

332.3-6 - Repurchase Paper

(1924 - ¹⁹⁵⁸~~DATE~~)

Discount Rates - Operations of FRBanks

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REC'D RECORDS SECTION
MAY 22 1958
May 16, 1958

Mr. Young

Earl C. Hald

Report of the New York Clearing
House Association on government
security dealer financing.

332,3-6 1c

The core of this report is an attack on the use by government security dealers of repurchase agreements negotiated with corporations as a partial means of financing their government security inventories. Basically, the money market banks want the Federal Reserve to stop this practice, and preferably also to curtail its own RP's with dealers, thus driving security dealers back to money market banks for their financing needs. The recommendations of the study may be summarized as follows:

(1) Recognize the discount window as the basic source of funds flowing through banks to dealers in periods of unusual dealer needs. This point deals with that indefinable degree to which the Federal Reserve Bank "discourages" member bank borrowing. Essentially, the money market banks want freer access to the discount window "within some reasonable limits" when it is apparent that bank needs result from dealer accommodation.

(2) Encourage dealers to finance their carries by time loans with banks. Implicit in this is discouragement of RP's terminable at the option of the dealer. (See recommendation #7).

(3) Improve availability of securities that dealers may borrow to implement short sales.

(4) Reduce reserve requirements; more specifically, abolish the central reserve city classification.

(5) Restrict Federal funds settlements to banks, thus restoring clearing house settlement as the basic medium for bank customers. Federal Reserve open market operations should be in terms of "regular way" settlements.

(6) "Reconsider the place" of Federal Reserve RP's. They should be made only at rates higher than the rediscount rate. RP's should be made available to member banks.

(7) "Repress" the uses of dealer RP's with corporations. It is argued that these violate Regulation Q, which prohibits payment of interest on demand deposits. Failing this, dealer activity should be subjected to formal licensing, periodic examination, and public reporting. RP's payable on demand should probably be forbidden.

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James B. Eckert

Mr. Young:

- 2 -

In consideration of the above reforms money market banks would undertake to recognize the financing of primary underwriting and clearance operations of dealers as a "normal and necessary" function.

Of the above 7 points, (3) is a technical matter and (4) requires no comment as being unrelated to the problem.

The sum of what is suggested comes very close to a program to force dealers into the money market banks for their borrowing needs. If by declaring them to be in violation of Regulation Q, we prohibit dealer RP's with corporations, establish a rate on Federal Reserve RP's higher than the discount rate, and restrict settlement in Federal funds to banks, dealers will have no practical alternative. The money market banks then wish the dealers to make time loans and to take the proceeds in clearing house rather than Federal funds. This would mean that for those purposes for which the dealers must have Federal funds they will have to borrow one day prior to such a need. It is not too much to say that the writers of this report seek the best of all possible worlds.

Points for and against each of the specific proposals listed above may be summarized:

(1), (6). It is suggested that the discount window be more freely available. In practice, the discount window is always open, but it is clearly essential to Federal Reserve policy that we retain the right to discourage borrowing. If we did not, there would in the extreme case be no control at all except through the discount rate.

Related to this question are the proposals that the Federal Reserve negotiate RP's with dealers only at rates higher than the discount rate, that we extend RP's to member banks, and that dealers not be permitted to negotiate RP's with corporations.

Since the Federal Reserve has a vital interest in the market-making function of dealers, we would of course be required, under the conditions as proposed, to give specific recognition to member bank discount needs resulting from dealer accommodation. Admittedly there is need for a safety valve. Presently we have a direct route to the dealers through RP's. If the dealers had to go to banks, and the banks then to us, it might be argued that the result would be the same; namely that the Federal Reserve under certain conditions makes credit available to dealers, whether directly or indirectly.

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However, on the face of it the direct relationship has obvious advantages to the Federal Reserve. Federal Reserve RP's with dealers serve at least two purposes that would be lost under the proposed reforms: First, RP's are ideally suited for short-term adjustments where the alternative of open market purchases or sales might be somewhat misleading to the market as to the general direction of prevailing open market policy. Second, (and I suspect this is a very important point) the possibility of negotiating RP's with the Federal Reserve keeps dealers constantly informing the trading desk as to their status relative to financing needs. The trading desk would certainly lose something in the area of up-to-the-minute knowledge of the state of the market if the RP practice were discontinued.

Another advantage of the present dealer RP arrangement as compared with dealer accommodation via member bank borrowing from the Federal Reserve is that dealer RP's are negotiated on Federal Reserve initiative. Thus Federal Reserve funds are not readily "available" in the same sense that discount funds are available. To repeat the point made earlier, the ready availability of Federal Reserve funds at the borrower's initiative would greatly weaken the credit control mechanism at times of credit stringency.

Some of the same considerations apply to the suggestion that RP's be made available to member banks. I know of no rationale for substituting RP's for the discount window. If the Federal Reserve offered RP's to member banks at the discount rate, the latter might prefer them over borrowing for reasons of balance sheet appearance (although the recent ruling classifying such transactions as loans argues against this to some extent). But there appears no good reason to rely on a new RP arrangement in addition to the discount window as a means of adjusting member bank reserve positions. It is true, of course, that if the Federal Reserve stopped negotiating RP's with dealers it might find bank RP's convenient from time to time as a means of adjusting to temporary market situations.

(2), (7). These two proposals are clearly related. As pointed out earlier, they would be instrumental in forcing dealers to borrow from member banks, presumably on time loans.

First, as to the legality of dealer RP's with corporations, Federal Reserve counsel has indicated that this would be for Justice Department determination, but that such arrangements do not appear to be illegal under the prohibition of payment of interest on demand deposits. There is no basic reason why we should seek to prevent one private firm from borrowing from another, especially when neither one is a bank. To end this practice would be to revert to a less sophisticated way of doing business. If credit scarcity has stimulated dealers to devise ways to

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Mr. Young:

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utilize the total available funds of the economy more efficiently, why should they be stopped from doing this? Nor is there any reason why corporate lenders should not be allowed to make such use as they please of funds derived from economizing on balances. On the contrary, Federal Reserve policies and operations can and should be (and no doubt have been) adapted to this new development. In fact, the existence of dealer-corporation RP's has created a more closely-knit nationwide money market and it may be argued that the effectiveness of Federal Reserve policy is greater by reason of this mechanism for diffusing the impact of money market conditions throughout the economy more promptly and completely.

Forbidding RP's payable on demand is part of the same package as is the regulation of dealers by licensing, etc. (which would require legislation). Presumably the standards presently used by the Federal Reserve to make sure dealers are responsible, while informally administered, are now operating satisfactorily.

Any or all of the above proposals would, during most periods, raise the cost of dealer financing, thus aggravating the problem of the negative carry, discussed further below.

(5). Restricting Federal funds settlements to banks, and reverting to settlement in clearing house funds would again be a backward step. If firms other than banks desire to transact business in immediate funds, I see no basis for our interference. The related proposal that the Federal Reserve restrict open market transactions to regular way settlement would also be objectionable. We should not give up our present useful alternative of requiring settlement in Federal funds when conditions suggest such settlement.

As pointed out in the January 23 memorandum by Riefler, et. al., the proposals of the study do not attack the problem of the negative carry; that is, the situation prevalent during periods of tight money in which dealers have to borrow at rates exceeding the rate earned on the securities inventoried. (Even with easier money the difference between the bill rate and posted bank rates to dealers has been substantial. During the week of April 21, e.g., there were times when there was a 3/4 per cent differential, and a 1/4 - 1/2 per cent differential between the bill rate and the Federal funds rate.)

It appears that the Open Market Committee has been concerned about the persistence of negative carry, presumably because dealers with small capital relative to inventories may not be able to afford inventories of sufficient size and diversity to give the market desirable "depth, breadth, and resiliency". It has been suggested that the existence of

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Mr. Young:

- 5 -

negative carry is in some sense an unnatural phenomenon; that in accordance with the arbitrage principle banks would sell bills and lend to dealers until the rates are brought together. As I see it, there are practical reasons why negative carry exists and will tend to continue to exist:

First, on the banks' balance sheets and in the scrutiny of bank examiners, dealer loans are loans, while bills are investments with the highest secondary reserve characteristics. Federal Reserve Board examiners confirm the view that bank examiners make little effort to ascribe liquidity to bank loans--even security dealer loans. Thus, if banks do not have a good-sized bill portfolio, they will be deterred for reasons of portfolio balance and balance sheet appearance from moving from bills to dealers loans, even for improved earnings.

Second, while the security which dealers offer is of the best and the loans are highly liquid, banks may hesitate to see too big a spread between the dealer loan rate and the prime rate. After all, borrowers at the prime rate are also credit risks of impeccable character.

Third, the making and servicing of loans may involve greater expense per dollar of return than the direct ownership of bills.

As an offset against these possible disadvantages of dealers loans, it is true that dealer loans do not involve the market risks inherent in the ownership of securities. In the case of bills, however, this factor is probably of minor significance.

In the long run, as the Clearing House study points out, security dealers must expect the carrying of inventories to involve some cost. Like dealers in any other commodity, they must plan to offset these costs against earnings from their buying-selling spread, together with such profits or losses as market movements may bring.

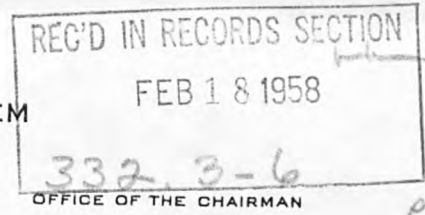
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JAMES B. TICKET



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



February 12, 1958

Honorable Ray M. Gidney,
Comptroller of the Currency,
Washington 25, D. C.

My dear Mr. Gidney:

This is in reply to your letter of February 7 with respect to a sentence suggested for inclusion in the House Banking Committee Report on the proposed Financial Institutions Act of 1957 (S. 1451 and H. R. 7026). You request the Board's views on the following proposed clause regarding paragraph (8) of section 34(b) of Title I:

" . . . nor is it intended that the change in this section [i.e., deletion of the words 'in the form of notes'] shall in any way alter the applicability to security transactions of section 32 of this title."

The Report of the Senate Banking Committee on S. 1451 (S. Rep. No. 121, 85th Cong.) referred specifically to the proposed deletion of "in the form of notes". It pointed out (p. 14) that loans on the collateral of United States securities "often take the form of repurchase or similar agreements. The legal obligation of the obligor under such agreements is considered to be of equal stature with that evidenced by a promissory note. It is therefore the intent of the Congress that any obligation secured as required by this paragraph may qualify for the exception to the usual limitation."

Your Office and the Board of Governors have taken the position that repurchase agreements and similar agreements involving Government securities are loans and not securities transactions, and the Senate Committee Report is in accord with that view. Although the sentence quoted in your letter is ambiguous, nevertheless, in view of the history of the subject, its inclusion in the House Committee Report might plausibly be advanced thereafter as an indication that the House Banking Committee regarded repurchase agreements and similar agreements as "security transactions" and therefore subject to the provisions of section 32 of Title I ("Dealing in securities") rather than to those of section 34 ("Maximum loan limitations"). Any Committee

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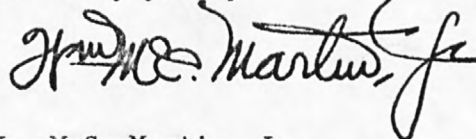


Honorable Ray M. Gidney

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statement that might be used to support the erroneous contention that extensions of credit via repurchase agreements and the like are securities transactions rather than loans might impede the efforts of your Office and the Board of Governors to enforce the provisions of law that actually are applicable to those transactions. Accordingly, the Board concludes that the inclusion in the House Committee Report of the sentence quoted in your letter would be undesirable.

Sincerely yours,

A handwritten signature in cursive script, reading "Wm. McC. Martin, Jr.", with a large flourish at the end.

Wm. McC. Martin, Jr.

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July 30, 1957
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Conversation with Aubrey Lanston

Mr. Hexter

re repurchase agreements

This morning Richard Youngdahl of Aubrey Lanston & Co. telephoned me and then Mr. Lanston got on the phone. He said he had been talking with Mr. Donald Miller and that he had two conversations yesterday with Mr. Jennings, Deputy Comptroller of the Currency.

It seems clear that Mr. Lanston is displeased with the Comptroller's actions based on the view that ordinary repurchase agreements with respect to Government securities constitute loan transactions rather than sales and purchases of securities. I told him that, as far as the Investment Securities Regulation and the new regulation under paragraph 8 of R.S. 5200 are concerned, the matter is within the jurisdiction of the Comptroller rather than the Board of Governors. However, I expressed my personal lawyer's opinion that the Comptroller's office is on sound legal ground in viewing these transactions as loans.

Mr. Lanston apparently wished to discuss the soundness of the Comptroller's view, and we did so. He mentioned a Federal Court decision in which a repurchase agreement with respect to commercial paper was held to be a securities transaction rather than a loan transaction. I told him that I recall having seen such a decision, but emphasized that the status of the transaction for tax purposes (which were involved in that case) might be quite different from its status in ordinary legal thinking and for the purpose of bank supervision.

Mr. Lanston asked me when paragraph 8 of R.S. 5200 was enacted and when the investment securities provisions of R.S. 5136 were enacted. I told him the dates were 1918 and 1933, respectively. He thereupon based an argument (which I did not quite comprehend) on chronology, and also emphasized that repurchase agreements have been "popularly viewed as securities transactions" for decades. He also mentioned the fact that the Federal Reserve System enters into repurchase agreements and regards them as purchases and sales of securities.

I explained briefly the special factors justifying the use of repurchase agreements by the Federal Reserve System, which are not present in the case of such agreements between banks, or between dealers and banks or dealers and other private lenders.

Mr. Lanston mentioned that the Chase Manhattan Bank, as a matter of general policy, does not enter into repurchase agreements. Recently Chase had excess funds that it wished to utilize, and in view of that

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D. Brooke

policy, it purchased bills or other Government securities in order to get some return on the existing funds. Mr. Lanston said that this showed that repurchase agreements and ordinary sales of securities are simply "alternative" procedures. I agreed they were alternatives, but said that in my opinion the choice of alternatives was between loans (via Federal funds transactions, repurchase agreements, or otherwise) and securities transactions. I said that in my opinion the crucial circumstance is that when there is a real purchase of securities, the purchaser undertakes the market risk--if the securities diminish in market value, he loses, and if the securities increase in market value, he gains; whereas, in a repurchase agreement transaction the purported "purchaser" gets back the money he advanced, plus interest, regardless of what has happened meanwhile to the market price of the securities he "purchased".

Mr. Lanston made some comments about the soundness of paragraph 8 of R.S. 5200, and I commented that such arguments, if valid, should be addressed to Congress in an effort to persuade Congress to permit loans on Government securities in unlimited amounts.

Mr. Lanston stated that he understands that Mr. Jennings' real objective is to restrict Federal funds transactions. When I expressed some surprise at this, he repeated that Mr. Jennings said, in yesterday's conversations: "I want to stop this selling of Federal funds."



D. B. Hexter

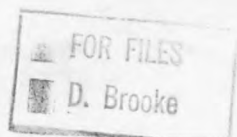
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RE: 110 This afternoon I called Mr. Jennings and told him the substance of the last paragraph, above. Mr. Jennings said that he was absolutely misquoted, his attitude being just the reverse--that is, that Federal-funds transactions should be encouraged rather than discouraged. He said he probably would call Mr. Lanston to correct this misunderstanding.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

REC'D IN RECORDS SECTION
JUN 12 1957
Date May 24, 1957

Office Correspondence

To Board of Governors
From Mr. Hexter

Subject: (1) Securities Repurchase Agreements; (2) Revision of Comptroller's Investment Securities Regulation

In the attached letter dated May 21, 1957, the Comptroller's office informs the Board that the Secretary of the Treasury has given his approval to the Comptroller's contemplated issuance of a regulation (as authorized in exception 8 to R.S. 5200) permitting a national bank or member State bank to lend up to 100 per cent of its capital and surplus on the security of United States obligations that will mature within 18 months.

The May 21 letter also encloses a revised draft of the proposed revision of the Comptroller's Investment Securities Regulation. In its letter to the Comptroller dated April 19, 1957, the Board made comments and suggestions regarding the proposed revision in its form at that time. The most important of the Board's suggestions was that the Regulation should omit any reference to repurchase agreements, since both the Comptroller and the Board consider such transactions (with negligible exceptions) to be loans rather than sales and purchases of securities. The Comptroller has adopted this suggestion, and the proposed revision now contains no reference to purchases or sales under repurchase agreements.

The Board's April 19 letter also recommended further study of the Comptroller's proposal to authorize banks to invest in high-quality municipal revenue securities even where the entire issue is held by a very few investors, a condition that is generally considered to limit marketability. Nevertheless, after further consideration the Comptroller has decided to include this new provision in the revised Regulation. The Comptroller also did not adopt one or two minor suggestions made by the Board.

The present Investment Securities Regulation contains a provision authorizing banks to purchase securities of "established commercial or industrial businesses" that meet certain standards with respect to quality and terms, even though there is no public distribution of the securities or other assurance of the marketability prescribed by R.S. 5136. The Comptroller had intended to delete this provision (and had omitted it from the draft previously submitted to the Board) on the grounds that (1) banks actually have not purchased securities of the nature described therein, and (2) it is doubtful whether purchase of such securities would comply with the provision of R.S. 5136 that prohibits national banks (and member State banks) from purchasing any securities that are not "marketable obligations". Apparently the Comptroller has reconsidered this matter, however, because the currently proposed revision does include the paragraph containing this provision.

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FOR FILES
Betty Vanni

To Board of Governors

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In my opinion, the deletion of this paragraph (section I(1)(c) of the present Regulation; section I(b) of the proposed revision) would have been desirable for the reasons mentioned above. However, the Comptroller has exclusive responsibility for promulgation of the Regulation and is fully aware of these considerations. Accordingly, it does not seem necessary or appropriate for the Board to object to the retention of the paragraph, particularly in view of the fact that it has not given rise to any practical difficulties during the past 20 years.

The Comptroller has sent copies of the proposed revision to the President of the National Association of Supervisors of State Banks requesting an expression of its views thereon, and he hopes to receive a reply in time to promulgate by June 30, 1957 both the new Investment Securities Regulation and the regulation raising the ceiling on repurchase agreements to 100 per cent of capital and surplus.

Unless the Board wishes to record its objection to the above-mentioned reinstated paragraph or other features of the proposed Regulation, no action is called for.

Attachment

FOR FILES
Betty Vanni

FEDERAL RESERVE BANK OF NEW YORK

NEW YORK 45, N.Y.

RECTOR 2-5700

REC'D IN RECORDS SECTION

OCT 9 1956

332.3-6

June 28, 1956



Hon. James K. Vardaman, Jr.,
Board of Governors of the
Federal Reserve System,
Washington 25, D. C.

Dear Governor Vardaman:

At the meeting of the Open Market Committee on May 23,
Governor Mills commented on repurchase agreements for the period of one
day. Although there was no further discussion of the point, I thought
it advisable on my return to New York to ask our Securities Department
to put down on paper the reasons for entering into such agreements. I
sent a copy of the Department's reply to Governor Mills, inquiring
whether he thought it should have any wider circulation. He has indi-
cated that he would consider further distribution worth while, so I am
enclosing a copy in the hope that you will find it of some interest.

Sincerely yours,

William F. Treiber

William F. Treiber, Alternate Member
Federal Open Market Committee

Enclosure

*Identical
Let to Riefler filed
Tomici General*

FOR FILES
Dorothy Duke

CONFIDENTIAL -- (F.R.)

OFFICE CORRESPONDENCE

C O P Y

REC'D IN RECORDS SECTION

FEDERAL RESERVE BANK
OF NEW YORK

OCT 9 1956

DATE June 19, 1956

TO Mr. Treiber

SUBJECT: One-day Repurchase Agreements

FROM T. C. Gaines, for the
Securities Department

This memorandum was prepared in response to your request for information on the general circumstances under which one-day repurchase agreements have been used and the advantages to be derived from their use.

One-day repurchase agreements have been used relatively infrequently. Between January 1, 1955 and June 1, 1956 approximately 600 repurchase agreements of all maturities were written, of which 43 were written for one day. The one-day agreements were in an aggregate amount of \$422 million while total repurchase agreements for this seventeen-month period aggregated close to \$6 billion.

The circumstances under which one-day repurchases might be made fall under two general headings. One-day repurchase agreements may be extended to dealers at the System's initiative when the Trading Desk learns through various reports to it, including dealers' requests for accommodation, that there is likely to be more strain in the money market than indicated by the projections; by offering one-day contracts, the Trading Desk is able to test the real need for funds. This type of situation, therefore, is one in which repurchase maturities are limited to one day for tactical purposes in the execution of Federal Reserve policy. In other cases, also under circumstances when the System would be prepared to make some repurchases available, the dealer himself may request a one-day maturity because his particular financing situation requires only overnight assistance. It is not possible to catalogue all one-day repurchase agreements exactly; however, the records indicate that perhaps as many as one-half of the one-day agreements are written at dealer request as to term.

1. Circumstances under which dealers have wished only one-day accommodation

On several occasions when the Trading Desk has been willing to extend repurchase agreements for longer terms, one or more dealers have elected to take only a one-day maturity. As a general rule, this occurs when the dealer's residual financing need is represented by securities he has already sold for next day delivery or by a need for Federal funds. Although such repurchase agreements place reserves in the market for only one day, it is advantageous for the Trading Desk to be able to make them when they assist in achieving a specified reserve objective.

In addition, situations arise occasionally in which a single dealer approaches the Trading Desk for overnight assistance in working out a particularly difficult financing problem confronting him. Even though the Account Management may not have planned to make repurchase agreements on that day, and although the over-all reserve picture appears to be consistent with policy objectives, it is sometimes expedient to supply the funds on an overnight basis to prevent this isolated problem from exerting an undesirable squeeze on the money market. For example, problems of this sort have arisen when large nonbank repurchase agreements have expired, usually near a tax or dividend date. Another instance occurred on September 26, 1955, the first business day after the President's heart attack, when the temporarily disturbed conditions in the money market created a problem for a dealer who had to finance a large block of short-term securities. Many of these requests for one-day accommodation have reflected more a problem in finding Federal funds rather than a shortage of dealer loans, as such. In all cases, of course, the repurchase facilities are made available only if the release of funds will further the broader objectives of System policy.

2. Circumstances under which the Trading Desk, for tactical reason, might offer one-day repurchase agreements

There are two types of situations when it is advantageous for the Trading Desk to be able to offer one-day repurchase agreements at its option.

a. The first situation arises when the projections show an adequate reserve position (consistent with the objectives of Federal Reserve policy at the time) but dealers are pressing requests for repurchase agreements upon the Trading Desk. In a situation of this sort, the pressures from the market may reflect only the attempts of dealers to secure financing with the System at attractive terms; but on the other hand, they may indicate that the projections were wrong or that the distribution of reserves is unfavorable to the money market, so that a real squeeze exists. The Trading Desk must always take this "feel of the market" into consideration when arriving at operating decisions. Of course, if credit policy at the time is one of ease, the Trading Desk might meet the signs of pressure on the market by liberal extension of regular-term repurchase agreements; but if the objective is restraint, the Trading Desk would provide repurchase agreements only on the basis of a clear-cut need. In this situation, the offer of one-day repurchase agreements in response to the dealer requests can have the effect of testing the real need for funds and of screening out those requests that can be financed without serious strain through regular dealer financing channels. The net effect is to make the repurchase agreement more expensive, since the entire handling cost involved in transferring the securities to the System will have to be absorbed in one day's cost rather than spread over several days.* At the same time, the Management of the Account will gain time to review the latest reserve data as they become available and to determine whether the apparent pressures on the market result from a tighter reserve position than had been projected and whether they are likely to continue, in which case the contracts could be renewed.

* Dealer practices vary, but most dealers would view this additional cost as equivalent to about $1/4$ per cent on the borrowing rate. That is, the clerical handling cost and the clearing charge assessed by the clearing bank for delivering the securities would make the $2\ 3/4$ per cent rate on a repurchase agreement for one day roughly equivalent to a 3 per cent rate on more permanent financing in the street. On longer-term agreements, these costs would be spread over two or more days and the rate disadvantage would be correspondingly reduced.

b. A second type of situation when the Trading Desk might offer one-day repurchase agreements for tactical reasons occurs when the market needs funds on a particular day, but it is virtually certain that the reserve need will disappear on the next day. Offering one-day agreements is a method of indicating to the dealers that, as the Trading Desk views the situation, the knot in the market is very temporary. Such circumstances might arise around a Treasury tax date, at a time when float is expected to increase, on a statement date, or at other times when there are persuasive reasons to expect funds to be more readily available on the following day. The System objective of releasing funds for only one day at such times frequently coincides with dealer financing requirements, as noted earlier, and specified dealer needs may take the form of a need for Federal funds rather than dealer loans, as such.

In two recent situations in which one-day repurchase agreements were used, on Thursday, May 17, and Thursday, May 31, it appears in retrospect that either outright purchases or longer-term repurchase agreements could have been made. At the time, however, the latest projections of reserve positions indicated that the Trading Desk should proceed cautiously in releasing reserves, and under the circumstances the proper approach was to attempt to test the intensity of the need for funds. Were an identical situation to arise in the future, it is likely that the same decision would be reached. One-day repurchase agreements have proved very useful both in avoiding strain on the market when particular problems involving temporary dealer needs have arisen and as a tactical instrument for testing the amount of pressure on the market at times when the signals coming from the market indicate greater restraint than shown by the reserve projections.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

RECORDS FILES SECTION
MAR 4 1955
2.3-6

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 4, 1955.

CONFIDENTIAL (FR)

Dear Sir:

At the meeting of the Federal Open Market Committee held on March 2, 1955, the Committee continued the authority relating to repurchase agreements with, however, one change in the statement of conditions for repurchase agreements. The one change referred to was the deletion of the words "short-term" from condition 1(c) of the statement approved at the meeting on June 23, 1954, a copy of which was transmitted to you with my letter of June 24.

*attached
6/24/54
see memo*

For your information and files, a copy of the amended authority as approved at the meeting on March 2, from which the word "short-term" in condition 1(c) has been deleted, is enclosed.

3/9/55

Very truly yours,

Winfield W. Riefler
Winfield W. Riefler, Secretary,
Federal Open Market Committee.

Enclosure

*This copy filed
Some General*

TO THE MEMBERS AND ALTERNATE MEMBERS OF THE FEDERAL OPEN MARKET COMMITTEE, PRESIDENTS OF OTHER FEDERAL RESERVE BANKS, AND MR. ROUSE, MANAGER, SYSTEM OPEN MARKET ACCOUNT

*FRASER
3/9/55
me*

~~Mr. Council~~
Mrs. Crover

Brooklyn College

BEDFORD AVENUE AND AVENUE H
BROOKLYN 10, N. Y.

DEPARTMENT OF ECONOMICS

REC'D IN FILES SECTION
th
DEC 30 1954 CA
9 December, 1954 332.3-6

Federal Reserve Board
Washington--25, DC

Gentlemen:

If available for public distribution I would like the weekly figures on repurchase agreements, broken down by type of security (that is, bills, certificates of indebtedness, notes, and bonds), starting with the last week in 1950. If that is not for public distribution, would you furnish the weekly amounts held under repurchase agreements, from the last week of 1950 through April 1952?

Very truly yours

Edward Marcus
EDWARD MARCUS

lg
7/15/54

SEPT 20 1954

332.3-6

To: Executive Committee of the
Federal Open Market Committee

Date: October 1, 1954

From: Mr. Vest

Subject: Legality and
history of repurchase agreements
of Federal Reserve Banks

L-1916

At the meeting of the Executive Committee of the Federal Open Market Committee on September 22, 1954, during a discussion of the subject of repurchase agreements involving Government securities, it was indicated that the legal authority of the Federal Reserve Banks with respect to such repurchase agreements should be considered by Counsel.

Accordingly, the legal aspects of the matter have been studied, in the light of the history of the subject since the establishment of the Federal Reserve System. The attached statement entitled "Historical Background", summarizes the history of the use and the consideration of the legality of repurchase agreements by the Federal Reserve Banks.

This memorandum relates only to the legal aspects of the matter and is not intended to indicate any views with respect to questions of policy or equity in regard to the use of repurchase agreements.

Opinion

It is my opinion that under the present law the use of repurchase agreements is within the legal authority of the Federal Reserve Banks under section 14 of the Federal Reserve Act because -

(1) Although they contain certain features normally found in loans, such transactions which are in form purchases and sales of Government securities are entered into for the primary purpose of implementing open market policies pursuant to section 14 of the Federal Reserve Act rather than for the purpose of providing credit accommodations to particular institutions; and

(2) The use of such repurchase agreements as purchases and sales pursuant to section 14 has been recognized and approved administratively for some 30 years, first by the Board and later by the Federal Open Market Committee, and this administrative practice has been called to the attention of Congress in the Board's annual reports.

It is believed, therefore, that repurchase agreements with respect to Government securities may be legally justified as open market operations under section 14 of the Federal Reserve Act and are subject to regulations, including rates, established by the Federal Open Market Committee.

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The present authority given by the Federal Open Market Committee permits repurchase agreements only with nonbank dealers. Proposals have been made in the past, however, to extend the authority to bank dealers, and possibly even to member banks, at rates less than the discount rate. If this were done in such a way as to bring about widespread or regular use by member banks of the repurchase arrangement with Federal Reserve Banks in lieu of borrowings through discounts or advances by the Reserve Banks under other provisions of the Federal Reserve Act, a situation might result in which credit accommodations extended to member banks would be regulated by, and at rates established by, the Federal Open Market Committee, whereas the Federal Reserve Act contemplates that usual credit accommodations extended to member banks will be regulated by the Board of Governors and at rates established by the Federal Reserve Banks, subject to review and determination of the Board. While such an arrangement, in my opinion, would not be illegal, it would be a departure from the general scheme of the Federal Reserve Act and perhaps considered inconsistent with the intent of the Act. Any criticism on this score might be lessened if it could be shown that the primary purpose of the arrangement was to assist in carrying out open market policy.

Discussion

It is to be noted in the first place that, whether or not repurchase agreements are regarded as purchases or as loans, they are within the legal authority of the Federal Reserve Banks, since if they are purchases they are authorized expressly by section 14 of the Federal Reserve Act and if they are loans or advances they are authorized expressly by the last paragraph of section 13. This was not the case before 1933 with respect to repurchase agreements entered into with others than member banks, since, prior to the enactment of the last paragraph of section 13 in 1933, the Federal Reserve Banks were authorized by that section to make advances on Government securities only to member banks. Accordingly, there is believed to be no question involved as to the ultra vires nature of such transactions as far as the Federal Reserve Banks are concerned, and the only question is whether they are lawfully carried out under section 14 and are therefore subject to the regulations of the Federal Open Market Committee.

Authority for Repurchase Agreements under Section 14. - Under the form of repurchase agreement now used by the Federal Reserve Bank of New York the dealer agrees as follows:

"In consideration of the purchase by you of such securities, we hereby agree to repurchase them from you at any time at your or our option on or before _____, at the same price plus interest thereon at the rate of _____ per cent per annum for the number of days that said securities were held by you."

The form also states that the dealer's obligations under the contract "are secured by and subject to the terms and conditions of our general collateral agreement with you."

On its face, this agreement is in the form of a purchase of securities, accompanied by an agreement to sell securities. Section 14 of the Federal Reserve Act expressly authorizes the Federal Reserve Banks "to buy and sell" Government obligations. Also, under section 4 of the Federal Reserve Act, the Reserve Banks are authorized "to make contracts" and they therefore have authority to make contracts to sell securities.

However, the repurchase agreement contains certain features which are ordinarily found only in the case of a loan. For example, it provides for payment of interest and is accompanied by a collateral security agreement. Also, there are court decisions which, for certain purposes and in view of the apparent intent of the parties, have held that contracts in the form of a purchase and sale actually constituted loan transactions, particularly where the contract absolutely required the vendor to repurchase within a specified period. It was chiefly for this reason that in 1923 the Board's General Counsel, Mr. Wyatt, expressed the opinion (never adopted by the Board) that repurchase agreements by the Federal Reserve Banks were actually loans and therefore beyond their legal authority. At that time such agreements were obligatory in form.

The form of agreement now in use is as a legal matter optional rather than obligatory. The Federal Reserve Bank, by exercising its option to resell, can require the dealer to repurchase the securities within the prescribed 15-day period, and vice versa. However, if neither the Reserve Bank nor the dealer exercises its option within that time the securities would not be resold to the dealer. The authorization of the Open Market Committee with respect to repurchase agreements itself indicates this possibility. It provides that if the Government securities "are not repurchased by the dealer pursuant to the agreement or a renewal thereof, the securities thus acquired by a Federal Reserve Bank shall be sold in the market or transferred to the System Open Market Account."

However, even though there may be certain features of the agreement which suggest a loan rather than a purchase, the courts, in determining the nature of the agreement, would look to the purpose for which the agreement is executed. In the present case, it is believed clear that, even though such agreements may incidentally have the effect of providing dealers with credit, their primary purpose is, by providing funds to the market, to implement open market policies determined by the Federal Open Market Committee rather than to provide credit accommodations as such.

As bearing upon the purpose of repurchase agreements, the presently outstanding authorization of the Federal Open Market Committee with respect to repurchase agreements states that they "shall be used with care and discrimination as a means of providing the money market with sufficient Federal Reserve funds to avoid undue strain on a day-to-day basis." In the Board's 1951 Annual Report to Congress, repurchase agreements were referred to as "increasingly important as one of the mechanisms available to the System in executing open market policy."

It might be suggested that the repurchase mechanism is not properly a transaction authorized by section 14 subject to regulations of the Federal Open Market Committee, because it is not actually an open market transaction, since it is carried out at a fixed rate rather than at a rate determined by the market alone. However, the term "open market" used in section 14 is not defined and is necessarily a phrase of somewhat broad and general meaning. It is not believed that it can be said that a transaction is not an open market transaction merely because it is carried out at a fixed rate rather than at a rate resulting completely from the play of the market forces. For some years prior to 1951, when the Federal Reserve operated on a "pegged rate" basis, purchases and sales of Government securities were carried out at rates fixed by the Federal Open Market Committee, the Executive Committee, or by the Manager of the Account under authority from the Committees. During the Second World War the Open Market Committee directed the Federal Reserve Banks to purchase all Treasury bills that might be offered at a rate of 3/8 per cent per annum. This included authority to purchase bills outright or to purchase under option by the seller to repurchase. Also it has been the practice of the Federal Open Market Committee to have a minimum buying rate on bankers' acceptances. It is clear, therefore, that the administrative practice respecting open market operations has for years included transactions (other than repurchase agreements) in which fixed rates were involved.

Weight of Long Administrative Interpretation. - Whatever may have been the situation in the early 1920's when the legal authority of the Reserve Banks to enter into repurchase agreements was under consideration, the legal status of such agreements as purchases under section 14 is now given strong support by long years of administrative interpretation. The view that such agreements are proper open market transactions under that section has been the announced position of the Federal Reserve Board since 1925, and has also been the consistent position of the Open Market Committee. Since 1925, the open market provisions of the Federal Reserve Act have several times been amended and, although with imputed knowledge of the Board's position, Congress has taken no steps to override that position.

Even in the early years of the use of repurchase agreements, the Board's annual reports indicated that such agreements were being made as open market transactions. For example, the 1923 Annual Report listed in a table in the Appendix (p. 112) the par value of each class of Government securities held by the Reserve Banks including securities held "under repurchase agreement"; and the Annual Report for 1925 contained tables showing the volume of United States Treasury notes and certificates of indebtedness "purchased in open market" and these tables separately listed Treasury notes and certificates purchased "under repurchase agreement".

In recent years the treatment of repurchase agreements as open market transactions has been expressly brought to the attention of Congress in the record of policy actions of the Open Market Committee as set forth in the Board's annual reports to Congress. (1951 Annual Report, p. 107; 1952 Annual Report, p. 97; 1953 Annual Report, p. 91.)

It is a well-settled rule of statutory construction that, although they may not be conclusively bound thereby, the courts will give weight to the interpretation of a statute adopted by the administering agency in any case in which the statute is ambiguous. The Supreme Court of the United States has stated that "settled administrative construction is entitled to great weight and should not be overturned except for cogent reasons" (United States v. Chicago, North Shore & Milwaukee R. Co., 288 U.S. 1 (1932)); and that "courts are slow to disturb the settled administrative construction of a statute long and consistently adhered to" (Alaska Steamship Co. v. United States, 290 U.S. 256 (1933)).

If the question under discussion were a new one and had not been the subject of an administrative interpretation over some 30 years, the answer would be more doubtful. Even as a new question, however, strong arguments could be made under the present statutory situation that the Federal Reserve Banks are authorized to enter into such transactions under section 14, subject to regulations of the Federal Open Market Committee, because of the optional form of repurchase agreement and their purpose of assisting and implementing the policies of the Committee. Whatever view one might have taken of this question as a completely novel proposition, however, any doubt on the subject has, in my judgment, been thoroughly resolved by the long administrative position and practice.

For all of the reasons stated above, it is believed that repurchase agreements with respect to Government securities may legally be entered into by the Federal Reserve Banks pursuant to the provisions of section 14 of the Federal Reserve Act, subject to the regulations of the Federal Open Market Committee under section 12A of that Act.

Rate on Repurchase Agreements. - In view of the above conclusion, it is my opinion that repurchase agreements are subject to such rates as may be established pursuant to direction of the Federal Open Market Committee, whether or not the rates are above or below the discount rate.

It has been suggested in the past that the repurchase agreement mechanism, instead of being limited to nonbank dealers as at present, might be extended to bank dealers or to all member banks and at rates below the Federal Reserve discount rate. If, because of the lower rates, member banks as a regular or usual practice should then seek credit accommodations through this medium from the Reserve Banks rather than through discounts and advances under the provisions of section 13 of the Federal Reserve Act, this extended use of repurchase agreements might well be the subject of criticism. The Federal Reserve Act appears to contemplate that credit accommodations to member banks shall be regulated by the Board of Governors and shall be made at rates fixed by the Reserve Banks, subject to review and determination by the Board. Accordingly, any use of repurchase agreements in a manner which would have the effect of bringing extensions of credit by the Reserve Banks entirely or principally under regulations and rates established by the Federal Open Market Committee might be regarded as out of harmony with the general scheme of the statute or inconsistent with its intent. It is believed, however, that even in this situation, the legality of the arrangement could not be successfully attacked. Any criticism of the use of the repurchase agreements in the manner described might be at least partially met if it could be demonstrated that the agreements were being entered into primarily for the purpose of implementing open market policies pursuant to sections 14 and 12A of the Federal Reserve Act.

In this connection, it may also be noted that, if the use of repurchase agreements were extended only to bank dealers and not to all member banks, but at rates lower than the discount rate, it is possible that such action might be criticized as inconsistent with those provisions of section 4 of the Federal Reserve Act which require the board of directors of each Federal Reserve Bank to administer the affairs of the bank fairly and impartially and "without discrimination in favor of or against any member bank or banks". However, it seems apparent from the context of this provision of section 4 that it was intended to relate primarily to extensions of credit rather than to open market operations of the Reserve Banks under section 14. Moreover, section 12A, giving the Open Market Committee broad regulatory authority over open market operations, was enacted many years after the provisions of section 4 with respect to nondiscrimination between member banks and, accordingly, if there should be any element of inconsistency between the two

provisions, the later enactment would control. It is believed, therefore, that the provision of section 4 requiring nondiscrimination among member banks need not be so narrowly interpreted as to prevent the Open Market Committee from establishing for repurchase agreements such rates as it deems advisable and necessary in order to carry out its policies effectively.

George B. Vest

HISTORICAL BACKGROUND WITH RESPECT TO REPURCHASE

AGREEMENTS BY THE FEDERAL RESERVE BANKS

Origin and early use of repurchase agreements

Repurchase agreements by the Federal Reserve Banks first came into use in 1917, as an announced means of enabling member banks to avoid payment of a Federal stamp tax on promissory notes which became effective on December 1, 1917. In 1916, the Federal Reserve Banks had been authorized for the first time to make 15-day advances to member banks on their promissory notes secured by eligible paper or Government obligations. The new stamp tax meant that such advances would now be more costly to member banks.

On November 28, 1917, the Board wired the Federal Reserve Banks that, although promissory notes of member banks would be subject to the stamp tax, eligible commercial paper could still be rediscounted without such tax and that the Reserve Banks might, if they desired to do so, "resell such paper with customary rebate of unearned discount."

Two days later, on November 30, 1917, the Board again wired the Federal Reserve Banks suggesting "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" and that the Reserve Banks might adjust rebate of discount in advance on the basis of the period covered by such agreement. In addition, the Board suggested that "Reserve Banks may purchase from member banks United States bonds and Treasury certificates subject to repurchase agreement by member bank on given date." This suggestion was reiterated in a letter from the Board to the Reserve Banks on December 1, 1917, which again pointed out 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."

Notwithstanding its reference to "nonmember banks" in the letter just mentioned, it appears that the Board at that time regarded repurchase agreements as a means of providing credit to member banks pursuant to the provision of section 13 of the Federal Reserve Act authorizing 15-day advances to member banks on eligible paper or Government obligations. It also seems clear that the Board contemplated that such repurchase agreements would be discontinued if and when the tax on promissory notes of member banks should be repealed.

On January 26, 1918, Governor Harding advised the Federal Reserve Bank of Minneapolis by wire as follows:

"* * * 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. * * *"

Several days earlier, Counsel for the Board had stated in a memorandum that he "assumed that the practice will be discontinued if the Revenue Act is amended."

On April 5, 1918, the stamp tax was repealed with respect to notes secured by Government obligations. In advising the Federal Reserve Banks of this change in the law, the Board in a letter dated April 6, 1918, suggested that, since revenue stamps would no longer be necessary in connection with notes secured by Government obligations, "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." (Underscoring supplied)

Notwithstanding this letter, intimating that repurchase agreements were regarded as "borrowings" under section 13 and suggesting that such agreements be discontinued after repeal of the stamp tax, it appears that certain of the Reserve Banks continued thereafter, without objection from the Board, to enter into repurchase agreements, not with member banks, but with nonbank dealers in Government securities. The continuance of the use of such agreements with respect to nonbank dealers gave rise to question as to the legal basis for such agreements.

1921 legal consideration

On November 28, 1921, the Board's Counsel, Mr. Walter Logan (later General Counsel of the Federal Reserve Bank of New York) expressed the opinion that the practice of the New York Federal Reserve Bank in purchasing eligible bills from dealers with an agreement by them to repurchase within 15 days and with deduction of discount for the 15-day period only, instead of for the full period of the bills, was legally authorized. Although his memorandum did not specifically refer to section 14 of the Federal Reserve Act, it was entitled "Open Market Purchases of Bills under Repurchase Agreement". Moreover, he could not have concluded that repurchase agreements with nonbank dealers were legally authorized except on the assumption that they constituted open market operations under section 14, since at that time the authority in section 13 for 15-day advances on Government securities and eligible paper was confined to member banks.

On December 2, 1921, Governor Harding of the Board wrote to Governor Strong at the Federal Reserve Bank of New York, stating that, after consideration of the matter by the Board and its Counsel, the Board was of the opinion that the practice in question was legal. In this letter it was intimated that the Board regarded such repurchase agreements as authorized by the open market provisions of section 14 of the Federal Reserve Act. Referring to the fact that that section provided for the issuance of regulations by the Board covering open market transactions, the letter stated that the Board should therefore be kept fully advised regarding the open market practices of the Federal Reserve Banks, including the use of repurchase agreements.

Treatment as "open market" transactions established

The Board definitely adopted the view that repurchase agreements constituted open market transactions and could, therefore, be entered into with nonbank dealers when on February 2, 1922, it advised all Federal Reserve Banks that it would not object to temporary advances to dealers against Victory Notes, since a Federal Reserve Bank "under its open market powers may purchase them or carry them for dealers under agreements by them to repurchase at stated times." Later in the same year, on December 5, 1922, the Board specifically stated that it would not object to the purchase of Victory Bonds from a Federal land bank under a repurchase agreement and that such bonds should be carried by the Reserve Banks as "bonds owned".

When the nonstatutory "Open Market Investment Committee" was organized on April 1, 1923, the Board advised the Reserve Banks that open market purchases should be primarily commercial investments "except that Treasury certificates be dealt in, as at present, under so-called 'Repurchase' agreement."

Consideration of legal question in 1923

Shortly after the organization of the nonstatutory Open Market Committee, the Board requested its General Counsel, Mr. Wyatt, for an opinion as to the legal authority for the purchase of Government securities and bankers' acceptances under repurchase agreements.

Mr. Wyatt's opinion, dated August 18, 1923, was to the effect that, where the repurchase agreement absolutely required the vendor to repurchase within a stated time, it was in effect a "loan" and not a "purchase"; and that, if the repurchase agreement merely gave the vendor an option to repurchase within the stated time, the question was not entirely clear but that even in such cases the transaction

would probably be construed as a loan. Since the agreement then in use by the Federal Reserve Banks was obligatory in form, Mr. Wyatt concluded that the execution of such agreements was beyond the legal authority of the Federal Reserve Banks. In this connection, he also expressed the view that, even where such agreements were entered into with member banks, they could not be upheld as "advances" under authority of section 13 because the debt would not be represented by a "promissory note" as required by the provisions of that section.

In reaching the conclusion that the repurchase agreement was a loan rather than a purchase, Mr. Wyatt argued that the courts would be governed by the intent of the parties rather than the form of the transaction and that the repurchase agreement used by the Federal Reserve Banks, although in the form of a purchase, had significant characteristics of a loan, such as the requirement for the deposit of additional collateral, the authority given the Reserve Bank to sell the securities purchased if the seller should fail to comply with the agreement, and the provision for payment of interest based upon the period involved.

Reactions by the Federal Reserve Banks and their Counsel to Mr. Wyatt's opinion varied.

Counsel for the Federal Reserve Bank of Minneapolis concurred in Mr. Wyatt's conclusions. Counsel for the Federal Reserve Bank of San Francisco (Mr. Agnew) concurred in his conclusions with respect to obligatory contracts to repurchase but felt that an optional form of agreement, stripped of the characteristics of a loan, would not be construed as a loan but as a purchase. Similarly, Counsel at the Federal Reserve Bank of New York (Mr. Mason) agreed with Mr. Wyatt's opinion with respect to obligatory agreements but felt that an optional form of agreement would not be construed as a loan and that in any event the Board's previous opinion upholding the legality of the obligatory form would be given great weight by the courts. Counsel for the Federal Reserve Bank of Richmond (Mr. Wallace) agreed with Mr. Wyatt's conclusions of law except that he felt that the repurchase agreement could be properly regarded as constituting a "promissory note" and that, therefore, such agreements could be entered into with member banks pursuant to section 13.

On the other hand, Counsel for the Federal Reserve Bank of Boston sharply disagreed with Mr. Wyatt's opinion. He argued that a Federal Reserve Bank clearly had power to purchase and sell securities under section 14 of the Act, and, pursuant to section 4 of the Act, to enter into contracts to sell securities, and that the repurchase agreement form had not been adopted for the purpose of circumventing the law but had been developed as a means of effectuating open market policies.

Governor Harding of the Federal Reserve Bank of Boston wrote Governor Crissinger of the Board on October 15, 1923, taking issue with Mr. Wyatt's opinion. He felt that Mr. Wyatt had ignored the fact that repurchase agreements looked toward "the maintenance of a broad market for Government securities," as well as the power of the Federal Reserve Banks under section 14 of the Federal Reserve Act to enter into contracts.

Counsel for the Federal Reserve Bank of Chicago, while not expressing a definite opinion, felt that the nature of the agreement depended upon the intent of the parties and that from a practical standpoint it would be unfortunate if the Board should decide that the Reserve Banks could not continue this practice.

It does not appear that the Counsel for the other Federal Reserve Banks expressed any opinion regarding the question.

In the Fall of 1923, the Board directed Mr. Wyatt to go to New York for the purpose of attempting to work out a plan under which no legal question could be raised. An optional form of agreement was suggested and Mr. Wyatt apparently felt that, if divested of its loan features, such an optional agreement might be construed as constituting a purchase under section 14 of the Federal Reserve Act.

On February 11, 1925, Deputy Governor Harrison of the Federal Reserve Bank of New York (who had previously been Counsel for the Board) wrote to Governor Hamlin of the Board reviewing the matter. Mr. Harrison contended that repurchase agreements had long and properly been regarded by the Board as open market transactions; that their legality had been considered and sustained in 1921; and that, if the intent of the parties should govern as to the nature of the transaction, it was clear that repurchase agreements were intended, not as loans, but as open market operations.

Mr. Wyatt's opinion was never approved by the Board. On the contrary, the Board on March 19, 1925, formally adopted the view that repurchase agreements were legally authorized. A resolution of the Board of that date, which was transmitted to the Federal Reserve Banks stated:

"The Federal Reserve Board reaffirms previous decisions authorizing the practice, long continued, of purchase and sale in the open market of bankers' acceptances and Government securities by Federal Reserve Banks from and to banks and qualified dealers, under 15-day 'repurchase agreements', it being understood that such transactions shall be open, under similar facts and conditions, to all Federal Reserve Banks with relation to banks and similarly qualified dealers in their respective districts."

On June 30, 1926, the Board approved the recommendation of the nonstatutory Open Market Investment Committee that the Federal Reserve Banks extend the repurchase agreement practice with recognized dealers in Government securities to include Third Liberty Bond loans.

On March 2, 1933, the Board interposed no objection to the acquisition by a Federal Reserve Bank of Government securities from a State member bank subject to repurchase agreement.

Effect of statutory changes in 1933

The Emergency Banking Act of March 9, 1933, added to section 13 of the Federal Reserve Act a paragraph authorizing the Federal Reserve Banks to make advances up to 90 days to any individual, partnership, or corporation on its promissory note secured by direct obligations of the United States. This amendment affected the legal situation with respect to the status of repurchase agreements with nonmember banks and nonbank dealers, since it meant that even if such agreements should be regarded as "loans", they could now be considered as authorized by this new provision of the law. In a note to the files in September 1939, Mr. Wyatt expressed the view that, although he still regarded the transactions as loans, they were now authorized by the last paragraph of section 13 of the Federal Reserve Act; and at this date he raised no question, as he had in 1923, as to whether the repurchase agreements could be regarded as involving a "promissory note" within the meaning of section 13.

The Banking Act of June 16, 1933, for the first time gave statutory recognition to the Open Market Committee but only as an advisory and not as a regulatory body. Regulatory authority was fixed in the Federal Reserve Board; and pursuant to that authority, the Board, in August 1933, issued its Regulation M relating to open market operations.

1936 reconsideration of the legal question

In September 1935, the Federal Reserve Bank of Kansas City wrote the Board regarding that Bank's authority to purchase securities under resale agreements from a Federal land bank. The Board advised the Federal Reserve Bank of Kansas City that the contemplated purchase of securities by that Bank was governed by the Board's Regulation M relating to open market operations and, pursuant to the Regulation, the Board gave its consent to the proposed purchase. At the same time, however, the Board requested its Counsel to review the legal aspects of the matter in the light of the recently enacted Banking Act of 1935, which had reorganized the Federal Open Market Committee with full authority over open market operations.

On May 19, 1936, Mr. Dreibelbis, then Assistant General Counsel to the Board, expressed the view that the repurchase transaction which had been proposed by the Federal Reserve Bank of Kansas City was in effect a loan, thus agreeing with Mr. Wyatt's previous 1923 opinion. Mr. Dreibelbis, however, then pointed out that the Board in 1925 had expressly reaffirmed previous decisions authorizing the repurchase agreement practice and concluded, therefore, that, unless the Board should reverse its decision, transactions of this type would appear to come within the scope of section 12A of the Federal Reserve Act and could be engaged in, if at all, only subject to directions and regulations of the new Federal Open Market Committee.

Soon after its reorganization, the Federal Open Market Committee, on May 25, 1936, granted authority to each Federal Reserve Bank "to make temporary purchases of Government securities under resale agreements for periods not exceeding fifteen days."

Developments since 1936

It appears that there was little use of repurchase agreements in the years immediately following enactment of the Banking Act of 1935. As a matter of fact, on March 1, 1945, the Federal Open Market Committee terminated the authority which it had given to the Reserve Banks in 1936 to enter into such agreements.

On January 20, 1948, the mechanism was revived when the Executive Committee of the Federal Open Market Committee took action (later approved by the full Committee) authorizing the Federal Reserve Banks to enter into repurchase agreements with qualified dealers in Government securities, provided that such agreements should be at rates not below the currently effective discount rate, should not be for periods of more than 15 days, and should cover only short-term Government securities selling at a yield of not more than the issuing rate for one-year Treasury obligations.

In June 1949, the Federal Reserve Bank of New York purchased Treasury bills under resale agreement and it was then stated that this was the first purchase of Government securities under repurchase agreement which had been made by that Federal Reserve Bank since 1933.

On October 4, 1951, the Committee revised its directive to the Federal Reserve Banks so as to authorize them to enter into repurchase agreements with qualified nonbank dealers in Government securities, with the understanding that such agreements should cover only short-term Treasury obligations, should be for periods of 15 days or less, should be made at rates "close to the average issuing rate"

on the most recent issue of three-month Treasury bills, and should be for the purpose of aiding temporary money market adjustments. In connection with this action the Board's Annual Report to Congress for 1951 pointed out that "the use of repurchase agreements was becoming increasingly important as one of the mechanisms available to the System in executing open market policy" and stated that the revised authority "would enable dealers to absorb as much of the buying and selling in the market as possible and to carry the necessary inventory of securities to provide a market, leaving the System as only a residual buyer."

On July 22, 1952, the Open Market Committee amended the authority of the Reserve Banks with respect to repurchase agreements so as to permit the Manager of the System Open Market Account to specify the rate on such agreements from time to time, provided that it should not be less than whichever was the lower of (1) the current discount rate or (2) the average issuing rate on the most recent issue of three-month Treasury bills. This change was made because the issuing rate on Treasury bills had recently been higher than the discount rate and, under the previously given authority, an increase in the rate on repurchase agreements would have been necessary. It was "considered desirable to change the procedure so as to avoid the necessity of raising the repurchase rate above the discount rate whenever the issuing rate on Treasury bills moved higher than the discount rate."

On March 4, 1953, the Open Market Committee discontinued the requirement that repurchase agreements be entered into only with "qualified" nonbank dealers. The system of qualification of dealers was terminated. In addition, the condition which previously had limited repurchase agreements to Government securities selling at a yield of not more than the issuing rate for one-year Treasury obligations was changed to refer to "short-term Government securities maturing within fifteen months".

On June 23, 1954, the general authority for repurchase agreements was again changed by the Open Market Committee to place such authority in the Executive Committee of the Open Market Committee with the rates (or rate ranges) to be such as the Executive Committee might prescribe. Pursuant to this delegation of authority, the Executive Committee on the same day authorized the Federal Reserve Banks to enter into repurchase agreements with nonbank dealers in Government securities at a rate of 1-1/2 per cent.

At its recent meeting of September 22, 1954, the Executive Committee authorized the Federal Reserve Banks to enter into repurchase agreements with nonbank dealers in Government securities at a range of rates of 1-1/4 per cent to 1-1/2 per cent, but only until the close of the day on which the next meeting of the Executive Committee is held.

From the foregoing historical review, it is apparent that, although at the very outset in 1917 the Board seems to have regarded repurchase agreements as in the nature of "loans", the Board after March 1925 definitely considered such agreements as open market transactions and that the Federal Open Market Committee since 1936 has likewise adopted the position that such agreements are purchases and sales authorized by section 14 of the Federal Reserve Act.

October 1, 1954.

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October 1, 1954

Mr. Hackley

Mr. O'Shea

Open Market Committee purchases of securities subject to repurchase option-- loan or sale?

The Federal Open Market Committee through the Federal Reserve Banks purchases Government securities from nonbank dealers subject to the seller's option to repurchase and the Bank's power to require the seller to repurchase within 15 days, interest being paid by the seller. In considering whether this transaction, as a matter of law, is a loan, the following material will be helpful:

(1) Usury cases. The question whether a sale subject to an option to repurchase is a loan arises where the seller contends an excessive purchase or repurchase price was a device to make a loan in fact but to avoid the usury law. The cases seem to reason thusly: If the parties intended the transfer of funds and repurchase option to be a loan, the buyer's "profit" is really interest. As interest, if it would be usurious, the transaction is then presumed to be a usurious loan. Without having exhaustively considered the cases, it appears to the writer that whether a transaction is a usurious loan turns not so much on whether the arrangement was to put funds into the hands of the seller, but whether the parties used that arrangement in order to evade the usury laws. See 6 Williston, Contracts §1687 (footnotes omitted), itemizing the forms of sale used as a colorable method of making a usurious loan:

"(2) If property is sold at much less than its true value and an option is given to the seller to repurchase it at a later day for a price not exceeding the value of the property, but greater than the original selling price by more than legal interest, the transaction is presumably a usurious mortgage, the apparent seller being in fact a borrower; and the same intention is evident if the agreement instead of attempting to secure usurious interest by means of a repurchase price, excessive as compared with the original selling price, does so by a provision that the seller shall hire the property prior to its repurchase at a rental greater than legal interest.

"(3) Instead of making a loan in terms a seller may turn over to the buyer property, immediately and readily salable for cash, for which the buyer promises to pay in the future a sum amounting to the present cash value of the property plus an amount greater than legal interest. Such a transaction intended by the parties as a means of providing the buyer with money from the sale of the property will be regarded as usurious.

C/Reg filed
Tom

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E. Omohundro

"(4) Though, as has been seen, it is generally held permissible to sell property for deferred payments bearing a higher rate of interest than is permissible on a loan of money, yet if such a transaction is merely a colorable device for making what is in substance a loan, it is usurious.

"(5) A sale with a lease back and an option to repurchase for the price paid is presumably usurious if the rent reserved is greater than legal interest.

"(6) Parties may call a transaction a sale which they really intend as a usurious mortgage or pledge. Thus, a purported 'sale' of notes or accounts receivable at an excessive discount with a guaranty of collection in full may be made a device for what is intended as a usurious loan; and similarly objectionable is a 'sale' of its shares by a corporation with an agreement to repurchase at the same price and to guarantee dividends higher in amount than legal interest. In all cases it is the substance and not the form of a transaction which is important."

See also Transaction in form a sale, but accompanied by an agreement or option for repurchase by the vendor or a third party previously interested, as a loan, as regards usury law, 154 A.L.R. 1063-1079 (1945). The cases can be summed up in saying that, for purposes of the usury law, whether a sale with option to repurchase is what it purports to be or is a loan turns upon what is the intention of the parties.

Restatement, Contracts §529:

"Where the intent of a party to a bargain is to make a loan of money or an extension of the maturity of a pecuniary debt for a greater profit than is allowed by law, the agreement is illegal though the transaction is put in whole or in part in the form of a sale, a contract to sell or other contract."

(2) Mortgage cases. In discussing whether a conveyance with a right to repurchase is in law a loan secured by a mortgage on the conveyed property, it is stated in 59 C.J.S. §28 (footnotes omitted):

"A contemporaneous agreement or option for repurchase given with a deed absolute in form does not, of itself, make the deed a mortgage, but that question must be determined according to the real intent of the parties.

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"Where a deed absolute on its face is accompanied by an agreement giving the grantor the right of repurchasing the property, the instruments must be considered together in determining whether the transaction amounts to a mortgage, or is a sale with a mere option to repurchase.

"The question whether the instruments will be construed as a mortgage depends on intention of the parties in the light of the attendant circumstances, and it has been held that the test to be applied is whether the debt existing prior to the conveyance is still subsisting or has been satisfied by the conveyance. It has been said that the line of demarkation between a mortgage and a sale with a right of repurchase is shadowy and that it is frequently a matter of great difficulty to determine to which category a given transaction belongs.

"It has generally been held that, where a deed is made for a consideration paid at the time, whether the payment is made in cash or by the surrender and satisfaction of a precedent debt, an agreement on the part of the grantee to allow the vendor to repurchase the property at a future day, for the same or an advanced price, does not of itself convert the transaction into a mortgage, at least where the conveyance extinguishes the debt and the parties intend such result, or where the grantor is under no obligation to repurchase the property. If the deed is intended to be absolute, the option given the grantor to repurchase the property is merely a contract to pay a certain price within a certain time, and the grantor has no rights after the time fixed for exercise of the option.

"It has been held, on the other hand, that the existence of an option to repurchase is a circumstance to be considered in favor of the existence of a mortgage, and, where the execution of a deed together with an agreement giving the grantor the right to repurchase the property on payment of a specified sum is intended by the parties merely as a security transaction to secure the repayment of a debt, the court will treat the deed as a mortgage, especially where it appears that the grantee has the right to compel the grantor to pay the consideration named in the stipulation for reconveyance. Where a new debt is created at the time the transaction is entered into, a provision that, if the agreement to purchase should not be consummated within a specified time, the agreement to purchase shall become null and void will not defeat the character of the transaction as an equitable mortgage."

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The following sheds light on what may result from the obligation to repurchase as against the option to repurchase: 59 C.J.S. §38 (footnotes omitted):

"Where an absolute deed is given as security for a debt, no personal covenant or promise on the part of the grantor to pay the debt is necessary to make it a mortgage. The want of such an obligation may be an important circumstance on the question of the intention of the parties, but it is not conclusive, and other circumstances in the case may be sufficient to overcome the presumption arising from this fact and establish the deed in the character of a mortgage. This has been held to be the case where the deed expressly recites that it is given for the purpose of securing a loan from the grantee to the grantor or where gross inadequacy in the price is shown. If, however, the transaction appears on its face to be a sale, or a sale with a mere privilege to the vendor to repurchase, and its alleged character as a mortgage is not sustained by competent extraneous evidence, the lack of any binding obligation on the grantor to pay the sum fixed on as the condition for a reconveyance is generally accepted as decisive proof that it was not meant as a mortgage."

59 C.J.S. §443:

"The fact that the mortgagor is given an option to repurchase the premises does not necessarily render a conveyance of the mortgaged property by him to the mortgagee a mere change in the form of the security.

"A mortgagee may legally take a deed transferring the mortgaged property in satisfaction of the debt, and at the same time give the mortgagor or grantor a right or option to repurchase the property. Such a transaction constitutes the instrument a deed absolute with an option on the part of the vendor to repurchase for the consideration named and within the time named, or a conditional sale, and the mere fact that the mortgagee in such a transaction agrees that on the payment of a stipulated sum within a specified time he will reconvey the property does not render the deed a mortgage. The mortgagor claiming a right to repurchase must establish such right by clear and convincing proof.

