarded and the new code words on form 34 "BUCK" and "BOON" may be eliminated as soon as the bonds and certificates now held under repurchase agreements mature. Future borrowings secured by War obligations should be reported on schedules of "Bills discounted--members" - BD 4 and against memorandum items "MAZE" and "MIST" on Form 34 as member banks' collateral notes or customers' paper secured by Liberty bonds and certificates of indebtedness. Discounts of commercial paper taken under repurchase agreement may be reported as heretofore in accordance with instructions found in the last paragraph of our mimeograph letter X-795 of March 12.

Very truly yours,

Secretary.

Federal Reserve Agent,

EDW. T. BROWN,
DEPUTY CHAIRMAN OF THE BOARD

JOS. M. SLATTERY,
ASSISTANT FEDERAL RESERVE AGENT

M. B. WELLBORN,
CHAIRMAN OF THE BOARD
AND FEDERAL RESERVE AGENT

FEDERAL RESERVE BOARD FILE

JOS. A. MCGORD,
GOVERNOR

J. B. PIKE,
CASHIER

M. W. BELL,
ASSISTANT CASHIER

W. B. ROPER,
ASSISTANT CASHIER

W. R. PATTERSON,
ASSISTANT CASHIER

M.B.
FEDERAL RESERVE BANK
OF ATLANTA.

March 20, 1918

243
332.3-6

X-795

Dear Sir:

I beg to acknowledge receipt of your letter of March 12th, X-795, and I have requested the bank and also the New Orleans branch to be guided in accordance with instructions contained therein, relative to reporting purchases of Liberty Bonds and U. S. Certificates of Indebtedness.

Very truly yours,

M. B. Wellborn
Chairman of the Board.

Mr Sherman Allen,
Assistant Secretary,
Federal Reserve Board,
Washington, D.C.

✓

RECORDED
FEDERAL RESERVE BOARD
MAR 23 1918

#9

FEDERAL RESERVE BOARD FILE
2437

FEDERAL RESERVE BANK OF MINNEAPOLIS

NINTH DISTRICT

OFFICE OF THE CHAIRMAN
AND FEDERAL RESERVE AGENT

JOHN H. RICH
CHAIRMAN AND FEDERAL RESERVE AGENT
CURTIS L. MOSHER
ASSISTANT FEDERAL RESERVE AGENT

332.3-6

March 15th

1918

Mr. Sherman Allen,
Asst. Secretary,
Federal Reserve Board,
Washington, D.C.

X-795

Dear Mr. Allen:

I have your circular letter
X 795 of March 13th, and will see that this
matter is given proper attention.

Very truly yours,

John H. Rich
Federal Reserve Agent.

2
FEDERAL RESERVE BANK
OF NEW YORK

FEDERAL RESERVE BOARD FILE

~~2431~~

3323-6

March 14, 1918.

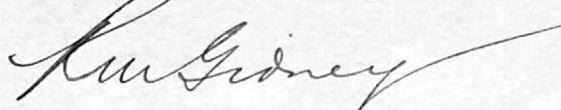
X-795

Dear Sir:

I wish to acknowledge receipt of your letter of March 12th (X-795) relative to the method of reporting purchases of Liberty bonds and certificates of indebtedness under agreement to repurchase by the selling bank, also method of reporting commercial paper rediscounted under agreement whereby the rediscounting bank is to take the paper up within 15 days.

I have referred this matter to our auditing department, and the report will hereafter be made as requested.

Very truly yours,



Assistant Federal Reserve Agent.

Honorable Sherman Allen,
Assistant Secretary, Federal Reserve Board,
Washington, D. C.

RMG/LES



#3
**FEDERAL RESERVE BANK
OF PHILADELPHIA**

FEDERAL RESERVE BOARD FILE
243.1

March 13, 1918

332.3-6

FEDERAL RESERVE BOARD,
Washington, D. C.

Sirs:-

We are duly in receipt of your letter of March 12th with reference to the proper scheduling of Liberty Loan Bonds and U. S. Certificates of Indebtedness taken under so called 'purchase agreement', and also of commercial paper of several maturities taken under agreement with the rediscounting bank to be taken up within fifteen days. These matters will be reported as requested.

Yours truly,

W. P. Austin

CHAIRMAN

RLA/R.

RECEIVED



64
138

5

FEDERAL RESERVE BOARD FILE
2001

FEDERAL RESERVE BANK OF RICHMOND

FIFTH DISTRICT

OFFICERS

GEORGE J. SEAY, GOVERNOR
CHAS. A. PEPE, DEPUTY GOVERNOR
GEORGE H. KEESEE, CASHIER
C. V. BLACKBURN, ASST. CASHIER
THOMAS MARSHALL, JR. ASST. CASHIER

DIRECTORS

CALDWELL HARDY,
CHAIRMAN AND FEDERAL RESERVE AGENT
H. B. WILCOX, BALTIMORE, MD.
JAS. F. OYSTER, WASHINGTON, D. C.
JOHN F. BRUTON, WILSON, N. C.
EDMUND STRUDWICK, RICHMOND

JAMES A. MONCURE,
DEPUTY CHAIRMAN
EDWIN MANN, BLUEFIELD, W. VA.
D. R. COKER, HARTSVILLE, S. C.

3323-6
-795

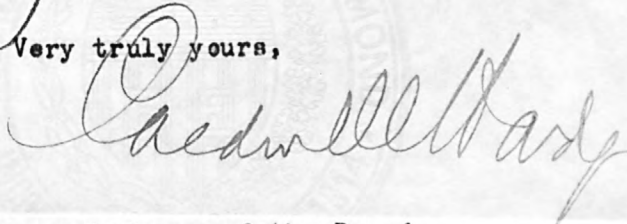
March 13, 1918.

Sherman Allen, Esq., Ass't. Sec'y.,
Federal Reserve Board,
Washington, D. C.

Dear Sir:-

Your favor of the 12th, X-795,
has been received, and instructions as
to making returns on the various sched-
ules referred to will be followed. We
are already complying with most of these
and will adjust the others in conformity
with your wishes.

Very truly yours,



Chairman of the Board.

RECEIVED



EX-OFFICIO MEMBERS

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

FEDERAL RESERVE BOARD

WASHINGTON

FEDERAL RESERVE BOARD FILE
W. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. DELANO
ADOLPH C. MILLER
CHARLES S. HANLIN
H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAE AGENT

ADDRESS REPLY TO
X-795 FEDERAL RESERVE BOARD

DIVISION OF REPORTS AND STATISTICS
MJ AAM

March 12, 1918

332.3-6
Carded
X-795

Dear Sir:

Some of the Federal Reserve banks in reporting to the Board purchases of Liberty bonds and U. S. certificates of indebtedness under so-called repurchase agreements (the selling bank obligating itself to repurchase these securities within 15 days) have been classing such transactions as 15-day advances upon members' collateral notes, instead of purchases of Government securities.

