

333.

Open Market Operations

FREbanks

(1914 - 1918)

Part I

1
#6
333-1
333
December 20, 1918.

Re
Transmitted
to Mr. McCord
Dear Mr. McCord,

Reference is made to your letter of Dec. 2nd, relative to forms for assignments of United States bonds.

The matter was taken up with the Division of Loans and Currency, and for your information, a letter received today from that Division is quoted below: 12/18/18

"In reply to your letter of the 5th inst., in which you inquire whether certain forms of power of attorney for the assignment of United States registered bonds submitted to you by the Federal Reserve Bank of Atlanta, Georgia, will be satisfactory to this office, you are advised that the changes which have been indicated on the forms which accompanied your letter appear to be simply those which would make the power conferred special and limited in the manner indicated in the directions printed on the forms, and it would seem therefore that they would prove acceptable to this office.

It must be understood, however, that the Department cannot undertake to pass in advance of its submission upon the sufficiency of any instrument submitted to it in support of an assignment of United States bonds. The right must be reserved to give consideration to each instrument in connection with the case which it accompanies."

Very truly yours,

Assistant Secretary.

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



TREASURY DEPARTMENT

OFFICE OF THE SECRETARY

DIVISION OF LOANS AND CURRENCY

WASHINGTON December 18, 1918.

IN REPLY PLEASE QUOTE

CHG

Mr. L. C. Adelson, Ass't Secretary,
Federal Reserve Board,
Washington, D. C.,

Sir:

In reply to your letter of the 5th instant, in which you inquire whether certain forms of power of attorney for the assignment of United States registered bonds submitted to you by the Federal Reserve Bank of Atlanta, Georgia, will be satisfactory to this office, you are advised that the changes which have been indicated on the forms which accompanied your letter appear to be simply those which would make the power conferred special and limited in the manner indicated in the directions printed on the forms, and it would seem therefore that they would prove acceptable to this office.

It must be understood, however, that the Department cannot undertake to pass in advance of its submission upon the sufficiency of any instrument submitted to it in support of an assignment of United States bonds. The right must be reserved to give consideration to each instrument in connection with the case which it accompanies.

The forms which accompanied your letter are herewith returned to you.

Respectfully,

Chief, Division of Loans and Currency.

Incs.



TREASURY DEPARTMENT,
SUBTREASURY SERVICE.
Form 2407.
Ed. 500—F. C., Feb. 2-18.

RESOLUTION FOR ASSIGNMENT OF UNITED STATES BONDS.

We Certify, That at a Special Meeting of the Board of

of

held at on the day of

191 , at o'clock M., the following resolution was adopted and is now in full force, viz:

Resolved, That

be, and hereby authorized and empowered to sell and assign the following U. S. Registered Bonds:
(Description of issue)
Numbers and denominations:

(United States Registered Bonds (or registered bonds of any description) which are transferable on the books of the Treasury Department now standing, (of which they/hereafter stand) in the name of this and to appoint one or more attorneys for that purpose; and we certify that notice was duly given personally to all members of the said Board of of the said time and place of said meeting, and of the object thereof, for more than days prior thereto, and in time to enable all to attend said meeting; and that at such meeting so held a quorum of all the members of said Board was present and voted for the adoption of said resolution.

Signature

Title

Signature

Title



* N. B.—To make this authority general and permanent, write after the word assign *any or all*.
To make this authority special or specific, write after the word assign the amount and description of the bonds to be assigned.
In the former case the authority remains in force until revoked, and covers all present or future assignments; in the latter, it ceases and terminates with the transaction specified.

Blank form (No. 2406) for resolutions adopted at regular meetings will be furnished upon application to the Treasury Department.

TREASURY DEPARTMENT,
SUBTREASURY SERVICE.
Form 2406.
Ed. 1,000—F. C., Feb. 2-18.

RESOLUTION FOR ASSIGNMENT OF UNITED STATES BONDS.

At a regular meeting of the Board of _____ of the

held _____, 191 _____, it was, on motion

Resolved, That _____

be, and _____ hereby authorized and empowered to sell and assign *the following U. S. Registered Bonds:*
(*description of the issue*)

Numbers and denominations:

(*United States Registered Bonds for Registered Bonds of any description*) which
are transferable on the books of the Treasury Department now standing, *to be*
indifferently in the name of this _____
and to appoint one or more attorneys for that purpose.

I certify that the above is a true copy from the minutes.

SEAL
SHOULD
ALWAYS
BE
IMPRESSED.

Secretary of Board of _____

* N. B.—To make this authority general and permanent, write after the word assign *any or all*.

To make this authority special or specific, write after the word assign the amount and description of the bonds to be assigned. In the former case the authority remains in force until revoked, and covers all present or future assignments; in the latter, it ceases and terminates with the transaction specified.

This resolution should be certified by some officer of the Institution other than the one empowered to assign the bonds.

It is recommended that resolutions be adopted only at regular meetings. But when passed at a special meeting, the certificate must be signed by two officers, a form (No. 2407) for which will be furnished upon application to the Treasury Department.

TREASURY DEPARTMENT,
 SUBTREASURY SERVICE.
 Form 1781.—Ed. 10,000—Mar. 6-18.

POWER TO SELL AND ASSIGN UNITED STATES BONDS.

To be acknowledged by the constituent before the Treasurer of the United States, or an Assistant Treasurer, a United States Judge, United States District Attorney, Clerk of a United States Court, Collector of Customs, Collector of Internal Revenue, President, Vice President, or Cashier of a National Bank, or a President, Secretary, or Treasurer of a trust company located in the District of Columbia. If in a foreign country, before a United States Minister, Consul, or a Notary Public. In all cases the officer must add his official designation, residence, and seal (if he has one). If the acknowledgment is taken in a foreign country before a notary public, his official character must be attested by a United States Minister or Consul.

To make this authority general and permanent, write after the word assign, *any or all*.

To make this authority special or specific, write after the word assign the amount, name of Loan, and date of the Act under which issued. In the former case, the authority remains in force until revoked, and covers all present or future assignments; in the latter, it ceases and terminates with the transaction specified.

Know all men by these presents, That I, _____

_____, do hereby appoint

my attorney to sell and assign *the following U.S. Registered Bonds:*

Numbers and denominations:

*(United States Registered Bonds, or registered bonds of any description) now standing, (or which may here-
 after stand) in my name on the books of the Treasury Department, (which may be standing to me), granting
 to said attorney full power to appoint one or more substitutes for the purpose herein expressed; hereby ratifying
 and confirming all that may be lawfully done by virtue hereof.*

Witness my hand and seal, this _____ day of _____, 191

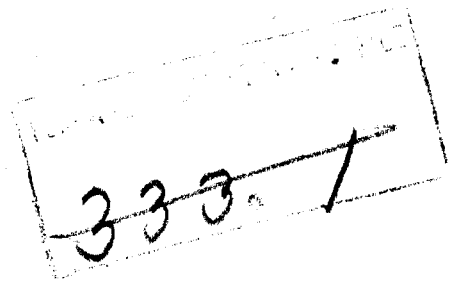
[SEAL.]

Executed in the presence of _____, of the _____

of _____, in the State of _____

[SEAL.]

#6



December 5, 1918.

32

The Honorable,

The Secretary of the Treasury,

Washington, D. C.

Sir:

(12/2)

There is enclosed copy of letter received from
the Federal Reserve Bank of Atlanta, with reference to
forms of assignments for United States Bonds.

Please advise if the forms as amended in copies
attached will be satisfactory to your office.

Very truly yours,

Assistant Secretary.

Enclosures
Copy of letter
Copies of forms.

A-H

December 5, 1918.

333

Dear Mr. McCord:

Your letter of December second, in re
forms for assignments of United States Bonds, has been
received.

I am submitting the matter to the
Secretary of the Treasury, and will advise you as soon
as reply is received.

Very truly yours,

Assistant Secretary.

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

A-H

EDW. T. BROWN,
DEPUTY CHAIRMAN OF
THE BOARD

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

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

WARD ALBERTSON,
GENERAL AUDITOR

FEDERAL RESERVE BANK OF ATLANTA.

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

333
December 2, 1918

Mr. J. A. Broderick, Secretary,
Federal Reserve Board,
Washington, D.C.

Dear Mr. Broderick:-

We have received from the Treasury Department three forms of assignments for the United States Bonds. In the endeavor to have a form which will be acceptable both to the Banks in this District and the Treasury Department, the forms used by the Treasury Department, of which we enclose three samples, for Corporations, Corporations and Individuals are so general that we believe some objections will be raised by the member Banks, chiefly because it covers not only the Bonds which may be deposited as collateral to their loans, but also on Bonds that may be in the hands of any department in trust or awaiting shipment. Therefore, for the protection of not only ourselves, but of the member Banks it is deemed advisable to have, if acceptable to the Secretary of the Treasury, a form of assignment covering specifically the United States Registered Bonds which the Banks may deposit with us as collateral security to a note.

If you will kindly submit the three samples enclosed herewith to the Secretary of the Treasury for his consideration and write us his decision in the matter we will appreciate it.

Yours very truly,

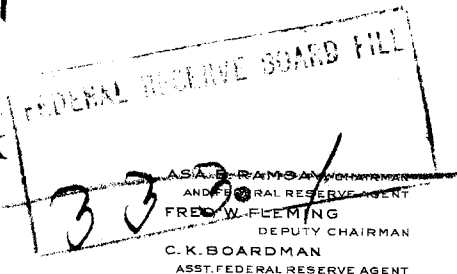
G/G.

Jos. A. McCord
Governor.



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

#10
FEDERAL RESERVE BANK
OF
KANSAS CITY



333
Nov. 6, 1918.

Assignment
Thompson
Mr. J. A. Broderick, Secretary,
Federal Reserve Board,
Washington, D. C.

Dear Mr. Broderick:-

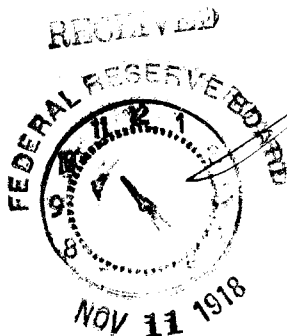
Your letter of November 2d is acknowledged and appreciated.

Your suggestion that we bring the matter of resolution for assignment of United States Bonds, and power of attorney in connection therewith, to the attention of our counsel will be followed.

The comment of Judge Elliott, which you report, is observed with interest. Should we conclude an unofficial ruling of the Board on the subject to be desirable, we will avail ourselves of your invitation to submit the matter.

With personal regards,

Respectfully,



W. H. Anderson
Secretary-Cashier.

#10

333-1

November 2, 1918.

333

My dear Mr. Anderson:

210128/18

It was with much regret I learned of your illness, and I am very happy to know you have fully recovered and are back at your desk.

With reference to the resolution for assignment of United States Bonds, may I suggest that you bring this matter to the attention of your Counsel and have him rule thereon. I have spoken to Judge Elliott, and he believes there are many points involved which will require a considerable amount of study. However, if you think the matter is one which will call for an unofficial ruling of the Board, please advise me.

With best wishes, I am,

Very truly yours,

J. B. Hodenbach
Secretary.

Mr. A. W. Anderson,
Secretary-Cashier, Federal Reserve Bank,
Kansas City, Missouri.

B-1

FEDERAL RESERVE BANK
OF
KANSAS CITY

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

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

October 28, 1918.

333

Mr. J. A. Broderick, Secretary,
Federal Reserve Board,
Washington, D. C.

Dear Mr. Broderick:-

This morning I am at my desk for the first time in two weeks, having been detained at home by an attack of influenza.

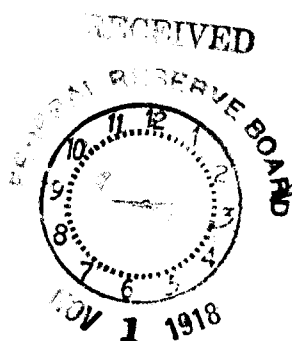
It is with interest I observe your letter of October 14th, in response to my suggestions of the 8th, touching a method of hypothecating registered Bonds under power-of-attorney to the Governor of this Bank to sell and assign, which power was believed to be ample protection to this Bank, and might be invoked if necessary.

Our views on the subject matter have been in line with your own, and we have made it a practice to discourage the lodging with us of registered Bonds as collateral. My letter to you was prompted, as stated in the first paragraph thereof, by the present policy of the Treasury Department encouraging applications, on the part of banks, for registered Bonds, and the consequent necessity for us to provide a means to make advances thereagainst.

We are especially pleased at the interest you have manifested and the comment you have made, and shall hope to have some further advice from you after you have conferred with Judge Elliott on the point of an official or unofficial ruling from your office in this connection.

With kind regards,

Respectfully,



Secretary-Cashier.

333

FEDERAL RESERVE BOARD

October 21, 1918.

Memorandum for Mr. Broderick:

Unless we are called upon for an official opinion on this matter I prefer not to pass on the attached form as it will be necessary to look into the law on this subject.

Sincerely,


Counsel.

See memo 7/19/18

EX-OFFICIO MEMBERS

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

FEDERAL RESERVE BOARD

WASHINGTON

October 14, 1918.

W. P. G. HARDING, GOVERNOR
VICE GOVERNOR
ADOLPH C. MILLER
CHARLES S. HAMLIN

J. A. BRODERICK, SECRETARY
L. C. ADELSON, ASSISTANT SECRETARY
W. T. CHAPMAN, ASSISTANT SECRETARY
W. M. IMLAY, FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

333

MEMORANDUM FOR JUDGE ELLIOTT:

Dear Judge:

8/18
Referring to the attached letter from
Mr. Anderson, will you please advise if it would
be well to approve the use of the form of "resolution
for assignment of United States Bonds" with the modi-
fication suggested in Mr. Anderson's letter? In the
conversation with you the other day, you indicated that
if this form or one similar to it was used, in your
opinion it would be advisable to change the phraseology.

Very truly yours,

J. A. Broderick
Secretary.

Letter attached.

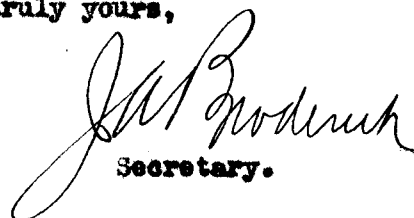
333

October 14, 1918.

Dear Mr. Anderson:

Referring to your letter of the ~~eighth instant~~, enclosing copy of "resolution for assignment of United States Bonds, I wish to say that I have shown your letter to Mr. Broughton, and he has indicated that the use of blanket power was desirable from a practical banking standpoint. Personally, I believe there are so many questions involved that, as a general rule, the hypothecation of registered bonds should be discouraged. Your idea, if legal, is a good one. It will simplify the present method of handling the matter. The question will be discussed with Judge Elliott and I will advise you if an official or unofficial ruling will be made by this office. Before adopting any plan I think it would be well for you to submit the matter to your counsel in order that you may be assured that the rights of your bank are fully protected.

Very truly yours,


Secretary.

Mr. A. W. Anderson,
Secretary-Cashier,
Federal Reserve Bank,
Kansas City, Missouri.

B-H

333.

FEDERAL RESERVE BANK
OF
KANSAS CITY

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

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

Oct. 8, 1918.

Mr. J. A. Broderick, Secretary,
Federal Reserve Board,
Washington, D. C.

Dear Mr. Broderick:-

In view of the policy of the Treasury Department to encourage applications for registered Bonds, and our anticipation of offerings of these securities in larger quantity to us as collateral, we should be much pleased to have your advice as to the method of procedure outlined herein:

You will find enclosed form 2406 of the Treasury Department, being a resolution for assignment of United States Bonds, which resolution we have required of member banks placing Bonds with us as collateral, in addition to the formal assignment on the Bonds themselves. This necessitates, in every case, a re-assignment and a transfer on the records of the Treasury Department, and occasions the member bank a considerable amount of inconvenience.

In view of the style of the form enclosed herewith, it is our disposition to have resolution so drawn as to authorize J. Z. Miller, Jr., Governor of this Bank, under power-of-attorney, to "sell and assign." Under this plan, we feel that we could accept registered Bonds unassigned, accompanied by a certified copy of the resolution under seal, which certified copy we could file with the Treasury Department in the event it was necessary for Mr. Miller to exercise his power-of-attorney and make assignment to the Federal Reserve Bank of Kansas City. It is our understanding that this power-of-attorney, as already provided for in the resolution, does not necessarily have to be given to an officer of the assigning bank.

If we may inquire further, we would appreciate your advice as to whether we might accept a certified copy of a blanket resolution, providing for general and permanent authority to "assign any or all" from any one bank, and, under this blanket authority, make exchanges and accept from time to time Bonds of varying description as collateral without special and formal assignment thereon. In this connection, your attention is respectfully directed to the asterisks referring to note "N. B" on the form enclosed.

We have not addressed the Treasury Department in this connection, assuming that you will confer with the proper officials thereof, if you deem it necessary.

The suggestion here outlined would relieve the hypothecating of United States registered Bonds of cumbersome details, and the Treasury Department of numerous requests for transfers and re-issues, and we believe


#2--Mr. J. A. Broderick, Secretary,

at the same time would afford the Federal Reserve Bank ample protection.

Your advice on this point at your early convenience will be appreciated.

Respectfully,

Enc-1


Secretary-Cashier.

TREASURY DEPARTMENT,
SUBTREASURY SERVICE
FORM 2406

RESOLUTION FOR ASSIGNMENT OF UNITED STATES BONDS.

At a regular meeting of the Board of.....

..... of the.....

held....., 1918, it was on motion resolved that.....

..... be,

and..... hereby authorized and empowered to sell and assign*.....

United States Registered Bonds now standing, or which may hereafter stand, in the
name of this....., and to appoint one or more attorneys
for that purpose.

I certify that the above is a true copy from the minutes.

(SEAL)

Secretary of Board of.....

*N. B.—To make this authority general and permanent, write after the word "assign" any or all. To make this authority special or specific, write after the word "assign" the amount and description of the bonds to be assigned. In the former case the authority remains in force until revoked, and covers all present or future assignments; in the latter it ceases and terminates with the transaction specified.

This resolution should be certified by some officer of the institution other than the one empowered to assign the bonds.

It is recommended that resolutions be adopted only at regular meetings. When passed at a special meeting the certificate must be signed by two officers.



DIVISION OF LOANS AND CURRENCY

1410

FEDERAL RESERVE BOARD FILE
333.1

TREASURY DEPARTMENT

OFFICE OF THE SECRETARY

WASHINGTON

July 12, 1918.

Secretary,
Federal Reserve Board,
Washington, D. C.

FILE

JUL 15 1918

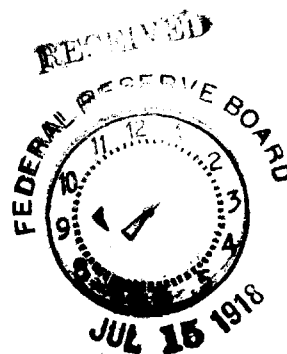
FEDERAL RESERVE BOARD

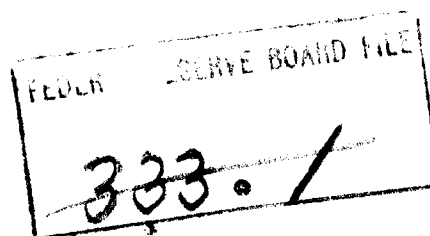
Sir:

With your memorandum of the 10th instant, this office begs to acknowledge receipt of a certified copy of a resolution issued by the Board of Directors of the Federal Reserve Bank of Kansas City on the 27th of June, 1918, authorizing C. A. Worthington, Assistant Cashier, to sell and assign bonds for the said Federal Reserve Bank. The resolution has been approved and filed.

Respectfully,

Chief, Division of Loans & Currency.





July 10, 1918.

Memorandum for Mr. William S. Broughton:

In accordance with your memorandum of July 5, addressed to Hon. M. C. Elliott, I am transmitting the attached resolution for assignment of United States bonds sent to the Board by the Federal Reserve Bank of Kansas City, and request that same be placed on file in your office.

Secretary.

FEDERAL RESERVE BOARD

OFFICE OF COUNSEL

332

July 10, 1918.

SUBJECT: Resolution of the Board of Directors of the Federal Reserve Bank of Kansas City, authorizing C. A. Worthington, Assistant Cashier, to sell and assign U. S. Registered Bonds.

MEMORANDUM FOR DR. WILLIS:

Please note that the accompanying resolution meets the requirements of the Treasury Department; also the suggestion of Mr. Broughton that this resolution should be filed with his office. I recommend that this be done.

Very truly yours,


Counsel.

July 5, 1918.

MEMORANDUM:

My dear Judge Elliott:

The resolution of the Board of Directors of the Federal Reserve Bank of Kansas City, submitted with your memorandum of the 3rd instant, is in proper form. Permit me to suggest that said resolution should be filed with this office.

Sincerely yours,

W. B. Bampton

Hon. Mr. Ullrich
Council for the Poor

FEDERAL RESERVE BOARD

OFFICE OF COUNSEL

July 3, 1918.

SUBJECT:

My dear Mr. Broughton:

Please note the attached resolution of the Board of Directors of the Federal Reserve Bank of Kansas City authorizing C. A. Worthington, Assistant Cashier, or his attorney, to sell and assign bonds belonging to the bank.

I will be glad if you will let me know if this in proper form. If not, just what form you usually require.

Very sincerely,



333

FEDERAL RESERVE BOARD.
WASHINGTON.

May 22, 1918.

Letter, May 16, from Governor Lynch of San Francisco, re purchase of old government bonds by the San Francisco bank.

J. P. Wicks

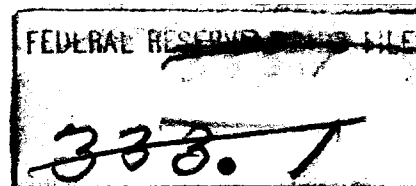
Secretary.

CHAIRMAN	GOVERNOR ✓	VICE GOVERNOR <i>[Signature]</i>
COMPTROLLER <i>[Signature]</i>	MR. DELANO <i>look ok</i>	MR. HAMLIN ✓ <i>Wood cut questionable</i>
MR. MILLER	SECRETARY	COUNSEL

#12

FEDERAL RESERVE BANK
OF SAN FRANCISCO

JAMES K. LYNCH, GOVERNOR



RECEIVED
MAY 23 1918
GOVERNOR'S OFFICE

Presented by [Signature]
May 23rd 1918

333

My dear Governor Harding:

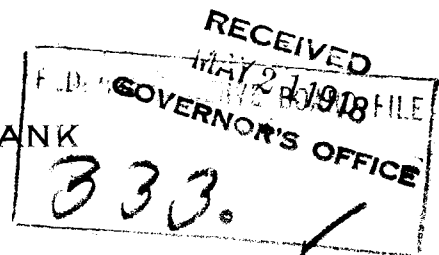
Referring to my letter to you under date of
May 16th, regarding the purchase from the German Savings
& Loan Society of \$1,000,000 United States Bonds 4s of
1925, these bonds have been delivered to the Federal
Reserve Bank of San Francisco and not to the Federal
Reserve Bank of New York, as stated.

Yours very truly,

Governor.

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

FEDERAL RESERVE BANK
OF SAN FRANCISCO



JAMES K. LYNCH, GOVERNOR

May 16th 1918

My dear Governor Harding:

We have bought under purchase and sale agreement from the German Savings & Loan Society of San Francisco, \$1,000,000 United States Government "Old Issue" Bonds 4% of 1925. The bonds have been delivered to the Federal Reserve Bank in New York to be held for account of this Bank, and we have issued our cheque in payment.

If not redeemed within 90 days, the bonds are to be sold for account of the German Savings & Loan Society at the best market rates. Should they not realize par, the German Savings & Loan Society is to make good the difference. In the meantime, interest at the rate of 4% per annum is to be paid to this Bank.

The reason for entering into this transaction requires some explanation. As you are no doubt aware, the German Savings & Loan Society is the leading savings bank of San Francisco, and has a very large clientage, in fact, something over 27,000 depositors. The bank has been prudently managed and is recognized as one of the soundest institutions in this City. Its business, however, has been built around the name "German," this being manifest by the sub-title which they have used, "The German Bank." They have made application to the courts to have the name changed to the San Francisco Savings & Loan Society, and they are somewhat afraid of the result on the minds of their depositors, so they have taken the precaution of having this extra million dollars cash available, no matter what may happen.

The Bank has cooperated splendidly in the sale of the Liberty Loan and circularized all their depositors, having sold \$1,750,000 of the bonds. They obtained the largest number of subscribers to the Third Liberty Loan of any bank in this City, about 11,000. Mr George Tourny, the Manager, informed me recently that they would have larger withdrawals on account of the bond payments than for either of the preceding loans.

They wish to come into the Federal Reserve system, and will undoubtedly do so as soon as the legislature (meeting in January 1919) has passed the necessary amendment to the California Bank Act enabling State banks to join the system without additional penalty in the way of vault reserves.

We feel that this is a situation which fully justified our aid, but do not regard it as a precedent, as there is no possibility that anything like it will arise in this City.

Yours very truly,

Governor.

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

FEDERAL RESERVE BOARD

WASHINGTON


OFFICE OF THE GOVERNOR

May 7, 1918.

Dear Mr. Warburg:-

I have had a talk with Mr. Leffingwell,
who tells me that he does not feel that he
can purchase the bonds which are held or which
were oversubscribed for by the Federal Reserve
banks.

Sincerely yours,



Hon. P. M. Warburg,
Federal Reserve Board.

-2-

Minneapolis: Owns one \$50. bond, on which payments are being made by employees.

Kansas City: Total holdings \$20,600. first issue

Dallas: Holds \$700. first loan and 2,200. second " purchased for account of employees and has taken their subscriptions for \$13,000 third loan which the bank will purchase.
On account of duplications and adjustments in allotments bank holds in suspense account for Treasury first loan bonds aggregating \$369,900 and \$36,950. second loan, which amounts are not taken on bank's books, the bank feeling that Treasury should make adjustment, thus relieving it of items and close suspense account.

San Francisco:	Owns	First issue	\$50.00
	1st converted 4s		16,250.00
	2nd		400.00

Also has purchased, for purpose of delivering to them when payment is completed, bonds of delinquent subscribers as follows:

First	\$55,200.
Second	10,450.

86450

333

No. Date May 1, 1918 272.

Liberty Bonds

FEDERAL RESERVE BOARD

MEMORANDUM

333.1

For Mr. Harding.

At a meeting of the Federal Reserve Board on
Wednesday, May 1, 1918 the following matter
 (as Chairman, Committee on
 was referred to you (as member, " "
 (as Governor.

The matter of ownership of bonds by Federal Reserve
 banks, data having been obtained by inquiry
 from the banks themselves by telegraph. It
 was agreed that the Governor bring the data
 to the attention of Assistant Secretary of
 the Treasury Leffingwell and discuss the
 matter with him.

[Signature]
 Secretary.

5/8
 Please return this memorandum with copy of
 documents resulting from action taken, if any,

Date Let this go to file

Documents No more can be done

Signature [Signature]

Treasury Department

TELEGRAM

103^WUNT 32 Collect Govt

OB Boston Mass 340PM Apl 30 18

Farding

Federal Reserve Board Washington

We actually own eighty thousand liberty loan three and
one half percent and sixty four hundred fifty second liberty
loan fours

Federal Reserve Bank of Boston

355p

333,
RECEIVED
APR 30 1918

GOVERNOR'S OFFICE

Form 1201

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

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

WESTERN UNION TELEGRAM

NEWCOMB CARLTON, PRESIDENT

GEORGE W. E. ATKINS, FIRST VICE-PRESIDENT

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

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

RECEIVED AT WYATT BUILDING, COR. 14TH AND F STS., WASHINGTON, D. C. ALWAYS OPEN

J369NYOV 42 GOVERNMENT

RECEIVED
MAY 1 1918

Q NEWYORK NY 522P APL 30 1918

GOVERNOR'S OFFICE

HARDING RESERVE BOARD

6664
WASHINGTON DC

WE HOLD CLOSE OF BUSINESS ENJOYMENT LIBERTY LOAN BONDS AS
FOLLOWS DANDLER SECOND FOURS DARWIN ADEGA DROUGHT WE ALSO HOLD
DESKLOCK DEBONAIR BULLETIN DROUGHT FOR REDEMPTION OF PARTICIPATION
CERTIFICATES OF THIS BANK

FEDERAL RESERVE BANK OF NEWYORK

We hold close of business April 29th Liberty Loan Bonds as follows \$15,000
second fours \$30,050 $3\frac{1}{2}$ We also hold \$241,700 $3\frac{1}{2}$ for redemption of participa-
tion certificates of this bank.

547P

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

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

WESTERN UNION TELEGRAM



NEWCOMB CARLTON, PRESIDENT

GEORGE W. E. ATKINS, FIRST VICE-PRESIDENT

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

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

RECEIVED AT WYATT BUILDING, COR. 14th AND F STS., WASHINGTON, D. C.

A575P 29 GOVT

MR PHILADELPHIA PENN 424 P 30

HARDING GOVERNOR

5693

1918 APR 30 PM 4 35
RECEIVED
APR 30 1918
GOVERNOR'S OFFICE

FEDERAL RESERVE BOARD WASHINGTON DC

HOLDINGS OF LIBERTY BONDS BY THIS BANK FOLLOW FIRST ISSUE

ONE HUNDRED DOLLARS SECONDS FOURS SEVEN HUNDRED NINETY

EIGHT THOUSAND

PASSMORE GOVERNOR.

Form 1201

SS OF SERVICE	SYMBOL
Telegram	
Day Letter	Blue
Night Message	Nite
Night Letter	N L
If none of these three symbols appears after the check (number of words) this is a telegram. Otherwise its character is indicated by the symbol appearing after the check.	

WESTERN UNION TELEGRAM

NEWCOMB CARLTON, PRESIDENT

GEORGE W. E. ATKINS, FIRST VICE-PRESIDENT

CLASS OF SERVICE	SYMBOL
Telegram	
Day Letter	Blue
Night Message	Nite
Night Letter	N L
If none of these three symbols appears after the check (number of words) this is a telegram. Otherwise its character is indicated by the symbol appearing after the check.	

RECEIVED AT WYATT BUILDING, COR. 14TH AND F STS., WASHINGTON, D. C. ALWAYS OPEN

207HBG 46 COLL GVT

RN CLEVELAND 0 5P APL 30 1918
6207

HARDING

MAY 1 1918
GOVERNOR'S OFFICE

RESERVE BOARD TREASY WASHINGTON

ANSWERING YOUR WIRE ONE MILLION NINE SIXTY SIX THOUSAND NINE
HUNDRED FIRST L L THREE AND ONE HALFS SIXTY THOUSAND

FIRST L L CONVERTED FOURS THREE HUNDRED FOURTEEN THOUSAND FIVE
FIFTY FIVE SECOND L L FOURS

FEDERAL RESERVE BANK CLEVELAND

513PM

POSTAL TELEGRAPH - COMMERCIAL CABLES

CLARENCE H. MACKAY, PRESIDENT

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

TELEGRAM

DELIVERY NO.

333

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

18-37862

DESIGN PATENT No. 40629

RECEIVED
MAY 1 1918

2250 *Ray*

95 RD GX--35 Govt 43op

GOVERNOR'S OFFICE

RD Richmond Va Apl 30

Regarding .

federal reserve board Washn DC

4/30/18
answering your telegram, We own liberty bonds first three and half of
forty two thousand four hundred, second fours thirty eight thousand
two hundred, total eighty thousand six hundred

Seay .

CLASS OF SERVICE	SYMBOL
Day Message	
Day Letter	Blue
Night Message	Nite
Night Letter	N L
If none of these three symbols appears after the check (number of words) this is a day message. Otherwise its character is indicated by the symbol appearing after the check.	

WESTERN UNION TELEGRAM

CLASS OF SERVICE	SYMBOL
Day Message	
Day Letter	Blue
Night Message	Nite
Night Letter	N L
If none of these three symbols appears after the check (number of words) this is a day message. Otherwise its character is indicated by the symbol appearing after the check.	

NEWCOMB CARLTON, PRESIDENT

GEORGE W. E. ATKINS, FIRST VICE-PRESIDENT

RECEIVED AT WYATT BUILDING, COR. 14th AND F STS., WASHINGTON, D. C.

A630AN 37 COLL GOVT

ATLANTA GA 710P 30

HARDING

8173

GOV FEDERAL RESERVE BOARD WASHINGTON DC

THIS BANK ACTUALLY OWNS SIXTEEN THOUSAND SIX HUNDRED AND FIFTY
FIRST LIBERTY LOAN STOP TWO HUNDRED FORTY THOUSAND AND FIFTY SECOND
LIBERTY LOAN STOP NEWORLEANS SEVENTEEN HUNDRED
MCCORD GOV.

RECEIVED
MAY 1918
GOVERNOR'S OFFICE

333

CLASS OF SERVICE	SYMBOL
Day Message	
Day Letter	Blue
Night Message	Nite
Night Letter	N L
If none of these three symbols appears after the check (number of words) this is a day message. Otherwise its character is indicated by the symbol appearing after the check.	

WESTERN UNION TELEGRAM



CLASS OF SERVICE	SYMBOL
Day Message	
Day Letter	Blue
Night Message	Nite
Night Letter	N L
If none of these three symbols appears after the check (number of words) this is a day message. Otherwise its character is indicated by the symbol appearing after the check.	

NEWCOMB CARLTON, PRESIDENT

GEORGE W. E. ATKINS, FIRST VICE-PRESIDENT

RECEIVED AT WYATT BUILDING, COR. 14th AND F STS., WASHINGTON, D. C.

B527CH 57 COLLECT GOVT

MAY 1 1318 APR 30 PM 5 25

MQ CHICAGO ILL 405P 30

GOVERNOR'S OFFICE

HARDING GOVERNOR

6511

Treasury Dept

WASHINGTON DC

ANSWERING YOUR WIRE OF THIS MORNING OUR BANK ACTUALLY OWNS EIGHTY
THREE THOUSAND FIFTY DOLLARS SECOND LIBERTY LOAN BONDS OWNS NONE OF
FIRST ISSUE THERE WAS AN OVERAGE HOWEVER IN OUR FIRST LIBERTY LOAN
BOND ACCOUNT WHICH NOW AMOUNTS TO THREE HUNDRED FIVE THOUSAND ONE
HUNDRED DOLLARS

FEDERAL RESERVE BANK OF CHICAGO.

*Missy to
Miss to*

POSTAL TELEGRAPH - COMMERCIAL CABLES

CLARENCE H. MACKAY, PRESIDENT

RECEIVED AT
EVANS BUILDING
1418 NEW YORK AVENUE
WASHINGTON, D. C.
TELEPHONE: MAIN 8800

TELEGRAM

DELIVERY NO.

323

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

18-37862

DESIGN PATENT No. 40829

378agwk 744pm 22 collect lexa

St Louis Mo apl 30

Harding

Res Board Treasury Washn DC

Replying your telegram this date you are advised that this bank
does not own any liberty bonds of any issue

Atteberry Cashr

094
RECEIVED
MAY 1 1918
GOVERNOR'S OFFICE

Treasury Department

TELEGRAM

333

88WUMT 25 Collect Govt

SU Minneapolis Minn 104P Apl 30 18

RECEIVED

Harding

APR 30 1918

GOVERNOR'S OFFICE

Reserve Board Treasury Washington

One liberty bond of fifty dollars owned by this bank

payments being made on this by employees

Wold Governor

250PM

Treasury Department

TELEGRAM

333

97WUNT 25 Govt

Kansas City Mo 150P Apl 30 18

Harding Federal Reserve Board

Washington

RECEIVED
APR 30 1918
GOVERNOR'S OFFICE

4/30/18
Telegram received total holdings of this bank of liberty bonds
is twenty thousand six hundred dollars first issue

Miller Governor

325pm

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

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

WESTERN UNION TELEGRAM



NEWCOMB CARLTON, PRESIDENT

GEORGE W. E. ATKINS, FIRST VICE-PRESIDENT

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

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

RECEIVED AT WYATT BUILDING, COR. 14th AND F STS., WASHINGTON, D. C.

APR 30 1918

GOVERNOR'S OFFICE

ATCH 110 COLL GOVT

DALLAS TEX 235P 30

HARDING

5630

RESERVE BOARD TREASURY WASHINGTON

ANSWERING TELEGRAM WE HOLD SEVEN HUNDRED DOLLARS FIRST LOAN AND
 TWENTY TWO HUNDRED DOLLARS SECOND LOAN PURCHASED BY US FOR ACCOUNT
 OUR EMPLOYEES AND HAVE TAKEN THEIR SUBSCRIPTIONS FOR THIRTEEN THOUSAND
 THIRD LOAN WHICH WE WILL PURCHASE STOP OCCASIONED BY
 DUPLICATIONS AND ADJUSTMENTS IN ALLOTMENTS WE HOLD IN SUSPENSE
 ACCOUNT FOR TREASURY FIRST LOAN BONDS AGGREGATING THREE HUNDRED
 SIXTY NINE THOUSAND NINE HUNDRED DOLLARS AND IN SAME ACCOUNT

CLASS OF SERVICE	SYMBOL
Day Message	
Day Letter	Blue
Night Mes. age	Nite
Night Letter	N L
If none of these three symbols appears after the check (number of words) this is a day message. Otherwise its character is indicated by the symbol appearing after the check.	

WESTERN UNION TELEGRAM

NEWCOMB CARLTON, PRESIDENT

GEORGE W. E. ATKINS, FIRST VICE-PRESIDENT

CLASS OF SERVICE	SYMBOL
Day Message	
Day Letter	Blue
Night Message	Nite
Night Letter	N L
If none of these three symbols appears after the check (number of words) this is a day message. Otherwise its character is indicated by the symbol appearing after the check.	

RECEIVED AT WYATT BUILDING. COR. 14th AND F STS., WASHINGTON. D. C.

5/6 CH SHEET 2/36

SECOND LOAN THIRTY SIX THOUSAND NINE HUNDRED FIFTY DOLLARS STOP

TWO LAST AMOUNTS NOT TAKEN ON OUR BOOKS AND WE FEEL TREASURY

DEPARTMENT SHOULD ADJUST AND RELIEVE US OF ITEMS AND CLOSE SUSPENSE

ACCOUNT

VANZANDT GOVERNOR.

Form 1220

CLASS OF SERVICE	SYMBOL
Telegram	
Day Letter	Blue
Night Message	Nite
Night Letter	N L
If none of these three symbols appears after the check (number of words) this is a telegram. Otherwise its character is indicated by the symbol appearing after the check.	

WESTERN UNION TELEGRAM

NEWCOMB CARLTON, PRESIDENT

GEORGE W. E. ATKINS, FIRST VICE-PRESIDENT

CLASS OF SERVICE	SYMBOL
Telegram	
Day Letter	Blue
Night Message	Nite
Night Letter	N L
If none of these three symbols appears after the check (number of words) this is a telegram. Otherwise its character is indicated by the symbol appearing after the check.	

