

FEDERAL RESERVE BANK
OF NEW YORK

*(Reference to 1920
Regulations - F. R. Board)
Reference to Cir. 355*

NEW YORK, October 13, 1916.

TO THE CASHIER,

SIR:

On September 7, 1916, the bill amending the Federal Reserve Act in several important particulars became a law. The amendments were of three kinds:

- Those broadening the powers of member banks;
- Those affecting the relations of member banks to their Federal reserve banks;
- Those affecting the operations of Federal reserve banks.

The amendments were printed in full in the Federal Reserve Bulletin for September, of which you have received a copy. It is desired, however, to call the attention of member banks in this district to the following increased powers of member banks:

ACCEPTANCES

Heretofore the acceptances which member banks have been authorized to make have been limited to those based upon transactions involving the importation or exportation of goods. Under the new amendment they are also permitted

(a) to accept drafts or bills of exchange which grow out of transactions involving the domestic shipment of goods, provided shipping documents conveying or securing title are attached at the time of acceptance, or which are secured at the time of acceptance by a warehouse receipt or other such document conveying or securing title covering readily marketable staples.

(b) to accept drafts or bills of exchange drawn by banks or bankers in foreign countries, dependencies or insular possessions of the United States, for the purpose of furnishing dollar exchange.

LOANS ON REAL ESTATE

Heretofore national banks not situated in central reserve cities have been limited in their loans on real estate to those secured by improved and unencumbered farm land situated within their Federal reserve districts. The amendment authorizes such national banks to loan also upon other real estate provided it is improved and unencumbered and situated within 100 miles of the lending bank and the loan does not run longer than one year. The farm land upon which loans may be made may now be situated either within the district or within 100 miles of the lending bank.

BANKING IN FOREIGN COUNTRIES

Heretofore national banks with a capital and surplus of one million dollars or more have been permitted to establish branches in foreign countries. Under the amendment they are also permitted, with the approval of the Federal Reserve Board, to invest an amount not exceeding in the aggregate 10% of their paid in capital stock and surplus in the stock of one or more banks or corporations chartered or incorporated under the laws of the United States or of any State, which are principally engaged in international or foreign banking, or banking in a dependency or insular possession of the United States.

Following the adoption of these amendments, the Federal Reserve Board has reissued its regulations in simplified and consolidated form, superseding all its preceding circulars and regulations. A copy of these regulations in pamphlet form is enclosed herewith and may be substituted in your files for all existing circulars and regulations of the Federal Reserve Board but not for those of the Federal Reserve Bank of New York.

On pages 7 and 13 of the pamphlet will be found the regulations covering the new powers conferred by the amendments to accept drafts drawn to furnish dollar exchange and to loan on real estate other than farm land.

Attention is particularly called to regulation A on pages 2, 3 and 4, which contains the information required by a member bank in rediscounting with its Federal reserve bank. Member banks increasing or decreasing their capital stock or surplus will find the necessary procedure set forth under regulation I on page 18. The remaining regulations relate to other activities of member banks, open market operations of Federal reserve banks, membership of State banks, etc.

Mr. Joseph D. Higgins, formerly assistant to the Federal reserve agent, has been appointed assistant cashier of the bank.

Respectfully,

R. H. TREMAN,

Deputy Governor.

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FEDERAL RESERVE BOARD

Circulars and Regulations

SERIES OF 1916



September, 1916

WASHINGTON
GOVERNMENT PRINTING OFFICE
1916



FEDERAL RESERVE BOARD.

WASHINGTON, *September 15, 1916.*

The accompanying revision of the Federal Reserve Board's regulations, which has been delayed by the desire to incorporate all changes occasioned by amendment of the Federal Reserve Act, is, for the greater convenience of member banks, now issued in pamphlet form, and is a compendium of all regulations applicable to the transactions of member banks. All previous issues of regulations are superseded by the present issue, to which alone reference will hereafter be made.

Instructions which concern only Federal Reserve Agents or Federal Reserve Banks will be covered in separate letters or regulations.

W. P. G. HARDING,
Governor.

SHERMAN ALLEN,
Assistant Secretary.

* Circular No. 1 of May 1, 1916, "Check Clearing and Collection," in slightly modified form, is reissued herein as Regulation J.

REDISCOUNTS UNDER SECTION 13.

A.

NOTES, DRAFTS, AND BILLS OF EXCHANGE.

I. GENERAL STATUTORY PROVISIONS.

Any Federal Reserve Bank may discount for any of its member banks any note, draft, or bill of exchange provided—

(a) It has a maturity at the time of discount of not more than 90 days, exclusive of days of grace; but if drawn or issued for agricultural purposes or based on live stock, it may have a maturity at the time of discount of not more than six months, exclusive of days of grace.

(b) It arose out of actual commercial transactions; that is, it must be a note, draft, or bill of exchange which has been issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used or are to be used for such purposes.

(c) It was not issued for carrying or trading in stocks, bonds, or other investment securities, except bonds and notes of the Government of the United States.

(d) The aggregate of notes, drafts, and bills bearing the signature or indorsement of any one borrower, whether a person, company, firm, or corporation rediscounted for any one member bank shall at no time exceed 10 per cent of the unimpaired capital and surplus of such bank; but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values.

(e) It is indorsed by a member bank.

(f) It conforms to all applicable provisions of this regulation.

II. GENERAL CHARACTER OF NOTES, DRAFTS, AND BILLS OF EXCHANGE ELIGIBLE.

The Federal Reserve Board, exercising its statutory right to define the character of a note, draft, or bill of exchange eligible for rediscount at a Federal Reserve Bank, has determined that—

(a) It must be a note, draft, or bill of exchange the proceeds of which have been used or are to be used in producing, purchasing, carrying, or marketing goods¹ in one or more of the steps of the process of production, manufacture, or distribution.

(b) It must not be a note, draft, or bill of exchange the proceeds of which have been used or are to be used for permanent or fixed investments of any kind, such as land, buildings, or machinery.

(c) It must not be a note, draft, or bill of exchange the proceeds of which have been used or are to be used for investments of a purely speculative character.

(d) It may be secured by the pledge of goods or collateral, provided it is otherwise eligible.

III. APPLICATIONS FOR REDISCOUNT.

All applications for the rediscount of notes, drafts, or bills of exchange must contain a certificate of the member bank, in form to be prescribed by the Federal Reserve Bank, that, to the best of its knowledge and belief, such notes, drafts, or bills of exchange have been issued for one or more of the purposes mentioned in II (a).

¹ When used in this regulation the word "goods" shall be construed to include goods, wares, merchandise, or agricultural products, including live stock.

IV. PROMISSORY NOTES.

(a) *Definition.*—A promissory note, within the meaning of this regulation, is defined as an unconditional promise, in writing, signed by the maker, to pay, in the United States, at a fixed or determinable future time, a sum certain in dollars to order or to bearer.

