F E D E R A L   R E S E R V E   P R I M E R

(Prepared by F. A. Delano for Criticism)

1. The United States is divided, for facilitating the banking inter-relations of the country, into twelve districts, each district named after the city which is its headquarters. These twelve districts are known as follows:

No. 1 - Boston District,
No. 2 - New York District,
No. 3 - Philadelphia District,
No. 4 - Cleveland District,
No. 5 - Richmond District,
No. 6 - Atlanta District,
No. 7 - Chicago District,
No. 8 - St. Louis District,
No. 9 - Minneapolis District,
No. 10 - Kansas City District,
No. 11 - Dallas District,
No. 12 - San Francisco District.

2. Every national bank is required and every State bank, under certain conditions, is permitted, to become a stockholder to the extent of 3% of its capital and surplus.

3. In this way the paid-in capital of the twelve Federal reserve banks is approximately 56 millions of dollars. The largest bank, New York, has $11,880,000; the smallest - Atlanta, has $2,414,000.

4. Every national bank and every other member bank is required to keep its legal reserves on deposit with the Federal reserve bank. These reserves are at present 18% for banks in

the three central reserve cities (New York, Chicago and St. Louis); 15% for banks in some fifty-two other cities, and 12% for banks in non-reserve cities, known usually as "country banks."

5. The aggregate reserve deposits held by the twelve Federal reserve banks amounted on March 31, 1917, to $720,411,000.

6. In consideration of the ownership of stock in the Federal reserve bank and the deposit of its reserves with said bank, each national or other member bank is permitted to borrow at specially low rates from its Federal reserve bank on the collateral of the, what is commonly called commercial paper. This paper consists of the notes of farmers, manufacturers, and merchants not exceeding six months time to run in the case of farmers' paper, or three months time to run in the case of manufacturers and merchants' paper.

These notes of the member bank's customers, when endorsed by a member bank, may, as already stated, be put up as collateral with the Federal reserve bank and credit given by the Federal reserve bank to the applying member bank. This credit may take the form of a book credit, subject to draft, or in the form of Federal reserve notes, which each Federal reserve bank is permitted to issue.

7. Federal reserve banks are permitted to accept deposits from, or make loans only to member banks. Hence each Federal

reserve bank is a central bank for its district. Thus, the Federal Reserve Bank of Chicago has 1,045 member bank depositors, while the Federal Reserve Bank of Atlanta has 382 member bank depositors. This represents at present the maximum and minimum. As more national banks are chartered, or State banks join the system, as they are permitted to do, this number will increase. At present the total aggregate number in the system of twelve Federal reserve banks is -

7,594	National banks
40	State banks
7,634	Total

7½. The twelve Federal reserve banks are under the supervision of a Board of seven men in Washington, D. C., constituted as follows: The Secretary of the Treasury, ex-officio, the Comptroller of the Currency, ex-officio, and five other members appointed for terms of ten years by the President, with the advice and consent of the Senate. Of these five appointed members two must have been trained bankers, and the three others need not have had such experience. The terms of the Board were so adjusted with those first chosen that the term of one man expires every two years.

8. The salaries of the five appointive members are fixed at $12,000 per year, and these salaries, plus 7/12ths of the salary of the Comptroller of the Currency, and the expenses for

salaries of staff and other expenses of the Federal Reserve Board at Wahsington are paid by the twelve Federal reserve banks in the form of a semi-annual assessment levied by the Federal Reserve Board. The total expenses of the Federal Reserve Board for the fiscal (and calendar) year of 1916 were $226,937.37.

9. Each Federal reserve bank is conducted under the direction of a Board of nine directors:

3 Bankers elected by groups representing the large, the medium sized, and the small banks;

3 Business men similarly chosen by the banks;

3 Directors, two of whom must have had tested banking experience, appointed by the Federal Reserve Board at Washington, to represent them and interests of the general public.

The term of each director is for three years, but the term of one director in each group expires each year; on December 31st.

10. The Federal reserve banks are permitted to invest their capital and a reasonable share of their reserve deposits in four ways;

(a) In loans to member banks on commercial paper, as already described under 6. These loans are usually called "Rediscounts".

(b) In the purchase in the "Commercial" or "Open Market" certain well known grades of commercial paper, such as "Bankers

Acceptances", but only when such paper has only three months to run;

(c) The purchase (under restrictions expressed in the law and by the Federal Reserve Board) of town, city, county and State tax warrants, having not more than six months to run;

(d) The purchase of United States Government Bonds and notes, both those having and those not having the privilege of issuing bank note circulation.

