(Closed)
Circular no. 109

FEDERAL RESERVE BANK
OF NEW YORK

CERTIFICATES OF INDEBTEDNESS DEPARTMENT

July 31, 1918.

To the County Director :

We are mailing tomorrow to each bank in your county copy of a pamphlet containing a report of the meeting of County Directors recently held in New York. A number of the County Directors present thought well of publishing what happened at the meeting, feeling that a pamphlet would disseminate the information with good results. We are pleased, therefore, in following their suggestion, to issue this booklet to you, and to others who were unable to attend. The pamphlet contains the addresses of Mr. Treman and Mr. Morris, as well as a general discussion of the methods to be followed in distributing Certificates of Indebtedness in the Second Federal Reserve District.

Under another cover we are sending you a supply of this pamphlet as you will doubtless have use for extra copies among bank directors and officers desiring personal copies.

We shall be glad to be advised of the progress you are making in organizing the work in your County.

Yours truly,

Executive Secretary.

Encl. of Circ. 109

Certificates of Indebtedness

Methods of Distribution

SECOND FEDERAL RESERVE DISTRICT

Addresses Delivered by Mr. R. H. Treman and Mr. Ray Morris
Before a Conference of County Directors at the
Bankers Club, New York City, July 16, 1918

FEDERAL RESERVE BANK OF NEW YORK

JULY, 1918

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CERTIFICATES OF INDEBTEDNESS DEPARTMENT

FEDERAL RESERVE BANK

OF NEW YORK

The Certificates of Indebtedness Department of the Federal Reserve Bank of New York was created to handle the distribution in the Second Federal Reserve District of this form of security as issued from time to time by the United States Government.

In organizing the department, it was decided to appoint a County Director for each of seventy counties in the District. No County directors were appointed for New York, Bronx, Kings, Richmond, or Hamilton counties. A conference of these County Directors was held at the Bankers Club in New York City on Tuesday, July 16, 1918. A large majority of the counties were represented and the tone of the meeting was spirited and enthusiastic. The discussion of the subjects brought before the conference, proved to be so instructive and suggestive that there were many requests for a full report of the meeting. This pamphlet is published in response to those requests.

As the deliberations were of the most informal nature and as the addresses of both Mr. Treman and Mr. Morris were of an extemporaneous and discursive character—not prepared for publication—due allowance should be made therefor by the critical reader.

FEDERAL RESERVE BANK

NEW YORK

[illegible] Department of the Federal Reserve Bank of [illegible] to handle the distribution [illegible] Federal Reserve District of this form of security [illegible] issued by the United States Government.

[illegible] a [illegible] the District. [illegible] designated [illegible] in pursuance of these [illegible] New York City on [illegible] and [illegible] in [illegible] to these [illegible]

[illegible] of the most [illegible] and [illegible] for [illegible]

INTRODUCTORY REMARKS

BY

MR. ROBERT H. TREMAN

Deputy Governor

Federal Reserve Bank of New York

Let me first, in behalf of the Directors of the Federal Reserve Bank, express to you our appreciation of the sacrifices some of you have made in coming down here to attend this meeting. The work before us is one that has been assigned to the Bankers. Our present expenditures in this country—counting loans to the Allies—are a billion and a half each month, and it is estimated that by November these expenditures may be at the rate of $2,000,000,000 per month.

As you know, the Secretary of the Treasury has asked the bankers in the country to take certificates of indebtedness every two weeks to the extent of $750,000,000. The purpose is to prepare for the next, the Fourth, Liberty Loan bonds. We are, in this week, withdrawing from the banks all of the deposits that were made in connection with the Third Liberty Loan and also the tax money, so that after these calls all that will remain in the banks to the credit of the Government is what has been realized from the sale of $750,000,000 certificates issued June 25th. Today, the subscription for the second issue of certificates of indebtedness dated July 9th closes, and when I came up from the bank there were $247,000,000 subscribed out of the $254,000,000, which is the quota of the New York District. Unfortunately, some of the other districts up to today have not taken their full quota, but it is the purpose of the Treasury Department to distribute these certificates just as equitably as is possible to do so, and in assigning the different quotas to the twelve Reserve Banks, each district is expected to take its full quota and likewise each bank within the district is expected to take its full share. We have no doubt of the ability and of the willingness of the banks in this district to cooperate fully. The reason for bringing you here is to perfect an organization so that in the succeeding issues which will be put out, every bank in the district in so far as possible will participate.

It may be of interest to you to know what has been done in the past in regard to the previous issues of certificates and the number of banks subscribing, the records of which I give you herewith:

Certificates Issued in Anticipation of the First Liberty Loan

Total sale......	$816,000,000
Total subscriptions—2nd District......	525,393,000
Total allotment—2nd District......	459,962,000
Average Number of subscribers—181	

Certificates Issued in Anticipation of the Second Liberty Loan

Total sale......	$2,235,296,000
Total subscriptions—2nd District......	1,539,496,000
Total allotment—2nd District......	1,467,543,000
Average Number of subscribers—185	

Certificates Issued in Anticipation of the Third Liberty Loan

Total sale......	$3,012,085,500
Total subscriptions—2nd District......	1,300,688,500
Total allotment—2nd District......	1,255,308,000
Average Number of subscribers—741	

In addition to the regular certificates of indebtedness, the Government put out certificates which were received in payment for taxes as follows:

Total sale......	$1,623,441,500
Total subscriptions—2nd District......	831,473,000
Total allotment—2nd Distirct......	831,473,000

Certificates Issued in Anticipation of the Fourth Liberty Loan (June 25th Issue.)

Total sale......	$839,646,500
Total subscriptions—2nd District......	312,844,500
Total allotment—2nd District......	312,844,500

In the issue of July 9th, closing to-day, there are, up to this moment, 789 subscribers so that there has been a gradual increase in the participation. Out of all the 1,222 banks of the district, including Savings Banks, there are about 60 banks, if I remember correctly, which have not purchased any of the certificates of indebtedness of any issue.

Now, if a bank under the present plan does not take these certificates, you can readily understand that it means that some other bank must take more than its quota.

It is a big job that is before the banks. You whom we have asked to come down here, representing each of the counties in the State, have an individual responsibility so far as that county is concerned. It seems advisable to ask you to come here and sit around the table and after whatever informal addresses there may be made, if there are any questions any of you would like to ask we hope you will feel perfectly free to speak, because the problems are many and varied.

Closely linked with this question, of course, is the saving of credit and it may seem rather inconsistent that banks are being asked to create credit by subscribing for certificates of indebtedness, and at the same time urged to withhold and save credit.