(b) *Evidence of eligibility and requirement of statements.*—A Federal Reserve Bank must be satisfied by reference to the note or otherwise that it is eligible for rediscount. Compliance of a note with II (b) may be evidenced by a statement of the borrower showing a reasonable excess of quick assets over current liabilities. The member bank shall certify in its application whether the note offered for rediscount has been discounted for a depositor or another member bank or whether it has been purchased from a nondepositor. It must also certify whether a financial statement of the borrower is on file.

Such financial statements must be on file with respect to all notes offered for rediscount which have been purchased from sources other than a depositor or a member bank. With respect to any other note offered for rediscount, if no statement is on file, a Federal Reserve Bank shall use its discretion in taking the steps necessary to satisfy itself as to eligibility. It is authorized to waive the requirement of a statement with respect to any note discounted by a member bank for a depositor or another member bank—

(1) If it is secured by a warehouse, terminal, or other similar receipt covering goods in storage;

(2) If the aggregate of obligations of the borrower rediscounted and offered for rediscount at the Federal Reserve Bank is less than a sum equal to 10 per cent of the paid-in capital of the member bank and does not exceed \$5,000.

V. DRAFTS, BILLS OF EXCHANGE, AND TRADE ACCEPTANCES.

(a) *Definition.*—A draft or bill of exchange, within the meaning of this regulation, is defined as an unconditional order in writing, addressed by one person to another, other than a banker as defined under B (b), signed by the person giving it, requiring the person to whom it is addressed, to pay, in the United States, at a fixed or determinable future time, a sum certain in dollars to the order of a specified person; and a trade acceptance is defined as a draft or bill of exchange drawn by the seller on the purchaser of goods sold and accepted by such purchaser.

(b) *Evidence of eligibility.*—A Federal Reserve Bank shall take such steps as it deems necessary to satisfy itself as to the eligibility of the draft or bill offered for rediscount, unless it presents prima facie evidence thereof or bears a stamp or certificate affixed by the acceptor or drawer showing that it is a trade acceptance.

VI. SIX MONTHS' AGRICULTURAL PAPER.

(a) *Definition.*—Six months' agricultural paper, within the meaning of this regulation, is defined as a note, draft, bill of exchange, or trade acceptance drawn or issued for agricultural purposes, or based on live stock; that is, a note, draft, bill of exchange, or trade acceptance the proceeds of which have been used, or are to be used, for agricultural purposes, including the breeding, raising, fattening, or marketing of live stock, and which has a maturity at the time of discount of not more than six months, exclusive of days of grace.

(b) *Eligibility.*—To be eligible for rediscount six months' agricultural paper, whether a note, draft, bill of exchange, or trade acceptance, must comply with the respective sections of this regulation which would apply to it if its maturity were 90 days or less.

VII. COMMODITY PAPER.

(a) *Definition.*—Commodity paper within the meaning of this regulation is defined as a note, draft, bill of exchange, or trade acceptance accompanied and secured by shipping documents or by a warehouse, terminal, or other similar receipt covering approved and readily marketable, nonperishable staples properly insured.

(b) *Eligibility.*—To be eligible for rediscount at the special rates authorized to be established for commodity paper, such a note, draft, bill of exchange, or trade acceptance must also comply with the respective sections of this regulation applicable to it, must conform to the requirements of the Federal Reserve Bank relating to shipping documents, receipts, insurance, etc., and must be a note, draft, bill of exchange, or trade acceptance on which the rate of interest or discount—including commission—charged the maker, does not exceed 6 per cent per annum.

B.

BANKERS' ACCEPTANCES.

(a) *General statutory provisions.*—Any Federal Reserve Bank may discount for any of its member banks bankers' acceptances which have a maturity at the time of discount of not more than three months' sight, exclusive of days of grace, which are indorsed by at least one member bank, and which grow out of transactions involving the importation or exportation of goods; or, which grow out of transactions involving the domestic shipment of goods, provided shipping documents are attached at the time of acceptance; or, which are secured at the time of acceptance by a warehouse receipt or other such document conveying or securing title covering readily marketable staples. Any Federal Reserve Bank may also acquire drafts or bills of exchange drawn on member banks by banks or bankers in foreign countries or dependencies or insular possessions of the United States for the purpose of furnishing dollar exchange.

(b) *Definition.*—A banker's acceptance within the meaning of this regulation is defined as a draft or bill of exchange of which the acceptor is a bank or trust company, or a firm, person, company, or corporation engaged in the business of granting bankers' acceptance credits.

(c) *Eligibility.*—To be eligible for rediscount the bill must have been drawn under a credit opened for the purpose of conducting, or settling accounts resulting from, a transaction or transactions involving (1) the shipment of goods between the United States and any foreign country, or between the United States and any of its dependencies or insular possessions, or between foreign countries, or (2) the domestic shipment of goods, provided shipping documents are attached at the time of acceptance; or it must be a bill which is secured at the time of acceptance by a warehouse receipt or other such document conveying or securing title covering readily marketable staples. Any Federal Reserve Bank may also acquire drafts or bills drawn by a bank or banker in a foreign country or dependency or insular possession of the United States for the purpose of furnishing dollar exchange and accepted by a member bank in accordance with the provisions of Regulation C, page 7. Such drafts or bills may be acquired prior to acceptance provided they have the indorsement of a member bank.

(d) *Evidence of eligibility.*—A Federal Reserve Bank must be satisfied, either by reference to the acceptance itself or otherwise, that it is eligible for rediscount. Satisfactory evidence of eligibility may consist of a stamp or certificate affixed by the acceptor in form satisfactory to the Federal Reserve Bank.

OPEN-MARKET PURCHASES OF BILLS OF EXCHANGE, TRADE ACCEPTANCES, AND BANKERS' ACCEPTANCES UNDER SECTION 14.

I. GENERAL STATUTORY PROVISIONS.

Section 14 of the Federal Reserve Act permits Federal Reserve Banks under rules and regulations to be prescribed by the Federal Reserve Board to purchase and sell in the open market from banks, firms, corporations, or individuals, bankers' acceptances and bills of exchange of the kinds and maturities made eligible by the Act for rediscount, with or without the indorsement of a member bank.

II. GENERAL CHARACTER OF BILLS AND ACCEPTANCES ELIGIBLE.

The Federal Reserve Board, exercising its statutory right to regulate the purchase of bills of exchange and acceptances, has determined that a bill of exchange or acceptance, to be eligible for purchase by Federal Reserve Banks under section 14—

(a) Must not have been issued for carrying or trading in stocks, bonds, or other investment securities, except bonds and notes of the Government of the United States.

(b) Must not be a bill the proceeds of which have been used or are to be used for permanent or fixed investments of any kind, such as land, buildings, or machinery, or for investments of a merely speculative character.