"If the agreement under which the grantor is to regain title does not impose on him a liability to pay the necessary amount in any event, but only gives him the right to repurchase

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the property at a stipulated price within a limited time, it is not a mortgage but a conditional sale, or an absolute sale with right of repurchase on conditions. However, the fact that the mortgagor has promised to repurchase the property, instead of merely being given an option to repurchase, does not necessarily establish that the transaction amounts to a mortgage rather than a deed. Whether the instrument is a mortgage or a conditional sale will not affect the mortgagor's right to a redemption or reconveyance of the property on performance of the stipulated conditions."

(3) Tax cases. Because a cash sale at a profit results in reportable income for Federal tax purposes, the question sometimes arises whether a transaction which is in form a loan is a sale for tax purposes. See 1954 CCH Federal Tax Reporter, Vol. 1, Paragraphs 51.145-51.153.

Comm'r of Internal Revenue v. H. F. Neighbors Realty Co., 81 F. 2d 173 (6th Cir. 1936). A transaction whereby the taxpayer sold realty to a trustee who leased the realty back to the taxpayer and provided taxpayer could repurchase the property was held to be a "loan", not a "sale" for tax purposes. The court said:

"It has long been established doctrine that a court of equity will treat a deed absolute in form as a mortgage when it is executed as security for a loan. In such case the court looks beyond the terms of the instrument to the real transaction, and when that is shown to be one of security and not of sale, it will give effect to the actual contract of the parties. Peugh v. Davis, 96 U.S. 332, 24 L.Ed. 775. While the doctrine that a court will look through form to substance to ascertain the essential nature of a transaction undoubtedly had its origin in equity, it is not confined to equitable causes.

"The more common criteria which indicate a borrowing and lending rather than purchase and sale, are inadequacy of consideration, provisions for redemption or reconveyance, continued possession and management of the property by the transferor, payment by him of taxes and assessments, and his receipt and use of the rents and profits of the property." P. 175.

(Comment: As noted from the last paragraph above, receipt of the profits of the property by the transferor indicates a loan and security transaction. This is the case with the Open Market Committee purchases, interest on the securities being paid to the seller-dealer.)

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1954 CCH Federal Tax Reporter, Vol. 1, Paragraph 51.1508:

"Petitioner made absolute sales of units of cemetery property and delivered deeds to the purchasers. The purchasers executed agreements giving petitioner the option to repurchase the lots at any time within eight years, for which option petitioner agreed to pay \$12 annually per unit. Petitioner agreed to repurchase the units at the end of eight years, but the obligation ceased in the event of certain conditions subsequent. The transactions were sales; payments from purchasers were income from sales rather than loans; and annual payments by petitioner were for retaining the options rather than interest.

"Resthaven Memorial Cemetery, Inc., 43 BTA 683, Dec. 11, 1967."

(4) The following case would support the position that the repurchase agreements are simply substitutes, not subterfuges, for a loan, and are not to be disregarded merely because the result is the same as that of a loan. A similar approach is found in dealing with the disregard of the corporate entity cases; i.e., that the law permits persons to engage in business through the corporate device and it will not be disregarded unless abused.

Litwin v. Allen, 25 N.Y.S. 2d 667, 696 (S. Ct. N. Y. County 1940). This was a stockholders' derivative suit, one aspect of which was as follows: Alleghany Corporation was in need of \$10,000,000 but was unable to borrow the amount because of borrowing limitations in its charter. In order to obtain the money, Alleghany sold bonds in its possession to J. P. Morgan and Co., subject to the seller-Alleghany's option to repurchase within six months at 100% plus interest. Guaranty Trust Company participated in the purchase and Guaranty Trust Company's subsidiary, Guaranty Company, agreed to purchase the bonds from the Trust Company if the seller did not exercise the option. The bonds dropped in value, the option was not exercised, and the subsidiary took over the bonds which were ultimately sold at an 81% loss.

Held, the directors of the Trust Company who were responsible for the transaction were liable, because it is against public policy for a bank to purchase securities giving "the seller the option to buy them back at the same price, thereby incurring the entire risk of loss with no possibility of gain other than the interest derived from the securities during the period that the bank holds them." P. 698.

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Thus, while it was not necessary to the ultimate result to determine whether Alleghany had obtained a loan in excess of its charter limitations, the court had this to say:

"Of course, if the transaction was a subterfuge for a loan, as the plaintiffs claim, then it clearly was improper because the essential and most elementary requirement of a loan was lacking; no one obligated himself to repay it. I reject this contention. The transaction was not a subterfuge for a loan; it was a substitute for a loan, and should be viewed on that basis. The fact that a transaction, from the point of view of the party receiving the funds, answers substantially all the requirements of a loan, does not make it a loan in law. *Youssouff v. Widener*, 246 N. Y. 174, 158 N.E. 64; *Commonwealth v. Reading Savings Bank*, 137 Mass. 431; *Yorkshire Railway Wagon Co. v. Maclure* [C.A. 1882] L.R. 21 Ch. D. 309."

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OCT 4 1954
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FEDERAL RESERVE BANK
OF NEW YORK

NEW YORK 45, N. Y.

September 28, 1954.

Howard H. Hackley, Esq.,
Assistant General Counsel,
Board of Governors of the
Federal Reserve System,
Washington 25, D. C.

Dear Howard:

In accordance with the telephone conversation this morning of Mr. Bailey and me with Mr. Vest and you we enclose a draft of our proposed memorandum to Mr. Rouse with respect to the legality of repurchase agreements. As requested by you, we also enclose memoranda, dated December 2, 14 and 15, 1948, of Mr. Brome.

Sincerely yours,

Harding Cowan

Harding Cowan,
Assistant Counsel.

Encs.

FOR FILES
L. McColloch

9/28/54

OCT 4 1954

TO: Mr. Rouse

SUBJECT: Repurchase Agreements

FROM: Harding Cowan
Henry J. Bailey, III

Reference is made to Mr. Sproul's memorandum to you of September 23, 1954 in which, among other things, he asks to be advised with respect to the legality of repurchase agreements.

While we do not find any specific statutory authority for such agreements, upon the basis of our research, we would not question the power of Federal Reserve banks to enter into such repurchase agreements pursuant to Section 14 of the Federal Reserve Act. We would predicate the validity of such agreements upon long established practice and the continuing sanction of such practice by the Board of Governors of the Federal Reserve System and the Federal Open Market Committee. It should also be noted that, while the practice has been carried on by Federal Reserve banks with the sanction of the proper administrative authorities, Congress has from time to time amended Section 14 of the Federal Reserve Act without making any relevant change in the provisions of that section applicable to the question at hand. Such action might be considered to be Congressional approval of the continuing sanction of the practice by proper administrative authorities.

In this general connection, we attach memoranda dated December 2, 14 and 15, 1948 of Mr. Robert H. Brome.

Att.

FOR FILES
L. McColloch

COPY

FEDERAL RESERVE BANK

OFFICE CORRESPONDENCE

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OCT 4 1954

DATE December 2, 1948

cc: Mr. Treiber

To Mr. S. A. Miller

SUBJECT General Pledge and Collateral

FROM Robert H. Brome

Agreement with Government Bond Dealers.

I refer to your memorandum dated September 30, 1947, addressed to Mr. Tiebout, entitled "Repurchase Agreements", in which you refer to the collateral agreements executed some 25 years ago by selected government bond dealers and inquire whether such agreements are adequate at this time to cover any repurchase agreements we may now make with such dealers or whether it is necessary to request the dealers again to sign such agreements in the present or in a revised form.

It is probable that the old agreements are still in effect, or at least, that the execution of a repurchase agreement in the form heretofore used would, in each case, revive the old collateral agreement because specifically referred to therein.

Your memorandum raises the further questions of whether this bank should use a collateral agreement at all and whether the repurchase agreement form should be revised. In this connection, I refer to Mr. Trimble's memorandum to you dated November 26, 1941, entitled "Proposed Purchase of Treasury Bills from Dealers upon Fifteen Day Resale Agreement, at a Different Rate than Prescribed by Section 10(b) F.R.A." and to the following note on Mr. Tiebout's memorandum to you dated May 7, 1942:

"Mr. Trimble has read this memorandum and raises the question, which is implicit in his memorandum of November 26, 1941, whether, in view of the Supreme Court and other decisions since 1933, at which time it is understood the repurchase agreement went into disuse, this bank should not now reexamine its position, particularly as a matter of policy with respect to the repurchase agreement before its use is revived."

As I understand it, our form of repurchase agreement, entitled "Sales Contract", for use in connection with purchases of short-term Government securities (see Exhibit A attached hereto) is in substantially the same form prepared and used since prior to 1923. Under this form, the seller agrees to repurchase the same securities on or before a specified date for a specified sum with "interest thereon at the rate of _____% per annum for the number of days that said securities are held by you, subject to the terms and conditions of our general collateral agreement with you." In 1923, opinions were rendered by the General Counsel of the Board

FOR FILES
L. McCulloch

OFFICE CORRESPONDENCE

DATE December 2, 1948To Mr. S. A. Miller

SUBJECT _____

FROM Robert H. Brome

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of Governors, by Mr. Agnew, General Counsel of the Federal Reserve Bank of San Francisco, and by Mr. Mason, General Counsel of this bank, all to the effect that repurchase agreements such as this one, especially when accompanied by general collateral agreements, evidenced transactions which were, in reality, loans and not bona fide purchases and sales of securities, and that such transactions might be ultra vires because the only authority then existing was section 14 of the Federal Reserve Act which merely authorized the Federal reserve banks to purchase and sell Government securities and bankers acceptances in the open market.

In March 1925, the Federal Reserve Board published a resolution reaffirming "previous decisions authorizing the practice, long continued, of purchase and sale in the open-market of bankers acceptances and government securities, by Federal reserve banks from and to banks and qualified dealers, under fifteen day 'repurchase agreements,' . . ." Although this action of the Board did not specifically identify our particular form of repurchase agreement, the General Counsel for this bank shortly thereafter expressed the view that, in the light of the Board's action, the procedure at this bank (involving substantially the repurchase agreement referred to above) was within the corporate authority of this bank.

It is my understanding that this bank continued to use this form until these transactions were discontinued in 1933.

The 13th paragraph of section 13 of the Federal Reserve Act, as added by act of March 9, 1933, contains the following provisions:

"Subject to such limitations, restrictions and regulations as the Board of Governors of the Federal Reserve System may prescribe, any Federal reserve bank may make advances to any individual, partnership or corporation on the promissory notes of such individual, partnership or corporation secured by direct obligations of the United States."

Section 12A(b) of the Federal Reserve Act, as amended by Act of June 16, 1933 and again in 1935, provides that

"(b) No Federal Reserve Bank shall engage or decline

OFFICE CORRESPONDENCE

DATE December 2, 1948To Mr. S. A. Miller

SUBJECT _____

FROM Robert H. Brome

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to engage in open-market operations under section 14 of this Act except in accordance with direction of and regulations adopted by the Federal Open Market Committee."

I understand that the Executive Committee of the Federal Open Market Committee at its meeting on January 20, 1948, voted unanimously to authorize each Federal Reserve Bank to enter into repurchase agreements with dealers in United States Government securities, provided such agreements (a) are at rates not below the rate in effect at the bank on discounts for and advances to member banks under section 13 and 13(a); (b) are for periods not to exceed 15 days; (c) cover only short-term Government securities selling at a yield of not more than the issuing rate for one-year Treasury obligations; and (d) are used only for periods of strain, with care and discrimination, as a means of last resort in the special types of situations and conditions reviewed in the attached memorandum.

It is my opinion, with which Mr. Trimble concurs, that a transaction represented by a "repurchase agreement" in the form heretofore used by this bank would be held to be a loan to the "seller". Our form of agreement could be revised so as to constitute it a sale with a condition subsequent, namely the agreement to repurchase; but this would involve the elimination of the collateral security. The action of the Federal Open Market Committee does not seem to require that we take collateral security, and it is at least doubtful whether that committee could authorize or direct Federal Reserve Banks to make loans in the guise of open market operations. On the other hand, it is also our opinion that, in view of the provisions of section 13 of the Federal Reserve Act and the long continued use by this bank of repurchase agreements in the form attached and with collateral agreements, the use of these forms to effect the repurchase transactions described in the above-quoted resolution of the Open Market Committee is not ultra vires.

This points up the policy question involved in the memoranda referred to above; namely whether this bank should make loans to dealers under the guise of repurchase agreements (and in reliance upon section 13) in order to obtain collateral security or whether we should enter into a true repurchase agreement (under authority of section 14 only) in which case we would

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DATE December 2, 1948To Mr. S. A. Miller

SUBJECT _____

FROM Robert H. Brome

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have to forego collateral security.

If it is decided to continue the use of a general collateral agreement, I suggest that no change be made in the Sales Contract form. I have, however, prepared a revised form of general collateral agreement (Exhibit B attached hereto) which, among other things, provides that in case the dealer is a partnership, the agreement shall not be affected by the death, resignation, or addition of any partner. I believe that it would be desirable for you to ask each of the selected dealers to execute a new agreement in substantially the form of this draft.

If, however, it is decided to require no collateral and no general collateral agreement, we should revise our repurchase agreement so that it would be held to evidence a conditional sale, or more specifically a present sale subject to a condition subsequent to-wit: our right to require repurchase within 15 days.

I am sending a copy of this memorandum and a set of its attachments to Mr. Treiber with whom I have discussed this matter briefly.

Att.
RHB:HON

C O P YFEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE	December 14, 1948
REC'D IN FILES SECTION	
OCT 4 1954	

To Legal Files

SUBJECT _____

FROM Robert H. Brome

I refer to my memorandum dated December 2, 1948, addressed to S. A. Miller, entitled "General Pledge and Collateral Agreement with Government Bond Dealers", on page 3 of which I set forth the following conclusion:

"On the other hand, it is also our opinion that, in view of the provisions of section 13 of the Federal Reserve Act and the long continued use by this bank of repurchase agreements in the form attached and with collateral agreements, the use of these forms to effect the repurchase transactions described in the above-quoted resolution of the Open Market Committee is not ultra vires."

It did not seem to me desirable to encumber that memorandum with the reasoning upon which that conclusion is based, but it is the purpose of this memorandum to set forth that reasoning.

In the first place, in 1923 Messrs. Wyatt, Agnew and Mason expressed the view that the form of repurchase agreement and general collateral agreement used by this bank actually evidenced loans rather than bona fide purchases and sales of securities in the open market within the authority granted by section 14 of the Federal Reserve Act, and that such transactions were ultra vires because this bank had no authority to make such loans. Section 14 does not, of course, deal directly with this question and is, therefore, unclear on this point; but I believe that the foregoing conclusions were correct.

For the following reasons, however, I believe that similar transactions today, when entered into in accordance with the authorization of the Federal Open Market Committee, are not ultra vires.

(1) The action of the Board of Governors in 1925 in officially and publicly reaffirming its position to the effect that the Federal Reserve Banks had authority under section 14 to enter into repurchase agreements, when it well knew the form of our agreement and did not take any exception or objection thereto, is in the nature of an administrative interpretation that a repurchase agreement in such form is an open market transaction under section 14.

(2) Since this administrative interpretation, section 14 has been reenacted in substantially the same form, thus constituting a Congressional adoption of the Board's interpretation.

(3) Since 1923, section 12A has been added to the effect that "No Federal Reserve Bank shall engage or decline to engage in open-market operations under section 14 of this Act except in accordance

FOR FILES L. McColloch

OFFICE CORRESPONDENCE

DATE December 14, 1948TO Legal Files

SUBJECT _____

FROM Robert H. Brome

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with the direction of and regulations adopted by the (Federal Open Market) Committee." I believe that the direction and authorization to the Federal Reserve Bank to enter into repurchase agreements, made with the knowledge of the form of this bank's agreement and of the prior interpretation by the Board, is (1) an authorization to use such form, and (2) an administrative interpretation of the Act similar to that of the Board of Governors in 1925. This conclusion is based, in part, upon the fact that the Committee's action was taken in the light of a memorandum dated January 2, 1948, entitled "Repurchase Agreements" which was prepared at this bank and which opens with the following paragraph under the heading "Repurchase Agreements Defined":

"Repurchase agreements covering United States Government securities (also referred to at times as sales contracts and purchases under resale agreements) may be defined as a means for making available to brokers and dealers in United States Government securities Federal Reserve Bank funds at a fixed rate of interest under arrangements which involve the purchase by the Federal Reserve Banks of such securities subject to the seller's commitment to repurchase them at the same price within a specified period of time. Such agreements (ordinarily involving only short-term securities) have run for a maximum period of fifteen days and were evidenced by a sales contract which, in turn, was subject to the terms and conditions of a general collateral agreement. As a matter of policy, the purchase and sale prices under repurchase agreements generally have been fixed so that the cost to the dealer conformed closely to the rediscount rate of the Federal Reserve Bank. Purchase prices for securities generally were below the market for issues selling at a discount and at par for those at a premium."

(4) In 1923, the Federal Reserve Bank had no power or authority to make loans to individuals or private corporations on security of obligations of the United States. This authority was added by the 13th paragraph of section 13 of the Federal Reserve Act.

I believe that the first three reasons listed above are sufficient to justify the conclusion expressed in my memorandum to Mr. Miller. They constitute, in effect, three reasons for the conclusion that section 14 of the Federal Reserve Act should be construed as authorizing, as an open market transaction, a purchase subject to a repurchase agreement in substantially the form of our present Sales Contract. As indicated above, this is contrary to the views expressed in 1923 by Messrs. Wyatt, Agnew and Mason. I believe that the latter views were sound; but

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DATE December 14, 1948

TO Legal Files

SUBJECT

FROM Robert H. Brome

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section 14 being, ineffect, ambiguous, and the Board and the Open Market Committee being vested with administration of section 14 and having, in effect, interpreted section 14 to the contrary, I believe that such interpretations are now controlling.

The fourth reason stands on its own feet. It is in effect that, although the repurchase agreements in this form are, in fact, loans on the security of Government bonds, such loans are intra vires because the Federal Reserve Banks have the power, under the 13th paragraph of section 13, to make such loans. This paragraph contains two provisions qualifying this authority: (1) it is "Subject to such limitations, restrictions and regulations as the Board of Governors of the Federal Reserve System may prescribe," and (2) such loans "shall bear interest at rates fixed from time to time by the Federal Reserve Bank, subject to the review and determination of the Board of Governors of the Federal Reserve System." The first provision does not, in my opinion, require that any such regulations be first issued before the Federal Reserve Banks may act. A more difficult question is whether the fact that this bank in its rate schedules sets forth the following rate:

"Advances under the last paragraph of section 13 of the Federal Reserve Act secured by direct obligations of the United States 2 1/2%"

would render a loan in the guise of a repurchase agreement to an individual partnership or corporation ultra vires if the only statutory authority for such loan is the last paragraph of section 13. In my opinion, it would not, because (1) the provisions of the Act to the effect that such rates shall be fixed by the Bank subject to review by the Board is not, in my opinion, a condition precedent to the exercise of the power, and (2) it seems to me that this provision is substantially complied with by virtue of the fact that the Federal Open Market Committee (which includes all of the members of the Board of Governors) authorized the transactions in this form, at the discount rate, and the further fact that formal notice of the Committee's action was officially transmitted to each Federal Reserve Bank by the Board of Governors with its letter dated January 23, 1948, with a copy of the memorandum dated January 2, 1948, referred to above.

RHB:HON

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FEDERAL RESERVE BANK

OF NEW YORK

REC'D IN FILES SECTION

OCT 4 1954

DATE December 15, 1948

TO Mr. S. A. Miller
FROM Robert H. Brome

SUBJECT General Pledge and Collateral
Agreement with Government Bond Dealers.

I refer to my memorandum dated December 2, 1948, addressed to you on this subject.

In the second full paragraph on page 3 of that memorandum the phrase "and it is at least doubtful whether that committee could authorize or direct Federal Reserve Banks to make loans in the guise of open market operations" is, perhaps, too broadly stated and implies that repurchase agreements in our present form may not be within the authority granted to the Federal Reserve Banks to enter into open market transactions under section 14 of the Federal Reserve Act. This is not the implication intended and since the quoted words add nothing to the memorandum, I should appreciate it if you would strike them out on the copies you have.

For your information and records, I am sending you here-with a copy of my memorandum dated December 14, 1948, addressed to the Legal Files, setting forth the legal reasoning upon which is based the conclusion expressed in my memorandum to you and which will, I believe, further explain the reason for deleting the clause quoted above.

RHB:HON

FOR FILES
L. McColloch

SEP 2 1954

332.3-6

August 30, 1954

Gov. Robertson

Peter M. Keir

Analysis of proposal that dealer repurchase contracts with the Federal Reserve System be made more like actual open-market transactions.

It is alleged that as currently constituted repurchase contracts between the Federal Reserve System and dealers in United States Government securities are essentially loan transactions. Question has been raised whether the System has the legal authority to make such "loans" to dealers.

To avoid these legal uncertainties it has been proposed that repurchase contracts be made more like actual open-market transactions. Under this plan the dealer would sell his securities outright to the Federal Reserve open market account at the prevailing market price, with the understanding that the issues would be repurchased on a specified date. The repurchase price would be the price in the market at the end of the repurchase period. From the standpoint of both dealers and the Federal Reserve System a change of this type would pose a number of problems.

Contracts of the proposed type would remove the penalty rate normally applicable to present repurchase agreements.

System repurchase agreements presently in use normally involve some carry loss, or penalty rate, to the dealer. In other words the repurchase rate at which contracts are discounted with the Federal Reserve is usually higher than the market yield on the securities placed under agreement. For example, assuming a repurchase rate of 1 1/2 per cent, a dealer with Treasury bills yielding 1 per cent would pay a penalty rate of 1/2 per cent. The System sets the repurchase rate above market yields deliberately, in order to insure that repurchase agreements with it will be attractive to dealers only at times of money market stringency.

Under repurchase contracts of the proposed type there would be no penalty rate. It is true that since the System would obtain full rights to the securities involved in such agreements, the dealer would forego his interest earnings during the repurchase period. At the same time, however, the dealer would also be free of borrowing costs. With no earnings and no borrowing costs, the dealer's carrying charge or penalty rate, would be zero. From the standpoint of carrying costs alone, therefore, a repurchase system of the type proposed would become attractive to dealers as soon as market borrowing costs rose above Treasury bill rates, a development that now frequently occurs when money is only slightly on the tight side and when the Federal Reserve has no desire to expand bank reserves.

Spreads between bid and asked quotations might create difficulties.

Repurchase agreements of the type proposed might also encourage dealers to profit at the expense of the System. For example, even if the Federal Reserve were to adhere strictly to best price behavior in the negotiation of proposed type contracts, buying and reselling as favorably as possible (i.e.,

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*C/Ry file
Jones*

*See file release
on Page 5*

trading on the inside market) the transactions would produce some gains for dealers on the basis of their yield spread. Possibly this difficulty in the proposed change could be overcome if the System made all repurchase transactions at the mean market yield. However, such a compromise might still result in lingering legal uncertainties. Moreover it would leave open the difficulty of determining the mean, for dealer spreads vary from one time to another and in setting such spreads dealers would not be subject to the discipline of being obliged to trade on them.

Dealers would forego the possibility of gain and risk the possibility of loss from yield declines during the repurchase period.

Notwithstanding the absence of carrying costs and the possibility of trading profits on repurchase agreements of the type proposed, such contracts would be inherently risky and would therefore probably be unattractive to dealers. Yield declines during the repurchase period on issues under contract could easily force a dealer to repurchase his securities from the System at a higher price than the one at which he sold.

As is demonstrated statistically below, yields do tend on balance to be lower at the end of repurchase periods more often than they are higher. This is true because, in practice, the System repurchase account expands during period of tight money and contracts as the money market eases. At times of monetary stringency, the supply of short-term securities offered in the secondary market frequently exceeds the demand, and short-term yields tend to back up (i.e., prices fall). With the return of easier money, the demand for short-term maturities rises, and short-term yields tend to fall.

Under the present repurchase system this money market bias toward lower yields at the end of repurchase periods tends to add to dealer returns. Under the proposed system, however, it could easily add to losses. A review of the repurchase process will make the reason for this difference clearer.

Dealer repurchase activity with the Federal rises during periods of tight money for two reasons. First, when private lending rates rise above the Federal Reserve repurchase discount, dealers frequently find it cheaper to carry their outstanding positions in short-term Governments on repurchase with the System. Secondly, dealers add to their positions by absorbing the residual supply of short-term issues brought into the market by the tightness of bank reserves. In the absence of cheaper borrowing alternatives these added holdings are also likely to be carried with the System. Subsequently, as money conditions ease and demand for short-term maturities picks up, dealers liquidate their contracts with the Federal, both by selling in the market and by switching to lower cost private borrowing alternatives.

It is apparent, therefore, that under the existing repurchase system dealers can buy short-term securities at reduced prices when money is tight, carry them with the Federal Reserve (at known costs) until the market strengthens, and then sell at a higher price. Similarly, the existing system assists the dealer in carrying over other short-term holdings (acquired prior to the tightening of money) to a more favorable market period.

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If the proposed system were adopted, however, when money conditions tightened and market yields rose, dealers in turning to the repurchase facility, would have to sell both their outstanding holdings and their new acquisitions to the Federal at a reduced market price. As money conditions eased and contracts were withdrawn, market prices would rise and consequently the prices at which dealers repurchased from the Federal would also rise. Thus, the proposed system would be likely to produce negative dealer gains over the repurchase period unless losses resulting from yield declines were offset by trading profits (obtained from dealer spreads). For the latter possibility to be true market yield declines would have to be minimal.

The above generalizations relate to repurchase contracts considered in the aggregate. Taken as a group repurchase agreements with the Federal Reserve expand in volume in periods of tight money and contract when money conditions ease. Securities on repurchase under individual contracts might, of course, be withdrawn prior to any general easing of money conditions and under the proposed system might therefore be repurchased at lower prices (higher yields) than they were sold. Assuming the dealer in question had no further recourse to the repurchase facility in the overall period of tightness, he would thus gain at the expense of the System.

Even dealers in the aggregate might occasionally gain at the expense of the System. For example, at times when general interest rate levels were sharply rising the usual money market tendency toward lower yields at the end of periods of repurchase activity might be more than offset by the upward trend of rates. At such times, although System policy would normally restrict the expansion of bank reserves to strictly temporary periods of tight money, the absence of a penalty rate would make dealers eager to profit from System repurchase agreements.

In the last analysis it is clear that uncertainty would be a prime feature of repurchase agreements of the proposed type. Individual dealers could never be absolutely sure whether or to what extent they might gain or lose from their commitment on any particular contract. The ultimate attractiveness of such contracts (relative to existing contracts) would seem therefore to depend on the rate at which dealers discounted the risk of loss from yield declines. If the discount to cover uncertainty on proposed contracts normally exceeded the penalty rate on existing contracts, dealers would be made worse off by the change.

Of course the penalty rate on existing contracts is itself variable, for market yields on short-term Government securities change more rapidly than the repurchase rate set by Federal Reserve banks. In fact, occasionally, as was true at times in the first half of 1953, rapid increases in market yields may more than offset the repurchase rate, eliminating all penalty and leaving the dealer with a net gain on his repurchase agreement. In such instances for a dealer to prefer the proposed type of contract to the existing type, he would have to anticipate market gains (from yield advances during the repurchase period) that exceeded the carry gains realizable under existing type contracts.

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Table I shows the monthly maximum and minimum carry rates effective during actual periods of repurchase activity since January 1953. Market yields from which carry rates were calculated are averages of closing bid rates on 30, 60, and 90-day Treasury bills. The maximum and minimum carry rates for the whole period, a loss of 1.06 per cent and a gain of .32 per cent respectively, are extremes which do not reflect the norm. A range between an .80 per cent maximum penalty and a gain of .15 per cent probably generalizes the 1953-54 experience better. Although it is true that the System repurchase contract does not typically allow for gains to dealers, the 1953 experience suggests that in periods of sharply rising yields, the repurchase rate will lag behind the market.

Table II attempts to throw some light on the degree of uncertainty and risk of loss that would be inherent in repurchase contracts of the proposed type. As has been indicated, if market yields remain unchanged, dealers would be better off with contracts of the proposed type by the amount of the carrying costs on existing agreements. Only in instances where existing type contracts resulted in carry gains, would dealers be better off under the present system (again assuming market yields to be stable).

Table II is designed, therefore, to show how far market yields could change during the repurchase period before the net carry advantage (or net disadvantage) of proposed type contracts would be wholly offset. The table considers three hypothetical carry rates which roughly generalize the 1953-54 experience, two which are penalty rates and one which produces a carry gain. The hypothetical rates were calculated using market yields and repurchase rates similar to those that actually resulted in equivalent carry rates during 1953-54. In the case of the two penalty rates, Table II indicates the number of basis points that yields could decline during the repurchase period (assumed to be four days) before the relative advantage of proposed type contracts would be wiped out. In the case where the existing type contract is assumed to produce a carry gain, the table shows how far yields would have to rise to eliminate the disadvantage that would otherwise result from use of the proposed type contract.

The data in Table II suggest that with few exceptions yield declines of 1 - 15 basis points would wipe out the relative carry advantages of proposed type contracts. The data also indicate that the range of yield movement tolerable is less where securities used for repurchase are of longer maturity. In other words dealers would run more risk of loss from yield declines when using longer term maturities for repurchase purposes. As a general rule dealers' positions in Treasury bills consist predominantly of the issues most recently sold. In practice, therefore, the longest bill maturities are most frequently placed on repurchase.

In the examples shown, yield declines on 90-day Treasury bills in excess of 4 basis points would offset the relative advantage of proposed type contracts. Day to day yield declines of over 4 basis points on the longest Treasury bills have been a frequent occurrence in recent years. During 1953 in the contract periods when repurchase agreements of 1 to 5 days maturity were actually in effect, yields on 90-day Treasury bills experienced declines as great

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as 18/32 and advances up to 22/32. ^{1/} During nearly 30 per cent of the 1 - 5 day contract periods, rates on 90-day bills declined 4 basis points or more, and in approximately 20 per cent of the periods they advanced 4 basis points or more. ^{2/}

Admittedly 1953 was a year of rather drastic changes in interest rates. In 1954 dealer recourse to the repurchase facility has been less frequent and yield fluctuations during 1 - 5 day repurchase periods have been more moderate. So far in 1954 yields have declined in approximately 40 per cent of the 1 - 5 day contract periods, advanced in about 30 per cent, and were unchanged in about 30 per cent. The smaller range of yield variation is indicated by the fact that yields have declined by 3 basis points or more in only 6 per cent of the contract periods and have advanced by 3 basis points or more in approximately 19 per cent of the periods.

One other variable that affects the relative attractiveness of proposed type contracts should be mentioned; namely, changes in the length of the repurchase period. Table II assumes a contract period of four days. Shorter contract periods would of course result in lower dollar carrying costs on existing contracts and would therefore give proposed type contracts a smaller carry advantage. With a lower carry advantage, allowable yield declines during the repurchase period would be smaller, although over a one or two day period the probability of a yield decline would also be less. In practice, dealer repurchase contracts with the System are more often 4 days or less than they are longer than 4 days.

Dealer efforts to avoid the risk of loss could create problems.

Assuming that the Federal Reserve shifted to the proposed type of repurchase agreement, dealers would naturally seek ways to avoid the risk of loss resulting from yield declines during the contract period. Because the System would be committed to resell to a dealer on a specified day, the market price on that date would assume considerable importance for the dealer and there would be a strong temptation for him to try to rig the market. Where a number of dealers were in the position of having to repurchase securities from the Federal on the same date, market prices could be strongly influenced by this fact, at least for a long enough period to force the System to resell at an artificially depressed price.

^{1/} In order to evaluate the significance of these yield advances, it should be recalled that during much of 1953 market yields were above the System discount rate on repurchase agreements. Carry gains were therefore realizable on existing type contracts. Under such conditions for contracts of the proposed type to be more attractive to dealers than existing contracts, market gains during the repurchase period would have had to exceed the carry gains.

^{2/} In the absence of a complete listing of all individual repurchase agreements with the Federal Reserve, the data on yield changes during contract periods are derived from the record of gross daily changes in the System repurchase account.

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FOR FILES
D. C. MILLER

Table I

Monthly Maximum and Minimum Carry Rates
Effective on Dealer Repurchase Agreements with the Federal Reserve System

January 1953 - July 1954

Month	System repurchase rate	Effective Carry Rate (%)	
		Loss (-) or Gain (+) Maximum	Minimum
1953 - January	1 3/4% to Jan. 16	- .15	+.32
February	2%	- .20	+.02
March	2%	- .09	+.03
April	2%	+ .03	+.26
May	2%	- .12	+.22
June	2%	- .02	+.15
July	2%	- .16	-.16
August	2%	- .09	+.07
September	2%	- .19	-.14
October	2%	- .61	-.58
November	2%	- .79	-.54
December	1 3/4% Dec. 7-31	- .56	-.08
1954 - January	2% after Jan. 6	- .72	-.48
February	1 3/4 % after Feb. 4	-1.06	-.81
March	1 3/4%	- .78	-.67
April	1 1/2% after Apr. 16	- .69	-.69
May	1 1/2%	- .72	-.72
June	1 1/2%	- .90	-.86
July	1 1/2%	- .86	-.86

Over-all: Maximum - 1.06

Minimum - +.32

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Table II

Effect of Yield Changes During the Repurchase Period on the Relative Attractiveness to Dealers of Proposed-Type Repurchase Agreements

(Assuming a 4-day contract period)

Assumed repurchase rate (per cent)	Assumed market yield at start of repurchase period (per cent)	Carry loss(-) or gain (+) on existing type contracts(per cent) (Cols. 1-2) 1/	Yield change in basis points that would offset carry loss or gain		
			90-day bills	30-day bills	10-day bills
1.50	.70	-.80	-4	-12	-53
1.75	1.45	-.30	-1	- 5	-22
2.00	1.90	-.10	-1	- 2	- 7
2.00	2.15	+.15	+1	+ 2	+ 9

1/ The carry rates used here generalize the range of actual experience during 1953 and 1954. The assumed combination of repurchase rates and market yields approximate those which actually produced equivalent carry rates during the 1953-54 period.

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REC'D IN FILES SECTION
JUN 28 1954
~~FOMC~~

Confidential (FR)

June 24, 1954

332:3-6

Dear Sir:

Supplementing my telegram to you today, there is enclosed a copy of the amended authority relating to repurchase agreements which was approved by the Federal Open Market Committee at its meeting on June 23, 1954. This amended authority supersedes the statement of conditions which was adopted at the meeting of the full Committee on March 4-5, 1953, and which was transmitted to you with my letter of April 8, 1953.

As you know, the general authority for repurchase agreements has existed continuously since January 1948. This latest amendment has the effect of placing in the executive committee of the Federal Open Market Committee the authority to direct Federal Reserve Banks to enter into repurchase agreements "at such times, in such amounts, and at such rates (or rate ranges) as the executive committee shall prescribe". The authority which had been in effect previously ran from the full Committee direct to the Federal Reserve Banks, authorizing each of them to enter into repurchase agreements at rates specified from time to time by the Manager of the System Open Market Account. The other conditions for such agreements were substantially unchanged by the amendment adopted yesterday.

Pursuant to the authorization of the full Committee at yesterday's meeting, and as stated in my telegram to you today, the executive committee has authorized, effective today, each Federal Reserve Bank to enter into repurchase agreements with nonbank dealers in United States Government securities at a rate of 1-1/2 per cent, with the understanding that such agreements shall be subject to the other conditions set forth in the attached copy of the amended authority. For your information, further consideration will be given to the conditions for repurchase agreements, including the question of the rate, at the meeting of the executive committee to be held on July 7, 1954.

Very truly yours,

Winfield W. Riefler, Secretary,
Federal Open Market Committee.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS
AIR MAIL EXCEPT TO NEW YORK, PHILADELPHIA, AND RICHMOND
4 copies to New York
MS:me

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332:3-6*

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JUN 29 1954

CONDITIONS FOR REPURCHASE AGREEMENTS
PRESCRIBED BY THE FEDERAL OPEN MARKET COMMITTEE
As Amended, June 23, 1954

In lieu of the authority granted with respect to repurchase agreements at the meeting of the Federal Open Market Committee on March 4, 1953, the executive committee is hereby authorized to direct the Federal Reserve Banks, or any of them, to enter into repurchase agreements with nonbank dealers in United States Government securities at such times, in such amounts, and at such rates (or rate ranges) as the executive committee shall prescribe, subject to the following conditions:

1. Such agreements
 - (a) In no event shall be at a rate below whichever is the lower of (1) the discount rate of the purchasing Federal Reserve Bank on eligible commercial paper, or (2) the average issuing rate on the most recent issue of three-month Treasury bills;
 - (b) Shall be for periods of not to exceed 15 calendar days;
 - (c) Shall cover only short-term Government securities maturing within 15 months; and
 - (d) Shall be used with care and discrimination as a means of providing the money market with sufficient Federal Reserve funds to avoid undue strain on a day-to-day basis.
2. Reports of such transactions shall be made to the Manager of the System Open Market Account to be included in the weekly report of open market operations which is sent to the members of the Federal Open Market Committee.
3. In the event Government securities covered by any such agreement are not repurchased by the dealer pursuant to the agreement or a renewal thereof, the securities thus acquired by a Federal Reserve Bank shall be sold in the market or transferred to the System Open Market Account.

REC'D IN FILES SECTION
CA. JUN 17 1954
332,3-6

June 14, 1954.

Mr. Aubrey G. Lanston,
15 Broad Street,
New York 5, N. Y.

Dear Aubrey:

Thanks for your letter of June 11th.
It is an interesting idea that you suggest here.
I'm passing this letter around so the others here
at the Board may have the benefit of your thinking.

With kind personal regards.

Sincerely yours,

Woodlief Thomas,
Economic Adviser.

WT:edn

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FOR FILES
Woodlief Thomas

AUBREY G. LANSTON & CO. INC.

SPECIALISTS IN
UNITED STATES GOVERNMENT
STATE AND MUNICIPAL SECURITIES

CHICAGO · NEW YORK · BOSTON

AUBREY G. LANSTON
PRESIDENT

Mr. Szymczak
Mr. [unclear]
Mr. [unclear]
Mr. [unclear]
Mr. [unclear]
FIFTEEN BROAD STREET
NEW YORK 5, N. Y.
WHITEHALL 3-1200

June 11, 1954

REC'D IN FILES SECTION
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JUN 17 1954
332.3-6

Mr. Woodlief Thomas
Economic Adviser to the Board
Board of Governors of the
Federal Reserve System
Washington 25, D. C.

Dear Woody:

While it is on my mind I thought I would drop you a note to say that I believe the recent open market operations are a very strong argument in favor of the idea of an expanded use of repurchase agreements which, as you know, was the subject of my Indianapolis and Alabama talks.

It seems to me that had the open market operation of the last five weeks been exactly reversed we would have been saved a lot of confusion and upset in the markets and the over-all result would have been infinitely better. For example:

<u>Week Ending</u>	<u>Actual Change in Reserve Bill Holdings</u>	<u>The Program in Reverse</u>
May 12	0	+ 175
19	+ 55	+ 75
26	+ 50	+ 50
June 2	+ 75	+ 55
9	+ 175	0

With kind regards,

Sincerely,

Aubrey

AGL/1
Cc - The Honorable William McChesney Martin, Jr.

FOR FILES
Woodlief Thomas

RECORDS SECTION
OCT 20 1954
332.3-6

CROSS REFERENCE

~~NOT RECEIVED BY RECORDS SECTION~~

DATE April 1, 1954

KIND OF MATERIAL: memo Youngdahl to Files

NAME OR SUBJECT: re; Lanston suggestions for automatic repurchase facility to cushion reserve fluctuations

REMARKS: original filed 333.1

CHECKED BY F. Smith

DATE 10/20/54

RECEIVED IN FILES SECTION
DEC 18 1953
332.3-6

December 9, 1953.

To: Federal Open Market Committee
From: Messrs. Riefler and Thomas

At the meeting of the Executive Committee November 23rd, it was decided that questions regarding repurchase agreements would be considered at the meeting of the full Committee to be held on December 15th. Attached is a memorandum pointing out various aspects of the questions that might be raised regarding the use of repurchase facilities and the establishment of the rate on such facilities. This memorandum has been prepared on the basis of discussion of the matter with the Associate Economists of the Committee and contains suggestions received from them. In its final form, however, it has not been cleared with this group.

Attachment

orig filed Lorne Hill

FOR FILES
C. L. Eberhart

December 9, 1953

USE OF REPURCHASE CONTRACTS TO MEET
TEMPORARY RESERVE NEEDS IN DECEMBER

In reviewing the questions of the use of repurchase contracts and of the rate on such contracts during coming weeks, the following considerations are pertinent:

(1) During December there are substantial drains on bank reserves due to purely temporary and seasonal factors. After the turn of the year the return flow of currency and other factors generally brings about a sharp reversal in the supply of reserves. In December and January reserve needs vary considerably from week to week and even from day to day.

(2) The System can take care of broad movements of reserves through outright purchases and sales of securities, but a device that reflects more promptly and automatically changing market pressures is needed for the purely temporary though wide swings. Under many circumstances member bank borrowing could serve this purpose, but in the present economic climate that may be a too-restrictive instrument if relied upon to meet the greater part of the needs. It is also not likely to be used on the dates of published statements. Repurchase contracts provide a device just suited for the purpose.

(3) The repurchase facility provides an instrument that is helpful in reducing temporary fluctuations in the money market. In periods of purely temporary money market tightness, as around holidays and month-ends, the repurchase facility is a particularly useful device. The principal merit of this instrument is that in general it comes into operation only when there is an over-all shortage of reserves in the market and goes out of use when the market has adequate reserves. Such purchases are not likely to be used to supply reserves for extended periods of time.

(4) In order for this procedure to be most effectively used when the temporary needs for reserves are very large, the System buying rate on such contracts cannot be too far out of line with market rates. If the System rate is far above the market rates, then the latter are likely to rise more than may be consistent with current policy before dealers will resort extensively to the use of repurchase contracts.

(5) Until December 8 the effective repurchase rate corresponded to the discount rate and was above market rates. At such a level it could not effectively aid in meeting forthcoming Christmas and end-of-year demands without the money market becoming tighter than it had been. To prevent undue tightness from developing, unless the repurchase rate had been lowered, the System would have had to make larger outright purchases at prevailing market rates. If the latter procedure were followed, the System would have to act positively to reduce its holdings in January to avoid creating an unduly easy money market situation for the early part of the year.

(6) At present the repurchase facility is available only to nonbank dealers and objection has been raised to a reduction in the repurchase rate without a reduction in the discount rate, on the grounds that it would be favoring dealers as against member banks.

(7) A question remains, however, as to whether the privilege should be extended to bank dealers, which do not now have it. If this were done, then there might be a question as to discrimination against other banks. Also, it is difficult to define a bank dealer. This difficulty could be eliminated by extending the repurchase facility to all member banks.

(8) To make the repurchase facility available to all member banks would not be the same as the bill buying rate and repurchase option procedure used during the war. It would differ from the wartime procedure in the following respects:

- (a) Repurchase contracts would be limited to a specified period--not over 15 days--within which sellers would be required to repurchase; under the wartime practice the seller had an option to rebuy but no obligation to do so.
- (b) Banks would report such contracts as bills payable on their statements.
- (c) The System buying rate would be flexible and not pegged at a fixed rate corresponding to the yield on the bills as was the case during war.

(9) This procedure could be put into operation by a relatively small amendment to the present directive of the Federal Open Market Committee. The existing directive governing the use of repurchase contracts is attached.

(10) Important points to be considered with respect to making the repurchase facility available to banks or even to bank dealers are as follows:

- (a) Actually banks would be aided and not harmed by a lower repurchase rate, even though the facility were available only to nonbank dealers, because banks ordinarily endeavor to adjust reserve positions by selling bills before borrowing and would be aided by the ability of dealers to buy bills at favorable rates.
- (b) Banks do not want to show borrowings on published statements and hence would tend not to use the repurchase facility over statement

dates, even if it were available to them. They would be aided, however, by a lower repurchase rate to dealers because they could avoid borrowing by selling bills to dealers, who would sell them to the Reserve Bank under repurchase contracts.

- (c) Banks would probably use the facility only to the extent that they otherwise would be willing to borrow and then might use it rather than borrow only if the repurchase rate were below the discount rate.
- (d) Any advantage to nonbank dealers at being able to borrow temporarily at below the discount rate is offset by the fact that frequently they must borrow from banks at rates above the discount rate.
- (e) Making repurchase contracts available to member banks at a rate below the discount rate would in practical effect provide for advances to member banks at a rate fixed by the Open Market Committee or the Manager of the Account and not by the Reserve Bank boards of directors, which under the law fix the rate on discounts (including advances). Also, question may be raised as to whether such repurchase transactions with member banks are actually conducted in the open market, but, of course, the same question is present with respect to repurchase transactions with nonbank dealers.
- (f) Question may be raised as to whether the maturity of each repurchase contract should be fixed separately by the Reserve Bank concerned or conform to a definite standard fixed by the Committee or the Manager.
- (g) The Comptroller of the Currency would have to rule as to whether the facility could be used by national banks. (It is believed that such use could be permitted if the outstanding contracts are reported as bills payable.)
- (h) Most member banks would not be familiar with the use of this device and it might not be possible to inform them as to availability in time for use this year.
- (i) Should the facility be made available as a permanent matter or only for specified periods of temporary reserve drains as may be determined from time to time?

FILES SECTION
OCT 20 1954
332.3-6
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CROSS REFERENCE
~~NOT RECEIVED BY RECORDS SECTION~~

DATE December 7, 1953

KIND OF MATERIAL: Wire Abbot, St. Louis to Riefler FRBoard

NAME OR SUBJECT: re: comments on memo of 12/2/53 "Use of Repurchase Contracts to meet temporary reserve needs in December"

REMARKS: Original filed FOMC General

CHECKED BY F. Smith

DATE 10/20/54

REC'D IN FILES SECTION
OCT 20 1954
332.3-6

CROSS REFERENCE
~~NOT RECEIVED BY RECORDS SECTION~~

DATE December 7, 1953

KIND OF MATERIAL: Wire Hostetler, Cleveland to FRBd

NAME OR SUBJECT: re; comments on memo of 12/2/53 on Repurchase Agreements

REMARKS: Original filed FOMC General

CHECKED BY F. Smith

DATE 10/20/54

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OCT 20 1954
332.3-6

CROSS REFERENCE
~~NOT RECEIVED BY RECORDS SECTION~~

DATE December 7, 1953 *f*

KIND OF MATERIAL: *Wire Powell to Riefler*

NAME OR SUBJECT: *re; comments on uses of Repurchase Agreements*

REMARKS: *Original filed FOMC General*

CHECKED BY F. Smith

DATE 10/20/54

REC'D IN FILES SECTION
OCT 20 1954
332.3-6

CROSS REFERENCE
~~NOT RECEIVED BY RECORDS SECTION~~

DATE December 4, 1953

KIND OF MATERIAL: Wire Willis FRBk Boston to FRBd

FRASER BOND

NAME OR SUBJECT: re; extension of Repurchase Agreement

REMARKS: Original filed FOMC General

CHECKED BY F Smith

DATE 10/20/54

REC'D IN FILES SECTION
OCT 20 1954
332,3-6

CROSS REFERENCE
~~NOT RECEIVED BY RECORDS SECTION~~

DATE December 2, 1953

KIND OF MATERIAL:

Letter H. V. Roelse, FRBk NY to Riefler FRBoard

NAME OR SUBJECT:

re: Purposes & Uses of Repurchase Agreement & enclosing Memo
"Conditions for Repurchase Agreements as Prescribed by the
Open Market Committee"

REMARKS:

Original filed FOMC General

CHECKED BY F. Smith

DATE 10/20/54

REC'D IN RECORDS SECTION

JUN 17 1955

332.3-6

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 8, 1953.

Dear Sir:

At the meeting of the Federal Open Market Committee on March 4, 1953, the Committee approved a revision in sub-paragraph (c) of the statement of conditions under which Federal Reserve Banks are authorized to enter into repurchase agreements with non-bank dealers in U. S. Government securities. This paragraph previously provided that such agreements "(c) Cover only short-term Government securities selling at a yield of not more than the issuing rate for one year Treasury obligations; and". It was revised to provide that such agreements "(c) Cover only short-term Government securities maturing within 15 months; and".

At the same meeting, the Committee agreed to abandon the rigid system of qualifications for dealers who transact business with the System open market account, which had been approved at the meeting of the Committee on February 29, 1944 (see Thirty-first Annual Report of Board of Governors for 1944, pages 48-51) and renewed from time to time since then.

The statement of conditions for repurchase agreements as prescribed by the Federal Open Market Committee and which was transmitted to you on July 30, 1952 has, accordingly, been revised to reflect the foregoing actions, and a copy of the revised statement is attached.

Very truly yours,

Winfield W. Riefler, Secretary,
Federal Open Market Committee.

File copy filed

Attachment *FOMC - General*

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

204-53

CONDITIONS FOR REPURCHASE AGREEMENTS AS
PRESCRIBED BY THE FEDERAL OPEN MARKET COMMITTEE

Each Federal Reserve Bank, in lieu of all similar previous authorizations, is authorized to enter into repurchase agreements with nonbank dealers in United States Government securities under the following conditions:

1. Such agreements
 - (a) Are at a rate which shall be specified from time to time by the Manager of the System Open Market Account in the light of market conditions and developments and in accordance with any directives or limitations prescribed by the full Committee or the executive committee for the purpose of carrying out the current policies of the Federal Open Market Committee, but in no event shall the effective rate be below whichever is the lower of (1) the discount rate of the purchasing Federal Reserve Bank on eligible commercial paper, or (2) the average issuing rate on the most recent issue of three-month Treasury bills;
 - (b) Are for periods of not to exceed 15 calendar days;
 - (c) Cover only short-term Government securities maturing within fifteen months; and
 - (d) Are used with care and discrimination as a means of providing the money market with sufficient Federal Reserve funds as to avoid undue strain on a day-to-day basis.
2. Reports of such transactions are made to the Manager of the System Open Market Account to be included in the weekly report of open market operations which is sent to the members of the Federal Open Market Committee.
3. In the event Government securities covered by any such agreement are not repurchased by the dealer pursuant to the agreement or a renewal thereof, the securities thus acquired by the Federal Reserve Bank are sold in the market or transferred to the System Open Market Account.

As Revised
March 4, 1953

REC'D RECORDS SECTION
AUG 16 1956
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Excerpt from Goldsmith service "United States Government
Securities", November 22, 1952.

A more aggressive policy of Federal acquisition
of Treasury bills on repurchase agreements, together with
the greater willingness of banks to discount with the
Federal, should prevent as tight a squeeze in the money
market over the holidays as occurred last year. Then too
there will be a greater understanding that tight money
over the holidays is by the nature of things entirely
temporary.

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August 25, 1952 ab

Mr. Leonard
M. B. Daniels

Classification of Government
securities repurchase agreements
in maturity distribution schedule

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I feel confident that these repurchase agreements have always been classified in the maturity distribution schedule in terms of the period of the agreement rather than the maturities of the securities. We have searched the files, however, and cannot find any instruction that they be so classified. Mr. Smead's memorandum of November 11, 1936, states that "the Federal Reserve Banks report any securities and bills held by them under resale contracts in the maturity classification in accordance with the maturity of the resale contracts, not the maturity of the securities themselves."

The repurchase agreement device was apparently originally approved by the Board in November 1917 as a substitute for member bank borrowing on 15-day collateral notes secured by Liberty Bonds and certificates of indebtedness so that the member bank would not have to pay the stamp tax on promissory notes. (At the same time the Reserve Banks were instructed that member banks might properly obtain short-time advances by rediscounting eligible commercial paper of longer maturities under repurchase agreements.)

X-871-a

The War Finance Corporation Act of April 5, 1918, exempted promissory notes secured by obligations of the United States from the stamp tax. On April 6, the Board wrote to the Federal Reserve Agents suggesting that the practice of purchasing Liberty Bonds and certificates of indebtedness under repurchase agreement be discontinued and that such borrowing of member banks be made on their own promissory notes. Within the next few years, however, the use of repurchase agreements was extended to transactions in Government securities with nonmember banks and dealers and to transactions in bankers' acceptances with dealers. In March 1925 the Board adopted a resolution reaffirming "previous decisions authorizing the practice, long continued, of purchase and sale in the open market of bankers acceptances and Government securities, by Federal reserve banks from and to banks and qualified dealers, under 15-day 'repurchase agreements . . .'"

filed 332.3

Some evidence bearing on classification is found in various comments and instructions. For example, in the Board's letter of March 12, 1918 (X-795), the banks were instructed not to report Government securities repurchase agreements as "15-day advances". Furthermore, the Board originally suggested that the Reserve Bank

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FOR FILES
D. L. Werner

Mr. Leonard

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10

might charge interest only for the time of the agreement when rediscounting eligible commercial paper of longer maturities under repurchase agreements (letter of December 1, 1917 X-545). That practice was later approved for bankers' acceptances. Presumably, there was no question but that interest for the period involved would be charged on Government securities repurchase agreements.

Form 34 did not provide for reporting repurchase agreements until 1927, when they were listed on the reverse as a memorandum item. However, for about a month in 1918 the Banks were instructed to report repurchase agreements (Liberty Bonds and certificates of indebtedness) on Form 34 and to wire the figures in the weekly condition statement telegrams. Beginning with the 1937 edition, Form 34 has provided for reporting repurchase agreements separately among holdings of U. S. Government securities.* Prior to 1935 the maturity distribution schedule on Form 34 provided only for reporting short-term Government securities. Effective January 1, 1935, the maturity classification shown in the weekly condition statement was changed to include bonds and notes. Beginning in 1937 the maturity distribution schedule was expanded to show four groups instead of one for maturities over six months. At that time, in connection with a proposal to show the various classes of Government securities in the schedule, Mr. Owens made a suggestion that a footnote be shown stating that securities held under a resale contract were listed according to the maturity of the contract rather than the maturity of the security (November 19, 1936, memorandum to Mr. Wyatt). *filed 330.223*

In case you are interested I have marked in the attached file (Repurchase Paper, 332.3-6) certain memoranda of interest regarding the history of this type of Reserve Bank credit and in the other file (Revisions-Weekly Condition Statement, 330.223) the material referred to above on repurchase agreements in the maturity schedule.

Attachments - 2 folders

* The present title, used beginning 1948, does not specify "repurchase agreements", but nothing else could be reported in "Other U. S. Government securities." *Exception: special certificates of indebtedness held by Richmond Bank June 20-23, 1952. MDW*

MD/dlw

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

REC'D IN FILES SECTION

SEP 12 1952

332.3-6

Office Correspondence

Date August 25, 1952

To Mr. Leonard

Subject: Classification of Government securities repurchase agreements in maturity distribution schedule

From M. B. Daniels

I feel confident that these repurchase agreements have always been classified in the maturity distribution schedule in terms of the period of the agreement rather than the maturities of the securities. We have searched the files, however, and cannot find any instruction that they be so classified. Mr. Smead's memorandum of November 11, 1936, states that "the Federal Reserve Banks report any securities and bills held by them under resale contracts in the maturity classification in accordance with the maturity of the resale contracts, not the maturity of the securities themselves."

The repurchase agreement device was apparently originally approved by the Board in November 1917 as a substitute for member bank borrowing on 15-day collateral notes secured by Liberty Bonds and certificates of indebtedness so that the member bank would not have to pay the stamp tax on promissory notes. (At the same time the Reserve Banks were instructed that member banks might properly obtain short-time advances by rediscounting eligible commercial paper of longer maturities under repurchase agreements.)

The War Finance Corporation Act of April 5, 1918, exempted promissory notes secured by obligations of the United States from the stamp tax. On April 6, the Board wrote to the Federal Reserve Agents suggesting that the practice of purchasing Liberty Bonds and certificates of indebtedness under repurchase agreement be discontinued and that such borrowing of member banks be made on their own promissory notes. Within the next few years, however, the use of repurchase agreements was extended to transactions in Government securities with nonmember banks and dealers and to transactions in bankers' acceptances with dealers. In March 1925 the Board adopted a resolution reaffirming "previous decisions authorizing the practice, long continued, of purchase and sale in the open market of bankers acceptances and Government securities, by Federal reserve banks from and to banks and qualified dealers, under 15-day 'repurchase agreements . . . '".

Some evidence bearing on classification is found in various comments and instructions. For example, in the Board's letter of March 12, 1918 (X-795), the banks were instructed not to report Government securities repurchase agreements as "15-day advances". Furthermore, the Board originally suggested that the Reserve Bank

Mr. Leonard

- 2 -

might charge interest only for the time of the agreement when rediscounting eligible commercial paper of longer maturities under repurchase agreements (letter of December 1, 1917 X-545). That practice was later approved for bankers' acceptances. Presumably, there was no question but that interest for the period involved would be charged on Government securities repurchase agreements.

Form 34 did not provide for reporting repurchase agreements until 1927, when they were listed on the reverse as a memorandum item. However, for about a month in 1918 the Banks were instructed to report repurchase agreements (Liberty Bonds and certificates of indebtedness) on Form 34 and to wire the figures in the weekly condition statement telegrams. Beginning with the 1937 edition, Form 34 has provided for reporting repurchase agreements separately among holdings of U. S. Government securities.* Prior to 1935 the maturity distribution schedule on Form 34 provided only for reporting short-term Government securities. Effective January 1, 1935, the maturity classification shown in the weekly condition statement was changed to include bonds and notes. Beginning in 1937 the maturity distribution schedule was expanded to show four groups instead of one for maturities over six months. At that time, in connection with a proposal to show the various classes of Government securities in the schedule, Mr. Owens made a suggestion that a footnote be shown stating that securities held under a resale contract were listed according to the maturity of the contract rather than the maturity of the security (November 19, 1936, memorandum to Mr. Wyatt).

In case you are interested I have marked in the attached file (Repurchase Paper, 332.3-6) certain memoranda of interest regarding the history of this type of Reserve Bank credit and in the other file (Revisions-Weekly Condition Statement, 330.223) the material referred to above on repurchase agreements in the maturity schedule.

M. P. Daniels

Attachments - 2 folders

References

In File 332.3-6:

- 2/7/25 memorandum entitled "Repurchase Agreements"
- 3/19/25 letter X-4295 "To all Governors except Bailey"
- 9/27/28 Memorandum from Mr. Smead to Governor Young
- 11/21/41 copy of memorandum from Mr. Van Fossen to Mr. Goldenweiser
- 11/29/41 Memorandum from Mr. Musgrave to Mr. Goldenweiser
- 11/20/42 Memorandum from Mr. Daniels to Mr. Morrill

* The present title, used beginning 1948, does not specify "repurchase agreements", but nothing else could be reported in "Other U. S. Government securities." *Exception: special certificates of indebtedness held by Richmond Bank, June 20-23, 1952. M.D.*

READ IN FILES SECTION
SEP 12 1952
332.3-6

August 18, 1952.

Mr. Daniels:

Among the questions to which I should like to have answers regarding the distribution of repurchase agreements in the maturity schedule of the weekly Federal Reserve statement are the following:

1. What was the former practice
2. When was it changed
3. Why was it changed
4. What consideration was given to the maturity distribution when repurchase agreements were resumed
5. Who made the decision that the repurchase agreements should be shown in the 1-15 day group of Government securities in the maturity schedule

R. F. L.

no file copy made -
See memo 8/25/52

RFL:jbs

READ IN FILES SECTION
J. R. Smith

REC'D IN RECORDS SECTION I

AUG 16 1956

332.3-6

July 7, 1952

Mr. Leonard -

Resale agreement transactions in Government securities are reported to the Board by the Federal Reserve Bank of New York under the headings shown below:

Purchases: "U. S. Government securities purchased from dealers under 15-day resale agreements."

Sales: "U. S. Government securities previously purchased from dealers under 15-day resale agreements."

M.D.

File
[Signature]

Files

FEDERAL RESERVE BANK OF CHICAGO
CHICAGO 90

Mr. Myrick
Miss Toheen
REC'D IN FILES SECTION
OCT 30
332.3-6
ad

September 28, 1950

Mr. Lowell Myrick, Assistant Director
Division of Bank Operations
Board of Governors of the Federal Reserve System
Washington 25, D. C.

Dear Mr. Myrick:

As requested in your letter of September 26, we are forwarding the following schedules prepared by our Investment Department:

Securities purchased under repurchase agreement,
\$50,000,000, September 1, 1950.

Securities sold under repurchase agreement,
\$50,000,000, September 5, 1950.

Yours very truly,

C. Schelling

C. Schelling
Assistant Federal Reserve Agent

CS:MES

FOR FILES
I. M. Goheen

RECORD IN FILES SECTION
SEP 27 1950
332.3-6
EPW

September 26, 1950

Mr. A. L. Olson, Vice President,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Olson:

It has been noted that on September 1 your
Bank's holdings of United States Government securities
included \$50,000,000 held under repurchase agreement.

We have apparently not received schedules
covering the purchase and sale of these securities, and
accordingly, it will be appreciated if you will submit
copies.

Very truly yours,

Lowell Myrick,
Assistant Director,
Division of Bank Operations.

ML
Lowell Myrick
IG/dlw

FILE COPY

FOR FILES
Patricia B. Ivie

REC'D IN FILES SECTION
SEP 28 1950
332-3-6
September 26, 1950

Files

L. Goheen

On September 25, the Federal Reserve Bank of New York purchased, under sales ~~in~~ contract agreement, \$40,000,000 of the October 13 Treasury bills at a 1-3/8% discount. A rate of 1-1/2% will be charged by the Reserve Bank.

\$1,000,000 of these bills were re-purchased on September 26.

LG:mag

FILE COPY

FOR FILES
L. M. Goheen

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

REC'D IN FILES SECTION

SEP 28 1950

Office Correspondence

Date September 26, 1950

To Files

Subject: _____

From L. Goheen *lmgs.*

mm

On September 25, the Federal Reserve Bank of New York purchased, under sales contract agreement, \$40,000,000 of the October 13 Treasury bills at a 1-3/8 % discount. A rate of 1-1/2% will be charged by the Reserve Bank.

\$1,000,000 of these bills were re-purchased on September 26.

FOR FILES
L. M. Goheen

REC'D IN FILES SECTION
SEP 6 1950
332.3-6

September 5, 1950
Edw

Files
L. Goheen

On September 1 the Federal Reserve Bank of Chicago purchased under sales contract agreement \$50,000,000 Government securities consisting of \$40,000,000 bonds and \$10,000,000 certificates at a rate of 1.40.