But, gentlemen, burn this into your minds, that the claims of the Government for credit must come first. Whatever claim any individual or corporation has for credit, no matter how urgent, the claims of the Government must be met first of all. Do you appreciate how greatly the demands for credit are growing? Not only the demands of our Allies but in our own country the billion dollar Congress of a few years ago has been succeeded by the $22,000,000,000 Congress of last year and it is estimated that $30,000,000,000 will be needed for the year 1918-19.

The question of credit, it seems to me, is preeminently one that must be handled and solved by the bankers. The bankers manufacture credit, and they distribute credit, but credit is also a commodity which can be wasted or it can be saved—it can be employed usefully or it can be employed wastefully, so it is up to the bankers to see that credit is used usefully; in other words, saved and only used where it will purchase that which is to accomplish our one great purpose, the **winning of this war.** Every saving you make can and should be used for things essential, and buying these certificates tends to that end directly.

Many people easily understand what is involved when you discuss the question of the conservation of coal, they know what you mean when you say that for the needs of the Government, such as shipping and many other needs arising every day, coal provision must be made, but the public has not even yet learned the extent to which they should economize coal.

If the individual is called upon to conserve coal and freeze himself for the benefit of the Government there is no misunderstanding and it is now recognized that the thing must be done.

But it is more difficult to make them understand when customers offer a perfectly good loan, with perfectly good security, why it is that the banks are not in a position to give them or loan them the credit that they want. To meet this situation is **your** job and it is not an easy job, as every banker understands. No one appreciates this more than those of us who are connected with the Reserve Bank. We have every day numerous letters coming in from banks all over the district stating that "we are called upon to take so many certificates of indebtedness. We are loyal, we are patriotic; we want to do this thing, but how can we do it when all of our resources are invested?" This is especially the case in many of the agricultural districts. They say, "all the loans are tied up with farmers who can only pay in the Fall. How are we to find at present the necessary credit to supply the Government?"

This again is the question for the Banker, and it is his job to find out the ways and means by which that credit can be transferred from individuals and corporations or in some way can be developed, so as to furnish the Government, without too much restricting the business of the country, what they need.

We come now to specific ways in which this credit can be developed and secured. Do you want to manufacture credit in excess of needs and cause undue inflation? Do you want to "go the limit" as some bankers have advocated?

I heard one of the most prominent bankers of this city say a while ago: "Business must go on as usual." But, gentlemen, business can't go on as usual any more in the matter of credit than it can in the matter of coal. If we are going to give an additional amount to our friends on the other side of the water, and we can only produce so much, somebody has got to give way and how to do this is being worked out by the Government. But when it comes to the question of credit, that is preeminently for the **bankers** to work out and along similar basic lines.

The machinery is all ready to manufacture the credit but it is not advisable to go beyond the extent that it is absolutely necessary, and it seems to me, over and against the manufacture of an undue amount of credit, leading, no doubt, to over-expansion and possibly inflation, we should recognize that it is in the power of the individual bank to help in saving credit by a proper withdrawing or withholding of credit for the things which are not essential and checking any expension of credit along non-essential lines. This really becomes in the last analysis a matter for each individual bank, and in each bank it then becomes a matter for each individual banker to do his full part.

In many of the communities the banks of which are represented here, it is a question of loans to farmers. Now it seems to me there is a perfectly clear line that can be drawn in regard to those loans. If a loan of money is asked by a farmer for seed or for necessary tools or for labor, it would seem to me personally — and I am only speaking as an individual — that in those cases every proper and reasonable extension of credit should be made. But the farmer is inclined to be a speculator, and when he comes to you in a month or two and wants loans because he says he is not ready to sell his hay or his oats or his cattle or other products,—wants to hold for possibly higher prices, and you encourage him because the loan is a good one as to its credit, it seems to me that your bank is helping to that extent in interfering with the Government's need for credit and its supply. I think that the farmer should be educated to feel that when his crop is raised and harvested, that under these abnormal conditions, he should sell the crop, instead of asking you to furnish credit for him to speculate and hold for possibly better prices—assuming that he can secure fair prices for his output.

The manufacturer also has the same problem. The manufacturer finds today, in working up his product, that he is liable, for instance, not to be able to get the wool that he wants or he is not able to get the amount of iron or steel or some other material, and the natural tendency is for him to say: "Why, I want to borrow a little more money because I would like to carry a little more material all of the time to protect the operating of my factory, so that I can manufacture and have the material ready, etc." There again comes the question between reasonable and the unreasonable use of credit. No one can tell here, as we are talking together, what is the wisest thing to do, in each individual case, but I am speaking of this because these are the problems that you gentlemen are called upon to settle and solve, and it seems to me that there is danger along the line of the manufacturer speculating and depending on your bank to supply the credit for this speculation.

The same thing applies to the distributor, i. e. the wholesaler or retailer. Only this morning it was reported to me in the bank that some of the wholesalers in the Central West were accumulating an undue amount of different kinds of commodities so that they would be prepared when the time came in the Fall to supply them. That is perfectly legitimate in normal conditions. But if it leads to an undue accumulation either of coal or wheat or of merchandise, it seems to me it is not justifiable under present conditions. And the banker to whom the jobber or the manufacturer comes for these loans, he is the man who, it seems to me, should investigate these conditions—as to the reasonableness or the unreasonableness of the request for credit. It is not an easy job. These men that come to you—you have had personal relations with them for years, and they say: "Well, I have some securities as collateral with you and just at the present time I do not want to sell them," and so ask you to carry the loan longer. It is probable that you have carried them for three or four years waiting for "the golden time" for the market prices to rise so they can get out at a gain. But I submit to you, how long can you carry this kind of loans in justice to the situation? In the small banks, there are a great many loans that have been carried for long periods on payment of the interest, and that is a perfectly legitimate thing for the banks to do in normal times. But I feel there never has come, in the history of each one here, as good a time as you have at present to "clean house" in your bank or distributing house or any other place, and I feel that it is the duty of every distributor, every manufacturer, to run with the lowest amount possible to supply the things which are absolutely necessary for the Government needs.

There are opportunities now for banks to insist upon their customers reducing and paying off loans which have been carried for a long period in the institution. By compelling your customers to pay off these loans it will have a beneficial effect upon them, leading them to economize as they have not been doing before and as the situation now demands they should. We are in this war to win, and we have got to supply the credit that is necessary for the Allies and ourselves, and can secure part of the credit needed by saving it.

We must insure this by taking every precaution and husbanding our strength to exert it forcefully in proper direction, and give telling blows, as much in credit as in arms. Get this into your heads, rather than follow a day to day course of "business as usual," which would fail to bring the results most earnestly desired.

