

332.3-7 - Purchase of Government Bonds by
FRBank, Atlanta under repurchase
agreement (1922 - date) 1932
Fourth First Nat Bank Nashville Tenn

TRANSFER

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Office Correspondence

FEDERAL RESERVE
BOARD

Date Dec. 6, 1932.

To Mr. McClelland

Subject:

From W. L. Hooff

See 9/5/23

I have gone through the entire "General File" on the subject of the petition of the Fourth & First Nat Bk of Nashville, Tenn., - page by page - and find no reference to a Mr. Early. It appears that the petition by this bank was mailed to the Board by the FR Bk of Atlanta and there is no reference in the files to anyone appearing before the Board or before any officers of the Board in connection with the petition. The petition is signed by Mr. James E. Caldwell and Mr. P. D. Maddin, Counsel, and Mr. Wyatt says he recalls Mr. Maddin being up here and also Mr. Early as a sort of lobbyist.

I have also gone through our file on this subject and it contains no reference to Mr. Early.

W. L. H.

FRANCIS E. WARREN, WYO., CHAIRMAN	LEE S. OVERMAN, N. C.
SMOOT, UTAH	WILLIAM J. HARRIS, GA.
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HENRY W. KEYES, N. H.	

KENNEDY F. REA, CLERK

United States Senate

COMMITTEE ON APPROPRIATIONS

RECEIVED
 JUL 6 1926
 OFFICE OF
 THE GOVERNOR

332-3-7

July 3, 1926

Hon. D. R. Crissinger,
 Governor, Federal Reserve Board,
 Washington, D. C.

My dear Mr. Crissinger:

Many thanks for your favor of the 2nd
 about the Fourth and First National Bank matter. I regret
 that on account of the illness of my sister I must go home
 tonight, so I can not come by personally, but I hope some
 equitable adjustment of the matter may be agreed upon.

Very sincerely yours,

Kenneth C. Hill

✓

*Long Business
Hickel
See Mr. Tolbert
Byrnes*

FEDERAL RESERVE BOARD FILE

~~332-3~~

332.3-7

July 2, 1926.

My dear Congressman:

I acknowledge receipt of and have brought to the attention of the Board at a regular meeting, your letter of June 26th, in which you suggest that the controversy between the Fourth and First National Bank of Nashville, Tennessee, and the Federal Reserve Bank of Atlanta, be submitted to arbitration.

This matter between the two banks has been the subject of frequent discussion on the part of the Board. We have a rather voluminous record of the case and will be very glad to have you call and inspect the same at your convenience and to go over the matter with the members of the Board personally if you desire to do so.

Very truly yours,

D. R. Crissinger,
Governor.

Hon. Jos. W. Byrnes,
House of Representatives,
Washington, D. C.

Byrnes

July 2, 1926.

3323-7

My dear Senator:

I acknowledge receipt of and have brought to the attention of the Board at a regular meeting, your letter of June 26th, concurring in the suggestion contained in Congressman Byrns' letter to the Board of the same date, that the controversy between the Fourth and First National Bank of Nashville, Tennessee, and the Federal Reserve Bank of Atlanta, be submitted to arbitration.

This matter between the two banks has been the subject of frequent discussion on the part of the Board. We have a rather voluminous record of the case and will be very glad to have you call and inspect the same at your convenience and to go over the matter with the members of the Board personally, if you desire to do so.

Very truly yours,

D. R. Crissinger,
Governor.

Hon. L. D. Tyson,
United States Senate,
Washington, D. C.

Prepared
7/10

July 2, 1926.

332.3-7

My dear Congressman:


I acknowledge receipt of and have brought to the attention of the Board at a regular meeting, your letter of June 26th, concurring in the suggestion contained in Congressman Byrns' letter to the Board of the same date, that the controversy between the Fourth and First National Bank of Nashville, Tennessee, and the Federal Reserve Bank of Atlanta, be submitted to arbitration.

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Very truly yours,

D. R. Crissinger,
Governor.

Hon. Cordell Hull,
House of Representatives,
Washington, D. C.

Prepared by


332.3-7

July 2, 1926.

My dear Senator:

I acknowledge receipt of and have brought to the attention of the Board at a regular meeting, your letter of June 25th, concurring in the suggestion contained in Congressman Byrns' letter to the Board of the same date, that the controversy between the Fourth and First National Bank of Nashville, Tennessee, and the Federal Reserve Bank of Atlanta, be submitted to arbitration.

This matter between the two banks has been the subject of frequent discussion on the part of the Board. We have a rather voluminous record of the case and will be very glad to have you call and inspect the same at your convenience and to go over the matter with the members of the Board personally, if you desire to do so.

Very truly yours,

D. R. Crissinger,
Governor.

Hon. Kenneth McKellar,
United States Senate,
Washington, D. C.

Prepared by


Office Correspondence

FEDERAL RESERVE
BOARD322.3-7
Date June 30, 1926.To Federal Reserve Board.
From Mr. James.

Subject: Letters from Congressmen Byrnes and Hull, and Senators Tyson and McKellar regarding the controversy between the Fourth & First National Bank of Nashville and the Federal Reserve Bank of Atlanta.

This matter has been before the Federal Reserve Board many times during the past three years and the Board has held repeatedly that this was a matter strictly between the Fourth & First National Bank of Nashville and the Federal Reserve Bank of Atlanta.

The question involves the payment of money by the Federal Reserve Bank of Atlanta out of its surplus which, as I see it, is practically the same as being paid out of the Treasury of the United States.

If the claim is a proper one, certainly there is recourse through a court of law. If the claim is merely a "moral" obligation, then I submit that the payment of the money so claimed can be made properly only on or through authorization by Congress.

I, therefore, ~~move that the action of the Board taken at its meeting on June 29, 1926, be reconsidered and in the event of this motion prevailing, I would move then~~ that the letters above referred to be answered in accordance with the above statement.

G. P. James

Presented
AT BOARD MEETING
JUN 30 1926

See Minutes
AT BOARD MEETING
JUL 2 - 1926

(Signature)

(Signature)

Jordan

332-3-7

June 28, 1926.

My dear Mr. Congressman:

Your letter under date of June 26th concerning the controversy between the Fourth and First National Bank of Nashville, Tennessee, and the Federal Reserve Bank of Atlanta, with enclosures from Congressman Cordell Hull, Senator Kenneth McKellar and Senator L. D. Tyson has been received, and, I am pleased to advise, will be brought to the attention of the Federal Reserve Board.

Very truly yours,

D. R. Crissinger,
Governor.

Hon. Joseph W. Byrns,
House of Representatives,
Washington, D. C.

To Gov. Harding

AT BOARD MEETING

JUN 29 1926

(16)

Order reconsidered at
Bo. Meeting June 30, 1926

Eller

MAJORITY MEMBERS

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 GEORGE HOLDEN TINKHAM, MASS.
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 MILTON W. SHREVE, PA.
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 FRANK MURPHY, OHIO
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 THOMAS W. HARRISON, VA.
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 WILLIAM A. AYRES, KANS.

MARCELLUS C. SHEILD,
 CLERK

*Board
 Minutes*

JOSEPH W. BYRNS
 6TH DIST. TENNESSEE

MRS. MARGARET M. PERRY
 SECRETARY

House of Representatives
 Committee on Appropriations

Sixty-Ninth Congress

Washington, D. C.

June 26, 1926

332.3-7

To the Governor and Members of the Federal Reserve Board
 Washington, D. C.

Gentlemen:

The Fourth and First National Bank of Nashville, Tennessee, and the Federal Reserve Bank of Atlanta, have for many months standing a very serious disagreement which has reached such a point that the Nashville Bank has, as far as it is possible for any National Bank to do, severed all business relations with the Atlanta Bank.

The Fourth and First National Bank and its allied interests constitute one of the largest business enterprises in the South. Their business is in such sound condition that they are thoroughly able to get along without using the resources of the Atlanta Bank for rediscounting. But the situation is a deplorable one. When a great bank which for sixty-three years has been engaged in building up national banking sentiment and clientele in Tennessee, Southern Kentucky and Northern Alabama, through a large number of corresponding banks, declines to have any other than the most formal dealings with the Atlanta Reserve Bank, it is obvious that a condition has arisen which is inimical to the best commercial interests of a large section and must, in turn, be harmful to the steady and satisfactory growth of the Federal Reserve System.

The record of the Fourth and First National Bank during the trying period of war financing was unexcelled by that of any other bank in the United States. Its record of support for and cooperation with the Federal Reserve Bank of Atlanta was so complete that it is obvious the Nashville Bank would not have gone to the extraordinary length of virtually severing relations with the Atlanta institution unless it felt that it had been severely and inequitably dealt with.

Is it not possible for the old harmony in relations to be restored? I believe both institutions should agree to an arbitration in a common effort to heal old wounds and promote the commerce of Tennessee and adjacent territory. I am not authorized to speak for the Fourth and First National Bank, nor for the Federal Reserve Bank of Atlanta, but I am sure that the Fourth and First would agree to an arbitration. I am speaking as a friend of both banks, along with other representatives of Tennessee,

JOSEPH W. BYRNS
6TH DIST. TENNESSEE

MAJORITY MEMBERS
 MARTIN B. MADDEN, ILL.,
 CHAIRMAN
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 ROBERT G. SIMMONS

House of Representatives
 Committee on Appropriations
 Sixty-Ninth Congress
 Washington, D. C.

MRS. MARGARET M. PERRY
SECRETARY

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 CHARLES D. CARTER, OKLA.
 EDWARD T. TAYLOR, COLO.
 WILLIAM B. OLIVER, ALA.
 ANTHONY J. GRIFFIN, N. Y.
 THOMAS W. HARRISON, VA.
 JOHN N. SANDLIN, LA.
 WILLIAM A. AYRES, KANS.

MARCELLUS C. SHEILD,
CLERK

when I urge that a serious effort be made along these lines to effect a settlement.

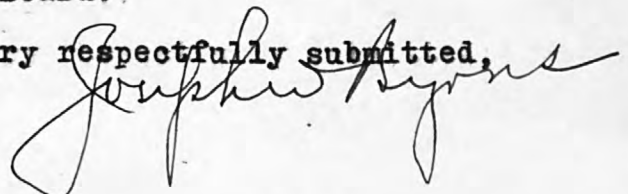
I believe that both banks would agree to an arbitration through some such agency as the Governor of the Federal Reserve Board, Comptroller of the Currency, one of our Federal Judges, or the Chief Justice of the Supreme Court of Tennessee. I think I know the officers of the Fourth and First well enough to say that they would be willing to submit the matter to any fair arbitration, and I assume that the Federal Reserve Bank of Atlanta would be equally ready to bring accord out of discord by resort to such an equitable method of adjustment.

I regret exceedingly that this situation has been allowed to continue, getting worse instead of better. The time has come, it seems to me, when for the good of the System as a whole the Federal Reserve Board itself should intervene and make a serious effort to bring about an adjustment. I do not think that such intervention by the Federal Reserve Board, in composition of an outstanding difficulty, is outside the proper function of your Board. On the contrary, it seems to be decidedly within your province and an altogether proper exercise of that supervision with which you have been charged by Congress.

This is not a political matter and I do not approach it in the slightest degree from a political point of view. But I cannot emphasize too strongly that this situation has become intolerable to the business interests of our section, that it is an obstacle to our commercial development and that it is inimical to the best interests not only of the Federal Reserve Bank of Atlanta but to the Federal Reserve System as a whole. Were it a situation the solution of which offered insuperable difficulties, compliance with it might not be essential, but I am quite confident that it can be settled in all good feeling by the exercise of tact and judgment, as evidenced by an acceptance by both institutions of the principle of arbitration.

It is for this reason that I urge so strongly prompt remedial action by your Board.

Very respectfully submitted,



WILLIAM R. GREEN, IOWA, CHAIRMAN

WILLIS C. HAWLEY, OREG.	JOHN N. GARNER, TEX.
ALLEN T. TREADWAY, MASS.	JAMES W. COLLIER, MISS.
JAMES A. FREAR, WIS.	WILLIAM A. OLDFIELD, ARK.
JOHN G. TILSON, CONN.	CHARLES R. CRISP, GA.
ISAAC BACHARACH, N. J.	JOHN F. CAREW, N. Y.
LINDLEY H. HADLEY, WASH.	WHITMELL P. MARTIN, LA.
CHARLES B. TIMBERLAKE, COLO.	PETER F. TAGUE, MASS.
HENRY W. WATSON, PA.	HENRY T. RAINEY, ILL.
OGDEN L. MILLS, N. Y.	CORDELL HULL, TENN.
JAMES C. McLAUGHLIN, MICH.	CLEMENT C. DICKINSON, MO.
CHARLES C. KEARNS, OHIO	JOHN J. CASEY, PA.
CARL R. CHINDBLOM, ILL.	
FRANK CROWTHER, N. Y.	

COMMITTEE ON WAYS AND MEANS

3323-7

HOUSE OF REPRESENTATIVES

WASHINGTON, D. C.

June 26, 1926

CLAYTON F. MOORE, CLERK

Federal Reserve Board
Washington, D. C.