RECEIVED AT WYATT BUILDING, COR. 14TH AND F STS., WASHINGTON, D. C.

B6SF XT 78 NL 2 EXTRA

SANFRANCISCO CALIFORNIA APL 30 1918

HARDING

1308

GOVERNOR WASHINGTON DC

GOVERNOR'S OFFICE
MAY 4 1918

REPLYING TO YOUR TELEGRAM OF THE THIRTIETH WE OWN LIBERTY
LOAN BONDS AS FOLLOWS FIRST FIFTY DOLLARS FIRST CONVERTED FOURS
SIXTEEN THOUSAND TWO HUNDRED FIFTY DOLLARS SECOND FOUR HUNDRED DOLLARS
TOTAL SIXTEEN THOUSAND SEVEN HUNDRED DOLLARS WE ALSO HAVE PURCHASED
FOR THE PURPOSE OF DELIVERING TO THEM WHEN PAYMENT IS
COMPLETED BONDS OF DELINQUENT SUBSCRIBERS AS FOLLOWS FIRST FIFTY TWO
HUNDRED DOLLARS SECOND TEN THOUSAND FOUR HUNDRED FIFTY DOLLARS TOTAL
FIFTEEN THOUSAND SIX HUNDRED FIFTY DOLLARS

CALKINS

DEPUTY GOVERNOR

525PM

Form

TELEGRAM
FEDERAL RESERVE BOARD
WASHINGTON

FEDERAL RESERVE BOARD FILE
311-1
333.

April 30, 1918.

333

TELEGRAM TO ALL FEDERAL RESERVE BANKS, AS FOLLOWS:

Boston, Mass.	Richmond, Va.	Minneapolis, Minn.
New York, N. Y.	Atlanta, Ga.	Kansas City, Mo.
Philadelphia, Pa.	Chicago, Ill.	Dallas, Texas.
Cleveland, Ohio.	St. Louis, Mo.	San Francisco, Cal.

Please telegraph amount of Liberty Bonds of the various issues actually owned by your bank.

HARDING.

OFFICIAL BUSINESS
GOVERNMENT RATES
CHARGE FEDERAL RESERVE BOARD

#7
FEDERAL RESERVE BOARD
WASHINGTON

M.C. ELLIOTT
COUNSEL

320
353

April 2, 1918.

My dear Mr. Willis:

The accompanying file does not appear to
call for any action on the part of this office.

I would suggest that these papers be acknowledged
and filed.

Respectfully,

M. C. Elliott
Counsel.

Mr. H. Parker Willis,
Federal Reserve Board.

Enclosure.

333.
FEDERAL RESERVE BANK OF CHICAGO

79 WEST MONROE STREET

Chicago, March 22, 1918.

Mr. H. Parker Willis, Secretary,

FEDERAL RESERVE BOARD,

Washington, D.C.

Dear Sir:

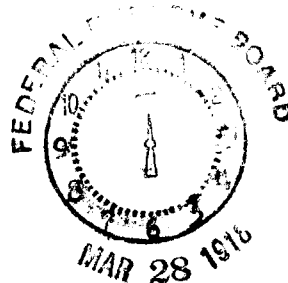
Enclosed herewith please
find copy of an extract from the minutes of the
Board of Directors' meeting held on March 22,
1918.

Yours truly,



Secretary.

WFM:S.




FEDERAL RESERVE BANK OF CHICAGO

"RESOLVED, That Assistant Cashiers F. J. Carr, Don A. Jones and S. B. Cramer and Secretary W. F. McLallen be, and are hereby, authorized to attest the assignment of United States Registered Bonds.


"BE IT FURTHER RESOLVED, That the Secretary be instructed to forward copies of these resolutions to the Treasury Department and Federal Reserve Board, together with certified copies of the signatures of the above named officers."

- - - - -

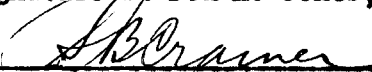
I HEREBY CERTIFY that the above is a true and correct copy of an extract from the minutes of the meeting of the Board of Directors of the Federal Reserve Bank of Chicago held on March 22, 1918, and that the following signatures are the true signatures of F. J. Carr, Don A. Jones, S. B. Cramer, and W. F. McLallen.



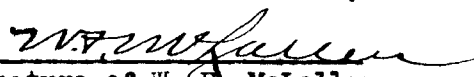
Signature of F. J. Carr



Signature of Don A. Jones,



Signature of S. B. Cramer,



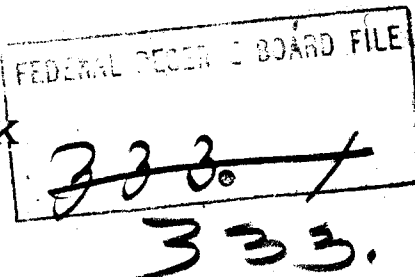
Signature of W. F. McLallen.



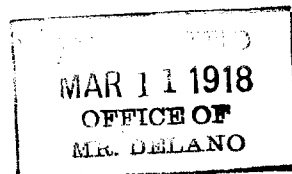
Secretary.

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

FEDERAL RESERVE BANK
OF
KANSAS CITY



March 7, 1918.



Hon. F. A. Delano,
Member of Federal Reserve Board,
Washington, D. C.

Dear Mr. Delano:

We acknowledge receipt of your communication of the 4th instant, advising that one of the Federal Reserve Banks had decided to sell a block of 2% Consols held by it, at 97 $\frac{1}{2}$, and as a suggestion you thought we might be interested in selling a part of our 2% bonds on the same basis as a means of strengthening our reserve, et cetera.

While it might be deemed expedient to make a sale of some of our 2's on account of the indefinite period of the war and on account of the huge issues of Government bonds necessary therefor, we fail to see how the sale of our bonds would affect our reserves in the least since we have no investment in them, except the usual 5% redemption fund, and, therefore, our reserves would not be increased by making the sale. The debit to our resources and credit to our liabilities are an offset. We paid 8 million dollars for the bonds we hold and the Government has returned to us 8 million dollars of bank notes all of which are in circulation. We are getting a gross profit from this status of \$178,500, out of which we are paying \$44,625 tax on circulation, leaving us clear profit of \$133,875 per annum on an investment of \$400,000 deposited with United States Treasurer on account of 5% Redemption Fund.

However if you or the Board think that we should dispose of the bonds or any part thereof and retire the same amount of circulation, please advise.

Yours truly,

Governor.

*That is true if
he uses the Circulation
but I did not know
that he did -*

333

March 4th, 1918.

CONFIDENTIAL

My dear Mr. Miller:

One of our Federal Reserve Banks which has had a few hundred thousand of two per cent bonds, is contemplating selling them at 97½, and either investing the proceeds in Government 4½ per cent, or keeping these proceeds in the form of a liquid investment.

You have a large block of these bonds, and I presume you could not market any very large proportion of them without breaking the market, but it might be a good idea to pass them out. You could strengthen your reserves, and at the same time make up the loss in discount out of earnings.

Yours very truly,

JD/^R

Mr. J. Z. Miller, Jr.,
Governor, Federal Reserve Bank,
Kansas City, Mo.

FEDERAL RESERVE BANK OF RICHMOND
FIFTH DISTRICT

December 14th, 1917.

C O U P O N S .

To the Bank Addressed:

Interest Coupons on United States Bonds are payable upon presentation to the Treasurer of the United States, to an assistant Treasurer of the United States, or a Federal Reserve Bank or Branch thereof.

In sending to this bank any coupons from bonds of the First Liberty Loan payable December 15th, either of the $3\frac{1}{2}\%$ Bonds or the 4% Conversion Bonds, you are requested to observe the following procedure to insure safety and prompt and efficient service:

- 1 - These coupons will be handled in the Fiscal Agent Department therefore, send all coupons in a separate cash letter. Do not include coupons with your regular cash letter.
- 2 - If more than 100 coupons are sent arrange them in packages of 100 each under straps or in envelopes. When possible, include in each package coupons of only ONE DENOMINATION - for example, 100 coupons from \$50 - 4% Bonds, 100 coupons from \$100 - $3\frac{1}{2}\%$ Bonds, etc. Odd amounts of less than 100 of each DENOMINATION and KIND should EACH be placed in a separate envelope or under separate strap.
- 3 - On each envelope containing coupons, or on each strap or package, please note the number of coupons, amount of each, and total amount in each package.

Coupons being small are easily lost, and only by careful handling as requested can safety and dispatch be insured to you and to us.

FEDERAL RESERVE BANK OF RICHMOND


GOVERNOR.

H4
FEDERAL RESERVE BANK OF CLEVELAND
5331
353

OFFICE OF
FEDERAL RESERVE AGENT

November 15, 1917.

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

My dear Mr. Allen:

I have your letter of November 13, ²¹ and have taken up confidentially with Mr. Tiers in Pittsburgh (whom I know very well) the subject contained in a paragraph of his letter to the Comptroller of the Currency.

I will advise you later if I consider the situation one that should receive your further consideration.

Very truly yours,

Abouls

DCW-MM.

OFFICERS

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

FEDERAL RESERVE BANK
OF
ST. LOUIS

DIRECTORS

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

St. Louis, Nov. 15, 1917.

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

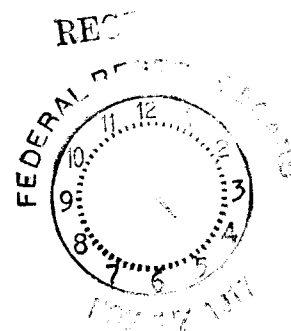
Dear Sir:

We have received your letter of November 13th,
setting forth an extract from the minutes of the Board
for a meeting held on Monday, November 12th, and en-
closing a copy of general instructions covering the
payment of coupons of United States bonds.

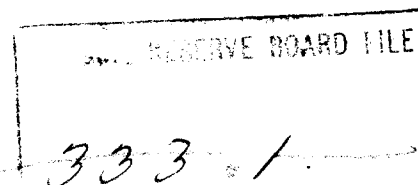
Very truly yours,

WWH-FW

W. W. Hoxton
Cashier.



2
FEDERAL RESERVE BANK
OF NEW YORK



333

November 14, 1917.

S i r :

Receipt is acknowledged of your favor of November 13th, giving us an extract from the minutes of the meeting of the Board held on Monday, November 12th, with reference to the payment of the United States coupons, which has our attention.

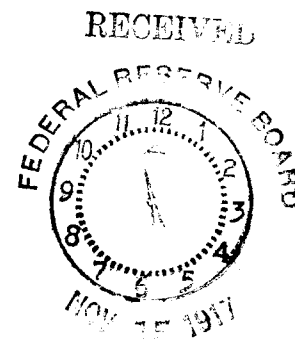
Thanking you for your courtesy, we are,

Respectfully,

L. F. Sailer

Cashier.

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



2
11/16/17
3
FEDERAL RESERVE BANK OF PHILADELPHIA

408 CHESTNUT STREET

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

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

November 14, 1917.

S i r s :

We beg to acknowledge receipt of your favor of the 13th instant giving extract from the minutes of the Board for meeting held November 12, 1917, also instructions for the handling of coupons from United States Bonds received by the Treasurer of the United States, an Assistant Treasurer, or a Federal Reserve Bank for payment.

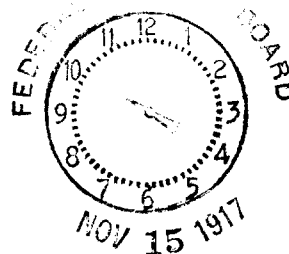
We will be governed accordingly.

Yours truly,

C. J. Rhoads
Governor.

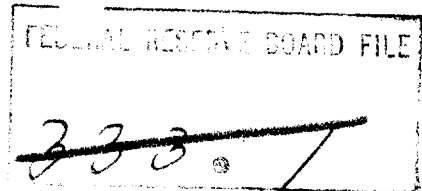
FEDERAL RESERVE BOARD,
Washington, D.C.

R



File Banks

FILE COPY.



November 13, 1917

Genl
333

Dear Sir:

For your information there is given below an extract from the minutes of the Board for a meeting held on Monday, November 12, 1917:

"The request of the Treasury Department for approval by the Board of a plan for the payment of coupons of U. S. Bonds by Federal Reserve Banks acting as Federal Fiscal Agents, was noted and given the approval of the Board."

Attached there is a copy of the general instructions covered by the above approval.

Very truly yours,

Assistant Secretary.

Federal Reserve Bank,

Inclosure.

TREASURY DEPARTMENT,
Office of the Treasurer U. S.,
November 5, 1917.

INSTRUCTIONS FOR THE HANDLING OF COUPONS FROM UNITED STATES BONDS RECEIVED BY THE
TREASURER U. S., AN ASSISTANT TREASURER, OR A FEDERAL RESERVE BANK FOR PAYMENT.

Coupons from United States bonds are actually payable only on presentation to the Treasurer of the United States, to an Assistant Treasurer of the United States, or to a Federal reserve bank or branch thereof. When so paid they should be canceled by punching a hole 1/4-inch in diameter in the middle of the coupon and near the top thereof through the words "United States" or immediately thereunder. THE HOLE MUST NOT BE PUNCHED THROUGH THE DATE OR NUMBER ON SUCH COUPON, NOR THROUGH THE AMOUNT THEREON. Coupons should be arranged according to Loan and denomination, one hundred of the same kind being put under a strap. The remaining odds, arranged by Loan and denomination, should be strapped in 100s, leaving only one package containing less than 100. Each strap should bear a statement in brief of the contents.

The total amount of coupons paid on any particular day should be charged in the Treasurer's account of that date and listed in the "abstract of payments" on the transcript of the paying office as "United States coupons paid \$ _____", giving symbol number 17199 and forwarding in support of the debit a charge document on Form #6518, (if a Federal Reserve Bank) or No. 1748 (if a Sub-Treasury) - "Statement of coupons paid - U. S. bonds." This charge document must accompany the transcript in which the entry is made.

Coupons should be packed securely, sealed and forwarded, by registered mail, to the Treasurer of the United States, Division of Banks, Loans & Postal Savings, Washington, D. C. A Statement of Paid Coupons, Form 5686, properly filled out must be inclosed with the coupons. The date of this form must correspond to the date of the transcript of the Treasurer's account in which the coupons are charged and the total amount shown thereon must agree with the amount charged in said transcript.

All Postal Savings Loans of Series One to Six inclusive, must be listed by series on Form 5686 while Postal Savings Loans of the Seventh and subsequent series must be listed under the head of "Consolidated Series."

In order to facilitate the verification of coupons and the clearing of such items, it is urged that each paying agency prepare coupons with care and forward them promptly to the Treasurer the same day they are paid.

NOTHING IN THESE INSTRUCTIONS IS TO BE CONSTRUED AS PROHIBITING THE HOLDER OF UNITED STATES COUPONS FROM CASHING THEM AT ANY BANK OR TRUST COMPANY THAT IS WILLING TO ACCOMODATE ITS PATRONS IN THIS RESPECT, OR AT A POST OFFICE AUTHORIZED BY THE POSTMASTER GENERAL TO CASH SUCH COUPONS. COUPONS SO CASHED, HOWEVER, MUST UNDER NO CIRCUMSTANCES BE CANCELED EXCEPT BY THE TREASURER OF THE UNITED STATES, AN ASSISTANT TREASURER, OR A FEDERAL RESERVE BANK TO WHOM THEY HAVE BEEN DELIVERED FOR ACTUAL PAYMENT. COUPONS PREVIOUSLY CANCELED WILL NOT BE SO PAID.

JOHN BURKE,

Treasurer U. S.

Approved:

R. C. LEFFINGWELL,

Assistant Secretary of the Treasury.

3

FEDERAL RESERVE BOARD FILE

k

April 19, 1917.

Mr. C. J. Rhoads,
Governor, Federal Reserve Bank,
Philadelphia, Pa.

Dear Sir:

Your letter of April 18th, stating the situation as you find it in connection with the sale of U.S. 3% 30-year bonds held by Federal reserve banks, is received.

You will have this morning received from this office a letter sent out yesterday to Governors of all Federal reserve banks which relates to this matter. This letter, I think, covers the matter so far as can be done at this time.

Very truly yours,

Governor.

FEDERAL RESERVE BANK OF PHILADELPHIA

408 CHESTNUT STREET

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

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

April 18, 1917.

Federal Reserve Board,
Washington, D.C.

S i r s:

Immediately after the last conference of Governors, the Committee of which the writer has acted as Chairman, invited proposals for the purchase from Federal reserve banks of approximately \$5,500,000 United States thirty-year conversion 3's, said proposals to be opened on the 17th instant. Very soon after our invitations had been sent out the Administration bill authorizing seven billions of United States securities at $3\frac{1}{2}\%$ rate was introduced in Congress, with the result that yesterday, when our committee met to open the bids, we received no bids but communications from several institutions and firms interested in Government bonds, stating that under the changed conditions they were not prepared to make any bids. All of the letters called attention to the fact that our thirty-year 3's if sold at a $3\frac{1}{2}\%$ basis, which is the rate authorized for the new Government bonds, it would mean a price of $90\frac{3}{4}$ for our bonds. They also called attention to the fact that the new issues will contain a provision authorizing their conversion dollar for dollar into any subsequent Government bonds which may be issued during the life of the war at higher rates than $3\frac{1}{2}\%$, and that similar provisions should be made for our thirty-year 3's.

It is therefore obvious that Federal reserve banks will now be unable to dispose of their conversion 3's, and it is the opinion of our Committee that the whole subject should be taken up with the Secretary of the Treasury with a view to the development of a comprehensive plan for the retirement of the national bank note circulation, as well as the greenbacks. Such a plan would also have to make provision for our thirty-year conversion 3's, our one-year renewable notes and probably for the Panama 3's which are now outstanding.

May I ask that the Board give consideration to this subject and advise me whether or not they are disposed to take up the whole subject as outlined, in the near future?

Yours truly,

Charles J. Rhoads
Governor.

100-40

~~TELEGRAM~~ 2
FEDERAL RESERVE BOARD
WASHINGTON

FEDERAL RESERVE BOARD FILE
333.1

March 14, 1917.

Perrin,
Federal Reserve Agent,
San Francisco, California.

Answering yours ~~thirteenth~~ no objection your selling
notes at two three quarters basis.

MILLER.

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

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

WESTERN UNION TELEGRAM

NEWCOMB CARLTON, PRESIDENT

GEORGE W. E. ATKINS, FIRST VICE-PRESIDENT

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

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

RECEIVED AT WYATT BUILDING, COR. 14th AND F STS., WASHINGTON, D. C.

1917 MAR 14 AM 1 39

A653CH 29 GOVT NITE COLL SANFRANCISCO CALIF 13

MILLER FEDERAL RESERVE BOARD

~~1906~~

0653

WASHINGTON (DC)

HAVE OFFERED QUARTER MILLION ONE YEAR GOVERNMENT NOTES DUE JANUARY
AT TWO THREE QUARTERS BASIS DOES BOARD APPROVE SELLING NOTES NOW

PERRIN

CHAIRMAN.

333.

No. S-359

Date March 14, 1917.

FEDERAL RESERVE BOARD

MEMORANDUM

For Mr. Miller

Executive Committee
At a meeting of the ~~Federal Reserve Board~~ on

March 14, the following matter
(as Chairman, Committee on Operation of
was referred to you (as member, F. R. "B. of "San Francisco:
(as

and the following minute entered:

"A letter from F. R. A. Perrin asking whether the Board would approve the sale of a quarter of a million of Government notes on a 2 3/4% basis, was read, and Mr. Miller was authorized to communicate to Mr. Perrin that the Board would approve such action."

H. Parker Willis

Secretary.

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

Date _____

Documents _____

Signature _____

Q

X-27 *Carded*

AMOUNTS AND PERCENTAGES OF TOTAL PAID-IN CAPITAL
FOR EACH FEDERAL RESERVE BANK AND PROPORTION-
ATE BOND CONVERSION ALLOTMENTS ON
\$15,000,000 BASIS .

BANK	Paid-in Capital March 2, 1917	Per cent of Total paid-in capital.	Proportionate allotment for \$15,000,000.
Boston	5,083,000	9.0695	1,360,400
New York	11,888,000	21.2116	3,181,700
Philadelphia	5,259,000	9.3835	1,407,500
Cleveland	6,085,000	10.8574	1,628,600
Richmond	3,409,000	6.0826	912,400
Atlanta	2,420,000	4.3179	647,700
Chicago	6,999,000	12.4882	1,873,200
St. Louis	2,794,000	4.9853	747,800
Minneapolis	2,412,000	4.3037	645,500
Kansas City	3,089,000	5.5116	826,800
Dallas	2,696,000	4.8104	721,600
San Francisco	3,911,000	6.9783	1,046,800
Total	56,045,000	100.0000	15,000,000

March 6, 1917.

AHL

404
116

FEDERAL RESERVE BOARD FILE
233 • 17
315117

AMOUNTS AND PERCENTAGES OF TOTAL PAID-IN CAPITAL FOR EACH
FEDERAL RESERVE BANK AND PROPORTIONATE CONVERSION
ALLOTMENTS ON \$15,000,000 BASIS

Bank	Paid-in Capital March 2, 1917.	Per cent of total paid-in capital.	Proportionate allotment for \$15,000,000
Boston	5,083,000	9.0695	1,360,400
New York	11,888,000	21.2116	3,181,700
Philadelphia	5,259,000	9.3835	1,407,500
Cleveland	6,085,000	10.8574	1,628,800
Richmond	3,409,000	6.0828	912,400
Atlanta	2,420,000	4.5179	647,700
Chicago	6,999,000	12.4862	1,873,200
St. Louis	2,794,000	4.9853	747,800
Minneapolis	2,412,000	4.3037	645,500
Kansas City	5,089,000	5.5116	825,800
Dallas	2,696,000	4.8104	721,600
San Francisco	3,911,000	6.9783	1,046,800
Total	56,045,000	100.0000	15,000,000

DIVISION OF REPORTS AND STATISTICS,
FEDERAL RESERVE BOARD,
March 6, 1917.

Noted
JMS

FEDERAL RESERVE BOARD FILE

333

FEDERAL RESERVE BOARD

333

January 9, 1917.

Memorandum for Mr. Jacobson,

Will you please send me as soon as possible the amount of United States bonds purchased by Federal Reserve Banks during 1916, the total of exchanges for 3 per cent Conversion bonds and one year notes, and the amounts by banks of Federal Reserve Bank notes issued against bonds with the amounts of this currency outstanding on December 30, 1916.

Assistant Secretary.

DIVISION OF REPORTS AND STATISTICS

January 10, 1917.

Amount of U.S.Bonds on hand, January 1, 1916		\$15,918,470
Amounts purchased during 1916		
U.S.Bonds	\$56,450,180	
1-year Treasury notes	<u>300,000</u>	56,750,180
Total purchases to December 31, 1916.....		<u>\$72,668,650</u>
Amounts sold during 1916		
U.S. Bonds	\$13,882,000	
1-year Treasury notes	<u>3,372,000</u>	
Total.....		17,254,000
U.S.Bonds and 1-year Treasury notes held on December 31, 1916.....		<u>\$55,414,650</u>

Respectfully submitted,

M. Jacobson

(a), suggested an item:
"and of \$54.980
through the return
to the comptroller
for destruction of
an equal amount
of Fed res bank
notes

M. J.

So I interpret
you correctly?

So
+ their liability in 54.980
to ~~the~~ ^{the} ~~proper~~ ^{proper} ~~clearing~~ ^{clearing} ~~house~~ ^{house}
through the return of
an equal amount of
mutilated F.R. bank
notes.

Memo for Mr. Cullen



Total amt of FR bk notes

issued to Dec 31, 1916 \$12,000,000
 In addition 54,980 were issued in exchange of mutilated notes
 Held on Dec 31, 1916 by: \$

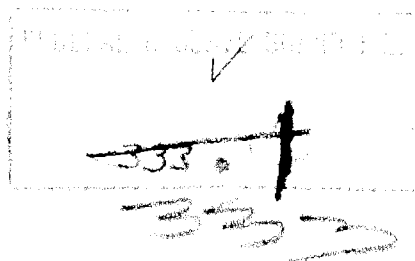
FR Bk of Kansas City	6,000,000
" " " Dallas	2,000,000
	<hr/> 8,000,000

Remaining amount is in cir-
 culation & in the Treasury.
 The FR banks have extinguished
 their liability of these notes
 thru the deposit of lawful money
 with the Treasurer

Jan 9/16

FILE
 JAN 9 1917
 Federal Reserve Board

#3 *3



January 9, 1917.

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

Dear Governor Rhoads:-

Your letter of the 6th instant addressed to Mr. Warburg who is out of town today, has been referred to this office.

The attention of members of the Board was of course called to the recent statements in the press that there would probably be a large issue of Panama Canal 3% bonds during the present year, and the matter was recently discussed informally with the Secretary of the Treasury. He is not yet prepared to make a definite statement as to his intentions, and my impression is that there is a possibility, before bonds are finally issued, that one year certificates will be resorted to. I have no reason to believe that an issue of either certificates or bonds is imminent in the immediate future.

Very truly yours,

Governor.

FEDERAL RESERVE BANK OF PHILADELPHIA

408 CHESTNUT STREET

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

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

January 6, 1917.

Dear Mr. Warburg:

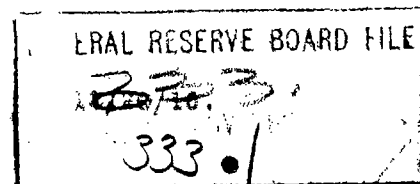
In connection with our efforts to market United States 30-year conversion 3's which Federal reserve banks now have for sale, it is inevitable that the purchasers with whom we deal will raise the question as to whether or not there is likely to be a large issue of Panama 3's during the current year. From the announcement given to the press by the Secretary of the Treasury it is not perfectly clear whether such an issue is contemplated this year or next, but my own impression is that the Secretary of the Treasury will, if possible, defer making such an issue until after July 1, 1917.

If you have any information on this subject which you can impart to us it will be greatly appreciated.

Very truly yours,

Chairman of Governors' Committee
on Bond Purchases.

HON. PAUL M. WARBURG,
Vice-Governor,
Federal Reserve Board,
Washington, D.C.



MEMO. FOR MR. WARBURG

MEMORANDUM FOR MR. WARBURG.

On November 30, the Treasury reports a total of \$83.3 millions of United States bonds with circulation privilege outstanding, divided as follows:

2's	\$700,882,000
3's	53,945,000
4's	<u>118,490,000</u>
Total	\$873,317,000

Of this total the Treasurer of the United States held the following classes and amounts to secure circulation:

1. - For National Banks -

2's	\$641,128,000
3's	15,953,000
4's	<u>25,764,000</u>
Total	\$682,845,000

2. - For Federal Reserve Banks -

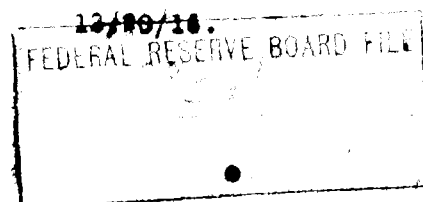
2's	<u>\$5,400,000</u>
-----	--------------------

Total for National and F. R. Banks	\$691,284,000
---------------------------------------	---------------

On September 12 the National banks report to the Comptroller among their assets a total of \$729,777,000 of United States bonds and a total of \$687,692,000 of bank notes received from the Comptroller. This leaves a free margin of \$42,085,000 of United States bonds. Assuming a like amount on November 30, and deducting from this amount the total of \$11,026,000 of 3 per cent bonds without the circulation privilege held for National banks by the United States Treasurer to secure deposits, we obtain a possible maximum of \$21,059,000 of United States bonds with circulation privilege held by the National banks at the close of November. Our own records show that on that date the Federal Reserve Banks, in addition to the 3.4 millions of 2 per cent bonds held with the Treasurer, also had on hand a total of \$28,131,000 of United States bonds with circulation privilege distributed as follows:

2's	\$15,821,000
3's	7,407,000
4's	<u>4,893,000</u>
Total exclusive of 3.4 millions held by Treas- urer	\$28,131,000

Mr. Warburg -----2.



Recapitulation:

Total amount of U.S.bonds with circulation
privilege outstanding on November 30, 1916

\$ 882,317,000

Held by Treasurer to secure
circulation for -

(a) National Banks	\$682,854,000
(b) F. R. Banks	8,400,000
Total	\$ 691,254,000

Estimated maximum amount of
U.S.bonds with circulation
privilege in hands of Na-
tional banks

21,059,000

Amount of U.S.bonds with cir-
culation privilege in hands
of Federal reserve banks

28,131,000

Amount of U.S.bonds with cir-
culation privilege held by
Treasurer of U.S. for Nat'l
banks to secure Government
deposits

16,660,000 \$ 767,104,000

Estimated maximum amount of
U.S.bonds with circulation
privilege outside the con-
trol of the U.S.Treasurer,
the Federal Reserve banks
and the Nat'l banks on
November 30, 1916

\$ 116,213,000

Respectfully submitted,

W. Jacobson

Statistician.

December 30, 1916.

TREASURY DEPARTMENT.

FEDERAL RESERVE BOARD FILE

ALLOTMENT OF 30 YEAR 3% CONVERSION BONDS AND 1 YEAR 3% TREASURY NOTES TO
FEDERAL RESERVE BANKS - CALENDAR YEAR 1917333.333
11

1214116

Bank.	Paid-in capital*	Proportionate allotment of \$30,000,000**	Allotment of conversion bonds.	Allotment of 1 year Treasury notes.
Boston.....	\$ 5,007,000	\$2,696,200	\$ 1,348,200	\$ 1,348,000
New York	11,909,000	6,412,900	3,206,900	3,206,000
Philadelphia	6,226,000	2,814,200	1,407,200	1,407,000
Cleveland	5,993,000	3,227,200	1,614,200	1,613,000
Richmond	3,341,000	1,799,100	900,100	899,000
Atlanta	2,480,000	1,335,500	668,500	667,000
Chicago	6,912,000	3,722,100	1,861,100	1,861,000
St. Louis	2,794,000	1,504,600	752,600	752,000
Minneapolis	2,380,000	1,281,600	641,600	640,000
Kansas City	3,051,000	1,642,900	821,900	821,000
Dallas	2,695,000	1,461,800	726,200	725,000
San Francisco.....	3,923,000	2,112,500	1,056,500	1,056,000
Total.....	55,711,000	30,000,000	15,005,000	14,995,000

* Furnished by Federal Reserve Board.

** Allotment by Federal Reserve Board.

Dec 4. 1916
Dir L & C

TREASURY DEPARTMENT

OFFICE OF THE SECRETARY

DIVISION OF LOANS AND CURRENCY

FEDERAL RESERVE BOARD FILE

Mr. Allen -

Federal Reserve Board -

*Each bank has been advised
of amount of Commission
on bonds & Treasury notes
allotted for 1917 -*

WLB

12/5/16

FILED
DEC 5 1916
Federal Reserve Board

EX-OFFICIO MEMBERS

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

FEDERAL RESERVE BOARD
WASHINGTON

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

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

November 24, 1916.

Carded

Dear Sir:

The Federal Reserve Board has observed that certain Federal reserve banks have recently purchased two per cent United States bonds above par and its attention has been directed to the fact that this price has been artificially stimulated by the competitive bidding of those Federal reserve banks.

While it is not the desire of the Board to restrict or to limit the purchase of two per cent bonds by the various Federal reserve banks, it is deemed advisable to point out that this policy, which is unnaturally forcing up the price of two per cent bonds, is fraught with certain dangers.

Section 18 of the Federal Reserve Act provides in part that any member bank, desiring to retire the whole or any part of its circulating notes, may file with the Treasurer of the United States an application to sell for its account, at par and accrued interest, United States bonds securing circulation to be retired. The Federal Reserve Board is given the power to require Federal reserve banks to buy \$25,000,000 of such bonds in any one year, less the amount of bonds bought by such Federal reserve banks in the open market during the same calendar year. The power of the Federal reserve banks to make open market purchases of bonds is not limited by law, so that, strictly speaking, such banks are acting within their legal rights in making such purchases even though their competitive bidding is forcing the price of two's above par.

The difficulty, however, is that this policy is creating an artificial and unnatural market for two per cent bonds. The Federal reserve banks are afforded the privilege of converting a certain amount of two per cent bonds into three per cent bonds and three per cent one-year notes. Consequently, such banks will not suffer any direct financial loss by paying for two per cent bonds practically the same amount as the normal market price for three per cent bonds. The fact, however, that Federal reserve banks may convert bonds in this manner and that two per cent bonds are because of the conversion privilege worth substantially as much as three's to Federal reserve banks, is hardly a sound reason to justify their forcing of the price of two's above their normal market value by blindly bidding against one another.

It is quite generally agreed that one of the purposes of the Act was to promote a gradual retirement of the national bank circulation, and Section 18 in affording a fixed market, at par and accrued interest, for two per cent bonds against which circulation is outstanding, contemplated that member banks would dispose in that manner of those bonds which they are required by the national bank act to keep on deposit with the Treasurer of the United States.

It is apparent, therefore, that if the open market price of two per cent bonds is unnaturally established at a figure above par, member banks will not be inclined to offer their two per cent bonds for sale through the Treasurer at par and accrued interest, even if such bonds are not free bonds and can not be released by the Treasurer for sale in any manner other than that provided by Section 18. The result will be that there will be an artificial stoppage of the retirement of national bank circulation in the manner contemplated by the Act.

The suggestion has been made that the Federal reserve banks appoint a committee to consider the purchase of two per cent bonds for the joint account of all Federal reserve banks. The Board believes that such a course would not only be conducive to a more healthy and normal market for two per cent bonds, but also that it would best promote the results intended by Congress in the matter of accomplishing the retirement of national bank circulation.

Respectfully,

Governor.

Mem # 885

*copy of letter sent to
all F.R. Agents today*

November 24, 1916.

Gentlemen:

The Federal Reserve Board has observed that certain Federal reserve banks have recently purchased two per cent United States bonds above par and its attention has been directed to the fact that this price has been artificially stimulated by the competitive bidding of those Federal reserve banks.

While it is not the desire of the Board to restrict or to limit the purchase of two per cent bonds by the various Federal reserve banks, it is deemed advisable to point out that this policy, which is unnaturally forcing up the price of two per cent bonds, is fraught with certain dangers.

Section 18 of the Federal Reserve Act provides in part that any member bank, desiring to retire the whole or any part of its circulating notes, may file with the Treasurer of the United States an application to sell for its account, at par and accrued interest, United States bonds securing circulation to be retired. The Federal Reserve Board is given the power to require Federal reserve banks to buy \$25,000,000 of such bonds in any one year, less the amount of bonds bought by such Federal reserve banks in the open market during the same calendar year. The power of the Federal reserve banks to make open market purchases of bonds is not limited by law, so that, strictly speaking, such banks are

11-24-16

#2

acting within their legal rights in making such purchases even though their competitive bidding is forcing the price of two's above par.

The difficulty, however, is that this policy is creating an artificial and unnatural market for two per cent bonds. The Federal reserve banks are afforded the privilege of converting a certain amount of two per cent bonds into three per cent bonds and three per cent one year notes. Consequently, such banks will not suffer any direct financial loss by paying for two per cent bonds practically the same amount as the normal market price for three per cent bonds. The fact, however, that Federal reserve banks may convert bonds in this manner and that two per cent bonds are because of the conversion privilege worth substantially as much as three's to Federal reserve banks, is hardly a sound reason to justify their forcing of the price of two's above their normal market value by blindly bidding against one another.

It is quite generally agreed that one of the purposes of the Act was to promote a gradual retirement of the national bank circulation, and Section 18 in affording a fixed market, at par and accrued interest, for two per cent bonds against which circulation is outstanding, contemplated that member banks would dispose in that manner of those bonds which they are required by the national bank act to keep on deposit with the Treasurer of the United States.

To F.R.Agents

11-24-16

#3

It is apparent, therefore, that if the open market price of two per cent bonds is unnaturally established at a figure above par, member banks will not be inclined to offer their two per cent bonds for sale through the Treasurer at par and accrued interest, even if such bonds are not free bonds and cannot be released by the Treasurer for sale in any manner other than that provided by Section 18. The result will be that there will be an artificial stoppage of the retirement of national bank circulation in the manner contemplated by the Act.

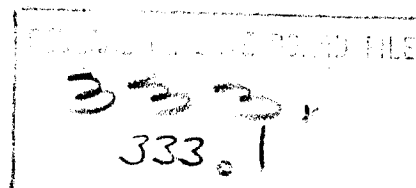
The suggestion has been made that the Federal reserve banks appoint a committee to consider the purchase of two per cent bonds for the joint account of all Federal reserve banks. The Board believes that such a course would not only be conducive to a more healthy and normal market for two per cent bonds, but also that it would best promote the results intended by Congress in the matter of accomplishing the retirement of national bank circulation.

Respectfully,

GLH-C.

Governor.

Drafted by C. M. W.



Draft for telegram or letter.

The attention of the Board has been drawn to the fact that Federal Reserve Banks have been bidding against each other for Government 3's, and have, in doing so, forced up the price for these bonds above par - some purchases having been made at par and an eighth.

The Board wishes to draw Federal Reserve Banks' attention to the danger of this course. If there be established a basis for these bonds above par it may well be that the plan contemplated by the Federal Reserve Act for the gradual withdrawal of the national bank circulation might be frustrated - at least in its present form. Member banks would be inclined to hold on to the 2% bonds which they have feeling that, owing to the eagerness of the Federal Reserve Banks to buy, there is no danger of their not being able to dispose of these bonds at any later moment, continuing meanwhile to enjoy the profit of keeping out against these bonds national bank circulation. The plan particularly provided for by the Act of having these purchases made to the extent of \$25,000,000 through the instrumentality of the Treasury would become entirely ineffective inasmuch as the banks would, of course, make no offers to the Treasury when the market established by these bonds would be above par.

The Board suggests that, in order to carry out the intention of the Act, the Federal Reserve Banks do not purchase in

(2)

the open market above par, so that if member banks desire to dispose of their bonds they will feel that, at par, they will have to offer them through the instrumentality of the Treasury, which would appear to be the fairer and more appropriate plan under the circumstances. If the banks desire to buy slightly below par, it might be the fairest way of apportioning these purchases if the committee put in charge of the sale of Government bonds would be instructed to handle the purchase of Government 2's in a similar manner.

Congress evidently did not expect or contemplate that the Government, acting through the Federal Reserve Banks, should pay more than par, for, after all, the Government is vitally interested in the profits of the Federal Reserve Banks. The price of the 2's will have no effect on floating future Government issues for we may all expect that Government bonds will never be sold again with a note issuing privilege.