We are here to-day to talk about supplying the Government in advance, underwriting the credit which will be necessary for the Government before the next Liberty Loan, and it will need the money just as fast as it is possible to secure it. In the last campaign for certificates of indebtedness, we were asked in January by the Secretary of the Treasury without much warning, if we could distribute so many certificates every two or three weeks, and after we had thought the matter over, it seemed to us that the most helpful organization that we could secure immediately would be the New York State Bankers Association and Mr. Gregory, the President, and Mr. Gallien, the Secretary, rose to the occasion, selected a number of bankers throughout the State and called them together hurriedly. They took hold of the matter and this district took its full quota of the certificates of indebtedness of each issue as they came out; in most of them we took more than our full quota and great thanks are due to those men who served. Now, at this present time, instead of three or four billions as before to put out, we have six billions of certificates to sell in the four months. It is a big job for any rich country; it certainly is a big undertaking after what has been already placed upon the country. But I feel confident we will do it well and quickly. Every man, so far as this district is concerned, is going to stand by us and see that each and every bank, so far as possible, does its full share.

We are publishing a little book giving a list of these banks which subscribe to each issue. This plan has been followed for some time in the other Federal Reserve districts. They have found this works well. It seems equitable, that those who are doing their proportion or more than their proportion should know what the other banks are doing.

We all recognize that there are some banks which by reason of local conditions may not have been able to take their full quota of the two issues just put out, but every bank ought to take some certificates of each issue and in the aggregate they should make every effort to take their allotted share, thus cooperating in this movement and not placing upon some other bank any burden which each bank should carry for itself.

We must do our part to make the Government financing a success and thus the bankers will be contributing their share to winning the war at the earliest moment. I repeat to you, gentlemen, this is your job and you must assume it.

We have formed a new organization in the Federal Reserve Bank to direct this work. Mr. Ray Morris will be the Director in charge, Mr. H. M. Wilson, Mr. R. T. Crane and others will be associated with him. They have enlisted in the work. You have done the same and we will make it a big success. Mr. Morris is here to tell you the details of it. I will now introduce Mr. Morris to you so that he may go on and explain what we expect of you. Mr. Morris is a man of known ability, of patriotism, willing to go to still further self-sacrifice to make this thing a go, and I am sure he will have your full support.

Remarks Outlining the Organization of the Certificates of Indebtedness Department

BY

MR. RAY MORRIS

Director of Sales

Mr. Treman, by reason of being both Deputy Governor and an up-state banker, has given you such a clear picture of the fundamental problems affecting the certificates, that I am going to skip right over that part of it and come down more or less to the details of the organization, as we have been able to plan them out.

This is a new problem, and it needs to be met with some new measures. I want to say at the outset that we all feel that to the extent that the New York end can be subordinated and the real influential work done in the up-state counties, to that extent it will be done better. I do not know whether a man ever lived anywhere that liked to have somebody 200 miles away tell him how to do his business, but I am sure there is no one like that in New York State, in the twelve northern counties of New Jersey, or in Fairfield County, Connecticut! Now, this job—I won't say it requires urging—that is not the word—because there is not a banker in the district who is not just as keen about winning the war as we are; but it needs explanation; it needs demonstration; it probably needs encouragement. My proposition is just this: That to the extent that the explaining and demonstrating and encouraging can be done locally up-state by the strong influential bankers, in contact with their neighbors, it will be done right. I am a considerable believer in the Bolshevik principle of self-determination, and I should regard the work of the Sales Department as perfect if each up-state county found a way of meeting its own problem so effectively that the Sales Department would be reduced to being a historian of the movement, and if the only literature we need put out would be bragging letters aimed at the other Federal Reserve Districts. (Laughter.)

As to the difficulties; we all know about the difficulties. I guess I have got in my file a hundred careful, earnest letters, written in a spirit of mingled patriotism and perplexity, from your colleagues, who realize the need, but want to be shown the way.

We all know that the banks have a lot of Liberty Bonds on hand which they are carrying for customers; they have got slow securities of various sorts they cannot afford to sell; they have got many of the kind of quick loans that never quite get paid off at maturity, and for reasons of business courtesy there is a natural limit to the pressure they can apply to their customers.

Now, what is the answer? Mr. Treman has spoken to you quite fully as to what the answer is. I think there are two answers. I think the first answer deals with the spirit of the transaction, and of that I need say very little, because every one of you gentlemen has it, or you would not be here. Mr. Treman received a telegram from one of your number, who probably would not want me to give up his name, but what he said was: "All of my time and all my resources are at the disposal of the Government to help in the war." Well, that comes pretty near being my text, as affecting the spirit of the enterprise.

As to the ways and means: As a newcomer in the Federal Bank organization—I have been in it just about a month—I want to speak for a minute as the outsider that I was a month ago, and say this; that without the Federal Bank machinery I think we would be facing an insuperable difficulty today. It would certainly be insuperable along the lines of the relatively simple and easy method in which it is now presented. I do not need to ask you gentlemen if you ever considered how we would be fixed if we had to finance the war with the banking machinery that this country had in 1907. You know the answer as well as I do. Everybody would be hoarding reserves. Nobody able and willing or willing and able, to take care of commercial borrowers—clearing house certificates, and all the rest of it; and then, inconvertible paper money and a currency depreciation that would take about fifteen years to work out after the war. Now, by the Grace of God, and at the eleventh hour, this country has got a banking system which our English critics say is the best in the world, resting solely on the proposition that short, prime paper of a self-liquidating nature is the basis for credit, whenever a bank need it and to the extent that it needs it; and that principle has an immense bearing on this problem, because no matter how fast the Government progresses with its war needs, no matter how seemingly impossible the demands of the Government, as it spends the money; as I analyze it, it is taking slow assets and throwing them into quick credit form, and if you can get these quick credits in such shape that they are self-liquidating, there need be no serious strain at any time.

As to the specific ability of the individual bank to take its quota, Mr. Treman has given you what we all think is the absolute essence of the thing, in what I may call the clean-up proposition. We know every bank is a separate case; we know there is no rule of thumb that fits all these questions; there are just as many kinds of problems as there are banks in the district. But don't we all of us know also the tendency of so-called quick assets to get non-liquid unless scrutinized very closely, and don't we recognize the need of special war-time scrutiny of our supposedly liquid assets at this time?