Gentlemen:

I join with Congressman Byrns in expressing my most earnest desire that the differences between the Fourth and First Bank of Nashville and the Federal Reserve Bank of Atlanta be ironed out or composed, and I feel that his suggestions are proper and should be satisfactory to both banks.

I have read the record in this case carefully, and I can see no valid reason why representatives of both banks should not sit around the table in the presence of any one or more of the gentlemen mentioned as arbiters, and go fully into this case and let it be adjudicated upon the facts from every angle without regard to legal technicalities.

It seems clear to me that the splendid war record of the Fourth and First Bank should be sufficient evidence for your Board to see that said bank is entitled to this consideration. After all the facts and circumstances have been heard, the arbiters can decide this case finally. If, after a full hearing of this matter, and the arbitrator decides that the Fourth and First Bank is not justified in its attitude, then I shall feel that the fair thing has been done.

As I say, I feel that Mr. Byrns' request is a reasonable one and should have the earnest consideration of your Board.

Very truly yours,



FRANCIS E. WARREN, WYO., CHAIRMAN
ED SMOOT, UTAH
SLEY L. JONES, WASH.
CHARLES CURTIS, KANS.
FREDERICK HALE, ME.
LAWRENCE C. PHIPPS, COLO.
WILLIAM B. MCKINLEY, ILL.
IRVINE L. LENROOT, WIS.
HENRY W. KEYES, N. H.

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KENNETH MCKELLAR, TENN.
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THOMAS F. BAYARD, DEL.
JOHN B. KENDRICK, WYO.

KENNEDY F. REA, CLERK

United States Senate

COMMITTEE ON APPROPRIATIONS

3323-7

June 26, 1926.

To the Governor and Members of the Federal Reserve Board,
Washington, D. C.

Dear Sirs:

I have seen a copy of the letter of Hon. Joseph W. Byrns, of this date, in reference to a disagreement between the First and Fourth National Bank and the Federal Reserve Bank of Atlanta.

It seems to me that Congressman Byrns has stated the case fairly and I hope your Board will see fit to adjust the matter along the lines suggested by him.

Very sincerely yours,

Kenneth McKellar

WILLIAM B. MCKINLEY, ILL., CHAIRMAN
CHARLES L. MCNARY, OREG.
INGTON E. WELLER, MD.
GEORGE P. MCLEAN, CONN.
JESSE H. METCALF, R. I.
ROBERT M. LA FOLLETTE, JR., WIS.
SMITH W. BROOKHART, IOWA
ELLISON D. SMITH, S. C.
JAMES A. REED, MO.
EDWARD I. EDWARDS, N. J.
BURTON K. WHEELER, MONT.
LAWRENCE D. TYSON, TENN.

United States Senate

3323-7

CHESTER A. WILLOUGHBY, CLERK

COMMITTEE ON MANUFACTURES

June 26th, 1926.

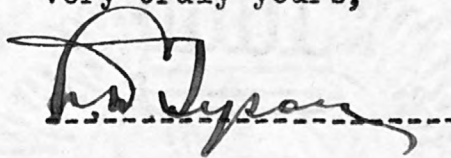
To the Governor and Members of the Federal Reserve Board,
Washington, D. C.

Gentlemen:

Attached hereto is copy of letter which was addressed to your Board by Honorable Joseph W. Byrns, in reference to a disagreement between the Fourth and First National Bank of Nashville, Tennessee, and the Federal Reserve Bank of Atlanta, Georgia.

Mr. Byrns coming from Nashville and being familiar with the questions involved in the controversy has, I am confident, stated the case fairly, and I sincerely trust that your Board will be able to adjust the differences between these institutions in a manner satisfactory to both Banks and along the lines suggested by Congressman Byrns.

Very truly yours,



Lawrence D. Tyson

T-S-T.

COPY

To the Governor and Members of the Federal Reserve Board
Washington, D. C.

Gentlemen:

The Fourth and First National Bank of Nashville, Tennessee, and the Federal Reserve Bank of Atlanta, have for many months standing a very serious disagreement which has reached such a point that the Nashville Bank, has, as far as it is possible for any National Bank to do, severed all business relations with the Atlanta Bank.

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The record of the Fourth and First National Bank during the trying period of war financing was unexcelled by that of any other bank in the United States. Its record of support for and cooperation with the Federal Reserve Bank of Atlanta was so complete that it is obvious the Nashville Bank would not have gone to the extraordinary length of virtually severing relations with the Atlanta institution unless it felt that it has been severely and inequitably dealt with.

Is it not possible for the old harmony in relations to be restored? I believe both institutions should agree to an arbitration in a common effort to heal old wounds and promote the commerce of Tennessee and adjacent territory. I am not authorized to speak for the Fourth and First National Bank, nor for the Federal Reserve Bank of Atlanta, but I am sure that the Fourth and First would agree to an arbitration. I am speaking as a friend of both banks, along with other representatives of Tennessee,

COPY

Page #2.

when I urge that a serious effort be made along these lines to effect a settlement.

I believe that both banks would agree to an arbitration through some such agency as the Comptroller of the Currency, or one of our Federal Judges, or the Chief Justice of the Supreme Court of Tennessee. I think I know the officers of the Fourth and First well enough to say that they would be willing to submit the matter to any fair arbitration, and I assume that the Federal Reserve Bank of Atlanta would be equally ready to bring accord out of discord by resort to such an equitable method of adjustment.

I regret exceedingly that this situation has been allowed to continue, getting worse instead of better. The time has come, it seems to me, when for the good of the System as a whole the Federal Reserve Board itself should intervene and make a serious effort to bring about an adjustment. I do not think that such intervention by the Federal Reserve Board, in composition of an outstanding difficulty, is outside the proper function of your Board. On the contrary, it seems to be decidedly within your province and an altogether proper exercise of that supervision with which you have been charged by Congress.

This is not a political matter and I do not approach it in the slightest degree from a political point of view. But I cannot emphasize too strongly that this situation has become intolerable to the business interests of our section, that it is an obstacle to our commercial development and that it is inimical to the best interests not only of the Federal Reserve Bank of Atlanta but to the Federal Reserve System as a whole. Were it a situation the solution of which offered insuperable difficulties, compliance with it might not be essential, but I am quite confident that it can be settled in all good feeling by the exercise of tact and judgment, as evidenced by an acceptance by both institutions of the principle of arbitration.

It is for this reason that I urge so strongly prompt remedial action by your Board.

Very respectfully submitted,

332 • 3.

April 30, 1926.

Hon. Cordell Hull,
House of Representatives,
Washington, D. C.

My dear Congressman:

Referring to our conversation of this morning with reference to the controversy between the Fourth & First National Bank of Nashville, Tennessee, and the Federal Reserve Bank of Atlanta, with reference to certain Liberty bond transactions, you are advised that the Board will be very glad to give you an opportunity to examine its files on this subject at any time that you may care to do so. I find, however, that it is contrary to the rules of the Board to permit any of its official files to leave its offices except in response to a formal court order or a formal request by Congress, and the Board would much prefer that you examine these files in its offices in the Treasury Building. The Board has only one set of these papers, which constitutes its official record on this subject, and I hope that you will appreciate the reasonableness of the Board's position in the matter.

The Board's entire file on this subject is now available in my office and I shall be very pleased to have you read it over at any time that you may care to do so.

With all best wishes, I am

Very truly yours,

George R. James.

75 343

GRJ

Office Correspondence

FEDERAL RESERVE
BOARD

Date

332.3-7

June 30, 1926.

To Mr. Wyatt

Subject: _____

From Mr. Hamlin

2-3405

Dear Mr. Wyatt:

Will you kindly let me know whether the record in the matter of the Fourth-First National Bank of Nashville and the Federal Reserve Bank of Atlanta shows the following:

1. Does not the record show that Mr. Caldwell lost nothing by being forced to take up his repurchase agreements, and that his only claim for compensation is that if he had been allowed to carry these bonds longer he might have made more money?
2. Does not the record show that Mr. Caldwell advised the directors that the whole matter had been carried through with profit to the bank?

Very truly yours,

*Fourth & First 200
Nash Tenn
Petition for
reprints*

#6

#6

333

~~332 3~~

332.3-7

September 20, 1923.

My dear Sir:

Your letter of September 18 has been brought to the attention of the Federal Reserve Board and the Board is of the opinion that your controversy with the Fourth & First National Bank of Nashville, Tennessee, is a matter in the first instance solely for your board to determine.

Very truly yours,

D. R. Crissinger,
Governor.

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

For file

332-3-7

FEDERAL RESERVE BANK

OF ATLANTA

OFFICE OF
CHAIRMAN OF THE BOARD.
FEDERAL RESERVE AGENT.

Sept. 18, 1923.

SUBJECT: Petition of The Fourth & First National Bank,
Nashville, Tennessee.

FEDERAL RESERVE BOARD,
Washington, D. C.

Gentlemen:

On September 5th, Governor Wellborn forwarded to your Board a petition of the Fourth & First National Bank of Nashville, Tennessee, together with a reply of the Federal Reserve Bank of Atlanta. These papers were acknowledged by the General Secretary of your Board on September 7th, and on September 14th a telegram was received from Vice Governor Platt with further reference to the matter.

The petition and reply were referred to a committee of Directors, composed of Messrs. Newton, Kettig and Kittles, and at the meeting of our Board, held on September 14thm the subject was discussed and it was moved by Director Hartford that the committee's report be deferred and that the Fourth & First National Bank be furnished with a copy of our reply to its petition, provided such action had the approval of our General Counsel, and there was no objection on the part of your Board or its Counsel.

I have a letter from Messrs. Randolph and Parker, our General Counsel, advising that as the answer to the petition was framed so as to constitute a reply, or in other words, since the paper was framed with the idea that it would be sent to the bank in answer to its communication, there is no legal reason why the paper, a copy of which was forwarded to you by Governor Wellborn, should not be sent to the bank, if in the opinion of our Board of Directors it is desirable that a detailed reply be made.

I shall be glad to have you advise me whether there is any objection on the part of your Board or your Counsel to our sending the reply to the petitioning bank.

Yours very truly,

Josa M.
Chairman of the Board.

RECEIVED



4th to Board
Nash Tenn

#6

332.2

~~333~~

September 14, 1923.

3323-7

Wellborn,
Atlanta.

Referring petition Fourth and First National Bank of Nashville for refund on Liberty bond transactions, Board is of opinion that you have no right to make refund unless legally liable. Question of legal liability is one to be determined by a court and not by Federal Reserve Board.

Platt.

NW-sad



See 2 9/15/23

Appd.
AT BOARD MEETING
SEP 14 1923


FEDERAL RESERVE BANK
OF BOSTON

332.3-7

September 13, 1923.

My dear Mr. Hamlin:

I return herewith Governor Wellborn's letter of September 5 which came with the papers you sent me yesterday. In my hurry to get my reply off in the afternoon mail, I overlooked returning this.

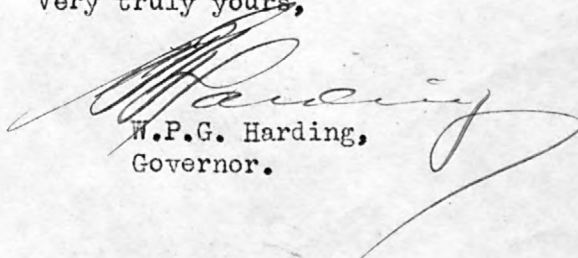
It is hard to believe that the Fourth and First National Bank of Nashville really intends to bring suit, but if it should, it should be fought to a finish. The principles involved are fundamental and if there is any question as to the powers of the Federal Reserve Banks and the Federal Reserve Board in the matter of discount rates, the sooner it is settled, the better.

Mr. Caldwell's printed petition together with his intimations as to his course of action if his demands are not complied with impresses me as being designed for propaganda purposes, and I think it might almost be called blackmail.

The action of the Atlanta bank in taking so large a loan for speculative purposes was unbusinesslike, and I presume Mr. Caldwell realizes the fact that the officers of that institution would not like to have a public airing of that transaction. At the same time, trial of the case in court would bring out some facts that would not give the Nashville people a very favorable impression of Mr. Caldwell as a banker.

I hope the Board will encourage the officials of the Atlanta bank to stand firm and resist the attack in any form in which it may be made.

Very truly yours,


W.P.G. Harding,
Governor.

Hon. Charles S. Hamlin,
Federal Reserve Board,
Washington, D.C.

FEDERAL RESERVE BANK
OF BOSTON

332.3 - 7

September 12, 1923.

Dear Mr. Hamlin:

I have received your letter of the 11th inst. enclosing file in connection with alleged claim of the Fourth and First National Bank of Nashville, Tennessee. I have read the briefs of the Fourth and First National Bank of Nashville, and of the Atlanta Bank in reply, and while I have reason to know that Mr. Caldwell is arbitrary and high-handed, a bluffer and a bellyacher, I confess that I am somewhat surprised at his action in trying to make out a serious claim against the Federal Reserve Bank of Atlanta.

