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Pocket agreement *Fourth First Natl Bk*

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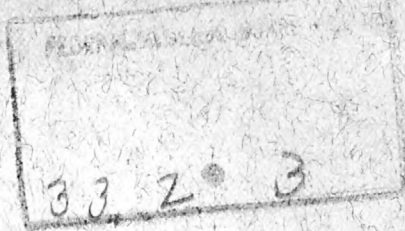
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FOURTH AND FIRST NATIONAL  
BANK OF NASHVILLE

VS.

FEDERAL RESERVE BANK  
OF ATLANTA

MISS GRACE DAWSON  
STENOGRAPHER  
PHONE, MAIN 2753  
RES. PHONE, MAIN 4497-L  
603 STAHLMAN BUILDING  
NASHVILLE TENN



P E T I T I O N  
of the  
FOURTH AND FIRST NATIONAL BANK OF  
NASHVILLE

To the  
Federal Reserve Bank of Atlanta, Georgia.

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For a Refund of Excess Interest Interest Charged Against and Paid  
by the Fourth and First National Bank on Carrying  
Liberty Bonds, the Account of Excess Charge  
Being Approximately \$235,000.00.

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To the Honorable Governor, Chairman and Board of  
Directors of the Federal Reserve Bank of  
Atlanta, Georgia:

Your petitioner, the Fourth and First National  
Bank of Nashville, comes and respectfully submits  
that the Federal Reserve Bank of Atlanta is indebted  
to it in the sum of approximately two hundred and  
thirty-five thousand (\$235,000.00) dollars on account  
of overcharges of interest made by the Federal Re-  
serve Bank against the Fourth and First National  
Bank on account of carrying United States Bonds.

As soon as the Board determines the basis upon  
which it will allow this claim the exact figures will  
be submitted for verification.

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.

I

The United States declared war against Germany on April 6, 1917.

The people of the United States are a peace-loving people and official United States seemed to have determined that this country should not get into the war. Its army was insignificant as compared with other large nations and it had made no preparations for either offensive or defensive warfare. There were no supplies, no munitions, no arms, so that when war was declared America was wholly unprepared to meet its demands.

The American people had become greatly inflamed at the actions of Germany in sinking the Lusitania, in using submarines to attack hospital ships and non-combatant vessels and by Germany's declaration that she had determined to continue the submarine warfare, so that when war was declared the American people were in the frame of mind to enter it with their whole resources, both of men and money.

The magnitude of the conflict was such that it soon became evident not only to the people but to the



Government officials that all the financial resources of the country would be demanded to enable America to do her full part.

The funds in the hands of the Government were wholly insufficient to meet the enormous expenditures which were immediately called for and it was evident that the money to carry on the war would have to be raised by the issuance and sale of Government bonds.

Prior to the war the people of the United States were not bond buyers and the banks were not bond buyers. It was very rare that a Government bond was offered as collateral security by customers and the banks carried practically only what was necessary for their circulation.

Consequently when war was declared and United States Bonds had to be sold not only by millions but by billions and tens of billions of dollars, both the people and the banks had to be educated and induced to buy them.

## II

The first Liberty Loan issue was offered May 14, 1917, at 3½ per cent to the amount of Two Billion (\$2,000,000,000.00) Dollars. This was by far the largest loan ever offered up to that time by this Government. Money was worth much more. It was manifest that the banks could not buy these bonds in large quantities and carry them from their own resources.

In the beginning of the campaign for placing the Liberty Bonds there was held in Nashville a meeting of the bank officials of Middle Tennessee to hear the Secretary of the Treasury, Hon. W. G. McAdoo.

Mr. McAdoo urged upon the banks the desirability of the investments and the importance of their assistance, pointing out how such securities could be carried by the banks with the Federal Reserve Bank at no loss to the banks.

On April 19, 1917, the Governor of the Federal Reserve Bank issued a circular to all the banks requesting information as to how much of the proposed war bond issue each bank would take and how much they estimated their customers would take.

To this the Fourth and First replied on April 20, 1917, that if the initial issue was One Billion (\$1,000,000,000.00) Dollars, it might take Three Hundred (\$300,000.00) Thousand Dollars, and its customers might take One Hundred Thousand (\$100,000.00) Dollars. If the initial issue was Three Billion it might take Five Hundred Thousand and its customers One Hundred Thousand.

Upon the assurance that the bonds could be carried with the Federal Reserve Bank without loss to the bank, the Fourth and First subscribed for One Million One Hundred Thousand (\$1,000,000.00) Dollars, more than double the amount it proposed to take.

These were carried with the Federal Reserve Bank to the full amount requested by the Fourth and



First National Bank at the bond rate and continued to be carried at the bond rate as long as the Fourth and First desired.

### III

#### The Annual Report of the Federal Reserve Board for the year 1919.

The condition of the country with reference to subscribing for the several bond issues and the inability of the banks to purchase and carry them and the attitude of the Federal Reserve Bank with respect to carrying them without loss, is fully shown by a report of the Federal Reserve Board dated Washington, February 2, 1920, being the Sixth Annual Report of the Federal Reserve Board for the Calendar year ending December 31, 1919, from which we quote as follows:

Page 1 says:

"To the extent, however, that what was accomplished in saving fell short of actual requirement there was a margin of bonds that could not be paid for immediately out of savings and which it became necessary for the banks to carry either directly or indirectly through loans to purchasers. This expansion of bank loans must be kept in mind in order to understand the situation. Failure to understand it leads to the impression held by many that Liberty Bonds could all have been sold to investors had they borne a high rate of interest. No rate within reason

could have accomplished this as the investment funds to absorb those enormous issues in their entirety simply did not exist.

"In order that the member banks might carry the burden of undigested Government securities they were obliged to re-discount to the Federal Reserve Banks, and in order that such re-discounting should not involve them in heavy loss it was essential that the re-discounting rate should be related to the bond rate.

"Distribution of the certificates has been effected through the Federal Reserve Banks with the co-operation of the member banks, a vast organization which cannot be duplicated, the member banks buying the certificates in the first instance and then gradually selling them to their customers.

"This could not have been accomplished if member banks had not had the assurance that their investments in certificates could, if necessary, be carried in Federal Reserve Banks without loss. In making rates for rediscounting loans on Government securities, the policy was to avoid loss to the banks, which were necessarily the distributing media."

Your Chairman, Mr. Joseph A. McCord, in his Annual report published in the early part of 1920 on p. 10, says:

"In view of the fact that the Commercial banks were called upon to make up a full quota of the district in the sale of Liberty Bonds, Victory Notes and U.S. Treasury Certificates of Indebtedness, this naturally encroached upon their



resources for the handling of their commercial business. It was, therefore, necessary in many instances for the Commercial Banks to use the bonds, notes and certificates issued by the Government and purchased by the banks to build up their available resources for the handling of their commercial business. This brought about the unavoidable result of the banks showing in their statements of condition more rediscounts and bills payable than would otherwise have existed."

Again quoting from the report of the Federal Reserve Bank for the year 1919, p. 60, appears the following:

"As has already been pointed out the Federal Reserve Banks became great bond distributing organizations; firms and corporation large and small, men and women in every walk of life were urged to subscribe for bonds and the credit facilities of the Federal Reserve Banks were placed at the disposal of member and non-member banks in order that they might lend freely on bonds for which the subscribers were unable to pay. The public was urged to borrow and buy and it was found after the close of the Victory Loan in May, 1919, that more than twenty million subscriptions had been received in response to this appeal."

Fourth and First National Bank's Subscription  
for Liberty Bonds.

Every member of this Board and every bank's, remembers most vividly what a tremendous propaganda was put on by the United States Treasury and by the Federal Reserve Banks, urging both the public and the banks to subscribe for Liberty Bonds.

Every sort of assurance and entreaty was employed.

The Fourth and First National Bank responded in a manner indicated by the following figures:

First Liberty Loan-

Your total subscription in Tennessee. \$7,842,000.00  
of which amount the Fourth and  
First National Bank took..... 1,100,000.00  
Which was one-seventh.

Second Liberty Loan-

Your total subscription in Tennessee .....15,785,000.00  
Of which amount the Fourth and  
First National Bank took ..... 2,600,000.00  
Which was one-sixth.

Third Liberty Loan-

Your total subscription in Tennessee .....22,786,000.00  
Of which amount the Fourth and  
First National Bank took ..... 3,600,000.00  
Which was one-sixth.



Fourth Liberty Loan --

Your total subscription in Tennessee ..... 37,585,000.00  
Of which amount the Fourth and  
First National Bank took ..... 7,111,000.00  
Which was one-fifth.

Fifth Liberty Loan --

Your total subscription in Tennessee ..... 23,550,000.00  
Of which amount the Fourth and  
First National Bank took ..... 2,000,000.00  
Total subscription in Tennessee ... 107,547,000.00  
Total amount subscribed and paid  
for by the Fourth and First  
National Bank ..... 16,410,000.00  
Which was one-sixth.  
Total U. S. Treasury Certificates  
subscribed by the Fourth and  
First National Bank ..... 16,200,000.00  
Grand total of securities bought  
from and paid for to the Govern-  
ment ..... 32,610,000.00  
Being equal to thirty times  
capital of the bank.

V

Liberty Bonds Declined and the Public Was Urged to Buy  
More Bonds to Average Down the Price.

In the spring of 1920 the Federal Reserve Board  
at Atlanta sent the Fourth and First National Bank  
with the request that it be inserted as an advertise-  
ment the following, with which request the Fourth  
and First National Bank complied:

"AVERAGE YOUR LIBERTY BONDS"

"When an experienced investor finds some of his favorite securities selling below what he first bought them for, does he sell the lot and turn to something else?"

"Not at all. He buys as many more as he can at the lower price," in order to average the cost."

"He does this, because he always desires the book value of his securities to be close to the actual market values, so that if forced to sell at any time, his loss, if any, will be small.

"The present prices of all issues of Liberty Bonds offer the most favorable opportunity for averaging cost. A hundred dollars worth bought at par, another hundred bought at \$91, and you have two bonds costing only \$95.50 each. Long before maturity date you will be able to sell either or both at a profit.

"BUY W.E.S."

This is what the Fourth and First National Bank did in April, 1919, purchasing in the open market \$6,000,000.00 in order to average down the price on the bonds which it had subscribed for at par from the Government and which had declined to 95 cents, and continued to decline until they went down to 81 and 82 cents.



VI

Correspondence Between Federal Reserve Bank and  
Fourth and First National Bank.

The correspondence that passed between the two banks reflects the understanding and agreement between them with regard to the basis upon which the Federal Reserve Bank would carry these Government securities for the Fourth and First National Bank.

On September 28, 1918, you sent out a circular by the Treasury Certificate Committee, in which it was stated:

"A majority of the banks in this district have not subscribed to any issue."

On October 14, 1918, the Federal Reserve Bank sent us a telegram saying:

"To relieve you of apprehension concerning your ability to finance subscriptions, we assure you we will discount your notes secured by the Fourth Loan Bonds at 4 per cent, if your rate to your customers does not exceed  $4\frac{1}{4}$  per cent."

On November 15, 1918, you sent out a circular using expressions as follows:

"Your Government needs the credit accommodation," etc,

On November 29, 1918, we wrote you stating that we had something like \$6,000,000.00 of bonds yet to

settle for, and that it would, therefore, be necessary for us to borrow still further from you, and to this you answered under date of December 2, 1918, as follows:

"While the war is practically over, yet it is going to be necessary to float another issue of Liberty Bonds, necessitating the issue of these Treasury Certificates, and we sincerely hope that we can count on your splendid institution to aid us in this difficulty, and it is to be hoped that the Government can continue to count on your bank to aid in the matter of financing for some time to come, as it is going to be absolutely necessary," etc., etc. "Having had years of experience, of course, I understand what this means to your bank," etc.

On January 28, 1919, you say:

"If we could get even minimum subscriptions from all of the banks, we would reach our quota with but little difficulty."

On January 29, 1919, we answered you in these words:

"This Bank alone has up to the present time subscribed and paid for \$11,135,000.00 of these Treasury Certificates, and I have the feeling that this is quite as much as should be expected of us. We have taken \$1,000,000.00 of every issue that has been presented."

On February 8th, 1919, we wrote, indicating a hesitancy in going any further.



On February 10, 1919, we received a communication reading as follows:

"Although we came near to reaching our quota of subscriptions to the series of Treasury Certificates . . . the burden continued to be carried by a relatively small number of banks. To those who are giving to this appeal an intelligent and faithful consideration, we are very grateful," etc.

In April, 1919, we purchased \$6,000,000.00 Liberty Bonds in the open market to average up.

In May, 1919, we took \$2,000,000.00 of Victory Bonds, doing so on the first of the month.

On May, 10, 1919, you telegraphed, asking us to subscribe to \$250,000.00 more if it was found necessary that we do so to enable you to complete your quota and we immediately communicated our approval.

On May 12, 1919, we received a letter from you containing the following:

"Expressing my thanks for this further evidence of your patriotic desire to maintain the reputation of the Sixth Federal Reserve District." etc.

On May 14th, 1919, you wrote, making reference to our purchase of Liberty Bonds in the open market, asking our opinion of Section 4 of the Federal Reserve Act.

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On May 15, 1919, we answered, expressing surprise and disappointment, to which you replied, under date of May 20, 1919:

"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 the matter."

On June 28, 1919, you wrote the Fourth and First as follows:

"I not only request you to subscribe largely to these offerings, but urge 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."

Now, gentlemen, could anything be plainer or more assuring, and could we possibly have retained a doubt? Yet, in July following, Mr. Paul M. Warburg, and other New York interests, began an agitation for the liquidation of loans secured by Government Bonds, and on the 16th day of July we received a letter from you asking for the liquidation of loans secured by bonds bought, and this notwithstanding your declaration made in your letter of May 20th,



stating that you were "perfectly willing to carry these securities for you as long as you may see fit to offer them to us."

On July 21, 1919, we answered at length.

On July 23, 1919, you answered, saying:

"Taking everything into consideration, however, and the request that we have from time to time made of you in subscribing to bonds and Treasury Certificates, we do not ask that you bring your indebtedness down within a short time. Permit us to suggest that you gradually reduce your indebtedness - say, about one-half million a month."