It is understood that the seller (C. F. Childs and Co.) will repurchase the entire amount on September 5.

lg/dlw
lmg

FILE COPY

FOR FILES
D. L. Werner

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

REC'D IN FILES SECTION

SEP 6 1950

Office Correspondence

Date September 5, 1950

To Files

Subject: _____

From L. Goheen *ymb*

MD

On September 1 the Federal Reserve Bank of Chicago purchased under sales contract agreement \$50,000,000 Government securities consisting of \$40,000,000 bonds and \$10,000,000 certificates at a rate of 1.40.

It is understood that the seller (C. F. Childs and Co.) will repurchase the entire amount on September 5.

FOR FILES
D. L. Werner

REC'D IN FILES SECTION
K AUG 23 1950 *dkf*
332-3-6
August 22, 1950 *gw*

Files

L. Goheen *LM*

Of the \$95,000,000 U. S. Government securities purchased under 15-day sales contract agreements, by the New York Reserve Bank on August 7, a total of \$70,500,000 consisting of \$36,000,000 certificates, \$16,500,000 notes, and \$18,000,000 bonds were held for the entire period when they were repurchased by the sellers on August 22.

LG:ct

LMG

FILE COPY

FOR FILES
L. B. Smith

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

REC'D IN FILES SECTION

AUG 23 1950

Office Correspondence

Date August 22, 1950

To Files *g*

Subject: _____

From E. Goheen *lv*

Of the \$95,000,000 U. S. Government securities purchased under 15-day sales contract agreements, by the New York Reserve Bank on August 7, a total of \$70,500,000 consisting of \$36,000,000 certificates, \$16,500,000 notes, and \$18,000,000 bonds were held for the entire period when they were repurchased by the sellers on August 22.

MD

rfp

FOR FILES
J. B. Smith

RECORDED IN FILES SECTION
AUG 9 1950
32, 3-6

August 9, 1950

Files

L. Goheen

On August 7 the Federal Reserve Bank of New York purchased, under fifteen-day sales contract agreements, a total of \$95,000,000 U. S. Government securities, which consisted of the following:

Treasury bills	\$15,000,000
Certificates of indebtedness	40,500,000
Treasury notes	20,500,000
Treasury bonds	19,000,000

On August 8, \$5,000,000 bills and \$3,500,000 certificates of indebtedness were repurchased by the seller; reducing the holdings of such securities by the New York Reserve Bank to \$10,000,000 and \$37,000,000, respectively, and the total holdings to \$86,500,000.

FILE COPY

IG/dlw

lmg.

FOR FILES
B. R. Smith

REC-11
AUG 7 1950
323-6
CM

EW

MLP

August 4, 1950

Mr. Myrick

Miss Goheen

On August 2, the Federal Reserve Bank of New York purchased,
and held for one day only, the following United States Govern-
ment securities under sales contract agreement:

Certificates of indebtedness	-	\$8,000,000
Treasury notes	-	12,000,000

LG:ct
lms

FILE COPY

FOR FILES
C. S. Turner

FILED IN FILES SECTION
 APR 28 1950
 3213-6
 April 28, 1950

Mr. Leonard
 L. M. Goheen

U. S. Government securities
 purchased under resale
 agreement

Recorded below are the transactions in Government securities acquired from dealers under repurchase agreement by the Federal Reserve Bank of New York from April 6 to April 27.

These are the first such purchases since the establishment of the new minimum buying rate of 1/8 per cent above the average issuing rate on the most recent issue of U. S. Treasury bills, as authorized by the Federal Open Market Committee on March 1, 1950. All purchases have been at a rate of 1-3/8 per cent. Weekly issues of Treasury bills have been at average discount rates of 1.145% (March 30); 1.148% (April 6); 1.160% (April 13); 1.162% (April 20); and 1.166% (April 27).

<u>Date</u>	<u>Issue</u>	<u>Purchases</u>	<u>Repurchases</u>	<u>Total amount outstanding</u>
April 6	Treasury bills	\$68,000,000	-	
	Certificates of indebtedness	7,000,000	-	\$75,000,000
April 10	Certificates of indebtedness	5,000,000	-	
	Treasury bills	-	\$5,000,000	75,000,000
April 12	Treasury bills	-	35,000,000	40,000,000
April 13	Treasury bills	73,000,000	-	
	Certificates of indebtedness	7,000,000	-	120,000,000
April 14	Treasury bills	-	5,000,000	115,000,000
April 17	Treasury bills	-	96,000,000	
	Certificates of indebtedness	-	19,000,000	-
April 27	Treasury bills	50,000,000	-	50,000,000
Totals		\$210,000,000	\$160,000,000	

FILE COPY

FOR FILE
 U. S. GOVERNMENT

LG/dlw *lmg.*

MAY 1 1950

Date April 28, 1950

Office Correspondence

To Mr. Leonard

Subject: U. S. Government securities
purchased under resale
agreement

From L. M. Goheen

Recorded below are the transactions in Government securities acquired from dealers under repurchase agreement by the Federal Reserve Bank of New York from April 6 to April 27.

These are the first such purchases since the establishment of the new minimum buying rate of 1/8 per cent above the average issuing rate on the most recent issue of U. S. Treasury bills, as authorized by the Federal Open Market Committee on March 1, 1950. All purchases have been at a rate of 1-3/8 per cent. Weekly issues of Treasury bills have been at average discount rates of 1.145% (March 30); 1.148% (April 6); 1.160% (April 13); 1.162% (April 20); and 1.166% (April 27).

<u>Date</u>	<u>Issue</u>	<u>Purchases</u>	<u>Repurchases</u>	<u>Total amount outstanding</u>
April 6	Treasury bills	\$68,000,000	-	
	Certificates of indebtedness	7,000,000	-	\$75,000,000
April 10	Certificates of indebtedness	5,000,000	-	
	Treasury bills	-	\$5,000,000	75,000,000
April 12	Treasury bills	-	35,000,000	40,000,000
April 13	Treasury bills	73,000,000	-	
	Certificates of indebtedness	7,000,000	-	120,000,000
April 14	Treasury bills	-	5,000,000	115,000,000
April 17	Treasury bills	-	96,000,000	
	Certificates of indebtedness	-	19,000,000	-
April 27	Treasury bills	50,000,000	-	50,000,000
Totals		\$210,000,000	\$160,000,000	

FOR FILE
A. S. [unclear]

E
X
C
E
R
P
lbb:T

REC'D IN FILES SECTION
JAN 9 1950
33 2.3-6

W

CA

December 23, 1949

Mr. D. W. Rich
Rich and Company, Incorporated
New York, New York

Dear Dominic:

Thank you for remembering me again this year in
* * * * *

I saw your letter to Elliott Thurston about the
repurchase arrangement and have expressed general agree-
ment with the idea but it still has some obstacles to
overcome.

* * * * *

Sincerely yours,

Woodlief Thomas
Economic Adviser

WT:pvj

*file copy
file: 205.301
Thomas, W.,*

REC'D IN FILES SECTION
SEP 28 1949
32.3-6

September 28, 1949

Mr. Connell

L. Goheen

On September 26 the Federal Reserve Bank of New York purchased, under sales contract agreements, \$30,200,000 Treasury bills; the following day \$100,000 of these bills were repurchased and an additional \$3,400,000 bought, increasing the total outstanding on September 27 to \$33,500,000.

All purchases were at a 1-1/4 per cent discount and at the prevailing 1-3/8 per cent interest rate.

LG/dlw *hmg.*

FILE COPY

FOR FILES
D. L. Werner

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

REC'D IN FILES SECTION
SEP 28 1949

Office Correspondence

Date September 28, 1949

To Mr. Connell

Subject: _____

From L. Goheen *lmg*

On September 26 the Federal Reserve Bank of New York purchased, under sales contract agreements, \$30,200,000 Treasury bills; the following day \$100,000 of these bills were repurchased and an additional \$3,400,000 bought, increasing the total outstanding on September 27 to \$33,500,000.

All purchases were at a 1-1/4 per cent discount and at the prevailing 1-3/8 per cent interest rate.

FOR FILES
B. B. Smith

REC'D IN FILES SECTION

SEP 15 1949

332,3-6

September 14, 1949

Mr. Connell

L. M. Goheen

On September 12 the Federal Reserve Bank of New York purchased the following United States Government securities under sales contract agreement, at the prevailing 1-3/8 per cent rate:

Treasury bills	\$14,050,000
Certificates of indebtedness	4,000,000
Treasury notes	<u>2,000,000</u>
Total	\$20,050,000

The entire lot was repurchased on September 13.

LG/dlw

LuS

FILE COPY

FOR FILES
C. S. Turner

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

M. Leonard

Office Correspondence

Date September 14, 1949

To Mr. Connell ✓

Subject: _____

From L. M. Goheen *lmg*

REC'D IN FILES SECTION

SEP 15 1949

On September 12 the Federal Reserve Bank of New York purchased the following United States Government securities under sales contract agreement, at the prevailing 1-3/8 per cent rate:

Treasury bills	\$14,050,000
Certificates of indebtedness	4,000,000
Treasury notes	<u>2,000,000</u>
Total	\$20,050,000

The entire lot was repurchased on September 13.

FOR FILES
I. B. Smith

REC'D IN FILES SECTION
SEP 8 1949
332,3-6
September 8, 1949

Mr. Connell

L. Goheen

There have been no purchases under sales contract agreements since September 1. The entire lot of \$102,802,000 Treasury bills, held by the New York Reserve Bank at the close of business on that day, has been repurchased by the sellers; \$100,000 on September 2 and the remaining \$102,702,000 on September 6.

From August 29 through September 1, the New York Reserve Bank purchased a total of \$126,002,000 Treasury bills (at 1-1/4 per cent discount) under sales contract agreements at the 1-3/8 per cent rate established on August 5, 1949.

IG/dlw

lms

FILE COPY

FOR FILES
D. L. Werner

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Mr. Leonard
Mr. Connell

Office Correspondence

Date September 8, 1949

To Mr. Connell ✓

Subject: _____

From L. Goheen *Lmg*

REC'D IN FILES SECTION
SEP 9 1949

There have been no purchases under sales contract agreements since September 1. The entire lot of \$102,802,000 Treasury bills, held by the New York Reserve Bank at the close of business on that day, has been repurchased by the sellers; \$100,000 on September 2 and the remaining \$102,702,000 on September 6.

From August 29 through September 1, the New York Reserve Bank purchased a total of \$126,002,000 Treasury bills (at 1-1/4 per cent discount) under sales contract agreements at the 1-3/8 per cent rate established on August 5, 1949.

FOR FILES
C. S. Turner

RECEIVED IN FILES SECTION
SEP 2 1949
332,3-6
September 2, 1949

Mr. Myrick

L. Goheen

On September 1, \$9,500,000 of the \$77,302,000 Treasury bills held under sales contract agreements by the New York Reserve Bank on August 31 were repurchased, and \$35,000,000 additional bills were bought. Total holdings of Treasury bills under repurchase agreements were thereby increased to \$102,802,000.

FOR FILES
L. G. Smith

LG/dlw

lmg

FILE COPY

M. J. Conrad

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

REC'D IN FILES SECTION
SEP 2 1949

Office Correspondence

Date September 2, 1949

To Mr. Myrick

Subject: _____

From L. Goheen *LMG*

My

On September 1, \$9,500,000 of the \$77,302,000 Treasury bills held under sales contract agreements by the New York Reserve Bank on August 31 were repurchased, and \$35,000,000 additional bills were bought. Total holdings of Treasury bills under repurchase agreements were thereby increased to \$102,802,000.

FOR FILES
L. B. Smith

REC'D IN FILES SECTION
SEP 1 1949
332,3-6

August 31, 1949

Mr. Connell
L. Goheen

Holdings of Treasury bills purchased under resale agreement increased from \$69,802,000 on August 30 to \$77,302,000 on August 31, reflecting purchases by the New York Federal Reserve Bank of \$20,000,000 and repurchases by dealers of \$12,500,000.

FILE COPY

FOR FILES
J. B. Smith

LG:jd
Lmd.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

REC'D IN FILES SECTION

SEP 1 1949

Date August 31, 1949

*order to
Halselt ✓*

Office Correspondence

To Mr. Connell

Subject: _____

From L. Goheen *lvgs*

Holdings of Treasury bills purchased under resale agree-
ment increased from \$69,802,000 on August 30 to \$77,302,000 on
August 31, reflecting purchases by the New York Federal Reserve
Bank of \$20,000,000 and repurchases by dealers of \$12,500,000.

FOR FILES
S. L. Trott

REC'D IN FILES SECTION
AUG 31 1949
332,3-6
August 30, 1949

Mr. Connell

L. Goheen

On August 29 the Federal Reserve Bank of New York purchased \$46,002,000 Treasury bills under repurchase agreement at the recently established minimum rate of 1-3/8 per cent. Today \$1,200,000 of the \$46,002,000 was repurchased and an additional \$25,000,000 purchased by New York making a net total of \$69,802,000 held under repurchase agreement on August 30.

IG:DLW *lgw*

FILE COPY

FOR FILES
L. M. Goheen

REC'D IN FILES SECTION
JUL 20 1949
332.3-6

July 20, 1949.

Mr. Robert G. Rouse, Vice President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Bob:

Thank you for your letter of July 18 enclosing forms of general collateral agreement and letter covering sales of Government securities by dealers to your bank under repurchase agreement. This information will be useful to us and I appreciate your sending it to me.

With my kind regards,

Sincerely yours,

George B. Vest,
General Counsel.

GBV:lim

FILE COPY

FOR FILES
L. McCulloch

Gen'l Files

REC'D IN FILES SECTION
AUG 3 1949
332.3-6

FEDERAL RESERVE BANK
OF NEW YORK

NEW YORK 45, N.Y.

July 18, 1949

Mr. George B. Vest, General Counsel,
Board of Governors of the
Federal Reserve System,
Washington 25, D. C.

Carded

*x Repurchase agreement
Form*

Dear George:

We have reviewed the arrangements which we had in effect some years ago with several of the dealers in United States Government securities covering the purchase by us from such dealers, in times of temporarily tight money market conditions, of short-term Government securities under repurchase agreements by the dealers. It was the practice in that connection for the dealers to enter into a general collateral agreement which was a continuing instrument and, from time to time as temporary accommodations seemed appropriate, the dealer would deliver the specific securities sold to us accompanied by a short letter agreeing to repurchase the securities on or before a specified date (not over fifteen days) for a certain price with interest thereon at a specified rate.

These forms of general collateral agreement and letter covering sales by a dealer of specific securities under repurchase agreement have been revised and I thought that, as a matter of interest, you might like to have the enclosed copies for your files. We propose to use the revised forms in connection with any future transactions with the qualified dealers. This arrangement, of course, does not apply to the qualified dealer-banks which have access to Federal Reserve Bank discount facilities.

With kindest personal regards, I am

Very truly yours,

Bob

Robert G. Rouse,
Vice President.

Enclosures (4)

*Copy filed
333.1*

FOR FILES
L. McCulloch

REC'D IN FILES SECTION
AUG 3 1949

REPURCHASE AGREEMENT

(Date)

Federal Reserve Bank of New York,
New York 45, N. Y.

Gentlemen:

We hand you herewith United States Government securities (with all unmatured coupons, if any, attached), having a total par value of \$ _____, listed below, which we have today sold to you for \$ _____. In consideration of the purchase by you of such securities, we hereby agree to repurchase them from you at any time at your or our option on or before _____, at the same price plus interest thereon at the rate of _____% per annum for the number of days that said securities are held by you. Our obligations hereunder are secured by and subject to the terms and conditions of our general collateral agreement with you.

Very truly yours,

(Name of dealer)

By _____
(Signature)

(Title)

SCHEDULE OF SECURITIES COVERED BY ABOVE AGREEMENT

Description of issue	Maturity	Amount (Par Value)

REC'D IN FILES SECTION

AUG 3 1949

GENERAL PLEDGE AND COLLATERAL AGREEMENT

In consideration of purchases and sales of bills, notes, acceptances, bonds, securities and other property, effected between the Federal Reserve Bank of New York (hereinafter called the "Reserve Bank") and the undersigned by virtue of agreements from time to time entered into between the parties, and other good and valuable consideration, and as collateral security for any and all indebtedness, obligation and liability of any kind of the undersigned to the Reserve Bank now or hereafter existing and whether absolute or contingent or due to or to become due (hereinafter called "Liabilities"), the undersigned hereby pledges and agrees to pledge to the Reserve Bank all moneys, credits, negotiable instruments, bonds, stocks, commercial paper, securities, mortgages, choses in action, claims, demands, rights, interests and property of every kind which are now in, or which may at any time hereafter come into, the possession or control of the Reserve Bank, or of any of its agents or correspondents, or which may now or hereafter be in transit to the Reserve Bank or any of its agents or correspondents, and which belong to, or are held for account of or subject to the order of, the undersigned (all of which are hereinafter collectively referred to as the "Collateral"); and the undersigned further gives and agrees to give to the Reserve Bank, as collateral security for the Liabilities, a lien, right of offset and other appropriate security interest in any of the Collateral which by its nature is or may be incapable of pledge.

The undersigned shall, whenever requested by the Reserve Bank, deliver to the Reserve Bank such collateral and such additional and further collateral, rights and property as the Reserve Bank in its discretion may deem necessary to secure properly the payment of the Liabilities.

Upon default in the payment of any of the Liabilities including any interest thereon, or in the performance of any obligation of the undersigned to the Reserve Bank, or in case of the failure of the undersigned to furnish additional collateral as herein provided, or if the undersigned shall suspend or discontinue business, or shall be adjudicated bankrupt or insolvent, or shall make an assignment for the benefit of creditors or a composition with creditors, or shall file a voluntary petition, or an answer admitting the jurisdiction of the court and the material allegations of an involuntary petition, or shall consent to an involuntary petition, pursuant to any bankruptcy, reorganization or insolvency law of any jurisdiction, or if any order shall be entered pursuant to any such law approving an involuntary petition seeking reorganization of or to effect an arrangement or plan for the undersigned or appointing any receiver or trustee of or for the undersigned or of or for all or any substantial portion of the property of the undersigned, or if the undersigned shall apply for or consent to the appointment of such a receiver or trustee, then, and in every such event, any and all of the Liabilities shall, at the option of the Reserve Bank, immediately become due and payable without presentment or demand or notice of any kind, all of which are hereby expressly waived, notwithstanding any provision to the contrary in any instrument evidencing any of the Liabilities. In any such event, the Reserve Bank is authorized to sell, assign and deliver, in its discretion, the whole or any part of the Collateral at public or private sale or at broker's board (being at liberty to become the purchaser if the sale is public or at broker's board), with or without demand, advertisement or notice of the time or place of sale or adjournment thereof or otherwise, upon such price and terms as the Reserve Bank may deem advisable, the undersigned hereby waiving and releasing any and all equity, or right, of redemption. In case of any such sale, after deducting all costs, attorney's fees and other expenses of collection,

sale and delivery, the Reserve Bank may apply the net proceeds of sale to the payment of any or all of the Liabilities whether due or not, as the Reserve Bank may deem proper, the undersigned remaining liable for any deficiency with legal interest, and the balance of such net proceeds, if any remain after payment in full of all Liabilities, shall be paid to the undersigned.

The Reserve Bank may assign or transfer the whole or any part of any obligation or liability of the undersigned and may or may not transfer as collateral security therefor the whole or any part of the Collateral, and the transferee shall have the same rights and powers with reference to such obligation or liability and the Collateral transferred therewith as are hereby given to the Reserve Bank.

This instrument shall constitute a continuing pledge and agreement between the undersigned and the Reserve Bank applying to all future as well as existing transactions between said parties (and, in case the undersigned is a partnership, shall not be affected, impaired or released by the death, resignation or addition of any partner), and shall not be terminated by the closing at any time of all transactions between said parties but shall apply thereafter to any new transaction or transactions and shall continue in full force and effect until notice is received in writing by either party from the other of the intention to terminate it. Any such termination shall have the effect of cancelling this agreement only as to transactions thereafter entered into.

IN WITNESS WHEREOF the undersigned has caused these presents to be executed this ____ day of _____, 19__.

(Name of dealer)
By _____
(Signature)

(Title)

REC'D IN FILES SECTION

JUL 14 1949

332.3-6

June 28, 1949

Mr. Leonard and Mr. Myrick

Miss Goheen

The Federal Reserve Bank of New York on June 27 purchased under repurchase agreement \$75,000,000 in Treasury Bills. This is the first such transaction at the New York Bank since 1933. The last time the System held securities under repurchase agreement was in 1935.

LG/dlw

bu g FILE COPY

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

REC'D IN FILES SECTION
JUL 5 1949

Office Correspondence

Date June 28, 1949

To Mr. Leonard and Mr. Myrick

Subject:

From Miss Goheen *Lu*

REC'D IN FILES SECTION
JUL 14 1949

The Federal Reserve Bank of New York on June 27 purchased under repurchase agreement \$75,000,000 in Treasury Bills. This is the first such transaction at the New York Bank since 1933. The last time the System held securities under repurchase agreement was in 1935.

FOR FILES
J. H. S. S.

FROM MR. COE
TO MR. PEONE
OFFICE COE

REC'D IN FILES SECTION
JUL 5 1949

January 20, 1948.

REC'D IN FILES SECTION
JUL 14 1949

At the conclusion of the discussion upon motion duly made and seconded it was voted unanimously to authorize each Federal Reserve Bank to enter into repurchase agreements with dealers in United States Government securities who are qualified to transact business with the System Open Market Account provided that (1) such agreements (a) are at rates not below the rate in effect at the Bank on discounts for and advances to member banks under Sections 13 and 13a, (b) are for periods of not to exceed 15 calendar days, (c) cover only short-term Government securities selling at a yield of not more than the issuing rate for one year Treasury obligations, (d) are accepted only in periods of strain with care and discrimination as a means of last resort in the special types of situations and conditions reviewed in Mr. Rouse's memorandum, and (e) that reports of such transactions should be included in the weekly report of transactions furnished the committee, and (2) in the event Government securities covered by such an agreement are not repurchased by the dealer pursuant to the agreement or a renewal thereof, the securities will be sold in the market or transferred to the System Open Market Account.

Dictated over phone
6/28/49 by Mr. Coe.

dlw

REC'D IN FILES SECTION
JUL 14 1949

IN FILES SECTION

OCT 19 1948 *ml*

332.3-6

October 18, 1948. *ml*

Mr. Smead

Mr. Sherman

LC

The following is an excerpt from the minutes of the meeting of the Board with the Presidents of the Federal Reserve Banks on October 5, 1948:

- "3. Treasury bills sold by member bank to member bank of another Federal Reserve district under repurchase agreement as proper items for safekeeping by Federal Reserve Bank of district in which selling member bank is located. The Conference gave consideration to the practice contemplated by the request recently made of the Federal Reserve Bank of Cleveland by one of its member banks to hold in safekeeping for a member bank located in New York, from time to time, blocks of Treasury bills sold to the New York member bank by the member bank in Cleveland, subject to a repurchase agreement or under an understanding to that effect. The reason for the request, as explained to the Conference, is that the Cleveland member bank desires to be in a position to make quick adjustments in its reserve position as late as possible in the day and feels that such sales by way of CPD transactions will not serve the desired purpose because CPD transactions must be consummated not later than 1:30 p.m. ordinarily and can not be made at all on the last day of the month. The Presidents see no objection to permitting the requested practice under the circumstances.

"Chairmen McCabe stated that the Board was willing to concur in the decision of the Presidents' Conference."

cc: Mr. Millard

MS:lds

[Handwritten signature]

*copy filed
324. -10/1/48*

FILE COPY

file JCB

FILED IN FILES SECTION

MAR 25 1948

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



March 12, 1948.

CONFIDENTIAL

Dear Sir:

In my letter of February 19, 1948, it was stated that if the minutes of the meeting of the executive committee of the Federal Open Market Committee on January 20, 1948, were approved in the form transmitted with that letter, the letter sent to the Federal Reserve Banks under date of January 23, 1948, authorizing the Federal Reserve Banks to enter into repurchase agreements with dealers in United States Government securities who are qualified to transact business with the System open market account, would be amended to provide that in the event Government securities covered by such an agreement are not repurchased by the dealer pursuant to the agreement or a renewal thereof, the securities thus acquired by the Federal Reserve Bank were to be sold in the market or transferred to the System open market account.

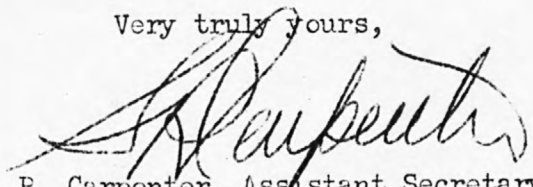
At the meeting of the executive committee on February 26, 1948, the minutes of the meeting on January 20 were approved in the revised form and therefore the second paragraph of the letter of January 23, 1948, has been changed to read as follows:

"Accordingly, the executive committee at its meeting on January 20, 1948, considered the matter in the light of the attached memorandum prepared by Mr. Rouse and, after a full discussion, voted unanimously to authorize each Federal Reserve Bank to enter into repurchase agreements with dealers in United States Government securities who are qualified to transact business with the System open market account, provided that (1) such agreements (a) are at rates not below the rate in effect at the Bank on discounts for and advances to member banks under sections 13 and 13a of the Federal Reserve Act, (b) are for periods of not to exceed 15

*copy filed FOMC minutes
via Com. 1/20/48*

calendar days, (c) cover only short-term Government securities selling at a yield of not more than the issuing rate for one-year Treasury obligations, and (d) are used only in periods of strain, with care and discrimination, as a means of last resort in the special types of situations and conditions reviewed in the attached memorandum, and (2) in the event Government securities covered by such an agreement are not repurchased by the dealer pursuant to the agreement or a renewal thereof, the securities thus acquired by the Federal Reserve Bank are sold in the market or transferred to the System open market account."

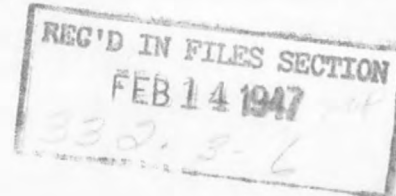
Very truly yours,



S. R. Carpenter, Assistant Secretary,
Federal Open Market Committee.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS
(With a copy marked for Mr. Rouse)

FEDERAL RESERVE BANK OF CLEVELAND



February 3, 1947

Board of Governors of the
 Federal Reserve System
 Washington 25, D. C.

Gentlemen:

We are pleased to enclose herewith the following reports:

- Form F. R. 417, Monthly report on Industrial Advances and
 and 417A commitments covering the month of January,
 1947.
- Form 38 Classification of bills discounted by Fed-
 eral Reserve Bank of Cleveland for month of
 January, 1947.
- Monthly report on guarantee fees collected
 on Regulation "V" loans.
- Schedule covering month of January, 1947,
 of U. S. Treasury Bills bought under repur-
 chase agreement.

Very truly yours,

H. E. J. Smith
 H. E. J. Smith
 Assistant Vice President

Encl.

*orig filed
 311. - 22*

UNITED STATES TREASURY BILLS PURCHASED UNDER
REPURCHASE AGREEMENT DURING MONTH OF JANUARY 1947

<u>Date of Purchase</u>	<u>Maturity Value</u>	<u>Maturity Date</u>	<u>Cost</u>	<u>Name of Seller</u>
1-3-47	1,000,000	1-9-47	999,937.50	Union Bank of Commerce Co., Cleveland, Ohio
"	3,000,000	3-27-47	2,997,406.25	" "
1-4-47	3,000,000	3-6-47	2,998,093.75	Cleveland Trust Co., Cleveland, Ohio
1-7-47	3,000,000	3-6-47	2,998,187.50	" "
1-8-47	100,000	1-23-47	99,984.38	Cleves Natl Bank, Cleves, Ohio
"	3,500,000	1-23-47	3,499,453.13	Cleveland Trust Co., Cleveland, Ohio
"	1,500,000	3-20-47	1,498,890.63	" "
1-9-47	500,000	1-23-47	499,927.08	Firestone Bank, Akron, Ohio
"	3,500,000	2-20-47	3,498,468.75	Cleveland Trust Co., Cleveland, Ohio
"	3,500,000	2-6-47	3,498,979.17	" "
"	1,500,000	3-27-47	1,498,796.88	" "
"	7,320,000	4-10-47	7,313,061.25	Mellon Natl Bank & Tr. Co., Pittsburgh, Pa.
1-10-47	2,000,000	3-27-47	1,998,416.67	Union Bank of Commerce Co., Cleveland, Ohio
"	2,135,000	4-10-47	2,132,998.44	" "
1-11-47	70,000	2-13-47	69,975.94	State Savings Bank, Maumee, Ohio
1-13-47	5,000,000	4-10-47	4,995,468.75	Mellon Natl Bank & Tr. Co., Pittsburgh, Pa.
1-14-47	2,000,000	2-6-47	1,999,520.83	Cleveland Trust Co., Cleveland, Ohio
1-15-47	3,600,000	2-27-47	3,598,387.50	" "
"	1,400,000	3-20-47	1,399,066.67	" "
1-16-47	500,000	3-6-47	499,744.79	" "
1-17-47	2,500,000	3-27-47	2,498,203.13	Union Bank of Commerce Co., Cleveland, Ohio
"	500,000	2-27-47	499,786.46	Firestone Bank, Akron, Ohio
"	3,500,000	1-23-47	3,499,781.25	Cleveland Trust Co., Cleveland, Ohio
"	1,500,000	3-27-47	1,498,921.88	" "
1-18-47	1,000,000	2-27-47	999,583.33	Peoples First Natl Bank & Tr. Co., Pittsburgh, Pa.
1-21-47	2,500,000	2-6-47	2,499,583.33	Cleveland Trust Co., Cleveland, Ohio
1-23-47	1,000,000	2-27-47	999,635.42	Peoples First Natl Bank & Tr. Co., Pittsburgh, Pa.
"	2,100,000	4-3-47	2,098,468.75	Cleveland Trust Co., Cleveland, Ohio
"	450,000	3-27-47	449,704.69	" "
1-24-47	200,000	2-20-47	199,943.75	First Natl Bank, East Liverpool, Ohio
"	200,000	2-27-47	199,929.17	" "
"	200,000	3-13-47	199,900.00	" "
"	200,000	3-20-47	199,885.42	" "
"	200,000	4-3-47	199,856.25	" "
"	500,000	3-13-47	499,750.00	Firestone Bank, Akron, Ohio
"	3,000,000	3-27-47	2,998,062.50	Union Bank of Commerce Co., Cleveland, Ohio
"	2,050,000	4-10-47	2,048,377.08	Cleveland Trust Co., Cleveland, Ohio
"	150,000	3-6-47	149,935.94	" "
1-25-47	1,000,000	2-27-47	999,656.25	Peoples First Natl Bk. & Tr. Co., Pittsburgh, Pa.
1-27-47	50,000	4-10-47	49,961.98	Huntington Natl Bank, Columbus, Ohio
"	50,000	4-24-47	49,954.69	Citizens Natl Bank, Marietta, Ohio
"	500,000	3-13-47	499,765.63	Firestone Bank, Akron, Ohio
1-28-47	1,500,000	2-6-47	1,499,859.38	Cleveland Trust Co., Cleveland, Ohio
1-30-47	200,000	4-3-47	199,868.75	New Richmond Natl Bank, New Richmond, Ohio
"	1,000,000	2-27-47	999,708.33	Peoples First Natl Bank & Tr. Co., Pittsburgh, Pa.

1-30-47	2,190,000	3-6-47	2,189,201.56	Mellon Natl Bank & Tr. Co., Pittsburgh, Pa.
"	455,000	3-27-47	454,734.58	" "
"	7,320,000	4-10-47	7,314,662.50	" "
"	4,000,000	5-1-47	3,996,208.33	" "
"	200,000	4-10-47	199,854.17	New Richmond Natl Bank, New Richmond, Ohio
1-31-47	100,000	4-17-47	99,920.83	Lagonda Natl Bank, Springfield, Ohio
"	100,000	4-24-47	99,913.54	" "
"	1,000,000	2-27-47	999,718.75	Peoples First Natl Bank & Tr. Co., Pittsburgh, Pa.
"	2,050,000	2-6-47	2,049,871.88	Cleveland Trust Co., Cleveland, Ohio
"	3,000,000	2-20-47	2,999,375.00	" "
"	650,000	3-20-47	649,675.00	" "
"	1,000,000	4-10-47	999,281.25	" "
"	1,000,000	2-13-47	999,864.58	Natl City Bank, Cleveland, Ohio
	<u>97,240,000</u>		<u>97,185,131.19</u>	

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

COPIES IN FILES SECTION
JUN 18 1946, NN
332.3-6
Date June 17, 1946

Office Correspondence

To Mr. Smead

Subject: _____

From Mr. Daniels

Responding to your question as to how Treasury bill purchases would otherwise be reported, it might be well to review the background of the present reports. The Board's letter of April 15, 1943 (S-637), authorized the Reserve Banks to submit a monthly list of Treasury bills purchased with the resale option in lieu of daily schedules. At the time, we had discovered that half of the Banks were not submitting these schedules. (Two of them were not reporting the monthly volume and the amount outstanding at the end of the month on Form F. R. 38.) Also, one of the Reserve Banks had suggested that, since the form it was using for reporting purchases of Treasury bills was not designed for the purpose and since transactions handled were not in large volume on any one day, it might be desirable to report them in some other manner.

The requirement that the Reserve Banks submit daily schedules of their discount and investment operations has presumably been in effect with this exception since the Reserve Banks were organized. The instruction to submit a monthly summary of Treasury bills purchased was sent out in place of a suggested letter authorizing the Banks to discontinue all ^{daily} reports of discount and investment operations except those covering industrial loans and commitments.

If your question means how Treasury bill purchases would be reported if these monthly reports were discontinued, there would remain the volume figures reported on Form 38.

FOR FILES
J. B. Smith

FILED IN FILES SECTION
APR 16 1946
332.3-6

FEDERAL RESERVE BANK
OF BOSTON

April 15, 1946

Board of Governors of the
Federal Reserve System
Washington, D. C.

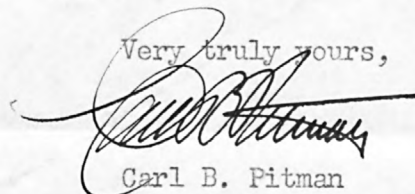
Gentlemen:

In accordance with the instructions contained in your letter of April 15, 1943, we forwarded to you on April 3, 1946 a report in duplicate showing purchases of United States Treasury Bills under Option to Repurchase made by this bank during the month of March 1946. S-657

Up to the present time our records do not indicate receipt from you of the letter of acknowledgement provided therefor. For your convenience we enclose duplicate copies of our letter of April 3, 1946.

After you have had an opportunity to review your records, kindly advise us with respect to this matter.

Very truly yours,



Carl B. Pitman
Vice President

IC
Enclosures

4-16-46
Acknowledged receipt of report by
Miss Cohen.

Jds

FOR FILES
J. B. Smith

FEDERAL RESERVE BANK OF BOSTON

COPY

30 PEARL STREET

RECORD IN FILES SECTION

APR 16 1946

332.3-6

April 3, 1946

Board of Governors of the
Federal Reserve System
Washington, D. C.

Gentlemen:

You will find enclosed a report in duplicate showing purchases of United States Treasury Bills made by this bank under Option to Repurchase for the month of March, 1946.

This report is filed in compliance with the Board's letter dated April 15, 1943.

Kindly acknowledge receipt of the above described report on the copy of the letter attached hereto.

Very truly yours,

Carl B. Pitman
Vice President

IC
Enclosures

FOR FILES
L. B. Smith

Mr. T. J. Pick
Miss G. Goheen
Files

FEDERAL RESERVE BANK
OF RICHMOND
POST OFFICE DELIVERY UNIT 13

REC'D IN FILES SECTION
JAN 7 1946
332.3-6

January 3, 1946

Board of Governors
of the Federal Reserve System,
Washington, D. C.

Dear Sirs:

In response to the Board's letter of April 15, 1943, S-647, there is attached a report of purchases of Treasury Bills by this bank under resale agreement during the month of December 1945.

Effective January 1, 1946, each of the branches of this bank at Baltimore and Charlotte will carry on its books the Treasury Bills purchased from the banks within its territory under the repurchase agreement and will otherwise perform, independently of the Head Office, all functions with respect to purchases and resales of Treasury Bills. In keeping with this change in procedure, the Head Office and each branch will submit a separate monthly report beginning with the reports for January 1946, which we assume will be satisfactory with the Board.

Very truly yours,

C. B. Strathy
C. B. Strathy,
Vice President.



FOR FILES
L. M. Goheen

WILSON SECTION
MAR 9 - 1945
332.3-6

March 2, 1945.

Flanders-Boston
Sproul-New York
Williams-Philadelphia
Gidney-Cleveland
Leach-Richmond
McLarin-Atlanta

Young - Chicago
Davis - St. Louis
Peyton - Minneapolis
Leedy- Kansas City
Gilbert- Dallas
Day - San Francisco

At meeting of Federal Open Market Committee yesterday following actions were taken:

(1) Direction issued by Committee on March 1, 1944, with respect to purchase by Federal Reserve Banks of Treasury bills was renewed as follows:

"Until otherwise directed by the Federal Open Market Committee, the 12 Federal Reserve Banks are directed to purchase all Treasury bills that may be offered to such Banks on a discount basis at the rate of $3/8$ per cent per annum, any such purchases to be upon the condition that the Federal Reserve Bank, upon the request of the seller before the maturity of the bills, will sell to him Treasury bills of like amount and maturity at the same rate of discount. All bills purchased under this direction are to be held by the purchasing Federal Reserve Bank in its own account and prompt reports of all transactions in Treasury bills are to be made to the Manager of the System Open Market Account."

As in the case of earlier direction this action was taken with the understanding that resales of Treasury bills held under option would be for immediate delivery when so requested by option holder. No public announcement being made. Change in last sentence of direction made to conform direction to existing practice.

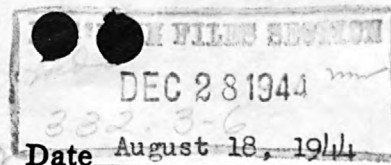
(2) Pursuant to provisions of par. 2(a) of procedure for allocation of securities in System account (sent to you with my letter of September 25, 1944) and pending further action by Federal Open Market Committee, it was agreed unanimously that Treasury bills should not be allocated to any Federal Reserve Bank in an amount which would reduce its reserve ratio below 40%.

(3) Authority granted at meeting of Committee on May 25, 1936, to each Federal Reserve Bank to make temporary purchases of Government securities under resale agreements for periods not exceeding fifteen days, was terminated. See my letter of June 12, 1936.

Signed: Chester Morrill
MORRILL.

SRC ;mes

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM



Office Correspondence

To _____ File _____

Subject: _____

From Mr. Daniels _____

MD

There is attached a statement summarizing by class of seller purchases by Federal Reserve Banks of Treasury bills at the established discount rate during the period January-April.

Figures for the Chicago and San Francisco Reserve Banks do not include figures for the purchase of \$60,000,000 and \$40,000,000 Treasury bills, respectively, from the Federal Reserve Bank of St. Louis, and the figures for St. Louis do not include \$10,000,000 of such bills repurchased.

The sellers other than "banks", as the term is used for purposes of this tabulation, were as follows: Boston, Lee Higginson Corporation (\$200,000), Noyes Buick Company (\$708,000); New York, Federal Home Loan Bank (\$9,330,000), Banque Belge pour l'Etranger (\$13,750,000), First Boston Corporation (\$664,000), Royal Bank of Canada (\$3,260,000), Bank of London and South America, Ltd. (\$1,000,000), Brown Bros. Harriman and Company (\$9,785,000), Banco Central de Reserva del Peru (\$1,500,000), Federal Home Loan Bank, Cincinnati (\$4,500,000), Federal Home Loan Bank, Los Angeles (\$13,078,000), Federal Home Loan Bank, Portland (\$2,400,000); Chicago, Home Loan Bank, Indianapolis, (\$1,684,000).

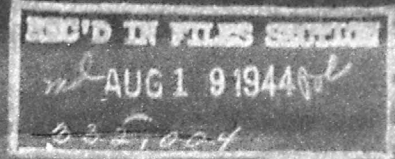
Attachment

Purchases by Federal Reserve Banks of Treasury Bills with Repurchase Option
 January-April 1944
 (Amounts in thousands of dollars)

FRASER FILED SECTION
 DEC 28 1944

Source of Purchase	Number of sellers	Number of transactions	Amount	Number of sellers	Number of transactions	Amount	Number of sellers	Number of transactions	Amount
<u>All Federal Reserve Banks</u>									
Member banks:									
Head office or branch city	252	2,739	\$15,934,877	7	93	\$440,020	27	579	\$6,550,470
Outside head office or branch city	504	1,395	1,351,344	81	289	244,341	99	261	486,443
Nonmember banks	93	241	286,095	10	23	12,515	9	91	221,850
Other	13	42	61,859	2	2	908	10	38	59,267
Totals	862	4,417	17,634,175	100	407	697,784	145	969	7,318,030
<u>Boston</u>									
<u>New York</u>									
<u>Philadelphia</u>									
<u>Cleveland</u>									
<u>Richmond</u>									
Member banks:									
Head office or branch city	12	203	547,004	17	194	633,817	16	172	262,014
Outside head office or branch city	57	178	150,609	42	116	53,105	39	123	84,210
Nonmember banks	13	29	22,415	6	9	1,595	8	18	13,250
Totals	82	410	720,028	65	319	688,517	63	313	359,474
<u>Atlanta</u>									
<u>Chicago</u>									
<u>St. Louis</u>									
Member banks:									
Head office or branch city	25	84	139,223	24	341	4,121,530	32	290	649,872
Outside head office or branch city	6	16	12,589	59	156	148,556	21	44	13,477
Nonmember banks	2	2	150	2	2	150	3	21	9,555
Other	-	-	-	1	2	1,684	-	-	-
Totals	33	102	151,962	86	501	4,271,920	56	355	672,904
<u>Minneapolis</u>									
<u>Kansas City</u>									
<u>Dallas</u>									
Member banks:									
Head office or branch city	19	99	137,010	30	217	300,764	23	86	165,811
Outside head office or branch city	47	95	124,797	18	39	7,439	17	35	8,273
Nonmember banks	22	27	2,105	8	8	660	2	3	1,300
Totals	88	221	263,912	56	264	308,863	42	124	175,384
<u>San Francisco</u>									
Member banks:									
Head office or branch city	20	381	1,987,342						
Outside head office or branch city	18	43	17,505						
Nonmember banks	8	8	550						
Totals	46	432	2,005,397						

(25)



August 18, 1944

Mr. C. M. Stewart,
Vice President and Secretary,
Federal Reserve Bank of St. Louis,
St. Louis 2, Missouri.

Dear Mr. Stewart:

In your Bank's report of discount and interest rates on Form F. R. 296 for June 30, 1944, the effective date of the buying rate on Treasury bills, repurchase option, is given as May 15, 1943. Comparing the report with the preceding one of March 31, it appears that this date rather than August 3, 1942, was entered through inadvertence. Accordingly, we are changing the date to August 3, 1942, and unless we hear from you to the contrary we shall assume that this meets with your approval.

Very truly yours,

ly
J. R. Van Fossen,
Assistant Director,
Division of Bank Operations.

copy filed

332,3-6

MD
MD/dlw

FILE COPY

FOR FILES
M. E. Daniels

RECORDS IN FILES SECTION
AUG 3 1944
332.3-6
Date July 14, 1944

*Jan ✓
my ✓*

Office Correspondence

To Mr. Smead

Subject: _____

From J. J. Connell

JJ

In response to your inquiry as to whether or not any of the Reserve Banks were pledging Treasury Bills - Repurchase Option, in addition to their participation in the S.O.M.A., to secure Federal Reserve notes, I find that St. Louis is the only Bank which has done so for the dates shown below:

	(In thousands of dollars)		
	<u>S.O.M.A.</u>	<u>Treasury Bills</u>	<u>Total</u>
July 1	450,000	35,240	485,240
3	"	40,770	490,770
4	"	40,770	490,770
5	"	42,030	492,030
6	"	57,810	507,810
7	"	57,738	507,738
8	"	55,638	505,638
10	"	61,386	511,386

Should you desire the same information prior to July 1, please indicate how far back you would want to go.

FOR FILES
E. Severud

*For Snyder
Files*

REC'D IN FILES SECTION
md JUN 30 1944
332.3-6

FEDERAL RESERVE BANK

OF ST. LOUIS (2)

June 28, 1944

ref

Mr. E. L. Shead, Director
Division of Bank Operations
Board of Governors of the
Federal Reserve System
Washington 25, D. C.

Dear Ed:

Replying to your letter of the twenty-fourth, banks in the branch territories can sell Treasury Bills under repurchase agreement to our branches or ourselves, whichever is the more convenient to them. Such banks, particularly in the branch cities, usually deal through the branches in such matters.

Since we pledge all Treasury Bills with the Agent as collateral to our outstanding Federal Reserve notes, resales can only be made with our approval as the collateral must be released by the Agent or his representative. This, however, has not caused any delay since the transactions are handled by wire and the banks usually request the securities be placed back in safekeeping; no physical delivery being made.

Incidentally since Treasury Bills are issued only by the head office, most of such securities are held by the head office.

Yours very truly

[Signature]
O. M. Attebery
Vice President



FOR FILES
J. A. Smith

RECORDED IN FILES SECTION
JUN 26 1944
332,3-6

June 24, 1944.

Mr. O. M. Attebery, Vice President,
Federal Reserve Bank of St. Louis,
St. Louis 2, Missouri.

Dear Olin:

Referring to your letter of June 19, we note that from an accounting and reporting standpoint your Bank feels it preferable that Treasury bills acquired under repurchase from banks be carried on the books of the Head Office even though purchased from banks in branch territories.

It seems to me that it is not too important where they are carried, but I am wondering whether the banks in the branch territories that have Treasury bills to sell under repurchase agreement deal with the branches or with the Head Office. Your advice in this connection will be appreciated.

Sincerely yours,

E. L. Smead, Director,
Division of Bank Operations.

MS

see letter 6/28/44

ELS:jbs

FILE COPY

FOR FILE
J. A. Smead

FEDERAL RESERVE BANK
OF
ST. LOUIS
(2)

MAILED IN FILES SECTION
2nd JUN 20 1944
332, 3-6

Mr Smead

June 19, 1944

Mr. E. L. Smead, Acting Administrator
Office of Administrator for
War Loans Committee
Board of Governors of the
Federal Reserve System
Washington, D. C.

Dear Ed:

When the examiners were here recently, they raised the question of why Treasury Bills acquired under repurchase from banks attached to our branches were not carried on the books of the branches.

We indicated that they were being carried at the head office by reason of the fact that originally they were an Open Market Committee asset. We further indicated that it made little, if any, difference to us where they were carried and that we thought it was something that the Board should determine. Since then, we have come to the conclusion that from an accounting and reporting standpoint, it is preferable that they be carried at the head office.

Yours very truly

O. M. Attebery
O. M. Attebery
Vice President

FOR FILE
J. A. Smith

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Smash

6/10

REC'D IN FILES

JAN 12 1948

332.3-6

Van,

If we are going to authorize the Banks to discontinue certain schedules I believe we should prepare a memorandum to the Board giving the Board the history of our discount and investment schedule procedure. It may be that we should discontinue all schedules and merely get some sort of volume report, like for example the number of purchases of securities and acceptances classified as a group according to classes of sellers and the number of discounts grouped with some slight grouping.

E.L.S.

I see no point in digressing from the thing we are recommending to relate the history of discount schedules on which we are making no recommendation. As it stands, the Board members might read the memo. Add another page & it is very doubtful. Now when discounts are at a very low level would not be an appropriate time to discontinue discount schedules in any case.

As stated in the memo of 4.9. duplicates in its daily and weekly letters the information in S.D. Sec. 13 all dates. Thus in no similar duplication or duplicate.

As a schedule is prepared out in a... it properly is important to discontinue the discount schedule without... 4.

REC'D IN FILES SECTION

JAN 12 1948

392.3-6

Board of Governors

Mr. Smead

6/10/44

There is attached a letter authorizing the Federal Reserve Banks to discontinue certain reports showing daily data on discounts and investments. The reports to be discontinued are:

1. A list submitted monthly of Treasury bills acquired by the Banks for their option accounts, showing the name of seller and the amount and maturity date of the bills.
2. Statements of securities purchased for and sold from the System Open Market Account, submitted by New York periodically. This shows each purchase and sale by issues.
3. Daily schedules of discounts and advances to member banks except on industrial loan commitments. These schedules show data concerning each discount.
4. Daily schedules of bills bought in open market. As the Reserve Banks have not purchased any acceptances for their own account for a number of years these schedules are not being submitted at the present time.

Discontinuance of the above-mentioned reports is recommended for the reason that we now receive monthly classified summaries of investments, discounts and advances which provide all the data on this subject that we ordinarily need.

Attachment

not sent

44 *[Handwritten initials]* FILE COPY

FOR FILES
M. Buchholz

MD:man

REC'D IN FILE: SECTION
JAN 12 1948
332,3-6

6/10/44

not sent

Dear Sir:

Effective November 1, 1944, reports on Form S-2 (investments purchased and sold in the open market) and the monthly report of United States Treasury bills purchased, requested in the Board's letter of April 15, 1943 (S-637), may be discontinued. Reports on Forms BD-4 and BD-7 (daily schedules of bills discounted and purchased in open market respectively) may be discontinued also, except as to (1) industrial loans and commitments, (2) loans to individuals, partnerships, and corporations (other than member banks), and (3) schedules of additional or excess collateral on discounts and advances to member banks required under paragraphs (d) and (e) under Section 3 of the Board's Regulation A. Daily schedules covering such loans, discounts, and advances should continue to be submitted.

As of the same date, reports of collateral pledged with the Federal Reserve Agent as security for Federal Reserve notes and Federal Reserve Bank notes, requested in the Board's letters of December 16, 1920 (St. 1653), April 29, 1932 (X-7146), and its wire of March 12, 1933 (Trans. 1647), also may be discontinued.

Nothing in this letter is intended to alter the procedure under which collateral for Federal Reserve notes or Federal Reserve Bank notes is pledged with the Federal Reserve Agent, including the pledge of Government securities in the System Open Market Account, and the release of such collateral. The Board will continue to receive reports from the Federal Reserve Agent on Form F.R. 5, and on Form F.R. 6 if and when the Federal Reserve Bank has a liability on Federal Reserve Bank notes outstanding. Information with regard to collateral pledged with the Agent for Federal Reserve notes and Federal Reserve Bank notes will continue to be reported also on the reverse side of Form F.R. 34, and the Board's examiners will, of course, continue to check the records of the Bank and the Federal Reserve Agent relating to Federal Reserve notes and Federal Reserve Bank notes and the pledge and release of collateral therefor.

Very truly yours,

Handwritten initials

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS AND TO ALL FEDERAL RESERVE AGENTS EXCEPT AT NEW YORK
Chester Morrill, Secretary.

MD:mnm

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

RECORDED IN FILES SECTION
JUN 8 1944
332,3-6

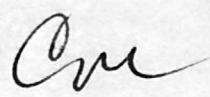
June 6, 1944.

Young - Chicago

Referring our telephone conversation regarding repurchase agreements involving Government securities, I took this matter up immediately with Under Secretary Bell who advised me that he had it actively under consideration but had not made up his mind as to the reply and I have been hoping from day to day to hear further. So far nothing has developed.

(Signed) Chester Morrill

Morrill



CM:mch

See wire 6/6/44 from Young

FILE COPY

FOR FILES
Gladys Glover

*Mr. Piser ✓
Mr. Carpenter*

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.O.

1944 JUN 6 PM 3 44

REC'D IN FILES SECTION
JUN 8 1944
332.3-6

WA01G30WASH GX158 CGO 6-230

MORRILL

IN TALKING WITH DAN BELL ABOUT ANOTHER MATTER HE MENTIONED THE WIRE HE CONTEMPLATED SENDING IN ANSWER TO YOUR INQUIRY REGARDING REPURCHASE AGREEMENTS INVOLVING GOVERNMENT SECURITIES. HE STATED HE THOUGHT IT INADVISABLE TO SEND A WIRE BUT GAVE INFORMAL APPROVAL TO ARRANGEMENTS WHICH WE HAVE MADE WITH CHICAGO BANKS IN CONNECTION WITH THE PURCHASE OF GOVERNMENT SECURITIES BY INSURANCE COMPANIES. THIS INFORMAL APPROVAL IS ENTIRELY SATISFACTORY TO US

YOUNG.

Jiles

RECEIVED IN FILES SECTION
JUN 6 1944
332.3-6
67

(25)

June 5, 1944

Mr. H. F. Slade, Assistant Cashier,
Federal Reserve Bank of San Francisco,
San Francisco 20, California.

Dear Mr. Slade:

Reference is made to your letter of May 23, 1944, concerning revision of your Form S2 for use in the reporting of Treasury bills purchased. The revised form as described in your letter will be satisfactory for our requirements.

In this connection, we have been reviewing certain reports submitted by the Reserve Banks, and it may be that the monthly report on Treasury bills purchased with repurchase option will be discontinued, though I cannot say definitely one way or the other at the present time.

Very truly yours,

E. L. Smead, Director,
Division of Bank Operations.

MD
MD/dlw

FILE COPY

FOR FILES
J. A. Smith

Vog ✓

RECEIVED LETTER DIVISION
JUN 6 1944
3323-6

FEDERAL RESERVE BANK OF SAN FRANCISCO

FISCAL AGENT OF THE UNITED STATES
SAN FRANCISCO 20, CALIFORNIA

May 23, 1944

ref ✓

AIR MAIL

Board of Governors of the
Federal Reserve System,
Washington, D. C.

Attention: Mr. E. L. Smead,
Chief, Division of Bank Operations.

Re: Reports of Treasury Bills Purchased.

Sirs:

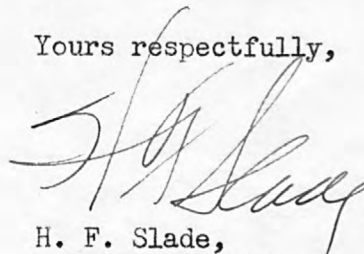
Reference is made to the second paragraph of your letter dated February 9, 1944, in connection with submitting reports of Treasury Bills purchased on Form S2.

Inasmuch as our present supply of Form S2 is becoming exhausted, we are contemplating the preparation of a revised form for our use in the reporting of Treasury Bills purchased. It is our intention to use a sheet 8½" x 11" in size with all of the information previously reported on Form S2, which new form may be prepared with an ordinary typewriter instead of specialized machinery which we have heretofore been using. We feel that the revised-size sheet will be more convenient to handle by all concerned.

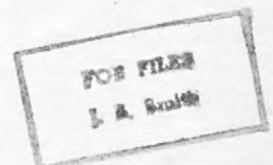
We assume that your primary interest in this matter is in obtaining information covering Treasury Bills purchased by us for our account under resale agreement, regardless of the form on which such purchases are reported to you. Furthermore, we intend to continue to submit such reports on a monthly basis as authorized in your letter of February 9.

Before we undertake the preparation of the contemplated revised form, we should, however, appreciate receiving your reaction as to whether such revised form will be satisfactory and conform to your requirements.

Yours respectfully,



H. F. Slade,
Assistant Cashier.



(25)

April 28, 1944

Mr. L. J. Bub, Manager,
Credit Discount Department,
Federal Reserve Bank of St. Louis,
St. Louis 2, Missouri.

Dear Mr. Bub:

In checking your Bank's report on Form F. R. 38 of bills and securities purchased during the month of March, the amount of U. S. Government securities, resale option, is shown as \$327,784,000. The monthly statement, "Treasury bills purchased by Federal Reserve Bank of St. Louis under repurchase agreement during month of March 1944", however, shows a total of \$326,984. Your advice as to this discrepancy will be appreciated.

Very truly yours,

E. L. Smead, Director,
Division of Bank Operations.

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FOR FILE
J. B. Smith

REC'D IN FILES SECTION

JAN 12 1948

922.3-6

3/15/44

not sent

Dear Sir:

Effective June 1, 1944, daily schedules of United States Government securities purchased and the monthly report of United States Treasury bills purchased under resale agreement requested in the Board's letter of April 15, 1943 (S-637), may be discontinued. As of the same date, reports of collateral pledged with the Federal Reserve Agent as security for Federal Reserve notes and Federal Reserve Bank notes may also be discontinued with the exception of such information in regard to collateral as is called for by items appearing on the reverse side of Form F.R. 34 and on Forms F.R. 5 and F.R. 6.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS AND FEDERAL RESERVE AGENTS
OF ALL FEDERAL RESERVE BANKS

[Handwritten initials]

VP:mm

[Handwritten initials]

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FOR FILES
H. M. M. M.

REC'D IN FILES SECTION

JAN 12 1948

332.3-6

met

no

(25)

5/15/44

Not sent

Mr. Beardsley Ruml,
Federal Reserve Agent,
Federal Reserve Bank of New York,
New York 7, New York.

Dear Mr. Ruml:

Reference is made to the Board's letter of April 29, 1932, to Mr. J. Herbert Case, then Federal Reserve Agent.

There is enclosed copy of a letter being sent today to the Presidents of all Federal Reserve Banks and to all other Federal Reserve Agents with reference to discontinuing certain reports. Submission of copies of schedules requested in the Board's letter of April 29, 1932, referred to above, listing securities pledged with the Federal Reserve Agent by the Federal Reserve Bank of New York, either for its own account or for account of another Federal Reserve Bank, to be held as collateral security for Federal Reserve notes or Federal Reserve Bank notes, may be discontinued, effective June 1, 1944.

Very truly yours,

Chester Morrill,
Secretary.

Enclosure

FOR FILES
M. Morrill

MD/dlw

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The necessity for the separate letter to New York is owing to the fact that the Board's circular letter of April 29, 1932, was not sent to the Federal Reserve Agent at New York and a separate letter was sent to him. It seems to me the circular letter now proposed would fail to rescind the instructions in this separate letter.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

REC'D IN FILES SECTION

JAN 12 1948
33213-6

Office Correspondence

Date May 15, 1941.

To Board of Governors

Subject: _____

From Mr. Smead

TON

Not sent

Attached is a draft of a proposed letter to the Presidents and Federal Reserve Agents of all Federal Reserve Banks authorizing them to discontinue furnishing the Board with schedules of United States Government securities purchased and of collateral pledged against Federal Reserve notes.

The only United States Government securities purchased by the individual Federal Reserve Banks at the present time, of course, are Treasury bills purchased under resale agreement. The New York daily letter and weekly open market letter contain full information regarding all transactions in United States Government securities for the System Open Market Account and of purchases and sales of Treasury bills by all Federal Reserve Banks under resale agreement. Accordingly, there is at present a duplication in reports on United States Government securities purchased by the Federal Reserve Banks which would be eliminated by the authorization contained in the above-mentioned letter.

The Federal Reserve Banks report daily on the reverse side of their balance sheets (Form F.R. 34) separately the amount of gold certificates, United States Government securities and of eligible paper pledged against Federal Reserve notes outstanding. Similar information is contained in the daily statements furnished by the Federal Reserve Agents in regard to Federal Reserve notes, Form F.R. 5, and Federal Reserve Bank notes (when the Banks have a liability on such notes), Form F.R. 6. There does not appear to be any necessity in addition to have the various Federal Reserve Agents submit daily statements of collateral pledged and withdrawn, including schedules furnished in their behalf by the Federal Reserve Bank of New York covering participation in the System Open Market Account pledged against Federal Reserve notes outstanding.

Attachment

FOR FILES
H. Wickham

JAN 12 1948

May 15, 1944.

Board of Governors

Mr. Smead

not sent

Attached is a draft of a proposed letter to the Presidents and Federal Reserve Agents of all Federal Reserve Banks authorizing them to discontinue furnishing the Board with schedules of United States Government securities purchased and of collateral pledged against Federal Reserve notes.

The only United States Government securities purchased by the individual Federal Reserve Banks at the present time, of course, are Treasury bills purchased under resale agreement. The New York daily letter and weekly open market letter contain full information regarding all transactions in United States Government securities for the System Open Market Account and of purchases and sales of Treasury bills by all Federal Reserve Banks under resale agreement. Accordingly, there is at present a duplication in reports on United States Government securities purchased by the Federal Reserve Banks which would be eliminated by the authorization contained in the above-mentioned letter.

The Federal Reserve Banks report daily on the reverse side of their balance sheets (Form F.R. 34) separately the amount of gold certificates, United States Government securities and of eligible paper pledged against Federal Reserve notes outstanding. Similar information is contained in the daily statements furnished by the Federal Reserve Agents in regard to Federal Reserve notes, Form F.R. 5, and Federal Reserve Bank notes (when the Banks have a liability on such notes), Form F.R. 6. There does not appear to be any necessity in addition to have the various Federal Reserve Agents submit daily statements of collateral pledged and withdrawn, including schedules furnished in their behalf by the Federal Reserve Bank of New York covering participation in the System Open Market Account pledged against Federal Reserve notes outstanding.

Attachment

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VF:man

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FOR FILE
H. Stuchhaus

JAN 12 1948

Date May 8, 1944

Office Correspondence

To Mr. Smead

Subject: _____

From Mr. Van Fossen

51

Referring to Mr. Daniels' March 9 memorandum and particularly to the last paragraph thereof regarding discontinuance of certain reports, I recommend as follows:

I do not find anything in the Federal Reserve Act or in the Federal Reserve Loose-Leaf Service requiring Federal Reserve Banks to submit schedules of United States securities purchased. I believe the information furnished on Form F.R. 38 in regard to bills bought under option is sufficient for our purposes. If the reports, however, are continued, I would recommend that they be reduced to a monthly summary showing the total amount of bills purchased during the month from any given institution.

I am unable to identify the monthly summary of transactions in the System Open Market Account sent in by New York, discontinuance of which is recommended by Mr. Daniels.

*sent
irregularly
during
months.
MFD
5/23/44*

In view of the references to loan schedules submitted to the Board of Governors in paragraphs (d) and (e) of section 3 of Regulation A and to daily reports on 13b loans in section 6 of Regulation S, I doubt whether daily schedules of discounts and advances could be discontinued without amendment of Regulations A and S. In any event, I believe discontinuance of these schedules might have unfortunate consequences.