See 2 9/15/23

I note that you ask for an expression of my views as the matter may come before the Board on appeal. I do not see what there is to appeal to the Board. The Fourth and First National Bank of Nashville either has a legal claim against the Federal Reserve Bank of Atlanta or it has not. Knowing the facts in the case as I do, I do not hesitate to say that if I were the President of a member bank in the Sixth Federal Reserve District, I would take legal steps to block any friendly settlement or compromise of this alleged claim. You will notice that there is a disagreement between the Nashville and Atlanta banks as to questions of fact, and even if the facts were admitted to be as stated by the Nashville bank, I still do not think that the Nashville bank would have any legal claim, against the Federal Reserve Bank of Atlanta.

There is no authority in the Federal Reserve Act for direct loans to member banks for periods longer than 15 days, and the rights of the directors of the Federal Reserve Banks and the rights and duties of the Federal Reserve Board in connection with the establishment and determination of discount rates, cannot in my opinion be abridged by any verbal or written understanding on the part of officers of a Federal Reserve Bank. The fact that a member bank has been able to rediscount a customer's note or to get an advance on its own note at 15 days at a rate of discount established by a Federal Reserve Bank and approved by the Federal Reserve Board, does not give the borrowing bank any right to expect a continuance of the accommodation at the same rate. The law is explicit. Every Federal Reserve Bank shall have power: "to establish from time to time, subject to the review and determination of the Federal Reserve Board, rates of discount to be charged by the Federal Reserve Bank for each class of paper".

Mr. Caldwell's case is unique in that his bank was the only one which speculated in Government bonds to an extent which jeopardized its solvency; but there are thousands of banks as well as individuals which were borrowing money in large amounts when Federal

Reserve rates were 4% and were continuous borrowers during the times when that rate was being advanced to 6% or more. To recognize Mr. Caldwell's contention would be to invite claims from many others who might fancy that they had a grievance; and the Federal Reserve Board would be hopelessly hamstrung in the exercise of its duties to review and determine rates of discount established by Federal Reserve Banks, if it were held that Reserve Bank officers could promise borrowing banks an indefinite continuance of a given rate.

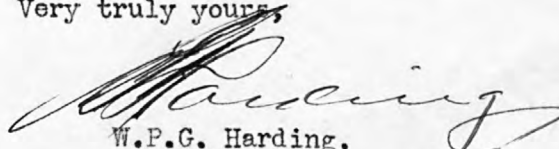
If officers of the Federal Reserve Bank of Atlanta made any contract or agreement either directly or by implication, such as is claimed by Mr. Caldwell in his brief, he might perhaps have some ground for action against them as individuals, but I do not see how the bank can be bound, for such contract would be clearly ultra vires of the Federal Reserve Bank itself.

I have recently had some correspondence with Senator Glass on this subject and I am enclosing copy of a letter which I wrote him a few days ago. Personally, I sympathized with Mr. Caldwell in the load he was carrying, and you may remember, endeavored to get the Board to take some steps looking to his relief, several months before final action was taken. When he first came to see me in May 1920 he opened his conversation in a very dictatorial manner and tried to frighten me with the terrible things that he was going to do. I called his bluff and he broke down and cried like a baby. Then I listened to what he had to say and suggested the relief measures which were finally adopted.

If the Federal Reserve Bank of Atlanta had been willing to carry these bonds for two years after the repurchase agreement was made, it is quite probable that the Fourth and First National Bank of Nashville would have received no more for them when the bonds were finally sold than they actually did; for the peak of the bond market was early in the year 1922. Since that time Government bonds have declined to a figure about equal to what Mr. Caldwell's bank actually realized. He may think that he would have sold the bonds at the top of the market but there is no certainty that he would have done so. Then again, why did he not borrow money on the bonds, elsewhere?

In view of your statement that the Board would be interested in my views, I would suggest that in case the Board should decide to take any action at all, that pains be taken to have the whole matter explained thoroughly to Mr. James, and that he then be appointed a committee of one to tell Mr. Caldwell in his inimitable way, "where to get off".

Very truly yours,


W.P.G. Harding,
Governor.

Hon. Charles S. Hamlin,
Federal Reserve Board,
Washington, D.C.

P.S. Please refer to Board's files for my official correspondence with the Atlanta bank on this subject.

COPY

September 4, 1923.

My dear Senator:

I have received your letter of August 31 enclosing copies of your correspondence with Mr. James E. Caldwell, President of the Fourth and First National Bank of Nashville, Tennessee.

I have never known a more arbitrary and inconsistent man than Mr. Caldwell. Officials of the Federal Reserve Bank of Atlanta did encourage him to take over about \$4,000,000 worth of subscriptions to the Fourth Liberty Loan, which were made by the employees of the powder plant at Nashville, in the Autumn of 1918. Following the armistice the powder plant closed down and the employees scattered. I have a suspicion, however, that Mr. Caldwell was not altogether patriotic in the matter, and that his bank received the benefit of the initial payments that had been made by the employees. Then when you were floating the Victory Loan in May 1919, the Fourth and First National Bank of Nashville subscribed very lightly, but persuaded the officials of the Federal Reserve Bank of Atlanta to advance them five or six million dollars with which to purchase some of the Liberty Loan issues at about 94. The Nashville Bank assumed that the 4% rate was going to be permanent, and when the rate was advanced to 6% in January 1920, the Nashville Bank found itself indebted to the Federal Reserve Bank of Atlanta in the amount of about \$12,000,000 on bonds. This was at a time when the reserves of the Atlanta Bank were low and that institution was rediscounting heavily with other Federal Reserve Banks. At the same time the Nashville bank had about \$4,000,000 of commercial rediscounts.

Mr. Caldwell came to Washington to see me in April or May 1920 and pointed out that a sale of the bonds at that time would wipe out the surplus and impair the capital of the bank; and that the payment of a 6% rate on so large a loan secured by bonds bearing only 4½%, would eventually make it impossible for his bank to pay dividends, and would have a most injurious effect upon its business and standing. It seemed to me that the Atlanta bank was a good deal to blame, and I suggested to Mr. Caldwell that it might be arranged to have the Atlanta Bank, under authority of Section 14, buy the bonds from his bank under a repurchase agreement. I discussed this matter with Mr. Williams and other members of the Board, but the plan was not approved at that time, Mr. Williams, I remember being one of those who objected to it.

*for making so large
a loan for investment or
speculative purposes*

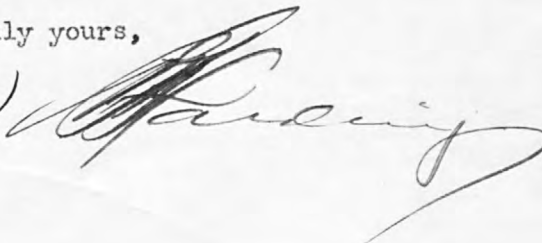
In the Spring of 1921, the situation became even more tense, and the plan that I had proposed in 1920, was finally approved by the Board. The arrangement was made, much to Mr. Caldwell's relief, and the Atlanta Bank carried the bonds at the coupon rate for several months. Late in the year 1921 the bonds advanced sharply, and I wrote the Governor of the Atlanta Bank calling his attention to the repurchase agreement, and suggested that he put it into effect. The bonds at that time were somewhere around 98½. Mr. Caldwell objected and asked that the arrangement be permitted to continue until he could get par for his bonds although he had bought at least half of them at around 94. The Board instructed the Atlanta Bank to enforce the agreement. The bonds were sold, and the Fourth and First National Bank of Nashville carried \$200,000 to its surplus and paid an extra dividend of \$100,000. Mr. Caldwell issued a circular to his stockholders taking great credit to himself for his foresight and acumen in buying and holding Government bonds at a time when they were a drug on the market, and I assumed that the episode had been closed to his entire satisfaction.

A little later on Liberty Loan Bonds advanced to par or a little better, and then Mr. Caldwell began to grieve over the additional profit that he might have made had the Federal Reserve Bank continued to carry the bonds. I really believe that the action taken was necessary to protect the business, if not the solvency of the Nashville Bank. The same privilege was extended, in order not to show favoritism, to a few other banks in the Atlanta district which had patriotically subscribed to a very large amount of bonds and had them on hand. No protests were ever raised by these banks, but on the other hand they expressed themselves in most appreciative terms.

If your files are not complete you can get further information from Governor Wellborn of the Atlanta bank, and I am certain that you will find that all proceedings were taken in strict accordance with the terms of the repurchase agreement entered into between the Federal Reserve Bank of Atlanta and the Fourth and First National Bank of Nashville.

With sincere regards, I am

Very truly yours,

(signed) 

Hon. Carter Glass,
United States Senate,
Washington, D.C.

-F.R.B. Boston-

332.3-7

September 11, 1933.

Dear Governor Harding:

I send herewith the file in connection with the claim of the Fourth & First National Bank, of Nashville. Will you be good enough to read this over, paying especial attention to the brief of Mr. Caldwell, and write me your views on it. The meeting of the Board of Directors of the Atlanta Bank is on the 14th, and they wish us to advise them as to their answer. I question very much whether we ought to give them any advice in view of the fact that the matter may come before us on appeal, but the whole Board would be very much interested in your views. Perhaps you could write me the day you receive this, so that we may have something before us before the 14th.

In great haste,

Sincerely yours,

Hamilton

Hon. W. P. G. Harding, Governor,
Federal Reserve Bank,
Boston, Mass.

332.3-7

September 7, 1923.

Dear Governor Wellborn:

In behalf of the Federal Reserve Board, I acknowledge receipt of your letter of September 5th, with reference to a petition which you enclosed of the Fourth and First National Bank of Nashville. Governor Crissinger has directed me to place this matter on the docket to come before the Board at its next meeting, Tuesday, September 12th.

Very truly yours,

Wm. W. Hoxton,
General Secretary.

Mr. M. B. Wellborn, Governor,
Federal Reserve Bank,
Atlanta, Georgia.

FEDERAL RESERVE BANK
OF ATLANTA

332.3-7

OFFICE OF
GOVERNOR

September 5th, 1923.

*Docket
9-11-23*

*To Atlanta Committee
with
9-11-23*

Federal Reserve Board,
Washington, D.C.

Attention: Hon. D.R. Crissinger,
Governor.

Gentlemen:

I am enclosing herewith the Petition of the Fourth and First National Bank of Nashville, together with copy of our reply. The latter, however, will not be passed upon by our Board of Directors until their next meeting on September 14th. We submit both of these documents to your Board, and think it would be well for you to go over them carefully, and give us the benefit of any suggestions which, in your opinion, would strengthen our reply. It is probable that the Fourth and First will appeal from us to your Board, or take some action in another direction. I trust that you will consider this matter closely, and favor us with a reply at your earliest convenience.

Very truly yours,

MBW
Governor.

MBW:W.

Enclosures (2).

RECEIVED



SEP 7 1923

REPLY OF FEDERAL RESERVE BANK OF ATLANTA

To The Petition of

FOURTH AND FIRST NATIONAL BANK OF NASHVILLE

For a refund of excess interest claimed to have been charged against and paid by the Fourth and First National Bank on carrying Liberty Bonds - The amount of excess charge claimed Being approximately \$235,000.00.
- - - - -

TO THE FOURTH AND FIRST NATIONAL BANK OF NASHVILLE:

The Federal Reserve Bank of Atlanta has received and its officers and directors have carefully reviewed your petition in the above matter.

The petition contains a demand for \$235,000., which demand is based upon a contention framed in the petition in the following language:

"The Fourth and First National Bank claims that The Federal Reserve Bank charged it a total of about \$235,000.00 excess interest on account of carrying Liberty Bonds over and above the rate at which it agreed to charge thereon."

The above stated claim purports to be predicated upon some kind of a contract agreement or understanding to "carry Liberty Bonds" at a specified rate.

The petition of the Fourth and First, while making a money demand only for "excess interest" claimed to have been charged by the Federal Reserve Bank between October 10, 1919 and May 2³, 1921 (the date of the repurchase agreement), also complains of certain acts of the Federal Reserve Bank of Atlanta done under that agreement. While it is impossible to connect any complaint made with respect to acts done under the repurchase agreement with a demand for interest paid prior thereto, the complaint of the Fourth and First in that regard will also be noted herein.

The petition of the Fourth and First has been carefully examined in an endeavor to find a statement of what is claimed to constitute the contract, for the breach of which \$235,000.00 is now demanded, but nowhere therein do we find any such agreement, or even the summary of a state of facts which, if true, would be sufficient to imply such an agreement.

It does appear from the record that although there was no such express agreement or obligation, the Federal Reserve Bank did, notwithstanding the constant and increasing demands upon it, carry for the Fourth and First National Bank, at a rate of four per cent., an aggregate of obligations secured by government bonds varying from time to time (in round figures) from \$11,000,000.00 to over \$14,000,000.00 up to November 10, 1919, twelve months after the signing of the armistice, and long after practically all the other banks in the Sixth Federal Reserve District had disposed of all of the bonds subscribed for by them, except such as they might have desired to retain for investment purposes.

The record shows, furthermore, that the Federal Reserve Bank of Atlanta, in its execution of the repurchase agreement, to which reference is made above, went to extraordinary lengths in order to protect the Fourth and First against the situation into which it had gotten itself through the undue purchase and continued holding of excessive amounts of Liberty Bonds.