(c) Must have been accepted by the drawee prior to purchase by a Federal Reserve Bank unless it is accompanied and secured by shipping documents or by a warehouse, terminal, or other similar receipt conveying security title.

(d) May be secured by the pledge of goods¹ or collateral, provided it is otherwise eligible.

In addition to the above general requirements, each bill of exchange and trade acceptance purchased under the terms of this regulation must also conform to the more specific requirements set forth under III, and each banker's acceptance must also conform to the more specific requirements set forth under IV.

III. BILLS OF EXCHANGE AND TRADE ACCEPTANCES.

(a) *Definition.*—A bill of exchange, within the meaning of this regulation, is defined as an unconditional order in writing, addressed by one person to another, other than a banker as defined under IV (a), signed by the person giving it, requiring the person to whom it is addressed, to pay, in the United States, at a fixed or determinable future time, a sum certain in dollars to the order of a specified person; and a trade acceptance is defined as a bill of exchange drawn by the seller on the purchaser of goods sold, and accepted by such purchaser.

¹ When used in this regulation the word "goods" shall be construed to include goods, wares, merchandise, or agricultural products, including live stock.

(b) *Eligibility.*—To be eligible for purchase the bill must have arisen out of an actual commercial transaction, domestic or foreign; that is, it must be a bill which has been issued or drawn for agricultural, industrial, or commercial purposes or the proceeds of which have been used or are to be used for the purpose of producing, purchasing, carrying or marketing goods in one or more of the steps of the process of production, manufacture, or distribution. It must have a maturity at time of purchase of not more than ninety days, exclusive of days of grace.

(c) *Evidence of eligibility.*—A Federal Reserve Bank shall take such steps as it deems necessary to satisfy itself as to the eligibility of the bill offered for purchase, unless it presents prima facie evidence thereof or bears a stamp or certificate affixed by the acceptor or drawer showing that it is a trade acceptance.

(d) *Statements.*—Unless indorsed by a member bank, a bill is not eligible for purchase until a satisfactory statement has been furnished of the financial condition of one or more of the parties thereto.

IV. BANKERS' ACCEPTANCES.

(a) *Definition.*—A bankers' acceptance, within the meaning of this regulation, is a bill of exchange of which the acceptor is a bank or trust company, or a firm, person, company, or corporation engaged in the business of granting bankers' acceptance credits.

(b) *Eligibility.*—To be eligible for purchase, the bill which must have a maturity at time of purchase of not more than three months, exclusive of days of grace, must have been drawn under a credit opened for the purpose of conducting, or settling accounts resulting from, a transaction or transactions involving—

- (1) The shipment of goods between the United States and any foreign country, or between the United States and any of its dependencies or insular possessions, or between foreign countries, or
- (2) The shipment of goods within the United States, provided the bill at the time of its acceptance is accompanied by shipping documents, or
- (3) The storage within the United States of readily marketable goods, provided the acceptor of the bill is secured by warehouse, terminal, or other similar receipt, or
- (4) The storage within the United States of goods which have been actually sold, provided the acceptor of the bill is secured by the pledge of such goods;

or it must be a bill drawn by a bank or banker in a foreign country or dependency or insular possession of the United States for the purpose of furnishing dollar exchange. In this latter case the bank or banker drawing the bill must be in a country, dependency, or possession whose usages of trade have been determined by the Federal Reserve Board to require the drawing of bills of this character.

(c) *Evidence of eligibility.*—A Federal Reserve Bank must be satisfied either by reference to the acceptance itself, or otherwise, that it is eligible for purchase. Satisfactory evidence of eligibility may consist of a stamp or certificate affixed by the acceptor, in form satisfactory to the Federal Reserve Bank. No evidence of eligibility is required with respect to a bill accepted by a national bank.

(d) *Statements.*—Bankers' acceptances, other than those accepted or indorsed by member banks, shall be eligible for purchase only after the acceptor has furnished a satisfactory statement of financial condition in form to be approved by the Federal Reserve Board and has agreed in writing with a Federal Reserve Bank to inform it upon request concerning the transactions underlying such acceptances.

ACCEPTANCE BY MEMBER BANKS OF DRAFTS DRAWN TO FURNISH DOLLAR EXCHANGE.

I. STATUTORY PROVISIONS.

Section 13 of the Federal Reserve Act provides that any member bank may accept drafts or bills of exchange drawn upon it having not more than three months' sight to run, exclusive of days of grace, drawn, under regulations to be prescribed by the Federal Reserve Board, by banks or bankers in foreign countries or dependencies or insular possessions of the United States for the purpose of furnishing dollar exchange as required by the usages of trade in the respective countries, dependencies, or insular possessions.

No member bank shall accept such drafts or bills of exchange for any one bank to an amount exceeding in the aggregate 10 per centum of the paid-up and unimpaired capital and surplus of the accepting bank unless the draft or bill of exchange is accompanied by documents conveying or securing title or by some other adequate security. No member bank shall accept such drafts or bills in an amount exceeding at any time in the aggregate one-half of its paid-up and unimpaired capital and surplus.

II. REGULATIONS.

Any member bank desiring to accept drafts drawn by banks or bankers in foreign countries or dependencies or insular possessions of the United States for the purpose of furnishing dollar exchange shall first make an application to the Federal Reserve Board setting forth the usages of trade in the respective countries, dependencies, or insular possessions in which such banks or bankers are located.

If the Federal Reserve Board should determine that the usages of trade in such countries dependencies, or possessions require the granting of the acceptance facilities applied for, it will notify the applying bank of its approval and will also publish in the Federal Reserve Bulletin the name or names of those countries, dependencies, or possessions in which banks or bankers are authorized to draw on member banks whose applications have been approved for the purpose of furnishing dollar exchange.

The Federal Reserve Board reserves the right to modify or on 90 days' notice to revoke its approval either as to any particular member bank or as to any foreign country or dependency or insular possession of the United States in which it has authorized banks or bankers to draw on member banks for the purpose of furnishing dollar exchange.

TIME DEPOSITS AND SAVINGS ACCOUNTS.

Section 19 of the Federal Reserve Act provides, in part, as follows:

Demand deposits, within the meaning of this act, shall comprise all deposits payable within 30 days, and time deposits shall comprise all deposits payable after 30 days, and all savings accounts and certificates of deposit which are subject to not less than 30 days' notice before payment.

TIME DEPOSITS, OPEN ACCOUNTS.

The term "time deposits, open accounts" shall be held to include all accounts, not evidenced by certificates of deposit or savings pass books, in respect to which a written contract is entered into with the depositor at the time the deposit is made that neither the whole nor any part of such deposit may be withdrawn by check or otherwise, except on a given date or on written notice given by the depositor a certain specified number of days in advance, in no case less than 30 days.