We reduced the loan \$5,000,000.00 immediately. Mr. Webb went to Atlanta for conference and reported in writing to Mr. Caldwell on his return that your officials stated "that we must under no circumstances decline to handle the commercial business for our customers."

On July 30, 1919, this was confirmed in your letter, as follows:

"In order to confirm what I told Mr. Webb, I may say that we agreed to assist your Bank in whatever re-discounts that are necessary to handle the grain and other commercial business of your section, in order for your Bank to take care of the situation with your customers."

The Government and Federal Reserve Banks having discontinued their efforts, Government Bonds declined and so continued, making it impossible to sell except at a great loss.

On August 9, 1919, you wrote concerning correspondence with regard to raising rates, and you say:

"You must admit that it is necessary for the member banks to bring about some liquidation of their loans, especially those who are borrowing so heavily from the Federal Reserve Bank. As to how this should be done is the question. I agree with you that it would be quite hard upon the banks if we increase our rate in order to force a liquidation. It may be that this will be necessary, but as I wrote you in a former letter, and as stated by Mr. Warburg in his address, this seems to be the prevailing thought of those who have expressed themselves upon this matter.

"It appears to me that the next six months will be probably the most critical period of the existence of the Federal Reserve System, and it behooves member banks to bring about some kind of liquidation. I hardly think this liquidation can take place through the sale of Liberty Bonds, for the reason that the price has not advanced sufficiently to enable the banks to get out without a loss."

On August 18, 1918, in acknowledging receipt of the pamphlet from Fourth and First Bank, you quoted from United States Investor on the subject of "Cutting down the inflation," and you wrote:

"Then the Fourth Liberty Loan was offered by the Government, everybody was encouraged to borrow, so as to be able to buy Liberty Bonds. Borrowers were assured that for at least a year they could count on being carried by the Banks on such loans. The Banks were able to make this



pledge, by an understanding with the Federal Reserve Bank, that it would rediscount such loans with proper liberality as to rates and for at least a year. To raise the rate now, and crowd those who are borrowing on such security, would be a distinctly improper thing for the Federal Reserve Banks to do, in the light of this understanding."

Nothing further was said with regard to cutting down the loans. So, on December 4, 1919, we wrote as follows:

"We sent you in, the other day, a subscription for \$1,000,000.00 Treasury Certificates. It appeared that we might have a falling off in commercial demand for funds. It now looks differently, and that we might have to call on you to carry this through. If, therefore, you would prefer not to do this, then please be so kind as to cancel the said subscription, and oblige."

On December 5, 1919, you answered, writing:

"I have your letter of December 4th, and note your remarks regarding your subscription for \$1,000,000.00, U. S. Treasury Certificates of Indebtedness.

"For your own information, I may say that it is my opinion, since you paid for the certificates by deposit that they will remain with you for quite a while, and consequently our bank will not be called upon to carry these certificates for you - at least I hope not. Anyhow, I am willing to take a chance on that, and am perfectly willing that you let your subscription remain as it is."

We continued to take the offerings of Treasury Certificates, each time with a memorandum attached to "take or reject as you preferred."

On February 24, 1920, you brought up the question again concerning our indebtedness."

On February 25, 1920 we authorized you to dispose of \$3,500,000.00 of Treasury Certificates.

On February 25, 1920, you replied: "There are very few in the market at the present for Certificates of Indebtedness."

Rates of Interest Charged by the Federal Reserve Bank  
Against the Fourth and First National Bank on  
Government Secured Obligations.

The Federal Reserve Bank carrying out in good faith the agreement and understanding between the two banks 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.

Thus the agreement and understanding made between the two banks was faithfully and conscientiously lived up to and carried by the Federal Reserve Bank up to November 10, 1919.



### Federal Reserve Bank Raises Rate Over Our Protest.

On November 10, 1919, the Federal Reserve Bank raised the rate on our notes secured by Government obligations to ..... 4½%  
 On December 17, 1919, they raised to ..... 4-3/4%  
 On January 26, 1920, they raised to ..... 5½%  
 On May 6, 1921, they raised to ..... 6%  
 On November 2, 1921 ..... 5½%  
 December 19, 1921 ..... 6%  
 March 15, 1922 ..... 4½%

These rates were raised over our most insistent and earnest protest we insisting 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 and would cause us a tremendous loss.

### IX

### Bonds Decline on the Market.

The various issues of Liberty Bonds declined in price. This decline began about the ..... day of ..... 19 ... and continued until about the ..... day of ..... 19 ..., when they reached the lowest prices of approximately 81 cents.

With the large holding that this bank had it is readily seen that it could not afford to sell the bands

at these heavy discounts. The loss which would have resulted would have been more serious than the bank could stand.

Having full faith that within a comparatively a short time, a year or two years, the bonds would go back to their normal and proper value at or above par, although they were facing a possibility of a heavy loss, we felt that this would in due season be overcome and be eliminated.

X

The Demand for Increased Rates places the Bank in Critical Situation.

When the Federal Reserve Bank began to increase the rate of interest on the bonds it was carrying for the Fourth and First National Bank, it placed the bank in a very precarious situation.

When the demand for this increase was made the bank resisted it, but was met with determined demand that the increased rate must be paid.

The Bank had open three alternatives:

First, to sell its bonds;

Second, to refuse the demand and go into court;  
and

Third, to pay the excess interest demanded and hope for a proper restitution in the future.

Owing to the amount of bonds and the shrinkage in value the loss incident to selling the bonds would



have been so great that it would have wiped out our surplus and heavily impaired our capital. This course was therefore not to be considered.

Our next alternative was to resist the payments and go into court. This would mean that the Federal Reserve Bank under the note it held would probably give us a notice that it would sell the bonds. We would file a bill to enjoin it from the sale and they would bring a counter action suing the bank for the amount of its loans then aggregating twelve to fifteen millions of dollars.

It is manifest to every thinking man that for a National Bank to be sued by the Federal Reserve Bank for ten to fifteen million dollars would bring such consternation to its depositors that a run upon the bank would inevitable follow and the doors of the bank would be closed.

In addition to this the Federal Reserve Bank officials and our bank officials all knew that the doors of credit elsewhere than at the Atlanta Federal Reserve Bank were closed to us. Under the Federal Reserve Act a member bank can only borrow the amount of its capital and surplus from any place other than the Federal Reserve Bank of its own district.

Our capital and surplus was approximately two million dollars. With the Federal Reserve Bank demanding payment of from ten to fifteen million dollars and we being prohibited by law from borrowing

anywhere else more than two million dollars, it is manifest that the Federal Reserve Bank had us absolutely in its power.

It was pay the excess interest demanded or close the doors of the bank.

The third alternative was to pay the excess interest demanded and hope for a future day to come when with clearer thought and fairer judgement the Federal Reserve Bank would return to us the amount thus unjustly taken from us.

Our surplus and undivided profits and our earning capacity were such that we could stand the loss of twenty thousand (\$20,000.00) dollars per month arising from this excessive interest charges and continue this for a practically indefinite time; of course, resulting in a huge loss to the Bank but nevertheless it could survive.

We believed that within one year or two years the bonds would go back to par so that we could sell them and save further loss.

After fully considering the whole situation we saw that there was no reasonable alternative left to us but to submit to this unfair and unjust demand to pay the excess interest which was demanded from us and bide our time for a reconsideration and a rehearing at the hands of this Board, and a return to us of the sums thus improperly required from us. So we paid the excess interest demanded.

The foregoing process continue until the repurchase agreement dated the 28th of May, 1921.



XI

Repurchase Agreement of May 28, 1921.

On the above date after long conference between the Atlanta Federal Reserve Board and ours in the Director's Room at the Fourth and First National Bank at Nashville in which we submitted the most earnest protest against the manner in which we had been treated and against what we claimed and asserted was a gross violation of the contract with us and of good faith between us, the Federal Reserve Bank entered into a contract of repurchase with the Fourth and First National Bank.

Under this the Federal Reserve Bank bought from us one million two hundred thousand of Third Liberty Bonds and six million seven hundred eighty-seven thousand, eight hundred fifty dollars (\$6,787,850.00) of Fourth Liberty Bonds at the price of \$7,-586,061.000, which was at the rate of 94.95%.

Under this agreement the Federal Reserve Bank was to carry these bonds for us two years at the bond rate. It was to receive the interest on the bonds. We were to pay one tenth of one per cent a month on the principal.

But the Federal Reserve Bank insisted upon inserting a provision that on giving us sixty days' notice they could require us to repurchase all the bonds.

The contract further provided that until the purchase price had been repaid or liquidated in full we

were to furnish the Federal Reserve Bank a margin of security covering the difference between the actual value of the bonds which they were carrying for us and the price at which they took them over.

The details of this contract are set forth therein and need not be further referred to here.

Sufficient to any that under this the Federal Reserve Bank took over the bonds thus purchased and we delivered to the Federal Reserve Bank about one-half million dollars of additional securities to fully protect it against any possible loss on the repurchase agreement.

The agreement to carry the bonds for two years at the bond rate we considered perfectly fair particularly in view of the fact that the Federal Reserve Bank was fully protected by this additional collateral.

The provision that the Federal Reserve Bank could on sixty days' notice demand that we repurchase all the bonds was construed by us and we think at the time by the Federal Reserve Bank to mean that if the bonds further declined in value so that the Federal Reserve Bank was in danger of suffering a loss it could require us on sixty days' notice to repurchase all or any part of these bonds.

It certainly never occurred to the Fourth and First National Bank of its officers who negotiated this contract that if the bonds began to improve in value and continue to improve in value that this



would be a ground and a reason for moving the Federal Reserve Bank to demand that we repurchase these bonds.

## XII

After this repurchase agreement was executed May 26, 1921, the bonds soon began to improve in value as we had anticipated they would and we felt that within a comparatively short space of time, at any rate by the spring of 1922, the bonds would reach a figure where we could sell them and recoup all the losses we sustained on them.

## XIII

### Federal Reserve Bank Returns Surplus Collateral.

Within a few months after the repurchase agreement was executed the Federal Reserve Bank voluntarily returned to the Fourth and First National Bank all the collateral which the Fourth and First had been required to deposit to secure the Federal Reserve Bank on this repurchase agreement stating that the bonds had reached such a figure that the Federal Reserve Bank did not deem collateral necessary.

The Federal Reserve Bank thus voluntarily returned \$570,000.00 of this collateral. (See letter October 14, 1921, Governor to Fourth and First National Bank.)

This shows that the Federal Reserve Bank considered the transaction to be a perfectly safe one and that it was in absolutely no danger of loss thereunder.

The bonds continued to fluctuate, gradually rising.

#### XIV

The Federal Reserve Bank Begins Pressing Fourth and First National Bank to Sell the Bond Covered by Repurchase Agreement.

On November 7, 1921, the Governor of the Federal Reserve Bank wrote to the Fourth and First Bank that the market on Liberty Bonds was such that the value thereof was more than the amount of the repurchase agreement and said:

"How do you feel about closing these out and canceling your obligations with us, perhaps it might be well for the sake of the market if and when you decide to sell to put the bonds on the market gradually, covering a period of several weeks for distribution."

To this letter the Fourth and First replied November 9, 1921, "that in as much as the Fourth and First have some \$375,000.00 charged in the profit and loss account during the months past we feel that it would not be unreasonable for us to consider that feature in selling the bonds. The market seems to be perfectly healthy and natural and from interviews coming from the Treasury Department and other



people in position to have sound opinions these bonds will likely go to par in a very reasonable time. In the meantime it makes a very profitable transaction for you and we therefore would prefer not to close them out at this time and sincerely trust this will be agreeable to you . . . . . The average cost of our Government Bonds is 98.64 and you may be sure that when we do begin to put them on the market it will be done in a gradual way so that no sort of disturbance will be created."

On November 10, 1921, the Federal Reserve Bank replied, expressing somewhat surprise and disappointment and urging the Fourth and First to liquidate the bonds.

On November 14, 1921, the Fourth and First wrote the Federal Reserve Bank, trusting that it would not require the Fourth and First to sell the bonds, saying:

"By the terms of that agreement it was clearly the understanding that we would have two years in which to work this thing out, unless something desperate and unforeseen should happen. Nothing of that sort has happened and does not seem likely, on the contrary it is generally recognized that the bonds are going to par and over.

"Now get in a good humor and go on and give us a little chance. While you did nicely by us last summer we did a splendid service for you during the trying war times and we have had an unhappy time for the last two years. There-

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fore, as I say, get in a good humor and have some compassion on us and give us a chance for recovery. We will appreciate it and not forget it."

On November 15, 1921, the Federal Reserve Bank replied:

"Since your mentioned the agreement which your bank made with us perhaps it would be well for you to reread that paper. You will then find that the agreement has a termination prior to two years in case the bonds reach a certain price. Rather than give you a formal notice of the termination of the contract I thought that I was justified in assuming that you would anticipate from my former letters such a termination and that you would take advantage of the present price of the bonds," etc., etc.

Note-This letter is in error in saying that the agreement had a termination prior to two years in case the bonds reach a certain price. There was no such provision in the contract.

On November 17, 1921, the Fourth and First replied:

"I thank you very much indeed for your kind letter of November 15th, wherein I note that you say the contract provided for a termination prior to two years in case the bonds reach a certain price. I have examined the contract very carefully and do not find any such provision.

" I do find that you reserve the right to call the loan whenever you please but we presumed.



of course, that this was intended as a precautionary measure in case of some unforeseen calamity or pending disaster, but as nothing of that sort is pending or seems likely we have presumed that you meant to give us a fair chance during the period of two years."

The letter then refers to the fact that the entire Board of Directors of the Fourth and First National Bank had read and considered all the correspondence upon this question and were giving thereto its very best judgment.

On November 30, 1921, the Federal Reserve Bank wrote again, urging the Fourth and First to liquidate the bonds.

On December 1, 1921, the Fourth and First wrote that the Executive Committee of the Fourth and First were of the opinion that it should begin selling these bonds after the first of January, 1922, "and sincerely trusting that this will be satisfactory."