In order to insure uniform treatment of such transactions by all the banks it is requested that the purchase of such bonds or certificates be reported to the Board on Schedules of Investments Purchased, Form S-2, and that these investments be carried on Form 34 under the following, or similar heading: "U. S. Bonds, repurchase agreement", "U. S. Certificates of Indebtedness, repurchase agreement", and that in the Friday night telegrams to the Board the bonds so held be designated by code word "BUCK" and certificates of indebtedness so held by code word "BOON".

It is also requested that commercial paper of the several maturities when taken by the Federal Reserve banks under an agreement with the rediscounting bank that the paper will be taken up within 15 days, shall be reported on Schedules B.D. 4 and that the words "Repurchase agreement" follow the name of the rediscounting member bank. This will insure their proper classification by our Statistical Division. At present it is difficult in some cases to determine whether the transactions represent member banks' collateral notes or paper discounted under a repurchase agreement.

Very truly yours,

Assistant Secretary.

Mr.
Federal Reserve Agent,

Copy filed 332.3

EDW. T. BROWN,
DEPUTY CHAIRMAN OF THE BOARD

JOS. M. SLATTERY,
ASSISTANT FEDERAL RESERVE AGENT

M. E. WELLSBORN,
CHAIRMAN OF THE BOARD
AND FEDERAL RESERVE AGENT

112.36
 FEDERAL RESERVE BOARD
 JOS. A. McCORD, GOVERNOR
 J. B. PIKE, FILE CASHIER
 M. W. BELL, ASSISTANT CASHIER
 W. B. ROPER, ASSISTANT CASHIER
 W. R. PATTERSON, ASSISTANT CASHIER

*Referendum
agreement*

FEDERAL RESERVE BANK OF ATLANTA.

February 28, 1918.

RECEIVED
 MAR 2 - 1918
 GOVERNOR'S OFFICE
 332.3 - L

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

Dear Governor Harding:

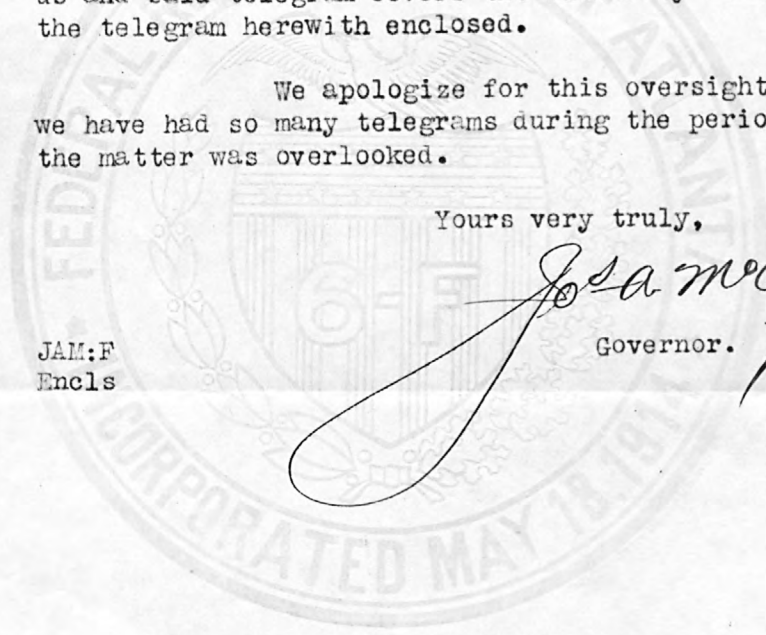
We telegraphed you today as per the enclosed confirmation, relative to the Treasury Certificates of Indebtedness. After having sent the telegram we found that on November 30th you telegraphed us and said telegram covers the authority we asked in the telegram herewith enclosed.

We apologize for this oversight, but as we have had so many telegrams during the period named, the matter was overlooked.

Yours very truly,

Jos. A. McCord
 Governor.

JAM:F
Encls



POSTAL TELEGRAPH - COMMERCIAL CABLES

CLARENCE H. MACKAY, PRESIDENT

COUNTER No.
TIME FILED

M

TELEGRAM

CHECK

The Postal Telegraph-Cable Company (Incorporated) transmits and delivers this message subject to the terms and conditions printed on the back of this blank.

SEND the following Telegram, subject to the terms on back hereof, which are hereby agreed to.

[DESIGN PATENT No. 403229]

2-676

Atlanta, Ga. Feby. 28, 1918.

Harding, Governor,
Federal Reserve Board
Washington, D.C.

Are we permitted take treasury certificates indebtedness under
repurchase agreements maturing fifteen days similar to bond transactions?

collect
official business
government rate

McCord, Governor.



*Refranchise
sect. 1121
etc.*

11/10

**TELEGRAM
FEDERAL RESERVE BOARD
WASHINGTON**

FEDERAL RESERVE BOARD FILE
332 3

February 28, 1918.

332.3-6

McCord,
Governor Federal Reserve Bank,
Atlanta, Georgia.

Your telegram date. Answer is yes.

HARDING.

OFFICIAL BUSINESS
GOVERNMENT RATES
CHARGE FEDERAL RESERVE BOARD

2-7729

POSTAL TELEGRAPH - COMMERCIAL CABLES

CLARENCE H. MACKAY, PRESIDENT.

RECEIVED AT
EVANS BUILDING
1418 NEW YORK AVENUE
WASHINGTON, D. C.
TELEPHONE: MAIN 6600

TELEGRAM

DELIVERY NO.

145

The Postal Telegraph-Cable Company (Incorporated) transmits and delivers this message subject to the terms and conditions printed on the back of this blank.

16-37536

DESIGN PATENT No. 40529

19/3323-6

322AGD 245p 27 Coll GVT

Q Atlanta ga feb 28-18

Harding Govr Fed Res Board

Washn DC

RECEIVED
FEB 28 1918

We are permitted take treasury certificates indebtedness under
repurchase agreements maturing fifteen days similar to bond transact-
ion

2/28/18

McGord Govr

601

#10
TELEGRAM

245.1

FEDERAL RESERVE BOARD FILE

FEDERAL RESERVE BOARD
WASHINGTON

~~332-3~~

February 1, 1916.

332.3-6

Ramsay,
Federal Reserve Agent,
Kansas City, Mo.

Your wire of January thirty first. You are correct in thinking that sale and repurchase agreement such as described, can not be used as collateral for Federal Reserve notes.

Willis.