SAVINGS ACCOUNTS.

The term "savings accounts" shall be held to include those accounts of the bank in respect to which, by its printed regulations, accepted by the depositor at the time the account is opened—

- (a) The pass book, certificate, or other similar form of receipt must be presented to the bank whenever a deposit or withdrawal is made, and
- (b) The depositor may at any time be required by the bank to give notice of an intended withdrawal not less than 30 days before a withdrawal is made.

TIME CERTIFICATES OF DEPOSIT.

A "time certificate of deposit" is defined as an instrument evidencing the deposit with a bank, either with or without interest, of a certain sum specified on the face of the certificate payable in whole or in part to the depositor or on his order—

- (a) On a certain date, specified on the certificate, not less than 30 days after the date of the deposit, or
- (b) After the lapse of a certain specified time subsequent to the date of the certificate, in no case less than 30 days, or
- (c) Upon written notice given a certain specified number of days, not less than 30 days before the date of repayment, and
- (d) In all cases only upon presentation of the certificate at each withdrawal for proper indorsement or surrender.

PURCHASE OF WARRANTS.

STATUTORY REQUIREMENTS.

Section 14 of the Federal Reserve Act reads in part as follows:

Every Federal Reserve Bank shall have power—

(b) 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 revenues by any State, county, district, political subdivision, or municipality in the continental United States, including irrigation, drainage, and reclamation districts, such purchases to be made in accordance with rules and regulations prescribed by the Federal Reserve Board.

For brevity's sake, the term "warrant" when used in this regulation shall be construed to mean "bills, notes, revenue bonds, and warrants with a maturity from date of purchase of not exceeding six months," and the term "municipality" shall be construed to mean "State, county, district, political subdivision, or municipality in the continental United States, including irrigation, drainage, and reclamation districts."

REGULATION.

I. Any Federal Reserve Bank may purchase warrants issued by a municipality in anticipation of the collection of taxes or in anticipation of the receipt of assured revenues, provided—

- (a) They are the general obligations of the entire municipality; it being intended to exclude as ineligible for purchase all such obligations as are payable from "local benefit" and "special assessment" taxes when the municipality at large is not directly or ultimately liable;
- (b) They are issued in anticipation of taxes or revenues which are due and payable on or before the date of maturity of such warrants; but the Federal Reserve Board may waive this condition in specific cases. For the purposes of this regulation, taxes shall be considered as due and payable on the last day on which they may be paid without penalty;
- (c) They are issued by a municipality—
 - (1) Which has been in existence¹ for a period of 10 years;
 - (2) Which for a period of 10 years previous to the purchase has not defaulted¹ for longer than 15 days in the payment of any part of either principal or interest of any funded debt authorized to be contracted by it;
 - (3) Whose net funded indebtedness¹ does not exceed 10 per centum of the valuation of its taxable property, to be ascertained by the last preceding valuation of property for the assessment of taxes.

II. Except with the approval of the Federal Reserve Board, no Federal Reserve Bank shall purchase and hold an amount in excess of 25 per centum of the total amount of warrants outstanding at any time and issued in conformity with provisions of section 14 (b) above quoted, and actually sold by a municipality.

¹ See Appendix, p. 21.

III. Except with the approval of the Federal Reserve Board, the aggregate amount invested by any Federal Reserve Bank in warrants of all kinds shall not exceed at the time of purchase a sum equal to 10 per centum of the deposits kept by its member banks with such Federal Reserve Bank.

IV. Except with the approval of the Federal Reserve Board, the maximum amount which may be invested at the time of purchase by any Federal Reserve Bank in warrants of any single municipality shall be limited to the following percentages of the deposits kept in such Federal Reserve Bank by its member banks:

Five per centum of such deposits in warrants of a municipality of 50,000 population or over.

Three per centum of such deposits in warrants of a municipality of over 30,000 population, but less than 50,000;

One per centum of such deposits in warrants of a municipality of over 10,000 population, but less than 30,000.

V. Warrants of a municipality of 10,000 population or less shall be purchased only with the special approval of the Board.

The population of a municipality shall be determined by the last Federal or State census. Where it can not be exactly determined the Board will make special rulings.

VI. Opinion of recognized counsel on municipal issues or of the regularly appointed counsel of the municipality as to the legality of the issue shall be secured and approved in each case by counsel for the Federal Reserve Bank.

VII. Any Federal Reserve Bank may purchase from any of its member banks warrants of any municipality, indorsed by such member bank, with waiver of demand, notice, and protest, up to an amount not to exceed 10 per centum of the aggregate capital and surplus of such member bank: *Provided, however,* That such warrants comply with provisions I and III of these regulations, except that where a period of 10 years is mentioned in I (c) hereof a period of 5 years shall be substituted for the purposes of this clause.

E

TRUST POWERS OF NATIONAL BANKS.

I. STATUTORY PROVISIONS.

The Federal Reserve Act provides:

SEC. 11. The Federal Reserve Board shall be authorized and empowered:

(*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.

II. APPLICATIONS.

A national bank desiring to exercise any or all of the privileges authorized by section 11, subsection (*k*), of the Federal Reserve Act, shall make application to the Federal Reserve Board on a form approved by said Board (Form No. 61). Such application shall be forwarded by the applying bank to the Chairman of the Board of Directors of the Federal Reserve Bank of its district, and shall thereupon be transmitted to the Federal Reserve Board with his recommendations.

III. SEPARATE DEPARTMENTS.

Every national bank permitted to act under this section shall establish a separate trust department, and shall place such department under the management of an officer or officers, whose duties shall be prescribed by the board of directors of the bank.

IV. PROVISION FOR KEEPING TRUST FUNDS.

The funds, securities, and investments held in each trust shall be held separate and distinct from the general funds and securities of the bank, and separate and distinct one from another. The ledgers and other books kept for the trust department shall be entirely separate and apart from the other books and records of the bank.

V. EXAMINATIONS.

Examiners appointed by the Comptroller of the Currency or designated by the Federal Reserve Board will hereafter be instructed to make thorough and complete audits of the cash, securities, accounts, and investments of the trust department of every bank at the same time that examination is made of the banking department.

VI. CONFORMITY WITH STATE LAWS.

Nothing in these regulations shall be construed to give to a national bank doing business as trustee, executor, administrator, or registrar of stocks and bonds under section 11 (*k*) of the Federal Reserve Act any rights or privileges in contravention of the laws of the State in which the bank is located.

VII. REVOCATION OF PERMITS.

The Federal Reserve Board reserves the right to revoke permits granted under these regulations in any case where in the opinion of the Board a bank has willfully violated the provisions of these regulations or the laws of any State relating to the operations of such bank when acting as trustee, executor, administrator, or registrar of stocks and bonds.