XV

FEDERAL RESERVE BANK GIVES FORMAL SIXTY-DAY NOTICE DEMANDING THAT THE FOURTH AND FIRST PAY \$7,538,133.90, PLUS ACCRUED INTEREST TO THE DATE OF PAYMENT IN REPURCHASE OF BONDS.

On December 10, 1921, the Federal Reserve Bank gave the Fourth and First formal demand to pay within sixty days from December 12, 1921, \$7,538,133.90, plus accrued interest to the date of payment

being the full amount due for the purchase of all the bonds which the Federal Reserve Bank had purchased from the Fourth and First.

Pursuant to this notice the Fourth and First Bank immediately began selling the bonds as fast as it could without precipitating too many upon the market.

By February 2, 1922, it had sold all of them except \$1,200,000.00.

On February 2, 1922, it wrote to the Federal Reserve Bank, stating these facts and saying that it had made an arrangement with the Farm Loan Bank to handle \$1,000,000.00 (One Million) of the bonds to take effect February 10, 1922, and that the Fourth and First would redeem the balance and asking a few days beyond February 10th to get this transaction closed with the Federal Farm Loan Bank.

On February 3rd, the Federal Reserve Bank wrote, declining to give this additional time and demanding the payment of the full sum due on February 2, 1922, saying that the notice was given as of December 5, 1921, and expired February 3, 1922, and that letter making formal demand was made in due course and should be in the Fourth and First Bank's hands on February 3, 1922.

On February 3, 1922, the Federal Reserve Bank made formal demand upon the Fourth and First to forthwith pay the entire balance due, One Million Two Hundred Thousand (\$1,200,000.00) Dollars, plus accrued interest to date.



It was apparent to the Fourth and First that this was an error as to date. Accordingly on February 4, 1922, immediately upon receiving the letter attention was called to this error and the mistake was corrected by the Federal Reserve Bank.

The result was that the Fourth and First was compelled to force the bonds on the market and sell them all out which it did and met its obligation before the day it fell due.

#### XVI

THE FORCED SALE OF THESE SECURITIES CAUSED A LOSS TO FOURTH AND FIRST NATIONAL BANK OF ABOUT \$300,000.00.

The Fourth and First National Bank intended to carry these bonds until the spring of 1922. The bonds reached par before that time and if it had been permitted to carry them they could have been sold at par.

As it was they were sold at very materially under that figure under the forced order of the Federal Reserve Bank.

The Bonds had actually cost the bank about 98.64. Very few of them brought that figure. Within three months after they were sold they were par and the bank could have recouped all its losses even including the excess interest charge, but it was not permitted to do so.

XVII

UNREASONABLENESS AND INJUSTICE OF FORCING THIS SALE.

No just reason existed for giving us those peremptory notice and forcing the sale of these bonds at this time. The loan itself was absolutely good and safe, so safe indeed that the Federal Reserve Bank had returned to us \$570,000.00 of collateral which we had placed with it to secure the transaction and which it deemed was excessive and unnecessary.

The improvement in the price of the bonds had brought them to a figure above that at which the Federal Reserve Bank had taken them over as shown by the letter of the Federal Reserve Bank to us of October 14, 1921.

If further collateral had been desired the Fourth and First Bank was ready to furnish it to whatever extent was necessary or asked.

The condition of the country greatly improved during the year 1921 and the condition of the Federal Reserve Bank had also greatly improved during that period.

Report of the Federal Reserve Banks for 1921 at p. 581, shows:

That the Atlanta Bank's condition improved from December 31, 1920, to December 31, 1921:



Its ratio of reserves to deposits and  
Federal Reserve Note liabilities  
combined on December 31, 1920,  
was

41.4

December 31, 1921, was

43.3

Federal Reserve Notes in actual cir-  
culation December 31, 1920

\$173,000,000.00

December 31, 1921

121,000,000.00

Bills discounted, secured by Govern-  
ment obligations December 31, 1920

61,000,000.00

December 31, 1921

24,000,000.00

Bills bought in open market -

December 31, 1920

3,571,000.00

December 31, 1921

3,686,000.00

Capital and surplus -

December 31, 1920:

Capital

4,053,000.00

Surplus

8,343,000.00

December 31, 1921:

Capital

4,189,000.00

Surplus

9,114,000.00

Showing that the bank made a profit  
during 1921  
or about 19%.

\$771,000.00

And between January 1 and February 8, 1922,  
the Atlanta Federal Reserve Bank's percentage of  
Reserve increased to 58.3%

All this shows that there was nothing in the con-  
dition of finances of the Federal Reserve Bank that  
called upon it for the enforced liquidation of this  
contract.

The Federal Reserve Bank of course, knew that as heretofore stated the doors of credit were closed to us by law except for very limited amounts and when they made the demand upon us to pay \$7,538, 133.90 plus accrued interest, they knew that this forced us to sell the bonds; that we had no alternative.

Just why these extreme and harsh measures were resorted to with this bank has always been a matter beyond our powers of comprehension.

During the war period this bank did more to aid the Government in war financing and did more to aid the Federal Reserve Bank in carrying its share of war financing than any other institution in this Federal District.

We also call attention to the fact that during the years 1918 to 1922, the Fourth and First National Bank paid in interest to the Federal Reserve Bank at Atlanta the total sum of One Million Eight Hundred Twenty Thousand One Hundred Fifty Dollars and Forty One Cents (\$1,820,150.41).

What more profitable customer did the Federal Reserve Bank have than this?

And on the very day that the Federal Reserve Bank demanded that we forthwith pay the remaining One Million Two Hundred Thousand Dollars (\$1,200,000.00) of this repurchase agreement, the Fourth and First Bank had to its credit on open account upon which it was receiving no interest, with



the Federal Reserve Bank more than One Million One Hundred Thousand Dollars (\$1,100,000.00) in cash.

### XVIII

#### REASON URGED BY FEDERAL RESERVE BANK.

In the letter of the Federal Reserve Bank to the Fourth and First of date November 30, 1921, the Federal Reserve Bank says:

"You must bear in mind that we are still rediscounting with other Federal Reserve Banks at the rate of 5 1-2 per cent while we are carrying your bonds at 4 1-2 per cent, thereby sustaining a loss of 1 1-4 per cent on every transaction." See letter of November 30, 1921.

This reason might seem plausible but upon a moment's consideration it will appear not to be so.

All banks at times borrow money or rediscount paper and the fact that they do so is no excuse for raising the rate on their borrowers or calling their borrowers.

When the Federal Reserve Bank made this repurchase agreement it knew that it would probably for short periods during the two years, rediscount paper and probably at a rate about 4 1-4 per cent, so that nothing had occurred that was not fully anticipated.

But a more conclusive answer is that the whole profits of all the banks in the Federal Reserve Sys-

tem go to the United States Treasury, it is immaterial which member makes the profit, it all goes to the same place after allowing a small percentage dividend on the stock of the member banks, consequently if the Atlanta bank paid 5 1-2 per cent rate on rediscounts to some other Federal Reserve Bank for example, Boston, the Boston bank paid the profit including that excess to the United States Treasury and nothing was lost by the Treasury by reason of the transaction.

Besides this, when the Federal Reserve Bank forced us to sell this Eight Million of Bonds it thereafter lost the total income of said Eight Million of bonds amounting to more than Three Hundred Twenty Thousand (\$320,000.00) Dollars a year.

## XIX

### POWER OF FEDERAL RESERVE BANKS.

When the Federal Reserve Law was being discussed and before it was enacted we were of opinion that the idea of the Federal Reserve Bank which could issue notes and loan to member banks upon good collateral any amount that might be required to meet the demands of either trade or of its depositors, was the greatest idea for the safe guarding of the banking business that had ever been conceived by the mind of man.



The great difficulty in banking had been that depositors might call for their money more rapidly than the bank could liquidate its loans.

The bank must keep the money loaned out or the expense account will eat it up.

If the depositors demand the bank must pay instantly. Under the Federal Reserve Bank System any member bank with good paper can obtain all the money needed upon a moment's notice, runs are practically impossible, they can never close the bank.

But with this tremendous power for good these banks have an equal power for harm. Under the Federal Reserve Law every National Bank is compelled to become a member of the Federal Reserve Bank, to take a certain amount of stock, to transact its business with the Federal Reserve Bank and it is prohibited from borrowing from outside sources beyond certain very limited quantities. It must do this or surrender its Charter.

A Federal Reserve Bank's proper function and its normal function is to aid the member bank, to help it, to save it and not to destroy it.

In the present case this bank was twice put in the attitude of being compelled to submit to the unjust demands of the Federal Reserve Bank or close its doors, there was no other option.

It submitted, it met every obligation, it has discharged the last penny it owed that bank.

Now it comes and says that the treatment it received was unjust, it was unfair, it was in breach of our contract and of the understanding between us and it was a violation of the good faith which must exist between institutions that do business so largely and so closely together.

The facts are, that the Federal Reserve Bank recognized that it was very dependent upon the Fourth and First National Bank to aid it in carrying through its part of the Government's war finance, in which it took great pride, and showed much anxiety and concern. It importuned and urged us repeatedly to subscribe to the various issues, and whenever we showed any uneasiness or hesitancy about going so strong, it urged and entreated, and gave every sort of assurance and written statements that it would carry those securities for us as long as we should see fit to offer them. If that meant anything--if the words and promises of men can be relied upon, what did that promise and those other urgings mean, if not that the securities would be carried, yes, carried through to a successful conclusion, and at the rate of discount made as an inducement for us to go into the arrangement?

If the words and acts of men are to count for anything, and if there is to be any such thing as honorable dealings between individuals and institutions, then restitution must be made in this case.

The correspondence confirms these statements in every detail.



We sincerely trust that you will settle this matter, and thereby remove the very unpleasant condition now existing, and make it unnecessary for us to press our claim any further, or appeal to other tribunals for satisfaction, for you must see that as matters now stand, it is impossible for us to remain passive, and our duty will compel us to take further action if you refuse. Indeed, the treatment we have received is so galling that unless justice is done us, it will be intolerable for us to remain a member of your bank.

Respectfully submitted,

FOURTH AND FIRST NATIONAL BANK,

By James E. Caldwell,

President

P. D. Maddin,

Counsel.

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 tot al 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 28,  
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 therein.



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 obligation 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 along 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 setup 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 would 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 lead 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 after the Victory Loan was finally out of the way and not until a fully 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 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 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 should 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, 1922 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 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 which 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 as 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 those 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 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 any one 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. In so far 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, 1918, 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, 1919 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.

No where in the 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 any where 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 on paper, letter, document, or even the recital of a verbal statement which could be 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 groundless 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."

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

"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 relative 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 as 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.

Under the terms of the repurchase agreement all questions of contract 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 readily be 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 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 preemptory. 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 an application of the terms of the repurchase agree-

ment, 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 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 resulted in depreciating the price of the 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 subject 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, 1923, however, Mr. Caldwell, the President of the Fourth & First wrote his stockholders as follows:

"To the Stockholders:

"Enclosed herewith you will find a combined statement of 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 attention is called is the increase in fixed surplus of \$2000,000.00, 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 - 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 \$1,200,00 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 telegrams 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 agreement, as set forth in your letter of February 2nd, to care for 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 on 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 on 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 which on its face might apparently be a lack of consideration on the part of the Reserve Bank. Although we believe we have in this answer entirely refused 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 debate or refund of alleged excess interest which it says was charged in 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 unbiased 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 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 viewpoint 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 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 \_\_\_\_\_



MEMORANDA

IN THE MATTER OF THE CLAIM  
OF THE FOURTH AND FIRST  
NATIONAL BANK OF NASHVILLE  
AGAINST THE FEDERAL RESERVE  
BANK OF ATLANTA

FOR

REFUND OF EXCESS INTEREST  
CHARGED AGAINST AND PAID BY  
THE FOURTH AND FIRST NATIONAL  
BANK ON CARRYING LIBERTY BONDS,  
THE AMOUNT OF EXCESS CHARGE  
BEING APPROXIMATELY \$235,000.00

NOTE:-- This memoranda is to be filed  
with brief of the Fourth and First National Bank  
setting forth in detail reasons for making said  
claim and reply of the Federal Reserve Bank re-  
fusing payment for future reference by the of-  
ficials of the Fourth and First National Bank or  
others who may be interested in the facts of this  
case.

M E M O R A N D A

IN THE MATTER OF THE CLAIM  
OF THE FOURTH AND FIRST  
NATIONAL BANK OF NASHVILLE  
AGAINST THE FEDERAL RESERVE  
BANK OF ATLANTA.

F O R

REFUND OF EXCESS INTEREST  
CHARGED AGAINST AND PAID BY  
THE FOURTH AND FIRST NATIONAL  
BANK ON CARRYING LIBERTY BONDS,  
THE AMOUNT OF EXCESS CHARGE  
BEING APPROXIMATELY \$235,000.00.

More than two years have passed since this claim of the Fourth and First National Bank for refund by the Federal Reserve Bank of Atlanta of \$235,000.00 excess interest on Liberty Bonds and actually lost by the Fourth and First National Bank because of the unstinted co-operation given to the Atlanta Bank and the U. S. Treasury Department in all way financing operations, was submitted to the Atlanta Bank.

Reviewing this matter as a whole and in detail from every angle in calm perspective, which two years time will enable any one to do, we are still just as firmly convinced of the justice of this claim as we were when it was first presented; and, we still feel that the treatment we received at the hands of the said Reserve Bank can not be thought of as having any relation whatever to fair play or fair treatment when the service rendered during the trying war financing period is placed in full view.



One Sixth of all the war financing in the  
state of Tennessee:

Such is the record of the Fourth and First Bank - a record which no other bank in America of the same resources, yea, serveral times its resources, can show, yet this Bank was called upon to pay over to the Federal Reserve Bank \$235,000. excess interest and said sum still remains in the coffers of that bank.

Public service has been the policy of the Fourth and First Bank for so many years that it is one of its most treasured principles or traditions. Its officers have always believed that this policy would in the end bring prosperity to the bank. With a background of the highest standards of public service, the officers of the Bank, at the beginning of the World War, felt that no greater service could be rendered than by placing with reasonable safeguards the resources of the bank at the disposal of our Government. To have lost this war with Germany meant, as they saw the situation, to render these same resources impotent.