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

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

WESTERN UNION TELEGRAM



NEWCOMB CARLTON, PRESIDENT

GEORGE W. E. ATKINS, FIRST VICE-PRESIDENT

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

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

RECEIVED AT

293KS UZ 97 GOVT

MT KANSAS CITY MO 540JAN 31

FEDERAL RESERVE BOARD

WASHINGTON

AM I AUTHORIZED TO RECEIVED

AS COLLATERAL FOR FEDERAL RESERVE NOTES WHEN TENDERED BY THE
 FEDERAL RESERVE BANK OF KANSASCITY CONTRACTS EXECUTED BY MEMBER
 BANKS TO REPURCHASE LIBERTY BONDS AND CERTIFICATES OF INDEBTEDNESS
 OR IN OTHER WORDS CAN SALE AND REPURCHASE AGREEMENTS BE REGARDED AS
 ELIGIBLE PAPER AND SHOULD FEDERAL RESERVE NOTES BE ISSUED AGAINST
 THEM PERIOD OUR BANK HAS MADE NO ADVANCES TO MEMBERS ON SUCH
 AGREEMENTS BEING UNDER THE IMPRESSION THAT THEY COULD
 NOT BE USED AS COLLATERAL FOR FEDERAL RESERVE NOTES PERIOD

YOUR PROMPT RESPONSE WILL BE APPRECIATED RAMSAY CHAIRMAN

650

TELEGRAM

FEDERAL RESERVE BOARD
WASHINGTON112-26
FEDERAL RESERVE BOARD FILE

332-3

332.3-6

January 26, 1918.

Wold,
Governor Federal Reserve Bank,
Minneapolis, Minn.

Your letter seventeenth. Sale and repurchase agreement suggested by Board was intended to avoid use of revenue stamps on short loans maturing within fifteen days. Law does not provide for banks borrowing longer than fifteen days and Board doubts its power to authorize sale and repurchase agreements for longer periods. Board has been asked to permit Federal Reserve banks to rediscount member banks ninety day notes secured by government bonds but has been unable to find any legal authority for this. Even if your suggestion were approved banks statements would soon show large amount of government bonds owned and it would not be advisable to have statements show amounts carried under repurchase agreement separated from banks own holdings. Statement showing large amount of government bonds held would create bad impression. Altogether Board deems it inexpedient at this time to authorize transactions under ~~purchase and sale~~ repurchase and sale agreements for longer than fifteen days.

Harding.

See circular

332.3-6

272

No. 1018

Date Jan. 25, 1918.

FEDERAL RESERVE BOARD

MEMORANDUM

For Mr. Harding

At a meeting of the Federal Reserve Board on Jan. 25, the following matter was referred to you (as Chairman, Committee on " " (as member, " " (as

for reply:

The attached letter of Governor Wold, Jan. 17, and other correspondence, relative to sale and re-purchase agreement at Minneapolis.

A. P. Wolfe
Secretary.

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

Date Jan 11 1918

Documents _____

Signature [Signature]

2

Refer to document
Federal Reserve Board,

Washington, January 24, 1918.

Memorandum for the Board:
in re Sale of Bonds at
Minneapolis under Agree-
ment to re-purchase.

3323-6

211718

Governor Wold's question raises some points which we should not overlook:

First: the sale and repurchase agreement suggested by us was devised to help the banks over the difficulty created by the 2¢ stamp, which on very short loans made quite a difference in the interest rate. On loans running beyond fifteen days, however, the stamp does not cut so much of a figure. The law provides that banks may borrow on their fifteen day notes secured by Government bonds, and if we permitted purchase and resale agreements in excess of fifteen days we would, as a matter of fact, get beyond what our fifteen day note contemplated. There is quite a demand for our granting permission to Reserve banks to rediscount member banks' ninety days notes secured by Government bonds, but we have not been able to do this under any legal construction. It could be done, of course, under purchase and resale agreement, but we should be quite clear about what we would be doing in that case. Personally, I am opposed to it because we would then soon show a very large item in "Government bonds owned" by the Federal Reserve Banks and it would be impracticable in our statements to keep these bonds owned under repurchase agreement apart

(2)

from the banks' own holdings. Such large holdings would make a bad impression. Moreover, I think Federal Reserve Banks are, as it stands now, being used very freely for the carrying of Government bonds, and my personal impression is that we should avoid being drawn any deeper into the matter than is absolutely necessary.

Respectfully submitted:

Paul W. Walker
.....

To the
Federal Reserve Board.

*

FEDERAL RESERVE BOARD
WASHINGTON

M.C. ELLIOTT
COUNSEL

Refer to
Comm. no 2
REC. 332.3-6
JAN 22 1918
GOVERNOR'S OFFICE

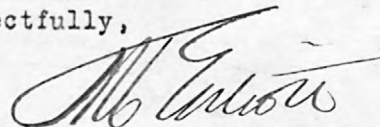
January 22, 1918.

My dear Governor:

1/17/18
In the accompanying letter Mr. Wold, Governor, Federal Reserve Bank of Minneapolis, makes the suggestion that where banks, in order to obtain temporary accommodation, sell Government Bonds to Federal reserve banks under agreement to re-purchase, it would prove a convenience if the date of re-purchase could be fixed at 30 or 60 days, instead of at 15 days under the present plan.

((From a purely technical standpoint this could, no doubt, be done legally. I am taking the liberty of suggesting, however, that a sale under an agreement of re-purchase is not a desirable form of banking transaction under ordinary circumstances. It was permitted in the present case in order to allow banks to obtain accommodation for 15 days without incurring expense incident to discount of renewal 15 day notes, which is imposed on such banks by the recent Revenue Act. It is assumed that the practice will be discontinued if the Revenue Act is amended. The Board should, therefore, consider the question of policy involved and determine whether such a ruling would not establish an undesirable precedent.

Respectfully,


Counsel.

Honorable W. P. G. Harding,
Governor, Federal Reserve Board.

#2

FEDERAL RESERVE BANK OF MINNEAPOLIS

332.3-6

NINTH DISTRICT

OFFICERS

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

DIRECTORS

JOHN H. RICH, CHAIRMAN
MINNEAPOLIS, MINN.
W. H. LIGHTNER, DEPUTY CHAIRMAN
ST. PAUL, MINN.
J. C. BASSETT, ABERDEEN, S. DAKOTA
F. R. BIGELOW, ST. PAUL, MINNESOTA
JOHN W. BLACK, HOUGHTON, MICH.
E. W. DECKER, MINNEAPOLIS, MINN.
L. B. HANNA, FARGO, N. DAKOTA
F. P. HIXON, LACROSSE WISCONSIN
N. B. HOLTER, HELENA, MONTANA

CURTIS L. MOSHER, ASST. FEDERAL RESERVE AGENT

January 17, 1918.

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

RECEIVED
JAN 21 1918
GOVERNOR'S OFFICE

Dear Governor Harding:

Enclosed herewith find a copy of a Purchase and Re-Sale Agreement, which we are using with member banks desiring to use funds for fifteen days on Government securities. A fifteen day period, however, is so short when taking into consideration the distance some of these borrowing banks are located from this office, that we are wondering whether your Board has any objection to our lengthening that time to thirty or sixty days, in case the bank desires to use the funds for that period.

Please wire me your conclusions, and oblige,

Yours very truly,

Thompson
Governor

TW-C

[Handwritten signature]

PURCHASE AND RE-SALE AGREEMENT, UNITED STATES BONDS AND CERTIFICATES OF INDEBTEDNESS

TO BE EXECUTED BY MEMBER BANKS IN CONNECTION WITH SHORT TIME ADVANCES FOR PERIODS NOT EXCEEDING 15 DAYS

FEDERAL RESERVE BANK OF MINNEAPOLIS,
MINNEAPOLIS, MINN.