P. M. W.
11-20-16.

MM

Oct. 1916

280-

APPORTIONMENT ON BASIS OF CAPITAL OF BALANCE OF \$1,918,900 AVAILABLE FOR CONVERSION
IN OCTOBER 1916, AFTER THE PRO-RATA SHARES OF ALL CONVERSIONS APPLIED FOR
BY THE FEDERAL RESERVE BANKS HAVE BEEN AWARDED.

	Capital	Pro-rata share of Oct. conver- sions to which banks are en- titled	Amounts of Oct. con- versions ap- plied for	Balance not applied for	Additional allotment applied for	Calculated amounts allottable to banks applying for additional conversions
Boston	5,059,000	2,263,900	1,500,000	763,900	.....	.....
New York	11,221,000	1,565,200	1,565,200	.....	345,750	345,700 ✓
Phila.	5,215,000	712,300	712,200	100	.....	.....
Cleveland	5,948,000	849,600	849,600	.....	68,400	68,400 ✓
Richmond	3,345,000	456,900	456,900	.....	(a)	315,200 ✓
Atlanta	2,582,000	352,700	352,700	.....	(a)	243,300 ✓
Chicago	6,654,000	935,400	935,400	.....	400,000	400,000 ✓
St. Louis	2,788,000	380,900	380,900	.....	(a)	262,700 ✓
Minneapolis	2,560,000	699,300	699,300	.....	.....	.....
Kans. City	3,009,000	411,000	411,000	.....	356,000	283,600 ✓
Dallas	2,585,000	353,100	353,100	.....	.....	.....
San Fran.	3,944,000	1,154,900	.....	1,154,900	.....	.....
Total	54,910,000	10,135,200	8,216,300	1,918,900	1,170,150	1,918,900 JWC

(a) Willing to convert pro-rata share of the unconverted balance allottable to the bank.

FILE

SEP 20 1916

Federal Reserve Board

Federal Reserve Board,
Division of Reports & Statistics,
September 19, 1916.

Handwritten signature

*Formally approved by Board
Sept. 20. 1916 S.A.*

Table showing Amounts Originally Awarded Federal Reserve Banks for Conversion,
 Amounts awarded and issued in April and July, 1916, amounts to be
 Issued in October, and amounts available for re-apportionment.

	Bank.	Award.	Converted		For Oct.	October Convers'n.	Balance Available.	Extra Award.
			April.	July.				
	Atlanta	\$1,410,600	\$ 705,300	\$ 352,600	\$ 352,700	\$ 352,700	\$ 763,900	\$
	Boston	2,763,900	500,000	-----	2,263,900	1,500,000		
	Chicago	3,635,400	1,000,000	1,700,000	935,400	935,400		
	Cleveland	3,249,600	400,000	2,000,000	849,600	849,600		
	Dallas	1,412,400	-----	1,059,300	353,100	353,100		
	Kansas City	1,644,000	820,600	412,400	411,000	411,000		
	Minneapolis	1,398,600	699,300	-----	699,300	699,300		
	New York	6,130,500	3,065,300	1,500,000	1,565,200	1,565,200		
	Philadelphia	2,849,100	1,424,600	712,200	712,300	712,200		
	Richmond	1,827,600	913,800	456,900	456,900	456,900		
	St. Louis	1,523,400	761,700	380,800	380,900	380,900	100	
	San Francisco	2,154,900	-----	1,000,000	1,154,900	-----		
	Total	\$30,000,000	10,290,600	9,574,200	10,135,200	8,216,300	1,918,900	

Confidential.

Carded

770

SCHEDULE OF CONVERSIONS OF 2% BONDS FOR 3% CONVERSION BONDS AND ONE YEAR TREASURY NOTES OCTOBER 1, 1916.

BANK.	Total allotment for 1916 as apportioned by Fed. Res. Board.	Converted April 1, 1916.	Converted July 1, 1916,	Total conversions to date.	Balance allotment for 1916.	Issues that may be approved Oct. 1, 1916.	
						Bonds	Notes
✓ Boston.....	\$2,763,900	\$ 500,000	\$	\$ 500,000	\$2,263,900	\$1,132,900	\$1,131,000
New York.....	6,130,500	3,065,300	1,500,000	4,565,300	1,565,200	783,200	782,000
✓ Philadelphia.....	2,849,100	1,424,600	712,200	2,136,800	712,300	356,300	356,000
Cleveland.....	3,249,600	400,000	2,000,000	2,400,000	849,600	425,600	424,000
✓ Richmond.....	1,827,600	913,800	456,900	1,370,700	456,900	228,900	228,000
✓ Atlanta.....	1,410,600	705,300	352,600	1,057,900	352,700	176,700	176,000
✓ Chicago.....	3,635,400	1,000,000	1,700,000	2,700,000	935,400	469,400	467,000
St. Louis.....	1,523,400	761,700	380,800	1,142,500	380,900	190,900	190,000
✓ Minneapolis.....	1,398,600	699,300		699,300	699,300	350,300	349,000
✓ Kansas City.....	1,644,000	820,600	412,400	1,233,000	411,000	206,000	205,000
✓ Dallas.....	1,412,400		1,059,300	1,059,300	353,100	177,100	176,000
✓ San Francisco.....	2,154,900		1,000,000	1,000,000	1,154,900	577,900	577,000
Total	30,000,000	10,290,600	9,574,200	19,864,800	10,135,200	5,074,200	5,061,000

Prepared by:

Division of Loans and Currency,
Treasury Department.

See Harvey Fisk & Sons

#3

FILE
JUL 28 1916
Federal Reserve Board

FEDERAL RESERVE BOARD FILE
[Signature]
333

July 27, 1916.

Mr. C. J. Rhoads,
Governor, Federal Reserve Bank,
Philadelphia, Pennsylvania.

My dear Mr. Rhoads :

I have your letter of July 26th with
enclosure of copy of letter of July 25th from
Harvey Fisk & Sons in regard to the sale of
thirty-year 3% conversion bonds for the Federal
Reserve Banks. I think under all the circum-
stances the arrangement you have made is a good
one.

Thanking you for your letter, I am,

Yours very truly,

Vice Governor.

FEDERAL RESERVE BANK OF PHILADELPHIA

408 CHESTNUT STREET

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

RICHARD L. AUSTIN,
CHAIRMAN OF THE BOARD AND
FEDERAL RESERVE AGENT
GEORGE W. NORRIS,
DEPUTY CHAIRMAN OF THE BOARD AND
DEPUTY FEDERAL RESERVE AGENT
ARTHUR E. POST,
ASSISTANT TO FEDERAL RESERVE AGENT

RECEIVED
JUL 27 1916
GOVERNOR

July 26, 1916.

Dear Mr. Delano:

I understand from Mr. Kenzel that he advised you of the arrangement which we had concluded with Messrs. Harvey Fisk & Sons for the sale of United States thirty-year 3% conversion bonds for account of the Federal reserve banks. I take pleasure in enclosing herewith a copy of the letter from Harvey Fisk & Sons so that you may have the full details before you.

I happened to see Mr. Warburg in New York on Monday for a few moments, and told him briefly that we were negotiating with Harvey Fisk & Sons and that we were about to close with them.

Trusting that the arrangement will be satisfactory to the Board, I remain,

Yours truly,

[Signature]
Governor.

F. A. DELANO, ESQ.,
Vice-Governor,
Federal Reserve Board,
Washington, D.C.

CJR-R
ENC.

*Thank you very much
under the circumstances
arrangement
is a good
one*

- COPY -

HARVEY FISK & SONS
62 Cedar Street
New York

July 25, 1916.

UNITED STATES GOVERNMENT GOLD COUPON 3% BONDS

PAYABLE JANUARY 1, 1946

Charles J. Rhoads, Esq., Chairman of
United States Government Bond Committee
of Federal Reserve Banks,
Philadelphia, Pa.

Dear Sir:-

We confirm the purchase from you of \$1,000,000. of the above bonds at 100 $\frac{3}{4}$ and accrued interest to date of delivery, subject to our call within thirty days; in consideration of which you have granted us an option for ninety days on \$4,000,000. additional bonds, namely:

\$1,000,000. at 100 $\frac{3}{4}$ and interest
2,000,000. at 100 $\frac{7}{8}$ and interest
1,000,000. at 101 and interest

options to be exercised in amounts of not less than \$250,000.

It is understood that all bonds will be delivered to us by the Federal Reserve Bank of New York and payment made therefor to that Bank.

It is also understood that the minimum price of 101 $\frac{1}{2}$ and interest for the present is fixed, subject to change by mutual consent. It is agreed by you that during a period of ninety days no Federal Reserve Bank will offer or sell any United States Government 3% Bonds of 1946, either coupon or registered, to any buyer below the price of 102 and interest. In order to encourage co-operation, while we maintain the minimum price to the investor, in our discretion it is understood we may allow any part of $\frac{1}{4}$ of one per cent. commission in cases of institutions with bond departments, dealers or brokers, with the understanding that any commission allowed them shall be retained by them and not given up to the investor. Kindly confirm this understanding.

Yours very truly,

(Signed) Harvey Fisk & Sons

HLD/AIL

Wentworth

FEDERAL RESERVE BOARD FILE
288

FEDERAL RESERVE BOARD
WASHINGTON

RECEIVED
JUL 27 1916
OFFICE OF
VICE-CHIEF

July 25, 1916.

7/24/16

Dear Delano:

I herewith return Mr. Kenzer's letter and also the Chicago letter, both of which I have read with much interest. I happened to meet Mr. Rhoads yesterday at the railway station and he told me about this trade.

It does ~~not~~ appear that the main market for these bonds is in the middle west, and I should be much interested to see how far Chicago and Cleveland have pooled their bonds with the others. It is to be apprehended that the banks which have the better market will exclude their bonds and sell at 102, and that the Fisk group will be able to begin to sell effectively in the middle western market only when the banks out there are through. If they both sell at 102, it may be that they will hurt each other by offering at the same time. We will have to work out gradually some scheme and gain in experience as we go along, but I doubt whether the present scheme will work very smoothly for the reasons above outlined.

When it comes to purchases, New York gives the full benefit in acceptances and other things to the other banks. What I am wondering at is whether, when it comes to sales, all the banks should not have an equal advantage

7/20/16

Wait further data

(2)

of whatever may be the best market, ² But it will be just as well not to "muddy the water" at this time and let this thing develop a little further before we make suggestions. Pending that, however, if you would ask for details as to how many bonds are included in the pool and what proportion each Federal Reserve Bank has contributed, I should be much obliged.

Very truly yours,



Hon. F. A. Delano,
Vice-Governor.
Enc.

Re Harris & Co. 2/8/16
3
FEDERAL RESERVE BANK OF PHILADELPHIA

408 CHESTNUT STREET

CHARLES J. RHODES,
GOVERNOR
ERIN STUART,
DEPUTY GOVERNOR
FRANK M. HARDT,
CASHIER
THOMAS GAMON, JR.,
ASSISTANT CASHIER

RICHARD L. AUSTIN,
CHAIRMAN OF THE BOARD AND
FEDERAL RESERVE AGENT
GEORGE W. NORRIS,
DEPUTY CHAIRMAN OF THE BOARD AND
DEPUTY FEDERAL RESERVE AGENT
ARTHUR E. POST,
ASSISTANT TO FEDERAL RESERVE AGENT

FEDERAL RESERVE BOARD FILE
333

RECEIVED
JUL 15 1916
OFFICE OF
VICE-GOVERNOR

July 14, 1916.

Dear Mr. Delano:

I beg to acknowledge receipt and thank you for your favor of the 13th instant confirming your telephone report of the conversation you and Mr. Harding had with the Secretary of the Treasury, and I understand that it will be proper for us to repeat the substance of your conversation with the Secretary to Harris, Forbes & Company, or any other bond house with whom we may finally make arrangements to handle our Conversion 3's. I note your remarks in reference to taking the whole subject up with other bond houses, which we should be glad to do.

It need not borrow from a member.
I am also interested in your suggestion that we might use our bonds as collateral instead of attempting to sell them at the present time, but my own experience in banking leads me to feel that for a Reserve bank to rely on borrowing in emergencies should be a last resort rather than a guiding principle.

It might borrow abroad or from some international House -
I am interested in the suggestion that the conversion privilege should be given once a year rather than spread over the four quarterly dates, and hope that if any change in this respect is made, it will be optional with the Federal reserve banks to convert either all at one time or at quarterly periods. The reason for this is that if it were announced that the conversion would take place say only at the first quarter it would mean that all the Federal reserve banks would try to buy their bonds in anticipation of quarterly conversion, which would drive up the price of 2's temporarily to a high figure, and they would then quickly fall back after the demand had passed. I think it is desirable to have as few fluctuations in the price as possible and that the Federal reserve banks should use their influence to steady the price rather than to cause it to fluctuate.

You are correct in thinking that the paragraph in the "Wall Street Journal" is a quotation from C. F. Childs & Company's monthly circular. You may be interested in a copy of a telegram which we received from them yesterday, which I enclose herewith, and to which we replied that we were not interested in buying any more 2's at the present time.

Yours very truly,

[Signature]
Governor.

HON. F. A. DELANO,
Vice-Governor, Federal Reserve Board,
Washington.

(enc)

FEDERAL RESERVE BANK,
Philadelphia.

Subject to confirmation and prompt reply, will pay One hundred one for all or some multiples of fifty thousand up to Two hundred fifty thousand Conversion bonds and agree to supply offsetting amount Consols gradually or at once at ninety-nine, showing you two thousand dollars profit each one hundred thousand, equivalent selling conversions one hundred two. Please regard this confidential and do not reflect inquiry elsewhere. Our client European investor.

C. F. CHILDS & COMPANY.

R

333.

July 13th, 1916.

My dear Mr. Rhoads:-

Confirming my telephone conversation with you this afternoon and answering your letter of the 12th instant, I beg to say that in a conversation with Mr. Harding and I had with the Secretary of the Treasury this morning, he was quite unwilling to make any definite pledge along the lines indicated in your letter or that of Harris, Forbes & Company. He took the position that it would be quite impossible under the law, *as well as* improper, for him to pledge the Government in this way, in making a pledge which was without consideration so far as the Government is concerned.

The Secretary was willing to say quite emphatically that he had no intention of selling any bonds; that he was carrying over a surplus of one hundred eighty millions into this fiscal year; that this would take care of any ordinary demands upon the Government and that only some extraordinary thing, such as the demand which would be occasioned by war, would necessitate the issuance of bonds. In this event he argued that there would be an immediate public response and no difficulty in marketing the bonds then offered. He was inclined to *think* that some other bond house would do for you as well, if not better than Harris, Forbes & Company and that your Committee could well look further and certainly not fare any worse.

Mr. Rhoads (Sheet No .)

One method of handling this bond matter which has occurred to me, but which, so far as I know, has not been considered by the Board, and that is to ascertain whether the banks could not well ~~agree~~^{accord} to hold the bonds with the idea of using them as collateral in case of need. There would never be a time when United States three percent bonds would not be good collateral for ninety-five cents on a dollar, to be used either against gold or, ^{and also} as the law specifically authorizes the hypothecation of the bonds, it was evidently the idea of the framers of the law that they might be so used. It is on this theory that I have always regarded the holding of the bonds as proper from the standpoint of a liquid asset which could be converted into cash, not only by sale, but by hypothecation.

If no new bonds were sold, as I believe to be a fact, and if the income tax is increased, it seems to me reasonably certain to expect that bonds exempt from income tax will come back to a pretty fair premium.

One thing about which I spoke to the Secretary, was the suggestion made by Mr. Warburg, that the conversion privilege should be given once a year, rather than spread over four periods. The Secretary expressed himself as rather favorably impressed with this idea and that he would take it under advisement in the near future.

I noticed an article on the front page of the second section of the Wall Street Journal this morning, which appears to emanate from C. F. Childs & Co., in regard to the sale of bonds. I take it, however, that this is simply a quotation from the Childs & Company circular.

Yours very truly,

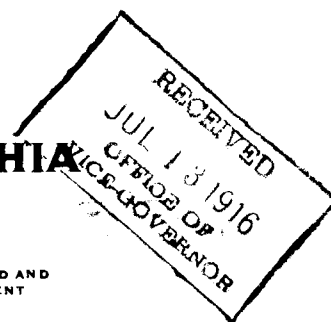
Mr. C. J. Rhoads,
Governor, Federal Reserve Bank
Philadelphia.

FEDERAL RESERVE BANK OF PHILADELPHIA

408 CHESTNUT STREET

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

RICHARD L. AUSTIN,
CHAIRMAN OF THE BOARD AND
FEDERAL RESERVE AGENT
GEORGE W. NORRIS,
DEPUTY CHAIRMAN OF THE BOARD AND
DEPUTY FEDERAL RESERVE AGENT
ARTHUR E. POST,
ASSISTANT TO FEDERAL RESERVE AGENT



July 12, 1916.

My dear Mr. Delano:

We took advantage of Mr. Warburg's presence in New York yesterday on his way to the Adirondacks, to have an informal conference on the matter of marketing the United States 30-year conversion 3's held by the Federal reserve banks. As you probably know, Mr. Kenzel has been sounding out one or two bond men in New York as to whether or not they would care to undertake the distribution of our bonds.

I enclose herewith copy of a letter received from Messrs. Harris, Forbes and Company on this subject, which was supplemented by a personal interview with Mr. Beebe, who dictated the letter on behalf of Harris, Forbes and Company. You will observe that they wish to secure some assurance that no new Government long-time financing will occur in the immediate future.

Mr. Warburg thought that perhaps if the Federal Reserve Board would address a formal letter to Secretary McAdoo, stating that the Federal reserve banks were about to dispose of some of their 30-year 3's, and asking him to give the assurances desired by Harris, Forbes and Company, that he would probably be willing to give such assurances.

I believe that if we could secure this assurance from the Secretary of the Treasury, we could probably arrange to sell through Harris, Forbes and Company all of the 30-year 3's which Federal reserve banks wish to sell at this time at a price to net the banks 100 and 1/2 and interest. While Harris, Forbes and Company think they could sell a moderate amount of the bonds at higher prices at the present time, they do not believe that the higher prices could be maintained and that it is better to start low with a view to working up gradually.

I shall be glad to talk with you over the telephone further on this subject tomorrow morning if I have not made the matter entirely clear to you.

Yours truly,


Governor.

HON. F. A. DELANO, Vice-Governor.
Federal Reserve Board.
(enclosure.

HARRIS, FORBES & COMPANY
New York

July 11, 1916.

ATTENTION MR. KINSALL

Federal Reserve Bank,
19 Nassau Street,
New York City.

Gentlemen:

Referring to previous conversations between Mr. Kinsall and the writer, regarding U.S. Government Conversion 3s, and pursuant to Mr. Kinsall's request that we reduce to a written summary the views we have formulated as to the problem of marketing a substantial block of these bonds, we would state as follows:

The views we have to express are the combined views of our people in Boston and our associates in Chicago, the Harris Trust and Savings Bank and our own. It may interest you to know that the western people feel somewhat surer of their position than do those in New England. We have approached this whole subject from as broad a viewpoint as it was possible to bring to bear, i.e., not to ascertain the terms at which a comparatively small block of these bonds might be put upon the market just at this time but what might be done with a rather larger block coming along from time to time, for naturally we would not want to assume the position of getting an arbitrarily high price for the first bonds marketed where we felt reasonably sure that the price would have to be adjusted to a more modest figure with any subsequent offerings.

The views as to price, etc., which we have to express are predicated upon assurances that no new Government long-time financing would occur in the immediate future - say, the current calendar year, and which we understand could no doubt be given.

As to price: The views generally expressed by the best posted people in our various offices are to the effect that par and interest is the "logical" price. However, by carefully weighing the matter, we feel reasonably sure that if properly handled four or five millions of the bonds could be placed with investors at about 101 and interest, and that probably an additional four or five million could be placed a little later in the year if the Federal reserve banks so desired upon the same terms.

In the marketing of these bonds we would expect to do more than sell this amount of bonds. That is, we would expect to lay the ground-work for additional sales of reasonably good sized blocks later on. For that reason we believe that the work entailed and the expense involved would, as verbally explained, justify something more than a nominal commission. We would be willing to handle the matter on a commission basis if that method was desired - but we would really prefer to buy outright a round block of the bonds for our own account with the understanding that we would have a call upon such additional bonds as the Federal reserve banks wished to sell for a reasonable length of time. We do not feel that we could afford to take such a commitment for much less than 3/4 per cent. between the gross selling price and our cost. We believe that we could more satisfactorily and successfully handle these initial transactions on these bonds without having others associated with us but would of course expect to be governed

Federal Reserve Bank
New York

-2-

very largely by the desires of the Federal reserve bank in this respect.

The above has been very hastily prepared but Mr. Kinsall can supply from our conversations, the line of reasoning which has led us to the above conclusions.

Very truly yours,

(Signed) HARRIS, FORBES & CO.

HFB-J

JOBY

NYH

Commission 6/21/16

CONVERSION OF UNITED STATES BONDS

FEDERAL RESERVE BOARD FILE
280.

	<u>Conversions to July 1, 1916.</u>			<u>Total allotment for 1916.</u>	<u>Amounts which may be converted Oct. 1, 1916.</u>
	<u>Bonds</u>	<u>Notes</u>	<u>Total</u>		
Boston	250,000	250,000	500,000	2,762,900	2,262,900
New York	2,283,300	2,282,000	4,565,300	6,130,500	1,565,200
Philadelphia	1,318,800	818,000	2,136,800	2,849,100	712,300
Cleveland	1,200,000	1,200,000	2,400,000	3,249,600	849,600
Richmond	686,700	684,000	1,370,700	1,827,600	456,900
Atlanta	531,900	526,000	1,057,900	1,410,600	352,700
Chicago	1,850,000	850,000	2,700,000	2,625,400	925,400
St. Louis	572,500	570,000	1,142,500	1,522,400	380,900
Minneapolis	528,200	520,000	1,048,200	1,398,600	350,200
Kansas City	617,000	616,000	1,233,000	1,644,000	411,000
Dallas	530,300	529,000	1,059,300	1,412,400	352,100
San Francisco	500,000	500,000	1,000,000	2,154,900	1,154,900
TOTAL	10,868,800	9,345,000	20,213,800	30,000,000	9,786,800

DIVISION OF REPORTS AND STATISTICS,
FEDERAL RESERVE BOARD,
June 21, 1916.

F I L E
JUN 21 1916
Federal Reserve Board

Then give list of conversion up to
and including July 1st for each Bank
Next column showing allotment
for the year 1916 - and final
column showing amount still
convertible Oct 1st

NB

F L B
JUN 21 1916
Federal Reserve Board

RESOLUTION OF CONVERSION OF 25 BONDS JULY 1, 1916.

	Total allotment for 1916 as apportioned by Fed. Res. Board	Total allotments for Apr. 1 and July 1, 1916	Converted Apr. 1, 1916	Balance allot- ment for July 1, 1916	Issues that may be approved July 1, 1916			Balance non- convertible July 1, 1916
					Bonds	Notes	Total	
Boston	\$2,763,900	\$2,072,925	\$ 500,000	\$1,572,925	786,900 <i>Taken</i>	786,000 <i>Taken</i>	\$1,572,900	\$25
New York	6,130,500	4,897,675	3,065,800	1,832,875	766,800 750,000	766,000 750,000	1,532,800	75
Philadelphia	2,849,100	2,136,825	1,424,600	712,225	356,200 ✓	356,000 ✓	712,200 ✓	25
Cleveland	3,249,600	2,437,200	400,000	2,037,200	1,019,200 1,000,000	1,018,000 1,000,000	2,037,200	
Richmond	1,827,600	1,370,700	913,800	456,900	228,900 ✓	228,000 ✓	456,900 ✓	
Atlanta	1,410,600	1,057,950	705,300	352,650	176,600 ✓	176,000 ✓	352,600 ✓	50
Chicago	3,635,400	2,726,550	1,000,000	1,726,550	863,500 850,000	863,000 850,000	1,726,500	50
St. Louis	1,523,400	1,142,550	761,700	380,850	190,800 ✓	190,000 ✓	380,800 ✓	50
Minneapolis	1,398,600	1,048,950	699,300	349,650	175,600 179,000	174,000 170,000	349,600	50
Kansas City	1,644,000	1,233,000	820,600	412,400	206,400 ✓	206,000 ✓	412,400 ✓	
Dallas	1,412,400	1,059,300		1,059,300	530,300 ✓	529,000 ✓	1,059,300 ✓	
San Francisco	2,154,900	1,616,175		1,616,175	808,100 500,000	808,000 500,000	1,616,100	75
TOTAL	30,000,000	22,800,000	10,230,600	12,209,400	6,109,000	6,100,000	12,209,000	400

FEDERAL RESERVE BOARD.

June 1, 1916.

July 1/28

-2-

FILE
JUN 2 1 1916
Federal Reserve Board

	BONDS.	NOTES.	TOTAL.
Boston,	<i>none</i>		
New York,	\$750,000	\$750,000	\$1,500,000.
Philadelphia,	356,200	356,000	712,200.
Cleveland,	1,000,000.	1,000,000	2,000,000
Richmond,	228,900	228,000	456,900.
Atlanta,	176,600	176,000	352,600.
Chicago,	850,000	850,000	1,700,000.
St. Louis,	190,800	190,000	380,800.
Minneapolis,	179,000	170,000	349,000.
Kansas City,	206,400	206,000	412,400.
Dallas,	530,300	530,000	1,059,300
San Francisco,	500,000	500,000	1,000,000.

M

June 20, 1916.

The Secretary of the Treasury,
Washington, D. C.

S i r:-

I have the honor to hand you herewith applications of
ten Federal Reserve banks for the conversion of 2% United States
bonds into 3% thirty-year conversion bonds and 3% one-year
Treasury notes, as follows:-

<u>BANKS.</u>	<u>BONDS.</u>	<u>NOTES.</u>	<u>TOTAL.</u>
New York,	\$750,000.	\$750,000.	\$1,500,000.
Philadelphia,	356,200.	356,000.	712,200.
Richmond,	228,900.	228,000.	456,900.
Atlanta,	176,600.	176,000.	352,600.
Chicago,	850,000.	850,000.	1,700,000.
St. Louis,	190,800.	190,000.	380,800.
Minneapolis,	179,000.	170,000.	349,000.
Kansas City,	206,400.	206,000.	412,400.
Dallas,	530,300.	530,000.	1,059,300.
San Francisco,	500,000.	500,000.	1,000,000.

All of these applications submitted to the Federal Re-
serve Board have the approval of the Board.

Very respectfully,

Vice Governor.

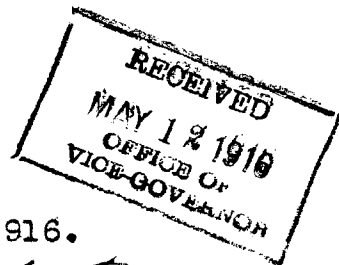
Bonds, Purchase of.

280

W. H. H. H.

FEDERAL RESERVE BOARD
WASHINGTON

Put with file



May 11, 1916.

333

Dear Mr. Delano:

I do not know whether the holdings of Government bonds by Federal Reserve Banks comes to me as Chairman of the Investment Committee or whether there is a special committee on Government bonds. But in any case, I believe that this matter ought to be taken up at once and discussed very closely by a committee.

There are several things that I think ought to be straightened out in this connection.

First: I think it would be a crime to permit the twelve banks to sell, one against the other, and I believe that there should be a committee amongst the Federal Reserve Banks who should be in charge of selling these bonds on some kind of a joint plan. If it is proper for the banks to have joint agencies and deal on a joint plan in their foreign exchange questions, there is certainly no objection to their getting together in this question instead of throwing their money out of the window and, incidentally, spoiling the price for U. S. Government bonds.

Hand wants to talk to H.M.W.

proportionally in the future as the market may require
proportions.

Second: Should the banks sell their thirty-year 3% bonds? I believe they should and I think it would be advisable to establish how many of them want to. But whatever is

(2)

done in this respect should be done in a confidential way and should not be advertised publicly, because it would interfere with the sale of the bonds upon the most favorable terms.

Third: The one-year notes. My own feeling is that these notes could be placed within the System. That is to say, that if some of the banks would like to sell, I am sure that some of the large banks, particularly New York, would want to buy. I have not discussed this with New York, but I should not be surprised if this were the case. Has anything been done in this matter?

Fourth: What is to be done about the purchase of Government bonds by Federal Reserve Banks in the next quarter? (I append a letter received from Mr. Jay) Personally, I think that as soon as the amendments now pending are passed, we should take up this question of Government bonds and see whether we cannot get a proper amendment to deal with this thing on a somewhat more comprehensive basis. But even as it stands now, I should like to investigate why it would not be possible to convert the \$30,000,000 [which the banks have bought and which the Treasury is willing to have converted] no later than July first. As a matter of fact, I think that the conversion should have been permitted on April first. As it stands, the whole thing is being dealt with on a petty basis of a five and ten cent store - on a basis of \$15,000,000 and two ^{further} instalments of \$7,500,000 ~~each~~. The effect of this may be a small saving for the Treasury, but it interferes with the prompt disposition of the

(3)

thirty-year bonds to the public, where they ought to go. There cannot be any doubt that if a substantial amount of Government bonds can be disposed of to the public and bankers' acceptances ^{including bankers' acceptances} and commercial paper, purchased instead and used as a basis for our note issue, in this manner an elastic currency will gradually be created. But if this is to be achieved the Treasury has to be liberal and cooperate in a whole-hearted way; no matter whether the annual budget of the Government will be increased by a \$100,000 more or less through this process.

The Federal Reserve Act indicates clearly that ultimately this process is to be carried through, even though the Government ^{eventually} has to pay one per cent more upon its \$800,000,000 of Government bonds, and it is therefore only a question of carrying this plan into effect in a hesitating manner or in a liberal spirit as rapidly as conditions will permit. Just now we have an excellent opportunity of selling the 3% bonds to advantage and this opportunity should not be lost. Nobody can foretell what the market conditions will be when the war is over.

Very truly yours,



Hon. F. A. Delano,

*Inc.

P. S. By the way, I am not so sure that I am not wronging the Treasury and that the fault may be with the Board's rulings. Mr. McAdoo's letter of February 28 said in effect: "Such conversions will be made quarterly on the first days of January, April, July and October, * * and applications must have been

(4)

received prior to such dates in order to have the exchanges made".

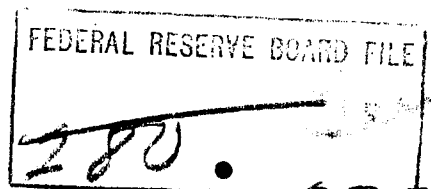
That does not indicate at all that the conversions would have to be made in equal instalments on such dates, but only indicates upon what dates they may take place. To my mind, the wording of the letter would have permitted the Board to allow the banks to apply for the conversion of all the bonds up to \$30,000,000 on any of these dates.

Please give this matter your careful consideration and let us discuss it as early as possible.

P. M. W.

Filed
5/11/16

BOSTON DISTRICT:



200	First National Bank, Boston, Mass.	\$500,000
416	First National Bank, Easton, North Easton, Mass.	50,000
475	Merchants National Bank, Boston, Mass.	335,000
517	National Mt. Wallaston Bank, Quincy, Mass.	50,000
574	Amosakeag NB, Manchester, N. H.	25,000
626	Hopkinton NB, Hopkinton, Mass.	10,000
726	Merchants NB, Salem, Mass.	25,000
791	Citizens NB, Waterbury, Conn.	50,000
845	Middlesex Co. NB, Middletown, Conn.	150,000
921	City NB of Bridgeport, Conn.	250,000
924	Metacomet NB, Fall River, Mass.	100,000
927	Connecticut NB, Bridgeport, Conn.	20,000
941	Canal NB, Portland, Me.	50,000
1038	Stamford NB, Stamford, Conn.	100,000
1162	Gloucester NB, Gloucester, Mass.	5,000
1184	New Britain NB, New Britain, Conn.	100,000
1187	Uncas NB, Norwich, Conn.	40,000
1203	Mahaiwe Bank, Great Barrington, Mass.	62,000
1333	Citizens NB, Tilton, N.H.	5,000
1368	NB of Derby Line, Vt.	30,000
1700	Baxter NB, Rutland, Vt.	50,000
2270	National Shoe & Leather Bank, Auburn, Me.	25,000
2275	Home NB, Milford, Mass.	15,000
2295	Merchants NB, St. Johnsbury, Vt.	35,000
2371	North National Bank, Rockland, Me.	15,000
2494	Manufacturers NB, Waterbury, Conn.	25,000
3020	Naugatuck NB, Naugatuck, Conn.	100,000
3923	Commercial NB of Boston, Mass.	50,000
3994	Middleborough NB, Middleboro, Mass.	20,000
5155	National Shawmut Bank, Boston, Mass.	862,000
7596	Merchants NB of Worcester, Mass.	66,000
7812	NB of New England, East Hadden, Conn.	15,000
9609	NB of Gardiner, Gardiner, Me.	50,000

Total, First District. (33 bks)

\$3,285,000

FEDERAL RESERVE BOARD FILE

202.

NEW YORK DISTRICT

	Utica City National Bank, Utica, N.Y., - - - - -	\$35,000
1113	National Iron Bank, Morristown, N.J., - - - - -	50,000
1217	Essex Co. NB, Newark, N.J., - - - - -	500,000
1316	National Newark Banking Co., Newark, N.J., - - - - -	50,000
1317	Orange NB of New Jersey, - - - - -	37,500
1262	New York State NB, Albany, N.Y., - - - - -	250,000
1395	First NB, Utica, N.Y., - - - - -	200,000
2045	Union NB, Newark, N.J., - - - - -	100,000
2517	First National Bank, Greenwich, N.Y., - - - - -	12,500
2626	Tarrytown NB, Tarrytown, N.Y., - - - - -	30,000
3244	Peoples NB, Hudson Falls, Hudson Falls, N.Y., - - - - -	25,000
4906	Babylon NB, Babylon, N.Y., - - - - -	12,500
5228	Citizens NB, Potsdam, N.Y., - - - - -	50,000
8026	Lincoln NB, Rochester, N.Y., - - - - -	50,000
9060	East Worcester NB, East Worcester, N.Y., - - - - -	10,000
9825	Yonkers NB, Yonkers, N.Y., - - - - -	<u>200,000</u>

Total, Second District, (16 bks) \$1,577,500

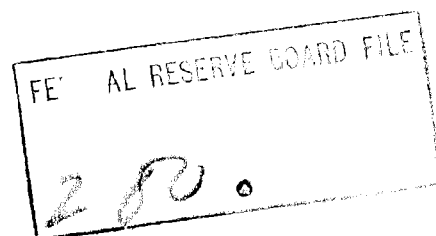
FEDERAL RESERVE BOARD FILE

280.

PHILADELPHIA DISTRICT

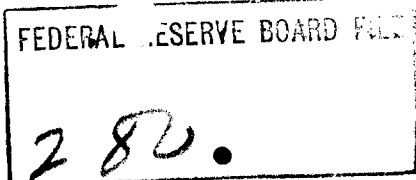
1	First NB, Philadelphia, Pa., - - - - -	\$527,000
272	First NB, Norristown, Pa., - - - - -	25,000
370	First NB, Vincentown, N.J., - - - - -	50,000
602	Bank of North American, Philadelphia, Pa., - - - - -	175,000
835	Wyoming NB, Tunkhannock, Pa., - - - - -	5,000
3198	Lincoln NB, Lincoln, Pa., - - - - -	15,000
6645	Merchants NB, Allentown, Pa., - - - - -	10,000
8129	Peoples NB, Pemberton, N.J., - - - - -	<u>7,000</u>

Total, Third District, (8 bks) \$814,000



CLEVELAND DISTRICT

First NB	Springfield .	Ohio \$	26,000
Second NB	Urbana,	"	10,000
First NB	Newark,	"	10,550
Merchants NB	Dayton,	"	200,000
N.B. of Commerce	Toledo	"	375,000
First NB	Sewickley,	Pa.	5,000
First NB	Malenton,	Pa.	25,000
First NB	Napoleon,	Ohio	50,000
Morgan Co. NB	Cannel City	Ky.	25,000
Keystone NB	Pittsburgh, Pa.		<u>500,000</u>
Total Fourth District (10 Banks)			\$1,226,550



RICHMOND DISTRICT

414	Second NB, Baltimore, Md., - - - - -	\$100,000
2499	Grovers & Mech. NB, Baltimore, Md., - - - - -	50,000
4628	First NB, Elizabeth City, N.C., - - - - -	5,000
9164	Union NB, Charlotte, N.C., - - - - -	<u>25,000</u>

Total, Fifth District, (4 bks), \$180,000

FEDERAL RESERVE BOARD FILE

280.

ATLANTA DISTRICT

2957	First NB, Meridian, Miss.,	- - - - -	\$100.000
3450	Merchants NB, Vicksburg, Miss.,	- - - - -	100.000
4115	Dawson NB, Dawson, Ga.,	- - - - -	5.000
6207	First NB, Louisville, Ga.,	- - - - -	35.000
7044	Farmers & Merchants NB, Troy, Ala.,	- - - - -	6.400
7563	First NB, Loultrie, Ga.,	- - - - -	22.000
7931	First NB, Sandersville, Ga.,	- - - - -	25.000
9302	First NB, Thompson, Ga.,	- - - - -	<u>66.500</u>
Total, Sixth District, (8 bks).			\$359.900

FEDERAL RESERVE BOARD FILE
280.

CHICAGO DISTRICT

47	First NB, Terre Haute, Ind., - - - - -	\$25,000
177	First NB, Wilmington, Ill., - - - - -	24,000
1003	National Exch. Bank, Milwaukee, Wis., - - - - -	112,500
2165	Farmers NB, Princeton, Ill., - - - - -	110,000
2894	Continental & Commercial NB, Chicago, Ill., - - - - -	2,000,000
9792	First NB, Croeswell, Mich., - - - - -	25,000

Total, Seventh District, (6 bks), \$2,296,500

FEDERAL RESERVE BOARD

280.

ST. LOUIS DISTRICT

Third NB, St. Louis, Mo., - - - - -	\$ 500.000
Scotland Co. NB, Memphis, Mo., - - - - -	22.000
First NB, Milan, Mo., - - - - -	75.000
NB of Commerce, St. Louis, Mo., - - - - -	3,521.500
First NB, Washington, Mo., - - - - -	1.500
First NB, Sturgis, Ky., - - - - -	20.000
State NB, Texarkana, Ark., - - - - -	50.000
First NB, Corning, Ark., - - - - -	7.750
First NB, Canton, Mo., - - - - -	25.000
Third NB, Union City, Tenn., - - - - -	15.000
Citizens NB, Corinth, Miss., - - - - -	<u>87.500</u>

Total, Eighth District, (11 bks). \$4,275,250

FEDERAL RESERVE BOARD FILE

280.

