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ADDRESS REPLY TO
FEDERAL RESERVE BOARD

September 21, 1917.

Mr. D. C. Wills,
Federal Reserve Agent,
Cleveland, Ohio.

My dear Mr. Wills:

Referring to letter and conversation I have had with both you and Mr. Fancher in regard to branches at Cincinnati and Pittsburgh. I had a very pleasant chat with Mr. Rowe, who was here to attend a meeting of the Advisory Council. As might have been expected, Mr. Rowe takes a broad and unselfish view of the matter. He recognizes that it is not only the local interests of Cincinnati which should be considered, but the interests of the entire district; and he was quite willing to admit that if it was to cost fifty or sixty thousand dollars to operate a full fledged branch and he could be shown that the facilities which the community needed could be provided by an agency (let us call it a branch with limited powers) for a much lower figure, he was perfectly willing that it should be given a trial. I told him I felt quite sure the Board would go further than that and say that if after six months' trial such an agency was not found to answer the requirements we would concede that

a full fledged branch should be established.

As you know, however, I believe that a branch with, say three directors including your agent, could perform practically all necessary functions, such for example, as acting as a collection agency in lieu of the local and country clearing house, and secondly, would be prepared to meet the currency demands under a system of concurrent orders approved by the home bank. Thus, commercial paper sent to Cleveland by Monday night's train could be approved and the currency released through the agent on Tuesday forenoon, or in case of even greater emergency the agent at Cincinnati could describe to the home bank the character of the paper offered to him and obtain authority by wire for rediscounting it. With the safeguards which could be thrown around these operations, I feel sure that such an arrangement could be made safe and effective, and far less expensive than a full sized branch. Without going into elaborate detail, it is of course understood that your representative, who would be the local manager, would be a man of the caliber that you would put in charge if you had a full fledged branch. The essential difference between the branch described and that heretofore considered, rests in the most modest scale of organization, and directly limited powers, because the branch would be near

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enough to be in close communication with the home bank. Not only can a supply of Federal reserve notes be held in the local subtreasury to be released by telegraphic orders from Washington, but we might go further and provide that an emergency stock could be held in a suitable safety deposit box under such dual or triple control as might be approved.

If such a branch should take over the transit or clearing functions for Southern Ohio and Eastern Kentucky it would be handled under such directions as your bank may give; and if the local banks should turn over the city and country clearing functions to it they should, as was done in Boston, make some direct contribution to support the facilities substituted for the existing clearing house.

I have talked this matter over with Governor Harding and he believes that it would be perfectly feasible to work out such an arrangement, so as to be satisfactory not only in Cincinnati but at several other points, for example, Pittsburgh, Detroit, and Birmingham. The argument is made, for instance, in the case of Pittsburgh and Birmingham, that being very large pay-roll centers the banks are not justified in running down low on reserves, and while banks in Federal reserve cities can safely take full advantage of the reduced reserves, those in

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larger pay-roll cities away from the Federal reserve cities, can not safely do so.

The more we study the subject the more clearly do we see that there are two things in which banks in important cities away from the Federal reserve cities are interested:

- First, A liberal supply of Federal reserve notes which can be released quickly in an emergency; and
- Second, In some cases at least, a collection agency to operate as a local and country clearing house.

If the officers of your bank can work out this problem in a satisfactory way in Cincinnati, you will have performed an important service, not only at that point, but you will be effecting a solution of the problem for a number of other points. There are perhaps ten or fifteen cities in the United States which are justified in having such branches of limited power, but which are not justified in incurring the expense of full fledged branches. It is not a sufficient argument to say that the local banks agree to furnish enough paper for re-discount to support a branch. What we are concerned with is to render the necessary service at a minimum of cost.

Very truly yours,

(Signed) F. A. DELANO.