The record submitted by the petitioner does not so show but we accept the statement of Mr. Caldwell therefor, as embodied in his letter of February 1, 1922 to the stockholders of his bank, that the Fourth and First National Bank realized from its handling of Liberty Bonds a profit of over \$300,000 - \$200,000 of which was passed to permanent surplus and out of the remainder an extra dividend of five per cent declared.

It is impossible to escape the conclusion, therefore, that the Fourth and First has no complaint at law or in equity, under contract, in fact, or in good conscience against the Federal Reserve Bank of Atlanta, but that, on the contrary, it, its officers, and stockholders, should feel grateful to the Federal Reserve Bank of Atlanta for the indulgence shown toward the Fourth and First and for the execution of the repurchase agreement, which alone saved the situation for it, and brought about in the end a permanent enrichment of the surplus of the Fourth and First and an extra dividend to its stockholders.

Although the petition of the Fourth and First could, under no view of the case, or in any aspect which it presents, be regarded as presenting any demand which would be cognizable in law, the officers and directors of the Federal Reserve Bank of Atlanta feel that the charges of unfair dealing as contained in the petition, although indefinite and really disproved by the petition itself, should receive answer.

It is not alone a desire to show courtesy to the distinguished gentlemen who are in charge of the affairs of the Fourth and First which prompts this answer. We have a sincere desire to answer at all times any criticism directed at the Federal Reserve Bank of Atlanta, although we may know such criticism to be groundless and unjustified.

Therefore, we will consider briefly the arguments and contentions as set up and contained in the petition, answering the subdivisions thereof seriatim.

-I-

Subdivision I of the petition makes reference to certain historical facts, about which there could be no argument - none of which, however, have any bearing on the complaint, even as matters of inducement.

-II-

Subdivision II appears to make no complaint of any kind against the Federal Reserve Bank of Atlanta and merely sets out the fact that the Fourth and First subscribed for \$1,100,000.00 of the First Liberty Loan, which it appears to have disposed of in an orderly way and without any loss.

-III-

Subdivision III of the petition contains quotations or excerpts from the Sixth Annual Report of the Federal Reserve Board, and from an annual report of the Chairman of the Board of Directors of the Federal Reserve Bank of Atlanta. These excerpts embody well known facts. If they have any relevancy at all to the contentions made by the Fourth and First, it is the

interesting fact that such excerpts make reference to conditions which had then been overcome and which had passed into history. These reports refer to the efforts which the Federal Reserve Banks had theretofore made to carry government secured obligations at a rate of interest which would prevent loss. They were framed in the knowledge that, generally speaking, all of the war issues had been then digested by the buying public; that the load had been carried and the emergency ended.

The Federal Reserve Banks had adopted policies as stated to avoid loss to the banks which were necessarily the distributing media for the issues. The armistice was signed in November, 1918. The last war loan, viz: the Victory Loan, had been successfully floated in May 1919. By the end of 1919 the banks had marketed the bonds for which they had subscribed and the Federal Reserve Board was making a historical review of what was then an accomplished fact.

It is worthy of note, however, that while in practically all cases Liberty Bond holdings presented at the close of 1919 no problem to the commercial banks, the Fourth and First still held an enormous amount of such bonds. As late as April 1920, Mr. Caldwell, President, wrote to Mr. Wellborn, Governor, referring to borrowings of the Fourth and First on government securities to an aggregate amount of \$15,434,000.00.

If the purpose in making reference to the annual report of the Federal Reserve Board for the year 1919 be to charge the Federal Reserve Bank of Atlanta, by implication, with violating a promise to make rates for rediscounting loans on government securities at such figures as to avoid loss to the banks, the obvious answer is that the policy referred to by the Board had been faithfully carried out by the Atlanta bank to the full extent of reasonable expectation.

It was not until six months ~~XXXX~~ after the Victory Loan was finally out of the way and not until a full year after the armistice was signed that the rates were advanced from four per cent to four and a half per cent on government secured paper.

-IV-

Subdivision IV of the petition sets forth certain statistics with reference to the total of Liberty Bond subscriptions in the State of Tennessee, and the total subscribed by the Fourth and First. The officers and directors of the Federal Reserve Bank of Atlanta do not undertake to question the patriotism of the Fourth and First in subscribing for Liberty Bonds as they were offered. They desire to state, however, that at no time or in any way, either by letter or verbally, did they encourage banks to buy or subscribe for Liberty Bonds in excess of amounts which the banks felt reasonably sure might be passed on to the general public.

The banks, it is true, were the distributing media for the bonds, but the banks were not expected ~~to~~ indefinitely to tie up a very large percentage of their resources in these issues. That the banks generally understood this is apparent from the fact that no bank in this District found itself to the same extent as did the Fourth and First in what it terms in its petition "a very precarious situation" due to Liberty Bond holdings. Other banks were holding bonds either directly or for their customers, but none to the extent of the Fourth and First. In July 1919, the Governor of the Federal Reserve Bank of Atlanta wrote Mr. Caldwell, President of the Fourth and First, calling attention to the large amount of accommodation which that bank then had - "\$14,600,000, being far in excess of that enjoyed by any other member bank in this district."

If the Fourth and First felt it to be its patriotic duty to subscribe for Liberty Bond issues far in excess of that which its customers could absorb, and it further felt it to be its patriotic duty to buy Liberty Bonds in the open market to hold up the price and to create a market therefor, as indicated in the letter of Mr. Caldwell of May 16, 1919, we have no desire to criticise such motives, whatever might be said with reference to the business policy involved, but we do call attention to the fact that no other bank in the Sixth Federal Reserve District regarded it as proper banking to carry millions of dollars in Liberty Bonds or to go out into the open market and buy the same, and no other bank except the Fourth and First National rested upon any

belief that it had the right to demand and expect indefinite accommodation at a rate of interest actually below the yield of the bonds and far below the rate obtaining on paper arising out of ordinary commercial transactions.

-V-

Subdivision V of the petition purports to set out a portion of a communication said to emanate from the "Federal Reserve Board of Atlanta." Assuming that by "Federal Reserve Board of Atlanta" is meant the Federal Reserve Bank of Atlanta, we call attention to the fact that the communication in question did not come from the bank but from Mr. Silas W. Davis, the then Government Director of the Savings Division of the Treasury Department of the United States located at Atlanta. The communication was from a branch of the Treasury Department, and while this branch operated through the Federal Reserve Bank of Atlanta as fiscal agent, the same was in no wise connected with the Federal Reserve Bank as an institution of banking and discount.

We say the above without any criticism of the circular referred to, because said circular contained sound advice to investors who could afford to buy additional bonds, nor do we refer to the fact that the bank, as such, had nothing to do with the circular in an effort to evade any issue made in the ~~petition~~ petition of the Fourth and First. We merely call attention to the fact that the circular came from the office of the Government Director of the Savings Division of the Treasury Department at Atlanta, because that fact alone would have indicated to the officers of the Fourth and First that the Federal Reserve Bank of Atlanta was making no representations to carry for member banks at four per cent interest Liberty Bonds bought in the open market, whatever might have theretofore been the policy of the bank with reference to initial and original subscriptions.

If the Fourth and First wanted to buy in the open market \$6,000,000.00 of Liberty Bonds at less than par "in order to average down the price on the bonds which it had subscribed for at par from the government", that was its business, and, apparently, its so doing had something to do with the happy results to which Mr. Caldwell makes reference in his letter of February 1, 1932 to his stockholders, but surely it cannot logically be said

that the Fourth and First should have expected the Federal Reserve Bank of Atlanta to lend money upon the security of these purchases for an indefinite time at four per cent interest when it was then obtaining money at a rate higher than that from other Federal Reserve Banks and at a time when its credit facilities were taxed to the utmost to take care of the commercial demands of this section.

We assume that the circular entitled "Average your Liberty Bonds" is inserted in the petition in an attempt to set up the "contract", for the breach of which the Fourth and First now claims a refund of interest. If this be the purpose in making reference to the circular, we submit that this purpose wholly fails. The fact is that the Federal Reserve Bank of Atlanta at all times made it perfectly clear that it ought not to extend any preferential rates on loans secured by bonds bought in the open market.

For example, on May 14, 1919, Mr. Wellborn, Governor, wrote Mr. Webb, Vice President of the Fourth and First as follows:

"Recalling conversation with you several months ago, in regard to your bank going into the open market and purchasing Liberty Bonds. You then desired to know whether or not we would carry these bonds for you. My recollection is that I told you that this proposition did not appeal to us very heartily.

"I notice that your bank recently made a large purchase of these bonds in New York, and that we are carrying for you \$4,500,000 of this purchase.

"What do you think of that portion of Section 4 of the Federal Reserve Act, which reads as follows:

"Each Federal Reserve Bank shall extend to each member bank such discounts, advancements, and accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks."

Mr. Caldwell, President, on May 16th, replied to Mr. Wellborn's letter of May 14th in part as follows:

"When Mr. Webb returned from his visit to you sometime ago, he stated to me that you merely said you thought it would be advisable to postpone the matter of purchasing bonds in the open market until after the Victory Liberty Loan was out of the way. That, as I say, was the impression that he conveyed to me on his return, and I did not gather that you thought it ill-advised to buy Government bonds. On the contrary, we thought it would be the sensible thing to do, as it would clearly aid the Government in finding that its securities had some friends in the open market."

On May 20, 1919, Mr. Wellborn, Governor, wrote Mr. Caldwell, President, as follows:

"I have your letter of May 16th, which was received during my absence on a visit to our New Orleans Branch Bank. I regret very much that Mr. Webb misunderstood me in our conversation relative to your bank going into the open market and purchasing Fourth Liberty Loan Bonds.

"As I understood it, he stated that your bank was thinking of making a purchase of these bonds in order to recoup the losses on what you had already purchased, and wished to know from me if it would be agreeable to our bank to carry these bonds for your bank, in case the purchases were made. I told him I did not think well of the proposition for the reason that we would have all that we could possibly take care of in financing the banks of this District in purchasing Victory Loan notes, in view of the fact that it was apparent that the banks this time would have to take more of these bonds than they had in previous loan campaigns, since the enthusiasm of the public was waned to some extent; therefore, the burden would fall mainly upon the banks in subscribing to the recent Victory Loan, to say nothing of the heavy demands that were and are being made upon us in connection with the carrying of commodities, and the heavy demands that were sure to come incident to the making of new crops.

"I wish you to understand that we have no objection whatever, nor any criticism to make, with regard to carrying for your bank government securities. We are all aware that you subscribed very liberally in all campaigns, and we are perfectly willing to carry these securities for you as long as you see fit to offer them to us. You have done nothing whatever to disappoint us - on the contrary, you have done much to please us, and therefore I very much regret that you feel as you do in this matter.

"We feel that if we agree to authorize our member banks at this time to go into the open market and purchase bonds and carry them for the banks, the result might open a wide field of speculation on their part, and the amount might be so large that it would so seriously affect our position that we would not be able to aid our member banks in taking care of the commercial, agricultural, and industrial interests of our District.

"I assume that you agree with me, that the purchase at this time of Liberty Bonds of an issue prior to Victory Loan notes can hardly be classed as assisting Government financing. The proceeds of the sales of these issues were used in liquidating the current indebtedness of the Government immediately subsequent to their being marketed, and any trading in such bonds now merely represents a change in ownership. It is true that a heavy demand for them in the open market would have a tendency to move the price toward par, and this is no doubt a good thing to be done, but I fear if the Federal Reserve Banks are called upon to carry such purchases, it may be taxing its strength to too great a degree, and to the exclusion of the needs of commerce.

"Personally, I regret very much that my letter to Mr. Webb has caused you to feel 'a shock and a very great disappointment.' I certainly did not intend it to be so and regret that it has had this effect.

"I value your good opinion very highly, and trust upon reflection, since I have made the statement of our position, that you will come to the conclusion that we are doing only what business prudence and proper management demands on our part.

"Today being the day fixed by the Secretary of the Treasury for the payment of subscriptions of banks in this District, our offerings for rediscount have been heavy, and I look for them to increase to the point that our reserves will go down to such an extent that we will have to call on the other Federal Reserve Banks to rediscount for us, and the other banks being in the same position as ourselves, they are very likely to have all that they can stand up to."

Nothing could be plainer than the fact that the Federal Reserve Bank of Atlanta did not agree at any time to carry at a four per cent rate Liberty Bonds bought by member banks in anticipation of a profit, nor did it agree to carry the same at any other specified rate. Nothing could be clearer, furthermore, than that no representations were ever made by the Federal Reserve Bank of Atlanta, or by anyone in its behalf, that any Liberty Bonds acquired by banks would be carried indefinitely at a four per cent rate.

While the Governor, in his letter above quoted, says "we are perfectly willing to carry these securities for you as long as you see fit to offer them to us", he did not agree, nor could he have agreed, to maintain a four per cent rate. The Reserve Bank did continue to carry the bonds at four per cent for almost six months after the letter next above set out in full was written, and continued to carry the bonds after November, 1919, although at higher rates, until the repurchase agreement was executed, which agreement, as will hereinafter be shown, eliminated all questions of interest charges.