MINNEAPOLIS DISTRICT

First NB. Red Wing. Minn..	- - - - -	\$100,000
First NB. Owatonna. Minn..	- - - - -	3,000
First NB. Wausau. Wis..	- - - - -	10,000
First NB. Bessemer. Mich..	- - - - -	12,500
First NB. Mora. Minn..	- - - - -	25,000
First NB. Portland. N.D..	- - - - -	<u>6,250</u>

Total, Ninth District, (6 bks).	\$156,750
---------------------------------	-----------

FEDERAL RESERVE BOARD FILE

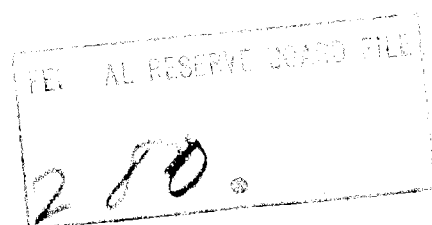
280.

KANSAS CITY DISTRICT

Keota N.B.	Keota,	Okla.	\$ 12,500
First NB	Columbus,	Neb.	12,000
First NB	Durango,	Colo.	100,000
U.S.N.B.	Omaha,	Nebr.	50,000
Fourth NB	Wichita	Kas.	100,000
First NB	Telluride	Colo.	25,000
First NB	St. Joseph	Mo.	25,000
First NB	Clayton	N.M.	10,000
O'Neill NB	O'Neill	Nebr.	50,000
Citizens NB	Tecumseh	Nebr.	50,000
First NB	Arvada	Colo.	6,250
First NB	Ault	Colo.	20,000
First NB	Windsor	Colo.	5,000
Eaton NB	Eaton,	Colo.	20,000
Farmers NB	Stafford,	Kas.	25,000
San Juan Co. NB	Farmington	N.M.	10,000
First NB	Hemingford,	Nebr.	4,250

Total, Tenth District (17 Banks)

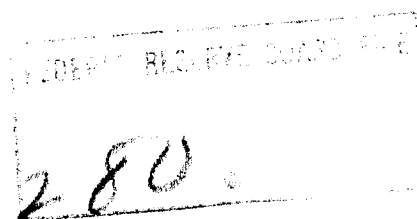
~~\$500,500~~
 518,000



DALLAS DISTRICT

Colorado N.B.	Colorado,	Tex.	\$ 50,000
First NB	Ballinger	Tex.	25,000
First NB	Rice	Tex.	12,500
Stockyards NB	Pt. Worth	Tex.	200,000
Rodgers NB	Jefferson,	Tex.	6,250
Planters NB	Rosebud,	Tex.	12,500
Commercial NB	Brady	Tex.	<u>50,000</u>
Total, Eleventh District (7 Banks)			\$356,250

San Francisco, District



2456	Santa Barbara Co.N.B.	Santa Barbara, Calif.	\$ 100,000
3050	First NB	San Diego,	" 150,000
4229	Seattle NB	Seattle,	Wash 100,000
5263	First NB	Ontario, C	Calif. 40,000
6426	American NB	San Francisco	Calif 200,000
6491	First NB	Canyon City,	Ore. 40,000
8652	First NB	Glendora,	Calif. 5,000
8763	First NB	Rialto	Calif. 25,000
9021	U.S.National B	Sales	Ore. 31,000
9093	First NB	Englewood	Calif. 26,000
9121	Union NB	Pasadena	Calif. 100,000
9154	Wallace NB	Wallace,	Ida. 50,000
9155	U.S.Natl B.	Dinuba	Calif. 12,500
9210	First NB	Harrington	Wash. 30,000
10212	Empire NB	Lewiston,	Ida. <u>100,000</u>
Total, Twelfth District			\$1,008,500
(15 Banks)			

(D)

FEDERAL RESERVE BOARD FILE
2800

Temporary Certificates for Bonds and One Year Treasury Notes have been issued to Federal Reserve Banks as follows; as at close of bus. Apr 18/16

Philadelphia.

Coupon.

\$962,600.00 Bonds
462,000.00 Notes
\$1,424,600.00

Cleveland.

Coupon.

\$200,000.00 Bonds
200,000.00 Notes
\$400,000.00

Chicago.

Coupon.

\$1,000,000.00 Bonds

Boston.

Coupon.

\$250,000.00 Bonds.
250,000.00 Notes.
\$500,000.00

New York.

Coupon.

\$1,533,300.00 Bonds
1,532,000.00 Notes
\$3,065,300.00

Kansas City.

Coupon.

\$410,600.00 Bonds
410,000.00 Notes
\$820,600.00

F I L E
JUN 5 1916
Federal Reserve Board

Minneapolis.

Coupon.

\$349,300.00 Bonds.

350,000.00 Notes

\$699,300.00

Richmond.

Coupon.

\$457,800.00 Bonds.

456,000.00 Notes.

\$913,800.00

St. Louis.

cash for
Registered.

\$381,700.00 Bonds

380,000.00 Notes

\$761,700.00

Atlanta

355,300 Bonds

350,000 Notes

705,300.

Recapitulation.

Phila. \$1,424,600.00

Cleve. 400,000.00

Chicago. 1,000,000.00

Boston. 500,000.00

New York. 3,065,300.00

Kas. City. 820,600.00

Minneap. 699,300.00

Richm'd. 913,800.00

St. Louis. 761,700.00

Total \$9,585,300.00

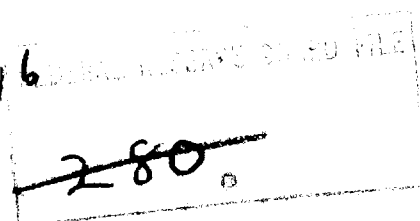
Atlanta

705,300.

\$10,290,600.00

*Consensus of
Boards
Districts 1-10*

*Smart
Mills A 8/31/16*



333,
March 31, 1916.

To the Federal Reserve Board.

Gentlemen:

The Secretary of the Treasury, under date of February 28, 1916, authorized the Federal Reserve Banks to tender for conversion into bonds and notes, thirty million dollars during the present calendar year, fifteen millions of which would be converted April 1st, and the balance one-half July 1st and one-half October 1st.

Nine of the twelve Federal Reserve Banks have tendered bonds for conversion; in fact, all except Atlanta, Dallas and San Francisco. Five Banks have offered more bonds for conversion than can be allotted to them at this time, while four Banks are offering fewer bonds than they would be authorized to take.

Your Committee therefore makes the following recommendation:

- (1) That the application of the Bank of Boston for the conversion of \$500,000 of bonds be approved, one-half bonds and one-half notes.
- (2) That the application of the Bank of New York for the conversion of \$3,100,000 of bonds be approved in respect to \$3,065,250, one-half bonds and one-half notes.

80.

-2-

- (3) That the application of the Bank of Philadelphia for the conversion of \$1,500,000 be approved as to \$1,424,550; \$962,275 of which will be bonds, and \$462,275 will be one-year notes.
- (4) That the application of the Bank of Cleveland for the conversion of \$400,000 be approved, one-half bonds, and one-half notes.
- (5) That the application of the Bank of Richmond for the conversion of \$1,676,000 of bonds be approved in respect to \$915,800, one-half bonds, and one-half notes.
- (6) That the application of the Bank of Chicago for the conversion of \$1,000,000 of bonds be approved.
- (7) That the application of the Bank of St. Louis for the conversion of \$2,309,000 of bonds be approved in respect to \$761,700, one-half bonds, and one-half notes.
- (8) That the application of the Bank of Minneapolis for the conversion of \$1,000,000 of bonds be approved in respect to \$699,300, one-half bonds and one-half notes.
- (9) That the application of the Bank of Kansas City for the conversion of \$820,600 of bonds be approved, one-half bonds and one-half notes.

It will be seen that the foregoing recommendations aggregate \$12,511,050. Under the ruling already made by the Treasury Department and our own Counsel, if any of the Banks do not ask for the conversion of their full allotment by or before October 1, 1916, the bonds authorized to be taken by them shall be allotted to other Banks who are asking for authority to convert a larger percentage than their allotment.

-3-

It is understood that the Secretary of the Treasury will make each of these allotments one-half each of 3% bonds and one-year notes. There was, however, an exception made in the case of the Federal Reserve Bank of Chicago as to one million, and the Federal Reserve Bank of Philadelphia as to \$500,000 bonds, applied for and approved by the Secretary before a change in the ruling was decided upon.

Respectfully submitted,

Committee

CONVERSION OF UNITED STATES 2% BONDS.

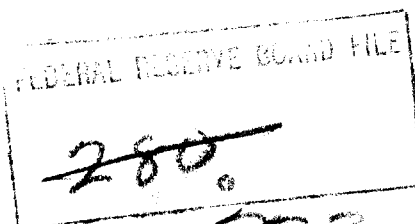
Federal Reserve Bank of	Total Applications	Amount of Bonds accep- table for Conversion on Basis of Capital (Ad- justed to Apr.1,1916)	Excess Applied for	Deficiency in Applications
Boston	\$ 500,000	\$1,381,950	\$	\$ 881,950
New York	3,502,000	3,065,250	536,750	
Philadelphia	1,500,000	1,424,550	75,450	
Cleveland	400,000	1,624,800		1,224,800
Richmond	1,676,000	913,800	762,200	
Atlanta		705,300		
Chicago	1,000,000	1,817,700		817,700
St. Louis	2,309,000	761,700	1,547,300	
Minneapolis	1,000,000	699,300	300,700	
Kansas City	820,800	822,000		1,400
Dallas		706,200		
San Francisco		1,077,450		
Total		15,000,000		

*Letter from
Boston - State & other*

WITHDRAWALS OF OFFERINGS

BOSTON,	\$250,000
NEW YORK,	200,000
PHILADELPHIA,	534,000
CLEVELAND,	5,000
RICHMOND,	5,000
ATLANTA,	---
CHICAGO,	112,500
ST. LOUIS,	---
MINNEAPOLIS,	15,500
KANSAS CITY,	60,000
DALLAS,	---
SAN FRANCISCO,	105,000

1,287,000



333

3/28/16

3/28/16

Waller Minutes
3/28/16

[Handwritten signature]

FEDERAL RESERVE BOARD FILE
280.

33
3/28/16

WHEREAS, It appears from statement furnished the Board by the office of the Secretary that eleven out of the twelve Federal reserve banks have purchased in the open market bonds in excess of the amount which might be allotted to such banks at the end of this quarterly period on a basis of one-fourth of twenty-five million dollars which the Board had considered allotting at this time, and

WHEREAS, The bonds offered for sale through the Treasurer under Section 18 of the Federal Reserve Act aggregate more than twenty times the amount which might be allotted on the basis indicated, and it will, therefore, be possible on this basis to sell for each member bank less than five per cent of the amount offered for sale, and

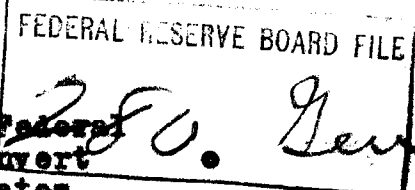
WHEREAS, It appears that the only Federal reserve bank which has not purchased in the open market bonds in excess of the amount which might be allotted to it is under contract to purchase a sum very largely in excess of its allotment and has been prevented from consummating such purchase by reason of the fact that more than nine million dollars in lawful money has been deposited with the Treasurer during the current to retire circulation by national banks and the banks under contract to sell are thereby prevented from making delivery,

Minutes

NOW, THEREFORE, BE IT RESOLVED, That it is the sense of the Board that no necessity exists for enforcing the requirement provided for under Section 18 of the Federal Reserve Act at the end of this quarterly period and that it will not at this time require the Federal reserve banks to purchase any of those bonds which are offered for sale by member banks through the Treasurer of the United States under the provisions of Section 18.

BE IT FURTHER RESOLVED, That the Secretary be instructed to send a copy of this resolution to the various Federal reserve banks and to the member banks which have offered bonds for sale in order that they may be notified of the action of the Board in the premises.

Endings March 31



**General Plan for Allotting to Federal
Reserve Banks the Right to Convert
Thirty Millions of United States
2% Bonds into 3% Bonds and Notes**

- (a) Each Federal Reserve Bank shall be authorized to state the full amount of bonds which it wishes to convert;
- (b) If this amount does not exceed thirty millions, for all Federal Reserve Banks, each Bank shall be granted the privilege of converting the entire amount offered;
- (c) If the amount thus offered exceeds thirty millions, each Federal Reserve Bank will be first allotted its aliquot proportion of thirty millions, based on its capital stock, and any excess over this aliquot proportion will be divided among the remaining applicants in proportion to their stock holdings.

3/2/16

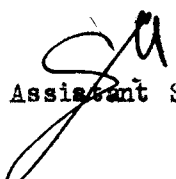
FEDERAL RESERVE BOARD

March 27, 1916.

MEMORANDUM FOR MR. JACOBSON.

Can you have the attached table made up for the use of the Board in making allotments tomorrow morning, leaving out the column headed "Amount Offered," which will be carried in the letter of the Treasurer of the United States to the Board, and leaving the last column vacant, the figures to be filled in from the replies to our telegram sent out today when received tomorrow morning?

With this information ~~before you~~, you will be able to show for Boston the amount which would be allotted in case an allotment is to be made, that is, the relation which the \$575,750 for Boston has to the total offering of \$16,000,000.


Assistant Secretary.

1

F

Basis for Allotment of U. S. Bonds offered by Member Banks,
and Amounts purchased by Federal Reserve Banks since Jan. 1, 1916.

<u>Federal Reserve Bank of</u>	<u>Maximum amt. banks may have to buy during 1916(A).</u>	<u>One-fourth of (A).</u>	<u>Amounts pur- chased since Jan. 1, 1916.</u>
Boston	\$2,303,250	\$575,812.50	0 (a)
New York	5,108,750	1,277,187.50	\$3,202,000 (b)
Philadelphia	2,374,250	593,562.50	2,216,000 (c)
Cleveland	2,708,000	677,000	1,867,000
Richmond	1,523,000	380,750	1,676,000
Atlanta	1,175,500	293,875	1,399,600 (d)
Chicago	3,029,500	757,375	2,446,000 (e)
St. Louis	1,269,500	317,375	2,369,000
Minneapolis	1,165,500	291,375	884,880
Kansas City	1,370,000	342,500	5,826,300
Dallas	1,177,000	294,250	425,000 (f)
San Francisco	<u>1,795,750</u>	<u>448,937.50</u>	<u>2,025,000</u>
Total	\$25,000,000	\$6,250,000.00	\$24,336,780 (g)

Notes:

(a) Boston reports it has "acquired" \$2,332,000 bonds, but that transfer has not been possible account \$9,000,000 limit to retirement of circulation in March.

(b) In hand or with Secretary of the Treasury in suspense account.

(c) Philadelphia reports it has in addition contracted to purchase \$284,000 of bonds, transfer of \$272,000 of which is delayed account \$9,000,000 limitation and \$12,000 account closing of transfer books.

(d) Atlanta reports it has also purchased \$15,000 to be delivered April 1st and has written to the Federal Reserve Board under date of March 27th that it will take \$359,900 which has been offered by member banks in its district.

(e) Chicago has in addition purchased \$3,075,700, not yet delivered or paid for.

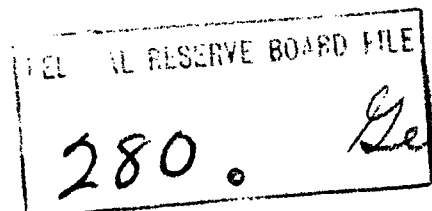
(f) Dallas reports it purchased \$32,000 of bonds on March 18th which it is holding in bond suspense account, that it has written the Federal Reserve Board in regard to the purchase of \$1,481,250 additional on April 1st, and that it has also agreed to take \$63,500 in addition to the above.

(g) Amounts purchased since Jan. 1st and in process of purchase, \$32,559,730.

Division of Reports and Statistics,

Federal Reserve Board,

March 28, 1916.



Basis for Allotment of U. S. Bonds offered by Member Banks,
and Amounts purchased by Federal Reserve Banks since Jan. 1, 1916.

<u>Federal Reserve Bank of</u>	<u>Maximum amt. banks may buy during 1916(A).</u>	<u>One-fourth of (A).</u>	<u>Amounts pur- chased since Jan. 1, 1916.</u>
Boston	\$2,303,250	\$575,812.50	0 (a) ✓
New York	5,108,750	1,277,187.50	\$3,202,000 (b)
Philadelphia	2,374,250	593,562.50	2,216,000 (c)
Cleveland	2,708,000	677,000	1,877,000
Richmond	1,523,000	380,750	1,676,000
Atlanta	1,175,500	293,875	1,399,600 (d)
Chicago	3,029,500	757,375	2,446,000 (e)
St. Louis	1,269,500	317,375	2,369,000
Minneapolis	1,165,500	291,375	884,880
Kansas City	1,370,000	342,500	5,826,300
Dallas	1,177,000	294,250	425,000 (f)
San Francisco	<u>1,795,750</u>	<u>448,937.50</u>	<u>2,025,000</u>
Total	\$25,000,000	\$6,250,000	\$24,346,780

Notes:

(a) Boston reports it has "acquired" \$2,332,000 bonds, but that transfer has not been possible account \$9,000,000 limit to retirement of circulation in March.

(b) In hand or with Secretary of Treasury in suspense account.

(c) Philadelphia reports it has in addition contracted to purchase \$284,000 of bonds, transfer of \$272,000 of which is delayed account \$9,000,000 limitation and \$12,000 account closing of transfer books.

(d) Atlanta reports it has also purchased \$15,000 to be delivered April 1st and has written to the Federal Reserve Board under date of March 27th that it will take \$359,900 which has been offered by member banks in its district.

(e) Chicago has in addition purchased \$3,075,700, not yet delivered or paid for.

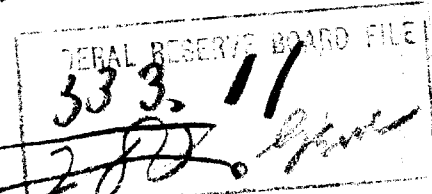
(f) Dallas has written authorizing purchase of \$1,481,250 additional, and has also agreed to take \$63,500 in addition to the above.

MAR 28 1916

	^A Max. amt banks may buy for yr	^{1/4} 0 ¹ A	Amounts offered	Approx. amounts bought since Jan. 1946
Boatán	2,303,002	575,750	3,285,000	
N.Y.	5,101,592	2,275,398	1,577,500	3,100
Phila	2,342,724	598,182	814,000	2,200
Clev	2,706,382	676,595	1,226,550	1,800
Richm	1,518,986	379,747	180,000	1,600
Atlanta	1,175,884	293,971	359,900	1,300
Chicago	3,028,570	757,143	2,296,500	2,400
St Louis	1,267,812	316,953	4,275,250	2,300
Minneapolis	1,163,361	290,840	156,750	.900
Kans Cy	1,367,781	341,945	505,500	5,800
Dallas	1,177,363	294,341	356,250	400
2 Fr.	1,796,538	449,135	51,008,500	2,000
Total	25,000,000	6,250,000	16,041,700	23,800

Boatán

Signatures



	Utica City National Bank, Utica, N. Y.	35,000 ✓
1113	National Iron Bank, Morristown, N.J.,	\$ 50,000. ✓
1217	Essex Co. NB, Newark, N.J.,	500,000. ✓
1316	National Newark Banking Co., Newark, N.J.,	50,000. ✓
1317	Orange NB of New Jersey,	37,500. ✓
1262	New York State NB, Albany, N.Y.,	250,000. ✓
1395	First NB, Utica, N.Y.,	200,000. ✓
2045	Union NB, Newark, N.J.,	100,000. ✓
2517	First National Bank, Greenwich, N.Y.	12,500. ✓
2625	Tarrytown NB, Tarrytown, N.Y.	30,000. ✓
3244	Peoples NB, Hudson Falls, Hudson Falls, N.Y.,	25,000. ✓
4906	Babylon NB, Babylon, N.Y.	12,500. ✓
5228	Citizens NB, Potsdam, N.Y.	50,000. ✓
8025	Lincoln NB, Rochester, N.Y.	50,000. ✓
9060	East Worcester NB, East Worcester, NY.	10,000. ✓
9825	Yonkers NB, Yonkers, NY.	200,000. ✓

Total for Second District *16 Bks* \$1,577,500.

1	First NB, Philadelphia, Pa.,	527,000. ✓
272	First NB, Morristown, Pa.,	25,000. ✓
370	First NB, Vincentown, N.J.	50,000. ✓
602	Bank of North American, Philadelphia, Pa.,	175,000. ✓
835	Wyoming NB, Tunkhannock, Pa.	5,000. ✓
3198	Lincoln NB, Lincoln, Pa.	15,000. ✓
6645	Merchants NB, Allentown, Pa.	10,000. ✓
8129	Peoples NB, Pottsville, N.J.	7,000. ✓

Total Third District *8 Bks* \$814,000.

Revisions?

238	First NB, Springfield, O.,	26,000. ✓
350	Second NB, Urbana, O.,	10,000. ✓
858	First NB, Newark, O.,	10,550. ✓
1788	Merchants NB, Dayton, O.,	200,000. ✓
3820	NB of Commerce, Toledo, O.	375,000. ✓
4462	First National Bank, Sewickley, Pa.	5,000. ✓
4615	First NB, Malvern, Pa.	25,000. ✓
5218	First NB, Napoleon, O.	50,000. ✓
7891	Morgan Co. NB, Canal City, Ky.	25,000. ✓
7560	Keystone NB, Pittsburg, Pa.	500,000. ✓

Total for Fourth District *10* \$1,226,550.

FEDERAL RESERVE BOARD FILE

288 *June*

414	Second NB, Baltimore, Md.,	\$100,000. ✓
2499	Grocers & Mechs. NB, Baltimore, Md.,	50,000. ✓
4620	First NB, Elizabeth City, N.C.,	5,000. ✓
9164	Union NB, Charlotte, N.C.,	25,000. ✓

Total for Fifth District *4 Bks* \$180,000.

2457	First NB, Meridian, Miss.,	100,000. ✓
3450	Merchants NB, Vicksburg, Miss.,	100,000. ✓
4116	Dawson NB, Dawson, Ga.,	5,000. ✓
6207	First NB, Louisville, Ga.,	35,000. ✓
7044	Farmers & Merchants NB, Troy, Ala.,	4,400. ✓
7565	First NB, Moultrie, Ga.,	22,000. ✓
7922	First NB, Sandersville, Ga.,	25,000. ✓
9502	First NB, Thompson, Ga.,	43,500. ✓

Total for Sixth District *8 Bks* \$659,900.

47	First NB, Terre Haute, Ind.,	25,000. ✓
177	First NB, Wilmington, Ill.,	24,000. ✓
1003	National Cash. Bank, Milwaukee, Wis.,	112,500. ✓
2165	Farmers NB, Princeton, Ill.,	110,000. ✓
2574	Continental & Commercial NB, Chicago, Ill.,	2,000,000. ✓
9792	First NB, Crosswell, Mich.,	25,000. ✓

Total for Seventh District *6 Bks* \$2,296,500.

170	Third NB, St. Louis, Mo.,	500,000. ✓
2432	Scottland Co., NB, Memphis, Mo.,	22,500. ✓
3110	First NB, Milan, Mo.,	75,000. ✓
4170	NB of Commerce, St. Louis, Mo.,	3,521,500. ✓
5388	First NB, Washington, Mo.,	1,500. ✓
6244	First NB, Georgis, Ky.,	20,000. ✓
7126	State NB, Texarkana, Ark.,	50,000. ✓
7511	First NB, Corning, Ark.,	7,750. ✓
7729	First NB, Carbon, Mo.,	25,000. ✓
9239	Third NB, Union City, Tenn.,	15,000. ✓
9751	Citizens NB, Corinth, Miss.,	27,500. ✓

Total Eighth District *11 Bks* \$4,275,250.

1437	First NB, Red Wing, Minn.,	100,000. ✓
1911	First NB, Owatonna, Minn.,	3,000. ✓
2820	First NB, Saksaga, Wis.,	10,000. ✓
3947	First NB, Saksagar, Mich.,	12,500. ✓
7292	First NB, Mora, Minn.,	25,000. ✓
7693	First NB, Portland, N.D.,	6,250. ✓

Total Ninth District *6 Bks* \$156,750.

FEDERAL RESERVE BOARD FILE

280 *gmc*

Keota National Bank, Keoto, Oklahoma.

2837	First NB, Durango, Colo.,	100,000.	✓
2907	First NB, Columbus, Neb.	5,000.	✓
2978	United States NB, Omaha, Neb.	50,000.	✓
3484	Fourth NB, Wichita, Kans.	100,000.	✓
4417	First NB, Telluride, Colo.	25,000.	✓
4939	First NB, St. Joseph, Mo.,	25,000.	✓
5713	First NB, Clayton, N.M.	10,000.	✓
5770	O'Neill NB, O'Neill, Neb.	50,000.	✓
6186	Citizens NB, Poncha, Neb.	20,000.	✓
7501	First NB, Arvada, Colo.	6,250.	✓
8068	First NB, Ault, Colo.	20,000.	✓
8298	First NB, Windsor, Colo.	5,000.	✓
8668	Baton NB, Baton, Colo.,	20,000.	✓
8683	Farmers NB, Stafford, Kans.	25,000.	✓
9151	San Juan Co. NB, Farmington, N.M.	10,000.	✓
10842	First NB, Hemingford, Neb.	4,250.	✓

Total for Tenth District *17 BKs* 1,505,500. 518,000

2901	Colorado NB, Colorado, Tex.	50,000.	✓
3833	First NB, Ballinger, Tex.	25,000.	✓
4366	First NB, Rice, Tex.	12,500.	✓
6842	Stockyards NB, Fort Worth, Tex.	300,000.	✓
7139	Rodgers NB, Jefferson, Tex.	6,250.	✓
8064	Planters NB, Rosebud, Tex.	12,500.	✓
8873	Commercial NB, Brady, Tex.	50,000.	✓

Total for Eleventh District *7 BKs* 454,250.

2456	Santa Barbara Co. NB, Santa Barbara, Calif.,	100,000.	✓
3050	First NB, San Diego, Calif.,	100,000.	✓
4229	Seattle NB, Seattle, Wash.	100,000.	✓
5263	First NB, Ontario, Calif.,	40,000.	✓
6424	American NB, San Francisco, Calif.,	200,000.	✓
6481	First NB, Canyon City, Ore.	40,000.	✓
6652	First NB, Glendora, Calif.,	5,000.	✓
8768	First NB, Risato, Calif.,	25,000.	✓
9021	U.S. National Bank, Salem, Ore.	31,000.	✓
9093	First NB, Englewood, Calif.,	25,000.	✓
9121	Union NB, Pasadena, Calif.	100,000.	✓
9134	Wallace NB, Walling, Idaho.	50,000.	✓
9186	U.S. National Bank, Dinuba, Calif.,	12,500.	✓
9210	First NB, Harrington, Wash.	50,000.	✓
10212	Empire NB, Lewiston, Idaho.	100,000.	✓

Total for Twelfth District *15 BKs* 2,008,500.

Grand Total \$16,041,700

12,500

16,054,200

Bond documents

On Basis of
Thirty Millions

On Basis of
Twenty-five Millions

Boston	2,763,602	2,303,002
New York	6,121,910	5,101,582
Phila	2,871,275	2,392,729
Cleveland	3,247,658	2,706,382
Richmond	1,822,783	1,528,986
Atlanta	1,411,061	1,175,884
Chgo.	3,634,284	3,028,570
St. Louis	1,521,375	1,267,813
Minn'pls.	1,396,033	1,163,361
Kansas City	1,641,337	1,367,781
Dallas	1,412,836	1,177,363
San Francisco	2,155,846	1,796,538

676,595.11 ✓

March 20, 1916.

MEMORANDUM FOR GOVERNOR DELANO:-

SITUATION OF BOND CONVERSION MATTERS, MONDAY, A.M.
MARCH 20, 1916.

Fed Res

Banks have applied for conversions as follows. Nothing has

been received from Atlanta, Dallas and San Francisco:-

Can Convert

1,381,806

BOSTON, \$500,000 (With Loans and Currency)

3,060,000

NEW YORK, \$4,200,000

1,435,000

PHILADELPHIA, \$500,000

1,627,000

CLEVELAND, \$400,000

911,000

RICHMOND, \$911,000

NOTE. Treasury will write for proper resolutions.

705,000

ATLANTA,

1,817,000

CHICAGO, \$1,000,000

760,000

ST. LOUIS, \$2,309,000

Desire to convert as much as possible of this amount.

698,000

MINNEAPOLIS, \$1,000,000

820,000

KANSAS CITY, \$820,000

706,000

DALLAS,

1,078,000

SAN FRANCISCO,

Must take if tendered through Treasury of U.S.
275,000

1,275,000

600,000

- 676,000 -

380,000

295,000

750,000

345,000

285,000

340,000

295,000

450,000

First	Fourth	Eighth	Eleventh
50 000	5000	50 000	50 000
50	25	7750	75
62	500	500	12500
50	26	22	700
62	10	75	6250
150	10 550	3 521 500	12 500
250	200	1 500	50
100	375	25	356 250
100	50	20	
912 000	25	15	
	1226 550	37 500	Twelfth
Second		427 5250	657 500
50 000	Fifth		100
500	100 000	Ninth	30
100	50	6250	31
50	5	100	100
37 500	25	3	50
250	180 000	25	968 500
200		10	
12 500	Sixth	12 500	
30	6400	156 750	
25	5		
12 500	35	Tenth	
50	22	100 000	
50	25	25	
10	66 500	5	
200	100	50	
1577 500	100	50	
	359 900	50	
Third	Seventh	4250	
50 000	2000	100	
7	112 500	25	
527	25	6250	
25	24	70	
175	110	5	
5	25	20	
15	2296 500	25	
10		10	
814 000		10	
		505 500	

Bonds offered for sale
under Dec. 18. by
Districts.

~~Bonds Offered for Sale~~
~~under~~

	9	1	2						
1	5	7	7	5	0	0			
	8	1	4						
1	2	2	6	5	5	0			
	1	8	0						
	3	5	9	9	0	0			
2	2	9	6	5	0	0			
4	2	7	5	2	5	0			
	1	5	6	7	5	0			
	5	0	5	5	0	0			
	3	5	6	2	5	0			
	9	6	8	5	0	0			
13,6	2	8	7	0					
	①	②							
	5	6	4	2					

280 . Rem

CLEVELAND DISTRICT

First NB	Springfield,	Ohio	\$	26,000
Second NB	Urbana,	"		10,000
First NB	Newark,	"		10,550
Merchants NB	Dayton,	"		200,000
N.B. of Commerce	Toledo	"		375,000
First NB	Sewickley,	Pa.		5,000
First NB	Emmerton,	Pa.		25,000
First NB	Napoleon,	Ohio		50,000
Morgan Co. NB	Cannel City	Ky.		25,000
Keystone NB	Pittsburgh, Pa.			500,000
Total Fourth District (10 Banks)				\$1,226,550

BOSTON DISTRICT:

200	First National Bank, Boston, Mass..	- - - - -	\$500,000
416	First National Bank, Easton, North Easton, Mass.,	-	50,000
475	Merchants National Bank, Boston, Mass.,	- - - - -	335,000
517	National Mt. Wallaston Bank, Quincy, Mass.,	- - - - -	50,000
574	Amoskeag NB, Manchester, N. H.,	- - - - -	25,000
626	Hopkinton NB, Hopkinton, Mass.,	- - - - -	10,000
726	Merchants NB, Salem, Mass.,	- - - - -	25,000
791	Citizens NB, Waterbury, Conn.,	- - - - -	50,000
845	Middlesex Co. NB, Middletown, Conn.,	- - - - -	150,000
921	City NB of Bridgeport, Conn.,	- - - - -	250,000
924	Metacomet NB, Fall River, Mass.,	- - - - -	100,000
927	Connecticut NB, Bridgeport, Conn.,	- - - - -	20,000
941	Canal NB, Portland, Me.,	- - - - -	50,000
1038	Stamford NB, Stamford, Conn.,	- - - - -	100,000
1162	Gloucester NB, Gloucester, Mass.,	- - - - -	5,000
1184	New Britain NB, New Britain, Conn.,	- - - - -	100,000
1187	Uncas NB, Norwich, Conn.,	- - - - -	40,000
1203	Mahaiwe Bank, Great Barrington, Mass.,	- - - - -	62,000
1333	Citizens NB, Tilton, N.H.,	- - - - -	5,000
1368	NB of Derby Line, Vt.,	- - - - -	30,000
1700	Baxter NB, Rutland, Vt.,	- - - - -	50,000
2270	National Shoe & Leather Bank, Auburn, Me.,	- - - - -	25,000
2275	Home NB, Milford, Mass.,	- - - - -	15,000
2295	Merchants NB, St. Johnsbury, Vt.,	- - - - -	35,000
2371	North National Bank, Rockland, Me.,	- - - - -	15,000
2494	Manufacturers NB, Waterbury, Conn.,	- - - - -	25,000
3020	Naugatuck NB, Naugatuck, Conn.,	- - - - -	100,000
3923	Commercial NB of Boston, Mass.,	- - - - -	50,000
3994	Middleborough NB, Middleboro, Mass.,	- - - - -	20,000
5155	National Shawmut Bank, Boston, Mass.,	- - - - -	862,000
7596	Merchants NB of Worcester, Mass.,	- - - - -	66,000
7812	NB of New England, East Hadden, Conn.,	- - - - -	15,000
9609	NB of Gardiner, Gardiner, Me.,	- - - - -	50,000

Total, First District, (33 bks)

\$3,285,000

PHILADELPHIA DISTRICT

1	First NB. Philadelphia, Pa., - - - - -	\$527,000
272	First NB. Morristown, Pa., - - - - -	25,000
370	First NB. Vincentown, N.J., - - - - -	50,000
602	Bank of North American, Philadelphia, Pa., - - - - -	175,000
835	Wyoming NB. Tunkhannock, Pa., - - - - -	5,000
3198	Lincoln NB. Lincoln, Pa., - - - - -	15,000
6645	Merchants NB. Allentown, Pa., - - - - -	10,000
8129	Peoples NB. Pemberton, N.J., - - - - -	<u>7,000</u>

Total. Third District. (8 bks)	\$814,000
--------------------------------	-----------

RICHMOND DISTRICT

414	Second NB, Baltimore, Md., - - - - -	\$100,000
2499	Grovers & Mech. NB, Baltimore, Md., - - - - -	50,000
4628	First NB, Elizabeth City, N.C., - - - - -	5,000
9164	Union NB, Charlotte, N.C., - - - - -	<u>25,000</u>
Total, Fifth District, (4 bks),		\$180,000

ATLANTA DISTRICT

2957	First NB, Meridian, Miss.,	- - - - -	\$100.000
3450	Merchants NB, Vicksburg, Miss.,	- - - - -	100.000
4115	Dawson NB, Dawson, Ga.,	- - - - -	5.000
6207	First NB, Louisville, Ga.,	- - - - -	35.000
7044	Farmers & Merchants NB, Troy, Ala.,	- - - - -	6.400
7563	First NB, Loultrie, Ga.,	- - - - -	22.000
7931	First NB, Sandersville, Ga.,	- - - - -	25.000
9302	First NB, Thompson, Ga.,	- - - - -	<u>66.500</u>
Total, Sixth District, (8 bks).			\$359.900

CHICAGO DISTRICT

47	First NB, Terre Haute, Ind., - - - - -	\$25.000
177	First NB, Wilmington, Ill., - - - - -	24.000
1003	National Exch. Bank, Milwaukee, Wis., - - - - -	112.500
2165	Farmers NB, Princeton, Ill., - - - - -	110.000
2894	Continental & Commercial NB, Chicago, Ill., - - - - -	2,000.000
9792	First NB, Crosswell, Mich., - - - - -	<u>25.000</u>

Total, Seventh District, (6 bks), \$2,296,500

ST. LOUIS DISTRICT

Third NB, St. Louis, Mo., - - - - -	\$ 500,000
Scotland Co. NB, Memphis, Mo., - - - - -	22,000
First NB, Milan, Mo., - - - - -	75,000
NB of Commerce, St. Louis, Mo., - - - - -	3,521,500
First NB, Washington, Mo., - - - - -	1,500
First NB, Sturgis, Ky., - - - - -	20,000
State NB, Texarkana, Ark., - - - - -	50,000
First NB, Corning, Ark., - - - - -	7,750
First NB, Canton, Mo., - - - - -	25,000
Third NB, Union City, Tenn., - - - - -	15,000
Citizens NB, Corinth, Miss., - - - - -	<u>37,500</u>

Total, Eighth District, (11 bks). \$4,275,250

MINNEAPOLIS DISTRICT

First NB.	Red Wing, Minn..	- - - - -	\$100,000
First NB.	Owatonna, Minn.,	- - - - -	3,000
First NB.	Wausau, Wis.,	- - - - -	10,000
First NB.	Bessemer, Mich.,	- - - - -	12,500
First NB.	Mora, Minn.,	- - - - -	25,000
First NB.	Portland, N.D.,	- - - - -	<u>6,250</u>

Total, Ninth District, (6 bks).	\$156,750
---------------------------------	-----------

KANSAS CITY DISTRICT

Keota N.B.	Keota,	Okla.	\$ 12,500
First NB	Columbus,	Neb.	105,000
First NB	Durango,	Colo.	100,000
U.S.N.B.	Omaha,	Nebr.	50,000
Fourth NB	Wichita	Kas.	100,000
First NB	Telluride	Colo.	25,000
First NB	St. Joseph	Mo.	25,000
First NB	Clayton	N.M.	10,000
O'Neill NB	O'Neill	Nebr.	50,000
Citizens NB	Tecumseh	Nebr.	50,000
First NB	Arvada	Colo.	6,250
First NB	Ault	Colo.	20,000
First NB	Windsor	Colo.	5,000
Eaton NB	Eaton,	Colo.	20,000
Farmers NB	Stafford,	Kas.	25,000
San Juan Co. NB	Farmington	N.M.	10,000
First NB	Hemingford,	Nebr.	4,250

Total, Tenth District (17 Banks)

\$505,500

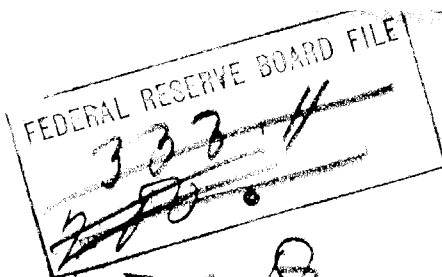
518.