VIII. CHANGES IN RULES.

These regulations are subject to change by the Federal Reserve Board; provided, however, that no such change shall prejudice obligations undertaken in good faith under regulations in effect at the time the obligation was assumed.

F

LOANS ON FARM LAND AND OTHER REAL ESTATE.

Section 24 of the Federal Reserve Act provides in part that—

Any national banking association not situated in a central reserve city may make loans secured by improved and unencumbered farm land situated within its Federal reserve district or within a radius of one hundred miles of the place in which such bank is located, irrespective of district lines, and may also make loans secured by improved and unencumbered real estate located within one hundred miles of the place in which such bank is located, irrespective of district lines; but no loan made upon the security of such farm land shall be made for a longer time than five years, and no loan made upon the security of such real estate as distinguished from farm land shall be made for a longer time than one year nor shall the amount of any such loan, whether upon such farm land or upon such real estate, exceed fifty per centum of the actual value of the property offered as security. Any such bank may make such loans, whether secured by such farm land or such real estate, in an aggregate sum equal to twenty-five per centum of its capital and surplus or to one-third of its time deposits and such banks may continue hereafter as heretofore to receive time deposits and to pay interest on the same.

National banks not located in central reserve cities may, therefore, legally make loans secured by improved and unencumbered farm land or other real estate as provided by this section.

Certain conditions and restrictions must, however, be observed—

(a) There must be no prior lien on the land; that is, the lending bank must hold an absolute first mortgage or deed of trust.

(b) The amount of the loan must not exceed 50 per cent of the actual value of the land by which it is secured.

(c) The maximum amount of loans which a national bank may make on real estate, whether on farm land or on other real estate as distinguished from farm land, is limited under the terms of the act to an amount not in excess of one-third of its time deposits at the time of the making of the loan, and not in excess of one-third of its average time deposits during the preceding calendar year: *Provided, however,* That if one-third of such time deposits as of the date of making the loan or one-third of the average time deposits for the preceding calendar year, is less than one-fourth of the capital and surplus of the bank as of the date of making the loan, the bank in such event shall have authority to make loans upon real estate under the terms of the Act to the extent of one-fourth of the bank's capital and surplus as of that date.

(d) Farm land to be eligible as security for a loan by a national bank must be situated within the Federal reserve district in which such bank is located or within a radius of 100 miles of such bank irrespective of district lines.

(e) Real estate as distinguished from farm land to be eligible as security for a loan by a national bank must be located within a radius of 100 miles of such bank irrespective of district lines.

(f) The right of a national bank to "make loans" under section 24 includes the right to purchase or discount loans already made as well as the right to make such loans in the first instance: *Provided, however,* That no loan secured by farm land shall have a maturity of more than five years from the date on which it was purchased or made by the national bank and

that no loan secured by other real estate shall have a maturity of more than one year from such date.

In order that real estate loans held by a bank may be readily classified, a statement signed by the officers making a loan and having knowledge of the facts upon which it is based must be attached to each note secured by a first mortgage on the land by which the loan is secured, certifying in detail as of the date of the loan that all of the requirements of law have been duly observed.

STATE OF ILLINOIS

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... of the date of the loan that all of the requirements of law have been duly observed.

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MEMBERSHIP OF STATE BANKS AND TRUST COMPANIES.

I. STATUTORY REQUIREMENTS.

Specific provisions of the Federal Reserve Act applicable to State banks and trust companies which become member banks are quoted in the appendix to this regulation on page 22.

II. BANKS ELIGIBLE FOR MEMBERSHIP.

A State bank or a trust company to be eligible for membership in a Federal Reserve Bank must comply with the following conditions:

(1) It must have been incorporated under a special or general law of the State or district in which it is located.

(2) It must have a minimum paid-up unimpaired capital stock as follows:

In cities or towns not exceeding 3,000 inhabitants, \$25,000.

In cities or towns exceeding 3,000 but not exceeding 6,000 inhabitants, \$50,000.

In cities or towns exceeding 6,000 but not exceeding 50,000 inhabitants, \$100,000.

In cities exceeding 50,000 inhabitants, \$200,000.

III. APPLICATION FOR MEMBERSHIP.

Any eligible State bank or trust company may make application on Form 83, made a part of this regulation, to the Federal Reserve Agent of its district for an amount of capital stock in the Federal Reserve Bank of such district equal to 6 per cent of the paid-up capital stock and surplus of such State bank or trust company.¹

Upon receipt of such application the Federal Reserve Agent shall submit the same to a committee composed of the Federal Reserve Agent, the Governor of the Federal Reserve Bank, and at least one other member of the board of directors of such bank, to be appointed by such board, but no Class A director whose bank is in the same city or town as the applying bank or trust company shall be a member of such committee. This committee shall, after receiving the report of such examination as may be required by the Federal Reserve Bank in pursuance of directions from the Federal Reserve Board, consider the application and transmit it to the Federal Reserve Board with its report and recommendations.

IV. APPROVAL OF APPLICATION.

In passing upon an application the Federal Reserve Board will consider especially—

(1) The financial condition of the applying bank or trust company and the general character of its management.

(2) Whether the nature of the powers exercised by the said bank or trust company and its charter provisions are consistent with the proper conduct of the business of banking and with membership in the Federal Reserve Bank.

¹ Three per cent has already been called from national and other member banks, but the remainder of the subscription or any part of it shall be subject to call if deemed necessary by the Federal Reserve Board.

(3) Whether the laws of the State or district in which the applying bank or trust company is located contain provisions likely to prevent proper compliance with the provisions of the Federal Reserve Act and the regulations of the Federal Reserve Board made in conformity therewith.

If, in the judgment of the Federal Reserve Board, an applying bank or trust company conforms to all the requirements of the Federal Reserve Act and these regulations, and is otherwise qualified for membership, the Board will issue a certificate of approval. Whenever the Board may deem it necessary, it will impose such conditions as will insure compliance with the act and these regulations. When the certificate of approval and any conditions contained therein have been accepted by the applying bank or trust company, stock in the Federal Reserve Bank of the district in which the applying bank or trust company is located shall be issued and paid for under the regulations of the Federal Reserve Act provided for national banks which become stockholders in the Federal Reserve Banks.

V. POWERS AND RESTRICTIONS.

Every State bank or trust company while a member of the Federal Reserve System—

(1) Shall retain its full charter and statutory rights as a State bank or trust company, and may continue to exercise the same functions as before admission, except as provided in the Federal Reserve Act and the Regulations of the Federal Reserve Board, including any conditions embodied in the certificate of approval.

(2) Shall invest only in loans on real estate or mortgages of a character and to an extent which, considering the nature of its liabilities, will not impair its ability to meet current or maturing obligations.