-VI-

Subdivision VI of the petition deals entirely with certain correspondence between the Fourth and First and the Federal Reserve Bank of Atlanta, a large part of which has reference not to Liberty Bonds, but an entirely different thing, to-wit: Treasury Certificates. Insofar as the correspondence concerns Treasury Certificates, it is, of course, wholly irrelevant.

The telegram of October 14, 1918 from the Federal Reserve Bank of Atlanta to the Fourth and First contained a statement that the Federal Reserve Bank would discount notes secured by the Fourth Loan Bonds at four per cent, provided that the rate of the Fourth and First to customers did not exceed four and a quarter per cent. Discounts were made and the matter handled at four per cent for over a year thereafter and until November 10, 1919, when there was a raise in rates to four and a half per cent. The facts certainly

demonstrate that there was no failure on the part of the Federal Reserve Bank of Atlanta in living up to the letter and spirit of the telegram of October 14, 1918.

The letter of December 2, 1918 had reference to the purchase of Treasury Certificates to be issued in anticipation of another issue of Liberty Bonds.

The letter of May 14, 1919, sent by the Governor of the Federal Reserve Bank of Atlanta to the Fourth and First, is not set out in the petition of the Fourth and First, but the same is set forth in a preceding portion of this answer. The purpose of the letter of May 14th was to call attention to the fact that the Fourth and First was then receiving accommodations to an extent not granted any other institution. The extent of that excess accommodation is indicated in a letter written by the Governor of the Federal Reserve Bank to Mr. Caldwell, President, on July 23, 1919, by a statement therein set out of the largest amounts loaned to any one bank in the Sixth District, viz:

Alabama	\$2,000,000	Georgia	\$ 5,400,000
Florida	2,000,000	Tennessee	14,600,000
Louisiana	3,400,000	Mississippi	380,000.

The petition of the Fourth and First sets out on page 14 a portion of a letter written by Mr. Wellborn on June 28, 1919. The entire letter is as follows:

"I am in receipt of your letter of June 27, and am very glad that you have written me upon this subject.

"We are very anxious for our member banks to subscribe to the various offerings of the Treasury Department, which will be from now on confined to Treasury Certificates of Indebtedness. I am quite sure that the Government will not resort to any more popular loans through bond issues, and therefore it is very necessary for the banks throughout the country to assist the Treasury Department by purchasing from time to time Certificates of Indebtedness. These offerings appear to me to have nothing to do with the subject on which I wrote you some time ago, and permit me to say that the matter referred to in my former correspondence related to the action of the member banks going into the open market and purchasing bonds in order to make a profit for themselves, which would therefore tie up the resources of our member banks, and it of course follows that the Federal Reserve resources would also be tied up with these open market operations, and thereby render both the member banks and the Federal Reserve Bank impotent to take care of the offerings of the Treasury Department, and as I see it the proposition that you make to me today is entirely along another line. I not only request you to subscribe largely to these offerings of Treasury Certificates of Indebtedness, but urge upon you to do so, and wish to add that the Federal Reserve Bank will take the greatest pleasure in standing back of you in carrying these obligations for your bank."

The excerpt from this letter of June 28th, 1919, as set out in the petition of the Fourth and First, is entirely misleading. In the said letter of June 28th, the Fourth and First was not urged to buy Liberty Bonds, but the request was to buy Treasury Certificates. Said letter is set out in full above and speaks for itself.

Nowhere in this correspondence is there laid even a reasonable basis upon which there could legitimately, either at law or in good conscience, be predicated any demand for a rebate of interest.

-VII-

Subdivision VII of the petition contains a statement that the Federal Reserve Bank "carried all loans of the Fourth and First secured by government obligations up to November 10, 1919 at the rate of 4 per cent. This was the bond rate on the Second Liberty Loan issue, and under the bond rate on all other later issues." That statement is, of course, true, but there is nothing anywhere in the petition contained to sustain the charge which is made by implication that when the rate was finally raised such action was in violation of some contract or agreement.

-VIII-

Subdivision VIII of the petition contains a recital of the dates upon which raises in rates were made. It shows that the rate remained at four per cent until November 10, 1919, and was gradually increased until May 6, 1921, when it reached six per cent, thereafter declining. This table is followed by the unsustained charge, unsupported by documentary or other evidence of any kind, that "the Federal Reserve Bank had induced us to buy these large amounts of bonds upon the express agreement that they would be carried at not exceeding the bond rate, and that to increase the rate was a breach of the bank's agreement with us."

We may say such a conclusion requires no answer, inasmuch as the elaborate petition prepared by the Fourth and First sets out no paper, letter, document, or even the recital of a verbal statement which could by any stretch of the imagination be regarded as an express agreement to carry bonds for an indefinite time at not exceeding the bond rate, we might well pass by the charge without further comment, but inasmuch as this is not a legal proceeding, but only a correspondence between this bank and one of its members, we submit a few remarks to show the ⁵⁷groundless nature of the charge.

In the first place, the rate remained undisturbed until November 10, 1919. Surely this was a most complete compliance with any moral obligation which could have rested upon the Bank. Again, it is well known that the Federal Reserve Board is the body which finally determines the rates obtaining from time to time. The Federal Reserve Bank of Atlanta could not, had it desired, have entered into any agreement which would be so far beyond its powers as that contended for by the Fourth and First. Repeatedly, statements were made that the rate on Liberty Bonds would inevitably be advanced. In his letter of July 30, 1919 to Mr. Caldwell, President, Mr. Wellborn stated:

"The increase in rates of the Federal Reserve Banks for carrying Government Bonds is bound to come sooner or later - it is simply a question of time."

In another portion of the same letter, Mr. Wellborn said:

"At the conclusion of the Victory Loan in May, it was generally understood that our present rate would remain undisturbed for a period of at least six months, but after that time, I feel reasonably sure that the rate will be raised in order to bring around a liquidation of these loans and relieve the banks as much as possible."

Gentlemen as intelligent and well informed as the officers of the Fourth and First must have known that there could be no such thing under the law which governs the Federal Reserve Banks as an agreement to carry obligations, however secured, indefinitely at stationary rates.

-IX THROUGH XIX-

Whatever is contained in subdivisions IX-XIX, both inclusive, which might be considered as relevant to the contentions of the Fourth and First, has been substantially answered in the above and foregoing, or will be answered hereafter in what is said with reference to the matters contained in the subdivisions of the petition subsequently herein indicated.

THE REPURCHASE AGREEMENT.

Whether or not there was any justification on the part of the Fourth and First in feeling satisfied that it would be carried indefinitely on its obligations secured by Liberty Bonds at a four per cent rate, the fact is that the Federal Reserve Bank of Atlanta finally, in order to aid the Fourth and First and to extricate it from what it describes in its own petition as "a very precarious situation", entered into the contract referred to in the petition of the Fourth and First as the "repurchase agreement." This agreement became effective as of May 28, 1921, only twenty-two days after the six per cent rate went into effect. Simultaneously with the execution of the repurchase agreement, the Federal Reserve Bank of Atlanta took from the Fourth and First the Liberty Bonds which it then held, to the amount in par value of \$7,987,850.00. The price at which the Federal Reserve Bank of Atlanta took over said bonds was the price at which the same were then being carried by the Fourth and First on its books. The fact that the Fourth and First was relieved of its bond holdings at the price at which it was then carrying the same on its books is shown by a resolution of the directors of the Fourth and First, passed at a meeting of the Board on the 27th day of May, 1921. One of the preambles of that resolution is as follows:

"Whereas, the Federal Reserve Bank of Atlanta is willing to purchase certain of said bonds, at a price equivalent to the amount at which this bank is at this time carrying said bonds on its books, upon condition, however, that this bank will repurchase the same at the same price paid therefor by the said Federal Reserve Bank of Atlanta and upon terms and conditions fully set forth and contained in a contract proposed to be entered into between the said Reserve Bank and this Bank, a copy of which proposed contract is hereby made in all respects a part of this resolution and is to be spread upon the minutes as a part thereof."

The repurchase agreement, entered into pursuant to said resolution, provided that the Fourth and First would, within a maximum time of two years from and after May 28, 1921, buy the said bonds at \$7,987,850.00 (that being the exact figure at which they had been taken over by the Federal Reserve Bank of Atlanta, and the figure named in the resolution of the directors of the Fourth and First), plus interest accrued and uncollected at the time of delivery to the Fourth and First. On the purchase price, there was to be paid

at monthly intervals on the 30th day of June, 1921 and thereafter, a sum equivalent to one-tenth of one per cent of the aggregate principal amount of said bonds. The contract provided in express terms that the Federal Reserve Bank of Atlanta had the absolute right, at its option, to require the full payment of any portion of the purchase price at any time unpaid, upon giving sixty days notice. The agreement was full and complete. It is substantially set forth in the resolution of the directors aforesaid. The resolution of the directors expressly recited, among other things:

"It being understood, however, that said Reserve Bank is under no obligation to renew or extend any loan or advance theretofore made by it to this bank, or to grant to this bank any new loan or advance."

The agreement was carefully considered in all of its phases and discussed at length by all parties before the same was signed. The contract was full, complete, and explicit in its terms, and it is not even charged in the petition of the Fourth and First that it was not lived up to in every particular by the Federal Reserve Bank of Atlanta.

It is true that the Fourth and First complains (which particular complaint will be hereinafter fully considered) that the terms of the repurchase agreement were, with respect to certain of the bonds covered thereby, drastically applied, but no complaint is made that the contract itself was not fully complied with by the Federal Reserve Bank of Atlanta.

Under the terms of the repurchase agreement all questions of interest charges were eliminated, because the yield on the bonds automatically took care of any returns received by the Federal Reserve Bank of Atlanta under the agreement.

Any controversy which might have existed prior to the execution of said repurchase agreement was terminated by that contract, and the officers of the Fourth and First National Bank expressed themselves as being very grateful to us on entering into the contract. Any interest drain on the Fourth and First was checked thereby. The agreement put into effect a plan of salvation, which, in this case, actually saved.

Shortly after the repurchase agreement was executed the market value of Liberty Bonds began to rise. When the bonds reached a figure at which

they could be readily disposed of at or above the contract figure (that is, the figure at which they had been acquired by the Reserve Bank from the Fourth and First and resold to the latter), the Federal Reserve Bank properly took the position that the repurchase agreement had served its purpose and that the long standing obligations of the Fourth and First should at last be liquidated. Accordingly, under the terms of the contract, the Reserve Bank exercised its option to call for the payment of the remaining unpaid purchase price of the bonds. The call, however, was not peremptory. The Governor of the Reserve Bank suggested a sale of the bonds by the Fourth and First in the early part of November, 1921. It was not until the following December that the sixty days notice was given under the contract, and then every opportunity was extended to the Fourth and First to sell the bonds in an orderly way without dumping the same on the market at one time.

It was not until February 1922 that the last of the bonds were taken up by the Fourth and First, or sold by it.

It is well to bear in mind that under the contract the Federal Reserve Bank called for the payment of the unpaid purchase price due under the repurchase agreement. The Fourth and First responded by selling at intervals certain of the bonds. The bonds were sold by the Fourth and First - not by the Federal Reserve Bank.

There is no contention made that any proceeding taken by the Federal Reserve Bank was inconsistent with the contract of repurchase, or violative of any of its provisions. As we understand the petition of the Fourth and First, the most that it contends is that the agreement should not have been availed of to bring about a liquidation of the obligations in January and February, 1922. Let us inquire for a moment as to whether or not the Federal Reserve Bank was harsh in any of its demands.

In Subdivision XVI of the petition is contained the statement that the Fourth and First intended to carry these bonds until the spring of 1922, at which time it felt that it could make a large profit. The complaint is that the action of the Federal Reserve Bank, in carrying out the contract, prevented the Fourth and First from realizing that profit.

As heretofore stated, the Fourth and First had, for a long time, consistently absorbed more than its share of credit in the Reserve Bank, attempting to justify that discrimination with the plea that the bulk of its obligations arose out of its "Government financing." Justice to other member banks required equal accommodations to all, particularly at a time when the facilities of the Federal Reserve Bank were taxed to the utmost.

The repurchase agreement continued in effect this discrimination in favor of the Fourth and First. When finally the time arrived when, by the application of the terms of the repurchase agreement, the Reserve Bank could at last liquidate these obligations upon a basis which would yield to the Fourth and First at least the amount of the purchase price, as contained in the contract, the officers of the Reserve Bank could not in fairness have done anything except relieve the situation of long standing.

The repurchase agreement was made in aid of a definite plan and purpose. As heretofore stated, it was not entered into as a vehicle of speculation in order that the Fourth and First might continue to hold its bonds until such time as it felt it might realize the maximum of profit. No man could know at the time the Federal Reserve Bank called for the payment of the unpaid purchase money that the bonds would continue to show an increase in market price. It was quite possible that they might have declined again in price. About that time it was believed by many that a Bonus Bill would be passed; and, in such an event, the Government would have been obliged to issue bonds, which would of course have resulted in depreciating the price of outstanding bonds. When the bonds reached a figure at which the obligations of the repurchase agreement could be satisfied by a sale of the bonds, the officers of the Federal Reserve Bank of Atlanta should not have been expected to take the responsibility of disregarding the opportunity to liquidate the obligation at the contract figure. Had the bonds reached or passed the contract figure, and then declined below it, the resulting situation would have been one for which they would have felt keen regret, and for which they would have been justly subjected to criticism.