And furthermore, the officials of the Bank were fully aware of the representations of the Treasury Department and the Federal Reserve Board at Washington and the Federal Reserve Bank of Atlanta as to how they would stand back of the banks, and so it was the most natural and reasonable thing for them to feel assured that when the emergency of war had passed that these same agencies of our Government would stand ready to save this and other banks from servere losses; and more especially, if such banks were making every possible effort to hold said war bonds until the market would permit sale of these securities without loss. Reviewing the promises made us, the failure of the above agencies in this matter was the gravest possible violation of good faith and business confidence.

The reply of the Federal Reserve Bank was evidently written by a lawyer, who, like many of his profession, finds it is impossible to remove a matter of this character from the procedure of the Court room. The war was on and so intent were our officials on winning it that they did not feel that in dealing with our Government, that it was necessary to hedge on each transaction with contracts and agreements as though they would probably come to litigation. Letters, telegrams and telephone messages were quite sufficient to convince us that we would not suffer loss.

The subtle reply of the Reserve Bank might convince one who is not familiar step by step with the war finance operations of the Fourth and First Bank. To a man or body of men who knew nothing of the strain and hazard of providing one-sixth of all the war funds of Tennessee, the explanations of said Reserve Bank might sound plausible, but to the officials of this Bank, who remember most vividly to this good day, both the pressure and the flattery of the officials of the Reserve Bank, their reply lacks every element of strength.

Now, this claim was not set up, as we say, with the legal aspects of the case in mind at all, but, as we review all the circumstances surrounding the transaction, the moral obligation of the Reserve Bank attends out so boldly that its identity cannot be mistaken. So intent were the officials of the Fourth and First upon meeting all the demands the Reserve Bank (our original brief shows that we were in constant readiness at all times) and we were so confident that our Federal Government through its agency, to-wit, the Reserve Bank of Atlanta, would not adopt a policy that would cause cruel losses, that we did not deem it necessary to watch each transaction as though it might ultimately bring litigation. We could not conceive that this agency of the Government would deal with us as one bank with another or one business firm with another, whereby iron-clad contracts were of necessity drawn up.



It would be most interesting reading for the directors of the Atlanta Bank to review some of the circulars sent to the member banks during the war urging that bonds be bought "till it hurts". There circulars or bulletins are too fresh in the minds of the Banks and the public as well to be forgotten even at this date.

It would also be well for some of the officials of the Atlanta Bank to refresh their memories as to some of the written statements they made to the Fourth and First Bank when said bank was so sorely needed to put the Sixth District "Over the Top".

The Fourth and First Bank dealt directly with the Federal Reserve Bank which was the fiscal agent of the U. S. Treasury in this district and we, of course, felt that said Reserve Bank was not only clothed with authority to speak for itself but also for the Treasury. It was pledges of said Reserve Bank we relied on and it is in their vaults that our losses remain in form of profits to this day.

It does seem that if the proper representation of our case had been made to the Secretary of the Treasury, and the Federal Reserve Board by the officials of the Federal Reserve Bank that these said officials in Washington under the circumstances, would have approved of said Reserve Bank carrying these securities at a rate that would have saved this loss for under administration Hon. Wm. G. McAdoo, Secretary of the Treasury and Hon. W. P. G. Harding, Governor of the Federal Reserve Board member Banks were impromptu and urged to subscribe for, and to urge their customers to subscribe for, the various issues of Liberty and Victory bonds, and as an inducement made discount rates therefor which would protect banks against loss in carrying them. No one will dispute this fact.

In his report to Congress in January, 1920 (which Mr. Harding stated he wrote) he explains that it was necessary to use the resources of the member banks as there was not enough money in the hands of the public to take up so vast amount of bonds, and that it was necessary to make a re-discount rate so as to avoid causing a loss to said banks, as an inducement for them to go into the arrangement.

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In the statement of the Reserve Bank special emphasis is placed upon (1) the purchase of bonds in the open market and (2) a certain propaganda letter sent out by the Fourth and First National Bank and (3) the great and unusual favors extended to the Nashville Bank by the Atlanta Bank.

#### THE OPEN MARKET TRANSACTION.

In the brief of the Reserve Bank the efforts of the Fourth and First to make large profits from its holdings of Liberty Bonds is constantly referred to. Nowhere in the statement of the Fourth and First Bank, or in any other correspondence, or by verbal statement on the part of any of the officials is there an intimation of any intention to make a profit, unless one would construe the effort to recoup some of the losses already caused by the Liberty Bond holdings as an effort to make a profit. With all the facts before them, as well as an intimate knowledge of each transaction, it is inconceivable where the idea of the "Maximum profit" could have originated.



No official of this Bank had any idea of speculation when these six million dollars of bonds were bought in the open market. As we have repeatedly stated, these bonds were bought to help recoup the terrific losses already sustained, as was made plain in our brief.

It must be kept in mind that these bonds were bought in April, 1919, prior to the Victory Loan, and the large offerings of Treasury Certificates. These bonds were bought when the United States Government had practically no friends in the open market, and at a time which we calculated would help the future financing which was to come in the next few weeks. The banks of the country, which actually made large profits, were those which did not "but till it hurts" at par during each drive, but waited till the war financing was over, and bought in the open market at and around 85, and much of these purchases, which proved to be very, very profitable, were being carried by the Federal Reserve Banks of the country when the Fourth and First was being pressed to sell out and settle up. It must be kept in mind that it was a very different matter to purchase bonds in the open market in July and August of 1919, than in April, 1919. Mr. Welborn's letter in July, 1919, in regard to the Federal Reserve Bank carrying open market purchases, was proper for that period, but no letter was necessary to keep investors out of the open market in April. First and last, we were only endeavoring to prevent loss; but what was the Federal Reserve Bank of Atlanta doing at that time - a bank that was not organized to make money - what did it do. It was making money beyond the dreams of avarice. No such profiteering - no such usurious rates of interest have been seen on this continent as was practiced by it - rates on Government Bonds at 6% and rates for commercial paper as disgustingly high as 40%. It comes therefore with proper grace from them to refer to our efforts to make profits, which profits are an actual loss of \$235,000.00 to the Fourth and First, which amount is still remaining in the coffers of the Federal Reserve of Atlanta.

We again state, with all the emphasis at our command, that this loss was not an anticipated profit, nor a fictitious loss, but a real one - a cash loss - and it is a matter of simple bookkeeping to ascertain the truth of this statement, which can be established by any competent auditor.

It surely is remembered by the officials of the Reserve Bank that in the winter of 1919-20 the Fourth and First had some fourteen million dollars borrowed on its Liberty Bond holdings and when the Repurchase Agreement was made in the spring of 1921 these holdings had been reduced to less than eight millions dollars; with the excess interest charged the bank during that period a reduction of our holdings of over six million dollars; it must be plain to anyone that we had a loss of around \$500,000. The market quotations of the period are easily available, and they show clearly that at no time could these holdings have been reduced without a severe loss.

#### THAT LETTER OF FEBRUARY, 1922.

Great emphasis has been placed upon our letter of February, 1922, to our Stockholders, which was intended to restore their nerves after many months of concern over the large borrowings of the bank, and to which the Atlanta Bank so often refers and misinterprets. This letter did not state that we had made a large profit out of Liberty Bonds. We had simply recovered part of the terrific loss the Atlanta Bank had caused us, and they knew that fact when they were flourishing that letter and trying to make it appear that through their good graces we had made a large profit. Any Banker can easily picture the state of mind of the stockholders and depositors of the Bank which had experienced such strain for more than two years. Any Banker can easily visualize how his competitors and business rivals would take every possible advantage of this strained condition as a line of propoganda to secure new business, and to make some of the best.



customer of the Bank dissatisfied. Hence it would be amazing if this Banker did not move as speedily as possible to cure such a condition. The difficulties of the Fourth and First Bank were known to all of the leading Banks in the Sixth District, and throughout Tennessee and Kentucky, as well as in the financial centers of the country. So it is not surprising that this letter was sent out just as soon as possible. This letter proved to be a splendid piece of financial psychology, and had a most salutary effect upon the depositors and stockholders of the Bank.

So, as we have already stated, the amount referred to in that letter is merely a part of the large losses charged off before that time, which was caused by the enormous decline in Liberty Bonds, and interest charges in excess of the bond rates. The real question, then, before us, with or without regard to this letter -- Did the Fourth and First National Bank sustain the \$235,000.00 loss?

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#### SPECIAL LIBERALITY ON PART OF THE FEDERAL RESERVE BANK.

The reply of the Reserve Bank has much to say about the "extraordinary lengths" it went to to protect and help the Fourth and First Bank, and that said bank should feel grateful to said Reserve Bank, etc. An effort to show this was set out in a letter of July 23, 1919, showing the largest loans made 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.

We challenge the Reserve Bank to compare the war finance records of each of these Banks with that of the Fourth and First Bank. This comparison will disclose that in view of the service rendered and

the percentage of bonds and treasury certificates absorbed, that the loan to the Fourth and First Bank was not one whit more liberal than those to the other Banks, and there was no violation of Section IV of the Federal Reserve Act, which reads:

"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."

It has never been denied that the Fourth and First went to unusual and extreme lengths without 'stint or limit' to help the Reserve Bank "Put the Sixth District over the Top." Any Bank which had responded so freely to every call for the winning of the war had every reason to expect special consideration from its Reserve Bank, and even the Federal Reserve Board at Washington to have recognized that the situation of the Fourth and First Bank was one of the kind of emergencies for which the Reserve system was created. Such recognition would have reassured us and many other good citizens that our trust in our Government and its agencies had not been misplaced.

Here is the record of the war finance operations of the Fourth and First National Bank.

#### LIBERTY BONDS BOUGHT

##### ORIGINAL SUBSCRIPTIONS.

First,	\$1,987,000.00
Second,	2,500,000.00
Third,	3,275,000.00
Fourth,	4,710,000.00
Fifth,	2,245,000.00
	<hr/> \$16,717,000.00
 We purchased from various sources	 6,090,000.00
Making total bonds handled,	<hr/> \$22,807,000.00
 We sold of the above to customers	 11,069,000.00
Leaving after close of Bond drives	10,187,850.00
Viz:	
Second,	734,450.00
Third,	1,221,400.00
Fourth,	8,225,500.00
Fifth,	6,500.00
	<hr/> \$10,187,850.00



Total Treasury Certificates	\$22,279,500.00
Total Bonds	22,807,000.00
Total amount furnished Government	<u>\$50,086,500.00</u>

# LIBERTY BOND HOLDINGS FROM CLOSE OF 1919

TO JUNE 1921

Much stress is laid upon the problem of the Liberty Bond holdings of the Fourth and First Bank at the close of 1919. Quoting from the reply of the Reserve Bank:

"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 on aggregate of obligation secured by government bonds varying from time to time (in round figures) from \$11,000,000.00 to over \$14,000,000. 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.

"Liberty Bond holdings presented at the close of 1919 no problem to the Commercial banks."

The famous circular which read in part "A majority of the banks of this district have not subscribed to any issue," and the fact that many of these banks have not responded very generously with their own resources to the requests and entreaties of the Treasury Department and the Reserve Bank make it perfectly clear why the bond holdings were no problem to them.

It was quite a simple matter to be "an accomplished fact" to the commercial banks at the end of 1919, which had bought only such amounts of the various issues as could be easily passed on to their customers. Certainly, Liberty Bond holdings were no problem to such banks, but one must be simple minded, indeed, who could not understand why these holdings were a problem to a bank that had bought

one-sixth of all the bonds allocated to the State of Tennessee.

At what time during 1919 and 1920 could these holdings have been liquidated without a loss?

During the spring and summer of 1919 there war bonds were away below par - the Fourth issue averaging about 93.50, and other issues in proportion. In the fall of that year they still declined, in the winter of 1920 they were as bad as could be, and they stayed that way a long time and then got worse - Liberties at 82 and Victories at 94.

The contention of the Reserve Bank that six months after the Victory Loan was out of the way, and a year after the armistice, was ample time to liquidate our holdings does not even bear the earmarks of good nonsense. The war was over, Liberty Bonds were below par, and the saturation point had long before been reached by the public in this section. We had already sold to our customers and the public "until it hurt", and they of course, would not buy bonds from us at cost when they could be secured elsewhere at a much lower figure. But when the Fourth and First Bank was assured by that the Federal Reserve Bank would stand back of it, and then urging us to go further, the Bank bought "till it hurt" and 'carried on' to the end.

We construed their assurances just as any business man would know their meaning to be - until such time as the bank could liquidate without loss. Reasonable expectations could not have been construed otherwise, we believed the officials of the Atlanta Bank told us the truth and we felt that unqualified cooperation would meet with reasonable cooperation, which should not have been a \$235,000. loss.

Under division IV of the reply of the Federal Reserve Bank will be found the following surprising statement.

"They (The Reserve Bank) 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 bank felt reasonably sure might be passed to the general public."

To this amazing statement, our reply is that they should review their files at Atlanta, and also



look through those at Washington. Their memories would be refreshed by looking through these records and reading their letters, also some of their circulars and bulletins. They should by all means read some of the speeches of the Secretary of the Treasury, Hon. Wm. G. McAdoo. Special attention is called to his speech in Nashville, which was referred to in our brief.

Four days after the Armistice the Reserve Bank sent out a circular calling attention to the fact the Government still needed our credit accommodations.

The war being over the officials of the Fourth and First Bank felt that in view of the large holdings of Bonds and Treasury Certificates that further precautions should be taken as is shown by Subdivision VI of our brief. From time to time we hesitated but were led on by the Reserve Bank. In a letter on November 29, 1918, it was clearly called to the attention of the Governor of the Reserve Bank that we owed \$6,000,000. and had subscribed for \$6,000,000. more to be settled for when he wrote us on December 2, 1918 as follows:

"While the war is practically over, yet it is going to be necessary to float another issue of Liberty Bonds, necessitating the issue of these Treasury Certificates, and we sincerely hope that we can count on your splendid institution to aid us in this difficulty, and it is to be hoped that the Government can continue to count on your bank to aid in the matter of financing for some time to come, as it is going to be absolutely necessary," etc. etc.

"Having had years of experience, of course, I understand what this means to your bank." etc.

What did this letter mean?