I do not find anything in the Federal Reserve Act or in the Federal Reserve Loose-Leaf Service requiring Federal Reserve Agents to submit reports of collateral pledged against Federal Reserve notes and Federal Reserve Bank notes and believe the information on this subject contained in the daily statements F.R. 5 and F.R. 6 is sufficient for our purposes. Accordingly, I recommend that all other reports of collateral pledged against Federal Reserve notes and Federal Reserve Bank notes be discontinued.

FOR FILES
M. Muchlhaus

Van

Suggest you
prepare draft
letter to Gels.
Involving your
recommendations

FOR FILES
M. Muehlhaus

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

REC'D IN FILES SECTION

JAN 12 1948

Date March 9, 1944

Office Correspondence

To Mr. Smead

Subject: _____

From Mr. Daniels

With regard to your request whether we need the monthly reports from the Federal Reserve Banks listing their purchases of Treasury bills at the established $3/8\%$ discount rate, it seems advisable to review their development.

Since the Banks were established the Board has required them to submit daily schedules of investments and discounts. From June 30, 1936, when all Government securities held by the Banks were transferred to the System account, until the Federal Open Market Committee authorized the Banks to hold for their own accounts Treasury bills bought with an option on the part of the seller to repurchase, there was no occasion for the Reserve Banks individually to submit schedules of investments. About a year ago one of the Reserve Banks suggested that since the form it was using was not designed for the purpose of reporting purchases and sales of Treasury bills it might be desirable to report them in some other manner. This suggestion led to the Board's instruction (letter S-637, April 15, 1943) to submit a monthly list of Treasury bills purchased in lieu of the daily schedules. It was felt the monthly list would be less burdensome for the Banks.

For many years the schedules of discounts and investments received from the Banks have also borne statements signed by the Federal Reserve agents when the discounts or investments have been pledged as collateral against Federal Reserve notes or Federal Reserve bank notes.

At the present time the monthly reports of Treasury bills purchased are used only to check with volume figures shown on the monthly Form 38's. We used to send a memorandum to the Board summarizing discount and open market operations of the Reserve Banks, but this was discontinued after February 3, 1943, and consequently at the present time I can think of no reason why we need the reports of Treasury bills purchased, unless we want to know where the bills are coming from--that is, whether from brokers, member banks, or nonmember banks.

It may be noted that Mr. Connell has recently raised with Mr. Van Fossen the question whether the reports of Treasury bills are of any value. I recommend that these reports be discontinued and that at the same time we discontinue (1) the monthly summary of transactions in the System Open Market Account sent in by New York, (2) daily schedules of discounts and advances, except perhaps

*received irregularly during the month
MN
5/23/44*

FOR FILES
M. DANIELS

Mr. Smead

- 2 -

industrial loans, and (3) the required reports of collateral pledged with Federal Reserve agents against Federal Reserve notes and Federal Reserve bank notes. In this connection, you stated to me orally about a year ago that you might be willing to recommend all of this but for the fact that you thought it inadvisable at the time to raise any question on procedure with regard to Federal Reserve bank notes.

M. B. Daniels

REC'D IN FILES SECTION
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FEB 10 1944 *bl*
332,643

(25)

February 9, 1944

2

ref 1/14/44

Mr. H. F. Slade, Assistant Cashier,
Federal Reserve Bank of San Francisco,
San Francisco 20, California.

Dear Mr. Slade:

In checking schedules received from your Bank for industrial advances and commitments, we find that we apparently have not received schedules for advances of \$25,000 made in December 1943 as shown by your Bank's reports on Form F. R. 417a and the revised Form F. R. 38 submitted as per Mr. Hale's January 14 telegram. It will be appreciated if you will send duplicate copies of the schedule or schedules for these advances.

filed 332,3-6
Your reports for the month of December of Treasury bills purchased, submitted in accordance with letter of December 20, 1943, and our reply of December 27, include schedules of bills purchased (Form S 2) and schedules of bills sold (Form S 2A). As we do not get information from the other Federal Reserve Banks regarding Treasury bills repurchased from the Federal Reserve Bank, it will be satisfactory if you wish to discontinue sending the schedules of Treasury bills sold.

Very truly yours,

J. R. Van Fossen

J. R. Van Fossen,
Assistant Director,
Division of Bank Operations.

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FOR FILES
M. Muehlhaus

REC'D IN FILES SECTION

DEC 28 1943

332-3-6

Cut

HLL

(25)

December 27, 1943

Mr. H. F. Slade, Assistant Cashier,
Federal Reserve Bank of San Francisco,
San Francisco 20, California.

Dear Mr. Slade:

This will acknowledge your letter of
December 20, 1943, concerning the monthly report
of Treasury Bills purchased. It will be satis-
factory for your Bank to submit copies of purchase
and resale transactions on Forms S 2 and S 2A as
referred to in the fourth paragraph of your letter.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

FOR FILES
M. Nuehlhaus

Handwritten initials and scribbles

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MD/dlw

Handwritten notes in top left corner, possibly "Subscribed" and "Incl. memo".

REC'D IN FILES SECTION
DEC 28 1943
332.3-6
#7

FEDERAL RESERVE BANK OF SAN FRANCISCO

FISCAL AGENT OF THE UNITED STATES

San Francisco 20, California

December 20, 1943

Board of Governors of the
Federal Reserve System,
Washington, D. C.

Attention: Mr. L. P. Bethea,
Assistant Secretary.

Re: Monthly Report of Treasury
Bills Purchased.

S i r s :

In accordance with instructions contained in your letter S-637, dated April 15, 1943, we have been furnishing as of the end of each month a report with respect to Treasury Bills purchased by us for our own account under resale agreement.

retained with report in Rk. 4/28
As you know, the activity in this operation has increased very materially in the last few months, and the preparation of a schedule such as that forwarded with our letter of December 3, 1943, entails a considerable amount of clerical work which possibly is out of proportion to the information furnished therein.

Inasmuch as the report covers purchases only, it does not show sales or redemptions, with the consequence that an analysis of the report would not permit the elimination of the duplications therein.

OK

For our own records, the purchase and resale of Treasury Bills are recorded on forms S 2 and S 2A. It occurs to us that possibly an extra copy of these forms could be prepared and forwarded to the Board of Governors either daily or accumulated and forwarded at the end of the month, thereby furnishing more complete information with a minimum amount of work.

It will be appreciated if this matter can be given your consideration, informing us of your desires with regard to the suggested substitution.

Yours respectfully,

H. G. Slade
Assistant Cashier.

DEC 28 1943

RECEIVED



FOR FILES
M. Muchibans

See ans 12/2 1/43

RECORDS IN FILES SECTION

JUL 2 1943

RECORDS IN FILES SECTION

SEP 19 1949

7/2/43

Mr. Carpenter

Mr. Van Fossen

50

It has come to my attention that General Files is making preparations to microfilm certain records of the Division of Bank Operations prior to destruction that would scarcely seem to be warranted. Following is a description of the records referred to above:

Retrospective Sheets on Condition of Federal Reserve Banks on Weekly Statement Dates

These retrospective sheets have been maintained for their current value in showing the trend of the more significant items in the statements of condition of the Federal Reserve Banks. Their use for this purpose has been pretty largely superseded by the chart book now compiled by the Division of Research and Statistics. So far as any other use of these sheets is concerned, it is believed that the data published in the Federal Reserve Bulletin, in the Annual Reports and in the Base Book make the microfilming of these records for prior years unnecessary.

Average Rate and Maturity of Discounted and Purchased Paper

These records are working sheets used in compiling the average maturity and the average purchase or discount rate on bills bought in open market and bills discounted from 1925 when these calculations were inaugurated to 1939 when they were discontinued. For purchased bills there are two sets of working sheets, one covering bills bought exclusive of those bought under repurchase agreement, and the other including all bills bought. In the case of discounted paper there are five sets of working sheets, three covering member bank collateral notes, of which one includes all such notes, and the other two notes secured by Government obligations and notes secured by eligible paper, respectively. The additional sets of working sheets on discounted paper are one set covering so-called customers paper and one covering all paper discounted, including member bank collateral notes. These computations were made at a time when information in regard to the volume of discount and open market operations was regarded as being much more important than has been the case in recent years. For some years, as you know, we have felt that figures on average daily holdings of the various classes of bills and securities are much more significant, and it was for this reason that calculation of average maturities was discontinued. The results of the calculations, except for a short period prior to their discontinuance, were published in the Board's Annual Reports and I can see no likelihood of anyone ever being interested in the data contained in the working sheets, destruction of which has been authorized. It is recommended that these working sheets be not microfilmed.

FILE COPY

To: Mr. Carpenter

-2-

Requests for Shipments of Federal Reserve Notes to Federal Reserve Agents (Forms 45 and 45a)

These requests are not believed to have any permanent value and it is understood that they have already been destroyed up to and including 1937. For any practical use, the information regarding Federal Reserve notes received by the Federal Reserve Agents contained in the monthly reports 194 and 160 which are to be microfilmed, are much more convenient and the preservation of these forms would serve any purpose that would be served by the preservation of forms 45 and 45a. Furthermore, a complete record of all shipments is kept in the Office of the Comptroller of the Currency and the facts in regard to any given shipment could readily be ascertained from that office should need therefor arise. As a matter of fact, I do not believe there has been any occasion to refer to one of these forms as much as 10 days after shipment in the entire period of my experience. It is recommended that these forms be not microfilmed.

Duplicate Gold Settlement Fund Checks and Treasury Deposit Slips

These duplicate checks and deposit slips have been destroyed up to and including 1935. There does not appear to be any worthwhile purpose that would be served by microfilming these documents inasmuch as the originals are on file in the Treasury or in the General Accounting Office and the Board receives monthly from the Treasury a statement showing the balance in the combined Interdistrict Settlement Fund and Agents' Gold Certificate Fund at the beginning and end of the month and a record of daily transactions. Once this statement has been received and verified by the Examination Department, there is no reason, so far as I can see, for retaining the duplicate checks and deposit slips. If we thought it worthwhile, we could have the original checks returned to us in due course. This has never seemed to be necessary, chiefly for the reason that, unlike cancelled checks of an individual, they do not represent valuable receipts for payments made. All Interdistrict Settlement Fund checks are made payable to the Treasurer of the United States so that there are no third party payees. It is recommended that the duplicate checks and deposit slips be not microfilmed.

Interdistrict Settlement Fund and Federal Reserve Agents' Gold Certificate Fund Record Books

It is understood that there are 69 volumes of these record books, destruction of which has been authorized. While I believe that there is serious question as to whether there is any need to microfilm these books if they are to be destroyed, it would seem that there is no necessity at least of microfilming them at this time when there is a shortage of manpower and materials, inasmuch as the books themselves can very well be retained for an indefinite

FILE COPY

To: Mr. Carpenter

-3-

period. It is suggested that these books be not destroyed at this time and that the question of their possible microfilming be deferred until after the existing emergency.

VF:mmm

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REC'D IN FILES SECTION
TW
JUN -2 1943
332.3-6

Zone 25

June 1, 1943

Mr. Carl B. Pitman, Cashier,
Federal Reserve Bank of Boston,
Boston, Massachusetts.

Dear Mr. Pitman:

Acknowledgment is made of your letter of May 29, 1943.

We understand that the difference between the total of \$38,920,000 for United States Treasury Bills purchased under resale option, as reported on Form F. R. 38, and \$36,650,000, reported on the statement submitted in accordance with the Board's letter of April 15, 1943 (S-637), represents purchases for the System Open Market Account held overnight by your Bank. In future reports on Form F. R. 38 it will be appreciated if you will exclude Treasury Bills purchased for transfer to the System Open Market Account so that Form 38 will agree with the monthly report in this respect. We, of course, receive reports from the manager of the System Open Market Account including purchases made for the System Open Market Account by the individual Federal Reserve Banks.

Very truly yours,

Ln

J. R. Van Fossen,
Assistant Chief,
Division of Bank Operations.

MD
MD/dlw

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FOR FILES
A. R. South

SP ✓

FEDERAL RESERVE BANK
OF BOSTON

REC'D IN FILES SECTION
JUN -2 1943
332.3-6

May 29, 1943

Board of Governors of the Federal Reserve System
Washington, D. C.

Attention: Mr. J. R. Van Fossen, Assistant Chief,
Division of Bank Operations.

rfj

Dear Sir:

We acknowledge receipt of your letter of May 28, 1943, regarding reports submitted for the month of April 1943, covering the transactions in United States Treasury Bills purchased by this bank under resale option.

Please be advised that it has been the practise of this bank when United States Treasury Bills are offered for cash sale, without the privilege of purchase under repurchase option, to hold these bills in our own account overnight for regular delivery to the System Open Market Account on the next business day.

Therefore the difference between the total of \$38,920,000.00 as reported on Form 38 and the amount of \$36,650,000.00 reported in accordance with the Boards' letter of April 15, 1943 (S-637) represents transactions aggregating \$2,270,000.00, purchased for cash for System Open Market Account and held overnight by this bank are discribed as follows:

<u>Date of Purchase</u>	<u>Maturity Value</u>	<u>Maturity</u>	<u>Cost</u>	<u>Name of Seller</u>
4/12/43	\$ 250,000.00	4/21	\$249,976.56	Springfield Institution for
4/12/43	200,000.00	6/2	199,893.75	Savings, Massachusetts
4/15/43	620,000.00	4/21	619,961.25	New England Tr. Co. Boston
4/17/43	1,000,000.00	4/21	999,958.33	Worcester Co. Tr. Co. Mass.
4/17/43	200,000.00	4/21	199,991.67	Blackstone Canal Nat. Bk. Providence, R. I.

If we can be of any further assistance to you in this respect, please advise us.

Very truly yours,
Carl B. Pitman
Carl B. Pitman
Cashier

TFM
EL

FOR FILES
J. R. Smith

RECD IN FILES SECTION
MAY 29 1943
332.8-6

(25)

May 28, 1943

Mr. Carl B. Pitman, Cashier,
Federal Reserve Bank of Boston,
Boston, Massachusetts.

Dear Mr. Pitman:

In checking your Bank's monthly report of Treasury Bills purchased under resale agreement submitted in accordance with the Board's letter of April 15, 1943 (S-637), it is noted that the total shown, \$36,650,000, does not agree with the figure for bills purchased under resale agreement during the month of April as reported on Form 38, namely, \$38,920,000. Your advice in this connection will be appreciated.

Very truly yours,

J. R. Van Fossen,
Assistant Chief,
Division of Bank Operations.

See ans 5/29/43

MD/dlw

FOR FILES
J. E. Smith

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R. R. GILBERT
PRESIDENT

FEDERAL RESERVE BANK
OF DALLAS

REC'D IN FILES SECTION
APR 23 1943
332.3-6

April 20, 1943

Board of Governors of the
Federal Reserve System
Washington, D. C.

Attention: Mr. L. P. Bethea, Assistant Secretary

Gentlemen:

In accordance with your letter of April 15, S-637, we will discontinue furnishing the Board daily schedules of Treasury Bills purchased under resale agreement, and in the future we shall be glad to submit to the Board monthly reports of such purchases.

It has not been the practice of this bank to forward to the Board schedules covering the purchase of Treasury Bills held temporarily for transfer to the System account.

Very truly yours,

R. R. Gilbert
President

FOR DEFENSE



FOR FILES
M. B. Daniels

REC'D IN FILES SECTION
APR 16 1943
332.3-6

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



X S-637

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 15, 1943.

Dear Sir:

In lieu of daily schedules furnished the Board with respect to purchases of Treasury bills under resale agreement, it will be appreciated if in the future you will submit to the Board a report as of the end of each month showing the following information for each separate purchase made during the report month:

- Date of purchase
- Maturity value
- Maturity
- Cost
- Name of seller

In this connection, schedules being submitted to the Board by some of the Reserve Banks for Treasury bills purchased without resale agreement--that is, those to be transferred to the System open market account--need no longer be submitted.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.



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S-letters

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



S. 637
REC'D IN FILES SECTION
APR 17 1943

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

APR 15 1943

Dear Sir:

In lieu of daily schedules furnished the Board with respect to purchases of Treasury bills under resale agreement, it will be appreciated if in the future you will submit to the Board a report as of the end of each month showing the following information for each separate purchase made during the report month:

- Date of purchase
- Maturity value
- ~~Buying rate~~
- Maturity
- Cost
- Name of seller.

In this connection, schedules being submitted to the Board by some of the Reserve Banks for Treasury bills purchased without resale agreement--that is, those to be transferred to the System open market account--need no longer be submitted.

Approved
MINUTES OF
The
APR 15 1943

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

FOR APPROVAL

First of Mr. *Evans*

- Mr. Ransom
- Mr. Szymczak
- Mr. McKee
- Mr. Draper
- Mr. Evans
- Mr. Clayton

If you approve, please
initial and return to
Mrs. Fitzgerald

OK

pm

cm



TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

FOR FILES
P. H. Berntson

APR 17 1943

S-637

APR 15 1943

Dear Sir:

In lieu of daily schedules furnished the Board with respect to purchases of Treasury bills under resale agreement, it will be appreciated if in the future you will submit to the Board a report as of the end of each month showing the following information for each separate purchase made during the report month:

Date of purchase
 Maturity value
~~Buying rate~~
 Maturity
 Cost
 Name of seller.

In this connection, schedules being submitted to the Board by some of the Reserve Banks for Treasury bills purchased without resale agreement--that is, those to be transferred to the System open market account--need no longer be submitted.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea, Chief,
 Assistant Secretary. Plans.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

MD

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FOR FILES
 P. H. Berntson

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

REC'D PHOENIX SECTION
MAR 23 1944
25402

Office Correspondence

Date March 18, 1943

To Mr. Goldenweiser and Mr. Van Fossen

Subject: Bulletin table of Federal

From Woodlief Thomas

Reserve Banks

Neither the present Bulletin table showing principal assets and liabilities of Federal Reserve Banks nor the weekly statement now include figures on special one-day certificates of indebtedness or figures on bills held under resale agreement. These figures are of some current significance and should be available in the Bulletin, if not in the weekly statement. I would suggest that they be inserted in the table corresponding to that on page 229 of the March Bulletin.

In this table certificates could be shown under two classes: (1) special one-day certificates, and (2) other. The figures on special one-day certificates are published in the Daily Treasury Statement and their inclusion in the Bulletin would raise no problem of approval by the Board for publication. It would serve the purpose of having available a record of the amounts of such certificates outstanding as of Wednesday and end of month dates.

The publication of figures regarding bills held under resale agreement would presumably need to be approved by the Board and perhaps the Open Market Committee. The figures have some significance, although their changes are fairly well reflected in the total holdings of Treasury bills. They are also significant by districts, and it might be advisable to show them, if they are published at all, in the table that gives figures by districts and perhaps also in the weekly mimeographed release. I do not feel particularly strongly about their publication, however, and unless you think it is a point worth pushing with the Board, we might drop the suggestion.

I favor recommending publication, to be brought up at the Board. Let W. O. M. C. decide whether this requires J. O. M. C. approval. I don't think it does.

J. J.

Call

FOR FILES
Marie Butler

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RECD IN FILES SECTION
JAN 29 1943
RECD IN FILES SECTION
JAN 30 1943
332.3-6

January 28, 1943

Mr. H. E. J. Smith, Assistant Cashier,
Federal Reserve Bank of Cleveland,
Cleveland, Ohio.


Dear Mr. Smith:


This refers to your letter of January 22, 1943,
transmitting schedules of Treasury Bills bought
and sold under repurchase agreement.

It will be satisfactory to us to have reports
of such transactions by letter as suggested.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations

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FOR FILES
M. B. Daniels

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letter O.R. ✓

FEDERAL RESERVE BANK
OF CLEVELAND

REC'D IN FILES SECTION
JAN 30 1943
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January 22, 1943

Mr. E. L. Smead, Chief
Division of Bank Operations
Board of Governors of the Federal
Reserve System
Washington, D. C.

Dear Mr. Smead:

held in Mr. Scudder's office

We are enclosing schedules of Treasury Bills bought and sold under repurchase agreement dated January 22, 1943.

To date we have reported these transactions on our form D 24, Schedule of Bills Discounted-Members. Since the enclosed form of schedule was not designed for the purpose of reporting purchases and sale transactions of Treasury Bills and since transactions handled by this bank are not in large volume on any one day, it occurred to us that it might be more desirable to report these transactions by letter. If this is agreeable to the Board or if you have any suggestions as to the manner in which you would like to have these transactions reported, we would appreciate your writing us and we shall be pleased to follow your suggestions.

Very truly yours,

Stephenson
Assistant Cashier

FOR FILES
M. B. Daniels

NOV 23 1942

332.3-6

November 20, 1942

Mr. Morrill

Mr. Daniels

This refers to your memorandum of November 14, asking to what extent there have been transactions at the New York, Cleveland, and Dallas Banks under the "Rates on Government securities--resale option" and whether the files contain any correspondence explaining the purpose of the adoption of the rates.

In the first place I should say that the last column of the rate schedule table should have been headed "Rates on Government securities--resale agreement (or contract)", as I understand the seller was obligated to repurchase the securities. The column was not intended to cover the recent arrangement for purchase of Treasury bills, with an option on the part of the seller to repurchase.

In addition to New York, Cleveland, and Dallas, the Kansas City Bank reported having a rate on Government securities--resale agreement until June of this year. In each case the rate is the same as the rediscount rate prior to the reductions to one per cent which took place last spring and is reported as having been established when the discount rate was previously reduced, as follows:

New York	1%	August 8, 1937
Cleveland	1-1/2%	May 11, 1935
Kansas City	1-1/2%	September 3, 1937
Dallas	1-1/2%	August 31, 1937

Exclusive of the recent transactions in Treasury bills, there have been no purchases of Government securities under resale agreement by the Federal Reserve Banks since 1935, although the Federal Open Market Committee on May 25, 1936, granted Federal Reserve Banks authority to make such purchases (evidently arising from a request of the Federal Reserve Bank of Kansas City to the Committee.)

There is attached a statement showing the volume of purchases of Government securities under resale agreement by Federal Reserve Banks 1923 to date. We are not able to find figures for such transactions prior to 1923, nor for the year 1923 by Banks.

The original purpose of the Government security resale agreement appears to have been that of protecting and facilitating the

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NOV 23 1942

To: Mr. Morrill

- 2 -

market for short-term Government securities. By means of the arrangement dealers in Government securities can obtain funds from the Federal Reserve Banks for short periods without selling securities on the market. Most transactions in Government securities under resale agreement by the Federal Reserve Bank of New York have been with dealers. That the New York Bank still retains the rate in question for this purpose is indicated by Mr. Sproul's letter of October 13, 1942, to Chairman Eccles, in which it is stated: "While such transactions are of no significance at the moment, it would seem that the principle of the differential rate should be applied to resale agreements in order to permit Government security dealers to carry short-term Treasury securities with us pending distribution, in the event that accommodation can not be obtained at commercial banks."

There appear to have been other reasons at some of the Reserve Banks for purchases of Government securities under resale agreements, principally--

1. To enable member banks to obtain funds without showing "borrowed money" on their statements.
2. At Kansas City, to make available funds to Federal Land Banks in the interim between sales of land bank bonds so that the Land Banks would not have to liquidate investments in Government securities.

Because of changes in the member bank condition reports in 1938 and the addition to the law of the last paragraph of Section 13, with the present low rates to "nonmember banks", these two reasons seem no longer of importance.

I attach the file on "Repurchase Paper", in which I have put slips at points where the material might be of interest to you.

Attachments.

FOR FILES
M. B. Daniels

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NOV 23 1942

U. S. SECURITIES BOUGHT WITH RESALE AGREEMENT, BY FEDERAL RESERVE BANKS
(In thousands of dollars)

Year	System	Boston	New York	Phila- delphia	Cleve- land	Rich- mond	At- lanta	Chicago	St. Louis	Minn- neapolis	Kansas City	Dallas	San Francisco
1923	1,083,960												
1924	226,614	17,378	144,527	--	--	--	--	52,302	--	2,012	6,850	3,545	--
1925	703,546	40,826	517,215	--	--	--	--	92,575	--	--	13,650	39,280	--
1926	419,692	7,659	233,097	--	--	--	--	141,049	--	--	14,825	23,062	--
1927	740,379	33,474	471,632	--	--	--	--	204,177	--	--	10,500	20,596	--
1928	1,071,345	10,284	776,606	--	--	--	7,949	189,531	--	--	54,850	32,125	--
1929	1,254,943	33,394	1,045,960	--	1,819	--	1,200	169,021	949	--	750	1,850	--
1930	349,981	--	278,939	260	--	--	1,050	68,532	--	--	1,200	--	--
1931	169,355	--	133,781	11,000	21,324	--	1,295	705	--	--	1,250	--	--
1932	41,509	--	--	5,030	23,442	--	3,943	3,344	--	--	5,750	--	--
1933	106,144	--	76,575	2,000	--	--	844	505	--	--	26,220	--	--
1934	21,300	--	--	--	--	--	--	--	--	--	21,300	--	--
1935	3,600	--	--	1,000	--	--	--	--	--	--	2,600	--	--

Note--Figures by Banks for 1923 and for transactions prior to 1923 not available.

FOR FILES
 M. B. Daniels
MB

332.3-6 (15-day paper)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

REC'D IN FILES SECTION
MAR - 9 1944
332.3-6

Office Correspondence

Date November 29, 1941

To Mr. Goldenweiser

Subject: Reserve Bank purchases of bills

From Richard Musgrave *R.M.*

and securities under resale agreement

This memorandum presents (1) data on Reserve Bank holdings of bills and securities purchased under resale agreement, (2) interest rates charged for such accommodation, (3) a brief discussion of the purposes of these transactions and of (4) their present legal status.

Holdings under resale agreement

Bills and United States Government securities held by the Reserve Banks under resale agreement are given in the tables on pages 2 and 3: figures through 1926 are for the New York Bank only, subsequent figures include all Reserve Banks. Bills held under resale agreement have usually been in larger volume than securities held under resale agreement. In the period covered by the tables, such holdings of bills rarely exceeded \$100,000,000 and such holdings of securities seldom exceeded half that amount. Since 1935 the Reserve Banks have not held any bills nor since 1935 any securities under resale agreement.

For the most part securities purchased by the Federal Reserve banks under resale agreement have been confined to United States Government obligations. A year-end breakdown of these holdings by types beginning 1927, when such figures were first reported, is given on page 4. The Reserve Banks purchased all types of Federal Government securities; that is, certificates of indebtedness and Treasury bills, notes, and bonds. The amount of such securities held by the New York Reserve Bank, the largest holder, is shown in the table on page 4.

^{have been} Only small amounts of securities that were not United States direct obligations ~~were~~ purchased under resale agreement. As shown by the table, some Federal Intermediate Credit Bank debentures were held at the end of 1930 and a small amount of municipal warrants at the end of 1931. Small amounts of Government securities were also probably held on some other dates.

Compared with their total securities purchased in the open market, Federal Reserve holdings under repurchase agreement have usually been of minor importance, seldom exceeding 15 per cent of total holdings since 1927. For bill holdings, however, a greater proportion was usually purchased under resale agreement, frequently exceeding 25 per cent of total bill holdings.

FOR FILES
E. A. Goldenweiser

TABLE 1

FEDERAL RESERVE BANK HOLDINGS OF BILLS PURCHASED
UNDER RESALE AGREEMENT*

(In millions of dollars)

End of month	1918	1919	1920	1921	1922	1923	1924	1925
January	-	1	22	15	10	7	37	12
February	-	4	19	12	8	4	44	10
March	-	3	12	4	15	7	47	20
April	-	5	6	18	8	11	14	10
May	-	5	9	10	19	25	21	23
June	-	11	13	10	22	23	-	26
July	-	5	6	-	7	17	-	13
August	3	1	13	4	15	17	-	5
September	7	1	8	7	6	14	26	21
October	.3	13	24	33	13	27	8	27
November	1	10	6	11	12	40	16	34
December	4	14	14	46	30	41	28	28
Average	3	6	12	14	14	19	20	19

End of Month	1926	1927	1928	1929	1930	1931	1932	1933
January	10	49	46	57	96	1	8	-
February	35	67	41	26	37	1	7	12
March	29	54	54	16	135	10	5	2
April	19	41	31	49	48	30	.3	-
May	32	69	21	12	50	5	-	-
June	20	30	23	9	24	10	14	40
July	8	19	13	30	2	5	5	-
August	4	67	32	62	1	19	-	-
September	20	76	60	79	16	20	-	-
October	17	76	84	35	3	4	-	-
November	63	66	59	11	8	6	-	-
December	41	82	50	155	39	90	-	19
Average	25	58	43	45	38	17	3	6

* Through 1926 includes New York Reserve Bank only. First resale agreement at New York Bank was on August 19, 1918. All such agreements of the New York Bank have been with dealers only. There have been no purchases of bills under resale agreement since the end of 1933.

TABLE 2
 FEDERAL RESERVE BANK HOLDINGS OF U. S. GOVERNMENT SECURITIES
 PURCHASED UNDER RESALE AGREEMENT *

(In millions of dollars)

End of Month	1920	1921	1922	1923	1924	1925	1926	1927
January	10	-	12	23	.1	.5	-	1
February	3	-	-	22	-	17	5	11
March	2	2	8	15	3	19	-	31
April	4	1	5	5	-	1	4	5
May	16	1	12	12	-	-	4	8
June	6	-	16	11	-	32	9	3
July	12	-	9	16	-	4	-	7
August	15	-	10	20	-	7	1	3
September	12	-	52	14	-	27	3	19
October	9	3	13	10	-	5	-	3
November	7	12	8	18	6	19	4	4
December	.4	8	51	36	2	4	2	57
Average	8	2	16	17	1	11	3	13

End of Month	1928	1929	1930	1931	1932	1933	1934	1935
January	6	3	2	-	2	-	2	-
February	6	4	3	-	-	30	2	-
March	8	6	8	.1	12	2	2	-
April	15	23	2	-	-	1	-	-
May	16	6	2	-	3	.3	-	-
June	36	68	10	-	22	-	2	.5
July	11	21	.2	-	13	1	2	-
August	11	23	.4	-	13	1	2	-
September	29	35	.3	4	3	1	1	-
October	27	50	-	-	-	2	-	-
November	31	4	-	-	-	2	-	-
December	31	23	43	42	4	2	-	.5
Average	19	22	6	4	6	3	1	-

* Through 1926 includes New York Reserve Bank only. All such agreements of the New York Bank since the beginning of 1922 have been with dealers only. The first with dealers occurred April 13, 1920. There have been no purchases of securities under resale agreement since the end of 1935.

TABLE 3

FEDERAL RESERVE BANK HOLDINGS OF SECURITIES
PURCHASED UNDER RESALE AGREEMENT
END OF YEAR

(In thousands of dollars)

	1927	1928	1929	1930	1931	1932	1933	1934	1935
Certificates of indebtedness	24,545	18,461	--	2,425	1,100	--	25	--	--
Treasury notes	16,900	10,180	16,216	18,360	1,500	3,198	99	--	--
Treasury bills	--	--	--	--	21,700	--	--	--	--
Liberty bonds	15,114	811	--	--	--	--	--	--	--
U. S. Bonds	--	1,479	7,080	23,218 ^{1/}	19,284	913	2,122	--	500
Municipal Warrants	--	--	--	--	-250	--	250	--	--
Total	56,559	30,931	23,296	44,003	43,584	4,111	2,496	--	--
Thereof in New York	51,704	25,190	21,850	36,403	24,300	--	--	--	--

^{1/} Includes \$600,000 of Federal Intermediate Credit Bank Debentures.

Purchases under resale agreement have usually been ^{from} with dealers. At the New York Bank purchases of bills under resale agreement began August 19, 1918 and from the outset have been only with dealers. Security purchases from banks under resale agreement began in November 1917 and from dealers on April 13, 1920. Since the beginning of 1922 all such security purchases by the New York Bank have been confined to dealers.

Weekly condition statements of the Reserve Banks released for the press have never reported separately the amounts of bills or securities purchased under resale agreement, nor were these amounts ever given as a supplementary memorandum item. Beginning 1927, however, the Federal Reserve Bulletin and Annual Reports of the Board reported such holdings of bills and securities separately from those bought outright.

Interest rates charged

Interest rates charged by the New York Bank for purchases of United States Government securities under resale agreement since 1920 are compared with the discount rate charged under Sections 13 and 13A of the Federal Reserve Act given in Table 4 on the following page. These rates have been closely in line with discount rates and since August 27, 1937 the two rates have been 1 per cent at the New York Bank.

At Cleveland, Kansas City, and Dallas, the only Reserve Banks that now set such a rate, it has been the same as the rate on rediscounts and advances under Sections 13 and 13A not secured by United States Government obligations. The rate is now $1\frac{1}{2}$ per cent at these banks.

Presumably rates charged on purchases of securities other than Federal Government securities under resale agreement have been the same as those charged for Government securities.

For a number of years, at least as far back as 1925, transactions under resale agreements have been for a term of 1 - 15 days for both bills and securities.

Rates at the New York Reserve Bank on bills purchased under resale agreement are given in Table 5 beginning August 1918, when the first transaction took place. These rates have been the same as buying rates on 1 - 15 day acceptances since January 1932 and prior to that time it appears that they were the same as the buying rate for 1 - 90 day acceptances. At the present time such rates at other Reserve Banks are identical to the New York rate.

- 6 -

TABLE IV

RATES FOR PURCHASES OF U. S. GOVERNMENT SECURITIES
UNDER RE-SALE AGREEMENT COMPARED WITH RE-DISCOUNT RATES

Federal Reserve Bank of
New York

Date effective	Discount rate	Sales contract rate	Date effective	Discount rate	Sales contract rate
Jan. 23, 1920	6	*	Feb. 27, 1925	3½	-
Apr. 13, 1920 ^{1/}	-	5 1/8	Apr. 9, 1925	-	3½
June 1, 1920	7	-	Jan. 8, 1926	4	4
Apr. 1, 1921	-	5 3/4	Apr. 23, 1926	3½	-
May 5, 1921	6½	-	Apr. 29, 1926	-	3½
June 16, 1921	6	-	Aug. 13, 1926	4	4½
July 21, 1921	5½	-	Aug. 5, 1927	3½	3½
Aug. 2, 1921	-	5¼	Feb. 3, 1928	4	4½
Sept. 22, 1921	5	-	May 18, 1928	4½	4½
Oct. 31, 1921	-	4½	July 13, 1928	5	5
Nov. 3, 1921	4½	-	Aug. 9, 1929	6	5 1/8
March 23, 1922	-	4	Oct. 25, 1929	-	5
June 22, 1922	4	-	Nov. 1, 1929	5	-
Feb. 23, 1923	4½	-	Nov. 15, 1929	4½	4½
Apr. 10, 1923	-	4½	Feb. 7, 1930	4	4
May 1, 1924	4	4	March 14, 1930	3½	3½
June 12, 1924	3½	-	May 2, 1930	3	3
Aug. 8, 1924	3	-	June 20, 1930	2½	2½
Nov. 6, 1924	-	2½	Dec. 23, 1930	-	2
Nov. 28, 1924	-	3	Dec. 24, 1930	2	-
			Feb. 2, 1934	1½	1½
			Aug. 27, 1937	1	1

^{1/} Date of first sales contract agreement with dealers.

* No rate quoted. Dash elsewhere in table indicates no change in previous rate.

- 7 -
TABLE V

RATES FOR PURCHASE OF ACCEPTANCES UNDER RESALE
AGREEMENT AT FEDERAL RESERVE BANK OF NEW YORK

<u>Date Effective</u>		<u>Rate</u>	<u>Date Effective</u>		<u>Rate</u>
August	16	1918	4 1/4	November 1	1929 4 3/4
Nov.	28	1919	4 1/2	" 15	4 1/4
Dec.	29		4 3/4	" 22	4
Jan.	23	1920	5 1/4	Feb. 11	1930 3 7/8
June	28		5 3/4	March 5	3 3/4
Aug.	2	1921	5 1/4	" 6	3 1/2
Sept.	26		5	" 11	3 1/4
Oct.	4		4 3/4	" 19	3
Nov.	3		4 1/2	May 2	2 3/4
Mar.	6	1922	4	" 8	2 5/8
"	22		3 1/2	" 19	2 1/2
July	5		3 1/4	June 5	2 3/8
Oct.	17		3 1/2	" 16	2 1/4
"	23		3 3/4	" 20	2 1/8
"	27		4	" 30	2
May	26	1924	3 1/8	Dec. 24	1 3/4
June	17		2 1/2	Jan. 26	1931 1 5/8
Sept.	3		2	April 9	1 1/2
Nov.	17		2 1/4	" 27	1 3/8
"	28		2 1/2	May 13	1 1/4
Dec.	5		2 3/4	" 19	1
"	22		3	Sept. 25	1 1/4
August	28	1925	3 1/4	Oct. 9	1 3/4
Jan.	8	1926	3 1/2	Oct. 13	2 1/4
August	23		3 3/4	" 16	3 1/4
July	21	1927	3 5/8	Nov. 27	3
"	29		3 3/8	Feb. 26	1932 2 3/4
August	5		3 1/4	March 25	2 1/2
Feb.	3	1928	3 1/2	June 24	1
April	13		3 3/4	Feb. 20	1933 1/2
May	18		4	" 27	1
July	13		4 1/2	March 1	1 1/2
Jan.	4	1929	4 3/4	" 2	2
"	21		5	" 3	3 1/4
March	21		5 1/4	" 13	3 1/2
"	25		5 1/2	" 17	3
July	11		5 1/4	" 20	2 1/2
August	9		5 1/8	" 22	2
Oct.	25		5	June 29	1
				Oct. 20	1/2

(unchanged to date 11/29/41)

NOV 22 1941

November 21, 1941. 30

Mr. Goldenweiser

Mr. Van Fossen

The practice of buying acceptances and short-term Government securities from banks and dealers under repurchase agreement was adopted by some of the Federal Reserve Banks, notably New York, at a very early period. From the correspondence it appears that this practice was for the purpose of developing the bill and United States Government security markets and at the same time as regards bills was looked upon as being more convenient to the Reserve Banks than would be the discount of the bills to maturity.

On March 19, 1925⁴²⁹⁵ the Board adopted the following resolution:

"The Federal Reserve Board reaffirms previous decisions authorizing the practice, long continued, of purchase and sale in the open market of bankers' acceptances and Government securities, by Federal reserve banks from and to banks and qualified dealers, under 15-day 'repurchase agreements', it being understood that such transactions shall be open, under similar facts and conditions, to all Federal reserve banks with relation to banks and similarly qualified dealers in their respective districts".

In September 1928^{see memo 11-7/28} an analysis of schedules received from the Federal Reserve Banks covering United States Government securities taken under repurchase agreement indicated that such transactions were confined to purchases from dealers except in the case of two of the smaller Federal Reserve Banks, each of which was purchasing securities from member banks in a small volume. It is possible that the fact that member bank collateral promissory notes secured by Government obligations were eligible as collateral security for Federal Reserve notes, whereas Government securities could not be so used, may have had something to do with the practice of confining repurchase agreements to transactions with dealers. In this connection it may be stated that the rate charged on repurchase agreements was commonly, though not invariably, the same as the discount rate.

Regulation M, effective August 10, 1933^{see X-7527-7/29/33-1/41 WSP. M.A.}, prohibited the Federal Reserve Banks from purchasing or selling Government securities except in accordance with an open market policy approved by the Federal Reserve Board and in effect at the time, with certain specific exceptions. Following the passage of the Banking Act of 1935 the Federal Open Market Committee appointed under the terms of that Act adopted a Regulation on

FILE COPY

To: Mr. Goldenweiser

- 2 -

Handwritten: Fed Reserve Regulations

March 19, 1936, prohibiting the Federal Reserve Banks from purchasing or selling Government securities except pursuant to authority granted by the Committee or in accordance with the open market policy adopted by the Committee and in effect at the time. The Committee also reserved the right to require the sale of any Government securities then held or thereafter purchased by an individual Federal Reserve Bank or to require that such securities be transferred into the System Open Market Account. As you know, all Government securities held by the Federal Reserve Banks were transferred to the System Open Market Account as of July 1, 1936. On May 25, 1936 *See memo 5/27/36* "Upon motion duly made and *passed* seconded and by unanimous vote, the Committee granted authority to each Federal reserve bank to make temporary purchases of Government securities under resale agreements for periods not exceeding fifteen days."

Repurchase agreements covering United States Government securities have been reported separately in the Federal Reserve Banks' daily balance sheets among holdings of United States Government securities. Memorandum items showing such holdings by classes of securities, also holdings of bills taken under repurchase agreement, have also been carried on the reverse side of the balance sheet. No distinction has been made in the Board's weekly statement between bills and securities taken under repurchase agreement and bills and securities purchased outright.

51
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VF: seh

REC'D IN FILES SECTION
FEB 3 1939
332-3-6

February 2, 1939

The Files

Mr. Wyatt, General Counsel.

Sale of Securities by a
Bank under Repurchase
Agreement.

GARDED

The American Banker for February 1, 1939 (page 2) reports a decision of the New York Court of Appeals in the case of Martin Rothschild v. Manufacturers Trust Company, holding that where a bank officer agreed orally with a customer that the bank would repurchase securities bought by him and thus protect him from loss, the agreement was ultra vires and without force, since it was against public policy, even though in the interim the bank had at one time bought back some securities under the agreement.

A quotation from the opinion cites the case of Awotin v. Atlas Exchange Bank, 295 U.S., 209.

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For Files
O. M. Croghan

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

APR 10 1937
332 3-6

COPY

April 10, 1937

Conniff, Vice President,
Atlanta

RELET April 8, 1937, STOP Committee adopted following resolution May 25, 1936 "Upon motion duly made and seconded and by unanimous vote, the Committee granted authority to each Federal reserve bank to make temporary purchases of Government securities under resale agreements for periods not exceeding fifteen days." Refer my letter June 12, 1936 (X-9616)

(Signed) Chester Morrill

Morrill,
Secretary, Federal Open Market Committee

JPD/ebb

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C O P Y

FEDERAL RESERVE BANK
OF
ATLANTA

332 3-6

April 8, 1937.

Mr. Chester Morrill, Secretary,
Federal Open Market Committee,
Washington, D. C.

Dear Mr. Morrill:-

Please find enclosed copy of letter addressed to us by the First National Bank of Gadsden, Alabama, under date of April 7, 1937, in reply to our letter to them, dated April 5, 1937, a copy of which is enclosed, with respect to their desire that we purchase United States Government securities from them under repurchase agreement.

Mr. Newton, President, Mr. Parker, First Vice President, and I have discussed this matter, having in mind the regulation of the Federal Open Market Committee relating to open market operations of Federal Reserve Banks, and it is our opinion that Government securities purchased under a repurchase agreement would come within the scope of the regulation, and inasmuch as this particular question has not arisen here since the adoption of the regulation we would appreciate being advised as to the proper course to pursue.

You will note from the letter of the First National Bank of Gadsden that an immediate ruling is desired, and it will be greatly appreciated if you will find it convenient to furnish us with telegraphic reply.

Very truly yours,

(Signed) H. F. Conniff,

H. F. Conniff,
Vice President.

HFC:OGM
Encls.

See Telegram 4/10/37

Original filed 70mc-General

C O P Y

THE FIRST NATIONAL BANK

GADSDEN, ALABAMA.

April 7, 1937.

Mr. H. F. Conniff, Vice President,
Federal Reserve Bank,
Atlanta, Georgia.

Dear Mr. Conniff:-

We are in receipt of your letter of the 5th, in reply to our letter to Mr. Schuessler, relative to the handling of Government bonds for us under a repurchase agreement.

With increased demand for loans and with a further increase of reserve requirements, effective May 1st, it will probably be necessary that we handle some of our bonds under a repurchase agreement. We are not willing to sell at the prevailing market and will want to take advantage of a repurchase agreement in securing additional funds if the demand requires it.

We have seen no ruling on this except that in the Federal Reserve Bulletin of March 1937, footnote (1) under Reserve Discount Rates the following appears, "1 Rates indicated also apply to United States Government securities bought under repurchase agreement". From this it appears that such transactions are being handled or they were contemplated.

Please secure an immediate ruling from the Federal Reserve Board on this form of transaction so that we may avail ourselves of its use if necessary.

Yours very truly,

(Signed) John L. Ray,
Assistant Vice President.

C O P Y

FEDERAL RESERVE BANK OF ATLANTA

ATLANTA, GEORGIA

April 5, 1937.

Mr. John L. Ray, Assistant Vice President,
First National Bank,
Gadsden, Alabama.

Dear Mr. Ray:-

This is written in reply to yours of April 2, 1937, addressed to Mr. S. P. Schuessler, Assistant Cashier of this bank.

In your letter you refer to your holdings of Government securities, and make inquiry as to the procedure of selling Government Bonds to the Federal Reserve Bank under repurchase agreement.

We, of course, stand ready to extend our member banks full accommodation in the matter of making advances upon the security of Government obligations. Whether any such advance would be evidenced by a borrowing member's note or covered by a repurchase agreement (in the event the member bank should prefer the transaction to be put into that form) is a matter which we have not had occasion to consider. As you know under the Banking Acts of 1933 and 1935 and the Regulation of the Board of Governors of the Federal Reserve System issued pursuant thereto, no Federal Reserve Bank is permitted to purchase or sell Government securities except pursuant to authority granted by the Federal Open Market Committee. We have seen no ruling or regulation which would be determinative of the question whether the entering into of a "repurchase" agreement with a member bank would amount to the purchase of securities within the meaning of the law and the regulation. Should this question become material we could, of course, take up the matter with the Board, but in any event as stated above you may be sure that our member banks will have ample opportunity to "carry" their Government obligations with the aid of this bank.

Very truly yours,

H. F. Conniff,
Vice President.

RSP:OGM

Page 2-9616-a

FEDERAL RESERVE BOARD FILE
332.3-6
X-9616
332.3-6

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 12, 1936.

Dear Sir:

During the Presidents' Conference on May 26, 1936, advice was given as to actions taken on May 25, 1936, by the Federal Open Market Committee in regard to the adoption of the formula for the allotment of securities in the system open market account to the individual Federal reserve banks; the transfer to the system account of Government securities held in the individual accounts of Federal reserve banks; the discontinuance by Federal reserve banks of purchases for their own investment accounts of Government securities pending sale of such securities for the account of member or non-member banks; authority to each Federal reserve bank to make temporary purchases of Government securities under resale agreements; and authority to individual Federal reserve banks to replace maturing securities and to make shifts between maturities of securities held in their individual accounts.

There is inclosed herewith for the records of your bank a set of copies of excerpts from the minutes of the meeting of the Federal Open Market Committee setting forth the resolutions adopted by the committee on these matters.

orig files F.O.M.C. Gene

Since the date on which these actions were taken complications in working out the details connected with the allocations among the Federal reserve banks of the securities held in that account have developed with the result that the members of the Federal Open Market Committee who participated in its meeting on May 25 have unanimously approved deferring the effective date of the transfers to the system account of Government securities held in the individual accounts of Federal reserve banks and of the reallocations of the securities in the system account from June 15 to June 23.

Very truly yours,

Chester Morrill

Chester Morrill, Secretary,
Federal Open Market Committee.

Inclosures.

TO ALL PRESIDENTS

Excerpts from Minutes of Meeting of Federal Open
Market Committee on May 25, 1936.

"After detailed discussion of the various aspects of the questions involved, upon motion duly made and seconded and by unanimous vote, the Committee (a) approved and continued in effect the formula adopted by the Federal Open Market Committee as constituted prior to March 1, 1936, and the practice followed under its authority, with respect to allotments to the various Federal Reserve banks of Government securities held in the System open market account; (b) authorized and directed the executive committee to make such adjustments as of June 15, 1936, as may be necessary to bring the allotment to each Federal reserve bank of Government securities held in the System open market account into conformity with such formula; and (c) authorized and directed the executive committee to make thereafter from time to time such readjustments as may be necessary to maintain the distribution of Government securities among the Federal reserve banks in accordance with such formula: provided, however, that if at any time the reserve ratio of any Federal reserve bank should fall below 50% or would be reduced below 50% by reason of the operation of such formula the executive committee shall make such readjustments in the allotments as shall be necessary to raise the reserve ratio of such bank to 50% by allocating the necessary amount of securities to the other Federal reserve banks in accordance with the formula. In this connection it was agreed that any profit received by any individual Federal reserve bank as a result of the transfer as of June 15, 1936, to the System open market account of United States Government securities held in the individual investment account of such Federal reserve bank should be treated as a non-recurrent item which should not be taken into account in the application of such formula. It was also agreed that there should be obtained from each Federal reserve bank at quarterly intervals reports showing the nature and amount of any unusual charge-offs which such bank anticipates will be made during or at the end of each calendar year and that the Board of Governors of the Federal Reserve System should be requested to endeavor to bring about the observance of a uniform policy among the Federal reserve banks with reference to such charge-offs."

* * * * *

"Accordingly, upon motion duly made and seconded and by unanimous vote, the Committee directed that the Federal reserve banks transfer on June 15, 1936, to the System open market account, at the market prices prevailing on that date, all the United States

Government securities held in the individual investment accounts of such Federal reserve banks, including Government securities held as investments of self-insurance funds."

* * * * *

"Upon motion duly made and seconded, and by unanimous vote, the Committee directed that any Federal reserve bank which purchases and holds for its own investment account Government securities pending their sale for the account of member or non-member banks shall not later than June 15, 1936 discontinue such purchases and sell all Government securities so held."

* * * * *

"Upon motion duly made and seconded and by unanimous vote, the Committee granted authority to each Federal reserve bank to make temporary purchases of Government securities under resale agreements for periods not exceeding fifteen days."

* * * * *

"Accordingly, upon motion duly made and seconded, and by unanimous vote, authority was granted, until June 15, 1936, to each Federal reserve bank holding Government securities in its individual investment account to replace maturing securities in such account and, with the approval of the executive committee, to make shifts between the maturities in such account, provided that no change in the total amount of Government securities held by such Federal reserve bank shall be effected by such transactions."

* * * * *

Office Correspondence

FEDERAL RESERVE BOARD

FEDERAL RESERVE BOARD FILE

Date November 30, 1935.

332.3-6
332.3-6

To General Counsel

Subject: _____

From Mr. Carpenter

16-852

11/27/35

The Board has approved the draft of letter to Deputy
 Governor Worthington of the Federal Reserve Bank of Kansas City,
 referred to in Mr. Benedict's memorandum of November 20, 1935,
 with regard to the granting of authority to the Federal Reserve
 Bank of Kansas City to acquire Government bonds from the Federal
 Land Bank of Omaha upon repurchase agreement, and has also ap-
 proved the recommendation contained in Mr. Benedict's memorandum
 that a study of the subject referred to in the letter be made
 with the view of making appropriate recommendations to the Federal
 Open Market Committee as reorganized on March 1, 1936, as to its
 regulations or directions regarding such agreements.

cc: Mr. Smead

SRC:ms 

FEDERAL RESERVE BANK
OF
KANSAS CITY

W. S. ...
9PB
FEDERAL RESERVE BOARD FILE
332.3
332.3-6

November 29, 1935.

RECEIVED
DEC - 1 1935
DIVISION OF
BANK OPERATIONS

Board of Governors,
Federal Reserve System,
Washington, D. C.

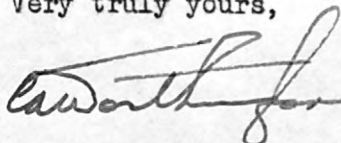
Gentlemen:

Attention: Mr. Chester Morrill,
Secretary.

This will acknowledge receipt of your letter of November 27, containing information to the effect that the Board has granted its consent to this bank to acquire Government bonds from the Federal Land Bank of Omaha under repurchase agreements executed by that bank for 15 day periods, provided the aggregate principal amount of such bonds shall not at any time exceed \$1,500,000, each such transaction to be reported promptly, as required by Regulation M. It is noted that this question of repurchase agreements should be brought to the attention of the Federal Open Market Committee when the new Committee is constituted after February 29, 1936.

In accordance with your request, there is enclosed a copy of the form of repurchase agreement heretofore entered into in connection with our transactions of this nature with the Federal Land Bank of Omaha.

Very truly yours,



C. A. Worthington,
Deputy Governor.

CAW:B

PURCHASE AND RESALE CONTRACT

Federal Reserve Bank of Kansas City
Kansas City, Missouri

Gentlemen:

We hand you herewith United States Government securities amounting to _____ (\$ _____) par value as listed below, which we have today sold you for the sum of _____ (\$ _____) and which we hereby agree to repurchase from you on or before _____, for the sum of _____ (\$ _____) and interest thereon at the rate of _____ percentum () per annum for the number of days that the securities are held by you.

In consideration of this repurchase agreement and as collateral security for the performance of this contract, we hereby agree to deliver to the Federal Reserve Bank of Kansas City, an additional amount of acceptable United States Government issues as and when in the opinion of the Federal Reserve Bank of Kansas City, market conditions warrant.

It is further agreed that in the event repurchase is not made on or before _____, authority is hereby given the Federal Reserve Bank of Kansas City, to sell the United States Government securities covered by this contract, together with such United States Government issues as have been pledged as additional security, if any, and to apply the proceeds arising therefrom in payment of this obligation, remitting any residue after payment of expenses incurred in connection therewith, if any, to us.

FEDERAL LAND BANK OF

BY _____

SCHEDULE OF SECURITIES OFFERED UNDER ABOVE PURCHASE AND RESALE CONTRACT.

"WHEREAS, it will be necessary and expedient from time to time for the Federal Land Bank of _____, to make sale and repurchase agreements of bonds and other securities held and owned by said Bank;

THEREFORE, BE IT RESOLVED, that _____ President of the Bank be, and he is hereby, empowered to make with any and all agencies sale and repurchase agreements that in his judgment are for the best interests of the Bank; that he be and is more particularly authorized and empowered to execute, as occasion may arise, sale and repurchase agreements with the Federal Reserve Bank of Kansas City, Missouri, as per the terms of contract submitted by the Federal Reserve Bank."

In testimony whereof, witness my hand and seal of office.

332.3-6
~~332.3-6~~

NOV 27 1935

Mr. C. A. Worthington, Deputy Governor,
Federal Reserve Bank of Kansas City,
Kansas City, Missouri.

Dear Mr. Worthington:

This refers to your letter of September 24, 1935, regard-
ing purchases by the Federal Reserve Bank of Kansas City of
Government bonds from the Federal Land Bank of Omaha under
agreements obligating that bank to repurchase the bonds with-
in a period not exceeding 15 days in each case.

In your letter you ask whether any action on your part is
necessary at this time, in connection with such repurchase
agreements, and what steps should be taken to bring the matter
to the attention of the Open Market Committee to be appointed
under the Banking Act of 1935.

Your attention is called to section VI of Regulation M,
(which is still in effect) as follows:

"No Federal Reserve bank shall purchase or sell
Government securities except in accordance with an
open market policy approved by the Federal Reserve
Board and in effect at the time, except that:

(1) In an emergency, any Federal Re-
serve bank may purchase Government securi-
ties when necessary to afford relief in a
situation involving specific banking in-
stitutions in its district; and

(2) After obtaining the consent of
the Federal Reserve Board any Federal Re-
serve bank may purchase or sell Government
securities for other specific purposes, for
its own account.

see memo 11/30/35
see ans 11/29/35

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Mr. C. A. Worthington - 2

"All purchases and sales of Government securities by any Federal Reserve bank for its own account shall be reported promptly to the Federal Reserve Board and to the chairman of the executive committee; and the executive committee may make such compensatory purchases or sales for the System account and such re-allocations of the obligations in the System account as may be appropriate in the light of purchases and sales made for their own account by individual Federal Reserve banks."

The provisions of the Banking Act of 1935 amending Section 12A of the Federal Reserve Act and creating the Federal Open Market Committee do not become effective until March 1, 1936. Purchases of Government bonds from the Federal Land Bank of Omaha of the type referred to by you are therefore subject, except in the case of an emergency described in subdivision (1) of the above quotation, to obtaining the consent of the Board.

In view of the facts stated in your letter, the Board hereby grants its consent to the Federal Reserve Bank of Kansas City to acquire Government bonds from the Federal Land Bank of Omaha at the request of and for the convenience of that Bank in financing its needs, under agreements obligating the Federal Land Bank to repurchase the bonds within a period not exceeding 15 days in each case: Provided, That the aggregate principal amount of bonds embraced within the terms of such outstanding repurchase agreements shall not at any time exceed \$1,500,000; and that every such transaction will be reported promptly as required by Regulation M.

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Mr. C. A. Worthington - 3

When the Federal Open Market Committee provided for under the Banking Act of 1935 is constituted after February 29, 1936, it will be appropriate for you to bring to its attention such information as you believe desirable in connection with the repurchase agreements.

It will be appreciated if you will send to the Board a copy of the forms of repurchase agreements entered into by you in the transactions mentioned in your letter.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

FPB/ah

7PB WW
Cmw
L...
K...
H...
C...
R...

App'd See
MINUTE ON
NOV 29 1935
RKY

FOR APPROVAL

- Gov.
- Mr. Hamlin
- Mr. Miller
- Mr. James
- Mr. Thomas
- Mr. Sweeney
- Mr. Clayton

If you approve, please
initial and return to
Mr. Carpenter

FILE COPY

Date November 20, 1935.

Office Correspondence

To The Board of Governors,Subject: Government bonds purchased by
Federal Reserve banks under agreements
by the seller to repurchase.From Mr. Benedict, Assistant Counsel,*Carried**9/24/35*

3332-3-6 16-852

JPB

The attached letter from Deputy Governor Worthington of the Federal Reserve Bank of Kansas City requests information regarding the purchase of Government bonds by that bank from the Federal Land Bank of Omaha under agreements obligating the Land Bank to repurchase the bonds within a period not exceeding 15 days in each case, and particularly as to whether further action on the part of that Federal Reserve bank is necessary. Assuming that the repurchase agreements are not loans (which is open to serious question, as indicated by the latter part of this memorandum) they come clearly under the provisions of section 6 of Regulation M, as quoted in the proposed reply attached. In view of this, it is recommended that Mr. Smead's suggestion in his memorandum, also attached, be adopted by granting the consent set forth in the attached reply to Deputy Governor Worthington. *WW*

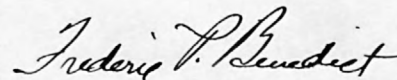
The proper legal construction of such contracts is raised when they contain an absolute agreement by the seller to repurchase within a definite period. Since March 19, 1925, such repurchase agreements have been permitted under a resolution adopted by the Board on that date, if limited to 15 days. In many States such repurchase agreements would be construed by the courts to be loans and, accordingly, the agreements would constitute loans by Federal Reserve

see memo 11/30/35

The Board of Governors - 2

banks to nonmember banks or other persons, apparently contrary to the provisions of the statutes. Whether or not there is adequate legal sanction for the Board's long continued construction of the Federal Reserve Act to permit such transactions the new Federal Open Market Committee will start afresh without being necessarily bound by this construction. Accordingly, it is recommended that a study of the subject, both from a legal and a practical side, be entered into with the view of making appropriate recommendations to the new Committee as to its regulations or directions regarding such agreements.

Respectfully,



Frederic P. Benedict,
Assistant Counsel.

Attachments

Office Correspondence

FEDERAL RESERVE BOARD

FEDERAL RESERVE BOARD FILE

Date October 12, 1935

332.356
372.036

To: Mr. Wyatt

Subject: _____

From: Mr. Smead

MS

MS

16-852

Carded

Attached is a letter dated September 24 from Mr. Worthington, Deputy Governor of the Federal Reserve Bank of Kansas City, with respect to the bank's authority to acquire securities under repurchase agreements from the Federal Land Bank of Omaha without specific approval of the Board of Governors of the Federal Reserve System. In view of the provisions of Regulation "M" promulgated following the passage of the Banking Act of 1933, it appears that this is largely a legal question. From a practical standpoint it would seem that the bank should be permitted to acquire securities under repurchase agreements from the Federal Land Bank from time to time without securing the advance approval of the Board with the understanding that each such transaction will be promptly reported to the Board on the proper schedule and with the further understanding that such repurchase agreements have a maturity not in excess of 15 days and are for amounts not in excess of say \$1,500,000.

Attachment.

RECEIVED
OFFICE OF GENERAL COUNSEL

OCT 14 1935

10 *AM* P.M.
NUMBER _____

see letter 11/27/35
memo 11/20/35

FEDERAL RESERVE BOARD FILE
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FEDERAL RESERVE BOARD
WASHINGTON
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FEDERAL RESERVE BANK
OF
KANSAS CITY

1935 SEP 26 PM 1 48

Mr. Bethea ✓
Mr. Carpenter ✓

McSquad

September 24, 1935.

RECEIVED

SEP 26 1935

DIVISION OF
BANK OPERATIONS

Board of Governors,
Federal Reserve System,
Washington, D.C.

Gentlemen:

✓
Carded

For many years we have purchased Government bonds from time to time from the Federal Land Bank of Omaha under repurchase agreements executed by that bank. Such repurchase agreements have been for periods not exceeding fifteen days and, in most instances, the bonds have been repurchased by the Land Bank within less than a week. Such transactions have at all times been handled at the request of the Land Bank and for its convenience. This matter was the subject of considerable correspondence with the Federal Reserve Board in March and November, 1925, and the Board's approval was granted at that time. Our attention, however, has been directed to the fact that no approval has been obtained since the enactment of the Banking Act of 1933, although such transactions have been regularly brought to the attention of the Board through reports on Schedule BD-6 and have been reported to the Executive Committee of the Open Market Committee each week for inclusion in the weekly reports of the open market operations.

It will be appreciated if you will let us know whether any further action on our part is necessary at this time and what steps should be taken to bring this matter to the attention of the new Open Market Committee provided for in the Banking Act of 1935.

Very truly yours,

C. A. Worthington,
Deputy Governor.

CAW:L

see ans 11/27/35
10/17/35 + 11/20/35

*File
Repurchase*

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

332.3
CIRCULATION
Gov. Meyer ✓
Mr. Harbo ✓
Mr. James ✓

RECEIVED AT WASHINGTON, D.C.

120c fa

Philadelphia 255p Mar 14 -1933

Mr. Magee
Mr. Miller
Mr. Harrison ✓
Mr. Mowatt ✓
Mr. Smead ✓
Please note Initial and
Return to Secretary's Office
File

Board

Washn

We have the case of a life insurance company which has a large volume of checks that have been uncollectible and wanted to borrow one million on Governments for a few days under section 403 . There being doubt as to right of officers or executive committee to borrow under their bylaws we are buying the governments under a repurchase agreement.