The repurchase agreement was entered into to get the Fourth and First out of its "precarious situation" - not to allow it indefinitely to hold the bonds in anticipation of realizing possible larger profits.

The petition hints at great losses to the Fourth and First on account of actions of the Federal Reserve Bank, although nothing definite with respect thereto appears in the petition. On February 1, 1922, however, Mr. Caldwell, the President of the Fourth and First, wrote his stockholders as follows:

"To the Stockholders:

"Enclosed herewith you will find a combined statement of the ~~KENNER~~ condition of the Fourth and First National Bank and the First Savings Bank & Trust Company, at the close of business, January 31, 1922.

"The main points to which your attention is called is the increase in fixed surplus of \$200,000.00, making the account stand at \$1,410,000.00, and the decrease in Government bonds of \$8,000,000.00.

"The Fourth and First National Bank has demonstrated that patriotism and faith in our Country pays.

"When this Country entered the war, the Bank enlisted without reservation. It considered that its position in the banking world called for all the assistance it could give the Government in its financing. It regularly headed the list of subscribers to all offerings of Liberty and Victory Loan and Treasury Certificates, furnishing the Government through these various issues quite \$40,000,000 - a far greater per cent of its capital than any other bank in the United States. At the wind-up of these campaigns, it had on hand quite \$13,000,000.00 of Victory and Liberty Bonds, which declined in market value to about 83 cents on the dollar, creating the appearance of a very severe loss. But the Bank's confidence in our Country caused it not to lose faith in the securities or sacrifice them, and it has recovered the loss, and actually returned a credit to the profit account of over \$300,000.00 - \$200,000.00 thereof being passed to permanent surplus, and out of the remainder an extra dividend of 5% has been declared, as per notice herewith.

"Yes, we repeat it, the Fourth and First National Bank has had its patriotism and confidence in the Country splendidly vindicated. "

No one reading that letter, and knowing that the fortunate result depicted therein was possible only because of the help of the Federal Reserve Bank of Atlanta, would dream that while Mr. Caldwell was writing the same he felt that his bank had been the victim of harsh and unjust treatment at the hands of the Reserve Bank.

In all fairness, we submit that the record contains only a recital of consideration shown the Fourth and First by the Federal Reserve Bank of Atlanta, which alone enabled the Nashville bank to send its stockholders the above recital of its achievements.

-XV-

This subdivision contains statements which, in effect, would charge the Federal Reserve Bank with refusing to allow the Fourth and First an indulgence of ten days after February 2, 1922, in which to dispose of \$1,200,000.00 of bonds to one of the Farm Loan Banks. On the face of the petition, it might appear that while within the terms of the contract, the Reserve Bank was, nevertheless, peremptory in its treatment of the Fourth and First.

It is recited in the petition that by February 2, 1922, the Fourth and First had sold all of the bonds except \$1,200,000; that on February 2, 1922, it wrote to the Federal Reserve Bank stating these facts and saying that it had made arrangements to dispose of \$1,200,000 of bonds to take effect on February 10, 1922, and asking for a few days beyond February 10th in which to close the transaction; that on February 3rd, the Federal Reserve Bank wrote declining to give this additional time and demanding payment in full on February 3rd, stating that the notice to sell was given as of December 5, 1921, and expired February 3, 1922. The facts in the case, however, in no way bear out that charge of inconsiderate treatment.

Mr. Caldwell's letter of February 2, 1922, is substantially as stated in the petition. Governor Wellborn's reply thereto is as follows:

"We are in receipt of yours of February 2nd with reference to the remaining \$1,200,000 of Third Liberty Loan Bonds covered by your agreement to repurchase. We had noted the gradual manner in which you disposed of the Fourth Liberty Loan Bonds covered by the same agreement, as well as some that were pledged as collateral to your direct note borrowings, and it was gratifying to note the statement made in the circular sent to your stockholders February 1st that you had not only recovered the loss, but actually returned a credit to profit account of over \$300,000.

"You are incorrect in that our notice for the termination of the agreement expires on the 12th instant; the sixty days notice was given you as of December 5, 1921, and therefore expires today. Letter making formal demand was mailed in due course and should be in your hands today.

"In view of the fact that all of the Fourth Liberty Bonds covered by the agreement have been repurchased, and you state you have made an arrangement for carrying the \$1,200,000 of Thirds, to become effective February 10th, while we cannot extend the repurchase agreement, we are willing to make you a fifteen day loan against the bonds as collateral, and thus provide you with funds to make the repurchase. If your new arrangement becomes operative February 10th, making it possible for you to anticipate the note, we shall, of course, be glad to rebate the unearned discount. The unpaid purchase price on the said \$1,200,000 of Thirds is \$1,190,400. plus accrued interest to date of payment. The note should be made for the latter amount, and provision made in your reserve account for the charge covering the accrued interest".

Mr. Caldwell acknowledged receipt of this letter under date of February 4, 1922, as follows:

"I am in receipt of your letter of the 3rd instant, and note your suggestion that it will be agreeable to transfer the \$1,200,000 U.S. Bonds, remaining under the repurchase arrangement, into the bills payable account."

It should be noticed particularly that, while Governor Wellborn did not feel that he would be justified in varying the terms of an express contract, he did unconditionally offer, on behalf of the Reserve Bank, to put the Fourth and First in funds with which to comply with the terms of the repurchase agreement, his exact language being "we are willing to make you a fifteen day loan against the bonds as collateral, and thus provide you with funds to make the repurchase."

It subsequently developed that the sixty day period did not expire on February 3rd, as stated in Mr. Wellborn's letter, but upon February 10th. On February 6th, Mr. L.C. Adelson, Deputy Governor, advised Mr. Caldwell, President, of the mistake which had been made in dates, and confirmed his telegram in a letter as follows:

"In the absence of Governor Wellborn, I acknowledge receipt of your letter of February 4th in response to his communication of the 3rd instant, relating to the \$1,200,000 of Liberty Bonds remaining under your repurchase agreement.

"I confirm telegram sent you this morning, advising that you are correct in that the sixty days notice will expire on February 10th; it was my error in informing the Governor that February 3rd was the expiration date.

"As stated in the telegram it will be entirely agreeable for the repurchase to be made by February 10th. If your arrangement, as set forth in your letter of February 2nd, to take care of the matter has not reached its conclusion by the 10th, it will be satisfactory for you to provide for the repurchase price through a loan transaction; we, of course, rebating the unearned discount, if the paper is taken up before maturity.

"Regretting any annoyance occasioned you by the erroneous statement as to the expiration date, we are."

It should be noted that Mr. Adelson reiterates the offer of the part of the Federal Reserve Bank to provide funds for the repurchase through a loan transaction.

On February 10th, the Federal Reserve Bank of Atlanta was advised through its Nashville Branch to charge the account of the Fourth and First National with the balance due on their Liberty Bond repurchase agreement, wiring the amount of the charge, and directing the Federal Reserve Bank of Atlanta to hold the bonds in safekeeping for the account of the Fourth and First.

It appears, therefore, unmistakably from the written record that the Federal Reserve Bank of Atlanta did not compel the Fourth and First to force the bonds on the market in any drastic manner, but, in the contrary, offered to provide all funds necessary to prevent any hardship in the premises.

We lay particular stress on this answer to the charges contained in subdivision XV of the petition, because said subdivision sets out the only specific statement of what on its face might apparently be a lack of consideration on the part of the Reserve Bank. Although we believe we have in ~~these~~ this answer entirely refuted the charges of any inconsiderate treatment, we cannot forego the query: What has this matter to do with a demand for a rebate of interest charged and collected prior to the execution of the repurchase agreement ?

SUMMARY.

Attention is again directed to the fact that the specific demand of the Fourth and First is for a rebate or refund of alleged excess interest which it says was charged it pursuant to the terms of a contract. After a close study of the petition, we are still unenlightened as to when this contract was entered into and as to its terms and provisions.

We are perfectly confident that the Fourth and First has no legal claim of any kind or character against this Bank. We are equally confident that no unbiassed mind can, on a review of the facts, reach the conclusion that the Federal Reserve Bank of Atlanta has been in any way or to any extent guilty of oppressive or unfair dealing with the Fourth and First.

We conclude, therefore, that we have breached no "contract", either express or implied, with the Fourth and First - certainly no "contract" pursuant to which that institution could expect to acquire and hold a very large amount of Government securities yielding in excess of four per cent financed

without limitation upon ~~XXXX~~ loans at a rate less than the yield.

All that is herein contained is said in a spirit of kindness and friendship, and with deep respect for the Fourth and First and its officers.

We regret the fact that any misunderstanding has arisen between this bank and one of its highly esteemed members. We trust that this statement of the view point of the Federal Reserve Bank of Atlanta will disabuse the minds of the officers of the Fourth and First of what we believe to be an unsound conception of the liability of this bank in the premises: nor do we believe that the Fourth and First National Bank has any just or reasonable claim against ~~XXXX~~ ^{our} bank. It seems perfectly evident that if the Fourth and First sustained any loss on its Liberty Bond transactions, it was merely in that it did not realize therefrom the maximum of possible profit. If the Fourth and First lost any money, it was certainly not the only bank or individual sustaining loss on Liberty Bond purchases. Surely the Federal Reserve Bank of Atlanta should not be held responsible to every one who sold bonds at less than par, or who borrowed money on the security of Liberty Bonds at a rate higher than the bond yield. Many thousands of bond buyers sustained such losses - reasonably taking the view that it was their contribution to winning the War.

Respectfully,

FEDERAL RESERVE BANK OF ATLANTA

By _____

Copy filed pocket
9/15/23

[The body of the document contains several paragraphs of text that are extremely faint and difficult to read. The text appears to be a formal letter or report, possibly related to a business or legal matter. It includes a header section, a main body with multiple paragraphs, and a closing section. The text is mirrored across the page, suggesting it was scanned from a document with bleed-through or a similar effect.]

Office Correspondence

FEDERAL RESERVE BOARD

Date March 24, 1922.

RECEIVED

To Governor Harding.

Subject: Liberty Bonds taken under Repurchase Agreement by the Federal Reserve Bank of Atlanta.

From Mr. Smead.

#6

3-2-23

332.3-7

With reference to my memorandum of September 15, 1921, to which was attached a statement showing Liberty bonds aggregating \$10,273,561 acquired by the Federal Reserve Bank of Atlanta from its member banks under the special repurchase agreement approved by the Federal Reserve Board in the early part of 1921, I beg to say that the Federal Reserve Bank now holds no Liberty bonds under repurchase agreement, the entire amount having been redeemed by the member banks in January and February of this year.

Bank of Tennessee

#6

~~333~~
332.3-7

February 14, 1933.

My dear Adelson:

I acknowledge receipt of your letter of the 10th instant, which I brought to the attention of the Board.

It seems to us that the liquidation of the bonds which were held by your bank for account of the Bank of Tennessee has been accomplished in a very satisfactory manner, and I cannot see that that bank has any grounds whatever upon which to base a suit. If one should be filed, I do not think you would have any difficulty in having it thrown out of court.

Very truly yours,

G o v e r n o r .

Mr. L. C. Adelson, Acting Governor,
Federal Reserve Bank,
Atlanta, Georgia.

*Bank of Tennessee
to
Franklin D. Roosevelt
2/13/22*

#6

FEDERAL RESERVE BANK

OF ATLANTA

#6

~~332-3~~

3323-7

OFFICE OF
DEPUTY GOVERNOR

February 13th, 1922.

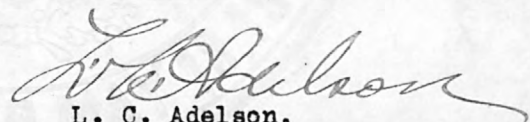
RECEIVED
FEB 15 1922
OFFICE OF
THE GOVERNOR

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

Dear Governor Harding:

For the information of your Board, there are enclosed, copies of correspondence with the Bank of Tennessee Nashville, Tennessee, and copy of a letter I am today writing to Governor Wellborn, who is away on a short vacation, all of which I trust will meet with the approval of the Board.

Respectfully,



L. C. Adelson,
Acting Governor.

LCA:H

FEDERAL RESERVE BANK
OF ATLANTA

BANK OF TENNESSEE

214 Union Street.

NASHVILLE

Feb. 11, 1922.

Federal Reserve Bank,
Atlanta, Ga.

Gentlemen:

We enclose our note dated Feb. 13th for \$97,000.00, maturing in fifteen days, secured by \$100,000.00 par value U. S. Third 4 $\frac{1}{2}$ % Liberty Bonds, with application in duplicate attached; also our note for \$192,000.00, due in fifteen days, secured by \$200,000.00 par value U. S. Fourth 4 $\frac{1}{2}$ % Liberty Bonds, with application in duplicate attached.