On January 28, 1919 he writes:

"If we could get even minimum subscriptions from all the Banks, we would reach our quota with little difficulty."

"This Bank has alone up to the present time subscribed \$11,135,000. of the Treasury Certificates, and I have the feeling that this is quite as much as should be expected of us. We have taken \$1,000,000. of every issue that has been presented."

On February 8, 1919, we wrote indicating hesitancy in going any further.

On February 10, 1919 we received a communication which read:

"Although we came near reaching our quota of subscriptions to the series of Treasury Certificates - - - the burden continues to be carried by a relatively small number of banks. To those who are giving this appeal an intelligent and faithful consideration we are grateful." (This shows plainly the difficulties the Atlanta Bank was having with its war financing)"

The reply of the Reserve Bank states:

"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 on an entirely different thing, to wit: Treasury Certificates. In so far as the correspondence concerns Treasury Certificates it is, of course wholly irrelevant."



The Treasury Certificate war financing as effecting this Bank cannot be viewed as an "entirely different thing-- and wholly irrelevant" because it has a certain and direct bearing upon our Liberty Bond holdings and losses. The purpose of our letter of November 29, 1919, was to make it plain to the Reserve Bank that we had no hand what we conceived to be an overload of Government Bonds. We could have stopped at this time and used the resources of the Bank in taking care of the situation instead of tying them up in other issues of Certificates and Bonds. From that date forward, the officials of the Reserve Bank knew the amounts of these war obligations they held as collateral from the Fourth and First Bank. The record shows that we wrote other letters expressing hesitancy but met with the reply to come and subscribe more and help keep up the 'reputation of the Sixth Federal Reserve District.'

Just here it should be remembered that many of the Banks of the country quit. Some of the large Banks of this State refused to buy Treasury certificates. Under no circumstances could they be induced to buy them. Taking the position that the war was over, and it was not a good business proposition.

These Banks did just what we felt that prudence demanded of us as the correspondence so plainly shows. These Banks stopped. We "carried on". These banks got out without loss, and many of them later on made real profits. But we believed the promises of the Reserve Bank to stand back of us was the truth, and met every call, and for our pains we had the aforesaid loss and the odious charge that we were trying to make large profits. We could have stopped immediately after the Armistice, or in the early part of 1919, and worked out of the situation without loss.

In all fairness, why was there not the slightest suggestion of the large borrowing of the Fourth and First Bank this period when we had a chance to save ourselves? Instead there was praise and constant appeal to buy, coupled with the assurance that the Reserve Bank would stand back of us?

We do not see how fair minded men could brush aside the help we gave in their difficulties with Treasury Certificates with a 'wave of the hand' as though it had no connection with our losses. The reply of the Reserve Bank fails in every vital respect to show that there was no line of cleavage between our purchase of Treasury Certificates and Liberty Bond holdings.

The officials of the Atlanta Bank knew what our enormous holdings were (\$15,700,000) when on May 1, 1919 we took \$2,000,000. of Victory Bonds. If they were not going to see us through, why did they wire us on May 10th, 1919 to subscribe for an additional \$250,000. to enable them to complete their quota? It is obvious that they sorely needed the help of the Fourth and First Bank, just as it had been needed in the matter of absorbing indigestible quantities of Treasury Certificates, which the Atlanta Bank itself had pressed to sell.

We do not lose sight of the fact that the foregoing appeal came some weeks after the much discussed open market purchase. And it should be noted here, that the Governor of the Reserve Bank did not have anything to say about this matter until after their quota of Victory Bonds had been successfully disposed of. His letter to the President of the Fourth and First Bank is quoted in full in the reply of Reserve Bank. In part this letter, in a rather moderate way, expressed doubt as to the advisability of the open market purchase.

But at the same time and language that will permit of no misconstruction this letter did say this:

"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 the matter."

Immediately following this letter, we find a rather labored effort to prove that the Governor did not say what he said, to-wit:

"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 any one 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 a four per cent rate for almost six months after the latter next above set out in full was written, and continued to carry the bonds after November 1918, although at higher rates, until the repurchase agreement was executed, which agreement, as will hereinafter be shown, eliminated all questions of interest charges.

We have already made it plain that at no time did the Bank buy war bonds in anticipation of profit but to recoup losses already sustained so we will pass on to the real issue in question, which is, that of carrying our Liberty Bonds at the bond rate of interest, until said bonds could be sold without loss. When the Governor made the statement we are perfectly willing to carry these securities for you as long as you see fit to offer them to us," the Federal Reserve Bank of Atlanta was carrying for the Fourth and First Bank over \$15,000,000 of these said securities at the bond rate and it had been carrying a goodly portion of these same holdings without the slightest question or hesitation for a long time. Every rule of sound reasoning would show this statement to mean that the Reserve Bank would continue to carry these holdings at the bond rate until they could be liquidated without loss.

The reply of the Reserve Bank wholly fails to show any proof that six months (May 20, 1919 to November 10, 1919) had the least semblance whatever of a reasonable time. It would have been folly to have disposed of bonds during that period, as we have

shown in the foregoing, that statement in corroboration of several prior statements, meant that the Reserve Bank would carry these bonds at the Bond rate until they could be liquidated without unreasonable loss. Nowhere have we claimed that those bonds should have been carried for an indefinite time. Our contention is that the raising of the rates violated in every sense the agreement. No device or invention of the genius of the American banker can call a loan quite so loudly or enforce its payment so harshly as to raise the rate of interest. It is the most ramshackle contrivance ever devised for standing back of a bank.

The argument, "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", is obviously defective and evasive but we hope not purposely. When he was urging us to buy heavily of the large offerings of the U. S. Treasury and promising to stand back of the Fourth and First Bank, if he did not expect to maintain the bond rate or did not have the authority to maintain it, he should have said so. No reasonable interpretation of his statements could have meant that this rate would be changed.

It should be further noted that the Governor of the Reserve Bank did not stop with the Victory Bond issues and the promise of May 20, 1919, but on June 28, 1919 urged the Fourth and First Bank to purchase largely of more Treasury Certificates as follows:

"I not only request you to subscribe largely to these offerings, but urge 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."

What could the Governor have meant by that statement? He surely did not mean that the rate would be raised on our indigested Liberty Bonds.

And still, further, on July 30, 1919 when we owed the Reserve Bank over \$17,000,000. he wrote this:

"In order to confirm what I told Mr. Webb, I may say that we agreed to assist



your bank in whatever re-discounts that are necessary to handle the grain and other commercial business of your section, in order for your bank to take care of the situation with your customers."

In consequence of this promise, we had obligated many needed loans to our customers, but in a few months the Reserve Bank disregarded this promise and notified the Fourth and First Bank that it would not extend further credit. For the largest National Bank in Tennessee to find its only avenue of credit closed is about as alarming situation as any banker could contemplate. It is easy to understand why this intolerable situation brought about a condition of affairs, which made it necessary to send out a strong letter on February 1922 to offset some of the harm that had been done.

Does the record show that the Fourth and First National Bank had of its own volition as lack of precaution and without proper assurances from the Federal Reserve Bank had gotten itself into this precarious situation? No, the record is as plain as the English language can make it, that the most primary principles of fair dealing were violated, by the Federal Reserve Bank of Atlanta, when said bank refused to stand back of us by raising the interest rate and later refusing to permit repurchase agreement remain in force for at least a year.

The reply of the Atlanta Bank states that The Fourth and First had gotten itself into this situation through the undue purchase and continued holdings of excessive amounts of Liberty Bonds as though the said Atlanta Bank had no part in creating this said situation and felt no responsibility morally or otherwise to remedy it.

Several times in the reply of the Reserve Bank is the letter of July 20, 1919 of Governor Welborn to Mr. Caldwell, calling attention to our large borrowing and indicating that the rate would be raised referred to. We can not refrain from feeling that this is another example of locking the stable after the horse is stolen. The heavy war financing was then over and reference to that letter at that late date as proof that the Fourth and First had been given warning is clearly an evasion and a poor alibi.

What a strange contrast is this letter and those that followed and this reply now under consideration to those of December 1918, February, May, June and July 1919 when the Reserve Bank was going to stand back of us.

What a strange contrast is this extract from speech of Gov. M. B. Wellborn at Bankers' Meeting in Nashville, as reported by Nashville Banner of April 16, 1920:

"It was thought when the Federal Reserve System was established that the currency would contract and expand in the course of commerce. It seems that it is not doing that at the present time. You must not tax your banks to buy more stocks, or the banks will have to refuse to lend you. We are going to put the clamp on the banks. We are going to establish a rule that when a bank borrows more than a certain amount as a normal line, we are going to raise our rate. This progressive raise will make the 6 per cent rate look like 30 cents. If we had not put up these rates, there would have been pandemonium by this time. Unless the Federal Reserve System controls credit, it will not serve the purpose it was created for."

This attitude of the Governor of the Federal Reserve Bank had something to do with the difficulties and losses of the Fourth & First National Bank.

We had a right to think that we were dealing with men who could have no possible motive for misleading us, men whom we trusted and men in whom we had the greatest confidence, and we felt justified in having such confidence in them for they were officers in a great institution in which we were large stockholders, operating under direct government supervision. Could we possibly have dreamed that they did not mean what they had written, or that they intended to disregard solemn promises?



## THE REPURCHASE AGREEMENT

The Repurchase Agreement was conceived and initiated by the officials of the Federal Reserve Bank of Atlanta. They proposed it to the officials of the Fourth & First National Bank in joint conference at Nashville as a remedy for the ills we have just described. The interest rates on Liberty Bonds that they were exacting from us in the face of their agreements and representations to us made their position untenable - a position that could not be defended or justified. Something had to be done - common decency demanded it, so they offered what promised to be a solution or remedy in the instrumentality of this said Repurchase Agreement. The reply of the Reserve Bank endeavors to show that the only motive was "in order to aid the Fourth & First and to extricate itself as 'a very precarious situation' entered into the contract referred to in the petition of the Fourth & First as the 'Repurchase Agreement'", which is hardly a half truth.

The outstanding fact is that they were trying to save themselves from the censure that was theirs for failure to live up to their own pledges. They were answering a call of the first law of nature, and not so much a disinterested patriotic desire to serve the Fourth & First Bank.

The officials of the Fourth & First Bank, however, did accept in good faith this said agreement for it did seem that it would abrogate the unreasonable losses we had sustained, for said agreement was to remain in force for two years if found necessary or desirable. Had the purposes and spirit of this agreement been carried out it would have accomplished what it was intended to do when it was signed, namely, it would have saved this bank from losses that were all out of proportion with those of any other bank in America.

There was, of course, in this contract, the usual safeguard that is often provided by the best of bankers - a way of escape in case of untoward business conditions - but never enforced except under most unusual circumstances, we mean the option to call. This option is so often thrown in documents, and so very rarely exercised that it is not strange that our officials were not impressed by it until it proved to be the "joker" that it was, and furnished to the Atlanta Bank another very poor excuse for disregarding its agreements.

The exercise of the sixty day option to call by the Reserve Bank on December 10, 1921, was grossly in violation of the spirit and purpose of the agreement. The calling of this agreement was the most unreasonable and uncalled for chapter of the whole transaction from the Armistice to February, 1922. While under the contract the Atlanta Bank may have had the technical right to call the Fourth and First, the act was in no sense in consonance with the spirit of the agreement, and its purposes were flagrantly violated. To use a trite expression, this act killed the goose that would have laid the golden egg that would have saved this bank from loss.

We have shown beyond question in Section XVII of our brief that on December 10, 1921 there were no untoward business conditions or even a trend that justified forcing the sale of these bonds.

The weakness of the contention of the Reserve Bank that the passage of the Bonus Bill would demoralize the market for Liberty Bonds is apparent on its face. This Bonus Bill did not pass for more than a year later and its passage did not affect the market so much as to make a ripple. This particular bill was vetoed by President Harding shortly after its passage and he was in office in December, 1921, and he would have exercised the same power had it passed then, when the first Bonus Bill was passed by Congress, and it was not known, whether or not President Harding would veto or sign, the bond market was not even slightly affected.



The Bonus Bill that was finally passed and had the approval of President Coolidge had no effect whatever upon the bond market.

This line of reasoning also manifestly shows lack of confidence in Government bonds, and also lack of confidence in both the President and the Congress to conserve and maintain credit and good name of the nation.

The reasoning that the passage of the Bonus Bill would materially reduce the price of Liberty Bonds is as palpably defective as the other reasons offered by the officials of the Reserve Bank as an excuse for the termination of the Repurchase Agreement, which we will now consider briefly.

"To relieve a situation of long standing," This said Repurchase Agreement had not been in effect but a few days over six months when the call was made by the Reserve Bank instead of two years it was to have been in force if necessary. So, it does not appear from the record that the situation had been so long standing, especially when said agreement was expected to be in force two years.

"The Bonds were sold by the Fourth and First." And they also say, "the call was not preemptory." We were given written notice on December 10, 1921 to repurchase the bonds which meant that we would have to sell them. We ask just here, what other course could we have taken but to have sold the bonds during the sixty days period of grace? If calling an agreement that was to have run two years in less than seven months after its execution is not preemptory, what is it? They say that this action was not harsh. Well, we certainly did not find it very soothing to have snatched from our very grasp the only opportunity we ever had to have relieved this Bank of the \$235,000. loss.

The reply of the Atlanta Bank builds up a straw man with the false idea that the Fourth & First Bank was trying to make large profits,-

they do not seem to be able to get away from this most erroneous idea. No action or statement of ours should give any such impression. It may be that the officials of the Reserve Bank were dealing in such large and unusual profits themselves, that they were fearful that we were doing the same. Just here we state again that we were only trying to work out of this intolerable situation without unreasonable loss as we understood the promises and agreements of the Reserve Bank to mean. Nothing was further from the motives of the Fourth & First Bank than to harvest large, or even small profits from the misfortunes and perils of our country at war. Is that plain?

