

FEDERAL RESERVE BANK
OF NEW YORK

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October 24, 1929.

Dear Sirs:

Under date of June 3, 1929, the Secretary of the Treasury sent you a letter in which you were informed of the plans of the Treasury Department for the issuance of National bank currency in the new small-size notes to replace the old large-size notes. A copy of this letter is contained in the following pages.

The Treasury Department has now advised us that it expects new small-size National bank notes to be available for all issuing National banks by November 1, 1929, and that in order to expedite the substitution of such new-size notes for old-size National bank notes steps are being taken to handle greatly increased redemptions of old large-size notes on and after that date.

As pointed out in the Secretary's letter of June 3 the only available means for replacing the outstanding old-size National bank currency with new small-size currency is through the established redemption procedure. It is anticipated that for a period of several months the amount of redemptions will be larger than usual and that during this period the 5 per cent redemption funds will be inadequate to cover the Treasurer unless the National banks make immediate reimbursements to these funds. The Treasury therefore suggests that the various issuing National banks consent to a change in procedure for reimbursement of their 5 per cent redemption funds during the period of increased redemptions; so that the Treasury, instead of notifying the issuing banks by mail to reimburse their 5 per cent redemption funds for the amount of notes redeemed, will instruct the Federal reserve banks to charge the reserve accounts of the issuing banks for reimbursement of their 5 per cent redemption funds, with immediate credit to the Treasurer of the United States.

This temporary change in procedure appears to be the only means of accomplishing a prompt substitution of the new small-size National bank currency for old-size currency. We are requested by the Treasury to assure you that the change will be in effect only during the period of increased redemptions. For your convenience we enclose a form of authorization, which if you will execute and return to us will permit us to make the necessary charges to your reserve account upon instructions of the Treasury Department.

Your cooperation in this matter will be very much appreciated by the Treasury Department.

Very truly yours,

GEORGE L. HARRISON,
Governor.

THE SECRETARY OF THE TREASURY

WASHINGTON

June 3, 1929.

Dear Sir:

Last January I reached the conclusion that the early retirement of our National bank circulation would be inadvisable, and, appreciating the fact that National bank notes would be at a distinct disadvantage if continued in the old size after all other kinds of currency had been issued in the new small size, took immediate measures for including them in the general program for reduction in size and revision of designs.

The situation has presented many perplexing difficulties of design and production as it is necessary to provide new small-size currency separately for over 6,000 issuing banks. I am now pleased to advise you that production of National bank notes in the new small size, and with the same characteristic denominational features of designs as fixed for other kinds of currency, is assured. The preliminary work is well advanced, actual printing will commence about July 15, and the first of the new small-size bank notes will be issued before the end of that month. Printing will proceed in the order of charter numbers, and it will take about three months to complete the printing for all banks.

The only available means for replacing the outstanding old-size National bank currency with the new small-size currency is through the established redemption procedure. The usual routine involves, (1) cancellation of unfit notes by Federal Reserve Banks; (2) payment therefor by the Treasurer of the United States; (3) assortment of the notes to the bank of issue; (4) charges to the 5 per cent fund of the particular banks involved; (5) reimbursement of the 5 per cent fund by National banks of the notes redeemed; and (6) issue and shipment of a like amount of new notes. The new small-size notes may be issued to a bank only as its own old-size notes are redeemed. In the most favorable circumstances this will be a slow process. While the printing is going forward, new small-size notes will be progressively issued to the National banks for which they are available in the amounts of the old-size notes redeemed for those banks. As the new currency will be printed in order of charter numbers, the initial issues to the banks will be made in the same order. Upon completion of the printing, increased redemption facilities will be made available, with a view to replacing the old-size notes then outstanding with the small-size notes as expeditiously as possible. With more than the usual redemptions, the 5 per cent fund will be inadequate to cover the Treasurer, unless immediate reimbursements are made by National banks. Accordingly, during the period of increased redemptions, beginning about October 1, 1929, as old-size notes are redeemed for any issuing bank, the appropriate Federal Reserve Bank will be advised and instructed to charge the reserve account of the National Bank concerned for reimbursement of the 5 per cent fund, with immediate credit to the Treasurer of the United States. New small-size notes will thereupon be issued and shipped. The Federal Reserve Banks will take up this matter with the issuing banks, with a view to fixing a definite procedure.

We are about to inaugurate the replacement of all kinds of paper currency outstanding with currency of a smaller size. The amount involved approximates \$5,000,000,000, in almost 900,000,000 pieces. This is a tremendous undertaking, and unless carefully safeguarded might result in serious money disturbance. Moreover, neither the Treasury nor the Federal Reserve Banks could undertake to handle the business unless restrictions are imposed. The Treasury is not calling in the old-size cur-

rency, nor is it undertaking an immediate replacement of all outstanding old-size currency. Neither is it making any special provision for the direct exchange of the old size for the small size. On the contrary, for the issue of all kinds of small-size currency, the usual procedure in effect for supplying paper currency will be followed so far as possible. New small-size currency will be made available to cover the redemptions of old-size currency unfit for further circulation, and, generally, payments of currency by Federal Reserve Banks will include both new currency and circulated currency fit for further use, the new currency being of the small size, and the circulated currency at first being of the old size but later of the small size. The issue of small-size United States currency and Federal reserve notes will commence July 10, 1929. The issue of small-size National bank notes will commence before the end of July, against the redemption of old-size bank notes of those banks for which small-size notes are available.

The circulation of both sizes of all kinds of currency for a considerable period will be necessary. This is unavoidable in the circumstances, and particularly is it true with respect to the National bank circulation. That the presence of two sizes of currency in use at the same time will cause inconvenience to the commercial banks and to the public generally is appreciated. But there is no possible escape from this situation. As soon as it is possible to pay out only small-size currency it will be done. Meanwhile, if the National and other banks, in making deposits of currency, or in obtaining currency, will restrict their transactions with the Federal Reserve Banks to their usual business requirements, the transition from the old size to the new size will in the end be greatly facilitated, and the possibility of the situation getting out of hand will largely be avoided.

I am confident I can count on the fullest cooperation of your bank with the Treasury and the Federal Reserve Banks in maintaining in active circulation such amount of old-size currency as may be necessary during the period required for the orderly substitution of the small for the old size.

Cordially yours.

A. W. MELLON,
Secretary of the Treasury.

To the President
of the National Bank addressed.

.....1929.

TO FEDERAL RESERVE BANK OF NEW YORK

Beginning November 1, 1929, and until further notice, please charge our reserve account, as instructed from time to time by the Treasury Department, for reimbursement of our 5 per cent fund on deposit in the Treasury of the United States for redemption of our circulating notes. It is understood that you will immediately notify us by mail of such charges.

Yours very truly,

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