DALLAS DISTRICT

Colorado N.B.	Colorado,	Tex.	\$ 50,000
First NB	Ballinger	Tex.	25,000
First NB	Rice	Tex.	12,500
Stockyards NB	Pt. Worth	Tex.	200,000
Rodgers NB	Jefferson,	Tex.	6,250
Planters NB	Rosebud,	Tex.	12,500
Commercial NB	Brady	Tex.	<u>50,000</u>
Total, Eleventh District (7 Banks)			\$356,250

San Francisco, District

2456	Santa Barbara Co.N.B.	Santa Barbara, Calif.	\$ 100,000
3050	First NB	San Diego,	" 150,000
4229	Seattle NB	Seattle,	Wash 100,000
5263	First NB	Ontario, C	Calif. 40,000
6426	American NB	San Francisco	Calif 200,000
6491	First NB	Canyon City,	Ore. 40,000
8652	First NB	Glendora,	Calif. 5,000
8763	First NB	Rialto	Calif. 25,000
9021	U.S.National B	Sales	Ore. 31,000
9093	First NB	Englewood	Calif. 26,000
9121	Union NB	Pasadena	Calif. 100,000
9154	Wallace NB	Wallace,	Ida. 50,000
9156	U.S.Natl B.	Dinuba	Calif. 12,500
9210	First NB	Harrington	Wash. 30,000
10212	Empire NB	Lewiston,	Ida. <u>100,000</u>
Total, Twelfth District			\$1,008,500
(15 Banks)			



March 22, 1916.

To the Federal Reserve Board:

Gentlemen:

Answering the specific query which was referred to me at the meeting this morning: After consulting the Law Department and our Division of Statistics, I find that ten of the Banks have already purchased more bonds in the open market than they can be required to take as their one-quarter proportion of twenty-five millions. There are, however, two Banks which have not done this; namely, Boston, which has to its credit no bonds purchased since January 1, 1916, and may therefore be required by the Federal Reserve Board to purchase through the Treasurer of the United States \$575,750.50, and Atlanta, which has bought some bonds but may be required by the Federal Reserve Board to purchase \$110,971 additional. This total of \$687,000, in round figures, would have to be taken from the aggregate number of bonds offered. This aggregate is in excess of sixteen millions. In round figures this would mean that about 4 1/2% of the bonds offered through the Treasurer of the United States would be taken, unless this percentage was considerably reduced

-2-

by reason of the National banks availing themselves of the privilege suggested to them of withdrawing their applications, up to the morning of March 28th.

In view of the situation and the very small number of bonds to be taken, say 4 $\frac{1}{2}$ % of those offered, which would inevitably lead to breaking up even blocks of bonds into small inconvenient lots, I respectfully suggest that the Board decline to approve the purchase of any of these bonds, but that, at the same time, it suggest to the Boston and Atlanta Banks the propriety of buying from the banks of their Districts offering them for sale, the bonds which might have been allotted to them by the Board.

Respectfully submitted,

SIGNED) F. A. LILLIAN.

FEDERAL RESERVE BOARD

WASHINGTON

March 22nd, 1916.

To the Federal Reserve Board:

Gentlemen:-

Answering the specific query which was referred to me at the meeting this morning. After consulting the Law Department and our Division of Statistics, I find that ten of the Banks have already purchased more bonds in the open market than they can be required to take as their one-quarter proportion of

twenty-five millions. There are, however, two Banks which have

not done this; ^{namely,} Boston, ^{to its credit} which has no bonds purchased since January first, ¹⁹¹⁶ ^{and may} ^{be required by the Fed Res Board to} therefore purchase through the

Treasurer of the United States \$575,750.50, and Atlanta ^{which has bought} must

^{to purchase} ~~take bonds to the amount of~~ 110,971.00 ^{additional.} ~~I would recom-~~

~~mend that the Board rule that the Boston Bank shall take~~

~~\$575,000 in bonds and that the Atlanta Bank take \$111,000 in~~

~~bonds. This total of \$687,000.00, must be taken from the aggregate~~ ^{in round figures would have to}

number of bonds offered. This aggregate is in excess of

~~sixteen~~ ^{fourteen} millions. In round figures this would mean that ~~five~~ ^{about 4 1/4%}

~~percent~~ of the bonds offered through the Treasurer of the United

States would be taken, unless this percentage ^{was considerably} ~~was~~ reduced ~~some~~

~~what~~ by reason of the National banks availing themselves of the

privilege ^{suggested to} ~~offered~~ them of withdrawing their applications, up

to the morning of March 28th.

~~Respectfully submitted,~~

= o v w =

some Bonds but may be required by the Fed Res Board

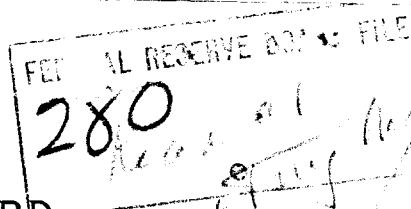
In view of the situation and the very small number of Bonds to be taken, say $4\frac{1}{4}\%$ of those offered, which would inevitably lead to breaking up even blocks of Bonds into small inconvenient lots, I respectfully suggest that the Board decline to approve the purchase of any of these Bonds (but that at the same time it suggest to the Boston and Atlanta Banks the propriety of ^{buying} taking the Bonds which might have been allotted to them by the Board from the Banks in their Districts offering them for sale.

That
but at the same time it suggests to the Boston and Atlanta Banks
the propriety of buying from the Banks in their Districts of-
fering them for sale, the bonds which might have been allotted
to them by the Board.

Working
See Board to see if circulation
File

FEDERAL RESERVE BOARD

WASHINGTON



333
March 4, 1916. *W.*

Memorandum for the Board:

I submit herewith a tabulation prepared by our Statistical Department, showing for each year of the period 1916 to 1935 the amounts of capital and of United States bonds to secure circulation held in trust for all national banks whose charters expire during each of those years.

This is the material that we had compiled in order to enable us to judge of the merits of Mr. *Lavin's* ~~Delano's~~ proposition to amend the law to the effect that any national bank whose charter expires shall receive a renewal of the charter only without the circulating privilege.

Respectfully submitted:

Arthur D. Lawrence

File

**STATEMENT SHOWING FOR EACH YEAR OF THE PERIOD 1916 TO 1935 THE AMOUNTS
OF CAPITAL AND OF UNITED STATES BONDS TO SECURE CIRCULATION,
HELD IN TRUST FOR ALL NATIONAL BANKS WHOSE CHAR-
TERS EXPIRE DURING EACH OF THESE YEARS.**

(In thousands of dollars)

<u>Year</u>	<u>Capital</u>	<u>Bonds</u>
1916	4,993	4,400
1917	20,320	12,893
1918	17,750	9,245
1919	17,165	13,337
1920	34,224	28,249
1921	35,363	28,905
1922	83,959	58,738
1923	126,703	95,510
1924	90,307	60,615
1925	224,992	139,323
1926	46,145	36,428
1927	44,347	32,072
1928	36,071	31,062
1929	48,180	38,923
1930	60,125	47,134
1931	36,898	26,853
1932	42,147	29,965
1933	19,910	14,668
1934	31,481	14,619
1935	24,905	15,919
TOTAL	1,045,982	738,856

**STATEMENT SHOWING FOR EACH YEAR OF THE PERIOD 1916 TO 1935 THE AMOUNTS
OF CAPITAL AND OF UNITED STATES BONDS TO SECURE CIRCULATION,
HELD IN TRUST FOR ALL NATIONAL BANKS WHOSE CHAR-
TERS EXPIRE DURING EACH OF THESE YEARS.**

(In thousands of dollars)

Year	Capital	Bonds
1916	4,993	4,400
1917	30,320	12,893
1918	17,750	9,248
1919	17,165	12,237
1920	34,224	28,249
1921	25,363	28,905
1922	82,959	58,738
1923	126,703	95,510
1924	90,307	60,615
1925	224,992	129,323
1926	46,145	26,428
1927	44,247	22,072
1928	36,071	21,062
1929	48,180	28,922
1930	60,135	47,124
1931	36,895	26,852
1932	42,147	29,965
1933	19,910	14,668
1934	21,481	14,619
1935	24,905	15,919
TOTAL	1,045,982	728,856

FEDERAL RESERVE BOARD FILE

280.

333

2/28/16

Resolution
(As finally O.K'd., February 28, 1916.)

WHEREAS, Section 12 of the Federal Reserve Act lays upon the Federal Reserve Board the duty to recommend to the Secretary of the Treasury approval or disapproval of applications made by Federal reserve banks for the conversion of two per cent bonds into three per cent bonds, and,

WHEREAS, Federal reserve banks have already purchased about (\$30,000,000) thirty millions of bonds bearing the circulating privilege, and

WHEREAS, From time to time different members of the Board; Messrs. Hamlin, Warburg and Delano; have, upon request of the Secretary of the Treasury, prepared informal memoranda expressing their views on this whole subject, and,

WHEREAS, The Board has approved the general policy expressed in said memoranda as filed from time to time, without, however, taking action thereon in any formal way, and

WHEREAS, Opinions have recently been rendered by the Solicitor of the Treasury Department and by Counsel of the Federal Reserve Board, that the limit of compulsory purchase under section 12 shall not be regarded as the limit to be fixed for the conversion of two per cent into three per cent bonds, and

WHEREAS, It is desirable that a formal expression of opinion be made a matter of record,

THEREFORE, BE IT RESOLVED, That the following be stated as the sense of the Board:

•2•

1. That it is important to give full effect to the provisions of the law relating to the reduction of bond-secured currency and the conversion of two per cent bonds into three per cent bonds and to give opportunity for the transfer to the public of such bonds converted into three's in so far as not needed for purposes of circulation.

2. That such policy will help to create a field for the circulation of Federal reserve bank issues and also enlarge the operations of Federal reserve banks by the gradual substitution of commercial paper for bonds as the basis of the country's note circulation.

AND FINALLY BE IT RESOLVED, That it is the sense of the Federal Reserve Board that the Secretary of the Treasury should not limit the sum he is willing to convert from two per cent into three per cent securities during the year 1916 to said limit of compulsory purchase inasmuch as such action might create a harmful precedent and might likewise hamper the operations of the Federal reserve banks, preventing them from proceeding freely in the purchase of Government bonds.

WHEREAS, the Federal Reserve Act (Section 18) makes provision for the conversion of United States bonds bearing circulating privilege, into 3% bonds and notes, by the Secretary of the Treasury, upon application of Federal Reserve Banks; and

WHEREAS, such application and conversion require the approval of the Federal Reserve Board; and

WHEREAS, the Act does not limit him in the exercise of his discretion to an amount of \$25,000,000; and

WHEREAS, the policy of such conversion has been the subject of careful study by the Board, and of discussion within the Board and of the Board with the Secretary of the Treasury; now, therefore, be it

RESOLVED That the Federal Reserve Board earnestly recommends to the Secretary of the Treasury that in the exercise of his authority to make conversions he should, in order to establish a precedent that such conversions are not to be limited to amount of twenty-five millions of dollars, make provision at the present time for the conversion of an amount in excess of twenty-five millions of dollars.

The reasons for the policy on which this recommendation is based have been fully set forth in various memoranda presented to the Board; the specific occasion for the recommendation at this time is that \$15,900,000 of bonds had been purchased prior to January 1, 1916; that the Federal Reserve Banks are required, under the Act, to purchase this year either in the open market or from member banks \$25,000,000

-2-

additional, making, in round figures, a total of \$41,000,000 during the current calendar year. At the present time \$29,600,000 of bonds have been purchased.

The Board, therefore, sees strong reason for fixing the limit at least high enough to cover the number of bonds already purchased.

WHEREAS, the Federal Reserve Act (Section 18) makes provision for the conversion of United States bonds bearing circulating privilege, into 3% bonds and notes, by the Secretary of the Treasury, upon application of Federal Reserve Banks; and

WHEREAS, such application and conversion require the approval of the Federal Reserve Board; and

WHEREAS, the Act does not limit him in the exercise of his discretion to an amount of \$25,000,000; and

WHEREAS, the policy of such conversion has been the subject of careful study by the Board, and of discussion within the Board and of the Board with the Secretary of the Treasury: now, therefore, be it

RESOLVED That the Federal Reserve Board earnestly recommends to the Secretary of the Treasury that in the exercise of his authority to make conversions he should, in order to establish a precedent that such conversions are not to be limited to amount of twenty-five millions of dollars, make provision at the present time for the conversion of an amount in excess of twenty-five millions of dollars.

The reasons for the policy on which this recommendation is based have been fully set forth in various memoranda presented to the Board; the specific occasion for the recommendation at this time is that \$15,900,000 of bonds had been purchased prior to January 1, 1916; that the Federal Reserve Banks are required, under the Act, to purchase this year either in the open market or from member banks \$25,000,000

-2-

additional, making, in round figures, a total of \$41,000,000 during the current calendar year. At the present time \$29,600,000 of bonds have been purchased.

The Board, therefore, sees strong reason for fixing the limit at least high enough to cover the number of bonds already purchased.

WHEREAS, under the Federal Reserve Act it is the duty of the Federal Reserve Board to make a recommendation to the Secretary of the Treasury in respect to the right of Federal Reserve Banks to convert 2% United States Government bonds with the circulation privilege, against which no circulation is outstanding, into 3% bonds, and *notes and*

WHEREAS, this matter has been the subject of careful study by some members of the Board and of discussion within the Board. *Now therefore be it resolved, that*

~~The Federal Reserve Board earnestly recommends to the Secretary of the Treasury that whatever limit he fixes on the conversion it should be in excess of \$25,000,000.~~

The reason for this recommendation is, that \$15,900,000 of bonds had been purchased prior to January 1, 1916; that the Federal Reserve Banks are required, under the Act, to purchase ^{*this year*} either in the open market or from memberbanks \$25,000,000 additional, making, in round figures, a total of \$41,000,000 ^{*during*} ~~up to the end of~~ the current calendar year. At the present time \$29,600,000 of bonds have been purchased.

The Board, therefore, sees strong reason for fixing the limit at least high enough to cover the number of bonds already purchased.

Final Draft

WHEREAS, under the Federal Reserve Act it is the duty of the Federal Reserve Board to make a recommendation to the Secretary of the Treasury in respect to the right of Federal Reserve Banks to convert 2% United States Government bonds with the circulation privilege, against which no circulation is outstanding, into 3% bonds, and *notes*

WHEREAS, this matter has been the subject of careful study by some members of the Board and of discussion within the Board, *now therefore be it resolved that*

The Federal Reserve Board earnestly recommends to the Secretary of the Treasury that whatever limit he fixes on the conversion it should be in excess of \$25,000,000. The reason for this recommendation is, first, that \$15,900,000 of bonds had been purchased prior to January 1, 1916; that the Federal Reserve Banks are required, under the Act, to purchase ^{*this year*} either in the open market or from member banks \$25,000,000 additional, making, in round figures, a total of \$41,000,000 ^{*during*} ~~up to the end of~~ the current calendar year. At the present time \$29,600,000 of bonds have been purchased.

The Board, therefore, sees strong reason for fixing the limit at least high enough to cover the number of bonds already purchased.

WHEREAS, under the Federal Reserve Act it is the duty of the Federal Reserve Board to make a recommendation to the Secretary of the Treasury in respect to the right of Federal Reserve Banks to convert 2% United States Government bonds with the circulation privilege, against which no circulation is outstanding, into 3% bonds, and *notes and*

WHEREAS, this matter has been the subject of careful study by some members of the Board and of discussion within the Board, *now therefore be it resolved, that*

The Federal Reserve Board earnestly recommends to the Secretary of the Treasury that whatever limit he fixes on the conversion it should be in excess of \$25,000,000. The reason for this recommendation is, first, that \$15,900,000 of bonds had been purchased prior to January 1, 1916; that the Federal Reserve Banks are required, under the Act, to purchase ^{this year} ~~with~~ in the open market or from memberbanks \$25,000,000 additional, making, in round figures, a total of \$41,000,000 ^{during} ~~up to the end of~~ the current calendar year. At the present time \$29,600,000 of bonds have been purchased.

The Board, therefore, sees strong reason for fixing the limit at least high enough to cover the number of bonds already purchased.

WHEREAS, under the Federal Reserve Act it is the duty of the Federal Reserve Board to make a recommendation to the Secretary of the Treasury in respect to the right of Federal Reserve Banks to convert 2% United States Government bonds with the circulation privilege, against which no circulation is outstanding, into 3% bonds, and *notes*

WHEREAS, this matter has been the subject of careful study by some members of the Board and of discussion within the Board, *now therefore be it resolved that*

The Federal Reserve Board earnestly recommends to the Secretary of the Treasury that whatever limit he fixes on the conversion it should be in excess of \$25,000,000. The reason for this recommendation is, first, that \$15,900,000 of bonds had been purchased prior to January 1, 1916; that the Federal Reserve Banks are required, under the Act, to purchase ^{*this year*} ~~either~~ in the open market or from memberbanks \$25,000,000 additional, making, in round figures, a total of \$41,000,000 ^{*during*} ~~up to the end of~~ the current calendar year. At the present time \$29,600,000 of bonds have been purchased.

The Board, therefore, sees strong reason for fixing the limit at least high enough to cover the number of bonds already purchased.

DISTRIBUTION OF UNITED STATES BONDS
Held by the Various
Federal Reserve Banks
 (As per schedules on hand Feb. 7, 1916)

FEDERAL RESERVE BOARD FILE

250.

E. E. Mc

Federal Reserve Bank of	Date of Latest Schedule On Hand	Twos	Threes	Fours	Total
Boston,	(1916) Feb. 1	\$ 1,000,000	\$	\$	\$ 1,000,000
New York					
Philadelphia	Feb. 3	3,225,000			3,225,000
Cleveland,	Feb. 5	400,000	1,428,000	1,353,000	3,181,000
Richmond					
Atlanta	Jan. 7	25,000			25,000
Chicago	Feb. 4	2,525,000	1,843,000	1,754,000	6,122,000
St. Louis	Feb. 2	1,769,000	1,000,000		2,769,000
Minneapolis	Feb. 2	1,075,000	424,200		1,499,200
Kansas City	Jan. 31	2,221,150	300		2,221,450
Dallas	Feb. 2	1,295,000			1,295,000
San Francisco	Feb. 1	3,035,000			3,035,000
=====	=====	=====	=====	=====	=====
<u>Total</u>		\$16,570,150	\$4,695,500	\$3,107,000	\$24,372,650

Division of
 Reports & Statistics,
 Feb. 7, 1916.

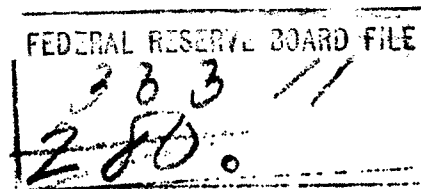
DISTRIBUTION OF UNITED STATES BONDS
Held by the Various
Federal Reserve Banks
(As per schedules on hand Feb. 7, 1916)

Federal Reserve Bank of	Date of Latest Schedule On Hand	Two	Three	Four	Total
Boston,	(1916) Feb. 1	\$ 1,000,000	\$	\$	\$ 1,000,000
New York					
Philadelphia	Feb. 3	3,225,000			3,225,000
Cleveland,	Feb. 5	400,000	1,428,000	1,353,000	3,181,000
Richmond					
Atlanta	Jan. 7	25,000			25,000
Chicago	Feb. 4	2,525,000	1,843,000	1,754,000	6,122,000
St. Louis	Feb. 2	1,769,000	1,000,000		2,769,000
Minneapolis	Feb. 2	1,075,000	424,200		1,499,200
Kansas City	Jan. 31	2,221,150	300		2,221,450
Dallas	Feb. 2	1,295,000			1,295,000
San Francisco	Feb. 1	3,035,000			3,035,000
Total		\$16,570,150	\$4,595,500	\$3,107,000	\$24,272,650

**Division of
Reports & Statistics,
Feb. 7, 1916.**

Marling

FEDERAL RESERVE BOARD
WASHINGTON



333

January 15, 1916.

Dear Mr. Delano:

I have read your memorandum in regard to the purchase of Government bonds, and thank you for the illuminating way in which you have analyzed the situation, which is very helpful.

May I suggest that, on page 2, under "Third", your language might be changed to advantage because, as you have it, it reads that the Federal Reserve Banks "shall take these bonds * * * retiring the circulation thereon and exchanging these bonds for 3% bonds and notes, etc." That permits of the construction as if the banks were obliged to exchange these bonds whereas, as a matter of fact, the Federal Reserve Banks have the power of either taking out circulation and leaving the 2% undisturbed or of applying for the conversion of these bonds. With a little change in the language, you might make this paragraph, I believe, clearer in this respect.

On page 4, you say: "It is safe to estimate that under normal conditions and even with a liberal interpretation of the Act it would take ten to twelve years to effect a complete substitution." I believe you can

(2)

Good point

make this paragraph stronger because I am confident that a great many of the National banks - particularly the smaller ones - will not give up their note issuing privilege as it is a profitable affair for them, and my own feeling is that, after we get under way and after we absorb the first offerings, the voluntary offerings will, from then on, rapidly grow less and less.

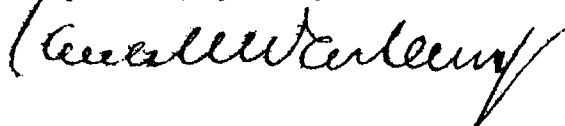
On page 5 is the only point in which I do not quite agree with you. I do not think we should suggest that banks which leave the system should take back their bonds. First of all, I believe that the only material amount of bonds that we shall get will be from National banks that may feel that they want to be rid of their bonds so as to be able to denationalize in case they want to, even though I do not think it likely that they will. But I do think that it looks "as if we were afraid" should we put in such a clause. Moreover, I think it is a good investment for the Federal Reserve Banks to hold the bonds and it is better for them to hold these bonds, rather than to throw them back upon the hands of unwilling holders. In addition to all that I firmly believe that if conditions should force National banks to withdraw and de-

(3)

nationalize it will have a very healthy influence on Congress and the administration of the Federal Reserve Board. It would show that something was wrong, and I should rather see that corrective brought to bear in order to get the system right. My own feeling is that the system cannot be considered a success unless it can be put in such shape that its members will be satisfied so that the State banks will come in because they see we are a happy and prosperous family. I do not believe in the permanency of success achieved by constraint.

I am in full accord with all your other recommendations and with the spirit of your memorandum, and I hope that the Board will act in sympathy with it.

Very truly yours,

A handwritten signature in dark ink, appearing to read "Charles D. Walcott", with a long, sweeping flourish extending to the right.

Hon. F. A. Delano,
Vice-Governor.

MEMORANDUM IN REGARD TO
THE PURCHASE OF GOVERNMENT BONDS,
THE EXCHANGE OF 2% for 3% BONDS AND NOTES, *and*
THE RETIREMENT OF NATIONAL BANK NOTE CIRCULATION AND
SUBSTITUTION OF FEDERAL RESERVE BANK NOTE CIRCULATION. *therefor.*

Points upon which it is desirable to have
a definite ruling or decision by the Federal
Reserve Board, even if it requires a revision
or reconsideration of previous decisions.

First - First

Second:

Under the open market provisions of Section 14 the Federal Reserve Banks are given ^a ~~an absolutely~~ free hand in the purchase and sale of ^{any kind of} Government bonds, subject only to such general regulations as the Federal Reserve Board may promulgate.

Third:

Under Section 18 there is the provision that National banks may tender Government bonds with the circulation privilege for sale and ^{that} the Federal Reserve Banks shall take these bonds

to the extent of \$25,000,000 per year, or \$6,250,000 each quarter ^{beginning with the quarter ending March 31st 1916} ~~retiring the circulation thereon and exchanging these bonds for 3% bonds~~

Fourth:

The Federal Reserve Board has ruled that if the Federal Reserve Banks shall have purchased their quota of bonds in the open market they are not required to take bonds tendered through the Treasurer of the United States by National banks. It is probable that this ruling ought to be reconsidered and withdrawn, because the effect of such a rule ~~would be~~ to favor

Do not withdraw circulation privilege

-2-

in the Federal Reserve Cities or those
 large banks, having close relations with the Federal Reserve
 Banks, as against the small *or or more distant* country banks, not *so familiar with* ~~knowing the~~
~~the procedure~~ *ropes so well*, or not having *such* close relations.

F. M.
 Fourth:

If any Federal Reserve Bank buys 2% bonds with the circulation privilege, but against which no circulation is outstanding, in the open market, under Section 14, it has a right to convert these bonds into 3% bonds, or half and half, 3% bonds and one-year notes. This is a privilege, given under the law, subject to the approval of the Federal Reserve Board and the Secretary of the Treasury. There need be no danger that this privilege will be *used to dangerous extent* ~~over-extended~~ because the Federal Reserve Board can at any time fix any general limitations which it wants to. The argument is sometimes made that under this privilege the entire \$750,000,000 of 2% bonds outstanding could be *within* ~~converted in~~ *at two* a year from 2% to 3% bonds and *thereby* ~~so~~ increase the fixed charges of the Government *by* \$7,500,000, *but* ~~this is more or less~~ *argument is* absurd because it overlooks the facts *that* (a) ~~that~~ *for conversion purposes* these purchases are limited to bonds against which *20%* ~~no circulation is outstanding.~~ There are only \$51,000,000 of such bonds at the present time and the Board could easily rule that this meant that no circulation should have been outstanding *say* within the previous six months ~~or~~ prior to the purchase;

(b) Under the National Banking Act the circulation of the

-3-

country can not be reduced at a rate more rapid than \$9,000,000 *in any one* ~~per~~ month, which means a maximum of \$108,000,000 per year.

Fifth:

It is very desirable that a liberal legal interpretation shall be given the powers of the Board ~~and the Federal Reserve Banks~~, or of the Federal Reserve Banks, acting under regulations of the Federal Reserve Board and the Secretary of the Treasury ^{as provided in} ~~under~~ Section 18, because the substitution of Federal Reserve ^{Currency} and Federal Reserve Bank Note currency for 7600 different kinds of National bank notes is desirable from the standpoint of efficiency ^{and wise currency issue}. If we were to make the most rapid progress possible under the Act and if each Federal Reserve Bank were to buy bonds as rapidly as the law ^{permitted} ~~allows~~, which is quite inconceivable, it would take practically seven years to retire the present National bank note currency, into which void the Federal Reserve currency would ^{rapidly and naturally} ~~easily~~ flow. If, however, a narrow ~~interpretation~~ interpretation is placed upon Section 18 it will take thirty years to accomplish this. ^{much desired result. It is safe to estimate} ~~In all~~ ^{of the act} ~~probability, under a liberal interpretation~~ it would take ten to twelve years to effect ^a the complete substitution, which ^{certainly} ~~would not be~~ hasty action.

Sixth:

The National banks of the country have ^{an important} ~~get a big~~ ^{at stake} interest in this matter. Many of them, especially the smaller ones, paid ^{high} ~~big~~ prices for their bonds, ~~having paid~~ in many

-4-

110.
cases as high as a ~~hundred and ten~~. They have had to write

off this premium and they are ^{naturally} ~~now~~ interested in ^{selling} ~~getting rid~~
~~of~~ the bonds ~~gradually~~ at par, or approximately par, ^{and so not incur a further loss.} For

this reason, it would seem desirable that any 2% bonds, bought
in the open market, and exchange for 3% bonds, or 3% bonds and ^{one year}
notes, ~~should~~ not be deducted from the \$25,000,000 ^{minimum} which

^{the} Federal Reserve Banks are required to buy and National banks
are authorized to sell. It would also ^{appear reasonable that} ~~seem~~ if the Fed-

eral Reserve System should be protected against the action of
those banks which might ~~wish to~~ use the willingness of the

Federal Reserve Banks to buy bonds as an ~~easy~~ opportunity for
^{enabling them thus to} ~~withdrawing~~ from the National banking system. ^{It is a serious question if} ~~The~~ Federal

Reserve Board ^{is not} ~~might even be~~ justified in requiring Federal

Reserve Banks, buying the bonds of ~~any~~ ^a National bank, to secure
an agreement from that bank that if it retired ^{\$} within three
years from the National Banking System, it ^{shall purchase} ~~would agree to~~

~~take~~ ^{thus} back the bonds sold to the Federal Reserve Bank.

FEDERAL RESERVE BOARD FILE

Reynolds
Board Council
M.C. ELLIOTT
COUNSEL

FEDERAL RESERVE BOARD

WASHINGTON January 14, 1916

My dear Governor:-

I have read carefully the attached letter of Mr. Reynolds in which he suggests that the Board make a ruling to the effect that Government bonds bought by Federal reserve banks after December 31, 1915, and prior to March 21, 1916, and during each quarterly period thereafter, shall not count as a part of the \$25,000,000 of bonds which the Federal Reserve Board can, in its discretion under the provisions of Section 18 of the Act, require Federal reserve banks to purchase from member banks whose applications for the sale of their bonds have been filed with the Treasurer.

I would suggest that Mr. Reynolds be advised substantially as follows:

That while the Board appreciates the force of his suggestion, and deems it important that the market price of government bonds should be protected, the difficulty in the present case is that Section 18 does not give the Board the power to make the ruling suggested. The particular language involved reads as follows:

*****The Federal Reserve Board may, in its discretion, require the Federal reserve banks to purchase such bonds*****PROVIDED, That Federal reserve banks shall not be permitted to purchase an amount to exceed \$25,000,000 of such bonds in any one year, and which amount shall include bonds acquired under Section 4 of this Act by the Federal reserve bank".

From this it will be observed that a limit is placed by statute upon the power of the bank to purchase and the Board cannot require such banks to purchase an amount in excess of what they are permitted to purchase by law.

Under the ruling referred to, published on page 217 of the August Bulletin, the Board reached the conclusion that bonds bought by Federal reserve banks prior to December 31, 1915, should not be deducted from the allotment made to any Federal

- 2 -

reserve bank during the year 1916 on the ground that such bonds were not purchased during the year that the allotment is to be made. Not allotment was made during the year 1915 since this provision of the Act did not become effective until December 23, 1915.

Where bonds are purchased under Section 4 during the same year that the allotment is made, however, the Board has no discretion in the matter. In such case Federal reserve banks are prohibited by law from purchasing their full allotment under Section 18 but must deduct those bonds which they have purchased under Section 4.

Very sincerely,

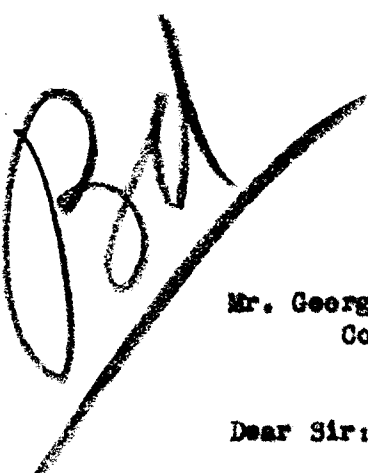
A handwritten signature in cursive script, appearing to read "M. E. E. E. E.", with a horizontal line underneath.

Hon. F. A. Delano,
Vice Governor.

PCM.

333

January 10, 1916.



Mr. George M. Reynolds,
Continental & Commercial National Bank,
Chicago, Ill.

Dear Sir:-

This will acknowledge the receipt of your
letter of January 5th giving the Federal Reserve
Board your views in connection with the action of
the Board relative to the purchase of United States
bonds under the Federal Reserve Act, is received.

I shall take pleasure in bringing your
letter promptly to the attention of the Federal Re-
serve Board.

Very respectfully,

Secretary.

CAPITAL, SURPLUS AND UNDIVIDED PROFITS \$33,000,000

Continental and Commercial National Bank of Chicago

GEORGE M. REYNOLDS, PRESIDENT

ARTHUR REYNOLDS, VICE PRESIDENT
RALPH VAN VECHTEN, VICE PRESIDENT
ALEX ROBERTSON, VICE PRESIDENT
HERMAN WALDECK, VICE PRESIDENT
JOHN C. CRAFT, VICE PRESIDENT
JAMES R. CHAPMAN, VICE PRESIDENT

WILLIAM T. BRUCKNER, VICE PRESIDENT
NATHANIEL R. LOSCH, CASHIER
JOHN R. WASHBURN, ASST. CASHIER
HARVEY C. VERNON, ASST. CASHIER

GEORGE B. SMITH, ASST. CASHIER
WILBER HATTERY, ASST. CASHIER
H. ERSKINE SMITH, ASST. CASHIER
WILSON W. LAMPERT, ASST. CASHIER
DAN NORMAN, ASST. CASHIER
GEORGE A. JACKSON, ASST. CASHIER

Chicago, January 5th, 1916.

FEDERAL RESERVE BOARD,

Washington, D. C.

Gentlemen:

While attending a meeting of the Executive Committee of the Federal Reserve Bank of Chicago yesterday, Governor McDougal read the telegrams which had passed between himself, representing the Federal Reserve Bank of Chicago, and your board, relative to the redemption of the 2% United States bonds now used to secure circulating notes of national banks under the provisions of the Federal Reserve Act.

Mr. McDougal's telegram to you was as follows:

"Please advise whether under the terms of paragraph three Department circular number fifty-three issued by the Treasury Department December third we will be allowed credit for purchase of United States two per cent bonds made subsequent to December twenty-third nineteen fifteen."

To which you replied as follows:

"Your telegram December twenty-seventh received. Board has ruled two seventeen August Bulletin that Government bonds bought in open market prior to December thirty-first, nineteen hundred fifteen are not eligible as a deduction from allotment made under Section eighteen. Bonds bought on or after January first may be deducted."

Believing, as I do, that the intent of that part of Section Eighteen of the Federal Reserve law which relates to the exchanging of

Continental and Commercial National Bank of Chicago

- 2 -

2% United States bonds for 3% gold notes in amounts not to exceed \$25,000,000 per annum, was to maintain a parity for the 2% bonds, of which the national banks of the country, members of the Federal Reserve System, own about \$680,000,000, and to stabilize their market value, as well as to provide means for the gradual retirement of national bank notes secured principally by those bonds, it seems to me that the ruling of your board, as outlined in the above telegram to Mr. McDougal, will tend to interfere with those purposes and, on the contrary, create the very thing which the passage of this section of the law had expected to prevent, viz; a demoralization of the market value of these bonds.

Entirely aside from any discussion regarding your interpretation of the law, I believe that, as a matter of policy, the opinion you have given to Mr. McDougal should not stand and that part of it referring to bonds purchased after December 31st, 1915, be made public, for if such should be the case it seems to me that you will unconsciously be playing into the hands of speculators in those bonds, rather than following a course calculated to stabilize their market value and protect the national banks, members of the system over which you preside, and whose ownership of the major portion of those bonds has for years been the chief supporting factor of the market.

Already the Federal Reserve Bank of this city has been approached by houses who would sell 2% bonds to them at a slight discount and after the two per cents. have been exchanged for 3% notes, buy those notes from the Federal Reserve Bank at par, or a price slightly above par.

During the last few days there have been many inquiries for 2% bonds in Chicago, but so far as I know, none of the banks here has, up to this time, disposed of any of its bonds at a discount.

Continental and Commercial National Bank of Chicago

- 3 -

If the Federal Reserve banks are permitted to buy 2% bonds in the open market and include bonds so purchased in the allotment of \$25,000,000 per annum, which your board has the right to require those banks to buy, it naturally follows that it will stimulate activity on the part of the bond houses to deal in these bonds, even though the profit may be ever so small, and we believe that in all equity and justice, the interests of the members of the Federal Reserve System, who are co-operating magnificently for its success, should not be subordinated to those of the street, which seeks only the profits it may derive through those transactions.

The fact that in one draft of the proposed currency legislation, which was printed before the bill was presented to Congress, there was omitted any treatment whatever of the 2% bonds owned by national banks and held in trust by the Treasurer to secure circulation, caused the first depreciation in the value of these bonds below par.

On the afternoon of the day before the bill was introduced into Congress, I had the honor to be one of a committee of four bankers appointed by the American Bankers' Association to interview President Wilson and Secretary McAdoo regarding this matter and its omission from the draft of the bill which had been prepared, with the result that it was restored and later on, in somewhat of a modified form, was enacted into law.

I know that it was clearly the intention of all taking part in the framing of that legislation to have that part of the bill act as a safeguard against a demoralization of government 2% bonds and to assure banks owning those bonds that the Administration proposed to keep faith with them and do all in its power to protect their values up to par.

Continental and Commercial National Bank of Chicago

- 4 -

Now, assuming that during the present twelve months period the twelve Federal Reserve banks should be able to buy in the open market approximately \$25,000,000 of these bonds and would have the right, under your ruling to offset them against their allotment, it is obvious that it would be impossible for member banks to realize upon their bonds through action of the Federal Reserve Board as contemplated by the law; and assuming that \$25,000,000 so purchased by the Federal Reserve banks are bought at a discount of 1/2 of 1%, the twelve Federal Reserve banks by such transactions would earn \$125,000,- would it not follow that an equal discount might properly be chargeable against the whole \$678,000,000 of these bonds held by national banks, and entail a loss to them of \$3,390,000, on the one hand, while reaping \$125,000 through their stockholding interests in the Federal Reserve banks, on the other?

Furthermore, under the assumption that member banks would find it impossible to dispose of any of their 2% bonds through your board, is it not reasonable to assume that many of the bankers throughout the country would become weak-kneed and offer their bonds for sale at a greater discount?

Now, since all of the stock of the Federal Reserve banks is owned by member banks, I fail to see that it would be to their interest for the Federal Reserve banks to earn a profit through the purchase of 2% bonds at a discount, when to secure that profit the market for those bonds would necessarily be held below par and make a loss to them, collectively, of thirty times the amount of that profit.

In our case, we are carrying \$8,500,000 of these bonds, and, like other bankers of the country, we have gone into this matter in good

Continental and Commercial National Bank of Chicago

- 5 -

faith, believing it was right to co-operate with the government and that the government, in turn, would co-operate with us. If the ruling which you have made should stand, and it should develop that we are unable to reduce our circulation from time to time through the provisions of the law because of the offsets Federal Reserve banks might make of bonds purchased in the open market, the only possible recourse for us, if we realize upon our bonds at all, would be to throw them on the market and get whatever we could for them.

I do not say that we would do this, but I think your board will appreciate the fact that ever since the incident which caused treatment of the national bank notes and bonds securing them to be omitted from the draft of the bill, as referred to, there have been some mis-givings in the minds of many bankers, and I fear that the ruling which you make in this connection, if permanent, will accentuate this and create the belief that they had better do what they can to dispose of their 2% bonds, rather than take any chances on the outcome at some indefinite future time.

Would it not be advisable to promulgate a ruling similar to that appearing on page 217 of the August "Federal Reserve Bulletin" to provide that government bonds bought by Federal Reserve banks after December 31st, 1915 and prior to March 21st, 1916, and during each quarterly period thereafter, shall not count as a part of the \$25,000,000 of bonds which the Federal Reserve Board can, in its discretion under the provisions of section 18 of the act, require Federal Reserve banks to purchase from member banks whose applications for the sale of their bonds have been filed with the Treasurer.