On Feb. 13th please instruct the Federal Reserve Bank of New York to accept these bonds from Messrs. Kidder, Peabody & Co., 18 Broad St., New York, N. Y., against payment of \$289,000.00

Yours very truly

BANK OF TENNESSEE

Signed, J. H. Crowdis,

Cashier

Encl^o. Notes, etc.

JHC:JG

FEDERAL RESERVE BANK
OF ATLANTA

February 13th, 1922.

Mr. J. H. Crowdis, Cashier,
Bank of Tennessee,
Nashville, Tennessee.

Dear Sir:

We today received yours of February 11th, offering for discount, your two fifteen day notes, dated February 13th, for \$ 97,000 and \$ 192,000, secured by \$ 100,000, par value Third Liberty Bonds and \$ 200,000, par value Fourth Liberty Bonds, and requesting that we instruct the Federal Reserve Bank of New York to accept the said bonds from Messrs. Kidder, Peabody and Company, 18 Broad Street, New York, N. Y., against payment of \$ 289,000.

The matter of extending this accommodation was considered by our Discount Committee, and I was directed to wire you as follows; which I now confirm,

Receipt acknowledged your letter February 11th, offering for discount notes aggregating \$ 289,000 secured by \$ 100,000 par value Third Liberties and \$ 200,000 par value Fourth Liberties, said securities to be delivered to Federal Reserve, New York, against payment \$ 289,000. Discount accommodation to you at this time in amount stated not sanctioned by our Committee. Your basic discount line, based on reserve maintained and investment in our capital stock, during 16 day period ending January 31st, is \$ 120,720.

Because of fact that some member banks are not asking discount accommodation or are borrowing less than basic discount lines, and the further fact that your condition statement December 31st, 1921 showed ownership \$ 253,000 Liberties, our Discount Committee is willing to extend you \$ 250,000 accommodation, notwithstanding same condition statement does not show that the accommodation is needed because of agricultural, commercial or industrial demand, approving the advancement as arising for the carrying of or trading in bonds and notes of the Government of the United States, with the understanding that any amount of accommodation extended you in excess of your basic discount line may

FEDERAL RESERVE BANK
OF ATLANTA

2.

at any time be called, if, in the opinion of our Discount Committee, the funds are needed in order to care for the claims and demands of other member banks.

Answer if above acceptable and give necessary instructions. Payment cannot be made in New York today as it is a holiday."

We later received your telegram, reading

"Your telegram today meets with approval. Use note \$192,000 on Fourth Liberties. Sending new note tonight secured by Third Liberties."

We assumed that your letter forwarding the note for \$58,000, secured by Third Liberties, will contain amended instructions as to the amount to be paid Kidder, Peabody and Company, on the par value amount of bonds to be received against said payment.

With the new note and details referred to in our hands, we will complete the transaction under the usual advices. As stated in our telegram, today is a legal holiday in New York, and the banks are closed.

Very truly yours,

LCA:II

L. C. Adelson,
Acting Governor.

FEDERAL RESERVE BANK
OF ATLANTA

February 13th, 1922.

Mr. M. B. Wellborn, Governor,
c/o McAllister Hotel,
Miami, Florida.

Dear Governor Wellborn:

There is enclosed, copy of letter today received from the Bank of Tennessee, and copy of communication we have today written them, which are self-explanatory.

Mr. Hopkins, Mr. McVord, Mr. Campbell and the writer were present at the Executive Committee meeting today, when this request for accommodation came up for consideration. While on its face, the transaction appears to be a revival of the same kind of transactions that brought about much unpleasantness, the Committee could not overlook these essential features:

1. That their condition statement as of December 31st, 1921, showed ownership of \$ 253,000 of Liberty Bonds.
2. That it is altogether possible that the said \$ 253,000 of bonds represented a greater part of the amount of securities to be received from Kidder, Peabody and Company, against the payment of \$ 289,000, which may have been carried by this concern for the Bank of Tennessee on the repurchase agreement, with other securities as collateral to cover the difference between the purchase and market price.
3. That papers arising from the carrying of and trading in of bonds and notes of the United States are specifically made eligible by the Federal Reserve Act.
4. That because of the reserve balance maintained with us and investment in our capital stock, the bank is entitled to accommodation on eligible paper, ~~for~~ at least the amount of the theoretical basic line.
5. Our reserve position being very good, coupled with the fact that it is no doubt known to the subject bank, that we are extending accommodation to many members in excess of the discount line, should we have offered accommodation of only

FEDERAL RESERVE BANK
OF ATLANTA

2.

\$ 120,720, they could make the charge of discrimination.

6. Their capital and surplus being \$ 250,000, the class of paper being eligible and their having shown ownership of that amount of Liberty Bonds on December 31st, 1921, the Committee felt they could at this time, justifiably grant the amount of accommodation as stated in our telegram.

You will note the telegram I sent, cannot be construed by them other than that \$ 250,000 is the limit that we only give them such assistance at this time because of our easy position; but that if at any time the amount of accommodation extended them, in excess of their basic discount line, is needed to care for the claims and demands of other member banks, it is subject to call.

Their unqualified telegram of acceptance does not in my opinion, leave any opening for "back-fire" at a later date.

I trust that our handling of the matter will meet with your approval and with kind regards, I am

Very truly yours,

LCA:H

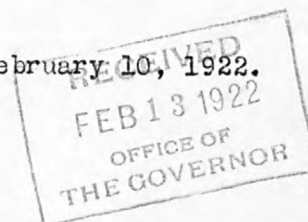
L. C. Adelson,
Acting Governor.

FEDERAL RESERVE BANK
OF ATLANTA

332.3-7

OFFICE OF
GOVERNOR

February 10, 1922.



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

Dear Governor Harding:

Referring to our advice some time ago, that we had given notice to the Bank of Tennessee, Nashville, for the termination of the bond repurchase agreement and their subsequent objection thereto, which culminated in our granting a sixty-day period for the gradual sale of securities, which they asked be not adhered to, and that they be permitted to make the repurchase over a period of months, perhaps, until April, to which we did not agree,-

After a month had elapsed from the date of our notice (Dec. 12th), and nothing had been done by them, we proceeded gradually to sell the bonds, so as to liquidate the unpaid purchase price, which, at that time, amounted to \$1,416,000.00 for \$1,500,000.00 par value of bonds.

On January 13th, we sold the first block of \$250,000.00, under notice to the Bank of Tennessee that we had done so, which notice was duly acknowledged by A. H. Roberts, Attorney for the bank, stating that Mr. Caldwell was out of the city and would not return for several days, but that, when he did return, the matter would be taken up with him; stating further, that the Bank of Tennessee relied and adhered to the statements and contentions made in their former communications, particularly those of December 14th and December 23rd. Despite the statement that upon Mr. Caldwell's return they would communicate with us more fully on the subject, we heard nothing, except that, when there had been several other sales made by us, they requested the return of the securities held by us as collateral covering the difference between the carrying value and the market, with which request we promptly complied.

Additional sales of \$250,000.00 each were made January 18th, 24th and 26th. Further sales were made of \$100,000.00 each February 2nd and 3rd; \$50,000.00 February 4th; \$100,000.00 February 6th; and \$109,000.00 February 8th. The sixty days will expire today. The average price obtained on the \$1,459,000.00 of bonds sold was 97.1385+, less brokerage, 1/16, \$911.88, net, \$1,416,339.72, of which we used \$1,416,000.00 in payment of the repurchase price, crediting the account of the Bank of Tennessee with the remainder, \$339.72.

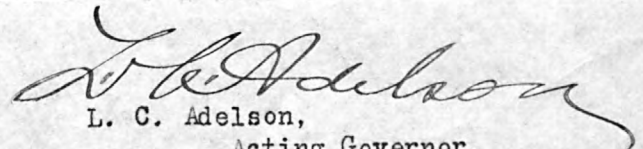
FEDERAL RESERVE BANK OF ATLANTA
CONTINUATION SHEET NO.

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

This leaves \$41,000.00 of bonds still in our hands, which we have advised the Bank of Tennessee we hold subject to their instructions.

As near as I can arrive at it, from the data in our hands, the net cost of \$1,750,000.00 of Fourth Liberty Loan Bonds to the bank, including the principal and accrued interest paid at the time of purchase, interest paid on borrowings, penalties for deficient reserves, prepayments on the repurchase price and reductions in direct note borrowings, less the coupon earnings of the bonds, was \$1,686,532.38. \$250,000.00 of the bonds were pledged as collateral to direct note borrowings, which bonds they sold, but, at what price, we are not informed. The delivery was ordered on December 12th, and the market closed that day at 97.28. Allowing for the sale to have been made at 97.00, they received \$242,500.00. We sold \$1,459,000.00, which netted them \$1,416,339.72; so that, to cover the \$27,692.66 difference, they have left \$41,000.00 par value of bonds, which indicates, in itself, that they have made a profit of about \$12,000.00.

Very truly yours,


L. C. Adelson,
Acting Governor.



TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

RECEIVED AT WASHINGTON, D. C.

3323

RECEIVED
FEB 2 - 1922
OFFICE OF THE GOVERNOR

86anr

Atlanta 1157a Feb 2

1922 ✓

Harding

332-3-7

Washn

2/2/22

Answering telegram carrying under repurchase agreement at present \$2,805,000 sold approximately \$7,200,000. One bank voluntary took up their bonds small amount. Sales for other two banks probably known to you.

McCord.

1P

FEDERAL RESERVE BOARD

LEASED WIRE SERVICE
WASHINGTON

332.3-7

The telegram given below is hereby confirmed. -----

February 2, 1922

2-6454

McCord

Atlanta

Without undertaking to determine matter for your bank, am inclined to agree with you that subject to approval your Counsel it would be better to extend repurchase agreement thirty days rather than to make banks loans on their bonds. Market was firm yesterday and hope that your banks will be inclined to sell on the advance. Please inform me amount of bonds you are still carrying under repurchase agreements and amounts that have been disposed of.

HARDING

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

3323-7

14anr

RECEIVED AT WASHINGTON, D. C.

RECEIVED
FEB 2 - 1922
OFFICE OF
THE GOVERNOR

Atlanta 9 32a an Feb 2

Harding

Washn

Sixty day notice on repurchase of bonds expires Feby 5. Banks that have not sold want now take up their agreement and borrow money on bonds from us. Personally I think we should not increase these loans by taking up repurchase agreements. Once back in loan column they are likely to remain there. My personal opinion better to extend notice thirty days kindly wire your suggestions.

McCord.

1040a

Office Correspondence

FEDERAL RESERVE
BOARDDate February 2, 1922.To Governor Harding.

Subject: _____

From Mr. Smead.REC'D IN GENERAL FILES
NOV 11 1937

2-8495

333.1

332-3-7

During the past few weeks a number of the Federal reserve banks have been purchasing Victory notes at a premium, and the question has arisen as to whether the amount of the premium paid should be immediately charged to profit and loss or set up as a separate account on Form 34 to be amortized off daily or at the end of each month.

In order that the amount and annual rate of earnings on U. S. securities may be stated correctly, it is recommended that the Federal reserve banks which purchase U. S. securities at a premium or discount be instructed to set up new accounts as follows:

"Premium on United States securities"

"Discount on United States securities"

and that the proper amortization of amounts thus set up be made into the bank's earnings on U. S. securities either daily or as of the last day of each month. All U. S. securities except those taken under repurchase agreements are now carried by the Federal reserve banks at par.

Attached hereto is a draft of a letter which it is recommended be sent to the Federal reserve banks advising them of the method to be followed in handling both premium and discount on U. S. securities.

332.3-7

February 2, 1922.

SUBJECT: Discount and Premium on
United States Securities.

Dear Sir:

Reports received by the Board during the past few weeks indicate that considerable amounts of Victory notes are being purchased by certain of the Federal Reserve banks at a premium.

In order that the amount and annual rate of earnings on U. S. securities may be correctly stated, i.e., based on cost price, it is requested that premium paid, if any, on U. S. securities purchased by your bank be set up in a separate account, and that such premium account be credited and the bank's earnings on U. S. Securities debited with the proper amortization charge either daily or at the end of each month. Likewise, should the bank purchase U. S. securities at a discount, the amount of the discount should be set up in a special account, "Discount on U. S. securities", which account should be charged and the bank's earnings on U. S. securities credited with the appropriate amortization charge either daily or as of the last day of each month.

On balance sheet, Form 34, the discount or premium accounts may be combined and shown against the caption "Discount and premium on U. S. securities", code BIND. The amount of such discount or premium should of course be treated as a deduction from or addition to the par value of earning assets in order to obtain the "liquid value of earning assets" to be reported on daily balance sheet, Form 34.

Very truly yours,

G O V E R N O R .

(Letter to all Agents)

54

*Put
Caldwell's letter
Wash. Tenn. #6*

FEDERAL RESERVE BOARD FILE
~~3323~~
3323-7
Mark

January 17, 1922.

My dear Senator:

I have your letter of the 13th instant, enclosing letter from Mr. James E. Caldwell of Nashville, Tennessee, which I have read and return herewith. The matter to which Mr. Caldwell refers in his letter involves a long story which I would rather state to you than attempt to put into writing and I hope that I may have an opportunity before very long of explaining the situation to you.