The contention is made in the reply of the Reserve Bank that it was borrowing from other Reserve Banks at 5 1-2% and carrying the bonds of the Fourth and First at 4-1/2% thereby sustaining a loss of 1 1-2%. Now what are the facts? Bonds yielding 4-1/2% and bought at \$4.95 will yield to the purchaser quite 4-1/2%, which is an apparent loss of 1%. But it should be borne in mind that the Atlanta Bank had on deposit our legal reserve without interest in the sum of \$1,100,000 and which was being loaned to commercial banks at 6% and upwards. The Fourth and First paid as high as 10% to the Reserve Bank and loaned same to our customers at 6%. Hence, it is easy to see that the Fourth and First was a very profitable customer or member and the Reserve Bank did not lose thereby, but made very handsome profits.

We have already shown the urgent necessity of sending out that letter of February 1, 1922 to re-establish that confidence and good will that was justly ours and should have never been jeopardized because of the cooperation we gave the Reserve Bank, when said Bank stood in need of our resources.

Refusal of the Reserve Bank to extend the call on the Repurchase Agreement for ten days can not be justified or palliated by an offer to make us a fifteen day loan with Liberty Bonds as security



for this loan meant an interest rate of not less than 5% which would have called for an additional loss on our bonds. The refusal to make this ten day extension shows the squeamish attitude and lack of cooperation that so patently characterized the attitude of the Federal Reserve Bank of Atlanta from August 1919. So arbitrary and exacting was the Reserve Bank the claim was made that 60 days was up several days earlier than it was in fact.

The zeal of the officials of said Reserve Bank is abrogating this said agreement or contract brings us to the disagreeable belief that this covenant was entered into and allowed to remain in force only so long as it was necessary to lend a certain appearance of respectability to their dealings with the Fourth & First Bank, and when that purpose seemed to be accomplished and said officials could establish what they believed to be an alibi this said agreement was brought to a swift termination.

It should be noted here that soon after we were sold out, Feb. 10, 1922, the re-discount rate of the Reserve Bank of Atlanta was reduced from 5% to  $4\frac{1}{2}\%$  - there was such a surplus of unused reserves and profits.

In the summary of the brief of the reserve bank reference is again made to the strict legal construction of this case, as though it was expected that the matter should have been disposed of at the end of a law suit. The point of view of the lawyer who framed their reply must be so tinctured with the atmosphere of the courthouse that he evidently loses sight of the moral aspects of this case, altogether. Between institutions of the standing of the Reserve Bank and the Fourth & First Bank there should be a code of common ethics that would recognize the validity of an agreement in form of letters or telegrams to take place of a closely drawn contracts and more especially when said agreements dealt with financing a war.

Assuming, however, that the Fourth & First Bank on account of the technical legal phases of this case could not recover this aforesaid loss from the Reserve Bank, yet said Reserve Bank is clothed with full authority under the law by its discretionary power to

reimburse the Fourth & First Bank for excess interest charged on Liberty Bonds; we feel that we have given ample written proof (not hearsay or word of mouth proof, but written proof) that said Reserve Bank should have recognized that their pledges and agreements demanded the refund of excess interest charged this bank.

The final statement of the reply of the Reserve Bank is also out of line with the question involved: "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 buyers sustained such losses, - reasonably taking the view that it was their contribution to the winning of the war." Nowhere can we find in our correspondence any intimation or suggestion that the losses of this bank were a parallel case to the individuals or corporation that bought liberally of every offering of the U. S. Treasury. We fail to see where adding \$235,000. to large profits of the Reserve Bank of Atlanta has any connection with winning the war.

Injustice will not down!

There is something in the eternal fitness of things human or divine that will always resent an injustice. Honorable men can never be made to live content under injustice - they may be forced for a time to do so under compulsion. Time will not heal the anguish of its wounds, but redress only can make reparation for it.

Careful reading of the correspondence between the Fourth & First and the Reserve Bank of Atlanta, from the First Liberty Bond drive to the close of all war financing, does not reveal the slightest suggestion on the part of our Bank of any idea of profit. Especially should the letters of the President of this Bank and the Governor of the Federal Reserve Bank from Nov. 29th, 1918, to June 28, 1919, (See Appendix) be carefully read and considered.

After all the pledges and promises of the Atlanta Bank, and after said Bank had been given unstinted cooperation by the Fourth & First Bank, then to have the charge thrown into our faces that this Bank was trying to make large profits, is nothing short of



adding insult to injustice, which we resent beyond expression. We may be a small voice, but we could not maintain our self respect if we did not cry out against such glaring injustice.

For an institution of the character and standing of the Fourth & First National Bank to be forced to depend upon the Federal Reserve Bank of Atlanta as its refuge of safety in time of stress and storm, is unthinkable, and intolerable, and some way must be found to remedy such a situation.

THE FOURTH AND FIRST NATIONAL BANK

(Signed) By Jas. E. Caldwell

President

MISS GRACE DAWSON  
STENOGRAPHER

PHONE, MAIN 2722  
RES. PHONE, MAIN 4467-L

808 STAHLMAN BUILDING  
NASHVILLE, TENN.



P E T I T I O N

OF THE

Fourth and First National Bank of  
Nashville

TO THE

Federal Reserve Bank of Atlanta, Georgia

---

**For a Refund of Excess Interest Charged Against and Paid  
by the Fourth and First National Bank on Carrying  
Liberty Bonds, the Amount of Excess Charge  
Being Approximately \$235,000.00.**

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*To the Honorable Governor, Chairman and Board of  
Directors of the Federal Reserve Bank of At-  
lanta, Georgia:*

Your petitioner, the Fourth and First National Bank of Nashville, comes and respectfully submits that the Federal Reserve Bank of Atlanta is indebted to it in the sum of approximately two hundred and thirty-five thousand (\$235,000.00) dollars on account of overcharges of interest made by the Federal Reserve Bank against the Fourth and First National Bank on account of carrying United States Bonds.

As soon as the Board determines the basis upon which it will allow this claim the exact figures will be submitted for verification.

*See 2 9/5/23*

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.

# I

The United States declared war against Germany on April 6, 1917.

The people of the United States are a peace-loving people and official United States seemed to have determined that this country should not get into the war. Its army was insignificant as compared with other large nations and it had made no preparations for either offensive or defensive warfare. There were no supplies, no munitions, no arms, so that when war was declared America was wholly unprepared to meet its demand.

The American people had become greatly inflamed at the actions of Germany in sinking the Lusitania, in using submarines to attack hospital ships and non-combatant vessels and by Germany's declaration that she had determined to continue the submarine warfare, so that when war was declared the American people were in the frame of mind to enter it with their whole resources, both of men and money.

The magnitude of the conflict was such that it soon became evident not only to the people but to the



Government officials that all the financial resources of the country would be demanded to enable America to do her full part.

The funds in the hands of the Government were wholly insufficient to meet the enormous expenditures which were immediately called for and it was evident that the money to carry on the war would have to be raised by the issuance and sale of Government bonds.

Prior to the war the people of the United States were not bond buyers and the banks were not bond buyers. It was very rare that a Government bond was offered as collateral security by customers and the banks carried practically only what was necessary for their circulation.

Consequently when war was declared and United States Bonds had to be sold not only by millions but by billions and tens of billions of dollars, both the people and the banks had to be educated and induced to buy them.

## II

The first Liberty Loan issue was offered May 14, 1917, at  $3\frac{1}{2}$  per cent to the amount of Two Billion (\$2,000,000,000.00) Dollars. This was by far the largest loan ever offered up to that time by this Government. Money was worth much more. It was manifest that the banks could not buy these bonds in large quantities and carry them from their own resources.

In the beginning of the campaign for placing the Liberty Bonds there was held in Nashville a meeting of the bank officials of Middle Tennessee to hear the Secretary of the Treasury, Hon. W. G. McAdoo.

Mr. McAdoo urged upon the banks the desirability of the investments and the importance of their assistance, pointing out how such securities could be carried by the banks with the Federal Reserve Bank *at no loss to the banks.*

On April 19, 1917, the Governor of the Federal Reserve Bank issued a circular to all the banks requesting information as to how much of the proposed war bond issue each bank would take and how much they estimated their customers would take. . .

To this the Fourth and First replied on April 20, 1917, that if the initial issue was One Billion (\$1,000,000,000.00) Dollars, it might take Three Hundred (\$300,000.00) Thousand Dollars, and its customers might take One Hundred Thousand (\$100,000.00) Dollars. If the initial issue was Three Billion it might take Five Hundred Thousand and its customers One Hundred Thousand.

Upon the assurance that the bonds could be carried with the Federal Reserve Bank without loss to the bank, the Fourth and First subscribed for One Million One Hundred Thousand (\$1,100,000.00) Dollars, more than double the amount it proposed to take.

These were carried with the Federal Reserve Bank to the full amount requested by the Fourth and



First National Bank at the bond rate and continued to be so carried at the bond rate as long as the Fourth and First desired.

### III

#### **The Annual Report of the Federal Reserve Board for the Year 1919.**

The condition of the country with reference to subscribing for the several bond issues and the inability of the banks to purchase and carry them and the attitude of the Federal Reserve Bank with respect to carrying them without loss, is fully shown by a report of the Federal Reserve Board dated Washington, February 2, 1920, being the Sixth Annual Report of the Federal Reserve Board for the calendar year ending December 31, 1919, from which we quote as follows:

Page 1 says:

“To the extent however, that what was accomplished in saving fell short of actual requirement there was a margin of bonds that could not be paid for immediately out of savings and which it became necessary for the banks to carry either *directly* or indirectly through loans to purchasers. This expansion of bank loans must be kept in mind in order to understand the situation. Failure to understand it leads to the impression held by many that Liberty Bonds could all have been sold to investors had they borne a high rate of interest. No rate within reason

could have accomplished this as the investment funds to absorb these enormous issues in their entirety simply did not exist.

“In order that the member banks might carry the burden of undigested Government securities they were obliged to re-discount to the Federal Reserve Banks, and in order that such re-discounting should not involve them in heavy loss it was essential that the re-discounting rate should be related to the bond rate.

“Distribution of the certificates has been effected through the Federal Reserve Banks with the co-operation of the member banks, a vast organization which cannot be duplicated, the member banks buying the certificates in the first instance and then gradually selling them to their customers.

“This could not have been accomplished if member banks had not had the assurance that their investments in certificates could, if necessary, be carried in Federal Reserve Banks *without loss*. In making rates for rediscounting loans on Government securities, the policy was to avoid loss to the banks, which were necessarily the distributing media.”

Your Chairman, Mr. Joseph A. McCord, in his Annual Report published in the early part of 1920 on p. 10, says:

“In view of the fact that the Commercial Banks were called upon to make up a full quota of the district in the sale of Liberty Bonds, Victory Notes and U. S. Treasury Certificates of Indebtedness, this naturally encroached upon their



resources for the handling of their commercial business. It was, therefore, necessary in many instances for the Commercial Banks to use the *bonds, notes and certificates* issued by the Government and purchased by the banks to build up their available resources for the handling of their commercial business. This brought about the unavoidable result of the banks showing in their statements of condition more rediscounts and bills payable than would otherwise have existed."

Again quoting from the report of the Federal Reserve Bank for the year 1919, p. 60, appears the following:

"As has already been pointed out the Federal Reserve Banks became great bond distributing organizations; firms and corporations large and small, men and women in every walk of life were urged to subscribe for bonds and the credit facilities of the Federal Reserve Banks were placed at the disposal of member and non-member banks in order that they might lend freely on bonds for which the subscribers were unable to pay. The public was urged to borrow and buy and it was found after the close of the Victory Loan in May, 1919, that more than twenty million subscriptions had been received in response to this appeal."

**Fourth and First National Bank's Subscription  
for Liberty Bonds.**

Every member of this Board and every bank's, remembers most vividly what a tremendous propaganda was put on by the United States Treasury and by the Federal Reserve Banks, urging both the public and the banks to subscribe for Liberty Bonds.

Every sort of assurance and entreaty was employed.

The Fourth and First National Bank responded in a manner indicated by the following figures:

*First Liberty Loan—*

Your total subscription in Tennessee .....	\$7,842,000.00
Of which amount the Fourth and First National Bank took .....	1,100,000.00
Which was one-seventh.	

*Second Liberty Loan—*

Your total subscription in Tennessee .....	15,785,000.00
Of which amount the Fourth and First National Bank took .....	2,600,000.00
Which was one-sixth.	

*Third Liberty Loan—*

Your total subscription in Tennessee .....	22,786,000.00
Of which amount the Fourth and First National Bank took .....	3,600,000.00
Which was one-sixth.	



*Fourth Liberty Loan—*

Your total subscription in Tennessee .....	37,585,000.00
Of which amount the Fourth and First National Bank took .....	7,111,000.00
Which was one-fifth.	

*Fifth Liberty Loan—*

Your total subscription in Tennessee .....	23,550,000.00
Of which amount the Fourth and First National Bank took .....	2,000,000.00
Total subscription in Tennessee...	107,547,000.00
Total amount subscribed and paid for by the Fourth and First National Bank .....	16,410,000.00
Which was one-sixth.	
Total U. S. Treasury Certificates subscribed to by the Fourth and First National Bank .....	16,200,000.00
Grand total of securities bought from and paid for to the Government .....	32,610,000.00
Being equal to thirty times the capital of the bank.	

V

**Liberty Bonds Declined and the Public Was Urged to Buy More Bonds to Average Down the Price.**

In the spring of 1920 the Federal Reserve Board at Atlanta sent the Fourth and First National Bank with the request that it be inserted as an advertisement the following, with which request the Fourth and First National Bank complied:

### “AVERAGE YOUR LIBERTY BONDS”

“When an experienced investor finds some of his favorite securities selling below what he first bought them for, does he sell the lot and turn to something else?

“Not at all. He buys as many more as he can at the lower price, in order to ‘average the cost.’

“He does this, because he always desires the book values of his securities to be close to the actual market values, so that if forced to sell at any time, his loss, if any, will be small.

“The present prices of all issues of Liberty Bonds offer the most favorable opportunity for averaging cost. A hundred dollars worth bought at par, another hundred bought at \$91, and you have two bonds costing only \$95.50 each. Long before maturity date you will be able to sell either or both at a profit.

### “BUY W. S. S.”

This is what the Fourth and First National Bank did in April, 1919, purchasing in the open market \$6,000,000.00 in order to average down the price on the bonds which it had subscribed for at par from the Government and which had declined to 95 cents, and continued to decline until they went down to 81 and 82 cents.