DEAR SIRs:

We hand you herewith United States Government Bonds and Certificates of Indebtedness listed below, aggregating face value \$....., all payable to bearer or, if registered, properly endorsed for transfer. We hereby sell said bonds and certificates to you for the sum of \$....., less your current discount on bills secured by such bonds and certificates, for.....days. We agree to purchase back said bonds and certificates on the.....day of....., 19....., for the sum of \$.....

In the event you purchase said bonds and certificates, you are hereby authorized and directed to pass the proceeds thereof to our credit with your bank; and upon the.....day of....., 19....., you are hereby authorized to charge our account with said sum of \$.....and return said bonds and certificates to us.

Respectfully,

Dated.....1918.

.....

of.....

By.....

Cashier.

SCHEDULE OF UNITED STATES GOVERNMENT BONDS AND (OR) CERTIFICATES OF INDEBTEDNESS OFFERED UNDER THE PURCHASE AND RE-SALE AGREEMENT EXECUTED ABOVE.

U. S. BONDS OR CERTIFICATES	MATURITY	AMOUNT

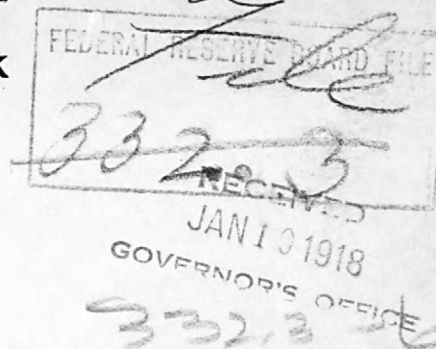
FEDERAL RESERVE BOARD

My dear Governor

Mr. Wood suggests that
when bonds are sold under agreement
to repurchase it would prove a
great error if there were to
be a rise in 3 or 60 days

From a purely technical
point this is no doubt to
be done but as the purpose of
this agreement is to return
to normal

4
FEDERAL RESERVE BANK
OF CLEVELAND



January 8, 1918.

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

My dear Governor Harding:

The amount of certificates of indebtedness we have taken from member banks under re-purchase agreement, in lieu of their short time collateral notes, amounts to approximately \$37,000,000 tonight, and if this amount increases materially within the next few days we may be obliged to discontinue this practice, for the reason that there will not be sufficient eligible paper in our files to hypothecate with the Federal Reserve Agent against outstanding Federal Reserve Notes.

It is to be hoped, therefore, in view of the Board's interpretation of the law as stated in your letter of December 31, that the Revenue Bill will be promptly amended so as to exempt from the stamp tax collateral notes of member banks discounted at the Federal Reserve Bank. Otherwise we will not be able to continue the accommodation to our member banks except with collateral note duly stamped.

Very truly yours,

H. Sewell
for Governor.

F-W-MM.

1/12

Form of purchase of coll. notes
of

#4

RESERVE BOARD FILE
~~332 3~~

332.3-6

December 31, 1917.

Mr. E. R. Fancher,
Governor Federal Reserve Bank,
Cleveland, Ohio.

Dear Governor Fancher:

I acknowledge receipt of your letter of the 29th instant relating to the certificates of indebtedness which your banks have purchased from members upon agreements for sale and repurchase. Your suggestion that your bank be permitted in case of need to utilize these repurchase agreements as collateral for Federal Reserve notes was submitted to the Board at the meeting this morning, but it feels that the law does not permit such use of these agreements. Consequently, if you should need additional notes, it would be necessary for you to take collateral notes from some of the member banks, with the certificates as security.

The Board hopes that after Congress reconvenes, the revenue law will be amended so as to exempt collateral notes from member banks discounted by Federal Reserve banks from the stamp tax.

Very truly yours,

Governor.

FEDERAL RESERVE BANK
OF CLEVELAND

332-3-6

December 28, 1917

Federal Reserve Board,

Washington, D. C.

Gentlemen:-

During the current week this bank reached the peak in the accommodation afforded to member banks, the aggregate of discounts and advances being a little above \$85,000,000. Of the accommodations to member banks, the amount of advances upon agreements for sale and re-purchase of Certificates of Indebtedness of the United States aggregated \$34,000,000. I enclose a copy of the form of this agreement with the accompanying blank schedule.

There is, perhaps, some question, under strict interpretation of the Act, whether these agreements are eligible as collateral security for Federal Reserve Notes, but in view of the fact that they are definite obligations of the member bank, and are taken by the Federal Reserve Bank in lieu of and as substitute for collateral notes for advances authorized under Section 13 of the Federal Reserve Act, which collateral notes are so eligible, it seems to us that a liberal view might well be taken of the conditions, and since the obligations are short-lived, their acceptance as collateral for note issues authorized.

It is conceivable that a situation might well arise where this bank would be unduly hampered in the matter of available collateral for additional note issues by reason of an increased amount of these re-purchase agreements, provided they should not be acceptable. For instance, now, with \$50,000,000. of eligible paper pledged with the Agent, and say \$55,000,000. of gold collateral in his hands, without making use of any part of the \$33,000,000. of these re-purchase agreements, it is difficult for this bank to make necessary substitutions for paper now pledged with the Agent, and to pledge

Federal Reserve Board, Washington.

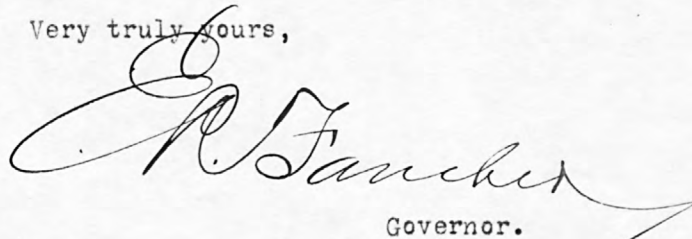
December 28.

additional paper in exchange for gold, in order to equalize the reserves as desired by the Federal Reserve Board. The work of our Discount Department has been so extremely burdensome during the past month that these adjustments and substitutions have really been hardships, and it is impossible to pick out and schedule the smaller pieces of paper.

Accordingly, until this stress of condition is relieved, which we think will not last longer than shortly after the fifteenth of January, in order to conform to the Board's request for equalization of gold reserves against net deposit liability and note issues, your authorization to utilize these re-purchase agreements as collateral for Federal Reserve Notes is respectfully requested.

Very truly yours,

Encl.
F:M:Mc


Governor.

(7/3)



AGREEMENT FOR SALE AND RE-PURCHASE OF CERTIFICATES OF
INDEBTEDNESS OF THE UNITED STATES OF AMERICA.

PLACE

DATE

To the Federal Reserve Bank of Cleveland :

We hereby offer to sell to you Certificates of Indebtedness of the United States of America, listed on the attached schedule submitted herewith, of an aggregate par value of

.....Dollars,
at par less discount at.....% for..... days.

Upon your acceptance of this offer, you will forthwith credit the purchase price to our account with you, and thereupon we shall be irrevocably bound to re-purchase said certificates from you, at par, days after the date on which you credit our account with the proceeds of said sale to you. In the event we fail so to do, you are hereby authorized, at the close of business on the day on which we agree to re-purchase said certificates, to charge our account with the par value thereof, and return said certificates to us at our expense.