With reference to the slower assets; with reference to the old-line bonds held for years, with a big depreciation in them—you do not want to sell them, of course; probably you ought not to sell them. You realize, I think, the extent to which those securities are available as a pledge of collateral against Government deposits. You realize fully the book-credit method of making subscriptions for certificates. You have seen Treasury Circular No. 92, which tells you to what extent you can utilize your bonds and paper, and the percentages they are good for, and you realize that when you subscribe by the book-credit method, you do not make immediate payment, but that the money is gradually drawn out, and to the extent that you can get the certificates in shape as free assets, by pledge of other collateral, you can use them to manufacture credit as needed, by the fifteen day loan on your note with the certificate attached, if you are a member bank, or by the sale and re-purchase arrangement, if you are not a member.

You need not tell me; I understand it perfectly well, that a metropolitan bank here in New York is well fixed in a transaction of this sort. You understand and I understand that they can get their certificates in quick asset form; that they can pledge them; and with the avails they can obtain peculiarly liquid loans, especially available for short maturities, to an extent that a country bank cannot do.

But I submit that there is not a bank in the district—at least, I do not believe there is a bank in the district—that to some extent—I won't say how much—would not profit by a careful study of the pledge features of collateral, and by a careful study of its own ability to get its purchased certificates in quick asset form available for the manufacture of credit as the special needs of the occasion may require, especially in view of the fact that your reserve position is not affected by the transaction; nor are you stopped by any specified legal limit. Each transaction is a separate transaction. The Reserve Bank does not give you a regular line of credit, but it judges your rediscounts in a business fashion, and in that judgment it separates your rediscounts from your certificate transactions, so that theoretically there is a lot of sea-room in the ability of a bank, even if it is pretty well tied up, to take certificates.

I do not want to get in a position of seeming to argue for unsound banking. Mr. Treman has pointed out to you the need of conserving credit when and as you can. I want simply to point out that we have probably received forty letters from banks who said that they absolutely could not take certificates at all, but I do not think I have seen more than one or two such cases where a bank really was not in shape to take any. I have seen several cases, it is true, where the bank could not take its full quota. But if the deposit of collateral is availed of, and all the devices so cleverly and thoughtfully worked out, are utilized, there is usually a little room, no matter what the situation is.

I wanted to see just how this would work out, and, as I have considerable natural resistance to statistical demonstrations, I prepared the accompanying chart (see next page), to show what happens, in very simple, graphic form, when a bank with a quota, say of $100,000, subscribes regularly, by book credit.

Based on the past experience of this bank, the money is all drawn out in four weeks, on the average, or say a quarter of it each week. The net Government deposit of the bank with the $100,000 quota starts in, on the first investment date, at $100,000. The next week, the bank has not made any new investment; it has lost a quarter of its deposit. The next week, it has invested $100,000 more; total investment, $200,000; it has lost its first $100,000, down to $50,000; it has a total Government deposit of $150,000. Carry the process through each week for sixteen weeks, and you get an average investment of $450,000; divide your total Government deposit by sixteen and you have an average deposit of $120,313.

Your certificates pay you four and one-half per cent.; you pay two per cent. on the Government deposit. The net result of that transaction is a yield of five and four-tenths per cent., provided the Government deposit goes out in four weeks, one-quarter each week.

ILLUSTRATION OF OVERLAP FEATURE

When a Bank subscribes a quota of $100,000 Certificates every two weeks, with book credit form of payment. The estimate of complete withdrawal in 4 weeks is based on experience with past issues.

(Table figured on 4 equal weekly withdrawals.)

			CASH ON HAND								Government Deposit
Date	Investment	Week	From I	From II	From III	From IV	From V	From VI	From VII	From VIII	on Hand
7/ 2	$100,000	1	$100,000								$100,000
7/ 9	100,000	2	75,000								75,000
7/16	200,000	3	50,000	$100,000							150,000
7/23	200,000	4	25,000	75,000							100,000
7/30	300,000	5		50,000	$100,000						150,000
8/ 6	300,000	6		25,000	75,000						100,000
8/13	400,000	7			50,000	$100,000					150,000
8/20	400,000	8			25,000	75,000					100,000
8/27	500,000	9				50,000	$100,000				150,000
9/ 3	500,000	10				25,000	75,000				100,000
9/10	600,000	11					50,000	$100,000			150,000
9/17	600,000	12					25,000	75,000			100,000
9/24	700,000	13						50,000	$100,000		150,000
10/ 1	700,000	14						25,000	75,000		100,000
10/ 8	800,000	15							50,000	$100,000	150,000
10/15	800,000	16							25,000	75,000	100,000
16)	$7,200,000									16)	$1,925,000
Av.Inv. =	450,000								Av. Gov. Deposit	=	120,313

Average Investment,	$450,000	1-year at	4½%	=	$20,250
Less Gov. Deposit,	120,313	" "	2 %	=	2,406
Average net Investment,	329,687,	earning at the rate of			$17,844 per year, or 5.4%

But you know the Government withdrawal is very irregular. It did not last four weeks this time. July 1st is a heavy payment day for the Government, the same way it is for most other people.

The chart is based on the average experience of this bank in the past. I mention it not solely because of the profit feature, but to show you that the transaction is not as bad as it looks. I mean, even for a bank that does not take advantage of the fifteen-day pledge of its certificates. Viewed simply as a prime short time investment, it is a pretty good proposition.

Now, there is another thing that bears on that situation that I want to talk to you about very much. The Reserve Bank is in a certain way in a delicate position with regard to it—and that is the placing of certificates with your customers. We cannot go to your customers, because we might occasion you a loss of deposits. But you recognize that your customers, the people in the community, are going to buy Liberty Bonds in the Fall. The faster the Government spends the new money coming in, the faster somebody gets it. To the extent that you can buy certificates and place them with your customers you are reducing your average investment without reducing your average Government deposit.

Some banks have been very much interested in this. Indeed, one bank in the district this week asked me for advertising matter to put out, and we replied that we did not want to give them anything on the Federal Bank letter-head. We did not want to go between them and their customers, but we had a number of sales points prepared, and we would be most willing to send them.

We have talked to a number of men who have the same thing in mind. It is a novelty to a certain extent. A typical bank customer is not used to buying three or four months' paper in that way. But from the standpoint of the customer it is a prime investment, short, paying a good rate, and exempt from the normal income tax, which we are told is going to be increased very handsomely this Fall.

So much from the standpoint of the customer. From the standpoint of the bank, as I say, it reduces your average investment in certificates without reducing your Government deposit. It is enabling the bank to take certificates that it could not otherwise take. We all understand that yield is not the point. I simply mention that as one of the rather complicated and numerous angles that arise in connection with this proposition.

Now, as to the county organization: As I said a minute ago, I am satisfied that the way to get a hard, difficult job of this sort done is through the exercise of what I may call "community pressure." Now, how can that best be brought about?