## VI

### **Correspondence Between Federal Reserve Bank and Fourth and First National Bank.**

The correspondence that passed between the two banks reflects the understanding and agreement between them with regard to the basis upon which the Federal Reserve Bank would carry these Government securities for the Fourth and First National Bank.

On September 28, 1918, you sent out a circular by the Treasury Certificate Committee, in which it was stated:

“A majority of the banks in this district have not subscribed to any issue.”

On October 14, 1918, the Federal Reserve Bank sent us a telegram saying:

“To relieve you of apprehension concerning your ability to finance subscriptions, we assure you we will discount your notes secured by the Fourth Loan Bonds at 4 per cent, if your rate to your customers does not exceed  $4\frac{1}{4}$  per cent.”

On November 15, 1918, you sent out a circular using expressions as follows:

“Your Government needs the credit accommodation,” etc.

On November 29, 1918, we wrote you stating that we had something like \$6,000,000.00 of bonds yet to

settle for, and that it would, therefore, be necessary for us to borrow still further from you, and to this you answered under date of December 2, 1918, as follows:

“While the war is practically over, yet it is going to be necessary to float another issue of Liberty Bonds, necessitating the issue of these Treasury Certificates, and we sincerely hope that we can count on your splendid institution to aid us in this difficulty, and it is to be hoped that the Government can continue to count on your bank to aid in the matter of financing for some time to come, as it is going to be absolutely necessary,” etc., etc. “Having had years of experience, of course, I understand what this means to your bank,” etc.

On January 28, 1919, you say:

“If we could get even minimum subscriptions from all of the banks, we would reach our quota with but little difficulty.”

On January 29, 1919, we answered you in these words:

“This Bank alone has up to the present time subscribed and paid for \$11,135,000.00 of these Treasury Certificates, and I have the feeling that this is quite as much as should be expected of us. We have taken \$1,000,000.00 of every issue that has been presented.”

On February 8th, 1919, we wrote, indicating a hesitancy in going any further.



On February 10, 1919, we received a communication reading as follows:

“Although we came near to reaching our quota of subscriptions to the series of Treasury Certificates . . . the burden continues to be carried by a relatively small number of banks. To those who are giving to this appeal an intelligent and faithful consideration, we are very grateful,” etc.

In April, 1919, we purchased \$6,000,000.00 Liberty Bonds in the open market to average up.

In May, 1919, we took \$2,000,000.00 of Victory Bonds, doing so on the first of the month.

On May 10, 1919, you telegraphed, asking us to subscribe to \$250,000.00 more if it was found necessary that we do so to enable you to complete your quota and we immediately communicated our approval.

On May 12, 1919, we received a letter from you containing the following:

“Expressing my thanks for this further evidence of your patriotic desire to maintain the reputation of the Sixth Federal Reserve District,” etc.

On May 14th, 1919, you wrote, making reference to our purchase of Liberty Bonds in the open market, asking our opinion of Section 4 of the Federal Reserve Act.

On May 15, 1919, we answered, expressing surprise and disappointment, to which you replied, under date of May 20, 1919:

*"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 the matter."*

On June 28, 1919, you wrote the Fourth and First as follows:

*"I not only request you to subscribe largely to these offerings, 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."*

Now, gentlemen, could anything be plainer or more assuring, and could we possibly have retained a doubt? Yet, in July following, Mr. Paul M. Warburg, and other New York interests, began an agitation for the liquidation of loans secured by Government Bonds, and on the 16th day of July we received a letter from you asking for the liquidation of loans secured by bonds bought, and this notwithstanding your declaration made in your letter of May 20th,



stating that you were "perfectly willing to carry these securities for you as long as you may see fit to offer them to us."

On July 21, 1919, we answered at length.

On July 23, 1919, you answered, saying:

"Taking everything into consideration, however, and the request that we have from time to time made of you in subscribing to bonds and Treasury Certificates, we do not ask that you bring your indebtedness down within a short time. Permit us to suggest that you gradually reduce your indebtedness—say, about one-half million a month."

We reduced the loan \$5,000,000.00 immediately. Mr. Webb went to Atlanta for conference and reported in writing to Mr. Caldwell on his return that your officials stated "that we must under no circumstances decline to handle the commercial business for our customers."

On July 30, 1919, this was confirmed in your letter, as follows:

"In order to confirm what I told Mr. Webb, I may say that we agreed to assist your Bank in whatever re-discounts that are necessary to handle the grain and other commercial business of your section, in order for your Bank to take care of the situation with your customers."

The Government and Federal Reserve Banks having discontinued their efforts, Government Bonds declined and so continued, making it impossible to sell except at a great loss.

On August 9, 1919, you wrote concerning correspondence with regard to raising rates, and you say:

“You must admit that it is necessary for the member banks to bring about some liquidation of their loans, especially those who are borrowing so heavily from the Federal Reserve Bank. As to how this should be done is the question. I agree with you that it would be quite hard upon the banks if we increase our rate in order to force a liquidation. It may be that this will be necessary, but as I wrote you in a former letter, and as stated by Mr. Warburg in his address, this seems to be the prevailing thought of those who have expressed themselves upon this matter.

“It appears to me that the next six months will be probably the most critical period of the existence of the Federal Reserve System, and it behooves member banks to bring about some kind of liquidation. I hardly think this liquidation can take place through the sale of Liberty Bonds, for the reason that the price has not advanced sufficiently to enable the banks to get out without a loss.”

On August 18, 1919, in acknowledging receipt of the pamphlet from Fourth and First Bank, you quoted from the United States Investor on the subject of “Cutting down the inflation,” and you wrote:

“When the Fourth Liberty Loan was offered by the Government, everybody was encouraged to borrow, so as to be able to buy Liberty Bonds. Borrowers were assured that for at least a year they could count on being carried by the Banks on such loans. The Banks were able to make this



pledge, by an understanding with the Federal Reserve Bank, that it would rediscount such loans with proper liberality as to rates and for at least a year. To raise the rate now, and crowd those who are borrowing on such security, would be a distinctly improper thing for the Federal Reserve Banks to do, in the light of this understanding."

Nothing further was said with regard to cutting down the loans. So, on December 4, 1919, we wrote as follows:

"We sent you in, the other day, a subscription for \$1,000,000.00 Treasury Certificates. It appeared that we might have a falling off in commercial demand for funds. It now looks differently, and that we might have to call on you to carry this through. If, therefore, you would prefer not to do this, then please be so kind as to cancel the said subscription, and oblige."

On December 5, 1919, you answered, writing:

"I have your letter of December 4th, and note your remarks regarding your subscription for \$1,000,000.00, U. S. Treasury Certificates of Indebtedness.

"For your own information, I may say that it is my opinion, since you paid for the Certificates by deposit that they will remain with you for quite a while, and consequently our bank will not be called upon to carry these Certificates for you—at least I hope not. Anyhow, I am willing to take a chance on that, and am perfectly willing that you let your subscription remain as it is."

We continued to take the offerings of Treasury Certificates, each time with a memorandum attached to "take or reject as you preferred."

On February 24, 1920, you brought up the question again concerning our indebtedness.

On February 25, 1920, we authorized you to dispose of \$3,500,000.00 of Treasury Certificates.

On February 25, 1920, you replied: "There are very few in the market at the present for Certificates of Indebtedness."

**Rates of Interest Charged by the Federal Reserve Bank  
Against the Fourth and First National Bank on  
Government Secured Obligations.**

The Federal Reserve Bank carrying out in good faith the agreement and understanding between the two banks 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.

Thus the agreement and understanding made between the two banks was faithfully and conscientiously lived up to and carried by the Federal Reserve Bank up to November 10, 1919.



**Federal Reserve Bank Raises Rate Over Our Protest.**

On November 10, 1919, the Federal Reserve Bank raised the rate on our notes secured by Government obligations to .....  $4\frac{1}{2}\%$   
On December 17, 1919, they raised to .....  $4\frac{3}{4}\%$   
On January 26, 1920, they raised to .....  $5\frac{1}{2}\%$   
On May 6, 1921, they raised to ..... 6 %  
November 2, 1921 .....  $5\frac{1}{2}\%$   
December 19, 1921 ..... 5 %  
March 15, 1922 .....  $4\frac{1}{2}\%$

*22 days*

These rates were raised over our most insistent and earnest protest we insisting 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 and would cause us a tremendous loss.

IX

**Bonds Decline on the Market.**

The various issues of Liberty Bonds declined in price. This decline began about the ..... day of ..... 19.., and continued until about the ..... day of ..... 19.., when they reached the lowest prices of approximately 81 cents.

With the large holding that this bank had it is readily seen that it could not afford to sell the bonds

at these heavy discounts. The loss which would have resulted would have been more serious than the bank could stand.

Having full faith that within a comparatively short time, a year or two years, the bonds would go back to their normal and proper value at or above par, although they were facing a possibility of a heavy loss, we felt that this would in due season be overcome and be eliminated.

## X

### **The Demand for Increased Rates Places the Bank in Critical Situation.**

When the Federal Reserve Bank began to increase the rate of interest on the bonds it was carrying for the Fourth and First National Bank, it placed the bank in a very precarious situation.

When the demand for this increase was made the bank resisted it, but was met with determined demand that the increased rate must be paid.

The Bank had open three alternatives:

First, to sell its bonds;

Second, to refuse the demand and go into court;  
and

Third, to pay the excess interest demanded and hope for a proper restitution in the future.

Owing to the amount of bonds and the shrinkage in value the loss incident to selling the bonds would



have been so great that it would have wiped out our surplus and heavily impaired our capital. This course was therefore not to be considered.

Our next alternative was to resist the payment and go into court. This would mean that the Federal Reserve Bank under the note it held would probably give us a notice that it would sell the bonds. We would file a bill to enjoin it from the sale and they would bring a counter action suing the bank for the amount of its loans then aggregating twelve to fifteen millions of dollars.

It is manifest to every thinking man that for a National Bank to be sued by the Federal Reserve Bank for ten to fifteen million dollars would bring such consternation to its depositors that a run upon the bank would inevitably follow and the doors of the bank would be closed.

In addition to this the Federal Reserve Bank officials and our bank officials all knew that the doors of credit elsewhere than at the Atlanta Federal Reserve Bank were closed to us. Under the Federal Reserve Act a member bank can only borrow the amount of its capital and surplus from any place other than the Federal Reserve Bank of its own district.

Our capital and surplus was approximately two million dollars. With the Federal Reserve Bank demanding payment of from ten to fifteen million dollars and we being prohibited by law from borrowing

anywhere else more than two million dollars, it is manifest that the Federal Reserve Bank had us absolutely in its power.

It was pay the excess interest demanded or close the doors of the bank.

The third alternative was to pay the excess interest demanded and hope for a future day to come when with clearer thought and fairer judgment the Federal Reserve Bank would return to us the amount thus unjustly taken from us.

Our surplus and undivided profits and our earning capacity were such that we could stand the loss of twenty thousand (\$20,000.00) dollars per month arising from these excessive interest charges and continue this for a practically indefinite time; of course, resulting in a huge loss to the Bank but nevertheless it could survive.

We believed that within one year or two years the bonds would go back to par so that we could sell them and save further loss.

After fully considering the whole situation we saw that there was no reasonable alternative left to us but to submit to this unfair and unjust demand to pay the excess interest which was demanded from us and bide our time for a reconsideration and a rehearing at the hands of this Board, and a return to us of the sums thus improperly required from us. So we paid the excess interest demanded.

The foregoing process continued until the repurchase agreement dated the 28th of May, 1921.



## XI

### **Repurchase Agreement of May 28, 1921.**

On the above date after long conference between the Atlanta Federal Reserve Board and ours in the Directors' Room at the Fourth and First National Bank at Nashville in which we submitted the most earnest protest against the manner in which we had been treated and against what we claimed and asserted was a gross violation of the contract with us and of good faith between us, the Federal Reserve Bank entered into a contract of repurchase with the Fourth and First National Bank.

Under this the Federal Reserve Bank bought from us one million two hundred thousand of Third Liberty Bonds and six million seven hundred eighty-seven thousand, eight hundred fifty dollars (\$6,787,850.00) of Fourth Liberty Bonds at the price of \$7,586,061.000, which was at the rate of 94.95%.

Under this agreement the Federal Reserve Bank was to carry these bonds for us two years at the bond rate. It was to receive the interest on the bonds. We were to pay one tenth of one per cent a month on the principal.

But the Federal Reserve Bank insisted upon inserting a provision that on giving us sixty days' notice they could require us to repurchase all the bonds.

The contract further provided that until the purchase price had been repaid or liquidated in full we

were to furnish the Federal Reserve Bank a margin of security covering the difference between the actual value of the bonds which they were carrying for us and the price at which they took them over.

The details of this contract are set forth therein and need not be further referred to here.

Suffice it to say that under this the Federal Reserve Bank took over the bonds thus purchased and we delivered to the Federal Reserve Bank about one-half million dollars of additional securities to fully protect it against any possible loss on the repurchase agreement.

The agreement to carry the bonds for two years at the bond rate we considered perfectly fair particularly in view of the fact that the Federal Reserve Bank was fully protected by this additional collateral.

The provision that the Federal Reserve Bank could on sixty days' notice demand that we repurchase all the bonds was construed by us and we think at the time by the Federal Reserve Bank to mean that if the bonds further declined in value so that the Federal Reserve Bank was in danger of suffering a loss it could require us on sixty days' notice to repurchase all or any part of these bonds.

It certainly never occurred to the Fourth and First National Bank or its officers who negotiated this contract that if the bonds began to improve in value and continue to improve in value that this



would be a ground and a reason for moving the Federal Reserve Bank to demand that we repurchase these bonds.

## XII

After this repurchase agreement was executed May 26, 1921, the bonds soon began to improve in value as we had anticipated they would and we felt that within a comparatively short space of time, at any rate by the spring of 1922, the bonds would reach a figure where we could sell them and recoup all the losses we sustained on them.

## XIII

### **Federal Reserve Bank Returns Surplus Collateral.**

Within a few months after the repurchase agreement was executed the Federal Reserve Bank voluntarily returned to the Fourth and First National Bank all the collateral which the Fourth and First had been required to deposit to secure the Federal Reserve Bank on this repurchase agreement stating that the bonds had reached such a figure that the Federal Reserve Bank did not deem the collateral necessary.