11. Every Federal reserve bank is allowed to issue Federal reserve notes against commercial paper, accepted as collateral from a member bank or when bought in the open market. It must do this under the restrictions laid down in the law and by the rules of the Federal Reserve Board. In this connection, each bank must establish as a reserve against the notes so issued at least 40% in gold in addition to the commercial paper held. Against deposits a reserve of at least 35% in gold must be held.

12. The object of permitting the notes to be issued only against commercial paper, that is to say, short time borrowing, representing the actual production of food products, or staple commodities, or the sale of raw materials to manufacturers, is to base the currency solely upon the demands of commerce and business, increasing as business increases and diminishing as business diminishes. Thus the currency will tend to expand and contract with the volume of business; for example, if at

the end of 90 days, a borrowing bank repays its loan at the Federal reserve bank, the notes issued when the loan was made are either retired or a deposit of the equivalent sum of lawful money must be made to guarantee their retirement.

13. The Federal Reserve Board at Washington is authorized to designate the Federal reserve banks to exercise all the functions of clearing houses for their member banks, and may also promulgate from time to time regulations covering the transfer of funds and the charges therefor.

14. The Secretary of the Treasury may use Federal reserve banks as Government depositaries and may require them to act as fiscal agencies of the Government. This right has been exercised as yet to only a limited extent.

15. The Federal reserve banks may, with the consent of the Federal Reserve Board, open and maintain banking accounts in and appoint correspondents or establish agencies in foreign countries.

16. The Federal reserve banks are not chartered primarily for profit. The capital of the Federal reserve bank is owned by the member banks, subject to a cumulative dividend of 6% per annum. Profits in excess of this revert to the Government. Primarily the duty of the Federal reserve banks is to act as the custodians and guardians of the bank reserves of their member banks. Next it is their duty to render a service to their member banks and, through them in turn, to the general public in equalizing and stabilizing interest rates.

4/4/17

FEDERAL RESERVE PRIMER.

1. The United States is divided, for facilitating the banking inter-relations of the country, into twelve districts, each district named after the city which is its headquarters. These twelve districts are known as follows:

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No. 2 - New York District
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No. 9 - Minneapolis District
No. 10 - Kansas City District
No. 11 - Dallas District
No. 12 - San Francisco District.

2. Every National bank is required and every State bank under certain conditions, is permitted, to subscribe to the stock of the Federal Reserve Bank of its district, to the extent of 6 per cent of its own capital and surplus; but of this only 3 per cent has been paid in, and the remainder, while subject to call by the Federal Reserve Board, is not likely to be called.

3. In this way the paid-in capital of the twelve Federal Reserve Banks is approximately 56 millions of dollars. The largest bank, New York, has $11,880,000; the smallest, Atlanta, has $2.414,000.

4. Every national bank and every other member bank is (after November 17, 1917) required to keep a substantial share of its legal reserves on deposit with the Federal Reserve Bank. These reserves are at present 18 per cent for banks in the three central reserve cities (New York, Chicago and St. Louis); 15 per cent for banks in some fifty-two other cities, and 12 per cent for banks in non-reserve cities, known usually as "country banks."

5. The aggregate reserve deposits held by the twelve Federal Reserve Banks amounted, on March 31, 1917, to $720,411,000.

6. In consideration of the ownership of stock in the Federal Reserve Bank and the deposit of its reserves with said Bank, each national or other member bank is permitted to borrow at very favorable rates from its Federal Reserve Bank on the collateral of, what is commonly called commercial paper. This paper consists of the notes of farmers, manufacturers, and merchants not exceeding six months' time to run in the case of farmers' paper, or three months' time to run in the case of manufacturers' and merchants' paper, where the proceeds have been used solely for farming, manufacturing and mercantile purposes.

These notes of the member bank's customers, when endorsed by a member bank, may, as already stated, be put up as collateral with the Federal Reserve Bank and credit given by the

Federal Reserve Bank to the applying member bank. This credit may take the form of a book credit, subject to draft, or the form of an issue of Federal Reserve notes, which each Federal Reserve Bank is permitted to obtain by application to its accredited Federal Reserve Agent.