(3) Shall adjust, to conform with the requirements of the Federal Reserve Act and these regulations, within such reasonable time as may be determined by the Board in each case, any loans it may have at the time of its admission to membership which are secured by its own stock, or any loans to one person, firm, or corporation aggregating more than 10 per cent of its capital and surplus or more than 30 per cent of its capital, or any real estate loans which, in the judgment of the Federal Reserve Board, impair its ability to meet current or maturing obligations.

(4) Shall maintain such improvements and changes in its banking practice as may have been specifically required of it by the Federal Reserve Board, as a condition of its admission and shall not lower the standard of banking then required of it; and

(5) Shall enjoy all the privileges and observe all those requirements of the Federal Reserve Act and of the regulations of the Federal Reserve Board made in conformity therewith which are applicable to State banks and trust companies which have become member banks.

VI. WITHDRAWALS.

Any State bank or trust company desiring to withdraw from membership in a Federal Reserve Bank may do so 12 months after written notice of its intention to withdraw shall have been filed with the Federal Reserve Board. The Board will immediately notify the Federal Reserve Bank of the receipt of such notice. At the expiration of said 12 months such bank or trust company shall surrender all of its holdings of capital stock in the Federal Reserve Bank, which stock shall then be canceled and the withdrawing bank or trust company shall thereupon be released from its stock subscription not previously called. Such bank or trust company shall, immediately upon the cancellation of its stock, cease to be a member of the Federal Reserve Bank, and the Federal Reserve Bank shall then refund to such bank or trust

company a sum equal to the cash-paid subscription on the shares surrendered, with interest at the rate of one-half of 1 per cent per month computed from the last dividend, if earned, not to exceed the book value thereof, and the reserve deposits, less any liability of such member to the Federal Reserve Bank: *Provided*, That no Federal Reserve Bank shall, except by the specific authority of the Federal Reserve Board, cancel within the same calendar year more than 10 per cent of its capital stock for the purpose of effecting voluntary withdrawals during that year. All applications, including therein any on which action may have been deferred because in excess of the aforesaid 10 per cent limitation, will be dealt with in the order in which they were originally filed with the Board.

Any State bank or trust company desiring to withdraw from membership at the expiration of the 12 months' notice, notwithstanding the fact that the Federal Reserve Bank has previously canceled 10 per cent of its stock during the same calendar year, may do so. In such case, however, the Federal Reserve Bank shall not be required to repay to the withdrawing bank or trust company the sums due as above until such time as its stock would have been canceled had it not exercised this option. The Federal Reserve Bank shall, however, give a receipt for the stock surrendered.

VII. EXAMINATIONS.

Every State bank or trust company, while a member of the Federal Reserve System, shall be subject to such examinations as may be prescribed by the Federal Reserve Board in pursuance of the provisions of the Federal Reserve Act.

In order to avoid duplication, the Board will exercise the broad discretion vested in it by the act in accepting examinations of State banks and trust companies made by State authorities wherever these are satisfactory to the Board and are found to be of the same standard of thoroughness as national bank examinations and where, in addition, satisfactory arrangements for cooperation in the matter of examination between the designated examiners of the Board and those of the States already exist or can be effected with State authorities. Examiners from the staff of the Board or of the Federal Reserve Banks will, whenever desirable, be designated by the Board to act with the examination staff of the State in order that uniformity in the standard of examination may be assured.

VIII. FUTURE REGULATIONS.

The Federal Reserve Board reserves the right to make such amendments and adopt and issue, from time to time, such further regulations authorized by the act as it may deem necessary, but no amendment of Section VI of these regulations, relating to voluntary withdrawals, shall take effect until six months after its adoption and issue by the Board.

INCREASE OR DECREASE OF CAPITAL STOCK OF FEDERAL RESERVE BANKS.

INCREASE OF CAPITAL STOCK.

Whenever the capital stock of any Federal Reserve Bank shall be increased by new banks becoming members, or by the increase of capital or surplus of any member bank and the allotment of additional capital stock to such bank, the board of directors of such Federal Reserve Bank shall certify such increase to the Comptroller of the Currency on Form 58, which is made a part of this regulation.

DECREASE OF CAPITAL STOCK.

I. Whenever a member bank reduces its capital stock or surplus, and, in the case of reduction of its capital, such reduction has been approved by the Comptroller of the Currency and by the Federal Reserve Board in accordance with the provisions of section 28 of the Federal Reserve Act, it shall file with the Federal Reserve Bank of which it is a member an application on Form 60, which is made a part of this regulation. When this application has been approved, the Federal Reserve Bank shall take up and cancel the receipt issued to such bank for cash payments made on its subscription and shall issue in lieu thereof a new receipt after refunding to the member bank the proportionate amount due such bank on account of the subscription canceled. The receipt so issued shall show the date of original issue, so that dividends may be calculated thereon.

II. Whenever a member bank shall be declared insolvent and a receiver appointed by the proper authorities, such receiver shall file with the Federal Reserve Bank of which the insolvent bank is a member an application on Form 87, which is made a part of this regulation, for the surrender and cancellation of the stock held by, and for the refund of all balances due to such insolvent member bank. Upon approval of this application by the Federal Reserve Agent the Federal Reserve Bank shall accept and cancel the stock surrendered, and shall adjust accounts between the member bank and the Federal Reserve Bank by applying to the indebtedness of the insolvent member bank to such Federal Reserve Bank all cash-paid subscriptions made by it on the stock canceled with one-half of 1 per centum per month from the period of last dividend, if earned, not to exceed the book value thereof, and the balance, if any, shall be paid to the duly authorized receiver of such insolvent member bank.

III. Whenever a member bank goes into voluntary liquidation and a liquidating agent is appointed, such agent shall file with the Federal Reserve Bank of which it is a member an application on Form 86, which is made a part of this regulation, for the surrender and cancellation of the stock held by and for the refund of all balances due to such liquidating member bank. Upon approval of this application by the Federal Reserve Agent the Federal Reserve Bank shall accept and cancel the stock surrendered, and shall adjust accounts between the liquidating member bank and the Federal Reserve Bank by applying to the indebtedness of the liquidating member bank to such Federal Reserve Bank all cash-paid subscriptions made by it on the stock canceled with one-half of 1 per centum per month from the period of last dividend, if earned, not to exceed the book value thereof, and the balance, if any, shall be paid to the duly authorized liquidating agent of such liquidating member bank.

IV. Whenever the stock of a Federal Reserve Bank shall be reduced in the manner provided in Paragraphs I, II, or III of this regulation the board of directors of such Federal Reserve Bank shall, in accordance with the provisions of section 6, file with the Comptroller of the Currency a certificate of such reduction on Form 59, which is made a part of this regulation.

CHECK CLEARING AND COLLECTION.

The Federal Reserve Board is empowered, under section 16 of the Federal Reserve Act, to require each Federal Reserve Bank to—

“Exercise the function of a clearing house for its member banks.”