Bank

Place

By

SCHEDULE OF CERTIFICATES OF INDEBTEDNESS OF THE UNITED STATES
OF AMERICA DELIVERED TO FEDERAL RESERVE BANK OF CLEVELAND
UNDER SALE AND RE-PURCHASE AGREEMENT DATED _____

CERTIFICATE
NUMBER

RATE

DATE OF ISSUE

MATURITY

AMOUNT

FEDERAL RESERVE BOARD FILE
332 3
332.3-6

FEDERAL RESERVE BANK OF CHICAGO

79 WEST MONROE STREET

OFFICERS

JAMES B. McDUGAL GOVERNOR
C. R. McKAY DEPUTY GOVERNOR
W. F. McLALLEN SECRETARY
B. G. McCLOUD CASHIER
S. B. CRAMER ASST. CASHIER

DIRECTORS

W. A. HEATH CHAIRMAN AND FEDERAL RESERVE AGENT	W. F. McLALLEN DEPUTY FEDERAL RESERVE AGENT
J. W. BLODGETT GRAND RAPIDS, MICH.	E. L. JOHNSON WATERLOO, IOWA
J. B. FORGAN CHICAGO, ILLINOIS	E. T. MEREDITH DES MOINES, IOWA
M. B. HUTCHISON OTTUMWA, IOWA	G. M. REYNOLDS CHICAGO, ILLINOIS
A. H. VOGEL MILWAUKEE, WISCONSIN	

December 27, 1917.

Mr. Paul M. Warburg, Vice-Governor,
Federal Reserve Board,
Washington, D. C.

My dear Mr. Warburg:

On receipt of your letter of the 21st instant,
expressing approval of our form as submitted for use in
the purchase and re-sale of United States bonds and Certi-
ficates of Indebtedness, we released the same to our member
banks. No further use will be made of the form originally
prepared and concerning which objections were pointed out
in your letter of December 13th, addressed to Mr. Heath.

Very truly yours,

K.


Governor.

*By
Fraser*

#3

FEDERAL RESERVE BOARD FILE
~~332-3~~

332.3-6

December 22, 1917.

Mr. Chas. J. Rhoads,
Governor Federal Reserve Bank,
Philadelphia, Penna.

Dear Governor Rhoads:-

I acknowledge receipt of your letter
of the 21st instant enclosing form of rediscount
and repurchase agreement, which I have submitted
to counsel who concurs with me in the view that
it is satisfactory.

Very truly yours,

Governor.

#7
FEDERAL RESERVE BOARD FILE
~~337.3~~
3323-6

December 31, 1917.

Dear Governor McDougal:

I have your letter of December nineteenth, enclosing form of agreement that you propose to print for use in case of purchase of and re-sale of United States bonds and certificates of indebtedness.

I had this looked over by counsel, and I am informed that they have no suggestions to make. It appears to be in good shape.

Very truly yours,

J. B. McDougal, Esq.,
Governor, Federal Reserve Bank,
Chicago, Illinois.

JW
Approved by
Harding &
Hamm.

Dec. 21, 1917.

Dear Mr. Warburg:

The attached agreement seems to be in proper form and I have no further suggestions to make.

Respectfully,
G. Harmon

332.3-6

FEDERAL RESERVE BANK OF PHILADELPHIA

408 CHESTNUT STREET

CHARLES J. RHOADS
GOVERNOR
EDWIN S. STUART
DEPUTY GOVERNOR
FRANK M. HARDT
DEPUTY GOVERNOR AND CASHIER
THOMAS GAMON, JR.
ASSISTANT CASHIER
C. A. MCILHENNY
ASSISTANT CASHIER

RICHARD L. AUSTIN
CHAIRMAN OF THE BOARD AND
FEDERAL RESERVE AGENT
HENRY B. THOMPSON
DEPUTY CHAIRMAN OF THE BOARD
ARTHUR E. POST
ASSISTANT FEDERAL RESERVE AGENT

December 21, 1917.

Dear Sir:

Referring to your letter of December 1st
and December 6th relating to agreements covering
the rediscount and repurchase of eligible commer-
cial paper, I beg to submit the enclosed form for
approval, which is based on a Richmond form, but
slightly modified in accordance with the views of
our counsel.

Trusting that it will be found satis-
factory, I remain,

Yours truly,

C. J. Rhoads
Governor.

HON. W. P. G. HARDING,
Governor, Federal Reserve Board,
Washington, D.C.



CJR-R

enc.

12/22

We hereby offer for rediscount the bills and notes listed in the foregoing application, with the understanding that we agree on or before _____ to pay you the face value of said bills and notes, and that you agree to accept such payment and thereupon return the said notes to us.

If such payment is not made before _____ you are hereby authorized and instructed to charge to our account on said date the face value of said bills and notes, and to hold said bills and notes for collection for our account, subject to our order.

(Signature of authorized officer)

X

FEDERAL RESERVE BANK OF CHICAGO

79 WEST MONROE STREET

332.3-6

OFFICERS

JAMES B. McDOUGAL GOVERNOR
C. R. McKAY DEPUTY GOVERNOR
W. F. McLALLEN SECRETARY
B. G. McCLOUD CASHIER
S. B. CRAMER ASST. CASHIER

DIRECTORS

W. A. HEATH
CHAIRMAN AND FEDERAL RESERVE AGENT
J. W. BLODGETT GRAND RAPIDS, MICH.
J. B. FORGAN CHICAGO, ILLINOIS
M. B. HUTCHISON OTTUMWA, IOWA
A. H. VOGEL MILWAUKEE, WISCONSIN
W. F. McLALLEN
DEPUTY FEDERAL RESERVE AGENT
E. L. JOHNSON WATERLOO, IOWA
E. T. MEREDITH DES MOINES, IOWA
G. M. REYNOLDS CHICAGO, ILLINOIS

December 19, 1917.

Mr. Paul M. Warburg, Vice-Governor,
Federal Reserve Board,
Washington, D. C.

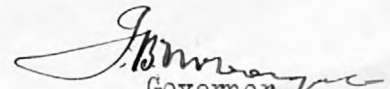
My dear Mr. Warburg:

At the meeting of our Executive Committee held yesterday, consideration was given to your letter of December 13th addressed to Mr. Heath, in which attention is called to the form application which we recently put out, intended for short time advances against commercial paper of longer maturities, and also against Government Bonds and Certificates of Indebtedness.

attached 12/12/17

Noting your suggestion that we confine the use of this form to the matter of the discount of notes, drafts and bills of exchange and that we prepare a separate form for purchase and re-sale to be used in connection with Government securities, we have had prepared by our counsel for the latter purpose a form, copy of which is appended hereto. Before having the same printed we should be pleased to have approval of the suggested form by your Board, upon receipt of which the same will be immediately put into use to supplant the one concerning which the question has been raised.

Very truly yours,


Governor.