7. Federal Reserve Banks are permitted to accept deposits from, or make loans only to, member banks. Hence each Federal Reserve Bank is a central bank for its district. Thus, the Federal Reserve Bank of Chicago has 1,045 member-bank depositors, while the Federal Reserve Bank of Atlanta has 382 member-bank depositors. This represents at present the maximum and minimum. As more national banks are chartered, or State banks join the system, as they are permitted to do, this number will increase. At present the total aggregate number in the system of twelve Federal Reserve Banks is -

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8. The twelve Federal Reserve Banks are under the supervision of a Board of seven men in Washington, D. C., constituted as follows: The Secretary of the Treasury, ex-officio, the Comptroller of the Currency, ex-officio, and five other members appointed for terms of ten years by the President, with the ad-

advice and consent of the Senate. Of these five appointed members two must have been trained bankers, and the three others need not have had such experience. The terms of the Board were so adjusted with those first chosen that the term of one man expires every two years.

9. The salaries of the five appointive members are fixed at $12,000 per year, and these salaries, plus seven-twelfths of the salary of the Comptroller of the Currency, and the expenses for salaries of staff and other expenses of the Federal Reserve Board at Washington are paid by the twelve Federal Reserve Banks out of the proceeds of an assessment levied by the Federal Reserve Board semi-annually. The total expenses of the Federal Reserve Board for the fiscal (and calander) year of 1916 were $226,937.37.

10. Each Federal Reserve Bank is conducted under the direction of a Board of nine directors:

3 Bankers elected by groups numerically equal, representing the large, the medium sized, and the small banks;

3 Business men similarly chosen by the banks;

3 Directors, two of whom must have had tested banking experience, appointed by the Federal Reserve Board at Washington, to represent them and interests of the general public, none of whom may be directors or stockholders in banks.

The term of each director is for three years, but the term of one director in each group expires each year - on December 31st.

11. The Federal Reserve Banks are permitted to invest their capital and a reasonable share of their reserve deposits in the following ways:

(a) In loans to member banks on commefcial paper, as already described under 6. These loans are usually called "Rediscounts."

(b) In the purchase in the "Commercial" or "Open Market" certain well known grades of commercial paper, such as "Bankers Acceptances", Bills of Exchange, foreign or domestic, but only when such paper has not more than three months to run;

(c) In the purchase (under restrictions expressed in the law and by the Federal Reserve Board) of town, city, county, and State tax warrants, having not more than six months to run;

(d) In the purchase of United States Government Bonds and notes, both those having and those not having the privilege of issuing bank note circulation.

In addition to these powers, the Federal Reserve Banks are permitted to deal in gold coin or bullion at home or abroad.

12. Every Federal Reserve Bank is allowed to issue Federal Reserve notes against commercial paper, accepted as collateral

from a member bank or when bought in the open market. It must do this under the restrictions laid down in the law and by the rules of the Federal Reserve Board. In this connection, each bank must establish as a reserve against the notes so issued at least 40 per cent in gold in addition to the commercial paper held. Against deposits a reserve of at least 35 per cent in gold or lawful money must also be held.

13. The object of permitting the notes to be issued only against commercial paper, that is to say, short time borrowing, representing the actual production of food products, or staple commodities, or the sale of raw materials to manufacturers, is to base the currency solely upon the demands of commerce and business, increasing as business increases and diminishing as business diminishes. Thus the currency will tend to expand and contract with the volume of business; for example, if at the end of 90 days, a borrowing bank repays its loan at the Federal Reserve Bank, the notes issued when the loan was made are either retired or a deposit of the equivalent sum of lawful money must be made to guarantee their retirement.

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of funds and the charges therefor.

15. The Secretary of the Treasury may use Federal Reserve Banks as Government depositaries and may require them to act as fiscal agencies of the Government. This right has been exercised as yet to only a limited extent.

16. The Federal Reserve Banks may, with the consent of the Federal Reserve Board, open and maintain banking accounts in and appoint correspondents or establish agencies in foreign countries.

17. The Federal Reserve Banks are not chartered primarily for profit. The capital of the Federal Reserve Bank is owned by the member banks, subject to a cumulative dividend of 6 per cent per annum. Profits in excess of this revert to the Government, with the provision that one-half of these excess profits shall be diverted to the creation of a surplus fund for the Federal Reserve Bank until the fund shall have reached 40 per cent of the capital of that Bank. Primarily the duty of the Federal Reserve Banks is to act as the custodians and guardians of the bank reserves of their member banks. Next it is their duty to render a service to their member banks and, through them in turn, to the general public in equalizing and stabilizing interest rates.

4/10/17.