You gentlemen are all extremely busy men. Of those of you that I have the good fortune to know well, it seems to me that every one is in some Government activity, Red Cross, and so forth, besides being an exceedingly busy banker. What is the answer to that? The answer is that the County Director in this organization ought not to be expected to do continuous detail work, and we do not expect it. What can he do? Here is one thing he can do.

Some counties have local banking associations organized. Mr. Dow organized one last Spring in Chautauqua County which helped us greatly in the conduct of the Third Liberty Loan. Now, suppose there is a county where there is no bankers' association. Suppose the County Director forms one—very informal; no dues, no technicalities, no procedure at all. Suppose you invited these bankers to lunch with you and went over those things with them. Don't you think that is one of the things that can be done, and done effectively? As regards the quota, I think you all understand the way it was arrived at.

Secretary McAdoo started with a figure of six billion to be raised, and then he took the figures of the total banking resources; the relation of one to the other is the quota. That is not scientific, but it is easy, and to that extent it has some merits. Because it is the whole country's problem it is fair. I think you might say it is not fair for any single bank in the country, but it is fair for the country as a whole.

Now, I want to ask another question. I am asking for information. Suppose I wrote to each county director and said "The quota for your county is so much," and that county director built up an equalization board, as was done in some counties in the Liberty Loan last Fall, to redistribute that quota; how would that appeal to you? I realize that there are a great many more banks that would like to be distributed down than would like to be redistributed up. (Laughter.) But I think if you sat around a table with a given county problem before you, for instance, you might in some cases get a voluntary quota accepted by the savings banks. The savings banks are not included in the quota, but lots of them want to subscribe. Take the case of a county that has a couple of prosperous savings banks in it and one national or state bank that is up against it; if your equalization board or your county association, which ever way you apply it, thought it was fair and equitable to all concerned to give that savings bank what I have called a voluntary quota, to the relief of somebody else, you could very easily bring your county out, without stepping on the toes of anybody.

Take the case of a county that has almost any kind of a rich business concern in it. If you have some of those people who would like to take certificates regularly, and you started in to redistribute quotas, I should imagine that in many cases—not in all cases—you could get certain voluntary quotas which might serve to unburden some other fellow that is overburdened. That is one of the points that I would very much like information and suggestions on today.

I personally would heartily welcome the opportunity to attend any of these county organization meetings. I would like to listen, rather than to talk. I would like to get the feel of this situation all around the district; I would like to meet the bankers; and I shall certainly make every effort to attend any of those meetings where you want me, or Mr. Wilson and Mr. Crane, my associates, will attend, and we should like very much to do it.

That is pretty nearly the story. It is an attempt to substitute the "I will" feeling for the "I would like to but I can't" feeling, and I think that the most important step we have taken is, in having you gentlemen come here in the fine way you have come today, to help work out this problem of local responsibility, local pride and the local feeling, that will make each county want to take its full quota. I think most of them can take their full quotas, after the bankers have counselled together and worked on it, and it seems to me this is the way to start it. I do not think it is going to be too burdensome for any one of the county directors.

May I just say, in closing, that there will naturally be some expense attendant on these meetings. I should not suppose there will be a heavy expense bill, but if you gentlemen run up any bills on account of this that you want paid, why, of course, just turn them in.

SUPPLEMENTARY REMARKS BY MR. R. H. TREMAN

There are to or three points which have suggested themselves to me since Mr. Morris has been talking. First, he referred to the length of time in which the certificate of indebtedness purchase money remains with each bank. We have expected that, as soon as the adjustments resulting from the July 1st settlements have been made, during the next two or three months the Government money would remain somewhat longer than was the case with money resulting from the certificates last winter and spring. I would not want, however, to hold out before you any false promises along these lines because the increase in the Government expenditures is so great and is on such an immense schedule that it is difficult, I assume, for even the Treasury officials to keep pace with them. We assume, however, that deposits will remain, on the average, a month or so.

There will probably be issued—at least that is the present plan—in August or September, an issue of tax certificates; receivable at par and interest in payment of taxes of various kinds. In so far as those are issued and placed, just to that extent, probably, will the issue of the regular certificates be cut down, so that when that issue takes place, if you interest yourselves in placing those tax certificates with corporations or individuals who like to carry out the practice which some of them have originated, of laying aside so much a month towards their taxes for next Spring and Summer, they can invest that sum in tax certificates and to that extent you will not be asked to take the regular certificates of indebtedness,

A question that one of the leading bankers of the State asked me this morning is one that I think would be a very common one to most of you, and that is, to what extent is the Federal Reserve Bank prepared to loan to banks? The banker said, "we are willing to subscribe, but we are unable to turn our loans quickly enough to take this amount every two weeks unless we borrow. Can we depend on the Federal Reserve Bank to assist us and, if so, to what extent?"

First, as to our ability. At the present time we have invested in actual rediscounts including the purchase of acceptances of various kinds, approximately $500,000,000. At one time the amount was over $600,000,000. If you asked to what extent can we go further, I would state that, based on their condition on the 14th of July, the reserve banks as a whole could to-day loan approximately $2,075,000,000 more than they are loaning at the present time and without going into their reserve; that is, without going below the legal reserve requirement of 40% of gold against notes and 35% against deposits. The Federal Reserve Bank of New York alone could to-day loan approximately $750,000,000 additional to that being loaned.

This raises the question of the gold which you retain in your vaults. If you turn this gold into the Federal Reserve Bank you will strengthen the situation. Under the old system every bank felt that it was necessary for its own self protection to retain some gold in its vault and that sentiment continues to prevail now with some banks.

Recently a banker wrote me that his bank had held its gold since 1861 and I was glad to know that it had felt that it was safe all this time. As a matter of fact, however, a dollar of gold in a bank's own vaults is no better for circulation than a dollar of any other form of U. S. currency but the same dollar of gold if taken out of the individual bank's vault and deposited with the Federal Reserve Bank will count as an added reserve for the individual bank against which it may extend credit equal to several times the amount of such reserve. Furthermore, the Federal Reserve Bank against every dollar of gold so deposited with it can create credit in the form of either deposits or reserve notes to the extent of $2.50. against each dollar of gold.

Now, to the extent that the Federal Reserve Banks are able to increase their gold reserve, to that extent will our position be strengthened against a greater demand for credit from abroad as well as at home in case the war goes on. To the extent that you separate your gold certificates from incoming cash and send them in to us, to that extent will you also be strengthening the situation for yourselves.

Do you understand the reason for sorting out the silver certificates? Our export balances with certain countries are running in our favor but with other countries, like India, from whom we are buying burlaps and other commodities, the trade balance is adverse, and India and other Oriental countries will accept silver in payment of these trade balances which saves the United States the necessity of exporting gold.