I believe that the members of the board are just as anxious as

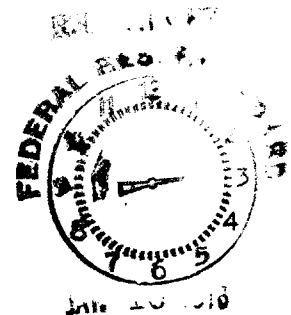
Continental and Commercial National Bank of Chicago

- 6 -

the bankers of the country to handle this matter along lines which will do most to insure parity for the 2% bonds, and I have, therefore, written you my impressions upon the subject with this thought in mind, feeling, as I do, that it is worthy of your earnest consideration.

Yours very respectfully,

Geo. M. Reynolds



12/23/15.

333

MEMORANDUM

Refunding Provisions, Section 18, Federal Reserve Act.

(1) The Executive Committee of the Governors, at their recent conference, claimed that the reference to Section 4 in Section 18 is in error; that the reference really was to Section 14.

I do not think that this is correct; if correct, the Federal Reserve Banks, by buying, in the open market, Government bonds not having a circulation privilege, e.g., Panama 3's, could, pro tanto, reduce their annual liability to buy 25 millions of Government 2's from the Treasurer of the United States, for Section 14 gives Federal Reserve Banks the right to buy any kind of Government bonds in the open market, that is, bonds with or without the circulation privilege.

(2) It is true that Section 4 gives no direct power to the Federal Reserve Banks to buy any bonds, but merely gives the right to take out Federal Reserve Bank notes against any bonds bought with the circulation privilege under Section 14, although this latter section is not referred to. Congress, however, evidently intended that the 25 millions obligatory quota may be cut down by purchase, in the open market, of bonds having the circulation privilege but not deposited with the Treasurer as security for National bank notes.

(3) The question is, whether it was the intention of Congress to give to Federal Reserve Banks the right to convert these latter bonds into gold notes and Government 3's.

-2-

(4) This privilege of refunding, whatever its scope, is one given to Federal Reserve Banks and not to the public.

(5) The burden placed upon Federal Reserve Banks is to buy not exceeding 25 millions, minus their open market purchases, of bonds having the circulation privilege.

(6) The privilege of conversion may be construed:

(a) To be of the same scope as the burden, that is, to be limited to bonds which the Federal Reserve Banks must annually buy from National banks through the United States Treasurer, or,

(b) The privilege may be construed as broader than the burden, that is, Federal Reserve Banks may convert into gold notes and Government 3's, any bonds bought in the open market having the circulation privilege.

(7) If (a), above, is correct construction, the privilege would be limited to converting the 679 millions of bonds, or such of those as are 2 per cent bonds, now held by the Treasurer to secure National bank circulation, and it would be further limited to the amount of 25 millions (less open market purchases) in any one year.

(8) If (b), above, is the correct construction, this privilege would be increased so that the Federal Reserve Banks could convert any part held by them of the 39 millions of bonds in the hands of the public, and also the 12 millions of bonds held by the Treasurer to secure deposits of public moneys.

In this case, the 25 millions annual limitation would not seem to be applicable.

-3-

(9) It may be presumed that the intent of Congress was to cancel, gradually, all outstanding National bank notes, but Congress refused to permit a greater contraction than 25 millions each year.

(10) On the other hand, the conversion of bonds bought by Federal Reserve Banks in the open market does not directly contract the circulation, it merely, pro tanto, prevents future increase in the same.

(11) It would seem, therefore, that (b), above, could be held to be a perfectly possible construction of the law.

(12) It would seem clear, however, that Congress could not have intended to give to the Federal Reserve Banks the privilege of converting only 25 millions of bonds held by the Treasury, and at the same time the privilege of converting over 50 millions of bonds held by the Treasurer to secure public deposits, and held by the public.

(13) It would seem equitable, therefore, for the Federal Reserve Board and the Secretary of the Treasury to apply to bonds bought in the open market the same limitation as bonds bought of National banks through the Treasurer.

(14) I would, therefore, recommend an announcement that the conversion privilege vested in Federal Reserve Banks:

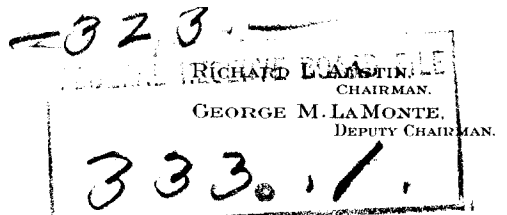
(a) Is open for all bonds whether in the hands of the Treasurer of the United States or in the hands of the public, but that the total annual limit be fixed at 25 millions, or

(b) That the limit be fixed at 25 millions annually for each class, respectively, making the grand total 50 millions annually.

(c) Both (a) and (b), above, to be conditioned upon the Federal Reserve Bank not having taken out Federal Reserve Bank notes against any such bonds.

CHARLES J. RHODES,
GOVERNOR.
EDWIN S. STUART,
DEPUTY-GOVERNOR.
FRANK M. HEDT,
CASHIER.

3



FEDERAL RESERVE BANK OF PHILADELPHIA

408 CHESTNUT STREET

PHILADELPHIA, Dec. 11, 1915.

Sir:

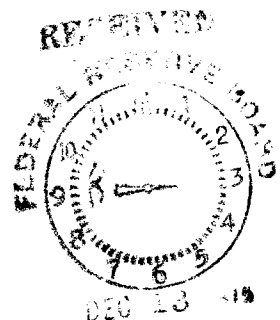
I beg to acknowledge receipt and thank you for your favor of the 10th instant, with reference to a re-adjustment on our books of the price at which we are carrying our U. S. bonds to correspond with market values at the close of the year, and note that should we mark the bonds up, it would be necessary for us to mark them down again should the price decline, which is entirely satisfactory to us.

Respectfully,

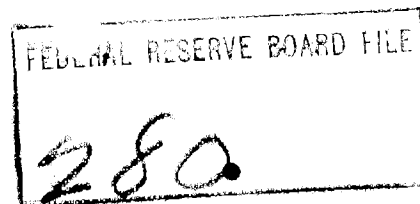
Charles J. Rhodes
Governor.

DR. H. PARKER WILLIS,
Secretary,
Federal Reserve Board,
Washington, D. C.

CJR-D



#3



H3

333

December 10, 1915.

Sir:

Your letter of November 22 addressed to Honorable Paul M. Warburg, in which you ask whether the Board would object to your carrying your Government bonds at the market price at the close of the year, has been duly received.

The matter has been discussed by the Board, and I am instructed to inform you that it has reached the conclusion that no objection could be raised to your carrying the bonds at market, provided that if your bank adopts this policy, it shall continue to follow it. In other words, if you mark up your bonds in case the market price at the end of the year is higher than the purchase price, you will also have to mark them down in a year when the market price should happen to be below the price at which you carry these bonds on your books.

Respectfully,

Secretary.

Mr. C. J. Rhoads,
Governor, Federal Reserve Bank of Philadelphia.

FEDERAL RESERVE BOARD
WASHINGTON

323

December 6, 1915.

Dear Governor Rhoads:

I still have to answer your letter of November 29th, in which you ask me whether the Board would object to your carrying your government bonds at the market price at the close of the year.

I have discussed the matter with my colleagues and we have reached the conclusion that no objection would be raised to your carrying the bonds at market, provided that if your bank adopts this policy it shall continue to do so. In other words, if you mark up your bonds in case the market price at the end of the year is higher than the purchase price, you also ^{will have to} mark them down in a year when the market price should happen to be below the price at which you carry these bonds on your books.

Very truly yours,

C. J. Rhoads, Esq.,
Governor, Federal Reserve Bank,
Philadelphia, Pennsylvania.

*

MEMORANDUM FOR DR. WILLIS.

12/21/15

It is reasonable to expect that, as the time approaches, when National banks will begin to sell their U. S. bond holdings at par, the market value of these bonds will show but little fluctuation from par. There would then be little impropriety in marking ~~up~~ on the books the value of the bonds carried as assets by the F. R. banks.

Whether the end of this month is a proper time to mark up their value in view of the pending pressure to sell bonds, as a result of the coming transfer to F. R. banks of Government deposits, seems doubtful. In my opinion the proper time to do so would be March 1, or some time after, when there is reasonable assurance that the market value of these bonds will be practically par. By that time their value might be properly marked up to par.

It may be stated in this connection that the Cleveland, Chicago and Minneapolis F. R. banks ~~carry~~ the bulk of their bonds at par. It is believed therefore that if the Philadelphia bank ~~is~~ authorized to raise the book value of its bonds that authority be given to raise them to par rather than to $99\frac{1}{2}$ or $99\frac{3}{4}$.

Respectfully,



Dec. 2, 1915.

File
(Stencil recut on 10/27/37
and compared with original)
439.

Circular No. _____
Series of 1915.

333.

FEDERAL RESERVE BOARD.

X (Minor 439)

12-1-15
November ____, 1915.

Carded

GENERAL OPEN MARKET OPERATIONS.

The Federal Reserve Act in Section 14, under the head "Open Market Operations," provides that:

"Any Federal reserve bank may, under the rules and regulations prescribed by the Federal Reserve Board, purchase and sell in the open market, at home or abroad, either from or to domestic or foreign banks, firms, corporations, or individuals, cable transfers, and bankers' acceptances and bills of exchange of the kinds and maturities by this Act made eligible for rediscount, with or without the endorsement of a member bank."

The Act also provides that every Federal reserve bank shall have power:

"To deal in gold coin and bullion at home or abroad * * * ."

"To buy and sell, at home or abroad, bonds and notes of the United States, and bills, notes, revenue bonds, and warrants with a maturity from date of purchase of not exceeding six months, issued in anticipation of the collection of taxes, or in anticipation of the receipt of assured revenue by any State, county, district, political subdivision, or municipality * * * ."

"To purchase from member banks and to sell, with or without its indorsement, bills of exchange arising out of commercial transactions, as hereinbefore defined."

Further in the same section permission is given to each Federal reserve bank:

"* * * to buy and sell * * * through (its) correspondents or agencies, bills of exchange arising out of actual commercial transactions which have not more than 90 days to run, and which bear the signature of two or more responsible parties."

- 2 -

Several of these classes of transactions have already been provided for in the circulars and regulations heretofore issued by the Federal Reserve Board as follows:

In Circular No. 7, Series of 1915, regulations have been *- established for the general purchase of warrants;

In letters to the various Federal reserve banks the conditions have been indicated under which bonds and notes of the United States may be dealt in;

In letters to Federal reserve banks conditions under which Federal reserve notes may be exchanged for gold, gold coin or gold certificates, have been stated, and operations of this nature are in progress;

In circulars revised from time to time and culminating in Circular No. 18, Series of 1915, conditions have been established for the purchase of bankers' acceptances growing out of foreign trade operations;

In Circular No. 19, provision has been made for the purchase of acceptances of State banks and bankers growing out of domestic operations of specified classes.

THERE REMAIN STILL TO BE DEALT WITH THE PURCHASE AND SALE OF "CABLE TRANSFERS AND BILLS OF EXCHANGE OF THE KINDS AND MATURITIES BY THIS ACT MADE ELIGIBLE FOR REDISCOUNT".

The present circular and regulation is intended to cover these two items, and the Board wishes particularly to call attention to the purpose of the open market section of

the Federal Reserve Act. This purpose is twofold - to enable the Federal Reserve Banks to exert a greater influence upon prevailing rates of interest by the use of their purchasing power whenever conditions seem to make it desirable that they should exert such influence; and when, owing to the lack of applications for rediscounts, they are unable to influence rates through the latter means. In addition to this the open market power may afford to Federal Reserve Banks the opportunity of purchasing in the open market enough paper to enable them to provide reasonably for their expenses and dividends. The Board is of the opinion that the reserve banks should, when occasion demands, stand ready to engage in open market transactions, as buyers or sellers to the extent that is necessary to attain these or any other desirable object.

The Federal Reserve Board does not wish to be understood as encouraging expansion of credits when in some Districts at least there should be contraction, but rather that the Federal Reserve Banks taking cognizance of the conditions in their respective districts will avail themselves of the privileges granted by the Act as explained in our letter of October 8 just as they have other open market powers already defined if and when it seems wise to do so.

CHARLES S. HAMLIN,
Governor.

H. PARKER WILLIS,
Secretary.

12/1/15

-439a-

Regulation____
Series of 1915.

F E D E R A L R E S E R V E B O A R D.

Washington, November____, 1915.

GENERAL OPEN MARKET OPERATIONS.

I

Definition.

Open market operations as defined under the Federal Reserve Act, are all those operations permitted by the Act which do not require the endorsement of a member bank upon the paper growing out of them, which are not presented or brought to the attention of the Federal Reserve Board by a member bank, or which involve dealings with persons or institutions not members of the system.

I I.

Operations Already Authorized.

In the accompanying circular description has been given of, and reference made to, preceding circulars and letters issued by the Board providing for open market transactions in bankers' acceptances, bonds and notes of the United States, warrants, and the exchange of Federal reserve notes for gold, gold certificates, etc. The present regulation has no reference to any of these dealings, but the circulars and regulations relating thereto are continued in force as heretofore.

- 2 -

-439a -

I I I.

Operations Provided for in this Regulation.

This regulation deals with operations in cable transfers, and foreign and domestic bills of exchange. The statutory requirements pertaining thereto have already been set forth in the accompanying circular.

I V.

Character of Bills Eligible.

The Federal Reserve Board has determined that to be eligible for purchase under Section 14 by Federal Reserve Banks, at the rates to be established for open market operations :

(a) Bills must comply with the provisions of Regulation "B", Series of 1915, relating to "notes, drafts and bills of exchange," in so far as applicable thereto, a bill of exchange being hereby defined as an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand, or at a fixed or determinable future time, a certain sum in money to, or to the order of, a specified person or to bearer.

- (b) Bills may have been made by domestic or foreign firms, corporations, or individuals.
- (c) Bills need not be endorsed by any member bank.
- (d) Bills need not be accepted by the drawee prior to purchase.

V.
Method of Ascertaining Eligibility.

In ascertaining the eligibility of paper under this regulation, Federal reserve banks shall comply with the provisions of Section III, Regulation B, Series of 1915, except that the certification of eligibility to be furnished by a member bank, under the terms of that Section, may be supplied by a non-member bank, or by any other individual, firm or corporation able to afford such information in a trustworthy manner, provided that the name of such individual, firm or corporation shall be submitted to and approved by the Federal Reserve Board.

Statements of the financial condition of the maker the paper may be waived where bills offered for sale comply with the following requirements:

-4-

-439a-

(1) If the bill bears the signature of the purchaser and seller of the goods, and presents prima facie evidence that it was issued for goods actually purchased or sold; or

(2) If the bill be specifically secured by approved warehouse receipts, bills of lading, or other documents covering readily marketable goods.

V I.

Credit Files.

The Federal Reserve Banks should establish credit files containing information on the following points :

(1) The nature of the business or occupation of the maker of the paper purchased by the Federal Reserve Banks :

(2) If an individual, information as to his indebtedness and his financial responsibility;

(3) If a firm or corporation, a balance sheet showing quick assets, slow assets, permanent or fixed assets, current liabilities and accounts, short-term loans, long-term loans, capital and surplus;

(4) All contingent liabilities, such as indorsements, guaranties, etc.

(5) Particulars respecting any mortgage debt and whether there is any lien on current assets.

(6) Such other information as may be necessary to determine whether the borrower is entitled to credit in the form of short-term loans.

-5-

-439a-

V I I .

(a) Cable transfers are defined as immediate transfers of funds made on behalf of applying individuals, firms, or corporations in such manner as to place at the disposal of the applicant a specified sum of foreign currency in a designated foreign country, in exchange for payment made to the Federal Reserve Bank in United States standard money.

(b) Federal Reserve Banks are authorized to make such transfers up to a limit to be named on application by the Federal Reserve Board, for each Federal Reserve Bank.

(c) Every Federal Reserve Bank undertaking dealings in cable transfers shall inform the Federal Reserve Board by telegraph at the close of each day's business, the amount so transferred, the rate at which the purchase or sale of same has been made, and any other facts essential to the operation.

(d) The Federal Reserve Board reserves the right to alter the rate at which such transactions are entered into, by telegraph, and without notice.

CHARLES S. HAMLIN
Governor.

H. PARKER WILLIS
Secretary.

11/29/15

439 b.

Regulation _____
Series of 1915.

F E D E R A L R E S E R V E B O A R D .

Washington, December _____, 1915.

GENERAL OPEN MARKET OPERATIONS.

I.

Definition.

Open market operations as defined under the Federal Reserve Act, are all those operations permitted by the Act which do not require the endorsement of a member bank, or which involve dealings with persons or institutions not members of the system.

II.

Operations Provided for in this Regulation.

As explained in the accompanying circular a number of forms of open market operations have already been covered in previous regulations.

This regulation deals with operations in cable transfers, and foreign and domestic bills of exchange. The statutory requirements pertaining thereto have already been set forth in the accompanying circular.

-2-

-439b-

III.

CABLE TRANSFERS AND FOREIGN BILLS OF EXCHANGE.

In order to carry on open market transactions in dealing in cable transfers and foreign bills of exchange - that is, payments to be made in, or bills payable in, foreign countries, it will be necessary for Federal Reserve Banks to open accounts with correspondents or establish agencies in the leading financial centers of those foreign countries where there is established a reliable standard of exchange. As the law prescribes that these connections are to be established only with the consent of the Federal Reserve Board, Federal Reserve Banks will communicate with the Federal Reserve Board whenever they are ready to enter into these foreign fields.

The Federal Reserve Board realizes that in dealing in foreign exchange, the Federal Reserve Banks must necessarily have to have a free hand in determining the rates at which they wish to sell or purchase. The Federal Reserve Board however, desires to establish the general rule that in purchasing long bills in foreign countries, such bills shall bear at least three signatures - that is, the acceptor, the drawer, and that of the firm from which the bill of exchange is bought, preferentially that of a banker. It is not necessary, however, that the bill shall have been actually accepted at the time

- 3 -

439 b.

of purchase. Of course, Reserve Banks will have to exercise the greatest caution in dealing in this paper, and it is expected that their Boards of Directors will fix a limit up to which the acceptances of one single firm may be taken.

IV.

DOMESTIC BILLS OF EXCHANGE

The Federal Reserve Board has determined that in order to be eligible for purchase under Section 14 by the Federal Reserve Banks, at the rates to be established for open market operations :

(a) A bill of exchange is defined as an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand, or at a fixed or determinable future time, a certain sum in money to, or to the order of, a specified person or to bearer.

(b) A Domestic bill must be payable in dollars in the United States.

(c) It must be a bill, the proceeds of which have been used, or are to be used, in producing, purchasing, carrying, or marketing goods in one or more steps of production, manufacture, and distribution;

(d) No bill is eligible, the proceeds of which have been used, or are to be used for a permanent or fixed investment of any kind, for example, land, buildings, machinery, etc., nor for any investment of a merely speculative character.

(e) Domestic bills may have been drawn by a domestic or foreign firm, corporation, or individual upon a firm corporation, or individual in the United States.

(f) Domestic bills need not be endorsed by any member bank.

(g) Domestic bills must be accepted by the drawee prior to the purchase by the Federal Reserve bank unless they are accompanied and secured by approved warehouse receipts, bills of lading or other document covering readily marketable goods,

V.

Domestic Bills - Conditions of Purchase.

(a) Before purchasing domestic bills of exchange, Federal Reserve banks must secure statements concerning the condition and standing of the drawer of the paper, and, if possible, also of the acceptor of the bill, sufficient to satisfy the bank as to the legitimate nature and quality of the paper to be purchased.

(b) No Federal Reserve bank will be permitted to purchase an aggregate amount of bills of any one drawer, or issued upon any one maker in excess of a percentage of its capital, to be fixed from time to time by the Federal Reserve Board, except when

-5-

-439b-

secured by approved warehouse receipts, bills of lading or other documents covering readily marketable goods. The aggregate amount drawn on any one acceptor, purchased by Federal Reserve Banks shall not exceed a reasonable percentage of the net worth of the parties whose names appear upon the paper.

V I .

RATES AT WHICH THESE OPEN MARKET TRANSACTIONS
SHALL BE TAKEN.

Federal Reserve Banks desiring to enter into these open market relations shall communicate to the Board the rate they desire to establish, for review and determination by the Federal Reserve Board.

CHARLES S. HAMLIN
Governor.

H. PARKER WILLIS
Secretary.

12/1/15

CHARLES J. RHOADS
GOVERNOR.
EDWIN S. STUART,
DEPUTY-GOVERNOR.
FRANK M. HARDT,
CASHIER.

RICHARD L. AUSTIN,
CHAIRMAN.
GEORGE M. LAMONTE,
DEPUTY CHAIRMAN.

FEDERAL RESERVE BANK OF PHILADELPHIA

408 CHESTNUT STREET

PHILADELPHIA, Nov. 29, 1915.

Dear Mr. Warburg:

I wish to thank you for your kindness in sending me a copy of your remarks delivered at Charlotte, N. C., on the 23d instant, which I have read through with much interest, and hope that this address will be given wide publicity, because I am sure that it would be most helpful if people generally could read and digest what you have stated.

I today persuaded Mr. Rue to let us have about \$200,000. of acceptances made by the Philadelphia National Bank, maturing through December, the longest running until the 31st of that month. We have so much of our invested funds maturing in December that we are very desirous of replacing our maturities, even at low rates. I had to take the acceptances from the Philadelphia Bank on a 2% discount basis.

Would there be any objection in your mind to our marking up the book value of our U. S. 2's, which stand us, approximately, 98-5/8 plus 1/16 to 99-1/4 or 99-1/2, in view of the appreciation in market price which has taken place in these bonds? If we could take credit for this book profit, it would probably enable us to close our books at the end of the year without showing any deficit on our so-called operating expenses, and this would enable us to make a little better showing to our stockholding banks, which we are very anxious to do. From what bond dealers tell me, the price for U. S. 2's is now pretty well established at 99-1/2 bid and 99-3/4 asked, and while this may be affected by pressure to sell the bonds released when the transfer of government deposits takes place on January 1st, yet I hope that the purchase of 2's, as provided under the Federal Reserve Act, will counteract this influence and hold the price at or near par.

I enclose a slip from the News Bureau Service, showing the combined statement of the Philadelphia Clearing House for the week just ended, which indicates a decline of nearly \$9,000,000. in surplus reserves, due chiefly to decrease of deposits and a small increase in loans. I will mail you the regular detailed statement tomorrow, as usual.

Very truly yours,



Governor.

PAUL M. WARBURG, Esq.,
Federal Reserve Board,
Washington, D. C.

Punch
My 7/2/15
Williams
COMPTROLLER OF THE CURRENCY

Secret

RECEIVED

OCT 22 1915

TREASURY DEPARTMENT

WASHINGTON

October 22,

FEDERAL RESERVE BOARD FILE
333
262
3-3
N

My dear Governor:-

I have just been looking over the September, 1915, statement of the twelve Federal Reserve Banks.

In the month of September, they all seem to have earned their current expenses except the St. Louis Bank, which reports a deficit of \$2,761.00. Some other banks also show a very small margin of earnings over expenses; and very few can be said to be earning anything like a fair dividend on their shares.

Do you not think it might be well to bring formally to the attention of some of these lean banks again the suggestion that they purchase Government 2 per cent bonds and take out 100% circulation against them, so as to make a net profit of about 1% per annum on the amount they may buy?

If the St. Louis Bank, for instance, should purchase \$5,000,000 Government 2/s at, say, 97, the transaction would work approximately as follows:

\$5,000,000 at 97	\$4,850,000.
The company would receive, against these bonds, Federal Reserve Notes for	\$5,000,000.
Deduct 5% reserve fund.	250,000.
Net amount of money received.	4,750,000
Therefore it appears that the net amount of money which the Bank would be out would be	\$ 100,000.
upon which we will assume the Bank will lose 3% per annum interest or \$3,000.	

The Bank, however, receives 2% interest on \$5,000,000, or	\$100,000.
It has to pay a circulation tax of one-half of 1%, or	25,000.
Net return from interest	\$ 75,000.
Deduct 3% interest loss on say \$100,000, as above.	3,000.
Leaves a net profit per annum of	\$ 72,000.

And in addition to receiving this net return, the Bank would make \$150,000 additional when the bonds are paid off at par in twenty years. This \$72,000 is equal to \$6,000 per month.

I note that the TOTAL current expenses for 10½ months, from November 16, 1914 to September 30, 1915, of several of the banks have been less than \$72,000; so that, if they had made this investment of \$5,000,000 in Government 2% bonds, the revenue on these bonds would have paid ALL of their CURRENT EXPENSES from the beginning of the System to September 30, 1915.

-2-

The total expenses for this period of several of the Banks are reported as follows:

Richmond	\$67,624.24,
Atlanta.	71,480.37,
Minneapolis.	70,910.55.


These Banks would then have had the following sums available for distribution to their stockholders:

Richmond	\$243,010.44, + 4,375.76 or 8247,386. ²⁰
Atlanta.	161,630.82, + 519.63 or 162,150.45
Minneapolis.	63,104.61. + 1089.44 or 64,194.05

And the St. Louis Bank, instead of showing a deficit for the ten and one-half months' period of \$2,761.64, would have shown a slight surplus.

Should not this subject be brought forcibly to the attention of those banks which are still falling behind?

Sincerely yours,



Hon. C. S. Hamlin,
Governor, Federal Reserve Board.

MEMORANDUM ON THE PURCHASE OF GOVERNMENT BONDS.

In the month of September, they all seem to have earned their current expenses except the St. Louis Bank, which reports a deficit of \$2,761.00. Some other banks also show a very small margin of earnings over expenses; and very few can be said to be earning anything like a fair dividend on their shares.

Do you not think it might be well to bring formally to the attention of some of these lean banks again the suggestion that they purchase Government 2 per cent bonds and take out 100% circulation against them, so as to make a net profit of about 1½% per annum on the amount they may buy?

If the St. Louis Bank, for instance, should purchase \$5,000,000 Government 2½s at, say, 97, the transaction would work approximately as follows:

\$5,000,000 at 97	\$4,850,000
The company would receive, against these bonds, Federal Reserve Notes for	\$5,000,000,
Deduct 5% reserve fund	<u>250,000.</u>
Net amount of money received	<u>4,750,000</u>
Therefore it appears that the net amount of money which the Bank would be out would be	\$ 100,000,
upon which we will assume the Bank will lose 3% per annum interest or \$3,000.	

The Bank, however, receives 2% interest on \$5,000,000, or \$100,000.	
It has to pay a circulation tax of one-half of 1% or	<u>25,000</u>
Net return from interest	\$ 75,000
Deduct 3% interest loss on say \$100,000, as above.	<u>3,000</u>
Leaves a net profit per annum of	\$ 72,000

And in addition to receiving this net return, the Bank would make \$150,000 additional when the bonds are paid off at par in twenty years. This \$72,000 is equal to \$6,000 per month.

I note that the Total current expenses for 10½ months, from November 16, 1914 to September 30, 1915, of several of the banks have been less than \$72,000; so that, if they had made this investment of \$5,000,000 in Government 2½bonds, the revenue on these bonds would have paid all of their current expenses from the beginning of the System to September 30, 1915.

The total expenses for this period of several of the Banks are reported as follows:

Richmond	\$67,624.24
Atlanta	71,480.37
Minneapolis	70,910.56

- 2 -

These Banks would then have had the following sums available
for distribution to their stockholders:

Richmond	\$243,010.44	plus	4,375.76	or . . .	\$247,386.20
Atlanta	161,630.02	plus	519.63	or . . .	162,150.45
Minneapolis	63,104.61	plus	1,089.44	or . . .	64,194.05

And the St. Louis Bank, instead of shewing a deficit for the ten and
one-half months' period of \$2,761.64, would have shown a slight surplus.

Should not this subject be brought forcibly to the attention of
these banks which are still falling behind?

MEMORANDUM ON THE PURCHASE OF GOVERNMENT BONDS.

In the month of September, they all seem to have earned their current expenses except the St. Louis Bank, which reports a deficit of \$2,761.00. Some other banks also show a very small margin of earnings over expenses; and very few can be said to be earning anything like a fair dividend on their shares.

Do you not think it might be well to bring formally to the attention of some of these lean banks again the suggestion that they purchase Government 2 per cent bonds and take out 100% circulation against them, so as to make a net profit of about 1 1/2% per annum on the amount they may buy?

If the St. Louis Bank, for instance, should purchase \$5,000,000 Government 2/s at, say, 97, the transaction would work approximately as follows:

\$5,000,000 at 97	\$4,850,000
The company would receive, against these bonds, Federal Reserve Notes for	\$5,000,000,
Deduct 5% reserve fund	<u>250,000.</u>
Net amount of money received	4,750,000 <u>4,750,000.</u>
Therefore it appears that the net amount of money which the Bank would be out would be	\$ 100,000,
upon which we will assume the Bank will lose 3% per annum interest or \$3,000.	

The Bank, however, receives 2% interest on \$5,000,000, or \$100,000.	
It has to pay a circulation tax of one-half of 1% or	<u>25,000</u>
Net return from interest	\$ 75,000
Deduct 3% interest loss on say \$100,000, as above. . .	<u>3,000</u>
Leaves a net profit per annum of	\$ 72,000

And in addition to receiving this net return, the Bank would make \$150,000 additional when the bonds are paid off at par in twenty years. This \$72,000 is equal to \$6,000 per month.

I note that the Total current expenses for 10 1/2 months, from November 16, 1914 to September 30, 1915, of several of the banks have been less than \$72,000; so that, if they had made this investment of \$5,000,000 in Government 2% bonds, the revenue on those bonds would have paid all of their current expenses from the beginning of the System to September 30, 1915.

The total expenses for this period of several of the Banks are reported as follows:

Richmond	\$67,624.24
Atlanta	71,480.37
Minneapolis	70,910.56

- 2 -

These Banks would then have had the following sums available for distribution to their stockholders:

Richmond	\$243,010.44	plus	4,375.76	or . . .	\$247,386.20
Atlanta	161,630.62	plus	519.63	or . . .	162,150.45
Minneapolis	63,104.61	plus	1,089.44	or . . .	64,194.05

And the St. Louis Bank, instead of showing a deficit for the ten and one-half months' period of \$2,761.64, would have shown a slight surplus.

Should not this subject be brought forcibly to the attention of these banks which are still falling behind?

Form 42.

FEDERAL RESERVE BOARD
OFFICE OF COUNSEL

DATE: October 18th, 1915.

SUBJECT:

My dear Governor:-

The accompanying memorandum
to the Secretary is evidently the opinion to
which you refer. This is the only copy we
have in the office but a modified draft of this
was sent to the Federal reserve agents. Do you
wish copies of the letters to the agents?

Very sincerely,

W. E. Miller

October 11, 1915.

The Federal Reserve Board,
Washington, D.C.

Gentlemen:

I have examined with interest the letter sent over the signatures of the Acting Governor and the Secretary of the Board to all Federal Reserve Agents, under date of October 8.

I believe the Board has acted wisely and has performed its plain duty in thus informing Federal reserve banks of their rights and privileges under Section 14 of the Act. The interpretation of the section afforded in the letter of October 8 also seems to me, from the cursory examination I have given it, to be sound and well taken.

Permit me to urge, however, the necessity of taking a further step by the preparation of definite regulations embodying the ideas which are contained in the letter in question. We can not, I think, afford to place ourselves in the light of treating Section 14 as if it were different from any other provision of the law. Counsel has ruled that the duty of the Board with respect to regulations

Received from H. Parker Willis
Collection from Butler Library,
Columbia University.

-2-

under that section is the same as its duty with regard to all other regulations called for by the Act. In no other case, so far as I am aware, has the Board adopted the plan of failing or refusing to issue a regulation until such regulation has been called for by some one or more of the banks, or until the general development of business required it. Were we to abstain from the preparation and publication of the same type of regulations in this case that has been issued in others, we should, I think, lay ourselves open to the charge that for some reason we were less inclined to permit the reserve banks to engage in properly guarded open market transactions in bills of exchange, than we were to permit them to buy bankers' acceptances, municipal warrants, and the like, in the open market. In view of the general misunderstanding which prevails on this whole subject, and the apparent disposition in some quarters to seek a basis of criticism of the acts and purposes of the Board, I am, therefore, strongly of the opinion that no time should be lost in following this letter with suitably framed regulations, even if they should contain little more than is already embodied in this letter.

So far as I have observed, the Board has not heretofore cautioned the banks against any particular class of operations in its previous circulars and regulations, and, while there may be no present harm in the language which has

-3-

been used to that purpose in the letter of October 8,
owing to the informal character of that letter, I should
strongly suggest that no such expressions be embodied
in such circular or regulation as the Board may deter-
mine to issue on the general subject.

Very truly yours,

Chairman.

*Presumably written
by Mr. Hamlin*

FEDERAL RESERVE BOARD

WASHINGTON

Mr. William G. Meddow
Secretary of the Treasury.

Oct 9, 1915

Dear Mr. Secretary:

I dropped in to talk with you yesterday morning before the meeting but you were at your house. The question of open market purchases of domestic bills was taken up. Mr. Warburg and Mr. Harding opposed issuing a Regulation but in favor of a letter to Federal Reserve Agents. I opposed in favor of immediately issuing regulation. I then moved as a substitute for the majority report that Regulation be at once issued. Messrs. Warburg, Harding & Delano voted against this and Mr. Williams and I in favor, so the motion was lost.

It was then moved by Mr. Warburg, I think, that the letter to Federal Reserve Agents be sent out. Mr. Williams and I decided to vote for this as it was the best we could get.

There are three objections to this letter:

1. It is really a Regulation disguised in the form of a letter and, I fear, will subject the Board to criticism.
2. It does not go far enough for it does not permit the purchase of state bank and trust company acceptances.
3. No provision was made for giving it out so that the public may know of this new field which has been opened.

At first I thought I would insist upon the matter being held up until you could be present, but it seemed to me absolutely vital that some thing should be done at

FEDERAL RESERVE BOARD

WASHINGTON

over, especially in view of a letter I had Thursday with Mr Glass.

It was understood and agreed, however, that at any time any of us could move again on the issue of formal regulations.

I told the Board that Mr Glass told me that writing a letter to Fed. Reserve Agents, in his opinion, would not be discharging our duty to issue Regulations. Mr Helms and Mr Leachman said, however, that Mr Glass told them such a letter would be satisfactory.

I also enclose a copy of my minority report in answer to Mr Leachman's report. The majority, however, said they had not formally presented such report, so none of them were placed upon the files.

Trusting you will have a safe and prosperous journey, believe me,

Sincerely yours

Charles S. Hamlin

C.S.H. 10/7/15.

333

MEMORANDUM BY MINORITY IN REPLY TO THE MAJORITY REPORT OF THE COMMITTEE
APPOINTED TO FRAME REGULATIONS GOVERNING PURCHASES BY FEDERAL
RESERVE BANKS OF DOMESTIC BILLS OF EXCHANGE IN THE
OPEN MARKET.

I.

The Majority originally reported against framing regulations covering open market purchases by Federal Reserve banks of domestic bills of exchange. The Minority reported in favor of framing such regulations.

The Majority then filed another report answering the arguments in the Minority report and reaffirming its opposition to framing regulations permitting such open market purchases. This memorandum is filed by the Minority in reply.

II.

The undersigned has carefully studied the two Majority reports, - the latter written for the Majority by Mr. Warburg, - and will endeavor to answer, as briefly as possible, the arguments advanced.

No answer, however, is considered necessary to the somewhat sarcastic references, running through the Majority report, to the statement of the Minority that the Federal reserve banks should not be permitted to languish unassisted by the Member banks, - as "this pathetic appeal to our sentiments"; nor to the further charge that "To Governor Hamlin, evidently, the making of immediate earnings is more important than the question of the future and the safety of the System".

Discussions of law and policy as important as those herein involved should be entered into without sarcasm and without innuendo, and in that spirit this reply to the Majority report will be governed.

III.

The Minority report, in favor of open market regulations, rested upon two principal propositions, - first; that the right to engage in such open market purchases is given to the Federal reserve banks by Section 14 of the Federal

Copy filed 752

-2-

Reserve Act and that it is the duty of the Board to frame appropriate regulations; second: that the exercise of such right may be necessary, at least to some of the Federal reserve banks, in order to secure revenues with which to meet current expenses and the dividends prescribed by the Act.

The Majority report takes an adverse position as to both these propositions, and it, accordingly, becomes necessary to consider the reasons upon which such adverse report is based.

IV.

At the outset the Majority report denies that any duty is imposed upon the Federal Reserve Board to issue such regulations and points out that many regulations on other subjects have not yet been framed and that it is the duty of the Board to go slowly and not issue regulations which may break the entire credit structure of the Country and undermine its safety.

As to the question of the duty of the Board to issue these regulations there can hardly be any reasonable doubt.

Section 14 of the Act gives to Federal reserve banks the right to buy in the open market;

"Bills of exchange of the kinds and maturities by this Act made eligible for rediscount" ***

"Under rules and regulations prescribed by the Federal Reserve Board."

Section 11 (1) of the Act prescribes that:

"Said Board shall perform the duties, functions, or services specified in this Act, and make all rules and regulations necessary to enable said Board effectively to perform the same."

One of the duties laid down in Section 14 is that of prescribing methods by which open market purchases of bills of exchange shall be conducted, and it would seem clear that to refuse to issue such regulations amounts to a

—3—

refusal to perform the duties prescribed by the Act.

Assuming, however, as above stated, that no such duty rests upon the Board, the Majority report takes the further position that no such regulations should be issued or are necessary.

The Majority report states that the matter should be considered under two separate headings, - First: Domestic bills accepted by banks or bankers; Second: Domestic bills drawn on or accepted by actual sellers or purchasers and known as "trade acceptances."

As to the first proposition, - the purchase of domestic acceptances of banks and bankers, - the Majority report enters into a discussion of the advisability of amending the Act to permit National banks to accept such domestic bills, strongly approving such an amendment, in which position the writer of the Minority report gladly concurs.

Much more attention, however, is given by the Majority to the advisability of amending the Act than to the question now before us as to the duty and advisability of permitting open market purchases of such acceptances under the Act as it now stands.

To this question little attention is paid, and the subject is dismissed with the statement that the writer of the Minority report "brushes aside the danger that State banks might derive rediscount advantages without becoming Members".

The Majority report, in this connection, seems to confuse rediscount operations with open market purchases.

For example, on page 3, it says that "whether or not it is advisable at this moment to permit Federal reserve banks to rediscount domestic acceptances before Member banks shall have secured an amendment permitting banks to accept for these domestic transactions is a question of policy which ought to be carefully discussed".

-4-

Again, on the same page, it says, - "if it should be decided to permit the rediscount of domestic bankers acceptances" the draft of the Minority report "will have to be revised in many respects".