The Federal Reserve Bank thus voluntarily returned \$570,000.00 of this collateral. (See letter October 14, 1921, Governor to Fourth and First National Bank.)

This shows that the Federal Reserve Bank considered the transaction to be a perfectly safe one and that it was in absolutely no danger of loss thereunder.

The bonds continued to fluctuate, gradually rising.

#### XIV

**The Federal Reserve Bank Begins Pressing Fourth and First National Bank to Sell the Bonds Covered by Repurchase Agreement.**

On November 7, 1921, the Governor of the Federal Reserve Bank wrote to the Fourth and First Bank that the market on Liberty Bonds was such that the value thereof was more than the amount of the repurchase agreement and said:

“How do you feel about closing these out and canceling your obligations with us, perhaps it might be well for the sake of the market if and when you decide to sell to put the bonds on the market gradually, covering a period of several weeks for distribution.”

To this letter the Fourth and First replied November 9, 1921, “that in as much as the Fourth and First have some \$375,000.00 charged in the profit and loss account during the months past we feel that it would not be unreasonable for us to consider that feature in selling the bonds. The market seems to be perfectly healthy and natural and from interviews coming from the Treasury Department and other



people in position to have sound opinions these bonds will likely go to par in a very reasonable time. In the meantime it makes a very profitable transaction for you and we therefore would prefer not to close them out at this time and sincerely trust this will be agreeable to you. . . . The average cost of our Government Bonds is 98.64 and you may be sure that when we do begin to put them on the market it will be done in a gradual way so that no sort of disturbance will be created."

On November 10, 1921, the Federal Reserve Bank replied, expressing somewhat surprise and disappointment and urging the Fourth and First to liquidate the bonds.

On November 14, 1921, the Fourth and First wrote the Federal Reserve Bank, trusting that it would not require the Fourth and First to sell the bonds, saying:

"By the terms of that agreement it was clearly the understanding that we would have two years in which to work this thing out, unless something desperate and unforeseen should happen. Nothing of that sort has happened and does not seem likely, on the contrary it is generally recognized that the bonds are going to par and over.

"Now get in a good humor and go on and give us a little chance. While you did nicely by us last summer we did a splendid service for you during the trying war times and we have had an unhappy time for the last two years. There-

fore, as I say, get in a good humor and have some compassion on us and give us a chance for recovery. We will appreciate it and not forget it."

On November 15, 1921, the Federal Reserve Bank replied:

"Since you mentioned the agreement which your bank made with us perhaps it would be well for you to reread that paper. You will then find that the agreement has a termination prior to two years in case the bonds reach a certain price. Rather than give you a formal notice of the termination of the contract I thought that I was justified in assuming that you would anticipate from my former letters such a termination and that you would take advantage of the present price of the bonds," etc., etc.

*Note*—This letter is in error in saying that the agreement had a termination prior to two years in case the bonds reach a certain price. There was no such provision in the contract.

On November 17, 1921, the Fourth and First replied:

"I thank you very much indeed for your kind letter of November 15th, wherein I note that you say the contract provided for a termination prior to two years in case the bonds reach a certain price. I have examined the contract very carefully and do not find any such provision.

"I do find that you reserve the right to call the loan whenever you please but we presumed,



of course, that this was intended as a precautionary measure in case of some unforeseen calamity or pending disaster, but as nothing of that sort is pending or seems likely we have presumed that you meant to give us a fair chance during the period of two years."

The letter then refers to the fact that the entire Board of Directors of the Fourth and First National Bank had read and considered all the correspondence upon this question and were giving thereto its very best judgment.

On November 30, 1921, the Federal Reserve Bank wrote again, urging the Fourth and First to liquidate the bonds.

On December 1, 1921, the Fourth and First wrote that the Executive Committee of the Fourth and First were of the opinion that it should begin selling these bonds after the first of January, 1922, "and sincerely trusting that this will be satisfactory."

## XV

**Federal Reserve Bank Gives Formal Sixty-Day Notice Demanding that the Fourth and First Pay \$7,538,133.90, Plus Accrued Interest to the Date of Payment in Repurchase of Bonds.**

On December 10, 1921, the Federal Reserve Bank gave the Fourth and First formal demand to pay within sixty days from December 12, 1921, \$7,538,133.90, plus accrued interest to the date of payment

being the full amount due for the purchase of all the bonds which the Federal Reserve Bank had purchased from the Fourth and First.

Pursuant to this notice the Fourth and First Bank immediately began selling the bonds as fast as it could without precipitating too many upon the market.

By February 2, 1922, it had sold all of them except \$1,200,000.00.

On February 2, 1922, it wrote to the Federal Reserve Bank, stating these facts and saying that it had made an arrangement with the Farm Loan Bank to handle \$1,000,000.00 (One Million) of the bonds to take effect February 10, 1922, and that the Fourth and First would redeem the balance and asking a few days beyond February 10th to get this transaction closed with the Federal Farm Loan Bank.

On February 3rd, the Federal Reserve Bank wrote, declining to give this additional time and demanding the payment of the full sum due on February 2, 1922, saying that the notice was given as of December 5, 1921, and expired February 3, 1922, and that letter making formal demand was made in due course and should be in the Fourth and First Bank's hands on February 3, 1922.

On February 3, 1922, the Federal Reserve Bank made formal demand upon the Fourth and First to forthwith pay the entire balance due, One Million Two Hundred Thousand (\$1,200,000.00) Dollars, plus accrued interest to date.

1/2  
Truth

See  
Letter  
Jan



It was apparent to the Fourth and First that this was an error as to date. Accordingly on February 4, 1922, immediately upon receiving the letter attention was called to this error and the mistake was corrected by the Federal Reserve Bank.

The result was that the Fourth and First was compelled to force the bonds on the market and sell them all out which it did and met its obligation before the day it fell due.

## XVI

### **The Forced Sale of These Securities Caused a Loss to Fourth and First National Bank of About \$300,000.00.**

The Fourth and First National Bank intended to carry these bonds until the spring of 1922. The bonds reached par before that time and if it had been permitted to carry them they could have been sold at par.

As it was they were sold at very materially under that figure under the forced order of the Federal Reserve Bank.

The Bonds had actually cost the bank about 98.64. Very few of them brought that figure. Within three months after they were sold they were par and the bank could have recouped all its losses even including the excess interest charge, but it was not permitted to do so.

*See  
all  
MVB  
Letter  
also  
Feb 6*

## XVII

### **Unreasonableness and Injustice of Forcing this Sale.**

No just reason existed for giving us this peremptory notice and forcing the sale of these bonds at this time. The loan itself was absolutely good and safe, so safe indeed that the Federal Reserve Bank had returned to us \$570,000.00 of collateral which we had placed with it to secure the transaction and which it deemed was excessive and unnecessary.

The improvement in the price of the bonds had brought them to a figure above that at which the Federal Reserve Bank had taken them over as shown by the letter of the Federal Reserve Bank to us of October 14, 1921.

If further collateral had been desired the Fourth and First Bank was ready to furnish it to whatever extent was necessary or asked.

The condition of the country greatly improved during the year 1921 and the condition of the Federal Reserve Bank had also greatly improved during that period.

Report of the Federal Reserve Banks for 1921 at p. 581, shows:

That the Atlanta Bank's condition improved from December 21, 1920, to December 31, 1921:



Its ratio of reserves to deposits and Federal Reserve Note liabilities combined on December 31, 1920, was .....		41.4
December 31, 1921, was .....		43.3
Federal Reserve Notes in actual cir- culation December 31, 1920 .....		\$173,000,000.00
December 31, 1921 .....		121,000,000.00
Bills discounted, secured by Govern- ment obligations December 31, 1920 .....		61,000,000.00
December 31, 1921 .....		24,000,000.00
Bills bought in open market—		
December 31, 1920 .....		3,571,000.00
December 31, 1921 .....		3,686,000.00
Capital and surplus—		
December 31, 1920:		
Capital .....		4,053,000.00
Surplus .....		8,343,000.00
December 31, 1921:		
Capital .....		4,189,000.00
Surplus .....		9,114,000.00
Showing that the bank made a profit during 1921 .....		\$771,000.00
<i>or about 19%.</i>		

And between January 1 and February 8, 1922,  
the Atlanta Federal Reserve Bank's percentage of  
reserve increased to 58.3%.

All this shows that there was nothing in the con-  
dition of finances of the Federal Reserve Bank that  
called upon it for the enforced liquidation of this  
contract.

The Federal Reserve Bank of course, knew that as heretofore stated the doors of credit were closed to us by law except for very limited amounts and when they made the demand upon us to pay \$7,538,-133.90 plus accrued interest, they knew that this forced us to sell the bonds; that we had no alternative.

Just why these extreme and harsh measures were resorted to with this bank has always been a matter beyond our powers of comprehension.

During the war period this bank did more to aid the Government in war financing and did more to aid the Federal Reserve Bank in carrying its share of war financing than any other institution in this Federal District.

We also call attention to the fact that during the years 1918 to 1922, the Fourth and First National Bank paid in interest to the Federal Reserve Bank at Atlanta the total sum of One Million Eight Hundred Twenty Thousand One Hundred Fifty Dollars and Forty One Cents (\$1,820,150.41).

What more profitable customer did the Federal Reserve Bank have than this?

And on the very day that the Federal Reserve Bank demanded that we forthwith pay the remaining One Million Two Hundred Thousand Dollars (\$1,200,000.00) of this repurchase agreement, the Fourth and First Bank had to its credit on open account upon which it was receiving no interest, with



the Federal Reserve Bank more than One Million One Hundred Thousand Dollars (\$1,100,000.00) in cash.

## XVIII

### **Reason Urged by Federal Reserve Bank.**

In the letter of the Federal Reserve Bank to the Fourth and First of date November 30, 1921, the Federal Reserve Bank says:

“You must bear in mind that we are still rediscounting with other Federal Reserve Banks at the rate of  $5\frac{1}{2}$  per cent while we are carrying your bonds at  $4\frac{1}{4}$  per cent, thereby sustaining a loss of  $1\frac{1}{4}$  per cent on every transaction.” See letter of November 30, 1921.

This reason might seem plausible but upon a moment's consideration it will appear not to be so.

All banks at times borrow money or rediscount paper and the fact that they do so is no excuse for raising the rate on their borrowers or calling their borrowers.

When the Federal Reserve Bank made this repurchase agreement it knew that it would probably for short periods during the two years, rediscount paper and probably at a rate above  $4\frac{1}{4}$  per cent, so that nothing had occurred that was not fully anticipated.

But a more conclusive answer is that the whole profits of all the banks in the Federal Reserve Sys-

tem go to the United States Treasury, it is immaterial which member makes the profit, it all goes to the same place after allowing a small percentage dividend on the stock of the member banks, consequently if the Atlanta bank paid  $5\frac{1}{2}$  per cent rate on rediscounts to some other Federal Reserve Bank for example, Boston, the Boston bank paid the profit including that excess to the United States Treasury and nothing was lost by the Treasury by reason of the transaction.

Besides this, when the Federal Reserve Bank forced us to sell this Eight Million of Bonds it thereafter lost the total income of said Eight Million of bonds amounting to more than Three Hundred Twenty Thousand (\$320,000.00) Dollars a year.

## XIX

### **Power of Federal Reserve Banks.**

When the Federal Reserve Law was being discussed and before it was enacted we were of opinion that the idea of the Federal Reserve Bank which could issue notes and loan to member banks upon good collateral any amount that might be required to meet the demands of either trade or of its depositors, was the greatest idea for the safe guarding of the banking business that had ever been conceived by the mind of man.



The great difficulty in banking had been that depositors might call for their money more rapidly than the bank could liquidate its loans.

The bank must keep the money loaned out or the expense account will eat it up.

If the depositors demand the bank must pay instantly. Under the Federal Reserve Bank System any member bank with good paper can obtain all the money needed upon a moment's notice, runs are practically impossible, they can never close the bank.

But with this tremendous power for good these banks have an equal power for harm. Under the Federal Reserve Law every National Bank is compelled to become a member of the Federal Reserve Bank, to take a certain amount of stock, to transact its business with the Federal Reserve Bank and it is prohibited from borrowing from outside sources beyond certain very limited quantities. It must do this or surrender its Charter.

A Federal Reserve Bank's proper function and its normal function is to aid the member bank, to help it, to save it and not to destroy it.

In the present case this bank was twice put in the attitude of being compelled to submit to the unjust demands of the Federal Reserve Bank or close its doors, there was no other option.

It submitted, it met every obligation, it has discharged the last penny it owed that bank.

Now it comes and says that the treatment it received was unjust, it was unfair, it was in breach of our contract and of the understanding between us and it was a violation of the good faith which must exist between institutions that do business so largely and so closely together.

X  
The facts are, that the Federal Reserve Bank recognized that it was very dependent upon the Fourth and First National Bank to aid it in carrying through its part of the Government's war finance, in which it took great pride, and showed much anxiety and concern. It importuned and urged us repeatedly to subscribe to the various issues, and whenever we showed any uneasiness or hesitancy about going so strong, it urged and entreated, and gave every sort of assurance and written statements that it would carry those securities for us as long as we should see fit to offer them. If that meant anything—if the words and promises of men can be relied upon, what did that promise and those other urgings mean, if not that the securities would be *carried*, yes, *carried* through to a successful conclusion, and at the rate of discount made as an inducement for us to go into the arrangement?

If the words and acts of men are to count for anything, and if there is to be any such thing as honorable dealings between individuals and institutions, then restitution must be made in this case.

The correspondence confirms these statements in every detail.



We sincerely trust that you will settle this matter, and thereby remove the very unpleasant condition now existing, and make it unnecessary for us to press our claim any further, or appeal to other tribunals for satisfaction, for you must see that as matters now stand, it is impossible for us to remain passive, and our duty will compel us to take further action if you refuse. Indeed, the treatment we have received is so galling that unless justice is done us, it will be intolerable for us to remain a member of your bank.

Respectfully submitted,

FOURTH AND FIRST NATIONAL BANK.

By .....

*Wm E. Lawrence*  
President.

*P. D. Madden*  
Counsel.