The ability to use silver in place of gold in such settlement led to the recent financial legislation withdrawing a certain amount of silver dollars from circulation. Insofar therefore as you sort out silver certificates also and send them to the Federal Reserve Bank you are helping the situation.

The question my banking friend asked was "To what extent will the Federal Reserve Bank loan?" In answer, let me say that the Federal Reserve Bank is the servant of the banks of this district who own it and the Federal Reserve Bank wants to serve this district and the country in every way possible along sound banking lines.

As Mr. Morris has pointed out, the Federal Reserve Bank of New York does not set a limit against the loans to each bank, but on the other hand there are some things which we must guard against. There seem to be some banks who still believe that they should continue to loan "as usual" and to the extent which they have always done, without appreciating the need for the saving or conservation of credit in order that the Government may have its requirements supplied. It would seem that such banks should not be encouraged in their borrowing as it is fallacious to think that business can go on and credit be dispensed "as usual." The Federal Reserve Bank is prepared and expects to continue to be prepared to supply to its member banks all the legitimate credit that is needed.

So far as loans secured by Government securities are concerned, we take less account of these than of loans on commercial paper and have been pursuing a very liberal policy in regard to loans secured by Government obligations. If loans are made for fifteen days, we have renewed them although it is not fair to continue renewing fifteen day loans indefinitely thus giving the bank the benefit of the rate of 4% instead of a higher rate on longer maturities.

We have no fixed rule and there has been very little tendency so far as we have noted on the part of any bank to abuse the privilege of borrowing. The Federal Reserve Bank has endeavored to assist the banks of the district in meeting what we realize are difficult problems, which in some sections are much more difficult than in others.

Some of the member banks I find have not understood the status of their reserves. We had a banker in the bank last week who controls a State bank and a national bank. He spent most of the day with us during which we outlined to him the operations of the Federal Reserve Bank. In discussing his reserves it developed that he had maintained with the Federal Reserve Bank their balance intact. He had never drawn against it; he had just left it in the bank and had continued to maintain the same reserve with his correspondent banks that he had always done.

He did not realize that we simply require member banks to maintain an **average** reserve for the month equal to the legal requirement. That reserve might be drawn down to nothing during several days a month provided the bank carries a sufficient excess reserve during the rest of the month to bring the average for the month up to the required amount.

If the bank has purchased certificates and is called upon to pay for part of them, it ought to understand that it can cut into its reserves for a few days if it wants to, because in many cases, say in one or two weeks, it will have outside additional deposits which will enable it to make up the deficiency in its reserve.

I speak to you at length because we do not often have a chance to speak to you face to face. But if at any time any of these problems arise, we ask you to have the officers of your bank write to us freely and personally. You can write to Mr. Morris if there is anything concerning the certificates of indebtedness, or to the officers of the Bank, in regard to regular banking functions, and we can assure you we are going to help you in every way. That is what you pay us for. That is what we are here for, and the resources of the Federal Reserve Bank of New York are behind every bank of this district.

ROUND TABLE DISCUSSION

Mr. Delmer Runkle (President, New York State Bankers Association). Gentlemen: It seems hardly necessary for me to go into any explanation of the question which has been so ably and so fully explained by Mr. Treman and Mr. Morris. They, I think, have covered every bit of the ground.

There is one matter, however, that I would like to bring out at this time and take occasion to say to the members of the Bankers Association of New York State, to the members of the council, most of whom are here, and the county directors, and that is one which has been referred to by both Mr. Treman and Mr. Morris—the organization of County Councils or organizations.

Mr. Gregory started that, at the close of his administration, and it worked well and did a great deal towards helping to float the last certificates. That organization had not been sufficiently perfected so that it could be worked, as was explained by Mr. Morris, up to the full at this time, but now there is, it seems to me, a most excellent opportunity to perfect this organization. In Rensselaer County, we have such an organization. There are fourteen banks in the County. That organization has no by-laws, no dues, simply getting together in co-operation with the banks.

We meet at one o'clock at the Troy Club, have a little informal dinner and the officers of the fourteen banks, who may be present at that time, meet and talk over various matters, certificates of indebtedness, Liberty Loan, Red Cross or whatever may pertain to banking, and we have found that it has been extremely helpful in bringing together and getting together our people that never were together before, and working in a spirit of co-operation.

I am therefore extremely anxious that these county directors who have been chosen now will co-operate with the chairmen of the various groups and effect these county organizations. Get together! If you have three banks in the county all right; get those three banks together.

Sometimes I find some of our own bank officers do not know an officer of another bank. How are you going to work with a spirit of co-operation if the bank officers of the same county do not get together?

With the war going on, as has been said by Mr. Treman, we have an immense task, and it will take the combined efforts of every banker and the co-operation of every banker. Let me repeat, then.

Will you gentlemen please do this and try it out? Nothing succeeds like success and anything that is worth doing is worth doing well. We have got to raise this money and we are going to raise it. It is simply a matter of the ways and means of doing it. The Federal Reserve Bank stands ready to help us furnish the money, and we are going to do it to the limit along the prescribed lines that have been laid out, by conserving credits judiciously.

I had a little illustration the other day. We all of us like to get good loans; we hate to turn down our friends and those who have been doing business with us and who are perfectly good. A man came in and wanted to borrow $2,000. He admitted in his letter that it was of a rather speculative nature, but he had to borrow. I wrote him immediately that I would be glad to make such a loan but unless he promised me at the end of four months unquestionably he would pay that back, I explained to him why I could not loan it to him. It was not eligible paper for rediscount; it could not be used in the Federal Reserve Bank. He wrote back to me and said: "I see your point; I could not pay it back in that time, and I do not want the loan." I presume every man here has had the same thing occur to him. It is a question of not going on, as has been stated, with "Business as usual," but we have got to take care of the legitimate loans, to farming and manufacturing requirements, and the manufacturing necessities.

Mr. Edward J. Gallien (Secretary, New York State Bankers Association): I want a little information, if I can get it. It was suggested by Mr. Morris. There must be bankers who have interested customers in purchasing some of the certificates of indebtedness from time to time, and I wish they would give us the benefit of their experience in interesting their customers and how it affected their deposits.

Mr. Treman: I would be very glad to give this opportunity to any banker here if he would advise us. This is merely an informal gathering. Kindly contribute your portion toward making it a success.

Mr. Townsend: Mr. Chairman, I would like to say a word. I am County Director of Orange County. I will call the members of the Orange County Bankers Association together early next week to put this matter before them. I will ask the officers of the various banks to attend. I will try and get them then and there to pledge themselves what they will do. If some of them fail to come and attend, I will take it upon myself to go to those different bankers in person and place the matter before them. It is going before each bank and each director, not altogether to the officers.