K.
Enclosure.

PURCHASE AND RE-SALE AGREEMENT, UNITED STATES BONDS AND CERTIFICATES OF INDEBTEDNESS, to be executed by member banks in connection with short time advances for periods not exceeding 15 days.

Federal Reserve Bank of Chicago,
Chicago,
Illinois.

Gentlemen:

We hand you herewith United States Government Bonds and Certificates of Indebtedness listed on the annexed schedule aggregating face value of \$ _____, all payable to bearer or, if registered, properly endorsed for transfer. We hereby propose to sell said bonds and certificates to you for the sum of \$ _____, less your current discount on bills secured by such bonds and certificates, for _____ days, PROVIDED, you will re-sell said bonds and certificates to us on the _____ day of _____, 19____, for the sum of \$ _____, for which sum we obligate ourselves to re-purchase the same on said date.

In the event you accept our proposition herewith made to purchase said bonds and certificates, you are hereby authorized and directed to pass the proceeds thereof to our credit with your bank; and upon the _____ day of _____, 19____, you are hereby authorized to charge our account with said sum of \$ _____ and return said bonds and certificates to us.

Your acceptance of said bonds and certificates shall constitute your binding agreement to comply with the terms hereof.

Respectfully,

Bank

(Draw lines through
titles not used)

By _____
CASHIER PRESIDENT VICE PRESIDENT

Copied for B. [redacted]

[Handwritten initials]

**TELEGRAM
FEDERAL RESERVE BOARD
WASHINGTON**

[Handwritten scribbles]

2457
FEDERAL RESERVE BOARD FILE
332.3-6

December 18, 1917.

332.3-6

Wellborn,
Federal Reserve Agent,
Atlanta, Georgia.

Bonds purchased from member banks under repurchase agreement
cannot be used as collateral for Federal Reserve notes. Should
you have need for notes against such security, you would be
obliged to insist on collateral fifteen day note from the member
bank concerned.

HARDING.

#7

FEDERAL RESERVE BOARD FILE
332.3
3323-6

FEDERAL RESERVE BANK OF CHICAGO

79 WEST MONROE STREET

OFFICERS

JAMES B. McDOUGAL GOVERNOR
C. R. MCKAY DEPUTY GOVERNOR
W. F. McLALLEN SECRETARY
B. G. McCLOUD CASHIER
S. B. CRAMER ASST. CASHIER

DIRECTORS

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CHAIRMAN AND FEDERAL RESERVE AGENT
J. W. BLODGETT GRAND RAPIDS, MICH.
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A. H. VOGEL MILWAUKEE, WISCONSIN
W. F. McLALLEN
DEPUTY FEDERAL RESERVE AGENT
E. L. JOHNSON WATERLOO, IOWA
E. T. MEREDITH DES MOINES, IOWA
G. M. REYNOLDS CHICAGO, ILLINOIS

December 17, 1917.

Mr. Paul M. Warburg, Vice Governor,
FEDERAL RESERVE BOARD,
Washington, D.C.

Dear Mr. Warburg:

I am in receipt of your letter of
the thirteenth instant, which refers to application
form issued by our bank for discounts of fifteen
days or less.

*attached
12/12/17*

The comments and suggestions embodied
in your letter will have our attention.

Yours truly,

Chairman.

H/S.

#7

11 26
RESERVE BOARD FILE
~~332-3~~
332.3-6

December 13, 1917.

Dear Mr. Heath:

Attached 2/12/17

The Board received a copy of the application form issued by your bank for discounts of fifteen days or less of commercial paper of longer maturities which was occasioned by the going into effect of the war stamp tax.

In that circular your bank says:

"TheBank ofhereby makes application for the discount, ofor ... days, of notes, drafts, bills of exchange and United States Government bonds or Certificates of Indebtedness aggregating \$..., listed below. You are hereby authorized to charge each and every item thereof to our account at the expiration of ... days. We reserve the right from time to time to substitute for any of said items other items satisfactory to you."

I want to draw your attention to the fact that your bank has no power to discount United States Government bonds or certificates of indebtedness and purchases of these Government bonds and certificates of indebtedness could hardly be classified under discounts but would come under "Government securities". I suggest, therefore, that you change the form in use so as to include only the discount of notes, drafts and bills of exchange, and that for dealings in Government bonds and certificates you use a different form. In that case it is a purchase

(2)

with a repurchase agreement on the part of the seller.

Very truly yours,

Vice-Governor.

W. A. Heath, Esq.,
Federal Reserve Agent,
Chicago, Illinois.

FEDERAL RESERVE BOARD

3323-6

WASHINGTON

December 12, 1917.

Dear Mr. Warburg:

I have considered the attached circular issued by the Federal Reserve Bank of Chicago in reference to the discount, for fifteen days or less, of commercial paper of longer maturities.

The circular appears to be in proper form except for the fact that the wording of the first sentence of the application is technically incorrect. A Federal reserve bank can acquire promissory notes only under the provisions of Section 13, that is, by the process of rediscount. It can acquire Government obligations only under the provisions of Section 14, that is, by purchase. To make application for the "discount for _____ days of notes, drafts, bills of exchange, and United States Government bonds" cannot, therefore, technically speaking, be correct, because if the word "discount" is intended to mean "rediscount" so as to apply to promissory notes, it cannot apply to Government bonds. On the other hand, if the word "discount" is intended to mean "purchase" it cannot properly be applied to promissory notes. It is suggested, therefore, that in order to avoid any ambiguity and possible complications in the future the application should be reworded as follows so as to eliminate Government obligations:

"The _____ Bank of _____ hereby makes application for the rediscount for _____ days of the notes, drafts, and bills of exchange, aggregating \$ _____ Dollars, listed below," etc.

The Richmond Bank is the only other bank which has forwarded to the Board a copy of its circular on this subject. Its circular applies only to eligible paper and not to Government obligations and appears to be in proper form.

Respectfully,



Hon. P. M. Warburg,
Vice Governor.

If it is desired to sell U. S. bonds under a repurchase agreement a separate application should be filed stating terms of repurchase. G.H.

APPLICATION FOR DISCOUNT, FOR 15 DAYS OR LESS, OF BILLS OF LONGER MATURITY

INSTRUCTIONS (READ CAREFULLY)

- 1.—Commercial and Industrial Notes must mature within ninety days from the date offered. Agricultural and Live Stock paper must mature within six months from the date offered. All paper submitted must have a definite maturity; therefore demand notes are not eligible.
- 2.—Opposite each name under *character* indicate whether note represents loan to depositor, is purchased paper, or paper rediscounted for another bank. Abbreviate Depositor (D), Purchased Paper (P), Paper Rediscounted (R).
- 3.—If the amount of the obligations of a borrower offered for rediscount is equal to or in excess of ten per cent of your paid-in capital, and in any event if the amount is in excess of \$5,000, financial statements should be available.
- 4.—Notes, drafts or bills of exchange offered for rediscount should be endorsed by member bank in the following form:

Proper execution of this form is the only requirement necessary in offering paper except we reserve the privilege of asking for additional information or for copies of financial statements where they are on file.