In making the above statements the Majority apparently forgets that under the construction placed upon Section 13 of the Act, by the Federal Reserve Board, the only acceptances which Federal reserve banks can rediscount are foreign trade acceptances and that the question before the Board is as to the purchase of domestic bills or acceptances in the open market under Section 14, and not the rediscount of such bills or acceptances under Section 13.

The Majority report states, as quoted above, that "if it should be decided to permit the rediscount of domestic bankers acceptances" the draft submitted in the Minority report "will have to be revised in many respects", and points out that it should provide for more than acceptances by bankers "in behalf of the purchaser", and should be extended to include drafts drawn "for the purpose of carrying commodities" against "warehouse receipts, warrants, railroad, elevator, or terminal receipts and shipping documents covering all kinds of staples".

This is tantamount to saying that the regulations of the Minority report, as to purchase of domestic bills, are too restrictive and should be broadened.

It is hardly necessary to reply that the Minority will gladly broaden the scope of these proposed regulations in any manner permitted by the Act, but, it is submitted with some confidence, the fact that the Majority believes the Minority draft of regulations should be liberalized, is surely no reason for the position taken in the Majority report that no regulations should be issued at all on the subject.

-5-

V.

To sum up: as to the question of regulations for the purchase of domestic bankers acceptances the Majority apparently takes the position that no such regulations should be issued until the Act is amended so as to permit domestic acceptances by National banks, the chief objection being that the State banks would be given rediscount advantages without becoming Members.

The obvious answer to the latter objection is that the privilege of purchase in the open market of such acceptances was given by Section 14 of the Act for the direct benefit of the Federal reserve banks, and the fact that incidentally the non-member banks might also derive some benefit is no good reason for refusing this privilege and right to the Federal reserve banks.

It may also be pertinent to point out that the Federal Reserve Board, in the acceptance regulations, ruled, - against the unanimous opinion of the Federal Advisory Council, - that the power granted to Federal reserve banks, under Section 13 of the Act, to discount acceptances in the foreign trade included acceptances of non-member State banks and Trust Companies, as well as those of Member banks.

It would seem clear, therefore, that consistency would require either that the above ruling should now be revoked or that the equivalent right of purchase of domestic acceptances of State banks and Trust Companies should be given to Federal reserve banks.

Furthermore, it should be pointed out that even if the Act were amended, as recommended by the Majority, to permit of domestic acceptances by National banks and then the right to purchase such acceptances in the open market were given to Federal reserve banks, it would still be open to the objection, - referred to later at great length in said Majority report, - that it would lead to dangerous competition by the Federal reserve banks with the

—6—

Member banks, exciting their antagonism and distrust.

VI.

The Majority report having disposed, to its satisfaction, at least, of the purchase of domestic bankers acceptances, next takes up the question of permitting, by regulation, the purchase in the open market of trade acceptances, so-called, that is, bills drawn or accepted by the actual sellers or purchasers of goods. The report vigorously attacks the arguments of the Minority report and takes the position that regulations permitting such purchases should not be issued. Its arguments will now be considered in detail.

1. The Majority report apparently denies that the Federal reserve banks have any right to go into the open market in order to earn their expenses and dividends; such right, the report implies, is restricted to purchases and sales in the open market for the purpose of influencing, through rediscount rates, the rates of Member banks, and of controlling the movements of the precious metals.

While the latter purposes undoubtedly come within, and may very likely be the chief purposes of the open market powers, it would be a manifestly absurd construction of the Act to limit these powers to these purposes only and to exclude the right to go into the open market to earn money to pay expenses and dividends.

It must be manifest that the same construction must be given to the provision authorizing open market purchases of bills of exchange as to that authorizing the purchase of warrants, Government bonds and acceptances. To exclude the one for purely revenue purposes would necessitate excluding the others. And yet we see the Federal reserve banks today purchasing Government bonds, municipal warrants and acceptances for the sole purpose of securing revenues to meet their expense and dividend requirements, not only with the full approval of, but, as well, under regulations prescribed by the Federal

--7--

Apparently, according to the views of the Majority report, the Federal reserve banks must depend upon the good nature of the Member banks in offering paper for rediscount, and if such offerings be not made in sufficient amount for their expenses and dividends the Federal reserve banks must stand by and announce to the Country that they are forced to levy an assessment upon their Member banks for the reason that the Federal Reserve Board will not allow them to purchase bills in the open market for fear of the antagonism of the Member banks.

Such an interpretation of the Federal Reserve Act would plainly defeat the intent of Congress. The Federal reserve banks have clearly the right to live and to use every power granted under the Act to this end.

2. That regulations permitting the purchase of trade acceptances would permit the Federal reserve banks to compete all over the Country for unsecured paper (meaning thereby, apparently, paper not indorsed by bankers) from parties remote from the Federal reserve banks and with whom they could not possibly be in touch.

This argument reveals an amazing distrust of and lack of confidence in the officers and directors of the Federal reserve banks. National banks, State banks, and Trust Companies are today busily engaged in purchasing paper all over the United States which has not the indorsement of a banker, and they are considered competent to pass upon the standing and credit of the names on such paper, and of the collateral, as well, if any. It can scarcely be denied that the officers and directors of the Federal reserve banks are the peers of the officers and directors of the various National banks, State banks and Trust Companies, yet while the Majority report presumably is satisfied with the business ability of the latter, it objects to trusting to the ability of the former, although one-third of the Directors of the former, including the Chairman

—8—

of the respective Boards, are appointed by the Federal Reserve Board.

3. That to permit such purchases for the sake of obtaining revenue with which to pay expenses and dividend requirements would be to exceed the bounds of prudence in their management.

This again displays utter lack of confidence in the management of the Federal reserve banks. One would almost believe that the framer of the Majority report believes that the direct management of Federal reserve banks is vested not in the banks but in the Federal Reserve Board. This argument will be referred to again later.

4. That even if these powers were needed and could lawfully be used for securing revenue needed for expenses and dividend purposes, the banks would still "languish," for the reason that they could not be forced to use this means of replenishing their treasuries; and further, that they have never asked for any such power and in fact would never use it if granted.

If this be true in fact, it would seem clear that, as the power would never be used, the disastrous consequences predicted by the Majority report from such use would never come to pass.

5. That while "under some pressure" some of the banks have been "willing" to say that it might be "proper" for them to receive the power to undertake such open market operations, none of them has yet said that it wishes actually to engage in them.

The "pressure" above referred to was a direct question to Governors Fancher and MacDougal, in the presence of the Federal Reserve Board, without any previous consultation with either of these gentlemen, - asking whether they believed or did not believe in the propriety and expediency of the Federal Reserve Board issuing regulations granting this power; whereupon both these officers, one representing the Chicago bank, and the other the Cleveland bank, replied

--9--

that, in their opinion, such action was both proper and expedient.

6. That the Federal reserve banks, if given the power, could not possibly buy enough domestic bills for this purpose.

If this be true, considering that the total sum needed for both expenses and dividends is only about five millions of dollars for all the Reserve banks, and considering further the relatively large proportion of this amount now furnished by rediscounts and purchases of Government bonds, municipal warrants and acceptances, it would seem to follow that the Majority report exaggerates the dangers, even if they are dangers, - which the Minority report denies, - which would follow as the result of such purchases.

7. That investing in such purchases would leave the Federal reserve banks out of commission when a period of active money comes in again, as their available means would, to a dangerously large extent, be tied up in these investments, and they would thus cease to be Reserve Banks.

One would naturally suppose from this statement in the Majority report that the Federal reserve banks were proposing to invest the bulk of their resources in, say, fifty year bonds. The fact is, however, that these purchases would be of the same paper as could be now rediscounted, the only difference being that the indorsement of a Member bank would not be required.

8. That, in order to earn the amount needed for expenses and dividends, the banks, assuming the rate of purchase to be 3%, would have to acquire 120 millions of trade acceptances.

Mathematically this is probably correct. It would be equally correct to say that if the rate was 1% three times as much would have to be acquired, or that, if the rate was 6% only one half as much would be required.

Such a statement, however, rests upon the underlying premise that the banks abandon all banking functions, including rediscounting, and purchase of

--10--

acceptances, Government bonds and municipal warrants, and devote themselves exclusively to the purchase in the open market of these domestic bills.

When, however, it is considered that the banks will still perform the usual banking functions for which they were created, it will be seen that only a relatively small portion of the amount needed for expenses and dividends would in any event ever have to be made up from earnings on these purchases, and the imposing 120 million trade acceptance castle thus vanishes into thin air.

9. That to earn said expenses and dividends the banks would have to invest an enormous and unsafe proportion of their deposits and capital, - varying from 60% in the case of the Boston bank to 112% in the case of the Dallas bank, - leaving only the New York and Chicago banks in a state of reasonable liquidity.

The fact that the Majority report says that the banks would never invest any of their resources in such purchases deprives the above statement of much of its terror. Such a statement, furthermore, rests upon the assumption that the banks would cease to be banks and would turn themselves into money lenders or pawn brokers, and merely lend out their cash and cease to bank upon their reserves.

10. That while ordinarily reserves and not capital and deposits are the measure of loaning power, this rule does not apply at the present time, and the latter and not the former is the source today from which loaning or purchasing power must come.

Three reasons are given for this statement:

(a) Reserves are the measures of loaning power only when there is a demand for circulation, that is, for Federal reserve notes.

(b) There is no demand for such circulation today, therefore, purchases of domestic bills must be made by cash payments, thus de-

--11--

(c) Bills of exchange so purchased could not be used as collateral for new issues of Federal reserve notes.

As to the first reason, - that there is no demand for circulation at the present time, - i.e. for Federal reserve notes, - it is only necessary to point to the fact that there are today over 133 millions of such notes outstanding, - representing an increase of over 38 millions in the last two months. This would seem to indicate that there is a steady and increasing demand for such notes and that the only difficulty is to secure commercial paper to serve as collateral for such issues.

As to the second reason, - that, because of lack of demand for such circulation, purchases of domestic bills must be made by drawing down the cash resources, we have already shown that there is a steady demand for Federal reserve notes, the only difficulty being a lack of commercial paper to serve as collateral for such notes. This difficulty has been, however, overcome by the now familiar process of depositing gold to reduce liability on notes outstanding.

It may be claimed that this method is really carried out by reduction of the cash resources of the banks, but, if true, it would apply to notes issued for other purposes than the purchase of domestic bills. It would seem, however, that this process is rather a change in the character of the resources of a bank than a reduction of such resources.

The third reason, - that bills so purchased could not be used as collateral for the issue of new Federal reserve notes, - is certainly correct as^a matter of law, and, of itself, would furnish a reason for caution in purchasing such bills. The same reasoning would, however, apply to the purchase of Government bonds and municipal warrants, as well as to acceptances of non-member banks and bankers.

An examination of the present condition of the Federal reserve banks,

--12--

however, would show that, taking all the banks together, there is now held a supply of commercial paper and acceptances of Member banks, not pledged as collateral, sufficient to serve as the basis of further issues of Federal Reserve notes, which would contribute, in part at least, towards payment of bills purchased to secure revenue to meet expenses and dividends, - over and above the revenue derived from investments in Government bonds, municipal warrants and acceptances of non-member banks and bankers.

A computation of possible future issues of Federal reserve notes based on present unpledged holdings of commercial paper and Member bank acceptances shows -

AMOUNTS OF COMMERCIAL PAPER AND ACCEPTANCES AVAILABLE
AS COLLATERAL FOR FEDERAL RESERVE NOTES OVER AND
ABOVE AMOUNTS DEPOSITED WITH FEDERAL RESERVE
AGENTS ON SEPTEMBER 20, 1915.

	Commercial paper available as col- lateral for notes	Acceptances available as collateral for notes	Excess of paper held by agent
Boston	\$ 152,560	\$2,124,990	- - - -
New York	223,341	2,359,921	- - - -
Philadelphia	460,643	989,248	- - - -
Cleveland	787,358	115,445	- - - -
Richmond	1,256,847	50,000	\$53,582
Atlanta	1,370,193	- - - -	2,545
W.O.Branch	579,560	- - - -	- - - -
Chicago	1,322,044	425,227	- - - -
St. Louis	820,599	105,397	2,654
Minneapolis	1,007,941	69,763	1,908
Kansas City	883,997	- - - -	460
Dallas	1,608,322	- - - -	59,544
San Francisco	1,276,555	239,653	- - - -
TOTAL	\$11,749,980	\$6,479,644	\$120,693

Gross amount of paper available as collateral for notes - - - - - \$18,350,317

Less 10% - estimated amounts of paper in course of collection - - - - 1,835,032

Net amount \$16,515,285

11. That the question of earnings is relatively unimportant at the present time.

—13—

Inasmuch as the Majority report states, - as is undoubtedly true, - that in normal conditions the Reserve banks will have no difficulty in making there expenses and dividends, this is tantamount to saying that the question of earnings is of no importance at all.

This would seem to be a very short sighted and mistaken view, especially when we consider the reasons given later in the report for such opinion.

It is certainly true that the question of profits, over and above expenses and dividends, is relatively unimportant. In fact, we might go further and point out that Congress never intended that these banks should be maintained as purely money making institutions.

To state, however, that it is of no importance whether or not these twelve Federal reserve banks are able to earn enough revenue to keep them alive is to mistake the whole purpose of the Federal Reserve Act.

If earnings are not sufficient to meet expenses it will be necessary to levy an assessment upon the Member banks for this purpose, and the response to the inquiries of the Board as to how such an assessment would be viewed shows conclusively that, - except possibly as to the most powerful banks, - it would be viewed with alarm and the deepest dissatisfaction.

Such an assessment would also require a marking down below par of the book value of the stock and would be hailed by the opponents of the Federal Reserve System as an official declaration of the failure of the System.

For fear of this very result, the Board has directed the banks not to mark down said book value until, at least, a complete financial year has elapsed.

The question would seem plain, - either the banks must be given the opportunity to increase revenues through these open market purchases or an assessment must be levied against some of the Member banks. As between these

--14--

alternatives there would seem to be no reasonable doubt as to the course to be pursued.

Those who favor the alternative of an assessment, apparently, unconsciously, rest upon the belief that the Federal reserve banks are not banks at all but purely eleemosynary institutions, - a kind of financial fire insurance companies, - and that they, like fire engines, are to lay unused except during financial conflagrations.

They are certainly all this but also much more. They are, in short, banks in the true sense of the term, and when in the judgment of the directors such course is necessary, they have the lawful right to go direct to the individual over the heads of the Member banks.

Such a right is possessed, though in much more effective form, by the Bank of England, the Reichsbank, and the Bank of France, and it is too late, at the present day, to deny this right to the Federal reserve banks.

The Majority report characterizes the desire of the Minority to secure to the banks an earning power sufficient to meet expenses and dividends, as a "pathetic appeal to our sentiments".

It might well be answered that sentiment is of great force in banking, as witness the beneficial effect of the Federal Reserve System last year even before the banks were opened.

To test the matter in another way, suppose that the directors of a Member bank should report to the stockholders that the desire for earnings expressed by a Minority was merely a "pathetic appeal to the sentiments" of the Majority of the directors and that accordingly the Majority had voted to levy an assessment to meet the expenses of the bank rather than to continue business on the exceptionally low rates then prevailing, - how long, it may be asked, would those directors be allowed to remain in office?

—15—

12. That those who sold domestic bills to Federal reserve banks, under such grant of power, would thereby antagonize their regular banking connections upon which they will remain dependent for the sale of the bulk of their paper. (p.6.)

This thinly veiled, if not openly expressed, fear that the Member banks would "black list" those individuals, firms and corporations which had the temerity to exercise their legal right to sell their paper to Federal reserve banks, would, if true, indicate an extraordinary state of affairs, for which, however, the Anti trust laws would offer a speedy and efficacious remedy.

The Minority knows, however, of no reason for such an arraignment of the Member banks, and is loath to believe that any such black-listing would be undertaken. If the Majority have knowledge of any such intention on the part of any of the Member banks the facts should be made known to the Federal Reserve Board for its immediate consideration.

13. That such purchases would antagonize the Member banks which would no longer make voluntary deposits with Federal reserve banks if their reserve money is to be used in competition with them. (pp.6. & 9.)

To those who apparently fear that the Member banks would black list all who dared to sell their paper to Federal reserve banks, the transition is easy to the belief that the same banks would resent the use of Federal reserve money in competition with themselves, even to the extent only of insuring sufficient revenue to meet expense and dividend requirements.

The Minority, however, believes that these apprehensions are not well founded. As already pointed out, it was not the intent of Congress that the Federal reserve banks should use the money supplied by the Member banks for the purpose of entering into a competitive warfare with them for the sake of huge profits. On the contrary, the intent of Congress was that the Federal reserve

--16--

banks should use every lawful power in order to secure their expenses and the prescribed dividend, and a reasonable surplus, but beyond this the intent was clear that these banks should use their open market powers to make their regular discount rates influential and effective upon general rates, at times when they could be made effective in no other way, and also to regulate in the public interest the movement of the precious metals.

It is very likely true today, - at least in the large industrial and financial centers, - that there is no necessity for the use of the open market powers to influence general rates through discount rates established by the Federal reserve banks and approved by the Federal Reserve Board; as regards localities removed from said centers, however, disturbing instances of excessively high rates continue to pour in, requiring careful investigation.

Assuming, however, that the only necessity for such purchases at the present time is for expense and dividend purposes, there still remains the fact that the Federal Reserve Act has given the right to the Federal reserve banks to engage in such purchases, and that the Federal Reserve Board is in effect taking away said right by its refusal to enact the necessary regulations.

The Minority does not believe that the Member banks will be antagonized by the incidental competition involved in purchases of domestic bills for such revenue purposes. If such antagonism were created, however, it would not change the opinion of the Minority as to the necessity of framing regulations covering such purchases.

Competition at certain times is essential to the well being of the Federal Reserve System, as it is to the Bank of England, the Reichsbank, or the Bank of France, and it is the belief of the Minority that the Member banks will not be disturbed or antagonized by such incidental competition as the best interest of the Federal reserve banks and of the people of the United States,

—17—

in the judgment of the Federal reserve banks and the Federal Reserve Board, seems to demand.

14. That to break down rates for the whole credit structure of the Country "to secure a paltry return" is to undermine the safety of the Country.

It is submitted with some confidence that the purchase of domestic bills to an amount needed to secure the "paltry return" of expense and dividend requirements would not break down the whole credit structure.

The small effect of such competition will be appreciated from Mr. Forgan's statement, at the recent meeting of the Federal Advisory Council, that the Member banks of the Chicago district would have to give to the Federal reserve bank paper for rediscount only to the amount of 15 millions of dollars to enable it to earn its dividends and expenses, - an amount, Mr. Forgan added, only equal to the annual business of one very moderate sized bank.

So, also, Federal Reserve Agent Wills stated that if the Member banks in the Cleveland district were to rediscount with the Federal reserve bank only enough paper to learn how rediscounts were made, it would incidentally give to the Cleveland bank earnings enough to pay its expenses and dividends.

Thus the Member banks have it easily in their power to prevent the use of such open market purchases for expense and dividend purposes by simply rediscounting a really "paltry" amount of paper with the Federal reserve banks. In fact if this power is given by the Federal Reserve Board to the banks, and there is any such antagonism to its use on the part of the Member banks, as the Majority seem to fear, these banks would rush to the Federal reserve banks with the necessary rediscounts.

There is also another side to this question. A few days ago, Federal Reserve Agent Wills, or Governor Fancher, of the Cleveland bank, stated that recently a Member bank in his District secured a large loan from a New York

—18—

Member bank, and on being asked why it did not obtain this at the Cleveland Bank, the President replied that the rate offered was far below the rate of the Cleveland bank, and added that it was an exceptionally low rate only given because of the ease of money and of the necessity of placing the loan by the New York Member bank.

Presumably this exceptionally low rate was made in order that the New York bank might earn its expenses and dividends. Can it be that the Majority will pronounce the action of a Federal reserve bank in purchasing paper at low rates as sin and at the same time extoll the action of the New York bank as righteousness, although the motive in both cases would be precisely the same, - the necessity of revenue to meet expenses and dividends.

Will the Majority take the position that the needy Federal reserve bank shall cease to do banking business and make good its losses by an assessment upon its Member banks when it thinks rates are unreasonably low, while the needy New York Member bank shall have the privilege of meeting these unreasonably low rates with rates even lower in order to secure its revenue?

Will the Majority set its foot down upon competition of Federal reserve banks with Member banks and at the same time view with equanimity competition of Member banks with Federal reserve banks, - all for the same purpose - of avoiding an assessment upon the stockholders?

15. That the use of reserve money for breaking down interest rates below reasonably low rates will, in the long run, be injurious to the business community.

This is one of those axiomatic statements which no one will care to dispute. It is obvious, however, that the use by any bank of reserve money or of any other money, and whether by a Federal reserve bank or by a Member bank, for the purpose of unreasonably breaking down rates, will, in the end, not

--19--

work advantageously for the business community.

The difficulty, however, lies in the definition of what are "unreasonably low rates". The same rate might be unreasonably low under certain conditions and unreasonably high under others.

Rate making is a matter largely of judgment born of experience and no hard and fast rule can be laid down.

Nor can the test of the selfish interest of the banks alone be taken as a safe guide. The business of banking is clearly among those affected with a "public interest", so called, and the judgment of banking officers, if against the real interests of the public, may be controlled by State, or, in case of National banks, by National legislation. See 219 U.S. pp.104, 121 and 128.

Congress has given to the Federal reserve banks, under the general control of the Federal Reserve Board, the right to fix rates of interest for rediscounting which it is hoped will exercise a controlling effect upon the rates charged by the Member banks to their customers. If these rates, however, do not exercise this controlling effect, these banks are given the right to go direct to the public over the heads of the Member banks.

As stated above, the real test of reasonableness, in banking, depends upon judgment. In some industries it is possible to find with some exactness what would be a reasonable rate or price, based upon the cost of production, but no such test could be applied to banking. We certainly could not base rates of interest upon the actual expense of operation of the banks, for such expense would vary so greatly that any general rates based upon it would be purely conjectural. Nor could we base interest rates upon the value of the banking units, such value depending in large part upon the original cost of the plant or the cost of substitution. Nor would it be a proper method to base commercial interest rates upon the rates paid by banks to their depositors, for these rates, when any interest is allowed, vary from 2% to 6 or 7%, and, in addition, the best banking opinion seems

—20—

to be that no such interest should be paid at all.

It may help to lead us out of these difficulties if we are able to recognize - what is largely a fact - that banks do not so much make rates as "record" rates, and that these rates are really the resultant between the forces of supply and demand of credit, - that is to say, they are the market value of credit reached by negotiations between willing borrowers and willing lenders.

When, for example, discount rates are said to be advanced in order to keep gold from leaving the country, what really happens is that the banks merely record a fact which they do not arbitrarily create or fix, and this fact is that the balance of rates as between this and other foreign countries is out of adjustment and that gold ~~therefore~~, ~~may~~ leave the country for that country in which rates are relatively higher and this exodus of gold will at once operate to make credit more scarce in relation to the demand for it in this Country, which will almost automatically operate to raise rates here. The banks may possibly anticipate or, as it were, discount this operation, but they do not create the conditions inevitably producing it.

In the long run, both in domestic and international operations, demand and supply of credit will fix the rates of interest. The banks have credit to sell which their customers wish to buy, and the relation between the demand and supply fixes the rate.

Of course the above presupposes normal conditions. It is perfectly conceivable that the supply of credit may be artificially reduced, e.g., by combination among the banks, but in any event the rate of interest is fixed by the credit placed on the market as compared with the demand for the same in such market.

If the above be true, under normal conditions, as long as there is a

—21—

legitimate demand for credit it can not be said that there can be an "unreasonably low rate" so long as demand and supply, both domestic and international, meet in the market.

To deny this fact is to fall into the error expressed in the phrase, - once often heard, - that "a cheap coat makes a cheap man".

We often hear the statement that what a borrower wants is accommodation and that he is willing to pay any rate for it.

It would be as true to say that all a shipper wants is transportation and should not object to any rate the common carrier sees fit to impose.

The most that can be said is that when rates are so low that further reduction will not call forth any legitimate demand for credit, but will only encourage unhealthy speculation, then such further reduction might be an unreasonably low rate and injurious to the country.

Clearly, however, all banks have the right, and have always in the past exercised the right, to make rates low enough to insure expenses and reasonable dividend requirements.

If this proposition is denied then the principle of free banking is denied, and the position must be taken that banking charters must be, as it were, monopolized by restriction in number, and from this the path to Government ownership of all banking institutions would be an easy one.

16. That the question of reducing the capital and the number of Federal reserve banks should be carefully considered.

In any such consideration the inability of some of the banks to earn expenses and dividends at the present time would surely be no argument in favor of reduction in number, unless, at least, they be given open market powers granted by the Act, to enable them, among other things, to earn these expenses and dividends.

If, after the use of all their powers of rediscount and purchase, certain of the banks can not earn their fixed charges, then it may become of

--22--

importance to consider whether the number should be reduced. The question would still be left, however, for careful inquiry, whether the fixed charges of the reduced number would not be increased in exact proportion to the decrease in number, leaving the System in no better condition than before.

Should, however, investigation reveal the fact that in certain districts the Member banks were refraining from rediscounting for the purpose of crippling their Federal reserve bank, then the question whether such banks needed or deserved a separate Reserve bank would become a very serious one.

VII.

Conclusion.

To sum up: The Majority report rests upon the necessarily implied premise that the Federal Reserve Board should do nothing which is likely to antagonize the wishes of the Member banks; that the Federal reserve banks are not to be trusted and should be denied rights explicitly given to them by the Act for fear these rights may be abused; in short, that the Federal Reserve Board members are merely trustees for the Member banks to carry out their will and pleasure.

Such a conception of the Act is, in the opinion of the Minority, absolutely unwarranted, and it is not believed will be entertained by a Majority, or by more than a small minority, of the Member banks themselves.

The Minority, on the other hand, rests its report upon the conviction that the Federal Reserve Board represents the public interest as well as that of the Member banks, and that the greatest good of the greatest number of the people, and not that of the Member banks alone, should be its maxim of action.

For the foregoing reasons, the Minority reports in favor of the immediate issue of such open market regulations.

333.

September 27th, 1915.

My dear Mr. Secretary:-

In the matter of open market operations provided for by Section 14 of the Federal Reserve Act, as I understand the question submitted for consideration, you desire to know whether there is any duty or obligation on the part of the Federal Reserve Board to prescribe rules and regulations governing conditions under which Federal reserve banks may purchase and sell in the open market cable transfers, bankers' acceptances and bills of exchange, or whether the Board, by failure to prescribe such regulations, may withhold from such banks the right to exercise these powers.

To answer this question it is necessary to determine the legal effect of the provision in question. The language of the Act is -

"Any Federal reserve bank may, under rules and regulations prescribed by the Federal Reserve Board, purchase and sell in the open market, at home or abroad, either from or to domestic or foreign banks, firms, corporations, or individuals, cable transfers and bankers' acceptances and bills of exchange of the kinds and maturities by this Act made eligible for rediscount, with or without the indorsement of a member bank".

The legal effect of this provision seems clearly to be to vest in the Federal reserve bank the right to exercise this power and to vest in the Federal Reserve Board only the power to regulate its exercise. In other words, Congress did not intend to vest a discretion in the Board to determine whether Federal reserve banks should purchase and sell cable transfers, acceptances and bills of exchange, but merely to regulate their purchase and sale.

While there are a great many cases dealing with the question of how far Congress, or any legislative body, may delegate to an administrative body the power to regulate, it is not necessary to consider these cases at length since we are dealing not with the question of what the regulation shall contain but merely with the Board's duty in the premises. General speaking

WdMcA.....2

"while Congress cannot delegate the power to make laws it can delegate the power to determine some fact or state of things upon which the statute makes or intends to make its own action depend". For collection of cases see Encyclopedia of Law and Procedure, Volume 8, page 830.

Congress might, therefore, have vested in the Federal Reserve Board the power to determine whether Federal reserve banks should purchase in the open market cable transfers, acceptances and bills of exchange. Had it intended to do so, however, it would have incorporated this power in Section 11 in defining the powers of the Federal Reserve Board instead of in Section 14 which deals with the powers of the Federal reserve banks. For example, Section 11 authorizes the Federal Reserve Board -

- "(b) To permit, or, on the affirmative vote of at least five members of the Reserve Board to require Federal reserve banks to rediscount the discounted paper of other Federal reserve banks at rates of interest to be fixed by the Federal Reserve Board.
- (c) To suspend for a period not exceeding thirty days, and from time to time to renew such suspension for periods not exceeding fifteen days, any reserve requirement specified in this Act.....
- (k) To grant by special permit to national banks applying therefor, when not in contravention of State or local law, the right to act as trustee, executor, administrator, or registrar of stocks and bonds under such rules and regulations as the said Board may prescribe".

Inasmuch, therefore, as the power to purchase and sell cable transfers, acceptances and bills of exchange in the open market is vested in the Federal reserve banks, subject only to rules and regulations of the Federal Reserve Board, it would seem to be the duty of the Board to prescribe the rules and regulations referred to just as much as it is its duty to prescribe any other regulations provided for in this Act, and that unlike the powers enumerated in Section 11, it is not necessary for the Board to determine as a condition precedent whether any fact or condition exists which makes it necessary for these powers to be exercised.

Should the Board fail to make such rules and regulations it may be reasonably contended by the Federal reserve banks that these powers may be exercised ad libitum until restricted by such rules and regulations.

WGH:CA.....3

Such a position would be somewhat consistent with the position of the Board in the matter of the issuance of Federal reserve notes. Section 16, in dealing with the issuance of Federal reserve notes, provides that -

"Such banks shall be charged with the amount of such notes and shall pay such rate of interest on said amount as may be established by the Federal Reserve Board".

The Federal Reserve Board having established no rate of interest Federal reserve notes are now being issued without any interest charged against the banks and by analogy the banks might contend that until some restriction is placed upon the purchase and sale of cable transfers, acceptances and bills of exchange by action of the Board they are authorized to deal in such without restriction.

Respectfully,

Hon. William G. McAdoo,
Secretary of the Treasury.

Counsel.

333.

**MEMORANDUM COVERING GOV. HAMLIN'S MINORITY REPORT
OF THE SPECIAL COMMITTEE ON DOMESTIC TRADE ACCEPTANCES.**

P.M.S. 9/20/15.

With reference to Governor Hamlin's minority report of the special committee on the subject of domestic trade acceptances:

This report ought to be divided under two heads - the one dealing with open market transactions in domestic acceptances and the other with those in so-called trade acceptances.

These two transactions must be considered from entirely different angles. The objections raised against trade acceptances are in no way applicable to domestic acceptances. The latter are in every way not only desirable but their development will bring in a sound and effectual way the very relief which is now sought by open market transactions in trade acceptances. The majority report strongly favors the development of domestic acceptances, on broad lines both by member and non-member banks.

If, however, a regulation is to be prepared for the purpose of governing these domestic acceptances, it must be done on very much broader lines than contemplated by Governor Hamlin. The regulation drawn by him provides only for acceptances by bankers "in behalf of the purchaser." That would exclude drafts drawn for the purpose of carrying commodities, which constitute the very field that ought to be covered.

Coby *Feb 75*

(2)

Domestic acceptances should be permitted against warehouse receipts, warrants, railroad, elevator or terminal receipts and shipping documents, covering all kinds of staples.

If the purchase of such acceptances be permitted and if they be made eligible for rediscount with Federal Reserve Banks, the greatest possible relief will be secured during the crop-moving season and will be much more effective than that to be had from commodity rates or open market transactions in trade acceptances. As far as the first are concerned, control by the local bankers will be gradually and effectively broken down by an open market domestic acceptance discount rate and the ability of bankers outside of the local district to accept freely against the pledge of commodities. As far as the second class of transactions is concerned, the domestic acceptance is free from the danger of having the Federal Reserve Banks buy paper without any banker's endorsement or acceptance and of having the Federal Reserve Banks compete, all over the country, for unsecured paper, buying it from parties with whom normally the Federal Reserve Banks are entirely out of touch.

If the creation of proper warehouse facilities or terminal facilities all over the country is persistently encouraged and if the development of domestic acceptances be permitted and encouraged the country will feel the greatest

(5)

possible relief within a very short time.

Whether or not it is advisable at this moment to permit Federal Reserve Banks to rediscount domestic acceptances before member banks shall have secured an amendment permitting banks to accept for these domestic transactions, is a question of policy which ought to be carefully discussed. The problem itself is not a new one to the Board but has been brought to the attention of the Board ever since its existence.

If it should be decided to permit the rediscount of domestic bankers acceptances, Governor Hamlin's regulation will have to be revised in many respects.

As against the argument brought by the majority to the effect that open market transactions in trade acceptances do not appear desirable at this time, Governor Hamlin offers one main argument, the scantiness of the earnings of the Federal Reserve Banks. A second argument, though touched upon very lightly by him, is that he conceives it to be the duty of the Federal Reserve Board to issue these regulations. There are a great many functions of the Federal Reserve Board which have not yet been exercised and it is natural that the Board proceed gradually as the system develops. Fiscal relations have not yet been established; various fines and schedules have not yet been established; foreign accounts have not yet been opened; and so on.

(4)

The undertaking of open market transactions is optional with Federal Reserve Banks. They may undertake them under proper regulation of the Board, but they are not obligatory. So far, no request has been received from any Federal Reserve Bank that these open market transactions be permitted to them. Quite the contrary, investigation so far has always called forth the opinion from the Federal Reserve Banks that thus far open market transactions in trade acceptances do not appear desirable to them. Under some pressure some have been willing to say that it might be proper for them to receive the power to undertake such open market operations, but none of them has yet said that it wishes actually to engage in them.

To Governor Hamlin, evidently, the making of immediate earnings is more important than the question of the future and the safety of the system. He brushes aside the danger that State banks might derive rediscount advantages without becoming members. He quotes the language of the first Federal Reserve Board report, emphasizing the statement that "there is no reason why they should not earn their expenses and a fair profit beside," but evidently overlooking the words immediately following, "without failing to exercise their proper functions and exceeding the bounds of prudence in their management." He cites the fact of cumulative

(5)

stock dividends as an argument for at once securing the full dividends, if possible within the first year of operation, as he considers it a hardship that these should have to be made up in subsequent years. The mere fact that Congress made the dividends cumulative shows that Congress contemplated that the dividends might not be earned at all times, and particularly not in the earlier years when the banks would not be in possession of their full funds.

Governor Hamlin says, "The question at issue before us is, shall the Federal Reserve Banks be permitted to languish unassisted by the member banks while it is in our power to permit them to extend their business operations in the open market so as probably to insure earnings sufficient to pay their expenses and a six per cent dividend." Now let us consider in the light of reason, this pathetic appeal to our sentiments. Would the languishing Federal Reserve Banks be helped by giving them these open market operations? When the majority points out the dangers and consequences of conferring this power Governor Hamlin replies that of course we could not and would not force the Federal Reserve Banks actually to enter upon these operations, but as a matter of record and duty the Board should under all circumstances issue the regulation. If we accept this reasoning, as we suppose we ought to, the entire argument falls to the ground and, - open market regulation or no open market regulation, - the banks will continue to languish. If,

(6)

however, we proceed on a different theory, expecting the Federal Reserve Banks to go actively into open market operations, what would be the results? It is safe to say that the volume of trade acceptances available at this time is so limited that the Federal Reserve Banks could not secure any substantial amount of them without possibly going down to rates as low as those for bank acceptances and possibly lower, which, of course, would be entirely unreasonable. Even then it would be difficult for them to secure any appreciable amount in the open market. Most commercial borrowing at this time is being done on single name paper. The double name paper that now exists is of a class which must be very carefully scrutinized and, moreover, customers would hardly find it practicable to get into touch with a distant Federal Reserve Bank in order to sell to it a small fraction of their paper and possibly to antagonize their regular banking connections, on which they will remain dependent for the sale of the bulk of their paper.

Federal Reserve Banks will quickly perceive that these open market transactions in trade acceptances will make them incur a great deal of antagonism and criticism but will produce very small results and the majority of the committee is more than ever convinced that Federal Reserve Banks are not likely to undertake such transactions.

(7)

Now let us consider, as a final aspect of the case, what would happen if in fact Federal Reserve Banks should prove able to purchase a sufficient amount of trade acceptances to earn their dividends.

If at three per cent a sufficient amount of trade acceptances could be secured (which is entirely out of the question) we should find that in order to earn the estimated running expenses and dividends required, Boston would have to invest 60 per cent of its capital and deposits; Philadelphia, 62 per cent; Cleveland, 68 per cent; St. Louis, 62 per cent; San Francisco, 70 per cent; Minneapolis, 70 per cent; Kansas City, 76 per cent; Richmond, 92 per cent; Atlanta, 107 per cent; and Dallas, 112 per cent. The only two banks which would still show a reasonable amount of liquidity would be Chicago, with an investment of 36 per cent, and New York, with an investment of 20 per cent.

This would mean, then, that the majority of the banks would in the time of greatest ease have invested the bulk of their available means and that at a time when a period of active money set in, the reserve banks would no longer be reserve banks, - they would be out of commission, and the money which member banks should be justified in looking upon as reserve money, would have left the Federal Reserve Banks and would have gone to swell the excess reserves of the member banks, or these excesses would have been absorbed as a basis

(8)

of general credit inflation.

Against this reasoning the argument will be offered that inasmuch as the Federal Reserve Banks issue Federal Reserve notes, capital and deposits do not constitute their loaning power, but rather their reserve. But that does not hold true in this instance for two reasons: bills purchased against open market operations cannot be used as a basis of note issue. If, therefore, the languishing banks were filled with trade acceptances to the extent that Governor Hamlin foresees, they would have to acquire about \$120,000,000 of this paper, against which no circulation could be issued.

But in addition we must consider the following fact; at present there is no demand for additional currency. Quite the contrary, with present conditions and further gold imports to be expected, there will rather be a redundancy of currency, so that as a net result, as long as Federal Reserve notes cannot be counted as reserve money by member banks, whatever the Federal Reserve Banks at present buy, they buy with their actual reserve money, in view of the present status of Federal Reserve notes. The theory of the greater loaning power holds good only if it goes hand in hand with a demand for additional circulation.

A consideration of these facts clearly shows that this is not the time for laying too much stress on the question of earnings by the banks. More important than earnings is the implicit faith of the country, and in particular of the member

(9)

banks, in the system. An attempt on our part to force investments against sound reason and conservatism would do more harm than a perfectly explicable lack of earning power under present conditions. One of the weaknesses of the present situation is that the influx of gold increases the excess reserves of member banks, while the added strength should accrue to the Federal Reserve System. The system provides for large optional balances to be kept with Federal Reserve Banks, but the member banks will not, of their own accord, increase their balances with us unless they are satisfied that we administer their funds conservatively and do not attempt to use their own funds for the purpose of competing with them.