By forming an association we will have done two or three good things, and that is the way of getting at results as a practical matter. I want to know just exactly where I am at, before I talk to them.

Mr. Treman: What Mr. Townsend has said is a matter that is of interest in many districts, and I want to commend his way of getting bankers together, and there are other reasons for doing that, because, in a great many cases in the past, unfortunately, there have been local differences and the bankers have not been working closely together as they should. This is a golden opportunity to serve. It is no time for friction or differences; individual differences sink out of sight.

In England they tell us that there is no individual banking; that there is nothing but banking that is carried on for the benefit of the Government, and that is the basis on which we should be here.

Mr. Townsend speaks of another thing, and that is the question of talking to the directors of these banks which do not co-operate.

Now in some cases an officer of a bank will take a position representing a bank which ordinarily, but not always, represents the feeling of the bank authorities, and that authority is represented by the Board of Directors. In so far as a bank fails to do its duty, I firmly believe that if the county director would ask these directors to come together, and he would attend one of the bank meetings with the directors there and put it before them, I am certain those directors will come forward and do their full loyal share of this great work.

You ask about our loaning. I did not know but what Mr. Case would be here in time to tell you, because there is more or less misunderstanding about this. A great many banks have bonds which in the past they have invested in. Many banks have bonds which have depreciated in value. They do not want to sell them at present prices and take their loss, and they ask what can they do with them.

One of the bankers who was down in the bank a while ago said: "I would rather take my bonds and borrow from my correspondent and make my loans that way instead of going through the red tape of borrowing from the Federal Reserve Bank." He never did borrow from the Federal Reserve Bank. He did not know how much red tape there was connected with it and was not fully justified in making that statement. In the first place, it was a proper use for his bonds and he probably thought it a good way for him to make his loans, but upon investigation he probably found he was paying that bank from one half to one and one-half per cent. more than he could have borrowed it for from the Federal Reserve Bank.

Now, so far as the use of the bonds which a bank possesses as security: You are familiar with the circular issued October 8, 1917, defining what bonds will be received for government deposits. Personally, I believe that a good use that a bank can make of some of its bonds is to place them with the Federal Reserve Bank as security for these deposits which are created in payment for certificates of indebtedness. Then, if a bank puts up these bonds, it can leave the certificates which it purchases, with the Reserve Bank here in custody and thus have collateral ready for any emergency, because if something unusual came up, all it will have to do is to telegraph the Federal Reserve Bank: "We want to borrow a certain amount of money; use our certificates which you have in your Custody Department as the collateral." We would telegraph right back to the bank that the loan had been made, and the money was available to it.

Now when applications for loans have come in to the Federal Reserve Bank, I want to explain what is the practice: Your request reaches us usually in the morning; it is checked up as to whether the collateral is as required under the regulations of the Board and if so, it comes to the Executive Committee, which meets at 2:15 P.M. every day, and between three and four o'clock you get a telegram at your bank that the loan has been passed upon, accepted, and the amount is placed to your credit. There cannot be any way in which you can secure a loan much quicker than through that process. But if you use your bonds as security for Government deposits, that would leave your certificates of indebtedness free, and you can put them up, that is, on a fifteen day loan as collateral. If the fifteen day loan is not quite long enough for you, I have no doubt that the bank, under normal conditions, would loan you for another period of fifteen days on the certificate. We could not promise that we would continue indefinitely renewing these fifteen day loans at the four per cent rate. If you want to borrow for a longer period, we would be reasonable about renewals, but if you wanted to continue it for 60 or 90 days, we might feel obliged to charge you at the 90 day rate which would be 4¼%., where Government securities are used as collateral.

Mr. A. A. G. Luders: How would that work out for non-member banks with reference to the amount of the loan; is that subject to renewal?

Mr. Treman: The facilities of the Federal Reserve Bank are primarily for the member banks. For those who are non-member banks, we can assist them in financing. If a non-member bank has certificates of indebtedness which it has purchased under the book credit plan and they find when they are called upon to repay a part of these payments or deposits that it embarrasses them, the Federal Reserve Bank will buy those certificates of them on simply a statement from them in writing to the Federal Reserve Bank, that they would like to sell those certificates to the Federal Reserve Bank for fifteen days, and that within that period they will and do agree to buy them back again. It doesn't require any red tape except to advise us that you desire the accommodation. If you have left the Certificates in the custody of the Federal Reserve Bank, we will credit you with the money, deposit it, or transfer it to any bank in New York City and carry it for fifteen days.

Mr. Charles E. Hulbert (Delaware County): I am from Delaware and there they are facing the same questions I am. They do not seem to be answered. At the end of this four months' period these reserve banks are expected to sell bonds for the amount of the certificates. Now if we bankers of these different counties borrow on these bonds in advance to the full amount of these certificates and our customers buy those bonds at the end of that period, on November 1st and give a check on their own bank, how are we going to borrow without security? That is a hard question with me, as when the certificates of indebtedness mature we expect to handle all our certificates; we expect to sell our full quota of bonds; we expect to raise our full quota for the Red Cross. We are in an agricultural section of the county. It is hard times, but we are going to do it just the same and we are going to raise our quota, but we do not know how. We will have to borrow. We intend also to take care of the farming community. We do not expect to make any new loans and we want to know how you have it planned, and how we are going to get over the hard point, which is next November.

Mr. Treman: So far as the use of these certificates is concerned, I assume you will have more or less of your customers who will buy bonds of you. Some of these people pay cash and most of them borrow?

Mr. Hulbert: Most of them borrow.

Mr. Treman: You have got to pay for these bonds if you buy them. But you have been buying certificates of indebtedness to use in payment for those bonds. If you sell bonds through your bank in excess of the amount of certificates which you hold, then of course you have got to in some way make up that balance; but if you hold more certificates than you sell bonds, and you turn them in here, you will receive cash for them. If you sell more bonds than you have certificates, you have got to find some way to make up the balance. Of course you can borrow by making a fifteen day loan and putting up eligible paper you may have on hand. If you might not want to rediscount notes and they are eligible, you can put that paper up against your note. Does that answer your question?

Mr. H. D. Fearon (Oneida): In our county, the savings banks carry a larger balance than any other banks and it seems to me that from that point of view the savings banks are in a better position to take certificates than the commercial banks, because they are looking for permanent forms of investment if they have to continue with the Liberty Loan afterwards, while the commercial bank must ordinarily meet commercial notes as well as doing its share toward the Government notes. In the county districts, it seems to me it is up to them to share their proportion with the commercial banks.