Norris

3pm

W. P. Purchase

10
TELEGRAM

445
33236
3323

FEDERAL RESERVE BOARD
WASHINGTON

March 2, 1933.

McClure,
Kansas City

Board will interpose no objection your bank acquiring Govern-
ment securities on repurchase agreement from State member bank
STOP In existing circumstances Board will not object to use of
such bonds as collateral for Federal reserve notes if agreement
with member bank authorizes reserve bank to pledge the same.

MORRILL (Signed) Chester Morrill

WW
WW sad
CW
Sts
an
My

abpd
AT BOARD MEETING

MAR 3 1933

FILE COPY

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

3323-6

Counsel
234gb Rush

RECEIVED AT WASHINGTON, D. C.

Kansascity Mar 2 21lp

Board

Washington

One of our state member banks wishes us to take substantial amount of Government securities on repurchase agreement stating that it understands this practice is being followed in some other Federal Reserve Districts. Please advise whether there is objection to making an advance in this manner, and also advise whether bonds so had by us can be used if needed as collateral for Federal Reserve Notes rush reply as member bank wishes to complete transaction today.

Mcclure.

32lp

sh
Refranchising
program.

X-6275
332.3 2.2
332 3

(CONFIDENTIAL TENTATIVE DRAFT)

FEDERAL RESERVE BOARD

REGULATION M, SERIES OF 1929.

Loans, Discounts or other Credit Accommodations for Mem-
ber Banks having Speculative Security Loans.

SECTION I. DEFINITIONS.

(a) Security Broker. Within the meaning of this regulation, the term "security broker" shall include every person, firm, partnership, corporation, company, or association, whose principal business it is to negotiate purchases or sales of, or to purchase, sell, or otherwise deal in, stocks, bonds, or other investment securities, either for his or its own account or for the [account] of others.

(b) Speculative Security Loan. Within the meaning of this regulation, the term "speculative security loan" shall include every loan to a security broker and every other loan the proceeds of which have been or are to be used for the purpose of purchasing, paying for, carrying, or trading in, stocks, bonds, or other investment securities, except bonds and notes of the Government of the United States.

Every loan made, renewed, extended or permitted to run past due after the effective date of this regulation which is secured by a pledge of stocks, bonds, or other investment securities (except bonds and notes of the Government of the United States) shall be deemed to be a speculative security loan within the meaning of this regulation, unless there is attached to the note, draft, bill of exchange or other evidence of such loan a written statement signed by the borrower to the effect that:

(1) The borrower is not a security broker as defined in this regulation;

(2) The stocks, bonds or other investment securities pledged to secure such loan are, and for at least thirty days have been, the absolute property of the borrower;

(3) The proceeds of the loan have not, and will not be, used for the purpose of purchasing, paying for, trading in, or carrying stocks, bonds or other investment securities, except bonds and notes of the Government of the United States;

(4) The proceeds of the loan have not, and will not be, loaned to any security broker or to any other person, firm, partnership, corporation, association or company for the purpose of purchasing, paying for, trading in, or carrying, stocks, bonds, or other investment securities; and

(5) The proceeds of such loan have been or are to be used for another purpose, which shall be stated in such affidavit.

SECTION II. RESTRICTIONS.

Except with the permission of the Federal Reserve Board, no Federal Reserve Bank shall discount or rediscount any note, draft or bill of exchange for, or make any loan or advance to, or purchase any bills of exchange, bankers' acceptances, or government, State or municipal securities (under repurchase agreement or otherwise) from, any member bank which at the time has any speculative security loans outstanding.

SECTION III. EVIDENCE OF ELIGIBILITY.

In addition to the evidence of eligibility required by Regulation A, every application made by a member bank to a Federal

Reserve Bank for any discount or rediscount or any loan, advance, or other credit accommodation, shall be accompanied by a statement of the applying bank as to the amount of speculative security loans, which such bank has outstanding at the time of such application.

SECTION IV. PERMISSION OF THE FEDERAL RESERVE BOARD.

A Federal Reserve Bank desiring to obtain the permission of the Federal Reserve Board to discount or rediscount any notes, drafts, or bills of exchange for, make any loan or advance to, or to purchase any bills of exchange, bankers' acceptances, or government, State or municipal securities (under repurchase agreements or otherwise) from, any member bank within the prohibitions of this regulation, shall make application therefor in writing or by telegraph (not by telephone) to the Federal Reserve Board and shall furnish with such application a full explanation of the circumstances giving rise to such application and the reasons why the applying Federal Reserve Bank thinks it should be granted.

Repurchase

6

332,3-6
~~332-3~~

December 29, 1928

Dear Governor Black:

This will acknowledge receipt of your letter of December 19 in reference to the request of the Barnett National Bank of Jacksonville, Florida, that you purchase from that bank under a repurchase agreement, \$2,000,000 in Government securities.

Generally speaking, it is not the policy of other Federal reserve banks to enter into such agreements with their member banks, although it has been done on several occasions; in fact, I resorted to it when I was in Minneapolis. I did it in good faith at a time when I thought it would be decidedly to the advantage of the member bank not to show any obligations for borrowed money. However, the practice spread from one bank to another and after a short time the Federal Reserve Bank of Minneapolis did not have sufficient collateral for Federal reserve notes.

It would be extremely hard, in my opinion, for you to permit the Barnett National Bank to resort to this practice and deny it to other member banks.

In the early part of this year some repurchase agreements were made at the Dallas bank, but when I was there I talked the matter over with the directors and they all agreed with me that the practice should be discouraged, and Mr. Talley informed me recently that it had been discontinued. A request was also made of the New York bank last week for similar accommodation by one of their member banks, that never borrows, but the New York bank discouraged the idea after giving it careful consideration from all angles.

I think you know me well enough to know that I would not venture any advise in this matter, but inasmuch as you have asked me, I have expressed myself rather frankly.

With kind personal regards, I am

Yours very truly,
(Signed) R. A. Young

R. A. Young,
Governor.

Mr. E. R. Black, Governor,
Federal Reserve Bank,
Atlanta, Ga.

FEDERAL RESERVE BANK
OF ATLANTA

OFFICE OF
GOVERNOR

December 19, 1928.

RECEIVED
DEC 21 1928
GOVERNOR

332.3

R. A. Y.
DEC 28 1928

Dear Governor Young:

During the present week we received a request from the Barnett National Bank, of Jacksonville, Florida, that we purchase from that bank under a repurchase agreement \$2,000,000 of its Government securities.

This bank at the present time owes us \$2,850,000 secured by Governments and it is desirable that the bank reduce its indebtedness under such repurchase agreement. When this matter presented itself I recalled my conversation with you on the subject of such repurchase agreements and in the consideration of the matter by our Executive Committee on yesterday the position stated in our conversation was presented to the Committee.

It is the desire of the Committee to know more fully the policy of other Federal Reserve Banks in this matter and I am writing for an expression from you as to such general situation. The Barnett National Bank is one of our large banks and has asked very little service from our bank. It borrows very rarely and never borrows except on Government securities and our Committee would like to accommodate it unless it is contrary to the general attitude of Reserve Banks. An expression from you to me on this subject, having in mind this request for such service, will be appreciated.

Thanking you, I am

Yours very truly,



Governor.

Mr. R. A. Young, Governor,
Federal Reserve Board,
Washington, D. C.

Office Correspondence

FEDERAL RESERVE
BOARD

Date October 13, 1928. 324

To Mr. Jemison

Subject: _____

From Mr. McClelland

*Rec'd file
9/16/28
has office
6511*

332.3 - 5
~~332~~ 2-8495

Please suspend the attached file for the Fall Conference,
at which time Governor Young will discuss with the Governors of
the Federal Reserve Bank of Atlanta and Dallas the practice at
those banks of purchasing securities from member banks under re-
sale agreement, sales being made by the member banks, presumably
for the purpose of making it unnecessary to rediscount and show
bills payable in their statements.

Office Correspondence

FEDERAL RESERVE BOARD

332.3-6
Date September 27, 1928.

To Governor Young
From Mr. Smead

Subject: Purchases of U. S. securities
by Federal Reserve Banks
under resale agreement.

2-9795
GPO

With reference to the discussion at the Wednesday morning conference regarding purchases of securities under resale agreement, I thought you might be interested in having a detailed statement covering purchases of Government securities under resale agreement at all Federal reserve banks, instead of at just the Atlanta and Dallas banks, to which I referred at the conference. I am therefore attaching hereto a statement showing the purchases since July 1, by dates, the number of days the securities were held, and the bank or dealer from whom purchased. You will note from these statements that securities were taken under repurchase agreement by the Federal Reserve Banks of New York, Atlanta, Chicago, Kansas City, and Dallas, the Atlanta and Dallas banks being the only ones that purchased securities from member banks and the Atlanta bank the only one that has taken them for a period in excess of 15 days. At one time the Federal Reserve Bank of Kansas City purchased securities from Federal Land Banks for a period in excess of 15 days, and on one or two occasions the Federal Reserve Bank of San Francisco has purchased such securities from one member bank in the Twelfth District for a period of practically a month. So far as I know, all other purchases of United States securities under resale contracts have been for periods of 15 days or less and in very few cases have they been taken from member banks.

While I am not familiar with the reasons therefor, it would seem that the sales to the Dallas Federal Reserve Bank by the North Texas National Bank of Dallas have been for the purpose of avoiding borrowing on member bank collateral notes, as otherwise it would be logical to assume that the bank would have used the securities as collateral for its own note, the same as is done by other member banks.

In order to give you some idea as to the volume of these transactions, I am showing below the amount of securities taken by each Federal reserve bank under repurchase agreement during 1927, January to June 1928, and July 1 to date. of the last schedules received.

Ordered Circulated

ATTACHED MEMORANDUM
SEP 1 1928

	1927	1928 <u>Jan.-June</u>	Since <u>July 1</u>
Boston	\$33,474,000	\$9,305,000	-
New York	471,632,000	229,186,000	\$127,335,000
Atlanta	-	2,550,000	1,800,000
Chicago	204,177,000	100,978,000	24,355,000
Kansas City	10,500,000	32,500,000	13,600,000
Dallas	20,596,000	12,196,000	9,724,000
	<u>740,379,000</u>	<u>386,715,000</u>	<u>176,814,000</u>

All of the six Federal reserve banks above listed are taking United States securities under repurchase agreement at the Federal reserve bank discount rate at the present time, but prior to June 7, 1928, the Federal Reserve Bank of Kansas City was charging the rate borne by the securities, usually 4-1/4 per cent.

U. S. GOVERNMENT SECURITIES PURCHASED UNDER RESALE AGREEMENT
 BY THE FEDERAL RESERVE BANK OF NEW YORK SINCE JULY 1, 1928.

Date of		Held for- (Days)	Amount	From whom purchased
Purchase	Resale			
July 2	July 3	1	\$2,575,000	Saloman Bros. & Hutzler, New York
2	6	4	3,865,000	"
2	3	1	200,000	C. F. Childs and Company, New York
2	9	7	800,000	"
2	3	1	180,000	Discount Corporation
2	5	3	1,250,000	"
2	6	4	870,000	"
2	9	7	800,000	"
3	5	2	740,000	C. F. Childs and Company
3	6	3	290,000	"
3	10	7	680,000	"
3	18	15	125,000	"
6	9	3	1,450,000	"
6	11	5	250,000	"
6	12	6	70,000	"
6	16	10	200,000	"
6	18	12	100,000	"
6	19	13	200,000	"
6	20	14	3,930,000	"
6	9	3	711,000	Shawmut Corporation
6	20	14	974,000	"
6	10	4	380,000	Saloman Bros. & Hutzler
9	10	1	2,000,000	"
10	13	3	490,000	"
10	25	15	500,000	C. E. Quincey & Company
11	13	2	2,300,000	Saloman Bros. & Hutzler
11	17	6	700,000	"
12	17	5	2,100,000	"
12	17	5	1,760,000	C. F. Childs and Company
13	16	3	300,000	"
13	17	4	720,000	"
13	19	6	980,000	"
16	17	1	1,145,000	Saloman Bros. & Hutzler
16	20	4	100,000	C. F. Childs and Company
16	23	7	125,000	"
17	20	3	190,000	"
17	23	6	110,000	"
24	26	2	700,000	"
24	27	3	150,000	"
24	30	6	850,000	"
24	Aug. 1	8	2,000,000	"
24	8	15	1,300,000	"
25	9	15	500,000	C. E. Quincey and Company
26	1	6	480,000	C. F. Childs and Company
26	2	7	520,000	"
30	July 31	1	820,000	Saloman Bros. & Hutzler
31	Aug. 8	8	500,000	C. F. Childs and Company
31	15	15	500,000	"
Aug. 1	2	1	100,000	Saloman Bros. & Hutzler
July 3	6	3	55,000	C. F. Childs and Company

Date of		Held for- (Days)	Amount	From whom purchased
Purchase	Resale			
Aug. 1	Aug. 3	2	\$500,000	Saloman Bros. & Hutzler
1	6	5	2,400,000	"
2	3	1	2,060,000	"
2	6	4	800,000	"
2	3	1	1,000,000	Discount Corporation
2	13	11	1,500,000	C. F. Childs and Company
2	16	14	50,000	"
2	17	15	450,000	"
7	8	1	3,050,000	Discount Corporation
7	8	1	1,490,000	Saloman Bros. & Hutzler
8	9	1	500,000	"
8	10	2	1,650,000	C. F. Childs and Company
8	14	6	160,000	"
8	17	9	440,000	"
8	23	15	250,000	"
9	10	1	200,000	Discount Corporation
9	13	4	1,115,000	"
9	14	5	705,000	"
9	13	4	500,000	C. E. Quincey and Company
10	13	3	200,000	Saloman Bros. & Hutzler
10	13	3	500,000	C. F. Childs and Company
10	14	4	505,000	Discount Corporation
13	14	1	650,000	"
13	17	4	700,000	"
13	16	3	300,000	"
13	14	1	400,000	Saloman Bros. & Hutzler
14	16	2	500,000	Discount Corporation
14	16	2	135,000	C. F. Childs and Company
14	29	15	365,000	"
17	18	1	1,200,000	Saloman Bros. & Hutzler
17	20	3	300,000	"
17	22	5	400,000	C. F. Childs & Company
17	24	7	40,000	"
17	28	11	210,000	"
20	21	1	490,000	Saloman Bros. & Hutzler
21	22	1	955,000	Discount Corporation
21	22	1	100,000	Saloman Bros. & Hutzler
22	23	1	150,000	"
22	27	5	650,000	"
22	30	8	200,000	"
22	Sept. 5	14	650,000	"
22	Aug. 23	1	100,000	C. F. Childs and Company
22	27	5	125,000	"
22	30	8	75,000	"
22	23	1	805,000	First National Corporation
22	24	2	485,000	"
23	24	1	300,000	Saloman Bros. & Hutzler
23	31	8	400,000	"
23	29	6	350,000	C. F. Childs and Company
23	30	8	625,000	"
23	Sept. 5	13	325,000	"

Date of		Held for- (Days)	Amount	From whom purchased
Purchase	Resale			
Aug. 23	Sept. 7	15	\$1,300,000	C. F. Childs and Company
24	Aug. 23	1	1,780,000	"
24	27	3	250,000	"
24	27	3	170,000	Saloman Bros. & Hutzler
25	27	2	230,000	"
27	28	1	1,000,000	"
27	29	2	150,000	"
27	30	3	150,000	"
27	28	1	10,000	Discount Corporation
27	29	2	1,190,000	"
28	30	2	25,000	C. F. Childs & Company
28	Sept. 4	7	425,000	"
28	Aug. 29	1	540,000	Saloman Bros. & Hutzler
28	31	3	610,000	"
29	30	1	210,000	"
29	31	2	680,000	"
29	30	1	325,000	C. F. Childs and Company
30	Sept. 5	6	200,000	"
31	5	5	290,000	Saloman Bros. & Hutzler
31	6	6	410,000	"
Sept. 4	5	1	250,000	C. F. Childs and Company
4	6	2	200,000	Saloman Bros. & Hutzler
4	7	3	190,000	"
4	10	6	400,000	"
5	6	1	460,000	"
5	7	2	590,000	"
6	7	1	300,000	"
6	7	1	600,000	Discount Corporation
6	12	6	2,400,000	"
7	12	5	2,000,000	"
7	19	12	100,000	C. F. Childs and Company
7	21	14	1,050,000	"
10	11	1	340,000	Saloman Bros. & Hutzler
10	11	1	500,000	First National Corporation
10	17	7	500,000	C. F. Childs & Company
11	12	1	300,000	"
11			2,000,000	C. E. Quincey and Company
13	14	1	75,000	C. F. Childs and Company
13	19	6	300,000	"
13	21	8	125,000	"
13	17	4	1,500,000	Discount Corporation
13	14	1	2,000,000	"
13	14	1	2,130,000	Saloman Bros. & Hutzler
13	17	4	510,000	"
14	17	3	515,000	"
14	18	4	2,000,000	C. F. Childs and Company
14	20	6	200,000	"
14	21	7	800,000	"
17	18	1	2,150,000	"
17	19	2	350,000	"
Aug. 31	5	5	500,000	"
31	14	14	1,000,000	"

Date of		Held for- (Days)	Amount	From whom purchased
Purchase	Resale			
Sept. 17	Sept. 21	4	\$500,000	C. F. Childs and Company
18	19	1	850,000	"
18	19	1	2,450,000	Saloman Bros. & Hutzler
18			250,000	"
19	20	1	800,000	"
19	21	2	550,000	Discount Corporation
19			1,150,000	"
20	21	1	950,000	Saloman Bros. & Hutzler
20	21	1	1,760,000	First National Corporation
20	21	1	3,500,000	C. F. Childs and Company
21	24	3	250,000	"
24			3,400,000	Saloman Bros. & Hutzler

U. S. GOVERNMENT SECURITIES PURCHASED UNDER RESALE AGREEMENT,
 BY THE FEDERAL RESERVE BANK OF ATLANTA, SINCE JULY 1, 1928

Date of		Held for- (Days)	Amount	From whom purchased				
Purchase	Resale							
June 30	July 2	2	\$250,000	Barnett Natl. Bank, Jacksonville, Fla.				
30	2	2	2,300,000	Atlanta & Lowry National Bank, Atlanta				
*Sept. 20			1,650,000	Barnett Natl. Bank, Jacksonville, Fla.				
22			150,000	"	"	"	"	"

*Agreement provides for resale on or before October 20 at option of Federal reserve bank.

U. S. GOVERNMENT SECURITIES PURCHASED UNDER RESALE AGREEMENT
 BY THE FEDERAL RESERVE BANK OF CHICAGO SINCE JULY 1, 1928

Date of		Held for- (Days)	Amount	From whom purchased
Purchase	Resale			
July 2	July 3	1	\$365,000	C. F. Childs & Company, Chicago
3	5	2	200,000	"
3	6	3	95,000	"
3	6	3	500,000	First National Corporation
3	9	6	475,000	"
3	9	6	10,000	C. F. Childs & Company,
3	11	8	255,000	"
5	6	1	140,000	"
5	11	6	70,000	"
6	10	4	85,000	"
6	11	5	125,000	"
9	10	1	355,000	"
10	11	1	565,000	"
11	12	1	365,000	"
11	13	2	700,000	"
11	16	5	205,000	"
11	17	6	65,000	"
11	18	7	5,000	"
11	19	8	25,000	"
11	20	9	510,000	"
11	23	12	40,000	"
11	24	13	35,000	"
11	26	15	50,000	"
12	13	1	115,000	"
12	19	7	30,000	"
12	20	8	220,000	"
13	16	3	125,000	"
13	18	5	30,000	"
17	18	1	460,000	"
17	19	2	595,000	"
18	19	1	495,000	"
19	20	1	225,000	"
19	23	4	5,000	"
20	23	3	95,000	"
20	24	4	15,000	"
20	25	5	25,000	"
23	24	1	365,000	"
23	25	2	185,000	"
23	26	3	450,000	"
23	27	4	15,000	"
23	Aug. 1	9	10,000	"
24	July 25	1	525,000	"
24	26	2	85,000	"
24	25	1	300,000	First National Corporation
25	26	1	75,000	"
25	26	1	605,000	C. F. Childs & Company
25	27	2	115,000	"

Date of		Held for - (Days)	Amount	From whom purchased
Purchase	Resale			
July 25	July 30	5	15,000	C. F. Childs and Company, Chicago
25	Aug. 1	7	20,000	"
26	July 27	1	65,000	"
26	30	4	360,000	"
26	31	5	160,000	"
26	Aug. 1	6	25,000	"
27	July 30	3	225,000	"
27	31	4	150,000	"
27	Aug. 1	5	5,000	"
27	July 30	3	80,000	Saloman Bros. & Hutzler, Chicago
30	31	1	1,195,000	C. F. Childs and Company
30	Aug. 1	2	270,000	"
31	1	1	640,000	"
Aug. 1	2	1	215,000	"
1	3	2	135,000	"
1	7	6	125,000	"
1	6	5	75,000	"
1	10	9	40,000	"
2	3	1	400,000	"
2	7	5	15,000	"
3	6	3	25,000	"
3	7	4	210,000	"
3	10	7	40,000	"
6	7	1	200,000	"
6	8	2	25,000	"
6	10	4	10,000	"
7	8	1	430,000	"
7	10	3	40,000	"
8	9	1	75,000	"
8	10	2	320,000	"
8	13	5	5,000	"
8	15	7	45,000	"
8	16	8	40,000	"
8	22	14	170,000	"
9	22	13	1,275,000	"
9	15	6	15,000	"
10	13	3	125,000	First National Corporation
10	13	3	150,000	C. F. Childs and Company
10	14	4	25,000	"
10	15	5	75,000	"
10	16	6	175,000	"
10	17	7	25,000	"
13	14	1	155,000	"
14	15	1	65,000	"
14	16	2	80,000	"
14	22	8	35,000	"
15	16	1	190,000	"
15	17	2	10,000	"
16	17	1	5,000	"

Date of		Held for- (Days)	Amount	From whom purchased
Purchase	Resale			
Aug. 16	Aug. 20	4	65,000	C. F. Childs and Company
16	22	6	15,000	"
16	30	14	10,000	"
17	20	3	420,000	"
17	30	13	10,000	"
20	23	3	40,000	"
20	24	4	5,000	"
20	28	8	120,000	"
20	Sept. 4	15	320,000	"
22	Aug. 24	2	15,000	"
22	Sept. 5	14	100,000	"
22	6	15	1,380,000	"
23	Aug. 24	1	100,000	First National Corporation
23	27	4	40,000	C. F. Childs and Company
24	Sept. 10	17	20,000	"
27	10	14	40,000	"
28	Aug. 29	1	55,000	"
28	Sept. 10	13	65,000	"
29	Aug. 30	1	55,000	"
30	Sept. 7	8	75,000	"
Sept. 4	5	1	60,000	"
4	5	1	260,000	"
5	6	1	250,000	First National Corporation
5	6	4	160,000	C. F. Childs and Company
6	7	1	20,000	"
6	10	4	295,000	"
6			1,085,000	"
7			95,000	"
10			520,000	"

U. S. GOVERNMENT SECURITIES PURCHASED UNDER RESALE AGREEMENT
 BY THE FEDERAL RESERVE BANK OF KANSAS CITY, SINCE JULY 1, 1928

Date of		Held for- (Days)	Amount	From whom purchased			
Purchase	Resale						
July 3	July 7	4	\$500,000	Federal Land Bank, Omaha			
7	21	14	2,750,000	"	"	"	"
21	Aug. 3	13	2,750,000	"	"	"	"
Aug. 3	18	15	2,500,000	"	"	"	"
4	20	16	500,000	"	"	"	Wichita
18	22	4	200,000	"	"	"	Omaha
18	Sept. 1	14	1,700,000	"	"	"	"
20	Aug. 31	11	500,000	"	"	"	Wichita
Sept. 1	Sept. 5	4	400,000	"	"	"	Omaha
1	12	11	100,000	"	"	"	"
1	15	14	900,000	"	"	"	"
15			800,000	"	"	"	"

U. S. GOVERNMENT SECURITIES PURCHASED UNDER RESALE AGREEMENT
 BY THE FEDERAL RESERVE BANK OF DALLAS SINCE JULY 1, 1928.

Date of		Held for- (Days)	Amount	From whom purchased
Purchase	Resale			
July 3	July 6	3	\$45,000	North Texas National Bank, Dallas
3	6	3	300,000	" " " " "
3	18	15	450,000	" " " " "
5	6	1	71,550	" " " " "
9	10	1	250,000	" " " " "
9	24	15	50,000	" " " " "
12	27	15	250,000	" " " " "
13	30	17	71,550	" " " " "
17	Aug. 1	15	45,000	" " " " "
18	2	15	450,000	" " " " "
27	11	15	150,000	El Paso National Bank
30	14	15	371,550	North Texas National Bank, Dallas
Aug. 2	17	15	495,000	" " " " "
7	8	1	100,000	" " " " "
10	11	1	100,000	" " " " "
14	29	15	371,550	" " " " "
14	29	15	100,000	" " " " "
16	31	15	200,000	" " " " "
17	Sept. 4	18	595,000	" " " " "
21	Aug. 24	3	225,000	" " " " "
23	Sept. 5	13	225,000	" " " " "
24	7	14	100,000	" " " " "
27	7	11	125,000	" " " " "
29	Sept. 13	15	471,550	" " " " "
31	7	7	200,000	" " " " "
Sept. 4	19	15	595,000	" " " " "
8	11	3	225,000	" " " " "
13			896,550	" " " " "
14			300,000	" " " " "
15	17	2	700,000	" " " " "
19			1,195,000	" " " " "

2323-6
~~3323~~
R

March 17, 1928

Dear Professor Beckhart:

I acknowledge receipt of your communication of the 13th instant, and am advised by our statistical division that we do not have separate figures showing the amount of United States securities purchased with resale agreement by the Federal reserve banks prior to 1925.

Sincerely yours,

(Signed) Walter L. Eddy

Walter L. Eddy,
Secretary

Professor B. H. Beckhart,
School of Business,
Columbia University,
New York, N. Y.

✓
March 14, 1928

TO Mr. Smead

Please prepare reply for
signature of Mr. Eddy.

*Noted
JH*

Jan

Columbia University
in the City of New York

SCHOOL OF BUSINESS

March Thirteenth

1 9 2 8

332.3-6

Mr. Walter L. Eddy,
Secretary, Federal Reserve Board,
Washington, D. C.

My dear Sir:

Referring to your letter of the 7th of March which you wrote in answer to a letter of mine dated the 5th of March, I wanted again to raise the question whether data of United States securities purchased with re-sale agreement by all Federal Reserve Banks and/or separate Federal Reserve Banks can be secured prior to January 1923.

Sincerely yours,

BHB:S

BHBrecht

*For
Republ. Sec. papers*

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

B.

March 7, 1928.

Dear Sir:

Referring to your letter of March 5, I beg to state that figures of United States securities purchased with the resale agreement by all Federal reserve banks combined during each month in 1926 and for the years 1923-1925 are shown in the next to the last column of table No. 35 on page 86 of the Board's 1926 annual report. Figures of similar purchases, if any, by each Federal reserve bank are shown in Part II of the 1926 annual report - Boston page 227, New York page 246, etc.

Very truly yours,

(Signed) Walter L. Eddy

Walter L. Eddy,
Secretary.

Prof. B. H. Beckhart,
School of Business,
Columbia University,
New York, N. Y.

Handwritten initials

Handwritten initials

REC'D-BK. OP MAR -7 1928

M. Smead
Bar

Columbia University
in the City of New York

SCHOOL OF BUSINESS

March Fifth

1 9 2 8

Federal Reserve Board,
Washington,
District of Columbia.

Attention Secretary.

Gentlemen:

Can you tell me whether it is possible to secure data for the volume of securities purchased by each and by all Federal Reserve Banks under the re-sale purchase agreement prior to May, 1926? So far as I have been able to determine, such data can not be found in the bulletin prior to that date.

Appreciating your cooperation in this matter,
I am,

Sincerely yours,

BHB:S

B. H. Bechtel

St
Refund
Program

#12

332.3-6
~~332-3~~

February 14, 1928.

Dear Governor Calkins:

In reply to your letter of
February 3, I beg to advise that for the present
at least the revised form of schedule for reporting
acceptances purchased under resale contract enclosed
with your letter will be satisfactory to this office.

Very truly yours,

(Signed) Walter L. Eddy

Walter L. Eddy,
Secretary.

Mr. J. U. Calkins, Governor,
Federal Reserve Bank,
San Francisco, Calif.

Office Correspondence

FEDERAL RESERVE
BOARD

330,36
Date February 8, 1928

To Mr. Smead

Subject: _____

From Mr. Eddy

2-8495
G.P.O.

Please prepare appropriate reply to the attached letter from Governor Calkins, dated February 3rd, re schedule of bills under re-purchase agreement. I would like to talk with you about it before it goes out.

Noted JH

FEDERAL RESERVE BANK
OF SAN FRANCISCO



February 3, 1928

33213-6

Federal Reserve Board,
Washington, D. C.

Schedule of Bills
under repurchase
agreement.

Dear Sirs:

To foster the development of a market for bankers' acceptances on the Pacific Coast, the Federal Reserve Bank of San Francisco from time to time has taken bills from two reputable dealers under repurchase agreement. The aggregate amount of unendorsed bills carried under repurchase agreement has at times reached \$7,000,000. Endorsed bills are taken without limit as to amount. One of these dealers sold bills on the Pacific Coast last year amounting to \$104,000,000.

That the dealers will use the Federal Reserve Bank as little as possible, we maintain our rates at a point where accommodation can be acquired elsewhere on more favorable terms if there is any available surplus of short-time funds in San Francisco. During the past few days, for instance, no bills have been carried by us under repurchase agreement, whereas on January 2, 1928, we had \$7,290,149.25.

The turnover of these bills, on account of sales to investors and the shifting of bills from the Federal Reserve Bank to Commercial banks, proceeds so rapidly at times that it is almost impossible to complete scheduling bills before they are withdrawn and again returned to us. To avoid this large amount of work, which is not only costly but hinders a free and desirable movement of bills, we are writing to inquire whether it would be agreeable to the Federal Reserve Board for us to list bills acquired under repurchase agreement in total, as per the enclosed schedule, instead of following the customary detailed method.

Yours very truly,

James H. [Signature]
GOVERNOR.

FEDERAL RESERVE BANK OF SAN FRANCISCO

Schedule No.

TO

FEDERAL RESERVE BOARD, WASHINGTON, D. C.

Date 1/28/28

Schedule of Bills Purchased UNDER SALES CONTRACT

Date Purchased 1928	Our Number	XXXX DEALER	XXXXXX	XXXXXX	Due	Amount	Rate	Discount	Proceeds	Drawer and Endorsers	Brokers
------------------------	------------	---------------------------	-------------------	-------------------	-----	--------	------	----------	----------	----------------------	---------

JAN 28

SUNDRY ELIGIBLE BANKERS ACCEP TAN CES PURCHASED UNDER SALES CONTRACT AS FOLLOWS—

1 NATIONAL CITY CO SAN FRANCISCO CALIF

2/10/28

13 ITEMS AGGREGATING

352 025 28

DISCOUNT FOR 14 DAYS AT 3 1/4%

444 92

CREDIT BK OF CALIFORNIA N A

SAN FRANCISCO WITH PROCEEDS

351 580 36

2 AMERICAN NATIONAL CO SAN FRANCISCO CALIF

2/2/28

69 ITEMS AGGREGATING

984 795 47

DISCOUNT FOR 15 DAYS AT 3 1/4%

1 333 57

CREDIT AMERICAN TRUST CO

SAN FRANCISCO WITH PROCEEDS

983 461 90

62.

TELEGRAM

332.3-6

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

RECEIVED AT WASHINGTON, D. C.,

7bmr7

Boston Jan 31 945a

Smead

Washington

Twill 866 January 30.

Boston

954a

TELEGRAM

332,3-6

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

RECEIVED AT WASHINGTON, D. C.,

2bmr

New York 918a Jan 31

Smead

Washington

Twill 866 today

Strong

924a

TELEGRAM

332.3-16

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

RECEIVED AT WASHINGTON, D. C.,

Scdea

Cleveland 927am Jan 31

Smead

Waslm

Twill 866

Fancher

942am

TELEGRAM

332.3-6

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

RECEIVED AT WASHINGTON, D. C.,

265gs 6

Chicago, Jan 30 433P

Smead

Washn

twill eight sixty six January thirtieth

McDougal

549P

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

RECEIVED AT WASHINGTON, D. C.,

276gs 6

KansasCity Jan 30 439p

Smead

Washn

Twill Trans 866 thirtieth

Bailey

556PM

TELEGRAM

332.3-6

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

RECEIVED AT WASHINGTON, D. C.,

37gta 4

Dallas jan 31 927am

Smead

Washn

Twill 866

Talley

1037am

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

332.36

RECEIVED AT WASHINGTON, D. C.,

lgta 2

Sanfrancisco jan 30 410pm jan 31

Board

Washn

Odorous unaccorded

TWILL 866

Ambrose

904am

TELEGRAM

FEDERAL RESERVE BOARD

LEASED WIRE SERVICE
WASHINGTON

January 30, 1928

2-9454

GPO

~~332~~ ~~3~~ ~~2~~

Bond

1928 JAN 30

PM 5 19

Harding, Boston ✓
Strong, New York ✓
Fancher, Cleveland ✓
McDougal, Chicago ✓

Bailey, Kansas City ✓
Talley, Dallas ✓
Calkins, San Francisco ✓

TRANS 866. Beginning February 1 please report daily on reverse side of form 34 amount of securities and bills held under repurchase agreement also wire weekly as part of Wednesday night form 34 telegram total amount so held of securities, code MIKE and of acceptances, code MATE.

SMEAD

521

#9

332.3 6
~~332.3~~

October 19, 1926.

Dear Governor Young:

Your letter of October 8th with relation to the somewhat peculiar situation that has led you to purchase certain Government securities from some of the large banks in Minneapolis and St. Paul, without a definite but with an implied repurchase agreement, has been brought to the attention of the Board. The opinion was expressed that inasmuch as the transactions engaged in by the Minneapolis bank were on a limited scale and to meet a transitory situation, there is no occasion to go into the matter formally or more fully.

I might add that these transactions are not exactly the same as the repurchase agreements under which the New York Federal Reserve Bank takes from dealers and some member banks short term Government securities and bankers' acceptances, as the last mentioned transactions are generally for a few days only and clearly have a steadying influence on the fluctuations in the money market.

Yours very truly,

Vice Governor.

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

Appd
AT BOARD MEETING
OCT 20 1926
DW

FEDERAL RESERVE BOARD

OFFICE OF THE VICE GOVERNOR

To

Mr. Eddy

*This draft of letter
to Gov. Young is satisfac-
tory to me
E. P.*

Office Correspondence

FEDERAL RESERVE
BOARDDate October 12, 1926.To Mr. PlattSubject: 332.3-6From Mr. Eddy.

2-8495

ME

At the meeting of the Board this morning, there was referred to you for the preparation of a reply the attached letter, dated October 8th, from the Governor of the Federal Reserve Bank of Minneapolis, with reference to repurchase transactions with certain Twin City banks. It was the consensus of opinion at this morning's meeting that, taking into consideration conditions existing in the Minneapolis district, the Board should approve the action of the Federal reserve bank in these transactions, and that there appears to be no occasion for going into the general question of principle involved inasmuch as the transactions are to be for only a limited amount. It is understood that the letter you draft is to be submitted to the Board later.

Letter

FEDERAL RESERVE BANK
OF MINNEAPOLIS

October 8, 1926.

3323-6

Hon. D. R. Crissinger, Governor,
Federal Reserve Board,
Washington, D.C.

Dear Governor Crissinger:

Owing to the very unusual conditions that have existed in the Ninth Federal Reserve District for the last six years, the depositing public are watching published bank statements more carefully than they ever have before. With 960 member and non member banks closed, the public has observed that practically every one had the item "Rediscounts" or "Bills Payable" in their statement before they closed. The public, therefore, looks with suspicion upon these items in a bank's published statement.

The banks know that this erroneous impression has developed, and those which are in good condition will do almost anything rather than show these items. The larger banks in Minneapolis and St. Paul have been affected, although they inform me that they are not so much concerned about the individual depositor as they are about the effect that their publishing Bills Payable has upon their country bank correspondents. Most of their country correspondents feel that they are dependent upon the Twin City banks for aid in case of emergency, and apparently the Bills Payable that have been shown at different times by the Twin City banks have caused considerable talk and some unrest on the part of their country correspondents. I have had the feeling, myself, that the stronger banks were unduly alarmed and have so advised them. I have taken the position that some day they will have to show obligations for borrowed money, and they might just as well fight the situation out now when they are in a position to do so successfully, as to wait and have to do it at some time when their position may not be quite so strong. Nevertheless, many of the good banks do not feel that this is the opportune time to take any chances, and the result is that they will sell United States bonds or other marketable securities rather than show obligations for borrowed money in a published statement, even though the borrowing may be only of a temporary nature.

Mr. Paul Leeman, Vice President of the First National Bank, and a member of our Executive Committee, told me a short while back that the reaction from the country correspondents was so great because of their bank showing a small Bills Payable item on a previous published report, that he would not do it again at this time if it could possibly be avoided. The First National Bank is an excellent institution, and a heavy holder of United States Bonds (approximately \$19,000,000). To adjust their reserve position, they frequently borrow from us on the United States Bonds. They are not, however, "steady boarders" in any sense of the word. About two weeks ago, they owed us \$4,000,000. or \$5,000,000. secured by United States bonds. Anticipating a call for

To Vice Pres. to prepare reply

AT BOARD MEETING
OCT 12 1926

Hon. D. R. Crissinger---2

a statement, Mr. Leeman told me that he was thinking of selling the bonds and retiring his obligations with us, but didn't like to do it because he was sure that his deposits would increase shortly. He also thought of selling them to another correspondent with an option to repurchase, but he asked me if our bank would be willing to take the bonds off his hands temporarily. I told him that we would not care to take them at the market or handle them on any more favorable basis than our rediscount rate. He said he would be willing to sell them to us on a 4% basis and take an option from us to repurchase at the same price. He did not, however, agree to buy the bonds back, but inasmuch as our bank was taking them much below the market, his bank would be compelled to repurchase at some future date.

This transaction was referred to our Executive Committee (Mitchell-Leeman - Young) before it was put through, and unanimously approved. Mr. Mitchell returned from the East a few days ago and stated that upon re-considering, he thought that we might be subjecting ourselves to later criticism by the Federal Reserve Board.

Now, of course, this method of procedure was followed by the First National Bank of Minneapolis for two reasons:

1. To avoid showing obligations for borrowed money.
2. To avoid selling securities and later repurchasing from dealers and paying a commission both ways.

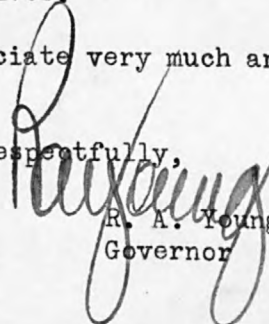
Our bank entered into the transaction for three reasons:

1. Because we acquired U. S. bonds on a much more favorable basis than we could in the open market.
2. The transaction resulted in a profit that we would have lost had we refused.
3. The accommodation would have been secured elsewhere and the same results obtained.

I personally feel that we did the right thing in the circumstances, but still at the same time I would not want to take any action that would be embarrassing to the Federal Reserve Board or our own institution. From a legal standpoint, I do not think there can be any question about the procedure, but as Mr. Mitchell has stated, there may be some question as to the advisability of handling it the way we did. I am sure that the First National Bank of Minneapolis would not care to have any transaction with us that might later embarrass the Federal Reserve Board or ourselves.

Our Committee, therefore, would appreciate very much an expression from the Board relative to the transaction.

Yours respectfully,


R. A. Young
Governor

FEDERAL RESERVE BANK
OF MINNEAPOLIS

33213-6

October 8, 1926.

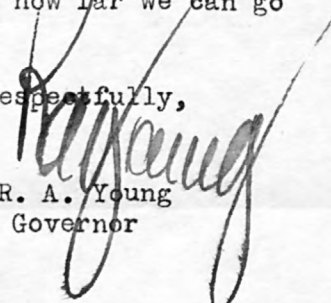
Hon. D. R. Crissinger, Governor,
Federal Reserve Board,
Washington, D.C.

Dear Governor Crissinger:

Supplementing my letter to you today, I advise that no preference has been shown to the First National Bank of Minneapolis. We have put similar transactions through for two other member banks, the Merchants National Bank, St. Paul, and the Northwestern National Bank of Minneapolis.

Of course, because U. S. bonds are not eligible as collateral for Federal reserve notes, while a member bank's note secured by the bonds is eligible, there is naturally a limit as to how far we can go in transactions of this kind.

Yours respectfully,


R. A. Young
Governor

RAY-C

Excerpt from memorandum dated February 9th, from the Board's Chief Examiner, submitting report of Examination of Federal Reserve Bank of Minneapolis as at the close of business September 30, 1926:

"The inclination to avoid showing liability for borrowed money seems to have reached some of the banks in the Twin Cities. In the assets of the reserve bank were \$7,000,000- in United States securities purchased from the following banks:

Minneapolis, Minn.	First National Bank	\$3,800,000-
"	"	
"	Northwestern National Bank	2,200,000-
St. Paul,	"	
	Merchants National Bank	1,000,000-
		<hr/>
		\$7,000,000-

"Under a verbal agreement it was understood that the selling banks could repurchase the securities at par, paying the reserve bank interest at the rate of 4 per cent per annum for the time it carried the bonds. These transactions were arranged shortly before the Comptroller of the Currency made his call for a report of condition as of September 30, 1926 and consequently they assume the character of "window dressing" for this report."

#10
FEDERAL RESERVE BANK
OF
KANSAS CITY

33213-6
M. L. McCLURE
CHAIRMAN BOARD OF DIRECTORS
AND FEDERAL RESERVE AGENT
HEBER HORD
DEPUTY CHAIRMAN
BOARD OF DIRECTORS
K. BOARDMAN
ASST. FEDERAL RESERVE AGENT
AND SECRETARY

W. J. BAILEY, GOVERNOR
C. A. WORTHINGTON, DEPUTY GOVERNOR
J. W. HELM, CASHIER
JOHN PHILLIPS, JR., ASST. CASHIER
E. P. TYNER, ASST. CASHIER
G. E. BARLEY, ASST. CASHIER
M. W. E. PARK, ASST. CASHIER
A. M. McADAMS, ASST. CASHIER
G. H. PIPKIN, ASST. CASHIER

October 13, 1926.

Mr. Walter L. Eddy, Secretary,
Federal Reserve Board,
Washington, D. C.

Dear Mr. Eddy:

This will acknowledge receipt of your letter of October 11th, with reference to purchase of Liberty Bonds and Treasury Notes from the First National Bank of Kansas City, which securities were resold to that bank on October 5th and 6th.

These securities were not acquired under repurchase agreement, but were purchased from the First National Bank of Kansas City for our investment account. They were carried by us one and two days, respectively, and resold to that bank at their request, our earnings receiving the benefit of the coupon rate borne by the securities for the period carried.

Your instructions to mark our schedules so as to indicate securities acquired under repurchase agreement will be observed in all cases where securities are so acquired.

Very truly yours,

C. A. Worthington
Deputy Governor.

CAW*FA

Repurchase

#10

33213-6
~~3323~~

October 11, 1926.

Dear Governor Bailey:

We recently received from your bank investment schedule S-2, dated October 4, 1926, reporting the purchase of \$500,000 of Liberty bonds and \$500,000 of Treasury notes from the First National Bank of Kansas City. Inasmuch as the notes and bonds were sold back to the same bank on October 5 and 6, respectively, it was thought that they had been acquired under repurchase agreement. It is noted, however, that they were taken at $4\frac{1}{4}$ and $4\frac{1}{2}$ per cent, respectively, whereas your bank advised the Board on January 14 that its rate on Government securities acquired under repurchase agreement was 4 per cent.

It will be appreciated if you will kindly advise us in regard to the nature of the transaction, and if the securities were acquired under repurchase agreement, will you kindly have the schedules so marked in the future.

Very truly yours,

(Signed) Walter L. Eddy

Walter L. Eddy,
Secretary.

Mr. W. J. Bailey, Governor,
Federal Reserve Bank,
Kansas City, Mo.

622

9m

*3rd Liberty Loan
Bonds*

#2

333.1

332.3 - 6

~~332 3~~

FEDERAL RESERVE BANK
OF NEW YORK

*X-4629
6/30/26*

July 6, 1926

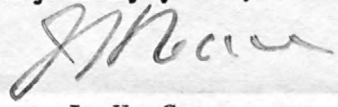
Federal Reserve Board,
Washington, D. C.

Attention: Honorable D. R. Crissinger

Dear Governor Crissinger:

This will acknowledge receipt of Federal Reserve Board letter No. X-4629 dated June 30, 1926 advising that the Federal Reserve Board has approved a recommendation of the Open Market Investment Committee that Federal reserve banks extend the re-purchase agreement practice with recognized dealers in Government securities to include Third Liberty Loan bonds which mature September 15, 1928.

Very truly yours,



J. H. Case
Deputy Governor

Wardale Linen Bond

#2
333.1
332.2-6
Federal Reserve Board
33
3
JUL 1 1926
1926

FEDERAL RESERVE BANK
OF NEW YORK

July 1, 1926

Federal Reserve Board,
Washington, D. C.

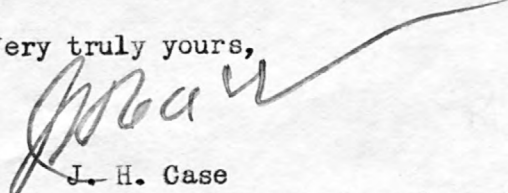
Attention: Honorable D. R. Crissinger

Dear Governor Crissinger:

I beg to acknowledge receipt of your letter of June 30, 1926 advising me that the Federal Reserve Board, upon the recommendation of its Executive Committee, has voted to approve the suggestion made by the members of the Open Market Investment Committee at the last meeting of the Committee on June 21, 1926 that the Federal reserve banks extend the re-purchase agreement practice with recognized dealers in Government securities to include Third Liberty Loan bonds maturing September 15, 1928.

I also note that the Board has advised the Federal reserve banks of its action.

Very truly yours,


J. H. Case
Acting Chairman, Open Market
Investment Committee

FEDERAL RESERVE BOARD

WASHINGTON

332.3-6

June 30, 1926.

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

CARDED

SUBJECT: Purchase of Third Liberty Loan Bonds by Federal Reserve Banks under agreement to resell.

Dear Sir:


This is to advise you that the Federal Reserve Board has approved a recommendation of the Open Market Investment Committee for the Federal Reserve System that Federal Reserve Banks extend the repurchase agreement practice with recognized dealers in Government securities to include Third Liberty Loan bonds. These bonds mature September 15, 1928, and now have only a little more than two years to run.

The volume of United States Treasury certificates and notes outstanding has been greatly reduced and it seems proper to increase the volume of short-term securities which dealers can borrow on from the Federal Reserve Banks by the addition of the Third Liberty Loan bonds.

Yours very truly,

D. R. Crissinger,
Governor.

TO ALL GOVERNORS OF FEDERAL RESERVE BANKS.

OK
CWH


X-1629

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

FOR APPROVAL OF GOVERNOR
and Return to Secretary

June 30, 1926.

SUBJECT: Purchase of Third Liberty Loan Bonds by Federal Reserve Banks under agreement to resell.

Dear Sir:

This is to advise you that the Federal Reserve Board has approved a recommendation of the Open Market Investment Committee for the Federal Reserve System that Federal Reserve Banks extend the repurchase agreement practice with recognized dealers in Government securities to include Third Liberty Loan bonds. These bonds mature September 15, 1928, and now have only a little more than two years to run.

The volume of United States Treasury certificates and notes outstanding has been greatly reduced and it seems proper to increase the volume of short-term securities which dealers can borrow on from the Federal Reserve Banks by the addition of the Third Liberty Loan bonds.

Yours very truly,

D. R. Crissinger,
Governor.

TO ALL GOVERNORS OF FEDERAL RESERVE BANKS.

Handwritten initials

2

332 2-6
~~332 3~~

June 30, 1926.

Dear Mr. Case:

This is to advise you that the Federal Reserve Board yesterday, upon the recommendation of its Executive Committee, voted to approve the action of the Open Market Investment Committee at its last meeting in voting that the Federal reserve banks extend the repurchase agreement practice with recognized dealers in Government securities to include Third Liberty Loan bonds, which mature September 15, 1928, and now have only a little more than two years to run.

The Board is today advising all Federal reserve banks of its action.

Yours very truly,

(Signed) D. R. Crissinger.

D. R. Crissinger,
Governor.

Mr. J. H. Case,
Acting Chairman,
Open Market Investment Committee,
Federal Reserve Bank,
New York City.

Prepared by
(Handwritten initials)
(Handwritten signature)

332.3-6

June 24, 1926.

Dear Mr. Case:

With reference to your letter of June 21, the Executive Committee of the Board this morning considered the recommendation of the Open Market Investment Committee at their recent meeting that the Federal Reserve Banks extend the repurchase agreement practice with recognized dealers in Government securities to include Third Liberty Loan bonds. Although this question must ultimately be decided by the Board, our committee voted to recommend approval of the action of the Open Market Investment Committee.

The matter will be presented to the Board at the first opportunity and you will be promptly advised of the action taken.

Yours very truly,

Edmund Platt,
Vice Governor.

Mr. J. H. Case,
Acting Chairman,
Open Market Investment Committee,
Federal Reserve Bank,
New York City.

Appd
AT BOARD MEETING
JUN 29 1926

[Signature]

3331

332.3-6
332 3

*Repurchase of
3rd Liberty Loan Bonds
Tray, Winston*

June 24, 1926.

Dear Mr. Winston:

Your note with reference to the Open Market Investment Committee's recommendation with relation to Third Liberty Loan bonds was received this morning just after I had laid the recommendation before the Executive Committee of the Board. There were only three of us present, but no objection was raised to the proposition to include Third Liberty Loan bonds in the repurchase agreement practice.

In order to avoid misunderstandings, however, I think it would be better to have the findings of the Executive Committee on this matter ratified by a quorum before any of these Third Liberty Loan bonds are actually taken under repurchase agreements.

Yours very truly,

Vice Governor.

Hon. Garrard B. Winston,
Undersecretary of the Treasury.



THE UNDERSECRETARY OF THE TREASURY
WASHINGTON

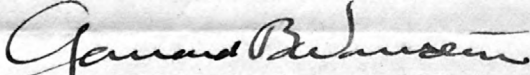
3323-6

June 24, 1926.

Dear Mr. Platt:

I notice that the Open Market Investment Committee has recommended that the Federal Reserve Banks extend the repurchase agreement practice with recognized dealers in Government securities to include Third Liberty Loan bonds. The Third Liberty Loan is now a recognized part of our short-dated Government debt maturing, as it does, in a little over two years. It also constitutes really over a half of our short-term obligations now outstanding, and I think it could very well be included in the repurchase agreement practice.

Very truly yours,


Garrard B. Winston,
Undersecretary of the Treasury.

Hon. Edmund Platt,
Vice-Governor,
Federal Reserve Board,
Washington, D. C.

Bochet

FEDERAL RESERVE BANK
OF NEW YORK

5323-6
Federal Reserve Bank



June 21, 1926

S i r s :

At the meeting of the Open Market Investment Committee held to-day, subsequent to the meeting with the Federal Reserve Board, Governor McDougal of the Federal Reserve Bank of Chicago recommended that Federal Reserve Banks extend the repurchase agreement practice with recognized dealers in Government securities to include Third Liberty Loan bonds. These bonds mature September 15, 1928 and now have only a little more than two years to run. The volume of United States Treasury certificates and notes outstanding has been greatly reduced and it would seem proper to increase the volume of short-term securities which dealers can borrow on from the Federal Reserve Banks by the addition of the Third Liberty Loan bonds.

This recommendation was unanimously adopted by the Committee and, in accordance with the action taken, I am submitting it to the Federal Reserve Board for approval.

Respectfully,

J. H. Case
J. H. Case
Acting Chairman
Open Market Investment Committee

Federal Reserve Board,
Washington, D. C.

Recommended to Board
AT EXECUTIVE COMMITTEE
MEETING

JUN 24 1926

332.3-6

June 23, 1926.

Dear Mr. Case:

Yours of the 21st, submitting for approval a recommendation that Federal reserve banks extend the repurchase agreement practice with recognized dealers in government securities to include Third Liberty Loan bonds maturing September 15, 1928, was received this morning. Just at present on account of the illness of Governor Crissinger and Mr. Cunningham there is not a quorum of the Board, but I shall submit the recommendation to the Board at the earliest opportunity.

Yours very truly,

Vice Governor.

Mr. J. H. Case, Deputy Governor,
Federal Reserve Bank,
New York, N. Y.

Office Correspondence

FEDERAL RESERVE
BOARD

Date May 5, 1926.

To Governor Crissinger

Subject:

From Mr. Hamlin

File
 FEDERAL RESERVE
 332.3-6
 332-3
 2-3495

Dear Governor Crissinger:

I return herewith the file as to repurchase agreements. I have been looking over my scrap books, and I find the following which may be useful:

1. Memorandum by Mr. Smead, dated July 11, 1923, stating how these repurchase agreements originated.
137 - 1
2. The Federal Reserve Board, in its open market circular, directs that Treasury certificates be dealt with under the head of repurchase agreements. April 7, 1923.
132 - 77
3. Mr. Wyatt rules that such repurchase agreements are really loans to individuals and are illegal. Aug. 18, 1923.
136 - 51
4. Governor Harding criticises Mr. Wyatt's opinion. Oct. 15, 1923.
135 - 99
5. The Federal Advisory Council favors repurchase agreements covering acceptances and Treasury certificates, but not for Treasury notes or United States bonds.
September 17, 1923. 135 - 44, 94.
6. Memorandum by C.S.H. giving history of rulings on repurchase agreements. Feb. 7, 1925.
151 - 59.
7. The Federal Reserve Board passes tentative resolution reaffirming early decisions in favor of the validity of repurchase agreements. Mar. 5, 1925.
149 - 29
8. List of United States securities bought under repurchase agreements by the Federal Reserve Bank of Kansas City from the Federal Land banks of Wichita and Omaha since Jan. 1, 1924.
149 - 68

9. The Federal Reserve Board passes a formal resolution reaffirming
the tentative resolution of March 5, 1925.

March 19, 1925. 149 - 134

The above references are to my scrap books which you are welcome to use
at any time.

Sincerely yours,

Estlin

Mr. Eddy

Mr. Smead

Re Boston my types

332-12

FEDERAL RESERVE BANK OF BOSTON
February 16, 1926
332-3-6
~~332-3~~

From the weekly statement furnished your office showing rates charged on acceptances and U. S. securities purchased by Federal reserve banks as shown by schedules received by the Federal Reserve Board, you will note that the Federal Reserve Bank of Boston discontinued early in January its practice of taking acceptances from dealers at rates $1/8$ below the dealers rate and began applying the minimum $3\frac{1}{2}$ per cent rate as is done by New York. Under Boston's former practice the bulk of its acceptances were taken at a rate $1/4$ per cent above its minimum buying rate. From January 11, the date on which Boston raised its minimum rate to $3\frac{1}{2}$ per cent, to the end of the month the bank purchased acceptances under repurchase agreement at the flat rate of $3\frac{1}{2}$ per cent as follows:

Shawmut Banking Corporation	\$8,563,000
First National Corporation	3,864,000
National City Corporation (Boston)	4,337,000

At the present time Boston and New York acquire acceptances under repurchase agreement at the minimum rate of $3\frac{1}{2}$ per cent, Chicago applies varying rates which I understand bear a definite relation to the rates at which the acceptances are carried by the brokers and San Francisco usually charges $1/8$ per cent above the minimum rate or at present $3-5/8$ per cent. None of the other Federal reserve banks buy acceptances under repurchase agreements.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 5, 1926.

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

X-4493

SUBJECT: Procedure at Reserve Banks on Rates.

Dear Sir:

In order to give greater uniformity to the procedure in the matter of fixing discount and open-market rates and to provide for a consideration of these questions at each meeting of the Boards of Directors of the Federal Reserve Banks, the Board requests that each Federal Reserve Agent, in his capacity as Chairman, present to his Board of Directors a complete schedule of the rates prevailing at the bank for their consideration and action.

The schedule of rates should include the following:

1. Discount rate.
2. Minimum buying rates by maturities for bankers' acceptances.
3. Rates at which bankers' acceptances may be purchased, with agreement to resell (so-called repurchase agreements).
4. Rates at which Government securities may be purchased with agreement to resell.

Following each meeting of the Board of Directors the Board desires to be advised by telegraph of the action taken by the Directors, either in approving the existing schedule of rates, or in recommending change in any one of the rates.

Very truly yours,

D. R. Crissinger,
Governor.

TO ALL FEDERAL RESERVE AGENTS.

Office Correspondence332.3-6
Date December 1, 1925.

To Mr. Eddy

From Mr. Smead

Subject: Rates charged on United States securities acquired under repurchase agreements.

2-8495

Ed

We recently received three schedules from the Federal Reserve Bank of Boston, dated November 17, 23 and 24, reporting the purchase under resale contracts of \$887,040 of United States certificates of indebtedness from the Shawmut Corporation. Each of the schedules bears a note to the effect that the securities are to be repurchased on or before 15 days at 3-1/2 per cent. These are the only schedules covering United States securities acquired under resale contracts which we have received from Boston since it increased its rate from 3-1/2 to 4 per cent on November 10. In view of previous correspondence with Boston it may be that the use of the 3-1/2 per cent rate on these contracts was a mistake, and that it is their intention to continue their past policy of charging the discount rate on such purchases, as requested in the Board's letter of December 1, 1922.

For your information I am attaching hereto a memorandum prepared by Mr. Scudder giving the amounts of securities taken under repurchase agreement by each of the five Federal reserve banks that make such purchases, and showing the names of the banking institutions from which purchased. The Dallas bank seems to be the only one which makes a regular practice of taking such securities from member banks under resale contracts, although Boston did make such a purchase, as you will note, in one instance.

DS

Office Correspondence

FEDERAL RESERVE
BOARDDate November 30, 1925.To Mr. Smead

Subject: _____

From Mr. Scudder

2-9486

The investment schedules submitted by Federal reserve banks since September 1 to present time show that five banks have bought United States securities under repurchase agreements.

The approximate amounts and from whom purchased are as follows:

BOSTON

\$4,984,000	Shawmut Corporation, Boston
4,955,000	First National Corporation, Boston
1,500,000	Bankers Trust Company, Boston
1,000,000	Solomon Bros. & Hutzler, Boston
190,000	Atlantic National Corporation, Boston
80,000	New Britain National Bank, New Britain, Conn.
<u>Total</u>	<u>12,709,000</u>

NEW YORK

\$57,805,000	Solomon Bros. & Hutzler
26,425,000	Discount Corporation
24,740,000	First National Corporation
10,000,000	C. F. Childs Company
8,290,000	Shawmut Corporation
<u>Total</u>	<u>127,260,000</u>

CHICAGO

\$14,549,000	First National Corporation
12,343,000	C. F. Childs Company
1,130,000	Solomon Bros. & Hutzler
<u>Total</u>	<u>28,022,000</u>

KANSAS CITY

\$2,000,000	Federal Land Bank, Wichita
500,000	" " " Omaha
<u>Total</u>	<u>2,500,000</u>

DALLAS

\$18,990,000	Republic National Bank, Dallas
675,000	North Texas National Bank, Dallas
25,000	City National Bank, Dallas
<u>Total</u>	<u>19,690,000</u>

Mr. Eddy

Mr. Smead

FEDERAL RESERVE BOARD FILE

33213-6

33-2-3

December 1, 1925.

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J. W.

November 30, 1925.

Mr. Smead

Mr. Scudder

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675,000	North Texas National Bank, Dallas
25,000	City National Bank, Dallas
<u>Total</u>	<u>19,690,000</u>

Handwritten notes:
H ✓
M. L. Eddy

Handwritten: #7

FEDERAL RESERVE BANK OF CHICAGO

230 SOUTH LA SALLE STREET

FEDERAL RESERVE BOARD FILE
33213-63
332-3

November 27, 1925

Mr. Walter L. Eddy, Secretary
Federal Reserve Board
Washington, D. C.

My dear Mr. Eddy:

We have your letter of November 24 addressed to Governor McDougal, with reference to our schedule showing the purchases of bankers acceptances under repurchase agreement. According to your wishes, we shall be glad to change our schedule of future transactions to read: "With agreement to repurchase on or before fifteen days."

We are familiar with the practice of other Federal reserve banks when taking acceptances under repurchase agreement, and we believe our plan of buying the bills outright at the dealers' buying rate is better. If we were to deduct the discount for fifteen days it would be necessary for us to take additional collateral in connection with all bills purchased, and we would prefer to actually purchase the bills and allow the dealer the privilege of buying them back.

Very truly yours,

C. R. McKay
C. R. McKay,
Deputy Governor.

J-

Repurchase

#7

FEDERAL RESERVE BOARD FILE
332.3-6
~~572~~ 3

November 24, 1925.

Dear Governor McDougal:

In going over schedules received from your bank showing the purchase of bankers' acceptances under repurchase agreement we note that such schedules are marked with the words "With agreement." It is assumed that all such agreements have a maturity of 15 days or less, but there is nothing on the schedules to indicate that fact. Accordingly it will be appreciated if you will have future schedules marked with the words "With agreement to repurchase on or before 15 days," or some similar words, in order that the schedules may clearly bring out the fact that the repurchases do not run for a longer period than 15 days.

For your information I may say that all other Federal reserve banks which take acceptances under repurchase agreement charge interest for 15 days, or for a lesser number of days in case the agreement provides that the acceptances are to be repurchased within less than 15 days. In the case of your bank, however, we note that interest is charged from the date acceptances are purchased until their actual maturity, and rebate made for the period from repurchase to actual maturity.

Very truly yours,

(Signed) Walter L. Eddy

Walter L. Eddy,
Secretary.

