

FEDERAL RESERVE BANK
OF NEW YORK

NEW YORK, August 8, 1917

TO THE PRESIDENT,

SIR:

We enclose the text of the amendments to the Federal Reserve Act approved June 21, 1917, and the Regulations of the Federal Reserve Board issued thereunder, which make important changes in the provisions governing membership of State banks and trust companies in the Federal Reserve System. The general provisions of the law covering such membership are embodied in Section 9 as amended, and appear in the appendix to Regulation "H" on page 24 of the enclosed pamphlet.

Following is a brief summary of rights and powers of member banks :

RIGHTS AND POWERS.

Any bank or trust company becoming a member of the Federal Reserve System thereby is entitled to all the rights of a member bank, which include the following:

- (a) To rediscount eligible commercial paper with the Federal reserve bank;
- (b) To receive advances from the Federal reserve bank, for periods not exceeding fifteen days, on the member bank's own promissory note, secured by commercial paper or Government bonds or notes;
- (c) To obtain Federal reserve notes and other currency as needed, from the Federal reserve bank;
- (d) To receive deposits of postal savings and other Government funds;
- (e) To "accept" drafts and bills of exchange based on foreign or domestic commerce, subject to certain conditions, if State charter permits;
- (f) To have checks and drafts drawn upon it received at par by all Federal reserve banks;
- (g) To make its drafts on the Federal reserve bank available for immediate credit at any Federal reserve bank;
- (h) To participate in the check clearing and collection facilities of the Federal Reserve System.

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continued

RESERVES *Reference to 123 and 207*

The amended provisions of the Federal Reserve Act now in effect governing the reserve to be maintained by banks which are members of the Federal Reserve System, are as follows:

- Country Banks:
 - 7% of Demand Deposits,
 - 3% of Time Deposits.

- Reserve City Banks:
 - 10% of Demand Deposits,
 - 3% of Time Deposits.

- Central Reserve City Banks:
 - 13% of Demand Deposits,
 - 3% of Time Deposits.

The entire legal reserve of a member bank is now to be maintained on deposit with the Federal reserve bank, and there is no requirement of law as to the amount or kind of currency to be held by a member bank in its own vault.

DEPOSITS OF NONMEMBER BANKS AND TRUST COMPANIES

FOR CLEARING PURPOSES. *Reference to 258*

State banks and trust companies which because of the nature of their business or for other reasons do not desire to become members of the Federal Reserve System may enjoy some portion of the facilities of the system, and may also contribute to its strength, through an amendment to Section 16 of the Federal Reserve Act which provides that:

"Any Federal reserve bank * * * * * solely for the purpose of exchange or of collection, may receive from any nonmember bank, or trust company, deposits of current funds in lawful money, national bank notes, Federal reserve notes, checks and drafts payable upon presentation, or maturing notes or bills: PROVIDED such nonmember bank or trust company maintains with the Federal reserve bank of its district a balance sufficient to offset the items in transit held for its account by the Federal reserve bank * * * * *"

The banking laws of the State of New York have also been amended to permit State banks and trust companies to take advantage of the facilities made possible by the above amendment by depositing with the Federal Reserve Bank a portion of their vault reserves.

Under the provisions of the amendment to Section 16 the Federal Reserve Bank of New York is prepared to accept from nonmember banks and trust companies deposits of the kind specified and to extend to them the facilities of its check clearing and collection system. State banks and trust companies which maintain such deposits in addition to obtaining the benefit of the check clearing and collection and transfer service, will also contribute thereby to the strength of the Federal Reserve System and the nation's financial structure.

ADDITIONAL INFORMATION.

Should you wish any further details concerning the matters dealt with in this circular the officers of the bank will be glad to supply such additional information as may be desired, at your convenience.

Respectfully,
R. H. TREMAN,
Deputy Governor.

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FEDERAL RESERVE BANK
OF NEW YORK

August 10, 1917.

Dear Sir:

The recent amendment to the Federal Reserve Act, reducing the reserve requirements for member banks quite materially, provides that they must carry all of the required reserve in the Federal reserve bank. This leaves these banks free to carry as vault money any kind of United States coin or currency, including Federal reserve notes.

The banking law of New York State has also recently been amended, permitting state banks and trust companies to count Federal reserve notes as part of their vault reserve. The banking laws of New Jersey and Connecticut also permit Federal reserve notes to be counted as part of the vault reserve which their state banks and trust companies are required to carry.

The way is now clear for mutual cooperation, in the national interest, between the Federal Reserve Bank of New York and the banking institutions, both member and nonmember, in its district, in respect to diverting to the Federal reserve bank some of the gold and gold certificates which are in general circulation among the people and lying idle in commercial tills and elsewhere, thus increasing its strength and thereby the strength of every banking institution in the district. It is estimated that there is over \$500,000,000 of gold and gold certificates in general circulation, outside of the banks and the United States Treasury, and it is generally recognized that for this class of circulation Federal reserve notes (which are redeemable in gold at the Treasury of the United States) would serve equally well.

The Federal Reserve System was suddenly called on during June to sup-

in effecting the payments for the first Liberty Loan, and it will doubtless be similarly called upon, and probably to a greater extent, in the forthcoming issue and in other large financial operations incidental to our participation in the war. The recent expansion and subsequent contraction of credit may be illustrated by the loans and discounts of the Federal Reserve Bank of New York, which were \$37,000,000. on June 1, 1917, \$252,000,000. on June 19th, and \$73,000,000. on August 8th. It is of importance to every bank in the country that the gold supply, that is, the credit power, of the Federal Reserve System, should be strengthened by gradually replacing with Federal reserve notes a considerable part of the gold now in general circulation outside of the banks, and that the System should thus attain its maximum strength for the period of war financing upon which we have entered.

Will you not, therefore, cooperate in this movement by sorting out of your incoming cash the gold certificates, not paying out any such certificates over your counter unless especially requested but, instead, forwarding to this bank all you may accumulate in excess of those you think it advisable to carry as part of your vault money? We will pay transportation charges on such gold certificates, whether fit or unfit for circulation, and either

- (a) Furnish you instead, free of expense, Federal reserve notes of such denominations as you may desire, or
- (b) Place the amount to your credit in this bank or in any designated bank in New York City.

A considerable number of member and other banks have been cooperating with us along the lines above suggested during the past year, even though their reserve requirements were such that Federal reserve notes could not be carried as part of their vault reserve. Now that the conditions in this respect are so uniformly satisfactory, we trust that all of the banks in this district will be willing to assist. It will necessitate some little labor on your part, but no added expense.

Will you please let us know whether we may count on your cooperation in the manner suggested?

Very truly yours,

Deputy Governor.