Mr. Treman: So far as savings banks are concerned in this district, it seems to me that there is no very much better form of investment for them than these short time certificates of indebtedness carrying the 4½ per cent. interest. If I were county director of a county where there were savings banks, I would write to every officer and director of the savings banks and put it up to him, and then before I got through I would have them subscribing largely to it.

Mr. Leggett (Allegany): There is one question that has been on my mind, as the gentleman here on my right stated. A good many country banks have got savings departments for which they issue books, and those deposits to a considerable extent, at least, are represented by bonds; they are not Government bonds; they are a miscellaneous lot of bonds, some of them bonds on which the Federal Reserve would grant a credit, but most of them not bonds on which they would grant a loan. Now if there are any gentlemen here who can suggest some way in which those bonds might be employed, not for fifteen days but for a somewhat longer time, I am sure it would be helpful in a great many cases.

Mr. Treman: Well, I know of some institutions which have felt that banking methods and banking opinion was changing from year to year under the changing conditions, and some banks that I know of have sold some of their bonds when the loss was not very great. Furthermore, in other banks they are having a committee of their directors go through their loans, look over those that have become somewhat ancient, and calling the loans, giving as the reason that it is for the best interest of the customer himself to be forced to make reasonable payments at every maturity; that it leads him to individual economy. I am frank to say that none of us are at present practising sufficiently the economy that we are preaching. I think if that is true of the bankers it is also true of their customers and I think you are doing a good turn to your customers if you begin to put the thumb screws on a little, without putting them on so heavily as to cause them serious embarrassment. If you keep giving a little notice, they will be apt to gradually reduce this accommodation. This is important and enables you to clean up all old loans and bring them to the final settlement. Tell them the Government is requiring you to transact business in a different way from what you have been doing in the past, and that you must call upon them to pay up or to reduce their loans. And frankly, it would be for their own good because it will lead to individual economy and thrift.

Mr. J. C. Estelow (Chenango County): May I point out what seems to me to be an inequality, in addition to what has been spoken of as to the savings banks taking certificates of indebtedness as well as the commercial banks of the country. We are called upon to take, in agricultural sections, our proportion of the bonds and our proportion of the certificates of indebtedness. You are treating all counties alike. Ours is Chenango, and the county below is Broome County. Ours is wholly agricultural. Broome has the Endicott-Johnson Company, an enormous manufacturing interest, bringing in enormous amounts of money. We in Chenango have not been making any money; deposits have not increased. For generations, the banks have supplied farmers temporarily for the season's interests. It is late now, but at another time we hope you will take it into consideration—the increase of deposits in banks. And we think it a reasonable and an equitable thing to take that into consideration in fixing the amount of the quota on the different counties. It means more bonds, but patriotically they wanted to take the share that has been laid upon them. However, I can conceive, in Broome County —with its enormous increase in money coming into the county— I can conceive in some of the other counties where they have manufacturing industries, these expenditures of the Government going back into the banks. But they are not going back into the country banks very much.

Mr. Treman: Mr. Estelow, what you state is true in regard to Broome County and in regard to the manufacturing districts; a good deal of money is going in. But our experience is that manufacturers say the cost of material and labor is so much greater that it entails upon every manufacturer and every distributor so much greater demands for credit that they themselves are all tied up; that they would like some of the agricultural banks to take their share of it. (Laughter) There is the truth on both sides. You are coming into a period in the next two or three months when you secure your Fall returns in your county, because your product is now going out and the money is coming back. The problem is a hard one, Mr. Estelow, for everybody, but the problem is not so great but that the banks in this district are going to solve it, and in every case wherever there is an individual bank which has up its individual problems, if they will come to us we will do what we can to help them out. But the thing is going through, depending both on the county and the city bank, and you are the gentlemen who are going to put it over.

Mr. John T. Symes (Niagara County): The problem has been shown to us, and the method of solution, and the time has arrived to pledge ourselves to this solution, and to dedicate ourselves to the service of the country. We are interested in the thing because this happens to be our obligation. It is part of the public financing of the war, and we must stand behind Mr. Baker and Mr. McAdoo, or else we might as well ask the boys to come home. I suggest a resolution: That we return; that we form an organization in the counties where they are needed and are not now in existence; that we intensify those that are already in existence, and that we solve this problem. Each one of us can help, and as these men have promised to come and meet with us and spend the necessary time, I am sure there is going to be no trouble whatever.

Mr. Charles Smith (Oneonta): I have been asked by the gentleman across the table here how I am going to get the directors of the several banks which I have visited to meet me. The easiest proposition in the world!

In the other campaign we had with reference to the other certificates of indebtedness, I wrote the letters to the officer of the bank and informed him that I was going to be present at such an hour at the bank, and wished to meet him and as many of the directors of the bank as wished to hear me. Now, if he was present alone, or his cashier was present with him, or all of the board of directors, so much the better, but I had done my duty when I presented the matter either to him alone or to such of those as he had with him, so it was not up to me if he made mistakes.

Now gentlemen, this question of these certificates of indebtedness is just as simple as you make it yourselves. It is a duty that we are called upon to do; to get behind these certificates of indebtedness and see that they are taken. I want to tell you my personal experience in our bank with the last certificates of indebtedness. We made a good thing out of them. It was simply a book entry, that we took so many thousand dollars of the certificates, and the transaction was closed. We got 4½ per cent., I think, and we paid 2 per cent. When the Federal Reserve Bank called on us for the loan and when the account was closed, we had our certificates with which to pay for our Liberty Loan bonds.

In the transaction at the time, my cashier came to me and said: "Well, we have got these certificates of indebtedness down here, and they have drawn on you for the whole amount; we need the money, what are you going to do about it?" "Simply inform them we want to borrow." It seemed to me the easiest transaction I ever had in my business career. I haven't had an extensive banking career, but that is my business experience. I am selling something at a profit, and a man is perfectly willing to trade at a profit.

There is just one thing more I want to say, if I may be permitted: Last night in coming down here I got the evening papers, and this morning in all the papers I saw in big bold type on the front of those papers that the American troops had held the line. (Great Applause.) American troops had held back the Germans! Gentlemen, it is just as important for you and me to do our part as American bankers in this certificate of indebtedness battle, as it is for our boys over there to hold the line against the Huns. (Applause.)

Mr. Treman: I think Mr. Smith's remarks will be a very fitting closing. Now it is up to you, gentlemen! We have called and had you here today. We will do our part, and we hope that you will do yours, and if we co-operate, the victory is already won. We thank you, gentlemen, very much!

Adjourned.