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

[Handwritten signature]

file
H

#10

FEDERAL RESERVE BANK
OF
KANSAS CITY

W. J. BAILEY, GOVERNOR
C. A. WORTHINGTON, DEPUTY GOVERNOR
J. W. HELM, CASHIER
JOHN PHILLIPS, JR., ASST. CASHIER
E. P. TYNER, ASST. CASHIER
G. E. BARLEY, ASST. CASHIER
M. W. E. PARK, ASST. CASHIER
A. M. MEADAMS, ASST. CASHIER
G. H. PIPKIN, ASST. CASHIER

33213-6
344-3

M. L. MCCLURE
CHAIRMAN BOARD OF DIRECTORS
AND FEDERAL RESERVE AGENT
HEBER HORD
DEPUTY CHAIRMAN
BOARD OF DIRECTORS
K. BOARDMAN
ASST. FEDERAL RESERVE AGENT
AND SECRETARY

NOVEMBER SIXTEENTH,

- 1925 -

RECEIVED
NOV 16 1925
OFFICE OF
MR. PLATT.

James Platt

Federal Reserve Board,

Washington, D. C.

Gentlemen:

Attention - Governor Platt.

This will acknowledge receipt of your letter under date of November 12th, in regard to this bank's purchase of \$1,000,000 Liberty bonds from the Federal Land Bank of Wichita on a 30-day repurchase agreement.

This matter was an oversight. The agreement in our Discount Committee was to take the bonds, but no mention of time was made, all naturally presuming that it was to be for 15 days. However, in the drawing up, the papers were made out for 30 days in error, which we hope will not happen again.

Further in this connection I beg to advise that the bonds were all redeemed today and are out of the bank so, after all, the transaction covered only the 15 day period.

Very truly yours,

W. J. Bailey
Governor

D.

#10

FEDERAL RESERVE BANK
332,3-6
~~332-3~~

November 12, 1925.

Dear Governor Bailey:

In reviewing investment schedules received from your bank during recent months we note that on numerous occasions you have bought Liberty bonds from the Omaha Federal Land Bank under repurchase agreements drawn for a period of 15 days or less, which is in accordance with the ruling of the Board, of which you were advised in my letter of March 19, 1925. On November 2, however, we find that your bank purchased \$1,000,000 of Liberty bonds from the Federal Land Bank of Wichita under a repurchase agreement maturing December 2, 1925, or 30 days after date. In our letter of March 21, 1925, you were advised that the Board in adopting its resolution gave you an opportunity of presenting an application for an exception to the ruling requiring all repurchase agreements to be drawn for a period of 15 days or less, and inasmuch as no application for such an exception has been received and as all other repurchase agreements acquired by your bank since last March have been drawn for a period of 15 days or less, we assume that the purchase of \$1,000,000 of Liberty bonds from the Wichita Federal Land Bank under a repurchase agreement running for 30 days was an oversight. We assume that your bank intends to follow the same policy in acquiring United States securities from the Wichita bank as that adopted in the case of the Omaha Federal Land Bank.

I shall be glad to have you write me fully regarding this matter, however, as I feel that to make an exception to the 15 day limit in the case of securities purchased from the Wichita bank would open up the whole question of repurchase agreements and might cause considerable embarrassment before the question was finally settled.

Very truly yours,

Edmund Platt

Vice Governor.

W
Mr. W. J. Bailey, Governor,
Federal Reserve Bank,
Kansas City, Mo.

FEDERAL RESERVE BOARD

8323-6

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

November 11, 1925.

My dear Governor:

In reviewing investment schedules received from your bank during recent months we note that on numerous occasions you have bought Liberty bonds from the Omaha Federal Land Bank under repurchase agreements drawn for a period of 15 days or less, which is in accordance with the ruling of the Board, of which you were advised in my letter of March 19, 1925. On November 2, however, we find that your bank purchased \$1,000,000 of Liberty bonds from the Federal Land Bank of Wichita under a repurchase agreement maturing December 2, 1925, or 30 days after date. In ~~my~~ *our* letter of March 21, 1925, you were advised that the Board in adopting its resolution gave you an opportunity of presenting an application for an exception to the ruling requiring all repurchase agreements to be drawn for a period of 15 days or less, and inasmuch as no application for such an exception has been received and as all other repurchase agreements acquired by your bank since last March have been drawn for a period of 15 days or less, we assume that the purchase of \$1,000,000 of Liberty bonds from the Wichita Federal Land Bank under a repurchase agreement running for 30 days was an oversight. We assume that your bank intends to follow the same policy in acquiring United States securities from the Wichita bank as that adopted in the case of the Omaha Federal Land Bank.

I shall be glad to have you write me fully regarding this matter, however, as I feel that to make an exception to the 15-day limit in the case of securities purchased from the Wichita bank would open up the whole question of repurchase agreements and might cause considerable embarrassment before the question was finally settled.

Very truly yours,

D. R. Crissinger,
Governor.

Mr. W. J. Bailey, Governor,
Federal Reserve Bank,
Kansas City, Mo.

ess

*Reminded
my file
Ray*

Office Correspondence

Date April 2, 1925

RECEIVED
DEC 5 1939
337-3-4

To Governor Crissinger

Subject:

From Mr. Stewart

2-8496

I am returning to you the memorandum you gave me entitled "Purchases of United States Securities under Resale Contracts." Attached to the memorandum is a draft of a letter advising the Federal reserve banks that rates charged on securities taken under resale or repurchase contracts should not be less than the discount rate on eligible paper.

As shown by the attached table, the rates charged on securities taken under resale contracts by the New York bank have at times been higher than the discount rate and at other times, as in the latter part of 1924 and at present, below the discount rate. In general, however, the rates on resale contracts has corresponded with the bank's discount rate.

The policy of maintaining a rate for sales contracts on government securities lower than the discount rate may be argued for as a method of carrying dealers' portfolios of government securities for short periods at a rate which will protect them from fluctuations in the call money rate. This argument would be applicable only at a time when the discount rate at the reserve banks was so high as to be out of touch with the day-to-day rate for money, a situation which actually existed after the middle of 1924. It was during this period that the rate at which dealers could carry certificates of indebtedness under repurchase agreements at the New York Federal Reserve Bank was below the discount rate. In the same way that a lower rate for buying and carrying bankers' acceptances has assisted in the development of the bill markets, it could be argued that a rate lower than the discount rate for carrying short term government securities assists in the development of that market and protects it from erratic fluctuations in the call loan rate. The Federal reserve bank has an interest in the development and maintenance of an adequate market for short term government securities, not merely or primarily because of its fiscal agency function, but chiefly because it is part of the open market in which the Federal reserve banks are authorized by the Act to purchase and sell securities. The maintenance of a rate on sales contracts for government securities lower than the discount rate as a means of assisting the Treasury in placing its securities at rates lower than they might otherwise command in the market does not seem to me a sound basis for the policy.

In general my feeling is that the rates charged on securities taken under resale contracts as well as similar rates for acceptances should come up for review regularly by the Boards of Directors of the Federal reserve banks in the same manner as changes in the discount rate. In order to permit prompt action upon these rates, it may be undesirable to require the approval of the Federal Reserve Board in advance of the changes in rates on resale contracts. The Board would, of course, be promptly notified of changes in any of the rates prevailing at Federal reserve banks and with a complete schedule of rates before it, would be in a position, when it seems desirable, to advise a Federal reserve bank of the Board's views concerning any of the existing rates. This seems to me a better procedure than the present practice of the Board in establishing an authorized minimum for buying rates on bills or than the proposal

This practice has been accepted

Subject:

From

that rates charged on securities taken under resale contracts should not be less than the discount rate. This would allow for a change in the structure of rates whenever it seemed desirable and would be less rigid than a rule which undertook to establish a definite relationship between rates on sales contracts and the discount rate.

The structure of rates now prevailing at New York Federal Reserve Bank are as follows:

	<u>Rate</u> (Per cent)
Discount rate on all classes of paper	3 1/2
Bill rates:	
Minimum authorized by the Federal Reserve Board.....	2
" " " directors of the New York Bank:	
Maturities up to 60 days, inclusive	3
60-90 day bills	3 1/8
Above 90 days up to 4 months.....	3 1/4
For longer than 4 months.....	3 1/2
Actual buying rates on bills on April 1:	
Actual buying rates on bills corresponded with these minima except that 30-60 day bills were purchased at 3 1/8 per cent; i.e., 1/8 per cent higher than the minimum.	
Rates charged on resale contracts:	
Resales contracts on acceptances.....	3
Resales contracts on securities.....	3

Office Correspondence

FEDERAL RESERVE BOARD

Date March 31, 1925

332-3-6

Governor Crissinger

Subject:

From Mr. Stewart

2-8495

I am returning to you the memorandum you gave me entitled "Purchases of United States securities under resale contracts." Attached to the memorandum is a draft of a letter advising the Federal reserve banks that rates charged on securities taken under resale or repurchase contracts should not be less than the discount rate on eligible paper.

As shown by the attached call
A comparison of the rates charged on securities taken under resale contracts by the New York Bank and their discount rate shows that at times the rate on sales contracts has been higher than the discount rate and at times, as in the latter part of 1924 and at present, below the discount rate. In general, however, the rate on resale contracts has corresponded with the bank's discount rate. Two arguments might be made for maintaining a rate lower than the discount rate for sales contracts on government securities. The first, which seems to me an unsound basis for establishing a Federal reserve bank rate, is that a lower rate on sales contracts for government securities might assist the Treasury in placing its securities at rates lower than market rates. The second, which seems to me more convincing, is that it furnishes a method of carrying dealers' portfolios of government securities for short periods at a rate which will protect them from the fluctuations in the call money market and would be applicable only at a time when the discount rate at the reserve banks was out of touch with the day-to-day rate for money. This was the situation in the latter part of 1924 and it was during this period that the rate at which dealers could carry certificates of indebtedness at Federal reserve banks under repurchase agreements was below the discount rate. In the same way that a lower rate for buying and carrying bankers' acceptances assists in the development of a bill market, it could be argued that the lower rate for carrying short term government securities assists in the development of that market and that protects it from erratic fluctuations in the call loan rate.

(A) In general my feeling is that the rates charged on securities taken under resale contracts as well as similar rates for acceptances should come up for review regularly by the Boards of Directors of the Federal reserve banks and should require the approval of the Federal Reserve Board in the same manner ^{as} changes in the discount rate. This arrangement would also be less rigid than a definite ruling that sales contracts on government securities should not be less than the discount rate and at the same time would allow for change in the structure of rates whenever it seemed desirable.

(B) The structure of rates now prevailing at New York Federal Reserve Bank are as follows:

Discount rate on all classes of paper, 3 1/2 per cent.

Bill rates:

Minimum authorized by the Federal Reserve Board,	2 per cent
" " " directors of the New York Bank,	3 per cent for all maturities up to 60 days, incl.
3 1/8 " " " 60-90 day bills	
3 1/4 " " above 90 days up to 4 months	
3 1/2 " " for longer than 4 months	

Subject:

From

- 2 -

Bill rates: (Cont'd)

Actual buying rates on bills on ~~March 27~~ ^{April 1}

Actual buying rates on bills corresponded with these minima except that 30-60 day bills were purchased at 3 1/8 per cent; i.e., 1/8 per cent higher than the minimum.

Rates charged on resale contracts:

Resale contracts on acceptances, 3 per cent

Resale contracts on securities, 3 per cent

If the Board were to have before it each week a schedule of this kind showing the rates prevailing at Federal reserve banks, it would then be in a position when it seemed desirable to advise any Federal reserve bank of the Board's views concerning any of the existing rates. This would seem to me a better procedure than the present practice of establishing an authorized minimum for buying rates on bills or than the proposal that rates charged on securities taken under resale contracts should not be less than the discount rate.

Furnished by J. M. Bank -

REC'D IN FIELD DIVISION
 Ea DEC 5 1939
 332 • 3 - 6

Rates under which U. S. Government Securities
 were purchased under Sales Contract
 from January 1, 1921 to date

Date	Sales Contracts		Conid Paper Acc.	Banker Acc.
	C. of I. Rate	Discount Rate		
1921 - January 1 to March 31	5 3/4 & 6%	5 1/2 to Feb. 5 (then 6)	Jan. 1, 7 May 5, 6 1/2 June 16, 6	6 6 6
April 1 " August 1	5 3/4	July 21 - 5 1/2		
August 2 " October 30	5 1/4	Sept. 22 - 5		
(1921) - October 31 " March 22, 1922	4 1/2	Nov. 3 - 4 1/2		
(1922) - March 23 " April 9, 1923	4	June 22, 1922 - 4		
April 10, 1923 to April 30, 1924	4 1/2	Feb. 23, 1923 - 4 1/2		
May 1, 1924 " Nov. 5, 1924	4	May 1, '24 - 4		
November 6, 1924 " Nov. 27, 1924	2 1/2	June 12 - 3 1/2 Aug. 8 - 3		
November 28, 1924 to present date	3	Feb. 27, 1925 - 3 1/2		

332.3-6

#10

March 21, 1925.

My dear Governor:

Your letter of March 13 in the matter of repurchase agreements of government securities is at hand.

The Board has passed the tentative resolution heretofore presented to you and it is now the action of the Board, but in passing the resolution the Board, as you have been heretofore advised, gave you the opportunity of presenting an application for an exception of your bank to the rule. I am personally very much opposed to making any exception to the rule. If we are to make an exception and permit repurchase agreements up to ninety days then the rule must be changed so that it will be applicable to all banks and to all persons. I think you will readily understand that it would be unfair, as I view it at least, for your bank to have a privilege that other banks are denied and for the Federal Reserve banks to have a privilege that other brokers are denied, and I hope that I may have an opportunity of talking to you about it before you make any application. I see that it is assigned as a topic of discussion at the Governors meeting to be held on April 6, and no doubt you will hold any application in abeyance until you have at least had it discussed before the Governors meeting.

There is one sentence in your letter, however, that seems to me to make it clearly inadvisable. You say:- "I am sure any commercial bank would make them the loans on the same basis we have." This seems to me to be a direct competition with member banks for a business that the Federal Reserve banks should not handle and I would like to have your views on the subject along this line. It seems to me that if we break down the fifteen day rule we are going to get the system into deep water and it may finally involve us in a lot of embarrassment.

I shall await seeing you.

Very truly yours,

(Signed) D. R. Crissinger.

Mr. W. J. Bailey, Governor,
Federal Reserve Bank,
Kansas City, Mo.

D. R. Crissinger,
Governor.

March 19, 1925.

Dear Governor Bailey:

This is to advise you that the resolution quoted below, which was tentatively adopted by the Federal Reserve Board on March 5, 1925, and referred to in my letter to you of March 6th, was finally adopted by the Board at its meeting today:

"The Federal Reserve Board reaffirms previous decisions authorizing the practice, long continued, of purchase and sale in the open market of bankers' acceptances and Government securities, by Federal reserve banks from and to banks and qualified dealers, under 15-day 'repurchase agreements', it being understood that such transactions shall be open, under similar facts and conditions, to all Federal reserve banks with relation to banks and similarly qualified dealers in their respective districts".

Your letter of March 13th, enclosing copy of a letter addressed to you by the President of the Federal Land Bank of Omaha, was read to the Board at the meeting and will be considered as an application coming from you for authority to treat as exceptional transactions purchases of Government bonds from the Federal Land Banks, under repurchase agreements running for periods longer than fifteen days. I expect the Board will act on this matter in the course of the next few days and I will promptly advise you of its decision.

Very truly yours,

(Signed) D. R. Crissinger,

Governor.

Mr. W. J. Bailey, Governor,
Federal Reserve Bank,
Kansas City, Mo.

FEDERAL RESERVE BOARD

WASHINGTON

332-3-6
X-4295

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

March 19, 1925
X-4295

This is to advise you that the resolution quoted below, which was tentatively adopted by the Federal Reserve Board on March 5th, 1925, and referred to in my letter to you of March 6th, was finally adopted by the Board at its meeting today:

"The Federal Reserve Board reaffirms previous decisions authorizing the practice, long continued, of purchase and sale in the open market of bankers' acceptances and Government securities, by Federal reserve banks from and to banks and qualified dealers, under 15-day 'repurchase agreements', it being understood that such transactions shall be open, under similar facts and conditions, to all Federal reserve banks with relation to banks and similarly qualified dealers in their respective districts".

Very truly yours,

Governor.

To all Governors except Bailey.

all
H/S
W

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

March 19, 1925

X 4295

OR
OR

and referred to in
my letter to you of
March 6,

22

10

Dear Governor

This is to advise you that the resolution quoted below, which was tentatively adopted by the *Federal Reserve* Board on March 5th, 1925, was finally adopted by the ~~Federal Reserve~~ Board at its meeting today:

"The Federal Reserve Board reaffirms previous decisions authorizing the practice, long continued, of purchase and sale in the open market of bankers' acceptances and Government securities, by Federal reserve banks from and to banks and qualified dealers, under 15-day 'repurchase agreements', it being understood that such transactions shall be open, under similar facts and conditions, to all Federal reserve banks with relation to banks and similarly qualified dealers in their respective districts".

Very truly yours,

Governor

To all Governors, except Governor Bailey

FOR APPROVAL OF GOVERNOR
and Return to Secretary

FEDERAL RESERVE BANK
OF
KANSAS CITY

332,3-6

W. J. BAILEY, GOVERNOR
C.A. WORTHINGTON, DEPUTY GOVERNOR
J. W. HELM, CASHIER
JOHN PHILLIPS, JR., ASST. CASHIER
E. P. TYNER, ASST. CASHIER
G. E. BARLEY, ASST. CASHIER
M. W. E. PARK, ASST. CASHIER
A. G. FROST, ASST. CASHIER
A. M. ADAMS, ASST. CASHIER
G. H. PIPKIN, ASST. CASHIER

M. L. MCCLURE
CHAIRMAN BOARD OF DIRECTORS
AND FEDERAL RESERVE AGENT
HEBER HORD
DEPUTY CHAIRMAN
BOARD OF DIRECTORS
C. K. BOARDMAN
ASST. FEDERAL RESERVE AGENT
AND SECRETARY

MARCH THIRTEENTH,

- 1925 -



Federal Reserve Board,

Washington, D. C.

Gentlemen:

Attention - Governor Crissinger:

Replying to your telegram under date of March 11th, in which you ask to be advised of the reasons why Federal Land banks sell Government securities under repurchase agreements for longer periods than 15 days:

We took the matter up with our Managing Director at Omaha who, in turn, communicated with the Federal Land Bank there and they wrote him a letter, copy of which I enclose you and which gives their explanation. We feel that this is very safe and desirable business for us. They usually avail themselves of the repurchase of the bonds in advance of the expiration of the time originally asked for, as the notes are written "on or before."

We hope you can see your way clear to allow us to continue handling this business in the future as we have in the past for, as I said, it is a very desirable as well as profitable business, and under the present circumstances we dislike to lose it. I am sure any commercial bank would make them the loans on the same basis we have.

I will talk this matter over with you more fully when I am in Washington on April 6th for the Conference.

With personal regards, I am

Very truly yours,

W. J. Bailey
GOVERNOR

See Minutes
AT BOARD MEETING
MAR 19 1925
Enc *(100)*

Done

(C O P Y)

THE FEDERAL
LAND BANK OF OMAHA
OMAHA, NEBRASKA.

March
Twelfth
1925.

Mr. L. H. Earhart, Manager,
Federal Reserve Bank,
Omaha, Nebraska.

Dear Mr. Earhart:

It is the practice of the Federal Land Bank of Omaha to sell bonds in quite large volumes in periods about four months apart. Such sales are made in anticipation of needs for farm loans.

The Federal Farm Loan Act authorizes the Federal Land Banks to invest only in Government bonds and approved first mortgage loans on farm lands.

It is the custom of the Federal Land Bank to invest proceeds of its bond sales in United States Government securities pending the loaning of such funds.

It has been found profitable to the Land Bank to continue to own and hold between \$1,000,000 and \$2,000,000 in government securities and sell such securities on repurchase agreement to the Federal Reserve Banks when funds are needed for loans, and repurchase same from the Federal Reserve Bank upon the sale of its bonds, rather than sell the government securities outright on the market when funds are needed for loans and repurchase government securities again from the proceeds of the sale of Federal Land Bank bonds.

In thus handling such transactions with the Federal Reserve Bank it is desirable that such repurchase agreements be for a period of on or before 30, 60 or 90 days, covering the period between the time funds are needed for loans and the date of the next sale of Federal Land Bank bonds.

Very truly yours,

(Signed) D. P. Hogan

President

DPH
bb

Office Correspondence

FEDERAL RESERVE
BOARD

Date March 16, 1925.

To Mr. Eddy ✓

Subject:

From Mr. Smead

332.3-63
~~2 332~~

2-8495

With reference to my memorandum of March 2 regarding purchases of United States securities under resale contracts you may be interested in knowing that the New York bank did not raise the rate charged on such contracts on February 27 when it raised its discount rate from 3 to $3\frac{1}{2}$ per cent. The latest schedule we have shows that the New York bank is still charging 3 per cent interest on these contracts.

Wm Smead

TELEGRAM

311

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

149fcq

RECEIVED AT WASHINGTON, D. C.,

332.3-6

Dallas March 13, 1215pm,

Board

Washn

Referring Governor Crissinger's letter March 6th in re tentative resolution relating to open market transaction of Federal Reserve banks the board is advised that the resolution in our judgement is sufficient to permit the continuance of transactions of character referred to which as board understands have been of rather negligible volume in connection with operations of this bank.

McKinney

122pm,

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

332.3-6

192fcq

RECEIVED AT WASHINGTON, D. C.,

Sanfrancisco March 12 1144am,

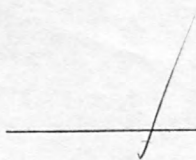
Crissinger,

Washington DC

Replying your letter March sixth we believe resolution sufficient
for purpose and that transaction involved are are necessary at
times to conduct of open market operations of banks and system.

Calkins

328p



FEDERAL RESERVE BOARD

LEASED WIRE SERVICE
WASHINGTON

332.3-6

The telegram given below is hereby confirmed.

2-9454 a

March 11, 1925

Bailey - Kansas City

Your telegram 9th. Board is not inclined to extend beyond 15 days period in which repurchase agreements may run. Please advise fully reasons land banks selling Governments to you under repurchase agreements and necessity for their having 30 to 90 days accommodation.

Crissinger

2/1

Office Correspondence

FEDERAL RESERVE BOARD

Date March 10, 1925.

To Mr. Platt

Subject: _____

From Mr. Eddy.

Repurchase
Repurchase

FEDERAL RESERVE BOARD FILE
332.3 - 6
332 - 3

For your information.

It seems to me that is direct competition with member banks and at rates which could have been obtained from member banks. In fact in Aug last time money was lower than 4%.

E. P.

Advice to

Chicago 2

N. C.

Office Correspondence

FEDERAL RESERVE
BOARD

Date March 10, 1925.

To Mr. Eddy

Subject: 332.3-6

From Mr. Van Fossen *VF*

2-8495

In accordance with your request we have prepared the following table regarding United States securities purchased since January 1, 1924, by the Federal Reserve Bank of Kansas City under repurchase agreement from the Federal Land Banks of Wichita and Omaha.

<u>Date</u> 1924	<u>Kind</u>	<u>Amount</u>	<u>Rate at which taken</u>	<u>From</u>	<u>Period for which taken</u>
Jan. 9	Treasury notes	\$750,000	4 $\frac{1}{2}$	Wichita	23 days
9	4th L. L. Bonds	500,000	4 $\frac{1}{2}$	"	"
9	Treasury notes	250,000	4 $\frac{3}{8}$	*Omaha	3 months
23	C. of I.	200,000	4 $\frac{3}{8}$	Omaha	30 days
23	3d L. L. Bonds	100,000	4 $\frac{3}{8}$	"	30 days
April 16	3d L. L. Bonds	250,000	4 $\frac{1}{2}$	"	3 months
16	Treasury notes	250,000	4 $\frac{3}{8}$	*Omaha	3 months
23	3d L. L. Bonds	250,000	4 $\frac{3}{8}$	Omaha	86 days
June 4	4th L. L. Bonds	1,000,000	4 $\frac{1}{2}$	Wichita	30 days
14	Treasury notes	600,000	4 $\frac{1}{2}$	*Omaha	31 days
17	3d L. L. Bonds	200,000	4 $\frac{1}{2}$	Omaha	28 days
24	3d L. L. Bonds	200,000	4 $\frac{1}{2}$	"	21 days
27	3d L. L. Bonds	200,000	4 $\frac{1}{2}$	"	18 days
July 15	Treasury notes	600,000	4	*Omaha	31 days
Aug. 11	3d L. L. Bonds	200,000	4	Omaha	21 days
23	3d L. L. Bonds	200,000	4	"	18 days
Sept. 11	Treasury notes	100,000	4	*Omaha	60 days
Oct. 31	3d L. L. Bonds	500,000	3 $\frac{1}{4}$	Omaha	63 days
Nov. 25	3d L. L. Bonds	250,000	3 $\frac{1}{4}$	"	38 days
Dec. 3	3d L. L. Bonds	250,000	3 $\frac{1}{2}$	"	62 days
1925					
Jan. 2	3d L. L. Bonds	1,350,000	3 $\frac{1}{2}$	"	31 days

*Federal Intermediate Credit Bank.

Gov. Cuyler
 Here are some of the
 "repurchase" buys made by K.C.
 from Land Banks
Eddy

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

RECEIVED AT WASHINGTON, D. C.,

RECEIVED
MAR 10 1925
OFFICE OF
THE GOVERNOR

39fot

Minneapolis 934am March 10 1925

Crissinger

Washington

Your letter March sixth.

Our Bank has not used fifteen day repurchase agreement and are not familiar with its operation. Resolution passed by Board seems sufficient to permit us to operate if we occasion to do so

Young

1046a

332.3-6

Young

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

RECEIVED

MAR 10 1925

OFFICE OF
THE GOVERNOR

RECEIVED AT WASHINGTON, D. C.

332.3-6

88fje

St Louis 11am Mar 10

Crissinger

Washn

In absence of Biggs on short ^{VACATION} ~~station~~ am answering your letter to him. Resolution seems sufficient to permit continuance such transactions and sufficient recognition as necessary at times to conduct of open market operations. Our policy not to purchase governments on repurchase agreement from member banks. Prefer banks to use same as collateral to fifteen day note. We do not carry government securities for brokers on repurchase agreement. Have purchased bankers acceptances on fifteen day repurchase agreement from dealers at their purchase rate in effort to establish and maintain open market in this district. Have felt dealers not entitled to profit. Martin. 1218pm.

Journal

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

RECEIVED
MAR 10 1925
OFFICE OF
THE GOVERNOR

RECEIVED AT WASHINGTON, D. C.,

332.3-6

118fje

Chicago 1143am Mar 10

Board

Washn

Referring Board's letter 6th we consider Board's resolution sufficient to permit continuance of use of repurchase agreements with recognized dealers for purchase and sale in the open market of bankers acceptances and government securities. It is not, however, clear to use whether it is intended to extend the use of repurchase agreements to banks which are not recognized dealers and which do not make a practice of borrowing money on call in the open market.

Mckay

1254pm

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

RECEIVED AT WASHINGTON, D. C.,

RECEIVED
MAR 10 1925
OFFICE OF
THE GOVERNOR

Fraser
28anot

Atlanta 1024a March 10 1925

Crissinger

Washn

We concur in resolution your Board quoted your letter
sixth permitting continuation repurchase agreement transactions
in system open market operations

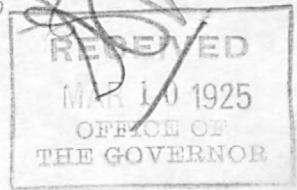
Wellborn

1131a

332.3-4

FEDERAL RESERVE BANK
OF NEW YORK

332.3



March 9, 1925.

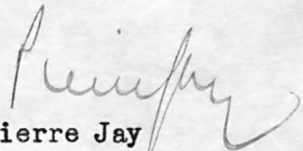
Dear Governor Crissinger:

This is to supplement the telegram I sent you on March 6 to acknowledge in letter form your letter of March 5 enclosing the resolution tentatively passed by the Federal Reserve Board in regard to fifteen day re-purchase agreements.

As I wired you all of the officers of the bank are heartily in favor of the resolution as tentatively passed and are very happy at this outcome of the discussion of this subject.

Thanking you very much for advising me, I am,

Very truly yours,


Pierre Jay
Chairman

Honorable D. R. Crissinger,
Governor, Federal Reserve Board,
Washington, D. C.

PJ/RAH

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

RECEIVED
MAR 9 1925
OFFICE OF
THE GOVERNOR

RECEIVED AT WASHINGTON, D. C.,

332.3-6 DRB

Governor

28nrfa

Boston 1115a Mar 9

Crissinger

wash

Resolution quoted your letter sixth entirely satisfactory to this bank

Harding

1131a

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

RECEIVED
MAR 9 1925
OFFICE OF
THE GOVERNOR

RECEIVED AT WASHINGTON, D. C.,

124vcd a

Cleveland March 9, 1925- 156p

Crissinger

WDC

Referring your letter sixth. Tentative resolution reaffirming Board's previous decisions as to fifteen day repurchase agreements in satisfactory form. Think it very important that the practice of using these agreements now so well established very essential to the conduct of open market operations.

Fancher

203pm

332.3-4

576

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

RECEIVED
MAR 9 1925
OFFICE OF
THE GOVERNOR

Goldman
36rbhf

Phila March 9, 1230p

RECEIVED AT WASHINGTON, D. C.,

Crissinger,

Washn.

Replying your letter sixth we think resolution tentatively adopted re-purchases
under repurchase agreements sufficient and satisfactory.

Norris

1240p

36.3 - 6
[Signature]

Governor

Heinrich Moten

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

33 2.3-6

236fta

RECEIVED AT WASHINGTON, D. C.,

KansasCity 421pm mar 9

Govr Crissinger,

Washington

Replying your letter Mar sixth; It has been our custom to take Govt bonds from Federal land banks at Wichita and Omaha on a repurchase agreement as long as ninety days usually thirty or sixty days. Will the ~~the~~ resolution passed by your Board prohibit us from such transactions with the land banks ?
We fear that fifteen days will not be long enough to meet their requirements and that they would rather go to a commercial bank if they are limited to this short time. We hope we may continue the practice as heretofore. Please advise.

Bailey

See minutes
AT BOARD MEETING
MAR 10 1925

556pm

Bailey

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

332.3-4

Boyer

Held

RECEIVED AT WASHINGTON, D. C.,

28rhta

Richmond 11am mar 7

Crissinger Gov'r

Washn

Resolution your letter 6th approving repurchase agreements entirely adequate ,
and such transactions are believed useful in developing open market and a
reasonable exercise of the powers granted in section 14.

Seay

1114am



*Governor Strong
also thinking
of Boston*

#2

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

March 7, 1925

Dear Governor Strong:

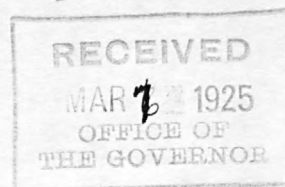
I acknowledge receipt of and thank you
for your letter of the 6th instant, with enclosures,
and shall bring same to the attention of the other
members of the Board.

Very truly yours,
(Signed) D. R. Crissinger.

Governor

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

FEDERAL RESERVE BANK
OF NEW YORK



March 6, 1925.

Federal Reserve Board,
Washington, D. C.

Attention: Honorable D. R. Crissinger

My dear Governor:

Your telephone message of yesterday and now your letter of the fifth, received this morning, were of course, most welcome.

It seems to me that the resolution adopted by the Board meets the situation completely in every respect, and Mr. Jay is telegraphing you as you request.

We are all most grateful to you for what you have done to secure prompt disposition of the matter.

Very truly yours,

Benj. Strong
BENJ. STRONG
Governor.

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

RECEIVED AT WASHINGTON, D. C.,

Hold
36nrfa

Newyork 1122a Mar 6

Honorable D R Crissinger

Governor FRB Washn

Resolution Tentatively passed by Federal Reserve Board yesterday regarding repurchase agreements considered by officers council this morning and I was directed to advise you that it meets with their heartiest approval

Pierre Jay

1125am

332.3-6

DRB

FEDERAL RESERVE BANK
OF NEW YORK

RECEIVED
MAR 7 1925
OFFICE OF
THE GOVERNOR

33236

March 6, 1925.

Federal Reserve Board,
Washington, D. C.

Attention: Honorable D. R. Crissinger

My dear Governor:

After our conversation in relation to acceptances and their treatment in the market, I started to have a careful description prepared, first, of the transaction giving rise to the credit; second, of the methods employed in opening the credit; third, the way in which credit is used by the beneficiary, and, fourth, the way in which the resulting bill was marketed and dealt in.

This is a rather elaborate statement to have prepared and it happened to come at a time when Mr. Kenzel is to be absent from the office for a short time, so it has been suggested that possibly the enclosed pamphlets, issued by the American Acceptance Council, would cover the ground as fully as any new material which we might prepare in the bank. They are in the nature of primers for use by those who were seeking information very actively when the use of acceptances was first developed. If this will furnish you and your associates with the information desired, it will save us quite a little work and avoid some delay.

²⁰⁰⁰ With this I am also enclosing the correspondence with Governor Harding and the National Bank of Boston, which you were good enough to hand me while I was in Washington; also a complete set of the forms used for commercial credits by the National City Bank of this city.

I strongly urge that these papers be circulated among the Board members as it will help them to have a fuller understanding of just how this business is done.

Very truly yours,

B. J. Strong
BENJ. STRONG
Governor.

Encs.

Office Correspondence

FEDERAL RESERVE
BOARD

Date March 6, 1925.

To Governor Crissinger.

Subject: 332,3-6

From Mr. Eddy.

2-8405

Eddy

If the attached form of letter is O.K., I will prepare similar letters to the Governors of all other banks, except New York.

Upon reconsideration, I think we should write instead of wire the Governors of the Western banks.



THE SECRETARY OF THE TREASURY
WASHINGTON

332.3-6

RECEIVED
MAR 6 1925
OFFICE OF
THE GOVERNOR

March 6, 1925.

My dear Governor:

I have your letter of March 5th enclosing resolution in connection with the 15-day repurchase agreement and which in effect proves the practice. I think the form of this resolution is satisfactory and the resolution has my approval.

Very truly yours,

Secretary of the Treasury.

Hon. D. R. Crissinger,
Governor, Federal Reserve Board,
Treasury Department.

332,3-6

March 6, 1925.

Dear Governor Harding:

The Federal Reserve Board has had under consideration the practice of some of the Federal reserve banks buying bankers' acceptances and Government securities in the open market from banks and qualified dealers under 15-day "repurchase agreements", and particularly the relationship of such transactions to the conduct of the open market operations of the System. At a meeting yesterday, at which all members were present except the Secretary of the Treasury, the Board reviewed action heretofore taken by it on questions involving various phases of these transactions, and it was unanimously voted to tentatively adopt the following resolution, and a copy of it was ordered sent to each Federal reserve bank with the request that the banks wire the Board their views as to the sufficiency of the resolution to permit of the continuance of such transactions and recognition of them as necessary at times to the conduct of the open market operations of the banks and the System.

"The Federal Reserve Board reaffirms previous decisions authorizing the practice, long continued, of purchase and sale in the open market of bankers' acceptances and Government securities, by Federal reserve banks from and to banks and qualified dealers, under 15-day 'repurchase agreements', it being understood that such transactions shall be open, under similar facts and conditions, to all Federal reserve banks with relation to banks and similarly qualified dealers in their respective districts".

Very truly yours,

(Signed) D. R. Crissinger.

Governor.

Mr. W. P. G. Harding, Governor,
Federal Reserve Bank,
Boston, Mass.



Motion formally adopted

FEDERAL RESERVE BOARD
MAR 10 1925

(70)

332.3-6

March 6, 1925

Dear Governor Harris:

The Federal Reserve Board has had under consideration the practice of some of the Federal reserve banks buying bankers' acceptances and Government securities in the open market from banks and qualified dealers under 15-day "repurchase agreements", and particularly the relationship of such transactions to the conduct of the open market operations of the System. At a meeting yesterday, at which all members were present except the Secretary of the Treasury, the Board reviewed action heretofore taken by it on questions involving various phases of these transactions, and it was unanimously voted to tentatively adopt the following resolution, and a copy of it was ordered sent to each Federal reserve bank with the request that the banks wire the Board their views as to the sufficiency of the resolution to permit of the continuance of such transactions and recognition of them as necessary at times to the conduct of the open market operations of the banks and the System.

"The Federal Reserve Board reaffirms previous decisions authorizing the practice, long continued, of purchase and sale in the open market of bankers' acceptances and Government securities, by Federal reserve banks from and to banks and qualified dealers, under 15-day 'repurchase agreements', it being understood that such transactions shall be open, under similar facts and conditions, to all Federal reserve banks with relation to banks and similarly qualified dealers in their respective districts".

Very truly yours,

(Signed) D. R. Crissinger.

Governor

Mr. G. W. Norris, Governor,
Federal Reserve Bank,
Philadelphia, Pa.

332.3-6

March 6, 1925.

Dear Governor Fancher:

The Federal Reserve Board has had under consideration the practice of some of the Federal reserve banks buying bankers' acceptances and Government securities in the open market from banks and qualified dealers under 15-day "repurchase agreements", and particularly the relationship of such transactions to the conduct of the open market operations of the System. At a meeting yesterday, at which all members were present except the Secretary of the Treasury, the Board reviewed action heretofore taken by it on questions involving various phases of these transactions, and it was unanimously voted to tentatively adopt the following resolution, and a copy of it was ordered sent to each Federal reserve bank with the request that the banks wire the Board their views as to the sufficiency of the resolution to permit of the continuance of such transactions and recognition of them as necessary at times to the conduct of the open market operations of the banks and the System.

"The Federal Reserve Board reaffirms previous decisions authorizing the practice, long continued, of purchase and sale in the open market of bankers' acceptances and Government securities, by Federal reserve banks from and to banks and qualified dealers, under 15-day 'repurchase agreements', it being understood that such transactions shall be open, under similar facts and conditions, to all Federal reserve banks with relation to banks and similarly qualified dealers in their respective districts".

Very truly yours,

(Signed) D. R. Crissinger.

Governor.

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

March 6, 1925

332.3-6

Dear Governor Seay:

The Federal Reserve Board has had under consideration the practice of some of the Federal reserve banks buying bankers' acceptances and Government securities in the open market from banks and qualified dealers under 15-day "repurchase agreements", and particularly the relationship of such transactions to the conduct of the open market operations of the System. At a meeting yesterday, at which all members were present except the Secretary of the Treasury, the Board reviewed action heretofore taken by it on questions involving various phases of these transactions, and it was unanimously voted to tentatively adopt the following resolution, and a copy of it was ordered sent to each Federal reserve bank with the request that the banks wire the Board their views as to the sufficiency of the resolution to permit of the continuance of such transactions and recognition of them as necessary at times to the conduct of the open market operations of the banks and the System.

"The Federal Reserve Board reaffirms previous decisions authorizing the practice, long continued, of purchase and sale in the open market of bankers' acceptances and Government securities, by Federal reserve banks from and to banks and qualified dealers, under 15-day 'repurchase agreements', it being understood that such transactions shall be open, under similar facts and conditions, to all Federal reserve banks with relation to banks and similarly qualified dealers in their respective districts".

Very truly yours,

(Signed) D. R. Crisinger

Governor

Mr. G. J. Seay, Governor,
Federal Reserve Bank,
Richmond, Va.

332.3-6

March 6, 1925.

Dear Governor Wellborn:

The Federal Reserve Board has had under consideration the practice of some of the Federal reserve banks buying bankers' acceptances and Government securities in the open market from banks and qualified dealers under 15-day "repurchase agreements", and particularly the relationship of such transactions to the conduct of the open market operations of the System. At a meeting yesterday, at which all members were present except the Secretary of the Treasury, the Board reviewed action heretofore taken by it on questions involving various phases of these transactions, and it was unanimously voted to tentatively adopt the following resolution, and a copy of it was ordered sent to each Federal reserve bank with the request that the banks wire the Board their views as to the sufficiency of the resolution to permit of the continuance of such transactions and recognition of them as necessary at times to the conduct of the open market operations of the banks and the System.

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Very truly yours,

(Signed) D. R. Crissinger

Governor.

Mr. M. B. Wellborn, Governor,
Federal Reserve Bank,
Atlanta, Ga.

33213-4

March 6, 1925.

Dear Governor McDougal:

The Federal Reserve Board has had under consideration the practice of some of the Federal reserve banks buying bankers' acceptances and Government securities in the open market from banks and qualified dealers under 15-day "repurchase agreements", and particularly the relationship of such transactions to the conduct of the open market operations of the System. At a meeting yesterday, at which all members were present except the Secretary of the Treasury, the Board reviewed action heretofore taken by it on questions involving various phases of these transactions, and it was unanimously voted to tentatively adopt the following resolution, and a copy of it was ordered sent to each Federal reserve bank with the request that the banks wire the Board their views as to the sufficiency of the resolution to permit of the continuance of such transactions and recognition of them as necessary at times to the conduct of the open market operations of the banks and the System.

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Very truly yours,

(Signed) D. R. Crissinger.

Governor.

Mr. J. B. McDougal, Governor,
Federal Reserve Bank,
Chicago, Ills.

322.3 - 6

March 6, 1925.

Dear Governor Biggs:

The Federal Reserve Board has had under consideration the practice of some of the Federal reserve banks buying bankers' acceptances and Government securities in the open market from banks and qualified dealers under 15-day "repurchase agreements", and particularly the relationship of such transactions to the conduct of the open market operations of the System. At a meeting yesterday, at which all members were present except the Secretary of the Treasury, the Board reviewed action heretofore taken by it on questions involving various phases of these transactions, and it was unanimously voted to tentatively adopt the following resolution, and a copy of it was ordered sent to each Federal reserve bank with the request that the banks wire the Board their views as to the sufficiency of the resolution to permit of the continuance of such transactions and recognition of them as necessary at times to the conduct of the open market operations of the banks and the System.

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Very truly yours,

(Signed) D. R. Crissinger

Governor.

Mr. D. C. Biggs, Governor,
Federal Reserve Bank,
St. Louis, Missouri.

3323-4

March 6, 1925.

Dear Governor Young:

The Federal Reserve Board has had under consideration the practice of some of the Federal reserve banks buying bankers' acceptances and Government securities in the open market from banks and qualified dealers under 15-day "repurchase agreements", and particularly the relationship of such transactions to the conduct of the open market operations of the System. At a meeting yesterday, at which all members were present except the Secretary of the Treasury, the Board reviewed action heretofore taken by it on questions involving various phases of these transactions, and it was unanimously voted to tentatively adopt the following resolution, and a copy of it was ordered sent to each Federal reserve bank with the request that the banks wire the Board their views as to the sufficiency of the resolution to permit of the continuance of such transactions and recognition of them as necessary at times to the conduct of the open market operations of the banks and the System.

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Very truly yours,

(Signed) D. R. Crissinger

Governor

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

35 2.3-4

March 6, 1925.

Dear Governor Bailey:

The Federal Reserve Board has had under consideration the practice of some of the Federal reserve banks buying bankers' acceptances and Government securities in the open market from banks and qualified dealers under 15-day "repurchase agreements", and particularly the relationship of such transactions to the conduct of the open market operations of the System. At a meeting yesterday, at which all members were present except the Secretary of the Treasury, the Board reviewed action heretofore taken by it on questions involving various phases of these transactions, and it was unanimously voted to tentatively adopt the following resolution, and a copy of it was ordered sent to each Federal reserve bank with the request that the banks wire the Board their views as to the sufficiency of the resolution to permit of the continuance of such transactions and recognition of them as necessary at times to the conduct of the open market operations of the banks and the System.

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Very truly yours,

(Signed) D. R. Crissinger.

Governor.

Mr. W. J. Bailey, Governor,
Federal Reserve Bank,
Kansas City, Missouri.

332.5-6

March 6, 1925.

Dear Governor McKinney:

The Federal Reserve Board has had under consideration the practice of some of the Federal reserve banks buying bankers' acceptances and Government securities in the open market from banks and qualified dealers under 15-day "repurchase agreements", and particularly the relationship of such transactions to the conduct of the open market operations of the System. At a meeting yesterday, at which all members were present except the Secretary of the Treasury, the Board reviewed action heretofore taken by it on questions involving various phases of these transactions, and it was unanimously voted to tentatively adopt the following resolution, and a copy of it was ordered sent to each Federal reserve bank with the request that the banks wire the Board their views as to the sufficiency of the resolution to permit of the continuance of such transactions and recognition of them as necessary at times to the conduct of the open market operations of the banks and the System.

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Very truly yours,

(Signed) D. R. Crissinger
Governor.

Mr. B. A. McKinney, Governor,
Federal Reserve Bank,
Dallas, Texas.

332.3-6

March 6, 1925.

Dear Governor Calkins:

The Federal Reserve Board has had under consideration the practice of some of the Federal reserve banks buying bankers' acceptances and Government securities in the open market from banks and qualified dealers under 15-day "repurchase agreements", and particularly the relationship of such transactions to the conduct of the open market operations of the System. At a meeting yesterday, at which all members were present except the Secretary of the Treasury, the Board reviewed action heretofore taken by it on questions involving various phases of these transactions, and it was unanimously voted to tentatively adopt the following resolution, and a copy of it was ordered sent to each Federal reserve bank with the request that the banks wire the Board their views as to the sufficiency of the resolution to permit of the continuance of such transactions and recognition of them as necessary at times to the conduct of the open market operations of the banks and the System.

"The Federal Reserve Board reaffirms previous decisions authorizing the practice, long continued, of purchase and sale in the open market of bankers' acceptances and Government securities, by Federal reserve banks from and to banks and qualified dealers, under 15-day 'repurchase agreements', it being understood that such transactions shall be open, under similar facts and conditions, to all Federal reserve banks with relation to banks and similarly qualified dealers in their respective districts".

Very truly yours,

(Signed) D. R. Crissinger.

Governor

Mr. J. U. Calkins, Governor,
Federal Reserve Bank,
San Francisco, Cal.

3323-6

March 5, 1925.

My dear Mr. Secretary:

The enclosed resolution pertaining to the 15 day repurchase agreement for bankers acceptances in the open market has been tentatively agreed upon by each and every member of the Board.

I wish you would read the resolution and if you see any reason why it should not be finally made the policy of the Board I would like to have any suggestions you have to make.

Respectfully,

D. R. Crissinger,
Governor.

Hon. A. W. Mellon,
The Secretary of the Treasury,
Washington, D. C.

Enc.

332.3-6

March 5, 1925.

My dear Mr. Undersecretary:

The Federal Reserve Board this morning unanimously agreed upon the enclosed resolution pertaining to the 15 day repurchase agreement for bankers acceptances in the open market. I want you to read it over and if you find anything in it that you think needs clarifying I hope you will let me have your suggestions. For myself I think it clearly reestablishes and reaffirms all the former rulings of the Board which heretofore have clearly held the agreements legal.

I have sent a copy of the resolution to Secretary Mellon. Will you kindly have your conference with Mr. Mellon and let me have the result.

Respectfully,

D. R. Crissinger,
Governor.

Hon. Garrard B. Winston,
Undersecretary of the Treasury,
Washington, D. C.

Enc.

FEDERAL RESERVE BANK
OF NEW YORK

33213-6

OFFICE CORRESPONDENCE

DATE February 24, 1925.192

To Governor Strong.

SUBJECT:

FROM E. R. Kenzel.

Through the courtesy of the National City Bank, I am able to hand you the following forms which have to do with their commercial letter of credit and acceptance business:

- (1) Documentary acceptance credit agreement signed by customers in connection with acceptances involving domestic shipments or the pledge of staples in warehouse.
- (2) A continuing agreement signed by customers in connection with the issuance of commercial letters of credit, either sight or time.
- (3) Application for commercial letter of credit by customer.
- (4) Application for commercial letter of credit by domestic bank.
- (5) An irrevocable credit form with duplicate copy incorporating customer's agreement.
- (6) Correspondent's irrevocable export credit.
- (7) Our own confirmed irrevocable export credit.

DOCUMENTARY ACCEPTANCE CREDIT AGREEMENT No. _____

THE NATIONAL CITY BANK OF NEW YORK,
NEW YORK CITY.

192

Dear Sirs:

In consideration of your accepting as our agent and for our account, in reliance hereon, at your option, any one or more of any drafts drawn by

_____ which we may designate at any time or times, we agree as follows:

(1) We agree to pay to you, your successors or assigns, at your New York office, in United States currency, the amount of each such acceptance, on the last business day before its maturity or, upon demand, at any time prior thereto, together with the amount of your commission at such rate or rates as you may fix and the amount of all charges and expenses paid or incurred by you in the premises.

(2) We undertake and represent that all drafts which we may at any time or times designate for acceptance by you hereunder will be drafts which (a) grow out of transactions involving the importation or exportation of goods; or (b) grow out of transactions involving the domestic shipment of goods and have shipping documents conveying or securing title attached; or (c) are secured by warehouse receipts or other such documents conveying or securing title covering readily marketable staples, and upon each acceptance by you of any such drafts, we will, as you may prefer, hold for your account, deliver to you or deliver for your account to such correspondent as you may approve, in the above cases (a) and (b) all shipping and other documents relative to the goods being or to be imported, exported or shipped in the transactions relative to which the drafts in such cases are drawn, and in the above case (c) the warehouse receipts or other such documents conveying or securing title covering readily marketable staples against which as security the drafts in such case are drawn; it being further agreed that all documents in each such case shall be satisfactory to you, shall be issued by some one other than the drawer of the relative drafts and in the above cases (a) and (b) cover goods, and in the above case (c) cover readily marketable staples, as described in such documents, of a market value estimated by us as in excess of the face amount of the relative acceptances; and relative to drafts heretofore or hereupon accepted by you hereunder, we herewith deliver or designate to be held for your account, the following:

Bills of Lading.....

Warehouse Receipts

covering goods or readily marketable staples, as therein described of a market value estimated by us as in excess of the face amount of such drafts.

(3) We hereby recognize and admit your ownership and unqualified right to the possession and disposal of the above described documents, as well as of all other bills of lading, warehouse receipts and other documents at any time held by you, or held for your account by us or by any correspondent of yours, and relative to any draft or drafts accepted by you hereunder, and of all goods, readily marketable staples and other property covered by or relative to such documents or drafts, whether or not such documents, goods, readily marketable staples or other property be released to us, or to any other person at our request, on trust or bailee receipt, and in and to all of the proceeds of the foregoing, all as security for the payment of all obligations or liabilities of us to you hereunder, as well as for the payment of all other obligations and liabilities of us to you, direct or contingent, due or to become due and whether now existing or hereafter arising, and we also hereby give you a lien, for the payment of all such obligations and liabilities, upon all cash, stocks, bonds and other securities and all other property of every name and nature whatsoever, whether real, personal or mixed, which may now or hereafter belong to us, or in which we may have any interest, and which may now or hereafter be delivered, conveyed, transferred, assigned or paid to you, or come or have come into your possession or control or into the possession or control of any one for you in any manner whatsoever, whether expressly as security, or for safekeeping or otherwise, including all bills of lading, warehouse receipts and other documents and all goods, readily marketable staples and other property covered thereby and all such property consigned to or by you or any one on your behalf, and all items received for collection or transmission and the proceeds thereof, whether or not all or any of such documents or property be released to us, or to any other person at our request, on trust or bailee receipt, and, upon demand, or, should the market value of the documents held by you, or held for your account by us or by any correspondent of yours, relative to the draft or drafts accepted by you hereunder at such time outstanding, and of the goods, readily marketable staples or other property covered by such documents, as a whole, suffer any decline, without demand we will deliver to you or for your account to such person as you may designate, other documents, securities or other property of a character and value satisfactory to you as additional security for the payment of any and all of our obligations and liabilities above described, or make such cash payments thereon as you may require. We have obtained or will obtain from the drawer of any and all drafts accepted by you hereunder, and prior to each such acceptance by you, an agreement whereby such drawer will undertake to pay to us when due the amount of any and all sums due or to become due from us to you hereunder relative to such draft or drafts, and we hereby sell and assign to you all rights accruing to us at any time or times under such agreement or agreements, with authority to you to commence, prosecute or settle in our name or otherwise any actions or proceedings at law or in equity in connection therewith.

(4) In extension and not in limitation of your rights and powers, we agree that you and your correspondents may act and rely upon any verbal, written, telegraphic or other instructions or representations by us, or by any agent or officer of us, on our behalf, in the premises, including any such instructions or representations regarding: the sale, extension, renewal, discharge or other disposition of any drafts accepted by you hereunder, or the disposition of any proceeds thereof; the transfer, substitution, sale, pledge, delivery or other disposition of any bills of lading, warehouse receipts or other documents held by you or held for your account by us or by any correspondent of yours relative to any of such drafts; the insurance, or shipment, warehousing, cartage or other disposition of any goods, readily marketable staples or other property covered by or relative to any such documents; or, the disposition or handling of any other property, security hereunder, or any proceeds thereof, and, in the absence of any such instructions or representations, you or your correspondents may take or omit such action in the premises as you or your correspondents may deem advisable, and any action so taken or omitted, shall be binding upon us, and we agree to hold you harmless from all loss in acting or relying upon any such instructions or representations or in acting or omitting to act in the absence of such instructions and to reimburse you promptly upon demand for the amount of any charges or expenses paid or incurred by you or your correspondents in the premises.

(5) We agree to procure promptly any export or other licenses in connection with the shipping or warehousing of any goods, readily marketable staples or other property covered by any documents at any time held by you, or held for your account by us or by any correspondent of yours, relative to any draft or drafts accepted by you hereunder, which you may deem necessary, and to comply with all governmental regulations in regard to the shipping, warehousing or financing of said property, and to furnish such certificates in that respect as you may at any time require; to keep the said goods, readily marketable staples or other property insured against all usual risks and such special risks as you may designate, with such companies and in such amounts as may be satisfactory to you, and to assign the policies or certificates of insurance to you, or, at your option, make the loss or adjustment, if any, payable to you, and to furnish you with such evidence as you may require in that respect; and to pay any and all taxes and shipping, warehousing, cartage or other charges or expenses upon or with regard to the said goods, readily marketable staples or other property, and to furnish you with such receipts or other evidence in that respect as you may at any time require; and should you or your correspondents pay for or incur any liability in connection with, any above mentioned shipping or other licenses or any insurance, tax, shipping, warehousing, cartage or other charges we will satisfy the same or reimburse you promptly therefor upon demand.

(6) Upon any transfer, sale, delivery or endorsement of any bill of lading, warehouse receipt or other document at any time held by you, or held for your account by us or by any correspondent of yours, relative to any draft or drafts accepted by you in reliance hereon, neither you nor any of your correspondents shall be responsible for the genuineness or validity of such documents, or of any endorsements thereon, or for any difference in the character, quantity, quality, condition or value of any relative goods, readily marketable staples, or other property from that expressed in such documents and you shall not be responsible for any act, neglect, default, omission, insolvency or failure in business of any correspondent, carrier or warehouseman, nor for any error, omission, interruption or delay in the transmission or delivery of any messages or documents by mail or of any messages by telegraph, wireless or other usual means of transmission, whether or not any such messages be in cipher.

(7) Upon the non-payment of principal or interest when due on any of our obligations or liabilities to you, herein described, or upon our failure to deposit additional security or to make cash payments on account when required as herein provided or to perform any other promise herein contained, or in case of the filing of a petition in bankruptcy by or against us, or upon the application for the appointment of a receiver for, or upon the application for a writ of attachment against, any of our property, or in case of the failure in business of, or the commission of any act of insolvency by us, then and in any such case all our obligations and liabilities to you, herein described, shall thereupon become due and payable without demand or notice and notwithstanding any credit or time allowed to us by any instrument or agreement; and full power and authority are hereby given to you thereupon, or at any time or times thereafter, without either demand, advertisement or notice of any kind, all of which are hereby expressly waived, to appropriate any or all of our said cash, securities, documents, goods, readily marketable staples or other property, security hereunder, or any property substituted therefor, or added thereto, at such current value as you may estimate the property so appropriated to be worth, and/or to sell, assign and deliver the whole or any part of the said property, security hereunder, at any broker's board, or at public or private sale, at your option, either for cash or credit, or for future delivery, without assumption of any credit risk on your part, and, in case of any such appropriation or sale, after deducting from such property appropriated and/or from the proceeds of such sale or sales, any or all costs and expenses hereunder, including any or all of your commission and other charges, the costs of any said sale or sales and any or all costs and expenses for care, warehousing, shipping, cartage, insurance and taxes, to apply the remainder of any property so appropriated by you and/or the residue of the proceeds of any such sale or sales, in full or partial payment of any one or more or all of our said obligations or liabilities to you, whether except for this agreement such obligations or liabilities would then be due or not, making proper rebate for interest on obligations and liabilities not otherwise then due, and returning the over-plus, if any, to us, who agree to be and remain liable upon all of said obligations and liabilities or any part thereof not satisfied by such application of property appropriated or such application of the proceeds of such sale or sales. At any said sale or sales, you may purchase the whole or any part of said property sold, free from any rights of redemption on our part, which rights are hereby released.

(8) You shall not be deemed to have waived any of your rights hereunder by any act, delay or omission whatsoever on your part, unless you or your authorized agent shall have signed such waiver in writing, and no such waiver, unless expressly so stated, shall be effective as to any transaction occurring or breach continued subsequent to the date thereof.

(9) This agreement shall continue in full force and effect and be binding upon us and our successors and assigns, and shall not be affected, impaired or released by our insolvency or dissolution, provided that upon receipt by you of written notice signed by us, and the receipt from you of such notice by your departments, branches and correspondents concerned, your power thereafter to accept any draft or drafts in reliance hereon shall end and determine.

Yours very truly,

[Bank Seal]

COMMERCIAL LETTER OF CREDIT AGREEMENT

THE NATIONAL CITY BANK OF NEW YORK,
55 WALL STREET, NEW YORK, N. Y.

Dear Sirs:

In consideration of your opening, from time to time, at your option and at the request of the undersigned or any of us, your Commercial Letters of Credit (hereinafter referred to as the "Credit") we hereby jointly and severally agree as follows:

1. As to drafts or acceptances under or purporting to be under any Credit, which are payable in United States Currency, we agree: (a) in the case of each sight draft, to reimburse you at your New York office, on demand, in United States Currency, the amount paid on such drafts, or, if so demanded by you, to pay to you at your office in advance in such coin the amount required to pay such draft; and (b) in the case of each acceptance to pay to you, at your New York office, in United States Currency, the amount thereof, on demand but in any event not later than one business day prior to maturity, or, in case the acceptance is not payable at your New York office, then on demand but in any event in time to reach the place of payment in the course of the mails not later than one business day prior to maturity.

2. As to drafts or acceptances under or purporting to be under any credit, which are payable in currency other than United States Currency, we agree: (a) in the case of each sight draft, to reimburse you, at your New York office, on demand, the equivalent of the amount paid, in United States Currency at the rate of exchange then current in New York for cable transfers to the place of payment in the currency in which such draft is drawn; and (b) in the case of each acceptance, to furnish you, at your New York office, on demand, but in any event in time to reach the place of payment in the course of the mails not later than one business day prior to maturity with first class bankers' demand bills of exchange to be approved by you for the amount of acceptance, payable in the currency of the acceptance and bearing our endorsement, or, if you so request, to pay to you, at your New York office, on demand, the equivalent of the acceptance in United States Currency at the rate of exchange then current in New York for cable transfers to the place of payment in the currency in which the acceptance is payable.

3. We also agree to pay to you, on demand, a commission at such rate as you may fix, on such part of each Credit as may be used, and in any event a minimum commission of _____% of the amount of each Credit, and all charges and expenses paid or incurred by you in connection therewith, and interest where chargeable.

4. We hereby recognize and admit your ownership in and unqualified right to the possession and disposal of all property shipped under or pursuant to or in connection with each Credit or in any way relative thereto or to the drafts drawn thereunder, whether or not released to us on trust or bailee receipt, and also in and to all shipping documents, warehouse receipts, policies or certificates of insurance and other documents accompanying or relative to drafts drawn under any Credit, and in and to the proceeds of each and all of the foregoing, until such time as all the obligations and liabilities of us or any of us to you at any time existing under or with reference to each Credit or this agreement, or any other credit, or any other obligation or liability to you, have been fully paid and discharged, all as security for such obligations and liabilities; and that all or any of such property and documents, and the proceeds of any thereof, coming into the possession of you or any of your correspondents, may be held and disposed of by you as hereinafter provided; and the receipt by you, or any of your correspondents, at any time of other security, of whatsoever nature, including cash, shall not be deemed a waiver of any of your rights or powers herein recognized.

5. Except insofar as instructions may be given by us in writing expressly to the contrary with regard to, and prior to the issuing of, any particular Credit, we agree that you and any of your correspondents may receive and accept as "Bills of Lading" under each Credit, any documents issued or purporting to be issued by or on behalf of any carrier which acknowledge receipt of property for transportation, whatever the specific provisions of such documents, and that the date of each such document shall be deemed the date of shipment of the property mentioned therein; that you and any of your correspondents may receive and accept as documents of insurance under each Credit either insurance policies or insurance certificates; and that you and any of your correspondents may receive, accept or pay as complying with the terms of any Credit, any drafts or other documents, otherwise in order, which may be signed by, or issued to, the administrator or executor of, or the trustee in bankruptcy or the receiver for any of the property of, the party in whose name it is provided in the particular Credit that any drafts or other documents should be drawn or issued.

6. Except insofar as instructions may be given by us in writing expressly to the contrary with regard to, and prior to the issuing of, any particular Credit, we agree, that part shipments or shipments in excess of the quantity called for in any Credit may be made and you may honor the relative drafts, our liability to reimburse you for payments made or obligations incurred on such drafts being limited to the amount of such Credit, and that if the particular Credit specifies shipments in installments within stated periods, and the shipper fails to ship in any designated period, shipment of subsequent installments may nevertheless be made in their respective designated periods and you may honor the relative drafts.

7. We agree that in the event of any extension of the time of shipment or of the time for the drawing, negotiation, acceptance, presentation, or of the maturity of any drafts, acceptances, or other documents, or any other modification of the terms of any Credit, except an increase in the amount thereof, at the request of any of us, with or without notification to the others, or in the event of any increase in the amount of any Credit at our request, this Agreement shall be binding upon us with regard to the Credit so increased, extended or otherwise modified, with regard to drafts, documents and property covered thereby, and with regard to any action taken by you or any of your correspondents in accordance with such extension, increase, or other modifications. We further authorize you to surrender, from time to time, to such parties as we or any of us may designate, or their nominees, the whole or any part of any merchandise shipped under any Credit, or the bills of lading or other documents representing the same, against payments satisfactory to you or under your usual form of trust or bailee receipt, signed by any of such designated parties.