In pursuance of the authority vested in it under the provisions of this section, the Federal Reserve Board, desiring to afford to both the public and the various member banks a direct, expeditious, and economical system of check collection and settlement of balances, hereby requires all Federal Reserve Banks to exercise the functions of a clearing house for their respective member banks under the following general terms and conditions:

Each Federal Reserve Bank will receive at par from its member banks checks¹ drawn on all member banks, whether in its own district or other districts, and checks drawn upon non-member banks when such checks can be collected by the Federal Reserve Banks at par.

Each Federal Reserve Bank will receive at par from other Federal Reserve Banks checks drawn upon all member banks of its district and upon all nonmember banks whose checks can be collected at par by the Federal Reserve Bank. The Federal Reserve Banks will prepare a par list of all nonmember banks, to be revised from time to time, which will be furnished to member banks.

Immediate credit entry upon receipt subject to final payment will be made for all such items upon the books of the Federal Reserve Bank at full face value, but the proceeds will not be counted as part of the minimum reserve nor become available to meet checks drawn until actually collected, in accordance with the best practice now prevailing.

(2) Checks received by a Federal Reserve Bank on its member banks will be forwarded direct to such member banks and will not be charged to their accounts until advice of payment has been received or until sufficient time has elapsed within which to receive advice of payment.

(3) In the selection of collecting agents for handling checks on nonmember banks member banks will be given the preference.

(4) Under this plan Federal Reserve Banks will receive at par from their member banks checks on all member banks, and on nonmember banks whose checks can be collected at par by any Federal Reserve Bank. Member banks will be required by the Federal Reserve Board to provide funds to cover at par all checks received from or for the account of their Federal Reserve Banks: *Provided, however,* That a member bank may ship lawful money or Federal Reserve notes from its own vaults at the expense of its Federal Reserve Bank to cover any deficiency which may arise because of and only in the case of inability to provide items to offset checks received from or for the account of its Federal Reserve Bank.

(5) Section 19 of the Federal Reserve Act provides that—

The reserve carried by a member bank with a Federal Reserve Bank may, under the regulations, and subject to such penalties as may be prescribed by the Federal Reserve Board, be checked against and withdrawn by such member bank for the purpose of meeting existing liabilities: *Provided, however,* That no bank shall at any time make new loans or shall pay any dividends unless and until the total reserve required by law is fully restored.

¹ A check is generally defined as a draft or order upon a bank or banking house, purporting to be drawn upon a deposit of funds, for the payment at all events of a certain sum of money to a certain person therein named, or to him or his order, or to bearer, and payable instantly on demand.

It is manifest that items in process of collection can not lawfully be counted as part of the minimum reserve to be carried by a member bank with its Federal Reserve Bank. Therefore, should a member bank draw against such items the draft would be charged against its reserve if such reserve were sufficient in amount to pay it; but any resulting impairment of reserves would be subject to all the penalties provided by the act.

In as much as it is essential that the law in respect to the maintenance by member banks of the required minimum reserve shall be strictly complied with, the Federal Reserve Board, under authority vested in by section 19 of the Act, hereby prescribes as the penalty for any deficiency in reserves a sum equivalent to an interest charge on the amount of the deficiency of 2 per cent per annum above the ninety day discount rate of the Federal Reserve Bank of the district in which the member bank is located. The Board reserves the right to increase this penalty whenever conditions require it.

Member banks can at all times arrange to keep their reserves intact by rediscounting with their Federal Reserve Bank.

(6) Each Federal Reserve Bank will determine by analysis the amounts of uncollected funds appearing on its books to the credit of each member bank. Such analysis will show the true status of the reserve held by the Federal Reserve Bank for each member bank and will enable it to apply the penalty for impairment of reserve.

A schedule of the time required within which to collect checks will be furnished to each member bank to enable it to determine the time at which any item sent to its Federal Reserve Bank will be counted as reserve and become available to meet any checks drawn.

(7) In handling items for member banks, a Federal Reserve Bank will act as agent only. The Board will require that each member bank authorize its Federal Reserve Bank to send checks for collection to banks on which checks are drawn, and, except for negligence, such Federal Reserve Bank will assume no liability. Any further requirements that the Board may deem necessary will be set forth by the Federal Reserve Banks in their letters of instruction to their member banks.

(8) The cost of collecting and clearing checks must necessarily be borne by the banks receiving the benefit and in proportion to the service rendered. An accurate account will be kept by each reserve bank of the cost of performing this service and the Federal Reserve Board will, by rule, fix the charge, at so much per item, which may be imposed for the service of clearing or collection rendered by the reserve banks, as provided in section 16 of the Federal Reserve Act.

APPENDICES.

APPENDIX TO REGULATION E (p. 9).

"NET FUNDED INDEBTEDNESS."

The term "net funded indebtedness" is hereby defined to mean the legal gross indebtedness of the municipality (including the amount of any school district or other bonds which depend for their redemption upon taxes levied upon property within the municipality) less the aggregate of the following items:

- (1) The amount of outstanding bonds or other debt obligations made payable from current revenues;
- (2) The amount of outstanding bonds issued for the purpose of providing the inhabitants of a municipality with public utilities, such as waterworks, docks, electric plants, transportation facilities, etc.: *Provided*, That evidence is submitted showing that the income from such utilities is sufficient for maintenance, for payment of interest on such bonds, and for the accumulation of a sinking fund for their redemption;
- (3) The amount of outstanding improvement bonds, issued under laws which provide for the levying of special assessments against abutting property in amounts sufficient to insure the payment of interest on the bonds and the redemption thereof: *Provided*, That such bonds are direct obligations of the municipality and included in the gross indebtedness of the municipality;
- (4) The total of all sinking funds accumulated for the redemption of the gross indebtedness of the municipality, except sinking funds applicable to bonds just described in (1), (2), and (3) above.

"EXISTENCE" AND "NONDEFAULT."

Warrants will be construed to comply with that part of I (c) of Regulation E relative to term of existence and nondefault, under the following conditions:

(1) Warrants issued by or in behalf of any municipality which was, subsequent to the issuance of such warrants, consolidated with or merged into an existing political division which meets the requirements of these regulations, will be deemed to be the warrants of such political division: *Provided*, That such warrants were assumed by such political division under statutes and appropriate proceedings the effect of which is to make such warrants general obligations of such assuming political division and payable, either directly or ultimately, without limitation to a special fund from the proceeds of taxes levied upon all the taxable real and personal property within its territorial limits.

(2) Warrants issued by or in behalf of any municipality which was, subsequent to the issuance of such warrants, wholly succeeded by a newly organized political division whose term of existence, added to that of such original political division or of any other political division so succeeded, is equal to a period of 10 years will be deemed to be warrants of such succeeding political division: *Provided*, That during such period none of such political divisions shall have defaulted for a period exceeding 15 days in the payment of any part of either principal or interest of any funded debt authorized to be contracted by it: *And provided further*, That such warrants

were assumed by such new political division under statutes and appropriate proceedings the effect of which is to make such warrants general obligations of such assuming political division and payable, either directly or ultimately, without limitation to a special fund from the proceeds of taxes levied upon all the taxable real and personal property within its territorial limits.