By _____ President
or
Cashier.

FIRST NATIONAL BANK OF BLANKVILLE, ILLINOIS.

To the FEDERAL RESERVE BANK
of Chicago

191_____

The _____ Bank of _____

hereby makes application for the discount, for _____ days, of notes, drafts, bills of exchange and United States Government bonds or Certificates of Indebtedness aggregating \$ _____, listed below. You are hereby authorized to charge each and every item thereof to our account at the expiration of _____ days. We reserve the right from time to time to substitute for any of said items other items satisfactory to you.

MAKER	ADDRESS	BUSINESS	Estimated Net Worth	Maturity	Character See Instruc- tion 2	Have you Statement on File?	Amount

Total, \$ _____

I certify that, to the best of my knowledge and belief, the notes, drafts or bills of exchange listed in the foregoing schedule, were made for commercial, industrial, agricultural or live stock purposes and are eligible for rediscount with the Federal Reserve Bank.

The liability of this bank at the present time for borrowed money, exclusive of the above offering, is as follows:

Rediscounts, \$ _____ Bills Payable, \$ _____ Certificates of Deposit issued for money borrowed, \$ _____

_____ Cashier.

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

FEDERAL RESERVE BOARD

WASHINGTON

December 1, 1917.

X-545

W. P. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. DELANO
ADOLPH C. MILLER
CHARLES S. HAMLIN
H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

FEDERAL RESERVE BOARD
3320

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

3323-6

Dear Sir:

On November 28, 1917, the Federal Reserve Board forwarded to you the following telegram:

"Board has been advised that promissory notes of member banks are subject to stamp tax. Stop. Legislation necessary to obtain exemption. Stop. Eligible commercial paper, however, may be rediscounted by member banks with Federal Reserve Banks without any additional stamps. Stop. If Federal Reserve Banks desire to do so they may resell such paper with customary rebate of unearned discount.

HARDING, Governor."

In view of the fact that the stamp tax imposed by the War Revenue Act has been held to apply to the promissory notes of member banks on which short time advances are made by Federal Reserve Banks under the provisions of Section 13 of the Federal Reserve Act, and in view of the fact that this tax practically prohibits this form of short term borrowings by member banks at a time when such borrowings are most necessary as an incident to the successful loan operations of the Government, every proper effort will be made to secure an amendment effecting the requisite exemption.

Pending consideration of such an amendment by Congress, member banks may properly obtain short time advances from Federal Reserve Banks, by rediscounting eligible commercial paper, of longer maturities, under an agreement by which the reserve bank will resell and the member bank repurchase on whatever date may be

See indexed copy filed
112.26-21

X-545

- 2 -

agreed upon by both parties. The unearned discount may be rebated in the usual manner.

It is suggested by the Board, however, that, in order, to expedite these rediscount operations and to simplify the bookkeeping incident to such operations so that they will be practicable during the rush and pressure of the banks' activities in connection with the payment of the next installment of the Liberty Loan subscriptions, Federal Reserve Banks may adjust the rebate of discount in advance. That is, instead of deducting interest for the full period of the note or bill when making the credit in favor of the member banks, the reserve bank may charge interest only for the period covered by the agreement, that is, from the date of rediscount to the date of repurchase. Or the reserve bank may, if it desires, credit the member bank with the full amount of the paper rediscounted at the time of making the rediscount and at the date of repurchase charge the member bank with that amount plus the amount of discount earned up to the date of repurchase.

It should also be understood that the Federal Reserve Banks may further aid the situation by purchasing, either from member or non-member banks, notes or bonds of the United States under similar agreements of resale.

Respectfully,

Governor.

Federal Reserve Agent,

#5

FEDERAL RESERVE BOARD FILE
11/26
~~332-3~~

FEDERAL RESERVE BANK OF RICHMOND,
FIFTH DISTRICT

OFFICERS

GEORGE J. SEAY, GOVERNOR
CHAS. A. PEPE, DEPUTY GOVERNOR
GEORGE H. KEESEE, CASHIER
C. V. BLACKBURN, ASST. CASHIER
THOMAS MARSHALL, JR., ASST. CASHIER

DIRECTORS

CALDWELL HARDY,
CHAIRMAN AND FEDERAL RESERVE AGENT
H. B. WILCOX, BALTIMORE, MD.
JAS. F. OYSTER, WASHINGTON, D. C.
JOHN F. BRUTON, WILSON, N. C.
EDMUND STRUDWICK, RICHMOND

JAMES A. MONCURE,
DEPUTY FEDERAL RESERVE AGENT
EDWIN MANN, BLUEFIELD, W. VA.
D. R. COKER, HARTSVILLE, S. C.

332.3-6

December 1, 1917.

RECEIVED
DEC 8 - 1917
GOVERNOR'S OFFICE

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

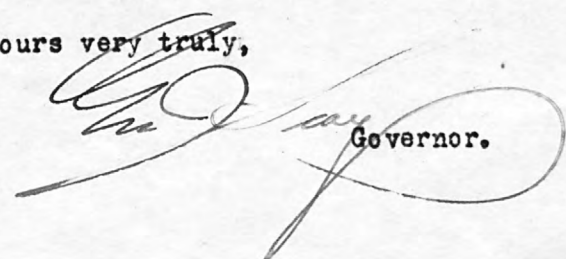
My dear Governor Harding:-

I am writing to acknowledge your telegram relating to the Stamp Tax on Promissory Notes and defining the conditions under which we can purchase notes of any maturity under agreement to re-sell the notes to member banks.

The understanding conveyed to me over the 'phone that we can accept these notes from member banks in a lump sum, and handle and report them in a lump sum to the Board will meet the emergency fully, and render it possible for us to grant relief to the member banks, whereas I do not think it would be possible if we had to handle the notes one by one, put them up with the agent and take them down, and report to the Board in detail.

I am sure the member banks will appreciate this very highly.

Yours very truly,



Governor.

GJS-K

Handwritten initials and date: GJS-K, 11/26/17

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

RECEIVED AT WASHINGTON, D. C.,

3265
Dr
5/8/22
82/L
337-3-6
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248fs

KansasCity Dec 1 310P

Board

Washington

Federal Land Bank of Omaha desires to sell us eleven and one half million dollars Liberty Bonds under repurchase agreement. Please wire whether Board would consider a transaction of this nature with Federal Land Bank or any one other than a member bank as authorized under Federal Reserve act. If so, please advise how such bonds should be carried on our records and reports to Federal Reserve Board. Understand similar repurchase agreements have been reported by other banks as bonds owned. Will appreciate early reply

Bailey

443PM

BOARD MEETING
DEC 5 - 1922

*Re Whole matter
is under consideration
but interfere no objection
& carry as bonds owned*

TELEGRAM
FEDERAL RESERVE BOARD
WASHINGTON

112 26
FEDERAL RESERVE BOARD FILE

332.3
November 30, 1917.
332.3-6

PLEASE SEND FOLLOWING TELEGRAM

TO ~~THE FEDERAL RESERVE AGENTS OF~~ THE FEDERAL RESERVE BANKS OF:

Boston, Mass.