8. The users of each Credit shall be deemed our agents and we assume all risks of their acts or omission. Neither you nor your correspondents shall be responsible for the existence, character, quality, quantity, condition, packing, value, or delivery of the property purporting to be represented by documents; for any difference in character, quality, quantity, condition, or value of the property from that expressed in documents; for the validity, sufficiency or genuineness of documents, even if such documents should in fact prove to be in any or all respects invalid, insufficient, fraudulent or forged; for the time, place, manner or order in which shipment is made; for partial or incomplete shipment, or failure or omission to ship any or all of the property referred to in any Credit; for the character, adequacy, validity, or genuineness of any insurance; for the solvency or responsibility of any insurer, or for any other risk connected with insurance; for any deviation from instructions, delay, default or fraud by the shipper or anyone else in connection with the property or the shipping thereof; for the solvency, responsibility or relationship to the property of any party issuing any documents in connection with the property; for delay in arrival or failure to arrive of either the property or any of the documents relating thereto; for delay in giving or failure to give notice of arrival or any other notice; for any breach of contract between the shippers or vendors and ourselves or any of us; for failure of any draft to bear any reference or adequate reference to the Credit under which it is drawn, or failure of documents to accompany any draft at negotiation, or failure of any person to note the amount of any draft on the reverse of the Credit under which it is drawn, or to surrender or take up any Credit or to send forward documents apart from drafts as required by the terms of any Credit, each of which provisions, if contained in any particular Credit itself, it is agreed may be waived by you; or for errors, omissions, interruptions or delays in transmission or delivery of any messages, by mail, cable, telegraph, wireless or otherwise, whether or not they be in cipher; nor shall you be responsible for any error, neglect, or default of any of your correspondents; and none of the above shall affect, impair, or prevent the vesting of any of your rights or powers hereunder. In furtherance and extension and not in limitation of the specific provisions hereinbefore set forth, we agree that any action taken by you or by any correspondent of yours under or in connection with any Credit or the relative drafts, documents or property, if taken in good faith, shall be binding on us and shall not put you or your correspondent under any resulting liability to us; and we make like agreement as to any inaction or omission, unless in breach of good faith.

9. We agree to procure promptly any necessary import and export or other licenses for the import or export or shipping of the property and to comply with all foreign and domestic governmental regulations in regard to the shipment of the property or the financing thereof, and to furnish such certificates in that respect as you may at any time require, and to keep the property adequately covered by insurance satisfactory to you, in companies satisfactory to you, and to assign the policies or certificates of insurance to you, or to make the loss or adjustment, if any, payable to you, at your option and to furnish you if demanded with evidence of acceptance by the insurers of such assignment.

10. Each of us agrees at any time and from time to time, on demand, to deliver, convey, transfer, or assign to you, as security for any and all of the obligations and liabilities of us and/or any of us hereunder, and also for any and all other obligations and liabilities, absolute or contingent, due or to become due, which are now, or may at any time hereafter, be owing by us and/or any of us to you, additional security of a value and character satisfactory to you, or to make such cash payment as you may require. Each of us agrees that all property belonging to us or any of us, or in which we or any of us may have an interest, of every name and nature whatsoever, now or at any time hereafter delivered, conveyed, transferred, assigned, or paid to you, or coming into your possession or into the possession of any one for you in any manner whatsoever, whether expressly as security for any of the obligations or liabilities of us or any of us to you, or for safekeeping or otherwise, including any items received for collection or transmission and the proceeds thereof, whether or not such property is in whole or in part released to us or any of us on trust or bailee receipt is hereby made security for each and all such obligations and liabilities. Each of us agrees that upon our failure or the failure of any of us at all times to keep a margin of security with you satisfactory to you, or upon the making by us or any of us of any assignment for the benefit of creditors, or upon the filing of any voluntary or involuntary petition in bankruptcy by or against us or any of us, or upon any application for the appointment of a receiver of any of our property or of the property of any of us, or upon any act of bankruptcy or state of insolvency of us or any of us, all of such obligations and liabilities shall become and be immediately due and payable without demand or notice notwithstanding any credit or time allowed to us or any of us, or any instrument evidencing any such obligations or liabilities or otherwise; and each of us, as to property in which he may have any interest, and all of us, as to property in which we may have any interest, expressly authorize you in any such event, or upon our failure or the failure of any of us to pay any of such obligations or liabilities when they or any of them shall become or be made due, to sell immediately, without demand for payment, without advertisement and without notice to us, or any of us, all of which are hereby expressly waived, any and all such property, arrived or to arrive, at private sale or at public auction or at brokers' board or otherwise, at your option, in such parcel or parcels and at such time or times and at such place or places and for such price or prices and upon such terms and conditions as you may deem proper, and to apply the net proceeds of such sale or sales, and any balance of deposits and any sums credited by or due from you to us or any of us in general account or otherwise, to the payment of any and all of our obligations or liabilities and/or the obligations or liabilities of any of us to you however arising. If any such sale be at brokers' board or at public auction you may yourself be a purchaser at such sale, free from any right of redemption, which we and each of us hereby expressly waive and release.

11. You shall not be deemed to have waived any of your rights hereunder, unless you or your authorized agent shall have signed such waiver in writing. No such waiver, unless expressly so stated therein, shall be effective as to any transaction which occurs subsequent to the date of such waiver nor as to any continuance of a breach after such waiver.

12. The word "property" as used in this agreement includes goods, merchandise, securities, funds, choses in action, and any and all other forms of property, whether real, personal or mixed and any right or interest therein. If this agreement is signed by one individual, the terms "we", "our", "us", shall be read throughout as "I", "my", "me", as the case may be.

13. This agreement shall continue in full force and effect and be binding upon us, and each of us, and our respective executors, administrators, successors and assigns, with respect to any and all credits which have been or may at any time or times hereafter be opened by you at the request of us, or any of us, or opened by you in reliance upon this agreement, in substantially such terms and amounts as may be fixed in any written, oral, telegraphic, cable or other applications or in any subsequent negotiations, your interpretation of any such applications or negotiations being controlling, and this agreement shall not be effected, impaired or released by the death of any of us, or by the death, resignation or addition of any partner of us, or any of us, provided that upon receipt by you at your New York office at 55 Wall Street, of written notice signed by us or any of us, or by the administrator or executor of any of us, your power thereafter to open any Credits under or in reliance upon this agreement shall be withdrawn, but such withdrawal shall not in any way affect, impair or revoke this agreement with respect to any credits opened by you hereunder prior to receipt of notice thereof, and said Credits and all the obligations and liabilities of us and each of us under this agreement with respect thereto, shall not be in any way affected, impaired or released by such notice.

Very truly yours,

Dated _____ 192__

APPLICATION FOR COMMERCIAL LETTER OF CREDIT

THE NATIONAL CITY BANK OF NEW YORK
55 WALL STREET
NEW YORK, N. Y.

GENTLEMEN:

WE HEREBY REQUEST YOU TO ISSUE BY CABLE MAIL YOUR IRREVOCABLE REVOCABLE LETTER OF CREDIT, IN ANY OF YOUR USUAL FORMS.

AS FOLLOWS:

IN FAVOR OF _____

FOR ACCOUNT OF _____

UP TO THE AGGREGATE AMOUNT OF _____

AVAILABLE BY _____ DRAFTS DRAWN AT YOUR OPTION, ON YOU OR YOUR CORRESPONDENTS
(PLEASE SIGNIFY TENOR)

FOR _____ PER CENT AMOUNT OF INVOICE.

WHEN ACCOMPANIED BY THE FOLLOWING DOCUMENTS: (PLEASE INDICATE BY CHECK BELOW)

FULL SET BILLS OF LADING DRAWN
TO ORDER OF THE NATIONAL CITY BANK OF NEW YORK
NOTIFY _____
CALLING FOR SHIPMENT TO _____

COMMERCIAL INVOICE STATING THAT IT COVERS _____
(PLEASE MENTION COMMODITY ONLY, OMITTING DETAILS AS TO GRADE, QUALITY, PRICE, ETC.)

CONSULAR INVOICE

MARINE INSURANCE POLICY OR CERTIFICATE

WAR RISK INSURANCE POLICY OR CERTIFICATE

OTHER INSURANCE POLICY OR CERTIFICATE _____
(IF OTHER INSURANCE IS REQUIRED. PLEASE STATE RISKS)

OTHER DOCUMENTS _____
(IF SPECIAL DOCUMENTS ARE REQUIRED, PLEASE STATE NAME OF COMPANY TO ISSUE SAME)

INSURANCE TO BE EFFECTED BY _____
(IF INSURANCE EFFECTED OTHER THAN BY SHIPPERS, GIVE ALSO THE NAMES OF COMPANIES WRITING SUCH INSURANCE)

BILLS OF LADING TO BE DATED NOT LATER THAN _____

BILLS OF EXCHANGE TO BE NEGOTIATED NOT LATER THAN _____

SHIPPING DOCUMENTS FOR CUSTOM HOUSE ENTRY TO BE SENT TO _____

In consideration of your issuing a Letter of Credit substantially conforming with the above request, we hereby agree, when requested by you, to sign and deliver to you an Indemnity Agreement in a form satisfactory to you, and we further agree that each and all of the provisions of any general Indemnity Agreement heretofore signed and delivered to you by us, or any of us, relating to Letters of Credit issuable by you, in the absence of written agreement to the contrary, shall be deemed to be incorporated as a part of the above request.

RESPECTFULLY YOURS,

4

APPLICATION FOR COMMERCIAL LETTER OF CREDIT

NEW YORK, _____ 192__

THE NATIONAL CITY BANK OF NEW YORK,
55 WALL STREET,
NEW YORK CITY, N. Y.

DEAR SIRs:

WE HEREBY REQUEST YOU TO ISSUE AS OUR AGENT, BY CABLE MAIL YOUR IRREVOCABLE REVOCABLE LETTER OF CREDIT, IN ANY OF YOUR USUAL FORMS, AS FOLLOWS:

IN FAVOR OF _____

FOR ACCOUNT OF _____

UP TO THE AGGREGATE AMOUNT OF _____

AVAILABLE BY _____ DRAFTS DRAWN, AT YOUR OPTION, ON YOU OR YOUR CORRESPONDENTS
(PLEASE SIGNIFY TENOR)

FOR _____ PER CENT AMOUNT OF INVOICE

WHEN ACCOMPANIED BY THE FOLLOWING DOCUMENTS: (PLEASE INDICATE BY CHECK BELOW)

FULL SET BILLS OF LADING TO ORDER THE NATIONAL CITY BANK OF NEW YORK, CALLING
FOR SHIPMENT TO _____

COMMERCIAL INVOICE STATING THAT IT COVERS _____
(PLEASE MENTION COMMODITY ONLY, OMITTING DETAILS AS TO GRADE, QUALITY, PRICE, ETC.)

CONSULAR INVOICE

MARINE INSURANCE POLICY OR CERTIFICATE

WAR RISK INSURANCE POLICY OR CERTIFICATE

OTHER INSURANCE POLICY OR CERTIFICATE _____
(IF OTHER INSURANCE IS REQUIRED, PLEASE STATE RISKS)

OTHER DOCUMENTS _____
(IF SPECIAL DOCUMENTS ARE REQUIRED, PLEASE STATE NAME OF COMPANY TO ISSUE SAME).

INSURANCE TO BE EFFECTED BY _____
(IF INSURANCE EFFECTED OTHER THAN BY SHIPPERS, GIVE ALSO THE NAMES OF COMPANIES WRITING SUCH INSURANCE.)

BILLS OF LADING TO BE DATED NOT LATER THAN _____

BILLS OF EXCHANGE TO BE NEGOTIATED NOT LATER THAN _____

SHIPPING DOCUMENTS FOR CUSTOM HOUSE ENTRY TO BE SENT TO _____

In consideration of your issuing as our agent a Letter of Credit (hereinafter referred to as the "Credit") substantially conforming with the above request, we hereby agree as follows:

1. As to drafts or acceptances under or purporting to be under the Credit, which are payable in United States Currency, we agree: (a) in the case of each sight draft, to reimburse you at your New York office, on demand in United States Currency, the amount paid on such drafts, or, if so demanded by you, to pay to you at your office in advance in such currency the amount required to pay such draft; and (b) in the case of each acceptance to pay to you, at your New York office, in United States Currency, the amount thereof, on demand but in any event not later than one business day prior to maturity, or, in case the acceptance is not payable at your New York office, then on demand but in any event in time to reach the place of payment in the course of the mails not later than one business day prior to maturity.

2. As to drafts or acceptances under or purporting to be under the Credit, which are payable in currency other than United States Currency, we agree: (a) in the case of each sight draft, to reimburse you, at your New York Office, on demand, the equivalent of the amount paid, in United States Currency at the rate of exchange then current in New York for cable transfers to the place of payment in the currency in which such draft is drawn; and (b) in the case of each acceptance, to furnish you, at your New York office, on demand, but in any event in time to reach the place of payment in the course of the mails not

later than one business day prior to maturity, with first class bankers' demand bills of exchange to be approved by you for the amount of acceptance, payable in the currency of the acceptance and bearing our endorsement, or, if you so request, to pay to you, at your New York office, on demand, the equivalent of the acceptance in United States Currency at the rate of exchange then current in New York for cable transfers to the place of payment in the currency in which the acceptance is payable.

3. We also agree to pay to you, on demand, a commission at such rate as you may fix, on such part of the Credit as may be used, and in any event a minimum commission of.....% of the amount of the Credit, and all charges and expenses paid or incurred by you in connection therewith, and interest where chargeable.

4. We hereby recognize and admit your ownership in and unqualified right to the possession and disposal of all property shipped under or pursuant to or in connection with the Credit or in any way relative thereto or to the drafts drawn thereunder, whether or not released to us on trust or bailee receipt, and also in and to all shipping documents, warehouse receipts, policies or certificates of insurance and other documents accompanying or relative to drafts drawn under the Credit, and in and to the proceeds of each and all of the foregoing, until such time as all the obligations and liabilities of us or any of us to you at any time existing under or with reference to the Credit or this agreement, or any other credit, or any other obligation or liability to you, have been fully paid and discharged, all as security for such obligations and liabilities; and that all or any of such property and documents, and the proceeds of any thereof, coming into the possession of you or any of your correspondents, may be held and disposed of by you as hereinafter provided; and the receipt by you, or by any of your correspondents, at any time of other security, of whatsoever nature, including cash, shall not be deemed a waiver of any of your rights or powers herein recognized.

5. Except insofar as instructions have been heretofore given you by us in writing expressly to the contrary, we agree that you and any of your correspondents may receive and accept as "Bills of Lading" under the Credit, any documents issued or purporting to be issued by or on behalf of any carrier which acknowledge receipt of property for transportation, whatever the specific provisions of such documents, and that the date of each such document shall be deemed the date of shipment of the property mentioned therein; that you and any of your correspondents may receive and accept as documents of insurance under the Credit either insurance policies or insurance certificates; and that you and any of your correspondents may receive, accept or pay as complying with the terms of the Credit, any drafts or other documents, otherwise in order, which may be signed by, or issued to, the administrator or executor of, or the trustee in bankruptcy or the receiver for any of the property of, the party in whose name it is provided in the Credit that any drafts or other documents should be drawn or issued.

6. Except insofar as instructions have been heretofore given you by us in writing expressly to the contrary, we agree that part shipments or shipments in excess of the quantity called for in the Credit may be made and you may honor the relative drafts, our liability to reimburse you for payments made or shipper fails to ship in any designated period, shipment of subsequent installments may nevertheless be made in their respective designated periods and you may honor the relative drafts.

7. We agree that in the event of any extension of the time, of shipment or of the time for the drawing, negotiation, acceptance, presentation, or of the maturity of any drafts, acceptances, or other documents, or any other modification of the terms of the Credit, or any increase in the amount of the Credit, at our request, this Agreement shall be binding upon us with regard to the Credit so increased, extended, or otherwise modified, with regard to drafts, documents and cation, and we further agree to hold you harmless against any and all losses suffered or obligations or liabilities incurred by following any or all of our instructions including our instructions modifying the terms or the amount of the Credit, and our instructions with respects to the drafts, documents or other property relative to or covered by the credit. We further authorize you to surrender, from time to time, to such parties as we or any of us may designate, or their nominees, the whole or any part of any merchandise shipped under the Credit, or the bills of lading or other documents representing the same, against payments satisfactory to you or under your usual form of trust or bailee receipt, signed by any of such designated parties.

8. The users of the Credit shall be deemed our agents and we assume all risks of their acts or omissions. Neither you nor your correspondents shall be responsible: for the existence, character, quality, quantity, condition, packing, value, or delivery of the property purporting to be represented by documents; for any difference in character, quality, quantity, condition, or value of the property from that expressed in documents; for the validity, sufficiency or genuineness of documents, even if such documents should in fact prove to be in any or all respects invalid, insufficient, fraudulent or forged; for the time, place, manner or order in which shipment is made; for partial or incomplete shipment, or failure or omission to ship any or all of the property referred to in the Credit; for the character, adequacy, validity, or genuineness of any insurance; for the solvency or responsibility of any insurer, or for any other risk connected with insurance; for any deviation from instructions, delay, default or fraud by the shipper or anyone else in connection with the property or the shipping thereof; for the solvency, responsibility or relationship to the property of any party issuing any documents in connection with the property; for delay in arrival or failure to arrive of either the property or any of the documents relating thereto; for delay in giving or failure to give notice of arrival or any other notice; for any breach of contract between the shippers or vendors and ourselves or any of us; for failure of any draft to bear any reference or adequate reference to the Credit, or failure of documents to accompany any draft at negotiation, or failure of any person to note the amount of any draft on the reverse of the Credit, or to surrender or take up the Credit or to send forward documents apart from drafts as required by the terms of the Credit, each of which provisions, if contained in the Credit itself, it is agreed may be waived by you; or for errors, omissions, interruptions or delays in transmission or delivery of any messages, by mail, cable, telegraph, wireless or otherwise, whether or not they be in cipher; nor shall you be responsible for any error, neglect, or default of any of your correspondents; and none of the above shall affect, impair, or prevent the vesting of any of your rights or powers hereunder. In furtherance and extension and not in limitation of the specific provisions hereinbefore set forth, we agree that any action taken by you or by any correspondent of yours under or in connection with the Credit or the relative drafts, documents or property, if taken in good faith, shall be binding on us and shall not put you or your correspondent under any resulting liability to us; and we make like agreement as to any inaction or omission, unless in breach of good faith.

9. We agree to procure promptly any necessary import and export or other licenses for the import or export or shipping of the property and to comply with all foreign and domestic governmental regulations in regard to the shipment of the property or the financing thereof, and to furnish such certificates in that respect as you may at any time require, and to keep the property adequately covered by insurance satisfactory to you, in companies satisfactory to you, and to assign the policies or certificates of insurance to you, or to make the loss or adjustment, if any, payable to you, at your option; and to furnish you if demanded with evidence of acceptance by the insurers of such assignment.

10. We agree at any time and from time to time, on demand, to deliver, convey, transfer, or assign to you, as security for any and all of our obligations and liabilities hereunder, and also for any and all other obligations and liabilities, absolute or contingent, due or to become due, which are now, or may at any time hereafter, be owing by us to you, additional security of a value and character satisfactory to you, or to make such cash payment as you may require. We agree to obtain from our client an agreement in our favor with respect to the Credit in substantially the terms of this agreement, and do hereby sell and assign to you, all our right, title and interest therein and thereto as additional security for any and all of our above mentioned obligations and liabilities. We agree that all property belonging to us, or in which we may have an interest, of every name and nature whatsoever, now or at any time hereafter delivered, conveyed, transferred, assigned, or paid to you, or coming into your possession or into the possession of any one for you in any manner whatsoever, whether expressly as security for any of the obligations or liabilities of us to you, or for safekeeping or otherwise, including any items received for collection or transmission and the proceeds thereof, whether or not such property is in whole or in part released to us on trust or bailee receipt is hereby made security for each and all such obligations and liabilities. We agree that upon our failure at all times to keep a margin of security with you satisfactory to you, or upon the making by us of any appointment of a receiver of any of our property, or upon any act of bankruptcy or state of insolvency or suspension of payment on our part, all of such obligations and liabilities shall become and be immediately due and payable without demand or notice notwithstanding any credit or time allowed to us, or any instrument evidencing any such obligations or liabilities or otherwise; and, as to property in which we may have any interest, we expressly authorize you in any such event, or upon our failure to pay any of such obligations or liabilities when they or any of them shall become or be made due, to sell immediately, without demand or upon our failure to pay any of such obligations or liabilities when they or any of them shall become or be made due, to sell immediately, without demand sale or at public auction or at brokers' board or otherwise, at your option, in such parcel or parcels, and at such time or times, and at such place or places and deposits and any sums credited by or due from you to us in general account or otherwise, to the payment of any and all of our obligations or liabilities to you however arising. If any such sale be at brokers' board or at public auction you may yourself be a purchaser at such sale, free from any right of redemption, which we hereby expressly waive and release.

11. You shall not be deemed to have waived any of your rights hereunder, unless you or your authorized agent shall have signed such waiver in writing. No such waiver, unless expressly so stated therein, shall be effective as to any transaction which occurs subsequent to the date of such waiver nor as to any continuance of a breach after such waiver.

12. The word "property" as used in this agreement includes goods, merchandise, securities, funds, choses in action, and any and all other forms of property, whether real, personal or mixed and any right or interest therein.

Very truly yours,

THE NATIONAL CITY BANK OF NEW YORK

55 WALL STREET

IRREVOCABLE CREDIT NO.

NEW YORK

ALL DRAFTS DRAWN MUST BE MARKED:
DRAWN AS PER ADVICE NO. B

DEAR SIRs:

WE HEREBY AUTHORIZE YOU TO VALUE ON

FOR ACCOUNT OF

UP TO THE AGGREGATE AMOUNT OF

AVAILABLE BY YOUR DRAFTS AT

TO BE ACCOMPANIED BY CONSULAR INVOICE

DRAWN TO THE ORDER OF

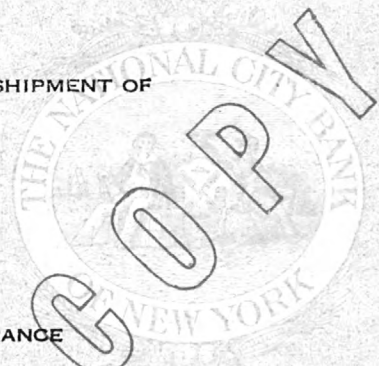
AND COMMERCIAL INVOICE EVIDENCING SHIPMENT OF

FOR

INVOICE COST

BILLS OF LADING

INSURANCE



BILLS OF LADING MUST BE DATED NOT LATER THAN

BILLS OF EXCHANGE MUST BE NEGOTIATED NOT LATER THAN

A COPY OF THE CONSULAR INVOICE, COMMERCIAL INVOICE, AND ONE BILL OF LADING MUST BE FORWARDED BY FIRST MAIL DIRECT TO

ATTACHING TO THE DRAFT A STATEMENT TO THAT EFFECT. ALL REMAINING DOCUMENTS MUST ACCOMPANY THE DRAFT.

THE AMOUNT OF ANY DRAFT DRAWN UNDER THIS CREDIT IS TO BE ENDORSED ON THE REVERSE SIDE HEREOF.

WE HEREBY AGREE WITH THE DRAWERS, ENDORSERS AND BONA FIDE HOLDERS OF DRAFTS DRAWN UNDER AND IN COMPLIANCE WITH THE TERMS OF THIS CREDIT THAT THE SAME SHALL BE DULY HONORED ON DUE PRESENTATION TO THE DRAWEE.

YOURS VERY TRULY,

THE NATIONAL CITY BANK OF NEW YORK

THE NATIONAL CITY BANK OF NEW YORK

55 WALL STREET

IRREVOCABLE CREDIT NO.

NEW YORK

DEAR SIRS:

WE HEREBY AUTHORIZE YOU TO VALUE ON

FOR ACCOUNT OF

UP TO THE AGGREGATE AMOUNT OF

AVAILABLE BY YOUR DRAFTS AT

TO BE ACCOMPANIED BY CONSULAR INVOICE

DRAWN TO THE ORDER OF

AND COMMERCIAL INVOICE EVIDENCING SHIPMENT OF

FOR

INVOICE COST

BILLS OF LADING

INSURANCE

BILLS OF LADING MUST BE DATED NOT LATER THAN

BILLS OF EXCHANGE MUST BE DRAWN NOT LATER THAN

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YOURS VERY TRULY,

ALL DRAFTS SO DRAWN MUST BE MARKED:

DRAWN AS PER ADVICE NO. B

THE NATIONAL CITY BANK OF NEW YORK

ORIGINAL AGREEMENT

COMMERCIAL LETTER OF CREDIT AGREEMENT

THE NATIONAL CITY BANK OF NEW YORK,

55 WALL STREET, NEW YORK, N. Y.

Dear Sirs:

In consideration of your opening at the request of the undersigned or any of us, your Commercial Letter of Credit No. _____ (hereinafter called the "Credit"), the terms of which appear on the reverse side hereof, and are hereby approved by us, we hereby jointly and severally agree as follows:

1. As to drafts or acceptances under or purporting to be under the Credit, which are payable in United States Currency, we agree: (a) in the case of each sight draft, to reimburse you at your New York office, on demand, in United States Currency, the amount paid on such drafts, or, if so demanded by you, to pay to you at your office in advance in such coin the amount required to pay such draft; and (b) in the case of each acceptance to pay to you, at your New York office, in United States Currency, the amount thereof, on demand but in any event not later than one business day prior to maturity, or, in case the acceptance is not payable at your New York office, then on demand but in any event in time to reach the place of payment in the course of the mails not later than one business day prior to maturity.

2. As to drafts or acceptances under or purporting to be under the Credit, which are payable in currency other than United States Currency, we agree: (a) in the case of each sight draft, to reimburse you, at your New York office, on demand, the equivalent of the amount paid, in United States Currency at the rate of exchange then current in New York for cable transfers to the place of payment in the currency in which such draft is drawn; and (b) in the case of each acceptance, to furnish you, at your New York office, on demand, but in any event in time to reach the place of payment in the course of the mails not later than one business day prior to maturity with first class bankers' demand bills of exchange to be approved by you for the amount of acceptance, payable in the currency of the acceptance and bearing our endorsement, or, if you so request, to pay to you, at your New York office, on demand, the equivalent of the acceptance in United States Currency at the rate of exchange then current in New York for cable transfers to the place of payment in the currency in which the acceptance is payable.

3. We also agree to pay to you, on demand, a commission at such rate as you may fix, on such part of the Credit as may be used, and in any event a minimum commission of _____% of the amount of the Credit, and all charges and expenses paid or incurred by you in connection therewith, and interest where chargeable.

4. We hereby recognize and admit your ownership in and unqualified right to the possession and disposal of all property shipped under or pursuant to or in connection with the Credit or in any way relative thereto or to the drafts drawn thereunder, whether or not released to us on trust or bailee receipt, and also in and to all shipping documents, warehouse receipts, policies or certificates of insurance and other documents accompanying or relative to drafts drawn under the Credit, and in and to the proceeds of each and all of the foregoing, until such time as all the obligations and liabilities of us or any of us to you at any time existing under or with reference to the Credit or this agreement, or any other credit, or any other obligation of liability to you, have been fully paid and discharged, all as security for such obligations and liabilities; and that all or any of such property and documents, and the proceeds of any thereof, coming into the possession of you or any of your correspondents, may be held and disposed of by you as hereinafter provided; and the receipt by you, or any of your correspondents, at any time of other security, of whatsoever nature, including cash, shall not be deemed a waiver of any of your rights or powers herein recognized.

5. Except insofar as instructions have been heretofore given by us in writing expressly to the contrary, we agree that you and any of your correspondents may receive and accept as "Bills of Lading" under the Credit, any documents issued or purporting to be issued by or on behalf of any carrier which acknowledge receipt of property for transportation, whatever the specific provisions of such documents, and that the date of each such document shall be deemed the date of shipment of the property mentioned therein; that you and any of your correspondents may receive and accept as documents of insurance under the Credit either insurance policies or insurance certificates; and that you and any of your correspondents may receive, accept or pay as complying with the terms of the Credit, any drafts or other documents, otherwise in order, which may be signed by, or issued to, the administrator or executor of, or the trustee in bankruptcy or the receiver for any of the property of, the party in whose name it is provided in the Credit that any drafts or other documents should be drawn or issued.

6. Except insofar as instructions have been heretofore given by us in writing expressly to the contrary, we agree that part shipments or shipments in excess of the quantity called for in the Credit may be made and you may honor the relative drafts, our liability to reimburse you for payments made or obligations incurred on such drafts being limited to the amount of the Credit, and that if the Credit specifies shipments in installments within stated periods, and the shipper fails to ship in any designated period, shipment of subsequent installments may nevertheless be made in their respective designated periods and you may honor the relative drafts.

7. We agree that in the event of any extension of the time of shipment or of the time for the drawing, negotiation, acceptance, presentation, or of the maturity of any drafts, acceptances, or other documents, or any other modification of the terms of the Credit, except an increase in the amount thereof at the request of any of us, with or without notification to the others; or in the event of any increase in the amount of the Credit at our request, this Agreement shall be binding upon us with regard to the Credit so increased, extended or otherwise modified, with regard to drafts, documents and property covered thereby, and with regard to any action taken by you or any of your correspondents in accordance with such extension, increase, or other modifications. We further authorize you to surrender, from time to time, to such parties as we or any of us may designate, or their nominees, the whole or any part of any merchandise shipped under the Credit, or the bills of lading or other documents representing the same, against payments satisfactory to you or under your usual form of trust or bailee receipt, signed by any of such designated parties.

8. The users of the Credit shall be deemed our agents and we assume all risks of their acts or omission. Neither you nor your correspondents shall be responsible for the existence, character, quality, quantity, condition, packing, value, or delivery of the property purporting to be represented by documents, for any difference in character, quality, quantity, condition, or value of the property from that expressed in documents, for the validity, sufficiency or genuineness of documents, even if such documents should in fact prove to be in any or all respects invalid, insufficient, fraudulent or forged; for the time, place, manner or order in which shipment is made; for partial or incomplete shipment, or failure or omission to ship any or all of the property referred to in the Credit; for the character, adequacy, validity, or genuineness of any insurance; for the solvency or responsibility of any insurer, or for any other risk connected with insurance; for any deviation from instructions, delay, default or fraud by the shipper or anyone else in connection with the property or the shipping thereof; for the solvency, responsibility or relationship to the property of any party issuing any documents in connection with the property; for delay in arrival or failure to arrive of either the property or any of the documents relating thereto; for delay in giving or failure to give notice of arrival or any other notice; for any breach of contract between the shippers or vendors and ourselves or any of us; for failure of any draft to bear any reference or adequate reference to the Credit, or failure of documents to accompany any draft at negotiation, or failure of any person to note the amount of any draft on the reverse of the Credit, or to surrender or take up the Credit or to send forward documents apart from drafts as required by the terms of the Credit, each of which provisions, if contained in the Credit itself, it is agreed may be waived by you; or for errors, omissions, interruptions or delays in transmission or delivery of any messages, by mail, cable, telegraph, wireless or otherwise, whether or not they be in cipher; nor shall you be responsible for any error, neglect, or default of any of your correspondents; and none of the above shall affect, impair, or prevent the vesting of any of your rights or powers hereunder. In furtherance and extension and not in limitation of the specific provisions hereinbefore set forth, we agree that any action taken by you or by any correspondent of yours under or in connection with the Credit or the relative drafts, documents or property, if taken in good faith, shall be binding on us and shall not put you or your correspondent under any resulting liability to us; and we make like agreement as to any inaction or omission, unless in breach of good faith.

9. We agree to procure promptly any necessary import and export or other licenses for the import or export or shipping of the property and to comply with all foreign and domestic governmental regulations in regard to the shipment of the property or the financing thereof, and to furnish such certificates in that respect as you may at any time require, and to keep the property adequately covered by insurance satisfactory to you, in companies satisfactory to you; and to assign the policies or certificates of insurance to you, or to make the loss or adjustment, if any, payable to you, at your option, and to furnish you if demanded with evidence of acceptance by the insurers of such assignment.

10. Each of us agrees at any time and from time to time, on demand, to deliver, convey, transfer, or assign to you, as security for any and all of the obligations and liabilities of us and/or any of us hereunder, and also for any and all other obligations and liabilities, absolute or contingent, due or to become due, which are now, or may at any time hereafter, be owing by us and/or any of us to you, additional security of a value and character satisfactory to you, or to make such cash payment as you may require. Each of us agrees that all property belonging to us or any of us, or in which we or any of us may have an interest, of every name and nature whatsoever, now or at any time hereafter delivered, conveyed, transferred, assigned, or paid to you, or coming into your possession or into the possession of anyone for you in any manner whatsoever, whether expressly as security for any of the obligations or liabilities of us or any of us to you, or for safekeeping or otherwise, including any items received for collection or transmission and the proceeds thereof, whether or not such property is in whole or in part released to us or any of us on trust or bailee receipt is hereby made security for each and all such obligations and liabilities. Each of us agrees that upon our failure or the failure of any of us at all times to keep a margin of security with you satisfactory to you, or upon the making by us or any of us of any assignment for the benefit of creditors, or upon the filing of any voluntary or involuntary petition in bankruptcy by or against us or any of us, or upon any application for the appointment of a receiver of any of our property or of the property of any of us, or upon any act of bankruptcy or state of insolvency of us or any of us, all of such obligations and liabilities shall become and be immediately due and payable without demand or notice notwithstanding any credit or time allowed to us or any of us, or any instrument evidencing any such obligations or liabilities or otherwise; and each of us, as to property in which he may have any interest, and all of us, as to property in which we may have any interest, expressly authorize you in any such event, or upon our failure or the failure of any of us to pay any of such obligations or liabilities when they or any of them shall become or be made due, to sell immediately, without demand for payment, without advertisement and without notice to us, or any of us, all of which are hereby expressly waived, any and all such property, arrived or to arrive, at private sale or at public auction or at brokers' board or otherwise, at your option, in such parcel or parcels and at such time or times and at such place or places and for such price or prices and upon such terms and conditions as you may deem proper, and to apply the net proceeds of such sale or sales, and any balance of deposits and any sums credited by or due from you to us or any of us in general account or otherwise, to the payment of any and all of our obligations or liabilities and/or the obligations or liabilities of any of us to you however arising. If any such sale be at brokers' board or at public auction you may yourself be a purchaser at such sale, free from any right of redemption, which we and each of us hereby expressly waive and release.

11. You shall not be deemed to have waived any of your rights hereunder, unless you or your authorized agent shall have signed such waiver in writing. No such waiver, unless expressly so stated therein, shall be effective as to any transaction which occurs subsequent to the date of such waiver nor as to any continuance of a breach after such waiver.

12. The word "property" as used in this agreement includes goods, merchandise, securities, funds, choses in action, and any and all other forms of property, whether real, personal or mixed and any right or interest therein.

13. If this agreement is signed by one individual, the terms "we," "our," "us," shall be read throughout as "I," "my," "me," as the case may be. If this agreement is signed by two or more parties, it shall be the joint and several agreement of such parties.

Very truly yours,

THE NATIONAL CITY BANK OF NEW YORK

55 WALL STREET

IRREVOCABLE CREDIT NO.

NEW YORK

DEAR SIR:

WE HEREBY AUTHORIZE YOU TO VALUE ON

FOR ACCOUNT OF

UP TO THE AGGREGATE AMOUNT OF

AVAILABLE BY YOUR DRAFTS AT

TO BE ACCOMPANIED BY CONSULAR INVOICE

DRAWN TO THE ORDER OF

AND COMMERCIAL INVOICE EVIDENCING SHIPMENT OF

FOR INVOICE COST

BILLS OF LADING

INSURANCE

BILLS OF LADING MUST BE DATED NOT LATER THAN

BILLS OF EXCHANGE MUST BE DRAWN NOT LATER THAN

A COPY OF THE CONSULAR INVOICE, COMMERCIAL INVOICE, AND ONE BILL OF LADING MUST BE FORWARDED BY FIRST MAIL DIRECT TO

ATTACHING TO THE DRAFT A STATEMENT TO THAT EFFECT. ALL REMAINING DOCUMENTS MUST ACCOMPANY THE DRAFT.

THE AMOUNT OF ANY DRAFT DRAWN UNDER THIS CREDIT IS TO BE ENDORSED ON THE REVERSE SIDE HEREOF.

WE HEREBY AGREE WITH THE DRAWERS, ENDORSERS AND BONA FIDE HOLDERS OF DRAFTS DRAWN UNDER AND IN COMPLIANCE WITH THE TERMS OF THIS CREDIT THAT THE SAME SHALL BE DULY HONORED ON DUE PRESENTATION TO THE DRAWEE.

YOURS VERY TRULY,

ALL DRAFTS SO DRAWN MUST BE MARKED:

DRAWN AS PER ADVICE NO. B

THE NATIONAL CITY BANK OF NEW YORK

DUPLICATE FOR CLIENT'S FILES

THE NATIONAL CITY BANK OF NEW YORK
COMMERCIAL LETTER OF CREDIT AGREEMENT

THE NATIONAL CITY BANK OF NEW YORK,
55 WALL STREET, NEW YORK, N. Y.

Dear Sirs:

In consideration of your opening at the request of the undersigned or any of us, your Commercial Letter of Credit No. _____ (hereinafter called the "Credit"), the terms of which appear on the reverse side hereof, and are hereby approved by us, we hereby jointly and severally agree as follows:

1. As to drafts or acceptances under or purporting to be under the Credit, which are payable in United States Currency, we agree: (a) in the case of each sight draft, to reimburse you at your New York office, on demand, in United States Currency, the amount paid on such drafts, or, if so demanded by you, to pay to you at your office in advance in such coin the amount required to pay such draft; and (b) in the case of each acceptance to pay to you, at your New York office, in United States Currency, the amount thereof, on demand but in any event not later than one business day prior to maturity, or, in case the acceptance is not payable at your New York office, then on demand but in any event in time to reach the place of payment in the course of the mails not later than one business day prior to maturity.

2. As to drafts or acceptances under or purporting to be under the Credit, which are payable in currency other than United States Currency, we agree: (a) in the case of each sight draft, to reimburse you, at your New York office, on demand, the equivalent of the amount paid, in United States Currency at the rate of exchange then current in New York for cable transfers to the place of payment in the currency in which such draft is drawn; and (b) in the case of each acceptance, to furnish you, at your New York office, on demand, but in any event in time to reach the place of payment in the course of the mails not later than one business day prior to maturity with first class bankers' demand bills of exchange to be approved by you for the amount of acceptance, payable in the currency of the acceptance and bearing our endorsement, or, if you so request, to pay to you, at your New York office, on demand, the equivalent of the acceptance in United States Currency at the rate of exchange then current in New York for cable transfers to the place of payment in the currency in which the acceptance is payable.

3. We also agree to pay to you, on demand, a commission at such rate as you may fix, on such part of the Credit as may be used, and in any event a minimum commission of _____% of the amount of the Credit, and all charges and expenses paid or incurred by you in connection therewith, and interest where chargeable.

4. We hereby recognize and admit your ownership in and unqualified right to the possession and disposal of all property shipped under or pursuant to or in connection with the Credit or in any way relative thereto or to the drafts drawn thereunder, whether or not released to us on trust or bailee receipt, and also in and to all shipping documents, warehouse receipts, policies or certificates of insurance and other documents accompanying or relative to drafts drawn under the Credit, and in and to the proceeds of each and all of the foregoing, until such time as all the obligations and liabilities of us or any of us to you at any time existing under or with reference to the Credit or this agreement, or any other credit, or any other obligation or liability to you, have been fully paid and discharged, all as security for such obligations and liabilities; and that all or any of such property and documents, and the proceeds of any thereof, coming into the possession of you or any of your correspondents, may be held and disposed of by you as hereinafter provided; and the receipt by you, or any of your correspondents, at any time of other security, of whatsoever nature, including cash, shall not be deemed a waiver of any of your rights or powers herein recognized.

5. Except insofar as instructions have been heretofore given by us in writing expressly to the contrary, we agree that you and any of your correspondents may receive and accept as "Bills of Lading" under the Credit, any documents issued or purporting to be issued by or on behalf of any carrier which acknowledge receipt of property for transportation, whatever the specific provisions of such documents, and that the date of each such document shall be deemed the date of shipment of the property mentioned therein; that you and any of your correspondents may receive and accept as documents of insurance under the Credit either insurance policies or insurance certificates; and that you and any of your correspondents may receive, accept or pay as complying with the terms of the Credit, any drafts or other documents, otherwise in order, which may be signed by, or issued to, the administrator or executor of, or the trustee in bankruptcy or the receiver for any of the property of, the party in whose name it is provided in the Credit that any drafts or other documents should be drawn or issued.

6. Except insofar as instructions have been heretofore given by us in writing expressly to the contrary, we agree, that part shipments or shipments in excess of the quantity called for in the Credit may be made and you may honor the relative drafts, our liability to reimburse you for payments made or obligations incurred on such drafts being limited to the amount of the Credit, and that if the Credit specifies shipments in installments within stated periods, and the shipper fails to ship in any designated period, shipment of subsequent installments may nevertheless be made in their respective designated periods and you may honor the relative drafts.

7. We agree that in the event of any extension of the time of shipment or of the time for the drawing, negotiation, acceptance, presentation, or of the maturity of any drafts, acceptances, or other documents, or any other modification of the terms of the Credit, except an increase in the amount thereof at the request of any of us, with or without notification to the others; or in the event of any increase in the amount of the Credit at our request, this Agreement shall be binding upon us with regard to the Credit so increased, extended or otherwise modified, with regard to drafts, documents and property covered thereby, and with regard to any action taken by you or any of your correspondents in accordance with such extension, increase, or other modifications. We further authorize you to surrender, from time to time, to such parties as we or any of us may designate, or their nominees, the whole or any part of any merchandise shipped under the Credit, or the bills of lading or other documents representing the same, against payments satisfactory to you or under your usual form of trust or bailee receipt, signed by any of such designated parties.

8. The users of the Credit shall be deemed our agents and we assume all risks of their acts or omission. Neither you nor your correspondents shall be responsible for the existence, character, quality, quantity, condition, packing, value, or delivery of the property purporting to be represented by documents, for any difference in character, quality, quantity, condition, or value of the property from that expressed in documents, for the validity, sufficiency or genuineness of documents, even if such documents should in fact prove to be in any or all respects invalid, insufficient, fraudulent or forged; for the time, place, manner or order in which shipment is made; for partial or incomplete shipment, or failure or omission to ship any or all of the property referred to in the Credit; for the character, adequacy, validity, or genuineness of any insurance; for the solvency or responsibility of any insurer, or for any other risk connected with insurance; for any deviation from instructions, delay, default or fraud by the shipper or anyone else in connection with the property or the shipping thereof; for the solvency, responsibility or relationship to the property of any party issuing any documents in connection with the property; for delay in arrival or failure to arrive of either the property or any of the documents relating thereto; for delay in giving or failure to give notice of arrival or any other notice; for any breach of contract between the shippers or vendors and ourselves or any of us; for failure of any draft to bear any reference or adequate reference to the Credit, or failure of documents to accompany any draft at negotiation, or failure of any person to note the amount of any draft on the reverse of the Credit, or to surrender or take up the Credit or to send forward documents apart from drafts as required by the terms of the Credit, each of which provisions, if contained in the Credit itself, it is agreed may be waived by you; or for errors, omissions, interruptions or delays in transmission or delivery of any messages, by mail, cable, telegraph, wireless or otherwise, whether or not they be in cipher; nor shall you be responsible for any error, neglect, or default of any of your correspondents; and none of the above shall affect, impair, or prevent the vesting of any of your rights, or powers hereunder. In furtherance and extension and not in limitation of the specific provisions hereinbefore set forth, we agree that any action taken by you or by any correspondent of yours under or in connection with the Credit or the relative drafts, documents or property, if taken in good faith, shall be binding on us and shall not put you or your correspondent under any resulting liability to us; and we make like agreement as to any inaction or omission, unless in breach of good faith.

9. We agree to procure promptly any necessary import and export or other licenses for the import or export or shipping of the property and to comply with all foreign and domestic governmental regulations in regard to the shipment of the property or the financing thereof, and to furnish such certificates in that respect as you may at any time require, and to keep the property adequately covered by insurance satisfactory to you, in companies satisfactory to you, and to assign the policies or certificates of insurance to you, or to make the loss or adjustment, if any, payable to you, at your option, and to furnish you if demanded with evidence of acceptance by the insurers of such assignment.

10. Each of us agrees at any time and from time to time, on demand, to deliver, convey, transfer, or assign to you, as security for any and all of the obligations and liabilities of us and/or any of us hereunder, and also for any and all other obligations and liabilities, absolute or contingent, due or to become due, which are now, or may at any time hereafter, be owing by us and/or any of us to you, additional security of a value and character satisfactory to you, or to make such cash payment as you may require. Each of us agrees that all property belonging to us or any of us, or in which we or any of us may have an interest, of every name and nature whatsoever, now or at any time hereafter delivered, conveyed, transferred, assigned, or paid to you, or coming into your possession or into the possession of anyone for you in any manner whatsoever, whether expressly as security for any of the obligations or liabilities of us or any of us to you, or for safekeeping or otherwise, including any items received for collection or transmission and the proceeds thereof, whether or not such property is in whole or in part released to us or any of us on trust or bailee receipt is hereby made security for each and all such obligations and liabilities. Each of us agrees that upon our failure or the failure of any of us at all times to keep a margin of security with you satisfactory to you, or upon the making by us or any of us of any assignment for the benefit of creditors, or upon the filing of any voluntary or involuntary petition in bankruptcy by or against us or any of us, or upon any application for the appointment of a receiver of any of our property or of the property of any of us, or upon any act of bankruptcy or state of insolvency of us or any of us, all of such obligations and liabilities shall become and be immediately due and payable without demand or notice notwithstanding any credit or time allowed to us or any of us, or any instrument evidencing any such obligations or liabilities or otherwise; and each of us, as to property in which he may have any interest, and all of us, as to property in which we may have any interest, expressly authorize you in any such event, or upon our failure or the failure of any of us to pay any of such obligations or liabilities when they or any of them shall become or be made due, to sell immediately, without demand for payment, without advertisement and without notice to us, or any of us, all of which are hereby expressly waived, any and all such property, arrived or to arrive, at private sale or at public auction or at brokers' board or otherwise, at your option, in such parcel or parcels and at such time or times and at such place or places and for such price or prices and upon such terms and conditions as you may deem proper, and to apply the net proceeds of such sale or sales, and any balance of deposits and any sums credited by or due from you to us or any of us in general account or otherwise, to the payment of any and all of our obligations or liabilities and/or the obligations or liabilities of any of us to you however arising. If any such sale be at brokers' board or at public auction you may yourself be a purchaser at such sale, free from any right of redemption, which we and each of us hereby expressly waive and release.

11. You shall not be deemed to have waived any of your rights hereunder, unless you or your authorized agent shall have signed such waiver in writing. No such waiver, unless expressly so stated therein, shall be effective as to any transaction which occurs subsequent to the date of such waiver nor as to any continuance of a breach after such waiver.

12. The word "property," as used in this agreement includes goods, merchandise, securities, funds, choses in action, and any and all other forms of property, whether real, personal or mixed and any right or interest therein.

13. If this agreement is signed by one individual, the terms "we," "our," "us," shall be read throughout as "I," "my," "me," as the case may be. If this agreement is signed by two or more parties, it shall be the joint and several agreement of such parties.

Very truly yours,

THE NATIONAL CITY BANK OF NEW YORK

55 WALL STREET

CORRESPONDENT'S IRREVOCABLE STRAIGHT CREDIT

NEW YORK

ALL DRAFTS DRAWN MUST BE MARKED:
DRAWN AS PER ADVICE NO. C-A

DEAR SIRs:

WE ARE INSTRUCTED BY

TO ADVISE YOU THAT THEY HAVE OPENED THEIR IRREVOCABLE CREDIT IN YOUR FAVOR FOR ACCOUNT OF

UNDER THEIR CREDIT NUMBER FOR A SUM OR SUMS NOT EXCEEDING A TOTAL OF

AVAILABLE BY YOUR DRAFTS ON US AT

TO BE ACCOMPANIED BY

EVIDENCING SHIPMENT OF

INSURANCE TO BE EFFECTED BY

EACH OF THE PROVISIONS ON THE BACK HEREOF, EXCEPT SO FAR AS OTHERWISE EXPRESSLY STATED, IS INCORPORATED AS PART OF THIS ADVICE.

THE ABOVE MENTIONED CORRESPONDENT ENGAGES WITH YOU THAT ALL DRAFTS DRAWN UNDER AND IN COMPLIANCE WITH THE TERMS OF THIS ADVICE WILL BE DULY HONORED ON DELIVERY OF DOCUMENTS AS SPECIFIED IF PRESENTED AT THIS OFFICE ON OR BEFORE

THIS LETTER IS SOLELY AN ADVICE OF CREDIT OPENED BY THE ABOVE MENTIONED CORRESPONDENT AND CONVEYS NO ENGAGEMENT BY US.

YOURS VERY TRULY,

THE NATIONAL CITY BANK OF NEW YORK.

- THE NATIONAL CITY BANK OF NEW YORK
30 WALL STREET
NEW YORK
- CORRESPONDENCE TO NEW YORK
NEW YORK
- ALL CHECKS DRAWN MUST BE PAID IN
NEW YORK
- A. (1) Railroad export and forwarders' bills of lading will not be accepted.
(2) Ocean bills of lading permitting transshipment will be accepted.
 - B. (1) Bills of lading shall contain no words qualifying the acceptance of shipments in apparent good order and condition.
(2) "Received for shipment" or "alongside" bills of lading will be accepted and the date thereof taken to be the date of shipment, and in this case insurance shall cover the shipment from such date of shipment and on whatever vessels carried.
(3) When "on board" shipment is required and such shipment is represented by an "on board" bill of lading, the bill of lading date will be taken as the date when such shipment was effected; if evidenced by "on board" endorsement, the endorsement date will be so taken.
(4) Any extension of the date of shipment shall extend for an equal length of time the date for presentation or negotiation, and vice versa.
 - C. The term "insurance" shall be construed as including underwriters' certificate of insurance.
 - D. A shipment for any part of the specified property may be drawn against if the pro rata value can be verified.
 - E. If shipment in instalments within stated periods is specified, and there is a failure to ship in any designated period, shipments of subsequent instalments, made in their respective designated periods, may be drawn against.
 - F. When the indicated expiration date for presentation or negotiation falls upon a Sunday or legal holiday, the expiration is extended to the next succeeding business day.
 - G. Presentation must be made during the usual banking hours.
 - H. The terms "prompt shipment," "shipment as soon as possible," "immediate shipment" or words of similar import shall be interpreted as requiring shipment to be effected within thirty days; and if no date for presentation or negotiation is stated, such presentation or negotiation must be made within thirty days from the date of the Credit or advice.
 - I. Documents representing more than the specified quantity of property may be accepted in the discretion of the paying or negotiating bank without thereby binding the buyer to accept or pay for such excesses but payment shall be limited to the sum named in the credit or advice.
 - J. The terms "approximately," "about," or words of similar import, shall be construed to permit a variation of not exceeding ten per centum from the named sum or quantity.
 - K. Drafts drawn without recourse will not be honored.
 - L. Definitions of Export Quotations will be those adopted by the National Foreign Trade Council, Chamber of Commerce of the U. S. A., National Association of Manufacturers, American Manufacturers Export Association, Philadelphia Commercial Museum, American Exporters and Importers Association, Chamber of Commerce of the State of New York, New York Produce Exchange and the Merchants' Association of New York at a conference held in India House, New York, on December 16, 1919.
- THE NATIONAL CITY BANK OF NEW YORK

THE NATIONAL CITY BANK OF NEW YORK
55 WALL STREET

CONFIRMED IRREVOCABLE STRAIGHT CREDIT

NEW YORK

ALL DRAFTS DRAWN MUST BE MARKED:
DRAWN AS PER ADVICE NO. D-A

DEAR SIRs:

WE ARE INSTRUCTED BY

TO ADVISE YOU THAT THEY HAVE OPENED THEIR IRREVOCABLE CREDIT IN YOUR FAVOR FOR ACCOUNT OF

UNDER THEIR CREDIT NUMBER FOR A SUM OR SUMS NOT EXCEEDING A TOTAL OF

AVAILABLE BY YOUR DRAFTS ON US AT

TO BE ACCOMPANIED BY

INSURANCE

EVIDENCING SHIPMENT OF

EACH OF THE PROVISIONS ON THE BACK HEREOF, EXCEPT SO FAR AS OTHERWISE EXPRESSLY STATED, IS INCORPORATED AS A PART OF THIS CREDIT.

THE ABOVE MENTIONED CORRESPONDENT ENGAGES WITH YOU THAT ALL DRAFTS DRAWN UNDER AND IN COMPLIANCE WITH THE TERMS OF THIS CREDIT WILL BE DULY HONORED ON DELIVERY OF DOCUMENTS AS SPECIFIED, IF PRESENTED AT THIS OFFICE ON OR BEFORE ; WE CONFIRM THE CREDIT AND THEREBY UNDERTAKE THAT ALL DRAFTS DRAWN AND PRESENTED AS ABOVE SPECIFIED WILL BE DULY HONORED BY US.

YOURS VERY TRULY,

THE NATIONAL CITY BANK OF NEW YORK.

- THE NATIONAL CITY BANK OF NEW YORK
33 WALL STREET
NEW YORK
- CONFIRMED IRREVOCABLE - TRACHT CREDIT
- ALL ORDERS DRAWN MUST BE MARKED
DRAWN AS PER ADVICE NO. 124
- DEAR SIR:
- WE ARE INSTRUCTED BY
- TO ADVISE YOU THAT THEY HAVE OPENED A CREDIT IN YOUR ACCOUNT OF
- UNDER THEIR ORDERS
- AVAILABLE BY YOUR CREDIT ON US AT
- TO BE ACCOMPLISHED
- EVIDENCING SHIPMENT
- EACH OF THE PROVISIONS OF THIS CREDIT IS INCORPORATED AS A PART OF THE CREDIT
- THE ABOVE
- COMPLIANCE WITH
- IF PRESENTED AT ALL BANKS DRAWN AND
- INDICATE THAT ALL DRAWS DRAWN BY US
- YOUR VERY TRULY
- THE NATIONAL CITY BANK OF NEW YORK
- A. (1) Railroad export and forwarders' bills of lading will not be accepted.
 - (2) Ocean bills of lading permitting transshipment will be accepted.
 - B. (1) Bills of lading shall contain no words qualifying the acceptance of shipments in apparent good order and condition.
 - (2) "Received for shipment" or "alongside" bills of lading will be accepted and the date thereof taken to be the date of shipment, and in this case insurance shall cover the shipment from such date of shipment and on whatever vessels carried.
 - (3) When "on board" shipment is required and such shipment is represented by an "on board" bill of lading, the bill of lading date will be taken as the date when such shipment was effected; if evidenced by "on board" endorsement, the endorsement date will be so taken.
 - (4) Any extension of the date of shipment shall extend for an equal length of time the date for presentation or negotiation, and vice versa.
 - C. The term "insurance" shall be construed as including underwriters' certificate of insurance.
 - D. A shipment for any part of the specified property may be drawn against if the pro rata value can be verified.
 - E. If shipment in instalments within stated periods is specified, and there is a failure to ship in any designated period, shipments of subsequent instalments, made in their respective designated periods, may be drawn against.
 - F. When the indicated expiration date for presentation or negotiation falls upon a Sunday or legal holiday, the expiration is extended to the next succeeding business day.
 - G. Presentation must be made during the usual banking hours.
 - H. The terms "prompt shipment," "shipment as soon as possible," "immediate shipment" or words of similar import shall be interpreted as requiring shipment to be effected within thirty days; and if no date for presentation or negotiation is stated, such presentation or negotiation must be made within thirty days from the date of the Credit or advice.
 - I. Documents representing more than the specified quantity of property may be accepted in the discretion of the paying or negotiating bank without thereby binding the buyer to accept or pay for such excesses but payment shall be limited to the sum named in the credit or advice.
 - J. The terms "approximately," "about," or words of similar import, shall be construed to permit a variation of not exceeding ten per centum from the named sum or quantity.
 - K. Drafts drawn without recourse will not be honored.
 - L. Definitions of Export Quotations will be those adopted by the National Foreign Trade Council, Chamber of Commerce of the U. S. A., National Association of Manufacturers, American Manufacturers Export Association, Philadelphia Commercial Museum, American Exporters and Importers Association, Chamber of Commerce of the State of New York, New York Produce Exchange and the Merchants' Association of New York at a conference held in India House, New York, on December 16, 1919.

FEDERAL RESERVE BANK
OF BOSTON

332.3-6

February 27, 1925.

My dear Governor:

I have received your letter of the 26th inst. and am glad to have an opportunity of explaining ~~our transactions with the First National Corporation under the so-called repurchase agreements.~~

This matter was quite fully discussed at the meeting in Washington on Wednesday, but as I did not know in advance that it would come up for discussion, I had to rely as to certain details upon my memory.

I think it quite immaterial whether the ownership of the First National Corporation is vested in the stockholders of the First National Bank of Boston under the Chicago plan, or whether it is actually a direct ownership under the provisions of Section 25 of the Federal Reserve Act. As a matter of fact, I find that Mr. Herson is correct, that with the exception of directors qualifying shares, the stock is owned by the First National Bank of Boston. The essential point is that the First National Corporation is a distinct and separate legal entity.

Mr. Wing is out of the city but I understand from Vice President Dwinell that one of the other Vice Presidents of the First National Bank of Boston, Mr. Brennan, is to see you today and will explain fully the character of business transacted by the First National Corporation. I am enclosing a copy of a letter which I have received from Mr. Dwinell relating to his bank's stock ownership in the First National Corporation, and he has also sent me a copy of his letter to you under date of yesterday. In this letter he explains that of the total amount of acceptances made by the First National Bank of Boston, approximately one-third comes to the bank direct with the request that they be marketed for the benefit of the drawer of the bills; the other two-thirds come mostly from foreign countries to other domestic banks, who forward them to the First National Bank of Boston for acceptance and return to them. With the marketing of this two-thirds, of course, the First National Bank of Boston has nothing to do. As explained in Mr. Dwinell's letter, of the bills representing one-third of the total of acceptances which they are asked to market for the account of the drawer, the bank sells them to the First National Corporation at the current buying acceptance rate of the day with the understanding that the First National Corporation will retain not more than one-half of the amount of the acceptances so turned over to it, and that the other half will be turned over at the buying rate to other discount houses and bill dealers. It would appear therefore that only one-sixth in amount of the total acceptances made by the First National Bank of Boston are sold to and retained by the First National Corporation.

Governor Strong explained how necessary it is in the development of a bill market to protect dealers against fluctuations in call money rates, and he also explained that the responsibility of dealers is carefully checked, and that while theoretically anyone who desires to do so can become a dealer, a certain amount of responsibility represented by capital investment is necessary. He showed also, I think, very conclusively that bills seek the best market and if there is no market in Omaha or Des Moines they go to Chicago, and if there is a better demand for bills in the east, they go to New York or Boston. Should there be a better market abroad they would go to London as was the case in the old days before the Federal Reserve System was established.

Now as to the so-called repurchase agreements; as I stated the other day, Section 14 of the Federal Reserve Act authorizes Federal Reserve Banks to purchase and sell in the open market, at home or abroad, either from or to domestic or foreign banks, firms, corporations or individuals, bankers' acceptances and bills of exchange of the kinds and maturities made by the Act eligible for rediscount, with or without the endorsement of a member bank.

Section 4 of the Federal Reserve Act authorizes the Federal Reserve Banks to make contracts.

I was of the opinion that our repurchase agreement contained nothing which obligated the bank to sell back to dealers any bill which it had acquired under such agreement, but as I did not have a copy of our form with me, I did not care to make the statement without being positive. I find now that it has never been the practice of the Federal Reserve Bank of Boston to obligate itself to resell any bills so acquired. I am enclosing a photostatic copy of an actual agreement made by the First National Corporation back in 1923, which I think will relieve the Board of the impression that the First National Corporation confines its business solely to the purchase of bills from the First National Bank of Boston. I am also enclosing copy of our present form which has been in use since November 28, 1923. From this you will see that the dealer agrees to repurchase from us on or before () days from date of agreement, at the various rates specified, the bills which we take under the agreement, and that there is no obligation on the part of this bank to resell these bills to the dealer. It is therefore a repurchase agreement and not a repurchase and resale agreement. Our practice, of course, has been to sell these bills back to the dealers upon application but we are under no legal obligation to do so. The dealers understand this and I have had this confirmed at a conference with some of them this morning.

As you know, national and State banks which are accustomed to buy commercial paper from brokers, do so on an agreement from the broker that the purchasing bank may within ten days return any note which is not satisfactory. This repurchase agreement of ours in effect obligates the dealer to buy back from us, within

the time limit, never more than 15 days, any bill which we desire to resell.

While we are permitted under the law to buy unendorsed bills, we never do so, and the obligation of the dealer under repurchase agreement is equivalent to an endorsement. Should we fail to request the dealer to buy the bills back, we would in effect lose his endorsement at the end of fifteen days. Consequently we always require the dealer to repurchase the bills from us, and going a step further, as a matter of courtesy, we permit him to repurchase the bills before the time limit expires if he desires to do so.

Looking into the matter I find that it has long been the invariable practice of this bank to take bills from dealers under repurchase agreements, for the first fifteen days at a rate which is $1/8\%$ less than the rate at which the dealers had bought the bills. Should, however, any bill held by us under repurchase agreement remain unsold by the dealer at the end of the fifteen-day period, and is again acquired by us under a new seven-day repurchase agreement, it is then taken at the actual buying rate. In no case does this bank carry any bill for a dealer for a period longer than thirty days. Our buying rate today for prime endorsed bills maturing within 90 days is 3 per cent, and our rate for endorsed second grade bills is $3\ 1/8$ per cent. If the First National Corporation or any other dealer should ask us to take bills under a repurchase agreement, the rate might be 3 per cent, $3\ 1/8$ per cent or $3\ 1/4$ per cent, depending upon the rate at which the dealer acquired the bills. As an example I am enclosing photostatic copies of today's agreements with the First National Corporation, from which you will see that we have taken from that Corporation under repurchase agreement, some acceptances of the First National Bank of Boston at $3\ 1/8$ per cent, and some of the same bank at $3\ 1/4$ per cent, although our buying rate for these bills endorsed would be 3 per cent. The First National Corporation bought these bills at $3\ 1/4$ - $3\ 3/8$ per cent, and consequently under our arrangements they are paying us $3\ 1/8$ - $3\ 1/4$ per cent. The object of this bank in taking bills under repurchase agreement is, as was explained the other day, to aid the local bill market, and no member bank can obtain from this bank through an affiliated corporation a lower rate than that at which it could sell an endorsed bill to us.