(3) Warrants issued by or in behalf of any municipality which, prior to such issuance, became the successor of one or more, or was formed by the consolidation or merger of two or more, preexisting political divisions, the term of existence of one or more of which, added to that of such succeeding or consolidated political division, is equal to a period of 10 years, will be deemed to be warrants of a political division which has been in existence for a period of 10 years: *Provided*, That during such period none of such original, succeeding, or consolidated political divisions shall have defaulted for a period exceeding 15 days in the payment of any part of either principal or interest of any funded debt authorized to be contracted by it.

APPENDIX TO REGULATION H (p. 15).

The Federal Reserve Act provides:

SEC. 9. Any bank incorporated by special law of any State, or organized under the general laws of any State or of the United States, may make application to the reserve bank organization committee, pending organization, and thereafter to the Federal Reserve Board for the right to subscribe to the stock of the Federal reserve bank organized or to be organized within the Federal reserve district where the applicant is located. The organization committee or the Federal Reserve Board, under such rules and regulations as it may prescribe, subject to the provisions of this section, may permit the applying bank to become a stockholder in the Federal reserve bank of the district in which the applying bank is located. Whenever the organization committee or the Federal Reserve Board shall permit the applying bank to become a stockholder in the Federal reserve bank of the district, stock shall be issued and paid for under the rules and regulations in this Act provided for national banks which become stockholders in Federal reserve banks.

The organization committee or the Federal Reserve Board shall establish by-laws for the general government of its conduct in acting upon applications made by the State banks and banking associations and trust companies for stock ownership in Federal reserve banks. Such by-laws shall require applying banks not organized under Federal law to comply with the reserve and capital requirements and to submit to the examination and regulations prescribed by the organization committee or by the Federal Reserve Board. No applying bank shall be admitted to membership in a Federal reserve bank unless it possesses a paid-up, unimpaired capital sufficient to entitle it to become a national banking association in the place where it is situated, under the provisions of the national banking act.

Any bank becoming a member of a Federal reserve bank under the provisions of this section shall, in addition to the regulations and restrictions hereinbefore provided, be required to conform to the provisions of law imposed on the national banks respecting the limitation of liability which may be incurred by any person, firm, or corporation to such banks, the prohibition against making purchase of or loans on stock of such banks, and the withdrawal or impairment of capital, or the payment of unearned dividends, and to such rules and regulations as the Federal Reserve Board may, in pursuance thereof, prescribe.

Such banks, and the officers, agents, and employees thereof, shall also be subject to the provisions of and to the penalties prescribed by sections fifty-one hundred and ninety-eight, fifty-two hundred, fifty-two hundred and one, and fifty-two hundred and eight, and fifty-two hundred and nine of the Revised Statutes. The member banks shall also be required to make reports of the conditions and of the payments of dividends to the Comptroller, as provided in sections fifty-two hundred and eleven and fifty-two hundred and twelve of the Revised Statutes, and shall be subject to the penalties prescribed by section fifty-two hundred and thirteen for the failure to make such report.

If at any time it shall appear to the Federal Reserve Board that a member bank has failed to comply with the provisions of this section or the regulations of the Federal Reserve Board, it shall be within the power of the said board, after hearing, to require such bank to surrender its stock in the Federal reserve bank; upon such surrender the Federal reserve bank shall pay the cash-paid subscriptions to the said stock with interest at the rate of one-half of one per centum per month, computed from the last dividend, if earned, not to exceed the book value thereof, less any liability to said Federal reserve bank, except the subscription liability not previously called, which shall be canceled, and said Federal reserve bank shall, upon notice from the Federal Reserve Board, be required to suspend said bank from further privileges of membership, and shall within thirty days of such notice cancel and retire its stock and make payment therefor in the manner herein provided. The Federal Reserve Board may restore membership upon due proof of compliance with the conditions imposed by this section.

SEC. 19. If a State bank or trust company is required or permitted by the law of its State to keep its reserves either in its own vaults or with another State bank or trust company or with a national bank, such reserve deposits so kept in such State bank or trust company or national bank shall be construed, within the meaning of this section, as if they were reserve deposits in a national bank in a reserve or central reserve city for a period of three years after the Secretary of the Treasury shall have officially announced the establishment of a Federal reserve bank in the district in which such State bank or trust company is situate. Except as thus provided, no member bank shall keep on deposit with any nonmember bank a sum in excess of ten per centum of its own paid-up capital and surplus. No member bank shall act as the medium or agent of a nonmember bank in applying for or receiving discounts from a Federal reserve bank under the provisions of this Act except by permission of the Federal Reserve Board.

SEC. 21. The Comptroller of the Currency, with the approval of the Secretary of the Treasury, shall appoint examiners who shall examine every member bank at least twice in each calendar year and oftener if considered necessary: *Provided, however,* That the Federal Reserve Board may authorize examination by the State authorities to be accepted in the case of State banks and trust companies and may at any time direct the holding of a special examination of State banks or trust companies that are stockholders in any Federal reserve bank. The examiner making the examination of any national bank, or of any other member bank, shall have power to make a thorough examination of all the affairs of the bank and in doing so he shall have power to administer oaths and to examine any of the officers and agents thereof under oath and shall make a full and detailed report of the condition of said bank to the Comptroller of the Currency.

The Federal Reserve Board, upon the recommendation of the Comptroller of the Currency, shall fix the salaries of all bank examiners and make report thereof to Congress. The expense of the examinations herein provided for shall be assessed by the Comptroller of the Currency upon the banks examined in proportion to assets or resources held by the banks upon the dates of examination of the various banks.

In addition to the examinations made and conducted by the Comptroller of the Currency, every Federal reserve bank may, with the approval of the Federal reserve agent or the Federal Reserve Board, provide for special examination of member banks within its district. The expense of such examinations shall be borne by the bank examined. Such examinations shall be so conducted as to inform the Federal reserve bank of the condition of its member banks and of the lines of credit which are being extended by them. Every Federal reserve bank shall at all times furnish to the Federal Reserve Board such information as may be demanded concerning the condition of any member bank within the district of the said Federal reserve bank.

No bank shall be subject to any visitatorial powers other than such as are authorized by law, or vested in the courts of justice or such as shall be or shall have been exercised or directed by Congress, or by either House thereof or by any committee of Congress or of either House duly authorized.

The Federal Reserve Board shall, at least once each year, order an examination of each Federal reserve bank, and upon joint application of ten member banks the Federal Reserve Board shall order a special examination and report of the condition of any Federal reserve bank.

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