Chicago, Ill.

New York, N. Y.

St. Louis, Mo.

Philadelphia, Penna.

Minneapolis, Minn.

Cleveland, Ohio

Kansas City, Mo.

Richmond, Va.

Dallas, Texas

Atlanta, Ga.

San Francisco, California.

and to the branch Federal Reserve Bank, New Orleans, Louisiana.

Promissory notes of member banks are subject to stamp taxes December first stop Efforts will be made to have Congress exempt them, but pending action and until further notice Board suggests that member banks obtain short time advances from Federal Reserve banks by rediscounting eligible commercial paper of longer maturities, under repurchase agreement by member bank on whatever date may be agreed upon stop Federal Reserve banks may adjust rebate of discount in advance so instead of deducting interest for full period of note when making credit in favor of member bank, Reserve bank may charge interest only for the period covered by the agreement, that is, from date of discount to date of repurchase; or Reserve bank may credit member bank with full amount of paper rediscounted at time transaction is made, and on date of repurchase charge member bank with that amount plus amount of discount earned up to date of repurchase. Reserve banks may purchase from member banks United States bonds and Treasury certificates subject to repurchase agreement by member bank on given date.

Harding.

5

FEDERAL RESERVE BOARD FILE

FEDERAL RESERVE BANK OF RICHMOND

FIFTH DISTRICT

OFFICERS

GEORGE J. SEAY, GOVERNOR
CHAS. A. PEPE, VICE GOVERNOR
GEORGE H. KEESEE, CASHIER

CALDWELL HARDY,
CHAIRMAN AND FEDERAL RESERVE AGENT
H. B. WILCOX, BALTIMORE, MD.
JAS. F. OYSTER, WASHINGTON, D. C.
JOHN F. BRUTON, WILSON, N. C.
EDMUND STRUDWICK, RICHMOND

DIRECTORS

JAMES A. MONCURE,
DEPUTY FEDERAL RESERVE AGENT
EDWIN MANN, BLUEFIELD, W. VA.
M. F. H. GOUVERNEUR, WILMINGTON, N. C.
D. R. COKER, HARTSVILLE, S. C.

3323-6

November 28th, 1917.

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

RECEIVED
NOV 30 1917
GOVERNOR'S OFFICE

Dear Governor Harding:

We to-day received your telegram suggesting that in order to meet the needs of member banks for a few days at a time as a substitute for discounting M.B.C. notes, we might take the bills receivable and sell them back to them -- in effect allow them a rebate of interest.

We were discussing that very point when your telegram arrived. That plan would involve handling bills receivable submitted to us one by one and putting them through our records, and would involve a rebate on each individual note when sold back to them, which entails much more work than the original discount bill. This would be a very burdensome arrangement. We should have to furnish the Board with all the details of these transactions, which would burden your statistical department as well as ourselves.

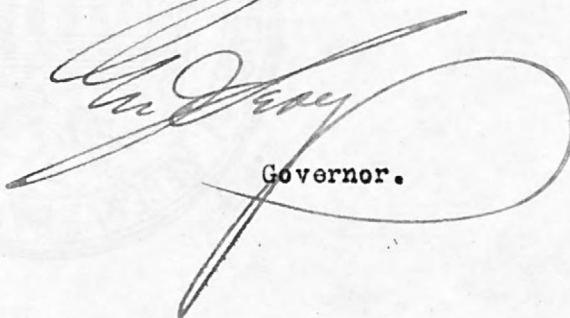
Is it possible for us to discount -- say -- \$250,000. of paper, or whatever the paper presented might amount to for five days, say. You know that we handle bill of lading drafts, which take an indefinite time for collection and charge for the time required to collect the drafts.

We would receive therefore from a member bank \$500,000. worth of paper, all of which we would list regularly on our discount sheets and report to the Board if required in detail, but the entire amount of bills

would be discounted -- say -- for five days, and according to the records would have a five days' maturity. This would require no selling back to the bank or rebating. Or we could discount the aggregate amount of all the bills offered in one lump sum with the five days' maturity.

Can the above suggestion be legally carried out, and would the Board approve it?

Very truly yours,



Governor.



2

#11

FEDERAL RESERVE BANK
OF DALLAS

November 28, 1917.

FEDERAL RESERVE BOARD FILE
112.26

332.3-6

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

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

My dear Governor:

I am this moment in receipt of your telegram of this date with reference to tax on member bank collateral notes and the fact that the bank may resell notes discounted with customary rebate of unearned discount.

The imposition of this government tax on direct notes will, undoubtedly, stop the practice of member banks securing credit on their direct obligations. However, this will not, I think, very seriously interfere with the useful service we are rendering them. These notes are now rapidly running off with the movement of cotton, which is continuing, and there will not be much occasion for their further use. *for the present*

Yours very truly,

W. F. Ramsey
Federal Reserve Agent.



#12

FEDERAL RESERVE BOARD FILE
112 26
RECEIVED
DEC 4 - 1917
OFFICE
332.3-6

FEDERAL RESERVE BANK
OF SAN FRANCISCO

JOHN PERRIN
CHAIRMAN OF THE BOARD
AND FEDERAL RESERVE AGENT

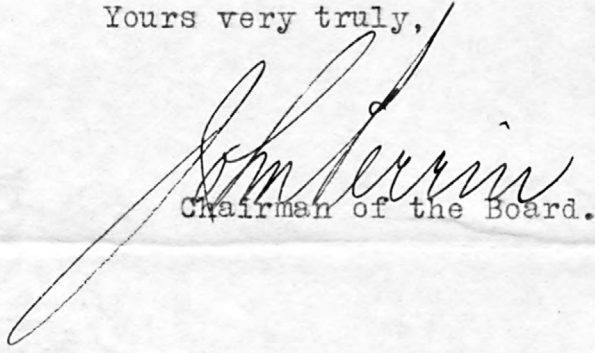
November 28, 1917.

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

My dear Governor:-

I have your telegram of this
date regarding stamp taxes.

Yours very truly,


Chairman of the Board.

JP:FK
CJM

TELEGRAM
FEDERAL RESERVE BOARD
WASHINGTON

712-26
FEDERAL RESERVE BOARD FILE
337 3

November 28, 1917.

3323-6

SEND THE FOLLOWING TO THE FEDERAL RESERVE AGENTS AT FEDERAL
RESERVE BANKS OF:

- | | |
|---------------|-------------|
| Boston, Mass. | Chicago |
| New York | St. Louis |
| Philadelphia | Minneapolis |
| Cleveland | Kansas City |
| Richmond | Dallas |
| Atlanta | |

Board has been advised that promissory notes of member banks are
 subject to stamp tax Stop Legislation necessary to obtain exemption
 Stop Eligible commercial paper, however, may be rediscounted by
 member banks with Federal Reserve banks without any additional stamps
 Stop If Federal Reserve banks desire to do so they may resell such
 paper with customary rebate of unearned discount.

HARDING

Governor.

0

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