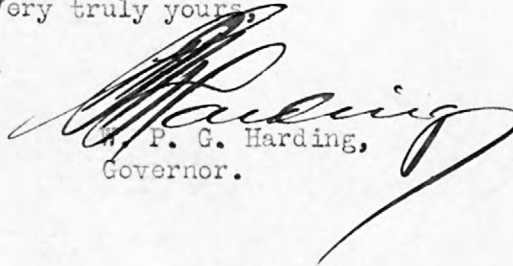
On occasions where a dealer has reported a buying rate very much out of line with current rates, we have declined to give him the one-eighth differential on his buying rate, and have taken the bill at the same differential below current buying rates.

Mr. Dwinnell in his letter has shown that the First National Bank of Boston does not acquire ownership of bills by accepting them. It may occasionally purchase its own acceptances, but it cannot obtain funds at less than the market rate by selling acceptances owned by it to the First National Corporation. We know what the dealers' buying rates are from day to day; they are usually $1/8\%$ above the quoted selling rates, and we never give the First National Corporation or any other dealer a differential greater than one-eighth off their own buying rates.

I am enclosing one of the daily circulars of the First National Corporation which we received this morning. This contains a list of unendorsed bankers' acceptances offered for sale; the rate as you will see is $3 \frac{1}{8}$ per cent in each case except one, a second grade bill, where the rate is $3 \frac{1}{4}$ per cent. We would not buy any of these bills without an endorsement; but with a satisfactory endorsement we might purchase any of them at 3 per cent; or would carry them under 15-day repurchase agreement for the First National Corporation or for any other responsible dealer at a rate one-eighth off the rate at which the dealer had bought them, regarding the agreement to repurchase as equivalent to endorsement.

The question may be raised, why do not the dealers endorse the bills instead of merely guaranteeing them for a short period by agreeing to repurchase? The answer is, the dealers are distributors; they sell what they buy without any additional security or endorsement, just as bond houses and note brokers do, and the small margin of profit in the business does not justify their incurring the very large contingent liability which their endorsement would involve. The effect upon the credit of the accepting bank should be considered also, for the appearance in the market of the bills of a large bank bearing the endorsement of a dealer would certainly create unfavorable impressions and comments.

Very truly yours,



P. G. Harding,
Governor.

Hon. D. R. Crissinger, Governor,
Federal Reserve Board,
Washington, D. C.

FEDERAL RESERVE BANK
OF BOSTON

February 27, 1925.

My dear Governor:

I have received your letter of the 26th inst. and am glad to have an opportunity of explaining our transactions with the First National Corporation under the so-called repurchase agreements.

This matter was quite fully discussed at the meeting in Washington on Wednesday, but as I did not know in advance that it would come up for discussion, I had to rely as to certain details upon my memory.

I think it quite immaterial whether the ownership of the First National Corporation is vested in the stockholders of the First National Bank of Boston under the Chicago plan, or whether it is actually a direct ownership under the provisions of Section 25 of the Federal Reserve Act. As a matter of fact, I find that Mr. Herson is correct, that with the exception of directors qualifying shares, the stock is owned by the First National Bank of Boston. The essential point is that the First National Corporation is a distinct and separate legal entity. Mr. Wing is out of the city but I understand from Vice President Dwinell that one of the other Vice Presidents of the First National Bank of Boston, Mr. Brennan, is to see you today and will explain fully the character of business transacted by the First National Corporation. I am enclosing a copy of a letter which I have received from Mr. Dwinell relating to his bank's stock ownership in the First National Corporation, and he has also sent me a copy of his letter to you under date of yesterday. In this letter he explains that the total amount of acceptances made by the First National Bank of Boston, approximately one-third comes to the bank direct with the request that they be marketed for the benefit of the drawer of the bills; the other two-thirds come mostly from foreign countries to other domestic banks, who forward them to the First National Bank of Boston for acceptance and return to them. With the marketing of this two-thirds, of course, the First National Bank of Boston has nothing to do. As explained in Mr. Dwinell's letter, of the bills representing one-third of the total of acceptances which they are asked to market for the account of the drawer, the bank sells them to the First National Corporation at the current buying acceptance rate of the day with the understanding that the First National Corporation will retain not more than one-half of the amount of the acceptances so turned over to it, and that the other half will be turned over at the buying rate to other discount houses and bill dealers. It would appear therefore that only one-sixth in amount of the total acceptances made by the First National Bank of Boston are sold to and retained by the First National Corporation.

..#2.

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As you know, national and State banks which are accustomed to buy commercial paper from brokers, do so on an agreement from the broker that the purchasing bank may within ten days return any note which is not satisfactory. This repurchase agreement of ours in effect obligates the dealer to buy back from us, within the time limit, never more than 15 days, any bill which we desire to resell.

While we are permitted under the law to buy unendorsed bills, we never

..#3.

do so, and the obligation of the dealer under repurchase agreement is equivalent to an endorsement. Should we fail to request the dealer to buy the bills back, we would in effect lose his endorsement at the end of fifteen days. Consequently we always require the dealer to repurchase the bills from us, and going a step further, as a matter of courtesy, we permit him to repurchase the bills before the time limit expires if he desires to do so.

Looking into the matter I find that it has long been the invariable practice of this bank to take bills from dealers under repurchase agreements, for the first fifteen days at a rate which is $1/8\%$ less than the rate at which the dealers had bought the bills. Should, however, any bill held by us under repurchase agreement remain unsold by the dealer at the end of the fifteen-day period, and is ~~is~~ acquired by us under a new seven-day repurchase agreement, it is then taken at the actual buying rate. In no case does this bank carry any bill for a dealer for a period longer than thirty days. Our buying rate today for prime endorsed bills maturing within 90 days is 3 per cent, and our rate for endorsed second grade bills is $3\ 1/8$ per cent. If the First National Corporation or any other dealer should ask us to take bills under a repurchase agreement, the rate might be 3 per cent, $3\ 1/8$ per cent or $3\ 1/4$ per cent, depending upon the rate at which the dealer acquired the bills. As an example I am enclosing photostatic copies of today's agreements with the First National Corporation, from which you will see that we have taken from that Corporation under repurchase agreement, some acceptances of the First National Bank of Boston at $3\ 1/8$ per cent, and some of the same bank at $3\ 1/4$ per cent, although our buying rate for these bills endorsed would be 3 per cent. The First National Corporation bought these bills at $3\ 1/4 - 3\ 3/8$ per cent, and consequently under our arrangements they are paying us $3\ 1/8 - 3\ 1/4$ per cent. The object of this bank in taking bills under repurchase agreement is, as was explained the other day, to aid the local bill market, and no member bank can obtain from this bank through an affiliated corporation a lower rate than that at which it could sell an endorsed bill to us.

On occasions where a dealer has reported a buying rate very much out of line with current rates, we have declined to give him the one-eighth differential on his buying rate, and have taken the bill at the same differential below current buying rates.

Mr. Dwinmell in his letter has shown that the First National Bank of Boston does not acquire ownership of bills by accepting them. It may occasionally purchase its own acceptances, but it cannot obtain funds at less than the market rate by selling acceptances owned by it to the First National Corporation. We know what the dealers' buying rates are from day to day; they are usually $1/8\%$ above the quoted selling rates, and we never give the First National Corporation or any other dealer a differential greater than one-eighth off their own buying rates.

..#4.

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The question may be raised, why do not the dealers endorse the bills instead of merely guaranteeing them for a short period by agreeing to repurchase? The answer is, the dealers are distributors; they sell what they buy without any additional security of endorsements, just as bond houses and note brokers do, and the small margin of profit in the business does not justify their incurring the very large contingent liability which their endorsements would involve. The effect upon the credit of the accepting bank should be considered also, for the appearance in the market of the bills of a large bank bearing the endorsements of a dealer would certainly create unfavorable impressions and comments.

Very truly yours,

W. P. J. HARDING,

Governor.

Hon. D. R. Crissinger, Governor,
Federal Reserve Board,
Washington, D. C.

REPURCHASE AGREEMENT
BANKERS' ACCEPTANCE
FEDERAL RESERVE BANK, BOSTON, MASS.

Date, Feb. 13, 1923;

We hereby agree to repurchase from the Federal Reserve Bank of Boston, on or before 15 days from date, the Bankers' Acceptances herein described, aggregating \$ 203,653.56 and at the various rates specified.

THE FIRST NATIONAL CORPORATION,

[Signature]
 Official Signature
 ASST. SECY. - ASST. TREAS.

Due 2/28

B. D. 1

Acceptor	Due	Days to Run		Rate	Principal	Discount	Net
		Bills	Agreement				
American Tr. Co.	4/27	73	15	4	16,000.00		
"	"	"	"	"	20,000.00		
"	4/23	69	"	"	4,389.88		
"	4/24	70	"	"	3,510.85		
"	4/30	76	"	"	5,257.10		
First Nat. Bk. Chicago Ind.	5/10	86	"	"	17,165.00		
First Nat. Bk. Boston							
First Nat. Bk. Boston	3/30	45	"	"	24,457.19		
"	4/11	57	"	"	10,000.00		
" 4@10	5/14	90	"	"	40,000.00		
Old Colony Trust Co.	4/10	56	"	"	20,000.00		
"	5/8	84	"	"	20,517.28		
International Tr. Co.	4/13	59	"	"	6,369.00		
Second Nat. Bk. #17	5/8	84	"	"	4,967.46	321.06	
Union Nat. Bk. Phila.	3/19	34	"	4 1/8	7,925.31		
"	3/20	35	"	"	3,094.49	18.94	
					203,653.56	340.00	203,313.56

BOUGHT BY	<i>[Signature]</i>
APPROVED BY	<i>[Signature]</i>
EXAMINED BY	<i>[Signature]</i>

#156

NO.

REPURCHASE AGREEMENT
BANKERS' ACCEPTANCES

To the Federal Reserve Bank,
Boston, Mass.

Date FEB 27, 1925

We hand you herewith the bankers' acceptances listed below, aggregating \$ 143,957.63, which we hereby agree to repurchase from you on or before 14 days from the date hereof at the various rates specified, delivery to be taken by us at the banking rooms of the Federal Reserve Bank of Boston unless otherwise requested in writing by us. It is understood and agreed that in the event of delivery being made elsewhere the acceptances will be transmitted by registered mail uninsured, unless we make written request to the contrary, and that all costs and any loss resulting from shipment of said acceptances are to be borne by us.

THE FEDERAL RESERVE BANK OF BOSTON
J. B. Farney
Official Signature

B. D. 1 DUE 3/13

Items	ACCEPTOR (List by Acceptors Separately)	DUE (Bills)	Days to Run		Rate	Principal	Discount	DATE REPURCHASED (Make No Entries)
			Bills	Agree				
1	FIRST NAT BANK, BOSTON	5/26	88	14	3 1/4	3,288.93		
2	"	"	"	"	"	5,000.		
3	"	5/28	90	"	"	25,000.		
4	"	5/20	82	"	"	22,072.01		
5	"	4/27	59	"	"	20,594.70		
6	"	"	"	"	"	47,750.		
7	"	3/27	28	"	"	1,657.93		
8	"	"	"	"	"	7,072.12		
9	"	3/26	27	"	"	8,565.88		
10	"	3/19	20	"	"	1,383.19		
11	SECOND NATIONAL BANK	4/21	53	"	"	1,572.87		
12								
13						143,957.63	181.95	
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35								
36								
37								143,775.68
38								NET (For Dealer)

NO. _____

**REPURCHASE AGREEMENT
BANKERS' ACCEPTANCES**

Date FEB 27, 1925

To the Federal Reserve Bank,
Boston, Mass.

We hand you herewith the bankers' acceptances listed below, aggregating \$ 250,000.00, which we hereby agree to repurchase from you on or before 14 days from the date hereof at the various rates specified, delivery to be taken by us at the banking rooms of the Federal Reserve Bank of Boston unless otherwise requested in writing by us. It is understood and agreed that in the event of delivery being made elsewhere the acceptances will be transmitted by registered mail uninsured, unless we make written request to the contrary, and that all costs and any loss resulting from shipment of said acceptances are to be borne by us.

THE FIRST NATIONAL CORPORATION

A. J. Hervey
Official Signature

B. D. 1 DUE 3/13

Items	ACCEPTOR (List by Acceptors Separately)	DUE (Bills)	Days to Run		Rate	Principal	Discount	DATE REPURCHASED (Make No Entries)
			Bills	Agree				
1	FIRST NAT BANK, BOSTON	5/27	89	34	3 1/8	10,000.		
2	"	"	"	"	"	10,000.		
3	"	"	"	"	"	10,000.		
4	"	"	"	"	"	10,000.		
5	"	"	"	"	"	10,000.		
6	"	"	"	"	"	15,000.		
7	"	"	"	"	"	15,000.		
8	"	"	"	"	"	15,000.		
9	"	"	"	"	"	15,000.		
10	"	"	"	"	"	15,000.		
11	"	"	"	"	"	25,000.		
12	"	"	"	"	"	25,000.		
13	"	"	"	"	"	25,000.		
14	"	"	"	"	"	25,000.		
15	"	"	"	"	"	25,000.		
16						<u>250,000.00</u>	303.82	
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36								
37								249,696.18
38								NET (For Dealer)

COPY

THE FIRST NATIONAL BANK OF BOSTON

Boston, Massachusetts.

February 26, 1925.

W. P. G. Harding, Governor,
Federal Reserve Bank,
Boston, Massachusetts.

My dear Governor Harding:

The questions in the letter of Governor Crissinger to yourself are perhaps best covered by sending you a copy of a letter which we are sending today to Governor Crissinger by Mr. Brennan, who is going to be in Washington tomorrow and from which letter we think probably you can word your reply.

Answering your further inquiry to me, we made application to the Federal Reserve Board under Section 25, of the Federal Reserve Act, for permission to invest part of the Bank's funds in the stock of the First National Corporation, in accordance with the terms of the second clause of said Act. That permission was granted by the Board on the fifteenth day of April 1918, and under that authorization, the bank invested \$2,250,000 in the stock of the First National Corporation.

On the twenty-eighth day of April 1919, the capital of the First National Corporation was reduced to \$1,500,000, and further reduced on March 18, 1921, to \$1,000,000.

Very truly yours,

(Signed) Clifton H. Dwinell,

Vice President

Nov 28, 1923

REPURCHASE AGREEMENT

BANKERS' ACCEPTANCES

NO. _____

Date _____

To the Federal Reserve Bank,
Boston, Mass.

We hand you herewith the bankers' acceptances listed below, aggregating \$ _____, which we hereby agree to repurchase from you on or before _____ days from the date hereof at the various rates specified, delivery to be taken by us at the banking rooms of the Federal Reserve Bank of Boston unless otherwise requested in writing by us. It is understood and agreed that in the event of delivery being made elsewhere the acceptances will be transmitted by registered mail uninsured, unless we make written request to the contrary, and that all costs and any loss resulting from shipment of said acceptances are to be borne by us.

B. D. 1

Official Signature _____

Items	ACCEPTOR (List by Acceptors Separately)	DUE (Bills)	Days to Run		Rate	Principal	Discount	DATE REPURCHASED (Make No Entries)
			Bills	Agree				
1								
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38								NET (For Dealer)

THE FIRST NATIONAL BANK OF BOSTON
BOSTON, MASSACHUSETTS

332.3-6

CLIFTON H. DWINNELL
VICE-PRESIDENT

February 26, 1925.

D. R. Crissinger, Governor,
Federal Reserve Board,
Washington, D. C.

Dear Mr. Crissinger:

Mr. Wing is in Chicago for a few days but as my associate Vice President, Mr. J. D. Brennan, is to be in Washington tomorrow, I am asking him to hand you this letter, which is in reply to your letter of February 20, 1925.

First of all, I think the following description will convince you that the handling of acceptances by the First National Corporation and by this Bank is entirely in accord with the spirit and letter of the Federal Reserve Act. We are distinctly at fault in one particular, namely, the reporting by the First National Corporation in their year-end statement to the Federal Reserve Board of the item "Repurchase Agreements" under the caption "Loans Payable". This clerical error was made in the December 1924 report, although, on the ledgers of the Corporation, repurchase agreements were correctly posted. Such repurchase agreements are made on the proper forms furnished by the Federal Reserve Banks. This clerical error in reporting we find was due to the fact that the detail forms furnished by the Federal Reserve Board provide no specific place for reporting repurchase agreements and the latter were therefore classified under the caption most nearly fitting the case, namely, "Loans Payable". This error will, of course, be corrected.

In order to give you a clear picture of the First National Corporation acting as a dealer in acceptances and the methods by which the acceptances made by the First National Bank of Boston are marketed, we will

D. R. Crissinger, Governor,
Federal Reserve Board,
Washington, D. C.

-2-

2/26/25

trace through the typical transaction.

In the first place, of the total amount of acceptances made by this bank, approximately one-third come to us directly with a request that they be marketed for the benefit of the drawer of the bills. The other two-thirds come mostly from foreign countries to other domestic banks, who forward them to us for acceptance and return to them. With the marketing of this latter two-thirds, we, of course, have nothing to do.

In the case of acceptances coming directly to the bank, the typical process by which the bill eventually is sold to the ultimate buyer of the bill is as follows:

It should be borne in mind that such bills are not the property of the bank, but are delivered to us for our acceptance, with instructions to dispose of the bill at the best market price. This we do through the Corporation acting for our clients, and credit our clients' account with the net proceeds. The Corporation sells them in the open market or in the event of slow market conditions, they carry them in their own portfolio. It is at this point that the repurchase agreement comes in. The Corporation has always endeavored, so far as possible, to finance its portfolio of bills outside of the Reserve Banks.

It will very likely interest you to learn how the distribution by the Corporation of First National Bank bills is accomplished. Previously, all the dealers in bills called the First National Bank of Boston each day, knowing that they had from time to time bills to dispose of as instructed by their clients. This took considerable time and we decided that all of the bills that the First National Bank had to dispose of for account of its clients would be turned over to the Corporation at the current buying acceptance rate of the day,

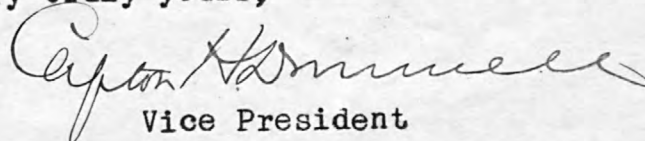
D. R. Crissinger, Governor,
Federal Reserve Board,
Washington, D. C.

-3-

2/26/25

with the understanding that not more than 50% of the acceptances so turned over would be marketed by them and the remaining 50% would be turned over at the buying rate to the other discount houses and bill dealers. The reason for this is obvious. In the normal upbuilding of the bill market in this country, it is to the advantage of all accepting banks to have as wide a distribution as possible and it is to the advantage of each accepting bank to have as many buyers of bills throughout the country as possible. Each bank naturally aims to have its bills classified as time goes on as the fastest moving prime bill, which means, of course, that its bills should be known and purchased by a large number of banks and institutions. The First National Bank's interest, therefore, lies in the direction of having the First National Corporation market only such proportion of its bills as the distributing capacity of the First National Corporation bears to the total distributing capacity of all dealers. As a matter of practice, however, the First National Corporation actually markets just about one-half of the acceptances that the Bank turns over to them for distribution on behalf of its clients. The First National Corporation, upon receipt of these acceptances from the First National Bank, sells without profit at the current acceptance rate approximately one half of such acceptances to the leading acceptance dealers, retaining only for themselves the balance for distribution to its own customers. It must be clear to anyone who cares to look at the facts that there is not the slightest foundation for the intimation that this Bank, either directly, or through the First National Corporation, is abusing any of the machinery provided by the Federal Reserve Banks.

Very truly yours,


Vice President

THE FIRST NATIONAL BANK OF BOSTON
BOSTON, MASSACHUSETTS

CLIFTON H. DWINNELL
VICE-PRESIDENT

RECEIVED
FEB 26 1925
OFFICE OF
THE GOVERNOR

332.3 - 6

February 24, 1925.

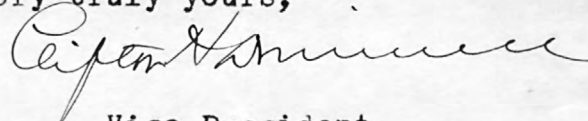
D. R. Crissinger, Governor,
Federal Reserve Board,
Washington, D. C.

Dear Mr. Crissinger:

We have your favor of February 20th addressed to Mr. Wing, regarding repurchase agreements of the First National Corporation, which letter we are taking the liberty of holding for answer awaiting Mr. Wing's return, which will probably be Thursday or Friday of this week.

Trusting the delay will not inconvenience your office,

Very truly yours,



Vice President

D S

332,3-6

February 20, 1925.

My dear Mr. Wing:

I am writing this letter for your confidential information concerning your bank and the First National Corporation, which is owned in some manner by your stockholders. However, before going further I want to advise you that your bank and the First National Corporation have been under quite a little criticism here growing out of the repurchase agreements, which it is alleged that your bank and the corporation are handling. Of course, you are under no obligations to answer my questions, only I think it fair to you that you should understand the criticism and if you think advisable, then to give me such information as may relieve the situation.

Confidentially, we have quite a division in the Board on the question of repurchase contracts used in the open market. The contention, as I view it, grows out of a misunderstanding of what is actually done by your bank and by your corporation in making these repurchase contracts.

It is contended that the First National Bank makes acceptances running into many millions of dollars and then sells them to your corporation, thereby, by a short-cut of this kind, making available to the national bank funds at the open market rate, which has been lower than the rediscount rate. It is contended that your corporation then sells these securities under the repurchase agreements to the Federal Reserve Bank. The record here is not very clear as to what method is pursued by the national bank and your corporation. Some members of the Board have dug up the fact that your corporation carries these repurchase agreements as loans in their account instead of repurchase agreements and that thereby if they are loans and considered loans by your bank or by your corporation, or both, that then in that event the transaction is wholly illegal and without the pale of the Federal Reserve Act.

The legality of the repurchase agreements is being attacked in the Board; in fact our solicitor holds that the repurchase agreements are illegal, and by so holding has unsettled two- perhaps three- members of the Board on the question as to the advisability of continuing the repurchase agreements.

..#2.

In this contention of the illegality of the transaction I do not concur. I am quite convinced if the repurchase agreements or resale contracts- whatever you want to call them- are properly made, that they come squarely and fairly within the provisions of Section 14 of the Federal Reserve Act which authorizes the sale and purchase of bills, and Section 4 of the Act which authorizes contracts.

It may be true that your corporation is carrying them improperly in their statement as loans. If they are so carried, it should not be done, as I view the law. I am quite sure that the whole matter of the repurchase agreements needs to be considered in a way that we may have a uniform manner of setting them up in the accounts and a uniform manner of handling them and then we will have no trouble.

As above stated, I am not in accord with the theory that your national bank is taking a short-cut in some way to get funds as is alleged by those raising the point. I am rather of the opinion that your national bank and your corporation are carrying on these transactions within the spirit of the Federal Reserve Act, and I am also convinced and feel sure that you would want to cooperate in every way with the Federal Reserve Board and the Federal Reserve banks in bringing about a uniform way of handling these repurchase agreements so that they would come not only within the spirit but within the legal scope of the Federal Reserve Act.

If after reading this you feel that it is proper, I wish you would give me a letter expressly stating the exact manner in which you handle these bankers acceptances from the time you make the acceptance- giving an illustration of a concrete case- what, if anything, the national bank does with the acceptance or what is done with the acceptance before it reaches your corporation, and how finally it is distributed by your corporation to buyers of such bills.

I want to assure you that it is my purpose to establish in the minds of some of the Board who doubt the legality of these transactions that they are legal and can be properly handled. If, however, we find that there are any wrong methods applied in the handling or in the book-keeping or in the statements then I aim to have those discrepancies removed so that we will have a uniform operation.

Assuring you of my very great esteem and hoping that I have not imposed upon you in writing you this letter, I am,

Sincerely yours,

Mr. Daniel Wing, President,
First National Bank,
Boston, Mass.

D. R. Crissinger,
Governor.



333.3-6

THE FIRST NATIONAL CORPORATION

1 FEDERAL STREET

BOSTON

TELEPHONE, CONGRESS 7200

February 27, 1925

We offer, subject to sale or change in rate, the following

BANKERS' ACCEPTANCES

No.	Amount	Pieces	Acceptor	Due	Days	Discount Rate
1	40,000	D	The First National Bank of Boston	Apr. 13	45	3 1/8
2	90,000		Dominion Bank of Canada New York	Mar. 27	28	3 1/8
3	100,000	E	International Accept. Bk. Inc. " "	Apr. 7	39	3 1/8
4	25,000		Citizens National Bank Norfolk	Mar. 16	17	3 1/8
5	50,000		Baltimore Trust Co., Baltimore	" 13	14	3 1/8
6	100,000		National Shawmut Bank of Boston	May 18	80	3 1/8
7	100,000		Lee Higginson & Co. "	" 19	81	3 1/8
8	100,000		Kidder Peabody Accept. Corp. "	" 25	87	3 1/8
9	50,000		The First National Bank of "	" 25	87	3 1/8
10	50,000		State Street Trust Co. "	" 25	87	3 1/8
11	100,000		International Accept. Bk. Inc. New York	" 12	74	3 1/8
12	75,000		Kidder Peabody Accept. Corp. " "	" 12	74	3 1/8
13	75,000		Huth & Company " "	" 18	80	3 1/8
14	100,000	E	Goldman Sachs & Co. " "	" 18	80	3 1/8
15	100,000	E	Seaboard National Bank " "	" 19	81	3 1/8
16	100,000		J. Henry Schroder Bkg. Corp. " "	" 20	82	3 1/8
17	100,000		Brown Bros. & Co. " "	" 22	84	3 1/8
18	100,000	E	National Bank of Commerce " "	" 25	87	3 1/8
19	100,000	E	Central Union Trust Co. " "	" 25	87	3 1/8
20	100,000	E	Guaranty Trust Company " "	" 25	87	3 1/8
21	50,000		J. P. Morgan Co. " "	" 25	87	3 1/8
22	45,000		Bank of the Manhattan Co. " "	" 26	88	3 1/8
23	100,000		Chase National Bank " "	" 26	88	3 1/8
24	45,000		Equitable Trust Co. " "	" 26	88	3 1/8
25	25,000		French American Bkg. Corp. " "	" 26	88	3 1/8
26	50,000		First National Bank Chicago	" 20	82	3 1/8
27	30,000		Federal Nat'l Bank Boston *	" 14	76	3 1/4

DD356 8-23 75M

DENOMINATIONS

A \$5,000

B \$10,000

C \$15,000

D \$20,000

E \$25,000

F \$50,000

* rated as 2nd grade

DEC 5 1939
33203-6

THE FIRST NATIONAL BANK OF BOSTON

BOSTON, MASSACHUSETTS

February 26, 1925.

D. R. Crissinger, Governor,
Federal Reserve Board,
Washington, D. C.

Dear Mr. Crissinger:

Mr. Wing is in Chicago for a few days but as my associate Vice President, Mr. J. D. Breman, is to be in Washington tomorrow, I am asking him to hand you this letter, which is in reply to your letter of February 20, 1925.

First of all, I think the following description will convince you that the handling of acceptances by the First National Corporation and by this Bank is entirely in accord with the spirit and letter of the Federal Reserve Act. We are distinctly at fault in one particular, namely, the reporting by the First National Corporation in their year-end statement to the Federal Reserve Board of the item "Repurchase Agreements" under the caption "Loans Payable". This clerical error was made in the December 1924 report, although, on the ledgers of the Corporation, repurchase agreements were correctly posted. Such repurchase agreements are made on the proper forms furnished by the Federal Reserve Banks. This clerical error in reporting we find was due to the fact that the detail forms furnished by the Federal Reserve Board provide no specific place for reporting repurchase agreements and the latter were therefore classified under the caption most nearly fitting the case, namely, "Loans Payable". This error will, of course, be corrected.

In order to give you a clear picture of the First National Corporation acting as a dealer in acceptances and the methods by which the acceptances made by the First National Bank of Boston are marketed, we will trace through the typical transaction.

In the first place, of the total amount of acceptances made by this bank, approximately one-third come to us directly with a request that they be marketed for the benefit of the drawer of the bills. The other two-thirds come mostly from foreign countries to other domestic banks, who forward them to us for acceptance and return to them. With the marketing of this latter two-thirds, we, of course, have nothing to do.

In the case of acceptances coming directly to the bank, the typical process by which the bill eventually is sold to the ultimate buyer of the bill as follows:

2-27-25

..#2.

It should be borne in mind that such bills are not the property of the bank, but are delivered to us for our acceptance, with instructions to dispose of the bill at the best market price. This we do through the Corporation acting for our clients, and credit our clients' account with the net proceeds. The Corporation sells them in the open market or in the event of a slow market conditions, they carry them in their own portfolio. It is at this point that the repurchase agreement comes in. The Corporation has always endeavored, so far as possible, to finance its portfolio of bills outside of the Reserve Banks.

It will very likely interest you to learn how the distribution by the Corporation of First National Bank bills is accomplished. Previously, all the dealers in bills called the First National Bank of Boston each day, knowing that they had from time to time bills to dispose of as instructed by their clients. This took considerable time and we decided that all of the bills that the First National Bank had to dispose of for account of its clients would be turned over to the Corporation at the current buying acceptance rate of the day, with the understanding that not more than 50% of the acceptances so turned over would be marketed by them and the remaining 50% would be turned over at the buying rate to the other discount houses and bill dealers. The reason for this is obvious. In the normal upbuilding of the bill market in this country, it is to the advantage of all accepting banks to have as wide a distribution as possible and it is to the advantage of each accepting bank to have as many buyers of bills throughout the country as possible. Each bank naturally aims to have its bills classified as time goes on as the fastest moving prime bill, which means, of course, that its bills should be known and purchased by a large number of banks and institutions. The First National Bank's interest, therefore, lies in the direction of having the First National Corporation market only such proportion of its bills as the distributing capacity of the First National Corporation bears to the total distributing capacity of all dealers. As a matter of practice, however, the First National Corporation actually markets just about one-half of the acceptances that the Bank turns over to them for distribution on behalf of its clients. The First National Corporation, upon receipt of these acceptances from the First National Bank, sells without profit at the current acceptance rate approximately one-half of such acceptances to the leading acceptance dealers, retaining only for themselves the balance for distribution to its own customers. It must be clear to anyone who cares to look at the facts that there is not the slightest foundation for the intimation that this Bank, either directly, or through the First National Corporation, is abusing any of the machinery provided by the Federal Reserve Banks.

Very truly yours,

CLIFTON H. DWINELL

Vice President.

*File
open market
Repurchase*

COPIED IN FILES 3
DEC 5 1939
332-3-6

February 20, 1925.

My dear Mr. Wing:

I am writing this letter for your confidential information concerning your bank and the First National Corporation, which is owned in some manner by your stockholders. However, before going further I want to advise you that your bank and the First National Corporation have been under quite a little criticism here growing out of the repurchase agreements, which it is alleged that your bank and the corporation are handling. Of course, you are under no obligations to answer my questions, only I think it fair to you that you should understand the criticism and if you think advisable, then to give me such information as may relieve the situation.

Confidentially, we have quite a division in the Board on the question of repurchase contracts used in the open market. The contention, as I view it, grows out of a misunderstanding of what is actually done by your bank and by your corporation in making these repurchase contracts.

It is contended that the First National Bank makes acceptances running into many millions of dollars and then sells them to your corporation, thereby, by a short-cut of this kind, making available to the national bank funds at the open market rate, which has been lower than the rediscount rate. It is contended that your corporation then sells these securities under the repurchase agreements to the Federal Reserve Bank. The record here is not very clear as to what method is pursued by the national bank and your corporation. Some members of the Board have dug up the fact that your corporation carries these repurchase agreements as loans in their account instead of repurchase agreements and that thereby if they are loans and considered loans by your bank or by your corporation, or both, that then in that event the transaction is wholly illegal and without the pale of the Federal Reserve Act.

The legality of the repurchase agreements is being attacked in the Board; in fact our solicitor holds that the repurchase agreements are illegal, and by so holding has unsettled two- perhaps three- members of the Board on the question as to the advisability of continuing the repurchase agreements.

Ans 2-26-25

..#2.

In this contention of the illegality of the transaction I do not concur. I am quite convinced if the repurchase agreements or resale contracts- whatever you want to call them- are properly made, that they come squarely and fairly within the provisions of Section 14 of the Federal Reserve Act which authorizes the sale and purchase of bills, and Section 4 of the Act which authorizes contracts.

It may be true that your corporation is carrying them improperly in their statement as loans. If they are so carried, it should not be done, as I view the law. I am quite sure that the whole matter of the repurchase agreements needs to be considered in a way that we may have a uniform manner of setting them up in the accounts and a uniform manner of handling them and then we will have no trouble.

As above stated, I am not in accord with the theory that your national bank is taking a short-cut in some way to get funds as is alleged by those raising the point. I am rather of the opinion that your national bank and your corporation are carrying on these transactions within the spirit of the Federal Reserve Act, and I am also convinced and feel sure that you would want to cooperate in every way with the Federal Reserve Board and the Federal Reserve banks in bringing about a uniform way of handling these repurchase agreements so that they would come not only within the spirit but within the legal scope of the Federal Reserve Act.

If after reading this you feel that it is proper, I wish you would give me a letter expressly stating the exact manner in which you handle these bankers acceptances from the time you make the acceptance- giving an illustration of a concrete case- what, if anything, the national bank does with the acceptance or what is done with the acceptance before it reaches your corporation, and how finally it is distributed by your corporation to buyers of such bills.

I want to assure you that it is my purpose to establish in the minds of some of the Board who doubt the legality of these transactions that they are legal and can be properly handled. If, however, we find that there are any wrong methods applied in the handling or in the book-keeping or in the statements then I aim to have these discrepancies removed so that we will have a uniform operation.

Assuring you of my very great esteem and hoping that I have not imposed upon you in writing you this letter, I am,

Sincerely yours,

Mr. Daniel Wing, President,
First National Bank,
Boston, Mass.

D. R. Crissinger,
Governor.

332.3-6

FEDERAL RESERVE BANK
OF NEW YORK

February 19, 1925.

✓
ref 12/21/21

Dear Mr. Hamlin:

In my letter of February 11, 1925, relative to the so-called repurchase agreements with dealers in Government securities and bankers acceptances, I forwarded you a copy of Governor Harding's letter dated December 2, 1921, stating that in the opinion of the Board our present practice in this matter is legal. I failed, however, to send you two other subsequent letters dealing with incidental points which were raised in the letter of December 2. In order that there may be no omission in your record in this regard, I am enclosing herewith a copy of a letter from Mr. Kenzel to Governor Harding dated December 20, 1921, as well as a copy of Governor Harding's reply dated December 21, 1921.

You may remember that Governor Harding in his letter of December 2 made a supplementary suggestion that the reserve bank consider purchasing bills up to the estimated average maturity of all bills presented at one time rather than for a specific period of say 15 days. Mr. Kenzel in his letter of December 20 points out certain objections to this proposal and Governor Harding in his letter of December 21 states that the Board considers Mr. Kenzel's letter and "offers no objection to your plan of taking appropriate collateral to secure the dealer's contract to purchase."

Governor Crissinger is in the bank today and at his request I am giving him also copies of this entire correspondence. I am taking the liberty of giving him also a copy of my letter of February 11 addressed to you.

Very truly yours,

George L. Harrison
GEORGE L. HARRISON,
Deputy Governor.

Honorable C. S. Hamlin,
Federal Reserve Board,
Washington, D. C.

Office Correspondence

FEDERAL RESERVE
BOARD

Date Feb. 18, 1925.

To _____

Subject: _____

From Mr. Eddy

2-8495

For your information there is attached hereto the memorandum presented by Mr. James at the meeting yesterday listing questions with reference to the practice of certain Federal Reserve banks in buying and selling government securities and acceptances under repurchase or resale agreements.

- Mr. Platt *J.P.*
- Mr. Hamlin *J.P.*
- Mr. Miller *J.P.*
- Mr. Cunningham *J.P.*
- Mr. McIntosh *J.P.*

5-2-20-11!

Office Correspondence

FEDERAL RESERVE BOARD

Date February 11, 1925.

To Federal Reserve Board

Subject: _____

From Mr. James _____

2-8405

For the purpose of getting information upon which to base my judgment on matters relating to "Sales or Repurchase Agreements made by Federal Reserve Banks", I respectfully submit the following questions:

- (1) What is the legal status of the so-called sales or repurchase agreements through which acceptances are bought and sold by Federal reserve banks?
- (2) Has not the Comptroller of the Currency ruled that in the case of national banks making such sales under repurchase agreement the transactions should be considered and treated as loans?
- (3) Why should some "Recognized Dealers" in making report of condition to the Federal Reserve Board show "acceptances pledged as security for Loans due Federal Reserve Bank" if these transactions are legally sales? (For instance, see "Report of Condition of the First National Corporation as of December 31, 1924").
- (4) Does not the buying and selling of acceptances under repurchase agreement with corporations affiliated with member banks enable these member banks to provide funds from the Federal Reserve Banks for the use and benefit of their customers without showing direct liability, other than possibly the liability as acceptor?
- (5) Are not the rates, as a rule, more favorable under this method of borrowing than by straight rediscount?
- (6) Just what is meant by "Recognized Dealers"?
- (7) What are the qualifications requisite to obtain this designation or distinction?
- (8) By whom and by what authority is the designation made?
- (9) Is there any list of "Recognized Dealers" that is available for public inspection or information?
- (10) Can producers of staple commodities sell direct to Federal Reserve Banks (either on straight sale or under repurchase agreements) bankers' acceptances based upon such commodities either individually or collectively through cooperative marketing associations?
- (11) Cannot the preferential rates that are applied on bankers' acceptances be made available to producers in some way?

To hold special meeting on future date

AT BOARD MEETING

FEB 17 1925

ms

Geo. P. James

COPY
FEDERAL RESERVE
BOARD

February 11, 1925.

TO FEDERAL RESERVE BOARD
FROM Mr. James.

For the purpose of getting information upon which to base my judgment on matters relating to "Sales or Repurchase Agreements made by Federal Reserve Banks", I respectfully submit the following questions:

- (1) What is the legal status of the so-called sales or repurchase agreements through which acceptances are bought and sold by Federal Reserve Banks?
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- (11) Cannot the preferential rates that are applied on bankers' acceptances be made available to producers in some way?

(Signed) Geo. R. James

FEDERAL RESERVE BANK
OF NEW YORK

February 13, 1925

Dear Mr. Hamlin:

I want to thank you for your letter of February 12, in reply to mine of the 11th, concerning repurchase agreements.

I was very much interested in your comments about the several other occasions when the Federal Reserve Board has authorized Reserve banks to enter into repurchase agreements relative both to bankers' acceptances and Government securities.

As I think I wrote to you in my other letter, there does not seem to me to be any question of our legal right to enter into these agreements in one form or another. While I personally see no very substantial objection to the present practice, even in taking collateral to protect us in the obligation of the dealer to repurchase at the end of a given time, nevertheless that practice, if necessary, could be amended if it should be decided to be illegal.

In view, however, of the previous ruling of the Board and the Board's counsel to the effect that the practice is legal, I hope there will be no occasion to make any substantial change in our present procedure.

Very truly yours,

George L. Harrison
GEORGE L. HARRISON,
Deputy Governor.

Honorable C. S. Hamlin,
Federal Reserve Board,
Washington, D. C.

GLH:MM

February 12, 1925.

Personal.

Dear Mr. Harrison:

Many thanks for your note of February 11, which gives me much valuable information. I find also that on February 1, 1922, the Board rules that Federal Reserve Banks under their open market powers may purchase victory notes as well as Treasury notes and certificates from dealers and carry them for them under repurchase agreements.

I find also that on October 4, 1922, the Board telegraphed Governor McKinney that bankers acceptances may be taken under repurchase agreements from co-operative marketing associations. The Board also ruled on December 5, 1922, that Federal Reserve banks may take Liberty Bonds under repurchase agreements from Federal Land banks.

In May, 1923, the Board published a statement showing bankers acceptances taken under repurchase agreements from dealers. In May, 1923, the Board also published a statement showing Treasury notes, Victory notes, Treasury certificates purchased under repurchase agreements from banks and dealers.

Very sincerely yours,

George L. Harrison, Esq.,
Federal Reserve Bank,
New York, N. Y.

COPY

FEDERAL RESERVE
BOARD

RECEIVED
FEB 19 1925

February 11, 1925.

TO FEDERAL RESERVE BOARD

FROM Mr. James.

For the purpose of getting information upon which to base my judgment on matters relating to "Sales or Repurchase Agreements made by Federal Reserve Banks", I respectfully submit the following questions:

- (1) What is the legal status of the so-called sales or repurchase agreements through which acceptances are bought and sold by Federal Reserve Banks?
- (2) Has not the Comptroller of the Currency ruled that in the case of National banks making such sales under repurchase agreement the transactions should be considered and treated as loans?
- (3) Why should some "Recognized Dealers" in making report of condition to the Federal Reserve Board show "acceptances pledged as security for Loans due Federal Reserve Bank" if these transactions are legally sales? (For instance, see "Report of Condition of the First National Corporation as of December 31, 1924").
- (4) Does not the buying and selling of acceptances under repurchase agreement with corporations affiliated with member banks enable these member banks to provide funds from the Federal Reserve Banks for the use and benefit of their customers without showing direct liability, other than possibly the liability as acceptor?
- (5) Are not the rates, as a rule, more favorable under this method of borrowing than by straight rediscount?
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- (9) Is there any list of "Recognized Dealers" that is available for public inspection or information?
- (10) Can producers of staple commodities sell direct to Federal Reserve Banks (either on straight sale or under repurchase agreements) bankers' acceptances based upon such commodities either individually or collectively through cooperative marketing associations?
- (11) Cannot the preferential rates that are applied on bankers' acceptances be made available to producers in some way?

(Signed) Geo. R. James

Office Correspondence

332.3-6
Date February 11, 1925

To Mr. Hamlin.

Subject: Repurchase Agreements.

From Mr. Wyatt- General Counsel.

2-8496
Ref 2/7/25

As requested by you, I have carefully checked against the Board's files on this subject the statements contained in your memorandum of February 7th with reference to repurchase agreements, and I respectfully submit the following comments:

(I have numbered the paragraphs of your memorandum consecutively and shall refer to them by such numbers.)

1. The telegram which originally suggested that Federal reserve banks might rediscount eligible paper and later resell it and rebate the unearned discount was dated November 28, 1917, instead of November 30, 1917. It was also expressly limited to transactions with member banks.

3. The wire limiting the period to fifteen days is dated January 26, 1918, instead of January 20.

5. You say the tax on promissory notes was abolished on April 6, 1918. The act referred to abolished the tax only as to notes secured by Liberty Bonds or United States Certificates of Indebtedness. The stamp tax on other notes was repealed by the Act of June 2, 1924, effective July 3, 1924.

8. Since this referred to the ruling of November 28, 1917, it obviously referred only to dealings with member banks.

9. As I understand the letter of July 22, 1918, it does not expressly authorize repurchase agreements covering paper with maturities in excess of fifteen days; but, by fixing a higher rate for repurchase agreements covering such paper, it impliedly recognizes that such paper may be rediscounted under agreements to repurchase it within fifteen days.

11. This is merely a memorandum by Mr. Smead quoting certain recommendations of the Governors' Conference and he does not say that this practice is well known to the Federal Reserve Board, but that he assumed that the Board was thoroughly familiar with the policy of the Federal reserve banks with reference to purchase of certificates of indebtedness under repurchase agreements."

12. The first sentence of this paragraph is substantially correct. In the second sentence, however, you quote Mr. Logan as saying that the Board has approved forms of repurchase agreements which obligated Federal reserve banks to resell, and what he said is this. "In this connection I should say, however, that the Board has approved forms of repurchase agreements covering rediscounts

2-

which obligated the Federal reserve banks to re-sell." In view of the words "covering rediscounts" and in view of the other language of his opinion, it is clear that he had reference to repurchase agreements covering dealings with member banks, when he made that particular statement. *which mentions dealers.*

12. I find that this circular letter was approved by the Board on February 1, 1922.

14. I find that the Board approved the telegram of October 4 to Governor McKinney. As I understand the facts, however, that telegram did not have reference to acceptances acquired from dealers under repurchase agreements but referred to acceptances acquired from a cooperative marketing association under a repurchase agreement.

15. The substance of this telegram is that the Board would interpose no objection to a Federal reserve bank taking Liberty Bonds (not Federal Land Bank bonds) direct from a Federal Land Bank under a repurchase agreement and carrying such bonds on its records and reports as bonds owned.

17. This statement does not include bankers' acceptances acquired from banks. Those listed were all acquired from dealers or from corporations like the National City Company which are affiliated with member banks.

18. These tables show the amounts held under repurchase agreements during the month of May, 1923. Your date, July 11, 1923, therefore, may be misunderstood.

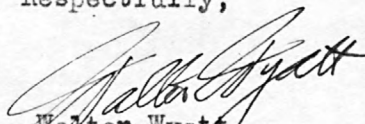
19. In my memorandum of August 18, 1923, I reached the following conclusion with reference to the optional forms of repurchase agreements:

"Most if not all sale agreements made by Federal reserve banks reserving to the seller the privilege of repurchasing are, properly construed, loans and not sales."

At the end of your memorandum, after discussing my memorandum on this subject, you state that the question of the validity and propriety of making advances to dealers on repurchase agreements has been raised but not yet determined. I submitted an opinion on this question to Governor Crissinger under date of August 18, 1923, in which I reached definite conclusions both as to the legality and propriety of such agreements; but I understand that that opinion has never been formally adopted by the Board. Subsequently, the Board requested me to reconsider the question and, under date of November 3, 1923, I submitted to the Governor a preliminary report of a conference on this subject which I had with officers of the Federal Reserve Bank of New York. I have never rendered a final report embodying the results of my reconsideration; because I

had received the impression that the Board was somewhat embarrassed by the question and possibly did not desire a final report. I am ready, however, to submit a final report on the question at any time the Board desires it.

Respectfully,



Walter Wyatt
General Counsel.

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332.3-6

FEDERAL RESERVE BANK
OF NEW YORK

February 11, 1925.

Dear Mr. Hamlin:

You asked me over the telephone on Saturday to send to you a copy of the letter of the Federal Reserve Board which authorized Federal reserve banks to enter into the so-called repurchase agreements with dealers in Government securities and bankers' acceptances.

I am glad to forward to you now a copy of Governor Harding's letter dated December 2, 1921, which states that our present practice in this matter is legal.

While you may be familiar with the various stages of the so-called repurchase agreements, it may be convenient briefly to review what has transpired since the fall of 1921, when this question was considered at the Governors Conference.

At the Conference held in October of that year, there was a long discussion by all the Governors with reference to the practice of the Federal Reserve Banks of New York, San Francisco and Boston, in buying bills from brokers under resale agreements, which contemplated the discounting of the bills for the term of the agreement rather than for the maturity of the bills. Governor Strong pointed out that that arrangement, while believed to be necessary in order effectively to develop the bill market in the financial centers, resulted in a purchase by the Federal reserve bank of bills at prices in excess of their value at the time of their purchase, since - as already explained - discount was deducted only for the term of the resale agreement rather than for the whole maturity of the bill.

Without any formal action by that Conference, it was understood that

Governor Strong should take the matter up with the officers of the Federal Reserve Bank of New York, and that he would report back to the Federal Reserve Banks of St. Louis, Boston, San Francisco, Chicago and Cleveland.

After the Federal Reserve Board reviewed the Secretary's Minutes of the October, 1921 Conference, reporting this discussion of the Governors, Governor Harding wrote to me under date of November 10, 1921, stating that the Federal Reserve Board had some doubts as to the propriety of a continuance of the then practice and wished to consider the matter from a legal standpoint as well as one of policy. The Board, therefore, asked to have copies of Governor Strong's correspondence with the Federal Reserve Banks of St. Louis, Boston, San Francisco, Chicago and Cleveland, which were contemplated by the action taken by the Conference.

Accordingly, on November 22, 1921, Governor Strong wrote to Governor Harding, enclosing a copy of a letter which he forwarded on the same date to each of the Federal reserve banks then in the habit of making 15 day purchases of bills under contract to resell to the dealer from whom they were purchased.

For your information and convenience in reference, I am enclosing a copy of the letters in question.

It will be seen from this correspondence that the practice now in vogue, whereby bills are discounted for the period of the repurchase agreement rather than for the maturity of the bill, was prompted originally and continued later primarily as a matter of convenience and economy to the Federal reserve banks, for - as pointed out in Governor Strong's letter of November 22, 1921 to the several Federal reserve banks - it would have greatly increased the clerical work of the bank and the expense of conducting the business, and would also have caused considerable delay in concluding transactions, if each individual bill had to be discounted to maturity. The practice of taking collateral was suggested solely to give the Federal reserve banks a margin to cover the slight excess in price paid by the Federal reserve banks over the worth of the bills at the time of purchase.

February 11, 1925

On December 2, 1921, Governor Harding in behalf of the Federal Reserve Board acknowledged receipt of Governor Strong's letter of November 22, 1921, outlining the proposed practice for handling bills which is now in vogue, and stated in part that "after consideration of the matter by the Board and its Counsel, the Board is of the opinion that the practice in question is legal."

Since that date, the Federal reserve banks have handled this business - so necessary to the protection of the bill market, and the market in Government securities as well, under authority of that letter. There has never been any official action by the Board since that time denying our right to continue these so-called repurchase agreements. Mr. Wyatt's opinion of August 18, 1923, so far as we are aware, was never approved by the Federal Reserve Board. In fact, that opinion was never officially forwarded to this bank, although it is understood that it was sent to several of the Federal reserve banks. The only copy that we obtained was through another Federal reserve bank.

But in November, 1923, the opinion was considered by the Conference of Governors, upon request of the Federal Reserve Bank of San Francisco, and the following resolution was passed:

"That it is highly desirable and important in the development of the market for bankers' acceptances and in the protection of the market for Government securities that the present business of the Federal reserve banks in buying acceptances and Government securities under repurchase agreements be continued on substantially the same basis as at present, but in such form as may be decided proper under advice of counsel."

So far as I am aware, the Federal Reserve Board has never taken any official action since that time, so that it may be assumed that Governor Harding's letter of December 2, 1921 still defines the authority given by the Federal Reserve Board to conduct these repurchase agreements in the very manner in which they are now being conducted by several of the Federal reserve banks.

If these transactions with dealers in Government securities and bankers' acceptances are desirable as a matter of policy in order to support both the

Government security market and the bill market, and in the past it has been generally agreed that they are desirable, then the only question is whether the transactions are conducted strictly according to law.

As you know, section 14 specifically authorizes Federal reserve banks "to purchase and sell bankers' acceptances and bonds and notes of the United States." Section 4 of the Act also authorizes Federal reserve banks "to make contracts." Clearly, the right to make contracts can only mean a contract to exercise in the future some power that the law confers upon the bank. Our repurchase agreements, therefore, involve (1) a purchase of Government securities or bankers' acceptances (as authorized by section 14), and (2) a contract (as authorized by section 4) to sell (as authorized by section 14) securities and bankers' acceptances previously bought. If certain incidents to the transaction, such as requiring collateral, as outlined in Governor Strong's letter of November 22, 1921, tend to make the transaction look like a loan - as argued by Mr. Wyatt - rather than a purchase and sale, the form of the transaction can, without much difficulty, be amended so as to obviate this particular objection - if it really is an objection. The important fact is that these incidental questions of form should not - as Mr. Wyatt implies - be controlling evidence of our intention to do a thing in an illegal way, when the real purpose and intent is to conduct with the greatest economy in handling and expense an operation clearly authorized by the law and expressly approved by the Federal Reserve Board in its letter dated December 2, 1921.

Mr. Wyatt argues that the form of the transaction including the requirement of collateral is evidence of our intention to make a loan; but it seems more reasonable to presume that our "intent" was to complete the transaction in a legal way, that is, through a purchase and resale and not to do so in an illegal way, that is, through a loan secured by collateral. If, therefore, as Mr. Wyatt and all the Court decisions to which he refers state, the question of actual intention must control, then it seems quite apparent that the transaction in

February 11, 1925

question must be held to be proper both within the spirit and the letter of the law.

The Supreme Court of the United States, in the case of *Hobbs v. McLean*, 117 U.S. 575, seems fairly to support this construction in the now well established principle that where a transaction is open to two constructions, it may be presumed that the one which is legal is intended and not the one which is illegal. That opinion in part reads as follows:

"*** But if the articles of partnership were fairly open to two constructions, the presumption is that they were made in subordination to and not in violation of Section 3737; and if they can be construed consistently with the prohibitions of the section they should be so construed. For it is a rule of interpretation that, where a contract is fairly open to two constructions, by one of which it would be lawful and the other unlawful, the former must be adopted. "

I have written you at some length only because of the fact that you expressed your great interest in the whole question and asked me to forward to you any data that I had with regard to it. If there is anything further that you may care to have me do, I hope that you will not fail to call upon me.

Very truly yours,

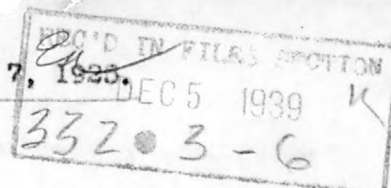


GEORGE L. HARRISON,
Deputy Governor.

Honorable C. S. Hamlin,
Federal Reserve Board,
Washington, D. C.

GLH.MM
enc.

February 7, 1933.



REPURCHASE AGREEMENTS.

2/7/25

Memorandum, C.S.H.:

Originally authorized to avoid the necessity of paying the stamp tax on promissory notes. November 30, 1917.

Cannot be used as collateral for Federal Reserve notes. December 18, 1917.

Limited to period of 15 days. January 20, 1918.

Treasury certificates may be taken on 15-day repurchase agreements. February 28, 1918.

Tax on promissory notes abolished. April 6, 1918.

Boston held 37 millions of United States certificates of indebtedness acquired under repurchase agreements. January 8, 1918.

Banks ordered not to classify such repurchase agreements as "advances" but as repurchase agreements. March 12, 1918.

Federal Reserve Board rules that although repurchase agreements were originally authorized to facilitate transactions in Government bonds and Treasury certificates, and although the stamp tax has been repealed, there is no objection to repurchase agreements as to commercial paper. July 22, 1918.

Repurchase agreements authorized for paper running longer than 15 days, but Board rules that the rate should be $\frac{1}{8}\%$ higher than that at which collateral notes subject to stamp tax would be taken. July 22, 1918.

see memo 2/11/25

Tables showing amount of Treasury certificates taken under repurchase agreements during the first four months of 1919. May 26, 1919.

The Governors' Conference recommends that dealers be encouraged by having free access to Federal Reserve banks to sell bills and to carry them under 15-day repurchase agreements. Mr. Smead states that this practice is well known to the Federal Reserve Board. May 26, 1919.

Counsel rules that the practice of deducting discount only for the 15-day period in the case of purchase of eligible bills from dealers is legal, as the Board has made the same ruling as to rediscounts, and the same principle applies. Opinion states that the Board has approved forms of repurchase agreements which obligated Federal Reserve banks to resell.
November 28, 1921.

The Board rules that Federal Reserve banks, under their open market powers, may purchase Victory notes as well as Treasury notes and certificates from dealers, and carry them for them under repurchase agreements.
February 2, 1922.

The Board rules that bankers' acceptances may be handled for dealers under repurchase agreements. October 4, 1922.

The Board rules that Federal Reserve banks may handle Federal Land Bank bonds under repurchase agreements, at the request of Federal Land Banks.
December 5, 1922.

The Board advised the Federal Reserve Bank of Boston that the rates charged under repurchase agreements should not be less than the discount rate on eligible paper. December 26, 1922.

Tables showing bankers acceptances purchased under repurchase agreements from banks, and also dealers, by all Federal Reserve banks, total 98 millions. May, 1923.

Similar table showing Treasury notes, Victory notes, and Treasury certificates purchased under repurchase agreements by Federal Reserve banks from banks and dealers total 89 millions. July 11, 1923.

Opinion Mr. Wyatt. The Comptroller holds paper bought under repurchase agreements must be carried as borrowed money, while Federal Reserve Board has held that it should be carried as security sold under repurchase agreements. The question is whether such transactions are purchases on open market, or merely loans secured by deposit of securities or acceptances as collateral. The opinion expressed that if the dealer is obligated to repurchase, it is a loan and not a sale, and is ultra vires. If, however, it is optional as to the dealer, opinion expressed that no universal rule can be laid down, but that the courts would very likely construe such a transaction as a loan and as ultra vires. August 18, 1923.

Federal Reserve Board calls upon Federal Reserve banks to send in the forms used by them in these repurchase agreements. October 11, 1923.

Wyatt. Preliminary report of Conference held with Federal Reserve Bank of New York.

The Federal Reserve Bank of New York today obligates the dealer to repurchase, and this, in my mind, is a loan and not a sale, and is ultra vires.

States that he discussed optional agreements with Mr. Kenzel.

States that there is a conflict of authority in the case of optional agreements, but that if the optional form was divested of the earmarks of a loan, it might be considered by the courts as a sale.

Suggested to Mr. Kenzel that the dealer give a guarantee of payment of all acceptances sold by him to the Federal Reserve bank.

Mr. Kenzel thinks this would not be as good protection for the Federal Reserve bank, but would probably be sufficient protection.

Opinion expressed that even in such a case, in spirit it would amount to a loan.

Discusses argument advanced by Mr. Harrison:-

1. Section 14 was passed to enable Federal Reserve banks to stabilize the market.
2. Repurchase agreements enable the Federal Reserve banks to stabilize the markets with less danger of loss than as if they purchased the acceptances outright.
3. Federal Reserve banks are not expressly prohibited by the Federal Reserve Act from making direct loans to dealers, - they are simply not specifically authorized to make such loans.
4. This practice of repurchase agreements has grown up with the consent of the Federal Reserve Board.

Counsel advanced additional objection to optional agreements, namely, that under them dealers could speculate by repurchase if the price goes up, and by failure to repurchase if the price goes down, but states that Mr. Warburg told him that dealers would not dare to play fast and loose in this manner with the Federal Reserve banks.

Counsel states that this is not a final opinion as to the validity of repurchase agreements, but is merely a preliminary report of his conversation

with Federal Reserve bank officials.

The undersigned, from an examination of the records of the Federal Reserve Board, feels that it is clearly established that the Board has authorized the use of repurchase agreements, not only with banks, but also with dealers; that the question of validity and propriety of such action has been raised, but has not yet been determined.

*Repurchase
agreements*

FEDERAL RESERVE BOARD FILE

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February 2, 1924.

My dear Sir:

Answering your letter of January 28, you are advised that the Federal reserve banks have not changed the method of handling repurchase agreements and that there has been no order made up to this time.

Very truly yours,

(Signed) D. R. Crissinger.

D. R. Crissinger,
Governor.

Mr. R. W. Valentine,
906 West Oregon St.,
Urbana, Illinois.

Mr. Cummings

906 West Oregon St.
Urbana, Illinois.
January 28, 1924.

332,3-6

Mr. Walter L. Eddy, Secretary,
Federal Reserve Board,
Washington, D.C.

Dear Sir:

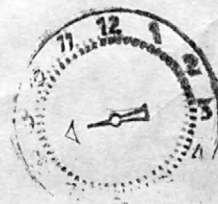
I understand that recently the question was raised as to whether the Federal Reserve Banks, in entering into repurchase agreements with dealers handling bankers' acceptances, were going beyond the powers granted them under the law. As I understand it, the question arose at the time of the examination of one of the banks and they were instructed to discontinue the practice. An appeal was made, I believe, to the Federal Reserve Board by the dealers and an agreement in the matter was effected.

Would you kindly furnish me with the facts in the case and the final ruling or decision rendered in the matter, if one has been made?

Yours very truly,

R. W. Valentine

Federal Reserve Board



11 20 1924

Office Correspondence

FEDERAL RESERVE BOARD

FEDERAL RESERVE BOARD FILE

33213-6

Date January 16, 1934

33213

To Federal Reserve Board.

From Committee on Discounts and Open Market Policies.

Subject: Repurchase agreements - Application to transactions involving debentures of Intermediate Credit Banks.

The committee concurs in the view expressed by the Governors that the Federal Intermediate Credit Banks should float their debentures through the investment market, leaving the Federal Reserve Banks nevertheless free to consider each case on its merits and to afford all possible help whenever temporary needs seem to require it.

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FEDERAL RESERVE BOARD
WASHINGTON

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January 21, 1924.

SUBJECT: Debentures of Federal Intermediate Credit Banks.

Dear Sir:

It appears to have been the sense of the recent Governors' Conference that Federal Intermediate Credit Banks should, if possible, float their debentures through the investment market, rather than by direct sale to Federal Reserve Banks under re-purchase agreements. It seems to have been agreed by the Conference, however, that in view of the important purpose for which the Federal Intermediate Credit Banks were created, that the Federal Reserve Banks should consider each case on its merits and afford all possible help whenever the temporary need of a Federal Intermediate Credit Bank would require it.

The purpose of this letter is to advise you that the Federal Reserve Board concurs in the views of the Conference.

By direction of the Federal Reserve Board.

Yours very truly,

Walter L. Eddy
Secretary.

TO CHAIRMEN OF ALL F. R. BANKS
(COPY TO GOVERNOR OF EACH F. R. BANK)

Office Correspondence

FEDERAL RESERVE BOARD

Date: January 16, 1924.

To Federal Reserve Board.

Subject: Repurchase Agreements.

From Committee on Discount and Open Market Policies.

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The conference voted that it is highly desirable and important in the development of the market for bankers acceptances and in the protection of the market for Government securities that the present business of the Federal Reserve banks in buying acceptances and Government securities under repurchase agreements be continued on substantially the same basis as at present, but in such form as may be decided proper under advice of counsel.

The committee concurs in this recommendation.

Would not care to approve of present practice. Think board could refrain from definite commitment until Counsel opinion is rendered as to legality and soundness of present policy
EHC

*A C Miller
Edmund Platt*