Sincerely yours,

G o v e r n o r .

Hon. Kenneth McKellar,
United States Senate.

#6

FEDERAL RESERVE BANK
OF ATLANTA

OFFICE OF
GOVERNOR



January 14, 1922.

PERSONAL.

Dear Governor Harding:-

I have your letter of January 12, enclosing copy of a letter from you to Mr. J.E. Caldwell, of Nashville, Tennessee.

I am very glad that you wrote him, as I believe such a step on your part will be of material aid in causing him to have a better feeling toward us. Very recently, the Fourth and First National Bank has sold \$1,200,000.00 of their bonds. I understand that Mr. Caldwell is "peevish" with me, because I served notice on him, calling for a termination of the Repurchase Agreement. I feel quite sure, however, that when the affair is concluded, he will have a more friendly feeling for me, as I have consistently done everything in my power to save his bank from undergoing a tremendous loss.

Yesterday, we sold for the Bank of Tennessee \$250,000.00 of their bonds, at 98. According to our calculations, the purchase price averaged around 95, when the Nashville institution bought, so that, if the present market maintains itself, no loss will result to the Bank of Tennessee. Next week, we propose to sell another \$250,000.00 of this bank's holdings.

Very truly yours,

MBW

Governor.

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

MBW/WPW

CHARLES E. TOWNSEND, MICH., CHAIRMAN.
THOMAS STEPHENS, S. DAK. KENNETH MCKELLAR, TENN.
JOSEPH I. FRASER, MD. DAVID I. WALSH, MASS.
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ROBERT N. STANFIELD, OREG.
FREDERICK J. DEAMAN, CLERK.
DONALD G. SUTHERLAND, ASST. CLERK.

United States Senate,

COMMITTEE ON
POST OFFICES AND POST ROADS

332.3-7

RECEIVED
JAN 14 1922
OFFICE OF
THE GOVERNOR

Jan. 13, 1922

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

My dear Governor Harding:

Enclosed I hand you a personal letter I have just received from Mr. James E. Caldwell. Please note the second paragraph and then return the letter to me. I hope you can give him a lift. However, keep this letter confidential and return it to me. I am going to drop up to see you in a few days.

Very sincerely yours,

Kenneth McKellar

1/17

1922
332.3-7
W
January 12, 1922

PERSONAL

Dear Governor Wellborn: 2

I enclose for your confidential information copy of a letter which I have today sent to Mr. James E. Caldwell, President of the Fourth and First National Bank of Nashville. It occurred to me that it might be a good idea to let him know some of the possible factors which may operate against a further marked advance in the price of Liberty bonds and although I marked the letter "personal and confidential", I have an idea that in case he is at all impressed with what I have to say he might pass the thoughts along to his son, who, I understand, is President of the Bank of Tennessee.

Very truly yours,

Mr. M. B. Wellborn,
Federal Reserve Bank,
Atlanta, Georgia.

FEDERAL RESERVE BOARD

TELEGRAM
FEDERAL RESERVE BOARD
LEASED WIRE SERVICE
WASHINGTON

Handwritten signature
Randolph
Atlanta.

333

January 12, 1922.

3323-7

Your telegram January 11. Board desires Federal Reserve Bank of Atlanta to act in Bank of Tennessee matter upon its own responsibility, under your advice. Discussion relative to notice in my letter of January 6 to Wellborn was merely a suggestion for bank's consideration.

WSL:B

HARDING.

Handwritten initials

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

332.3 - 7

207anr

RECEIVED AT WASHINGTON, D. C.

RECEIVED
JAN 11 1922
OFFICE OF THE
GOVERNOR

Atlanta Ga 413p Jan 11

Harding

Washington

Bank of Tenn Matter: In my opinion no additional notice necessary or advisable stop If given might provoke litigation. After giving matter careful consideration have so advised Governor Wellborn. If satisfactory to Board bank here will so proceed. Please advise.

Randolph.

Atty

540p

Bank of Tennessee
Ad meeting 1/6/22 #6

FEDERAL RESERVE BANK
333

January 6, 1922.

3323-7

Mr. M. B. Wellborn, Governor,
Federal Reserve Bank,
Atlanta, Georgia.

My dear Governor Wellborn:

I acknowledge receipt of your letter of the 4th instant, enclosing copies of your recent correspondence with Mr. A. H. Roberts, attorney for the Bank of Tennessee, which was considered by the Board at its meeting this morning. It was the unanimous sentiment of the Board that in the reply to you it should be emphasized that in approving, sometime ago, the action of the Federal Reserve Bank of Atlanta in taking over from the Bank of Tennessee \$1,500,000 of Fourth Liberty Loan Bonds under a repurchase agreement, the Board had no thought of permitting the Bank of Tennessee to make a profit out of the transaction by having the Federal Reserve Bank carry the bonds for a further rise after the market price of the bonds had reached the price at which the Bank of Tennessee was then carrying them. According to the resolution of its board of directors, dated June 22, 1921, the bonds were being carried at \$1,425,000.

It was represented to the Board that the situation in Nashville was very acute, and in order to relieve that situation and to prevent the possible failure of the Bank of Tennessee and other banks, the Board took the action that it did. The Board now suggests that you take the matter up at once with your counsel and, if he assures you that you are within your legal rights in so doing, that you sell the bonds gradually over a period of sixty days. A gradual and quiet sale in this way cannot possibly have any effect upon the general financial situation in Nashville and the difference between the par value of the bonds and the average price that will be received for them as a result of these gradual sales will hardly exceed \$45,000 at the most.

The Board wishes me to say furthermore that it regards the transaction which preceded and seemed to necessitate the taking over of the bonds under a repurchase agreement as the most remarkable and **unfortunate** transaction on the part of a Federal reserve bank that has yet come to its attention. I refer to the fact that the Bank of Tennessee, a member bank with a capital and surplus of \$250,000, and which carried a reserve balance of about \$7,000, received

MA


from the Federal Reserve Bank of Atlanta about \$1,900,000 in loans on Government bonds which it had purchased as an investment in the open market at a cost of about \$1,800,000.

The Board would much prefer, of course, that the matter be gotten out of the way without litigation, but to accept the dictates of Governor Roberts would put the Federal Reserve Bank and the Federal Reserve Board in a ridiculous and humiliating position. The Board had nothing to do with the loan as originally made and you are familiar with the reasons which actuated the Board in approving the repurchase agreement. The Board expects your bank to exercise its legal right under the repurchase agreement to the end that the original purposes of that agreement may be accomplished, and to conduct any litigation that may result under the advice of its counsel and upon its own responsibility entirely. If the Bank of Tennessee has any cause of action it is against the Federal Reserve Bank of Atlanta and not against the Federal Reserve Board.

Counsel has called attention to the fact that the copies which have been furnished to the Federal Reserve Board of the resolution of the board of directors of the Bank of Tennessee and of the receipt signed by that bank, both of which are dated June 22, 1921, recite that the bonds were acquired by the Bank of Tennessee under original subscriptions or by taking over original subscriptions. These recitations are not in accordance with the facts as they are understood by the Board, but counsel advises that even though the manner of the acquisition of the bonds by the Bank of Tennessee should become material in any litigation these recitations would not be conclusive.

Counsel calls attention also to the fact that any demand by the Federal Reserve Bank for payment prior to the expiration of five years must be in the form of a notice demanding payment at the end of three days and that the Federal Reserve Bank of Atlanta, after it gave such notice sometime in December, suggested that payment be made in installments, in order to permit the Bank of Tennessee to sell the bonds gradually. Counsel suggests that, in order to avoid the possible contention that the original notice has been waived, a new notice be given demanding payment at the end of three days from date and stating that if this notice is not complied with the Federal Reserve Bank of Atlanta will proceed to sell the bonds at such times and in such amounts as it may deem advisable.

The Board desires to be kept fully advised of development, although, as heretofore stated, the entire responsibility for working out this unfortunate situation rests upon the Federal Reserve Bank of Atlanta.

Yours very truly, 

ASL:R

GOVERNOR

FEDERAL RESERVE BANK
OF ATLANTA

222.3-7

OFFICE OF
GOVERNOR

RECEIVED
JAN 6 - 1922
OFFICE OF
THE GOVERNOR

January 4, 1922.

Dear Governor Harding:-

For your information, I am enclosing a copy of the last letter received from the Bank of Tennessee through their attorney, the Honorable A.H. Roberts; and a copy of my reply thereto.

Copies of all the previous correspondence which has taken place between the Bank of Tennessee and ourselves, are already in your possession; and we should be glad to receive from you further instructions regarding the "winding up" of this affair.

Very truly yours,

M. B. Welborn
Governor.

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

MBW/WPW

Enc. (2)

1/6

COPY.

January 4, 1922.

Dear Sir:-

Referring to your letter of December 23, I wish to say that we do not consider it necessary to go into matters which were settled at the time of drawing up the purchase and repurchase agreement. It is our sole purpose to carry out, to the best of our ability, the provisions of the contract as made.

In your letter, you state that "if this policy is pursued, and if banks like the Bank of Tennessee are to be denied an opportunity to make even a small profit, in the face of abundant reserves in all the Federal Reserve Banks, then there is no recourse left but to test the question out in the courts." We do not feel that the contract existing between us had anything to do with the question of the Bank of Tennessee's making a profit out of their purchase of the bonds; and consider it hardly fair to the other member banks in the Federal Reserve System that their reserves should be used to enable another member bank to realize a profit on its purchase of bonds.

Your statement that the Bank of Tennessee purchased the bonds originally "that it might comply with the wishes of your officials as urged upon the officials of this bank" is one with which, so far as I myself am concerned, I find it impossible to agree.

Very truly yours,

(S) M.B. WELLBORN,
Governor.

Honorable A.H. Roberts,
Attorney for the Bank of Tennessee,
Nashville, Tennessee.

MBW/WPW

COPY.

ROBERTS & COOPER

LAWYERS

COMMERCIAL CLUB BUILDING

December 23, 1921.

NASHVILLE, TENN.

Gov. M.B. Wellborn,
Federal Reserve Bank,
Atlanta, Georgia.

Dear Sir:-

Your telegram of the 21st inst., came during my absence from the city, -hence the delay in making reply thereto.

We note that you have expressed the definite and fixed purpose to begin selling the Liberty Bonds of Bank of Tennessee early in January next, and continuing from time to time until all are sold within sixty days.

We desire to reiterate the statements contained in our letter to you under date of December 14, 1921, and also our notice of same date by telegram.

We very much fear that you do not fully appreciate the importance and the consequences to the Bank of Tennessee, of the action proposed in your recent telegram; and how this action will necessarily affect not only the Bank but the financial situation here. It is not necessary to remind you of the assurances and conditions upon which this Bank undertook to finance this important business transaction. It took a tremendous risk, and, in fact, jeopardized its financial existence, in order that it might comply with the wishes of your officials, as urged upon the officials of this Bank. It is not necessary to remind you of the further fact that this is strictly an agricultural section- corn, wheat, and live-stock being grown here in large quantities- and that this section has been very hard hit by the financial depression, caused very largely, as we believe, by the policy of the Federal Reserve Bank at Washington in withdrawing its loan, notwithstanding the solvency of the security, from agricultural sections, and concentrating the same in New York, one bank having borrowed as much as \$150,000,000.00; another \$100,000,000.00, many millions being loaned instanter when it was no doubt well understood that the larger portion of said funds would be used in speculative channels. If this policy is pursued, and if banks like the Bank of Tennessee are to be denied an opportunity to make even a small profit in the face of abundant reserves in all the Federal Reserve Banks, then there is no resource left but to test the question out in the Courts.

The Bank of Tennessee desires, and expects, to carry out the promise

made in our telegram of December 16th., and would much prefer to have an amicable adjustment of this affair, as early as practicable. But, having fully complied with its every promise and obligation, both in letter and in spirit, and having passed through the period of greatest depression in the Bond Market, and in a way suffered heavy losses, it now feels that in all equity and good conscience it is entitled to be compensated for this risk and loss, particularly when there is no doubt whatever as to the solvency and sufficiency of its collateral, and no doubt whatever as to the future trend of the market upward, as a result of which it will be enabled to recoup its loss, and perhaps make a small profit, if the spirit of its contract, and both the letter and the spirit of the original inducements and assurances made to it, are carried out by the Federal Reserve Board. The Bank feels that it has the right to ask this treatment at the hands of the Federal Reserve Board, and that it ought to insist upon its said rights; and, as stated in our former communications, although the full term of five years was allowed for this very purpose, still the Bank here is willing and anxious to close all these matters during the early part of next year, provided the bond market will justify such action. The Bank has not, by any subsequent arrangements or agreement, abandoned or waived its rights under its original purchase, and, of course, will not do so. Of course, from the foregoing, you will understand that the Bank will be compelled, if the action indicated in your wire is taken, to resort to the Courts for protection against loss and damage, and for the recovery of such damage as may result therefrom.

Very respectfully,

(S) A.H. ROBERTS

ATTORNEY FOR THE BANK OF TENNESSEE.

AHR*BF.