We are in full sympathy with the ultimate aim of the system in giving the benefit of more normal rates to the entire country. This result will be achieved by developing the bank acceptance market, while premature attempts to regulate or control by direct interference will not lead to the desired result. Such attempts will rather tend to cripple our growth and prevent us from attaining the very power which we should ultimately possess to exert a beneficial and helpful influence.

The situation which we are about to face is large beyond any human conception. If we understand how to broaden the basis of our Federal Reserve System by increasing our control of the gold of the country, we should be a world banking power to a degree which may exceed our own expectations. In order to bring about this result, our system must be permitted to

(10)

grow unhampered. It requires statesmanship which will disregard immediate success or immediate blame, where the future of the system is involved. If we, ourselves, can only unite on a definite and broad policy it will not be difficult to make the public understand our purpose and to secure the support of the entire community, or at any rate of that portion of it on whose confidence depends the further development of the system. As to immediate earnings, we do not believe that we need be alarmed. The banks will not languish much longer. If, as we have no doubt, large acceptance credit operations are in store for this country, there will be in the very near future a broad field for investment in paper which will exclude losses and the absorption of which will help the development of our trade in a timely and legitimate way. In a memorandum written by Mr. Warburg in March of this year on this question of domestic open market regulation versus a broad acceptance policy, full emphasis was laid on the grave responsibility which we would undertake if we used reserve money for breaking interest rates below a reasonably low rate, thus crowding the member banks out of their own legitimate investments and forcing them into fixed investments, which undertaken in time of great ease of money have always proved fatal at the turning of the tide.

Abnormally high rates always bring a reaction of abnormally low rates; and abnormally low rates bring a period of excessively high rates. The aim of the Federal Reserve System must be to

(11)

keep rates as steady as possible around a normal point. The more successful a banking system is in this connection, the safer the development of a country. Low rates which are only of passing character do more harm than good. It is the duty of the Federal Reserve Banks to fight excessive rates in both directions when they have a tendency of getting too high or too low. If, in order to secure a paltry return, Federal Reserve Banks break the rates for the entire credit structure of the country below the level which may be considered as normal, they undermine the safety of the country and take a very heavy responsibility. Moreover, before any drastic step in this direction ought to be ventured upon, the system ought first to have a full opportunity of developing, both as to scope and operation. The rediscounting facilities between districts ought to have a chance to develop; and the question ought to be carefully ventilated whether there may not be too many Federal Reserve Banks, whether the capital paid in ought not to be reduced, or whether more economic and more effective operation cannot be secured by a smaller number of banks. The Federal Reserve Banks are in exactly the same position as member banks; excessively low rates might bring about with them, as with their members, a tendency of putting out too much money at low rates in order to secure a reasonable return.

P. M. W.
9/20/15.

333.

September 15, 1915.

MINORITY REPORT OF SPECIAL COMMITTEE ON SUBJECT OF
DOMESTIC TRADE ACCEPTANCES.

I agree with the majority report submitted by Messrs. Harding and Warburg in so far as it states that the purchase of promissory notes in the open market is not permitted under the Federal Reserve Act. I further agree that there is no necessity at the present time for the purchase of foreign bills of exchange by Federal reserve banks under present international conditions, but I believe it would be wise to frame proper regulations covering such purchases, thereby discharging what I conceive to be a duty of the Federal Reserve Board.

I cannot concur in the opinion of said majority that no public good would be subserved by enacting regulations authorizing Federal reserve banks to purchase trade acceptances in the open market. It is a fact becoming more and more apparent that the member banks are doing little or no business through the Federal reserve banks, and that unless we authorize these banks to extend their activities into the open market, they will not be able to earn their expenses, much less their dividends. In my opinion, Congress supposed that Federal reserve banks would be able at least to earn their expenses and the 6% dividends, as well as a reasonable surplus. Furthermore, the 6% dividend is a cumulative one, and if it cannot be earned at the present time, may place a heavy burden upon the reserve banks in the future. Consequently, I believe that the Federal reserve banks should be permitted to go into the open market and purchase trade paper, as they are now authorized to purchase warrants and import and export acceptances.

Cody *Feb 25 2*

-2-

It is pointed out that if the purchase of trade acceptances in the open market be authorized, it would thereby afford to non-member banks one of the greatest benefits to be derived from membership in the system. This, however, is not the reason for permitting such purchases. They should be permitted in order to benefit the Federal reserve banks, and if, indirectly, the non-member banks obtain a benefit from this practice, it is a benefit resulting from the failure of member banks to give a reasonable amount of business to the Federal reserve banks with which to sustain them.

Furthermore, I believe that the privilege of purchasing bankers' acceptances, now confined to import and export transactions, should be extended to domestic acceptances made by State banks, trust companies and bankers in behalf of the purchaser of goods. I realize that at the present time National banks are not permitted to make such acceptances, and I cordially agree that the Act should be amended so as to give them this power under reasonable limitations.

It may seem inconsistent to permit Federal reserve banks to buy acceptances of State banks and trust companies in the open market, when National banks cannot make such acceptances. This, however, although an inconsistency, is one which arises from the dual system of National bank and State bank membership. It is no more inconsistent than the fact that we permit State banks and trust companies to join the Federal Reserve System, bringing in their branches with them, while National banks cannot at the present time have branches. There are also many other inconsistencies, as I have stated, resulting from the dual system of membership, but

-3-

these we can, I am confident, correct ultimately by increasing the powers of National banks, making them more commensurate with the powers given to State banks and trust companies by the respective states.

The question at issue before us is, shall the Federal reserve banks be permitted to languish unassisted by the member banks, while it is in our power to permit them to extend their business operations in the open market, so as probably to insure earnings sufficient to pay their expenses and the 6% dividend. I do not believe it would be wise to postpone this desirable result to await the action of Congress in amending the law, so as to give National banks the similar privilege of domestic acceptance.

The argument of the majority seems to be based upon the supposition that Federal reserve banks are merely emergency banks, and that the question whether or not they make their expenses or dividends is immaterial.

On this subject the Board in its annual report, page 18, said:

"The Reserve Banks have expenses to meet, and while it would be a mistake to regard them merely as profit-making concerns and to apply to them the ordinary test of business success, there is no reason why they should not earn their expenses, and a fair profit besides, without failing to exercise their proper functions and exceeding the bounds of prudence in their management. Moreover, the Reserve Banks can never become the leading and important factor in the money market which they were designed to be unless a considerable portion of their resources is regularly and constantly employed."

In my opinion it is the plain duty of the Federal Reserve Board to see that the Federal reserve banks maintain themselves. The very fact that no provision was made in the Act for assessing deficiencies of reserve banks upon the member banks, shows that it was clearly in the mind of Congress that these banks should exercise all proper functions in order to meet their expenses and dividends, as well as to assist the member banks in rediscounting.

-4-

I attach hereto a draft of Regulation covering the purchase of domestic bills of exchange in the open market, and another draft covering the purchase of domestic bankers' acceptances in the open market.

G.S.H. 9/15/15.

333

SECOND PART OF NEW REGULATION

Regulation S.
Series of 1915.

FEDERAL RESERVE BOARD

Washington, - - - - -, 1915.

Open Market Operations.

- - - - -

Domestic Bills of Exchange.

I.

In this regulation the term "domestic bill of exchange" is defined in the same language employed in the definition of the term "trade acceptances" in Regulation P. I., except that the bill of exchange need not be indorsed by a member bank.

II.

Character of Paper Eligible.

Domestic bills of exchange to be eligible for purchase under
Section 14 of the Federal Reserve Act

- (a) Must arise or have arisen out of actual commercial transactions, that is, they must have been drawn for agricultural, industrial, or commercial purposes, or their proceeds must have been used or must be used for such purposes.
- (b) Must have a maturity at the time of purchase of not more than 90 days, or, in case of agricultural or live stock paper, of not more than six months.

Copy filed 75 2

—2—

III.

Method of Certifying Eligibility.

Such bills must bear on their face, or be accompanied by, evidence in form satisfactory to the Federal reserve bank, that they were drawn by the seller of goods or live stock on the purchaser.

Such evidence may consist of a certificate on or accompanying the accepted bill of exchange, to the following effect;

"The obligation of the acceptor of this bill of exchange arises out of the purchase of goods or live stock from the drawer."

Such certificate may be accepted by the Federal reserve bank as sufficient evidence; provided, however, that the Federal reserve bank, in its discretion, may inquire into the exact nature of the transaction underlying the acceptance of said bill.

IV.

Other limitations.

All domestic bills of exchange purchased under these regulations, will be subject to the following limitations;

- (a) A bill of exchange, covering domestic transactions, accepted by a purchaser, may be considered as drawn in good faith against actually existing values when the acceptor thereof is secured by a lien on or by transfer of title to the goods on which the bill of exchange is based, or by other adequate security.
- (b) Except in so far as such bills may be drawn in good faith against actually existing values, as defined Supra in IV.(a), the bills of any one drawer drawn on and accepted by any one purchaser, and purchased by a Federal reserve bank, shall at

—4—

no time exceed in the aggregate a sum equal to

(c) The aggregate of bills accepted by any one purchaser, purchased by a Federal reserve bank, shall at no time exceed a sum equal to

(d) No Federal reserve bank shall purchase domestic bills of exchange not secured by a lien on or by transfer of title to the goods on which the bill of exchange is based, or by other adequate security, unless a satisfactory statement of the financial condition of the acceptor is first secured by the Federal reserve bank in form to be approved by the Federal Reserve Board.

V.

Attention is called to the fact that bills of exchange so purchased cannot be used as collateral for Federal reserve notes, unless they are indorsed by a member bank; nor is the open market purchase of notes and drafts, as distinguished from Bills of exchange, authorized by the Federal Reserve Act.

VI.

It will be necessary for Federal reserve banks to watch carefully the aggregate amount of such bills purchased and held from time to time. Such banks should consider carefully not only the regular requirements of their member banks and the probable demands of other Federal reserve banks for rediscounts, but, as well, the possible demands upon their resources in rediscounting acceptances in the import and export trade. They should, in short, always keep in mind the constantly varying needs of the country.

W. PARKER WILLIS,
Secretary.

CHARLES E. HANLIN,
Governor.

C.S.M. 9/15/15.

DRAFT OF NEW REGULATION

1st draft
238
Regulation S.
Series of 1915.

FEDERAL RESERVE BOARD

Washington, - - - - -, 1915.

Open Market Operations.

Domestic Bills of Exchange.

I.

In this regulation the term "domestic bill of exchange" is defined in the same language employed in the definition of the term "trade acceptances" in Regulation P. I., except that -

- (a) The bill of exchange may also be accepted by a domestic State bank, *in behalf of said purchase* trust company, or banker, when such acceptance is duly authorized by the laws of the State where the acceptance is made.
- (b) The bill of exchange need not be indorsed by a member bank.

II.

Character of Paper Eligible.

Domestic bills of exchange to be eligible for purchase under Section 14 of the Federal Reserve Act

- (a) Must arise or have arisen out of actual commercial transactions, that is, they must have been drawn for agricultural, industrial, or commercial purposes, or their proceeds must have been used or must be used for such purposes.
- (b) Must have a maturity at the time of purchase of not more than 90 days, or, in case of agricultural or live stock paper, of not more than six months.
- (c) If not accepted by a State bank, trust company, or banker, (as provided in I. Supra,) they must be accepted by the purchaser of goods or

—2—

live stock sold to said purchaser by the drawer of the bill; in any event, the bill must have been drawn against indebtedness expressly incurred in the purchase of goods or live stock.

III.

Method of Certifying Eligibility.

Such bills must bear on their face, or be accompanied by, evidence in form satisfactory to the Federal reserve bank, that they were drawn by the seller of goods or live stock on the purchaser, or upon a domestic State bank, trust company, or banker representing such purchaser.

Such evidence may consist of a certificate on or accompanying the accepted bill of exchange, to the following effect:

"The obligation of the acceptor of this bill of exchange arises out of the purchase of goods or live stock from the drawer."

Such certificate may be accepted by the Federal reserve bank as sufficient evidence; provided, however, that the Federal reserve bank, in its discretion, may inquire into the exact nature of the transaction underlying the acceptance of said bill.

IV.

Other Limitations.

All domestic bills of exchange purchased under these regulations, will be subject to the following limitations:

- (a) A bill of exchange, covering domestic transactions, accepted by a banker (as defined in Regulation E. II. (b), excepting only National banks,) or by purchaser, may be considered as drawn in good faith against actually existing values when the acceptor thereof is secured by a lien on or by transfer of title to the goods on which the bill of exchange is based, or by other adequate security.

—3—

- (b) Except in so far as such bills may be drawn in good faith against actually existing values, as defined Supra in IV.(a), the bills of any one drawer drawn on and accepted by any one purchaser, or by any one domestic State bank, trust company, firm, person, company, or corporation, in behalf of any such purchaser, and purchased by a Federal reserve bank, shall at no time exceed in the aggregate a sum equal to 5% of the paid-in capital stock of such Federal reserve bank.
- (c) The aggregate of acceptances of any purchaser or of any domestic State bank, trust company, firm, person, company, or corporation, accepting such bills in behalf of such purchaser, purchased by a Federal reserve bank, shall at no time exceed a sum equal to 25% of the paid-in capital of such Federal reserve bank.
- (d) No Federal reserve bank shall purchase the domestic acceptances of a banker, (as defined in Regulation R. IV. (b), excepting only National banks,) not secured by a lien on or by transfer of title to the goods on which the bill of exchange is based, or by other adequate security, unless a satisfactory statement of the financial condition of the acceptor is first secured by the Federal reserve bank in form to be approved by the Federal Reserve Board.

V.

Attention is called to the fact that bills of exchange so purchased cannot be used as collateral for Federal reserve notes, unless they are indorsed by a member bank.

VI.

It will be necessary for Federal reserve banks to watch carefully the aggregate amount of such bills purchased and held from time to time. Such banks should consider carefully not only the regular requirements of their member banks

-4-

and the probable demands of other Federal reserve banks for rediscounts, but, as well, the possible demands upon their resources in rediscounting acceptances in the import and export trade. They should, in short, always keep in mind the constantly varying needs of the country.

CHARLES D. HAMLEN,
Governor.

H. FARMER WILLIS,
Secretary.

RECEIVED

SEP 15 1915

GOVERNOR'S OFFICE

FEDERAL RESERVE BOARD

WASHINGTON September 15th, 1915.

M.C. ELLIOTT
COUNSEL

My dear Governor:-

The attached letter dated September 9th from the Cashier of the Mutual National Bank of Boston has been referred to this office for suggested reply.

This bank desires to make application for the sale, through the Treasurer of the United States, of 200,000 United States 2% bonds.

Section 18 of the Federal Reserve Act provides that -

"After two years from the passage of this Act....any member bank desiring to retire the whole or any part of its circulating notes, may file with the Treasurer of the United States an application to sell for its account, at par and accrued interest, United States bonds securing circulation to be retired.

The Treasurer shall, at the end of each quarterly period, furnish the Federal Reserve Board with a list of such applications, and the Federal Reserve Board may, in its discretion, require the Federal reserve banks to purchase such bonds from the banks whose applications have been filed with the Treasurer at least ten days before the end of any quarterly period at which the Federal Reserve Board may direct the purchase to be made".

This provision will not become effective until December 23, 1915. The end of the first quarterly period following that date is December 31, 1915. In order to comply with the terms of the statute, applications would have to be filed with the Treasurer ten days before this time, or by December 21, 1915. In other words, the application would have to be filed at a time when this particular provision of the Act is not in operation.

Before replying to this letter, therefore, it is necessary for the Board to determine whether it will undertake to require banks to purchase any bonds for the retirement of circulation on December 31, 1915.

I am of the opinion that while the Board cannot require the purchase of these bonds until after

SH.....2

December 23, 1915, it will not be inconsistent with the provisions of the Act for member banks desiring to retire circulation to file applications with the Treasurer before this date so as to have such applications in the hands of the Treasurer ten days before the quarterly period ending December 31, 1915. The Board should, however, determine whether it will require the purchase of any such bonds on this date or wait until the end of the next quarterly period, namely, March 31st, 1916.

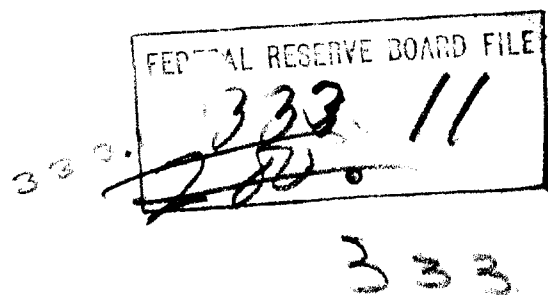
Respectfully,



Counsel.

Hon. Charles S. Hamlin,
G o v e r n o r .

Warburg



March 22nd, 1915.

My dear Mr. Warburg:

The Committee on Legal Matters, which, as I recall it, consists of Governor Hamlin, yourself and counsel, submitted to the Board a report on the main question as to the right of Federal Reserve Banks to buy Government bonds, with circulating privilege and to issue Federal Reserve Bank Notes against them.

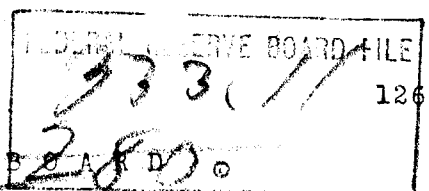
The opinion of counsel dated November 30th, 1914, has never been formally acted upon. On the other hand, the Board did authorize Federal Reserve Banks to buy Government bonds. As requests for the preparation of plates, etc. for issuance of Federal Reserve Bank Notes are now coming in, it seems to me it is important that the main questions should be disposed of.

Yours very truly,

SIGNED) F. A. DELANO

Mr. Paul M. Warburg.

FEDERAL RESERVE
WASHINGTON



January 4, 1915.

MEMORANDUM FOR GOVERNOR HAMLIN.

My dear Governor:

I have your letter of January 2nd and have carefully examined that part of Section 18 of the Federal Reserve Act which relates to the exchange of United States bonds with the circulating privilege for one year gold notes of the United States and thirty year 3% gold bonds without the circulating privilege.

After analysing this whole section and after considering all the circumstances, I am inclined to the view that technically the Federal Reserve Board has the right at this time to authorize this exchange and that the opening sentence of this section making certain provisions effective only after two years from the passage of the Act, does not relate to the provision under consideration.

As heretofore advised the power to purchase bonds having the circulation privilege and to issue national currency against such bonds is specifically given to the Federal reserve banks by other sections of the Act.

When Section 18 was incorporated in the Act it was originally intended, as its title implies, to provide a method for gradually refunding bonds held at the time by the several national banks. This matter was very carefully considered by the Committee of the House and the Committee of the Senate and a number of plans were submitted having for their object the ultimate retirement of national bank circulation and the substitution of other notes. At the time of the passage of the Act there was approximately \$750,000,000. in national bank circulation outstanding. The bonds securing this circulation mature at the pleasure of the United States Government after thirty years from the date of issue and it was accordingly estimated that if the Federal reserve banks could acquire a minimum of \$25,000,000. a year they would have in their possession at the maturity of these bonds approximately the entire issue, and the Government would have to deal

C. S. H. No 2.

only with the Federal reserve banks instead of with the several thousand national banks in refunding such bonds.

It was recognized, however, that unless the national banks desired to retire their circulation the Federal reserve banks would be unable to procure the bonds, and this method was provided of having those national banks desiring to retire the whole or any part of their circulation make application through the Treasurer to sell the bonds for their account and the Federal Reserve Board was empowered to require Federal reserve banks to purchase bonds so offered, and, as suggested by you, it was originally contemplated that the Federal reserve banks should thereupon be required to issue Federal reserve bank notes against such bonds.

In view of the arguments presented to the Committee that this circulation becomes redundant at certain times, it was later determined to permit the exchange of bonds thus acquired with the circulating privilege for obligation of the United States without the circulating privilege.

As stated, this section was originally intended to deal only with the bonds acquired from national banks desiring to retire in whole or in part their national bank circulation.

The section was amended, however, in conference so that it now provides -

- (a) for the issuance of Federal reserve bank notes against bonds acquired under other provisions of the Act as well as against bonds acquired under this section; and
- (b) for the exchange of any United States 2% gold bonds bearing the circulation privilege but against which no circulation is outstanding for one year gold notes of the United States without the circulation privilege to an amount not to exceed one-half of the 2% bonds so tendered for exchange and the thirty year 3% gold bonds, without the circulating privilege, for the remainder of the bonds so tendered.

It is significant that in the first two paragraphs of this section in referring to the bonds which the

C. S. H. No. 3.

Federal reserve banks may be required to purchase, Congress uses the words "such bonds" manifestly referring to bonds which a national bank desires to sell through the Treasurer in order to reduce its circulation.

In the fifth paragraph of this section, however, it is provided:-

"Upon the deposit with the Treasurer of the United States of bonds so purchased or any bonds with the circulating privilege acquired under Section four of this Act, any Federal reserve bank*** shall be entitled to receive *** circulating notes *** equal in amount to the par value of the bonds so deposited."

In this paragraph the section for the first time refers to bonds other than those acquired from banks desiring to reduce their circulation and in the following paragraph the language of the Act is -

"Upon application of any Federal reserve bank approved by the Federal Reserve Board, the Secretary of the Treasury may issue in exchange for United States 2% gold bonds bearing the circulation privilege, but against which no circulation is outstanding one-year gold notes," etc. etc.

The failure therefore to restrict this paragraph by any qualifying clause the bonds which may be exchanged other than the qualification that they shall be 2% United States bonds with the circulating privilege, would seem to indicate that the Federal Reserve Board may, in its discretion, authorize the exchange of any bonds bearing this privilege acquired in any manner by the Federal reserve banks.

In this connection, however, attention is called to the fact that this exchange involves the exercise of a discretion on the part of the Federal Reserve Board and there would seem to be a strong reason, as a matter of policy, for the Board to refuse to exercise this discretion until the expiration of the two years or at least until a later date.

The two year limitation was imposed in order that the Federal reserve banks might have an opportunity to become firmly established before they shall be required

CC S. H. No. 4.

to take over bonds from national banks and there would seem to be a still stronger reason for waiting until this time before permitting them to exchange bonds so acquired for one year gold notes. Such an exchange would require the Federal reserve bank receiving such one year gold notes to enter into an obligation to purchase new notes when those issued mature and were paid and it is only upon this condition that the Government can undertake under the Act to exchange these short term obligations for the thirty-year 3% bonds. Accordingly the Federal reserve bank should not be permitted to assume this obligation until it has become firmly established.

I would respectfully suggest, therefore, that Mr. Perrin be advised that the Board cannot at this time approve the exchange suggested and that the matter be left open of whether or not the Board can legally authorize such an exchange before the expiration of two years.

Respectfully,

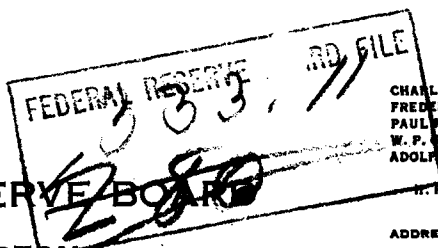
(Signed) M. C. Elliott

Counsel.

Honorable Charles S. Hamlin,
Governor, The Federal Reserve Board.

EX-OFFICIO MEMBERS
WILLIAM MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD
WASHINGTON



CHARLES S. HAMLIN, GOVERNOR
FREDERIC A. DELANO, VICE GOVERNOR
PAUL M. WARBURG
W. P. C. HARDING
ADOLPH C. MILLER
H. PARKER WILLIS, SECRETARY

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

November 30, 1914.

My dear Governor:-

I am in receipt of your note of the twenty-third instant in which you submit the following questions for consideration:

Does sub-section (b), Section 14, permit a Federal reserve bank to buy United States Government bonds regardless of the limitations of Section 18?

If a reserve bank did so, could it issue Federal reserve bank notes against these bonds?

Sub-section (b) of Section 14, in defining one of the powers of the Federal reserve banks, provides in part as follows -

"To buy and sell, at home or abroad, bonds and notes of the United States **** such purchases to be made in accordance with rules and regulations prescribed by the Federal Reserve Board".

This section taken alone vests in every Federal reserve bank the power to purchase and sell United States bonds without any limitation except such as may be imposed by regulations of the Federal Reserve Board.

Unlike Section 18, which becomes effective two years from the date of the passage of the Act, this section takes effect immediately upon the establishment of the Federal reserve banks, being a power vested in such banks when organized and authorized to commence business. It will, therefore, conduce to clearness to consider the exercise of this power, first, without reference to the provisions of Section 18 and as an independent power, and later, to consider whether the provisions of Section 18 in any way affect or restrict the provisions of this section.

It will be observed that Federal reserve banks are given the power to purchase and sell United States bonds. This power will include the purchase and sale (a) of bonds not having the circulation privilege - for example, Panama Three Per Cent bonds; (b) bonds having the circulation privilege but against which no circula-

C.S.H. No. 2.

tion is outstanding. Such bonds to be purchased and sold as the title to this section indicates, in the open market, that is, from any source.

Section 4, sub-section 8, which likewise takes effect when the Federal reserve banks have been authorized to commence business, provides in part as follows -

"Upon deposit with the Treasurer of the United States of any bonds of the United States in the manner provided by existing law relating to national banks, to receive from the Comptroller of the Currency circulating notes in blank, registered and countersigned as provided by law, equal in amount to the par value of the bonds so deposited, such notes to be issued under the same conditions and provisions of law as relate to the issue of circulating notes of national banks secured by bonds of the United States bearing the circulating privilege, except that the issue of such notes shall not be limited to the capital stock of such Federal reserve bank".

Under these two sections any Federal reserve bank, independently of the provisions of Section 18, may purchase in the open market United States bonds not having the circulating privilege or United States bonds having the circulating privilege but against which no circulation is outstanding and upon deposit of latter bonds in the manner provided by existing law relating to national banks, may receive from the Comptroller circulating notes in blank equal in amount to the par value of the amount so deposited.

Section 18, on the other hand, which, as stated, does not become effective until after two years from the passage of the Act, deals with a specific class of bonds, namely, those held by national banks which desire to retire in whole or in part circulating notes outstanding. This section provides in part as follows:

"After two years from the passage of this Act, and at any time during a period of twenty years thereafter, any member bank desiring to retire the whole or any part of its circulating notes, may file with the Treasurer of the United States an application to sell for its account at par and accrued interest, United States bonds securing circulation to be retired.

The Treasurer shall, at the end of each quarterly period, furnish the Federal Reserve Board with a list of such applications, and the Federal Reserve Board may, in its discretion, require the Federal reserve banks to purchase such bonds from the banks whose applications have been filed with the Treasurer at least ten days before the end of any quarterly period at which the Federal Reserve Board may direct the purchase to be made; PROVIDED, That Federal reserve banks shall not be permitted to

C.S.H. No. 3.

"purchase an amount to exceed \$25,000,000 of such bonds in any one year, and which amount shall include bonds acquired under section four of this Act by the Federal reserve bank".

The question, therefore, arises whether the limitation of \$25,000,000 contained in the foregoing proviso limits the amount of United States bonds which may be purchased from any source, (e.g., bonds having no circulating privilege and bonds having circulating privilege but against which no circulation is outstanding), by a Federal reserve bank, or whether it applies only to those bonds which are offered for sale by a member bank through the Treasurer of the United States with the intent to contract the circulation of such member bank. The language of this proviso is somewhat ambiguous since the enacting clause provides that -

"The Federal Reserve Board may, in its discretion, require the Federal reserve banks to purchase such bonds (that is, bonds which are offered for sale through the Treasurer by member banks)", while the language of the proviso is

"Provided that the Federal reserve banks shall not be permitted to purchase an amount to exceed \$25,000,000 of such bonds (that is, bonds offered for sale by member banks as above indicated) in any one year, and which amount shall include bonds acquired under Section 4 of this Act by the Federal reserve bank".

"Provided, further, that the Federal Reserve Board shall allot to each Federal reserve bank such proportion of such bonds as the capital and surplus of such bank shall bear to the aggregate capital and surplus of all the Federal reserve banks".

If we analyze this language we find (1) that the power is vested in the Federal Reserve Board to require Federal reserve banks to purchase bonds offered for sale, after two years from the passage of the Act, by member banks through the Treasurer of the United States. (2) By way of limitation to the exercise of this power by the Federal Reserve Board, Federal reserve banks are not permitted to purchase more than \$25,000,000 of such bonds in any one year. That is to say, the combined or aggregate purchases of all Federal reserve banks of bonds offered for sale through the Treasurer of the United States, and which the Federal Reserve Board may require the several Federal reserve banks to purchase in proportion to the capital and surplus of such banks, shall not exceed \$25,000,000 in any one year, and to quote from the statutes -

C.S.H. No. 4.

"this amount shall include bonds acquired under Section four of this Act by the Federal reserve bank."

It will be observed -

First - that the amount to be included in the \$25,000,000 referred to is the amount of bonds acquired under Section four which defines the general corporate powers of a Federal reserve bank, and includes in such powers the right on the part of the Federal reserve bank to deposit with the Treasurer of the United States bonds bearing the circulating privilege and to receive therefor circulating notes.

No reference is made in this proviso to Section 14 which authorizes banks to purchase in the open market United States bonds either with or without this circulating privilege. Section 18 deals with bonds which not only have the circulating privilege but against which circulation is already outstanding. This is significant because the question of contraction is unquestionably involved and the limitation imposed seems to be a limitation on the amount of bonds which the Federal reserve banks may be required to purchase from member banks in order to permit such member banks to reduce the amount of their outstanding circulation.

In other words, Section 18 may be said to be supplementary to the Act approved July 12, 1882 as amended by the Act approved March 4, 1907, providing for the withdrawal of circulating notes on deposit of lawful money, and the withdrawal of bonds, which Act reads in part as follows -

"Provided that not more than nine million dollars of lawful money shall be so deposited during any calendar month for this purpose".

In other words, Section 18 provides an additional method by which member banks may reduce their outstanding circulation to the extent of \$25,000,000 a year by the sale of such bonds to Federal reserve banks to this amount, provided, such Federal reserve banks have not lost their power to purchase such bonds from member banks by purchases made in the open market.

Second - It will also be observed that the amount to be included in the \$25,000,000 referred to is the amount of bonds required under Section four by one Federal reserve bank and not by the several Federal reserve banks which language, as above stated, is ambiguous. It may be that this is the result of a typographical error and that Congress intended that section to read -

"This amount shall include bonds acquired under Section four of this Act by the Federal reserve banks",

C. S. H. No. 5.

in which case it would still seem clear that Section 18 is independent of Section 14 and that the limitation imposed by Section 18 applies only to the amount of bonds which the several Federal reserve banks may be required to purchase in order to enable member banks to reduce their outstanding circulation to the extent of \$25,000,000 a year in addition to the amount now allowed by law, namely, nine million dollars per month.

On the other hand, if we assume that Congress intended to confine the amount to be included to the amount of bonds purchased by one Federal reserve bank, this ambiguity is partly explained by a consideration of the language of this particular section as it passed the Senate and as it finally appeared in the Act when passed by Congress. In the bill as it passed the Senate on December 19th, 1913, this section provided that -

"The Federal Reserve Board may, in its discretion, require the Federal reserve banks to purchase such bonds from the banks whose applications have been filed with the Treasurer at least ten days before the end of any quarterly period at which the Federal Reserve Board may direct the purchases to be made".

No limitation was placed upon the amount of such bonds which the Federal Reserve Board might, in its discretion, require the several Federal reserve banks to purchase.

As amended by the Conference Committee of the Senate and House, the amount of such bonds which the several Federal reserve banks are permitted to purchase is limited to \$25,000,000 in the aggregate in any one year, such bonds being those held by member banks and having circulation outstanding against them.

Without the language which follows this limitation and which reads "And which amount shall include bonds acquired under Section four of this Act by the Federal reserve bank", the word "permitted" would be synonymous with the word "required"; that is to say, the same result would obtain if the proviso read "the Federal reserve banks shall not be required to purchase an amount to exceed \$25,000,000 of such bonds in any one year".

Since in this case the limitation would have applied to the power of the Federal Reserve Board to require the purchase of such bonds, while the Act as it passed effects the same result by limiting the power of the bank to purchase instead of limiting the power of the Board to require such bank to exercise the power to purchase.

C. S. H. No. 6.

The question, therefore, arises - what is the effect of the language "and which amount shall included bonds acquired under Section 4 of this Act by the Federal reserve bank."

As above stated, it will be observed that the purchases to be included in the \$25,000,000 are the purchases of one bank, not the aggregate purchases of the several Federal reserve banks, and this language would be difficult to explain without the aid of the second proviso which follows and which reads:

"Provided, further, that the Federal Reserve Board shall allot to each Federal reserve bank such proportion of such bonds as the capital and surplus of such bank shall bear to the aggregate capital and surplus of all the Federal reserve banks".

Considering this language as part of the context the conclusion seems inevitable that Congress intended that no part of the \$25,000,000 in bonds which the Federal Reserve Board might require the several Federal reserve banks to purchase through the Treasurer from member banks shall be allotted to a Federal reserve bank which had purchased under Section 4 United States bonds equal to or in excess of the amount which would otherwise be allotted to such bank, and had taken out Federal Reserve bank notes against said bonds.

Unless this view is adopted, it would be difficult to attach any meaning to the proviso that the \$25,000,000 should include bonds acquired under Section 4 of this Act "by the Federal reserve bank".

The meaning of these provisions would perhaps be clearer if they should be transposed to read -

"Provided, the Federal Reserve Board shall allot to each Federal reserve bank such proportion of such bonds as the capital of such bank shall bear to the aggregate capital and surplus of all the Federal reserve banks".

"Provided, further, that Federal reserve banks shall not be permitted to purchase an amount to exceed \$25,000,000 of such bonds in any one year, and which amount shall (in making such allotments) include bonds acquired under Section 4 of this Act by the Federal reserve bank (to which such allotment is made)."

It is significant that throughout both provisions the language "such bonds" is consistently used. The bonds referred to as "such bonds", of which Federal reserve banks are permitted to purchase an amount not to exceed \$25,000,000

C. S. H. No. 7.

in any one year, are shown by the context to be bonds offered by member banks for sale through the Treasurer in order to reduce the circulation of such member banks, and also which form a part of an aggregate amount which the Federal Reserve Board may require the Federal reserve banks to purchase.

These elements are necessary to bring such bonds within the purview of this section. The limitation prescribed is the limitation of the amount which the Federal Reserve Board may require Federal reserve banks to purchase, and it seems clear that if a Federal reserve bank has under the power contained in Section 4 already purchased United States bonds with the circulation privilege equal to or in excess of what its allotment would otherwise be, it is not permitted or required to share in the purchase of such bonds which must be purchased at par.

If we assume that Congress intended to include bonds purchased by the several Federal reserve banks under Section 4 in the limitations prescribed, the effect would be that if any number of the Federal reserve banks had purchased in the open market in the aggregate bonds having the circulating privilege of \$25,000,000 in any one year, then no Federal reserve bank would be permitted to purchase any bonds offered by member banks for sale through the Treasurer of the United States.

If, on the other hand, we follow the language of the Act and interpret it as aforesaid, the effect would be that if some of the Federal reserve banks had purchased in the open market no bonds having the circulation privilege during the year they might be required to take their allotment of this \$25,000,000, while those banks which had purchased bonds equal to or in excess of the amount to which they would be entitled, would not be permitted to purchase any such bonds.

In either view, the conclusions seem fully justified -

First - That Federal reserve banks may, under Section 14, sub-section (b), purchase in open market United States bonds with or without the circulating privilege, to such an extent as the Federal Reserve Board may by regulation permit, and without reference to the limitations of Section 18.

Second - That any bonds so acquired, having the circulating privilege, may, under the provisions of Section 4, be deposited with the Treasurer of the United States as a basis for issue of Federal reserve bank notes.

Third - That after two years from the passage of the Act any bonds against which national banks have outstanding national bank notes, may be purchased by Federal reserve banks when offered for sale through the Treasurer of the United States, provided, that the Federal reserve bank to which an allotment is made has not already purchased in the open market bonds with circulation privilege equal to or

OPEN MARKET OPERATIONS.

3 3 3,

1. Original bill, June 26, 1913.

In the open market clause banks were given authority to purchase and sell bankers' bills, cable transfers and bills of exchange of the kinds and maturities by this Act made eligible for rediscount; nothing being said about the indorsement of a member bank.

Power was also given to invest in United States bonds and in short term obligations of the United States or its dependencies or of any State or foreign Government; nothing being said about bills, notes, revenue bonds and warrants.

2. Draft of bill, August , 1913.

Open market power to buy and sell, etc. prime bankers' bills and bills of exchange of the kinds and maturities by this Act made eligible for rediscount, and cable transfers.

Power also given to invest in United States bonds and bonds issued by any State, county, district or municipality; power to purchase from member banks and to sell with or without its indorsement bills of exchange arising out of commercial transactions as hereinbefore defined payable in foreign countries.

3. Bill as passed the House.

Power to buy and sell in open market prime bankers' bills and bills of exchange of the kinds and maturities by this Act made eligible for rediscount, and cable transfers.

Power to invest in United States bonds and bonds issued by any State, county, district or municipality. Same power as to bills of exchange as above.

4. Bill in Senate, September 18th.

In the open market powers, the words "prime bankers' bills"

-2-

changed to "bankers' acceptances" so as to read "bankers' acceptances and bills of exchange of the kinds and maturities by this Act made eligible for rediscount, both acceptances and bills to bear the indorsement of at least a member bank". (The words "cable transfers" stricken out.)

Power given to buy and sell, etc. bonds and notes of the United States and bills, notes, revenue bonds and warrants with maturities, etc. issued in anticipation of the collection of taxes or of the receipt of assured revenues, etc. by any State, county, district or municipality of the United States, in accordance with rules and regulations prescribed by the Federal Reserve Board. The words "payable in foreign countries" stricken out from the power to buy and sell bills of exchange with or without its indorsement.

5. Senate amendment, November 22, 1913.

Power given to buy and sell in open market cable transfers and bankers' acceptances and bills of exchange of the kinds and maturities by this Act made eligible for rediscount.

Power to buy, etc. United States notes and bonds and bills, notes, revenue bonds etc., same as above.

Power to purchase bills of exchange same as above.

6. Senator Owen's amendment, December 1st.

Power to buy and sell cable transfers and bankers' acceptances and bills of exchange of the kinds and maturities by this Act made eligible for rediscount with or without the indorsement of a member bank.

Power to buy United States bonds and notes and bills, notes, revenue bonds and warrants, same as above.

7. In the Senate, December 19, 1913.

Same as above.

-3-

nk

8. Bill as passed by the Senate.

Same as above.

9. Bill as agreed to in conference.

Same as above, except power to buy bills, notes, etc. in increased
by including irrigation, drainage and reclamation districts.