FEDERAL AND STATE LEGISLATION NECESSARY TO INCREASE MEMBERSHIP IN THE FEDERAL RESERVE SYSTEM AND TO BRING ABOUT UNIFORMITY IN FEDERAL AND STATE LAWS.

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RECOMMENDATIONS OF COUNSEL TO THE FEDERAL RESERVE BOARD.

FEDERAL AND STATE LEGISLATION NECESSARY TO INCREASE MEMBERSHIP IN THE FEDERAL RESERVE SYSTEM, AND TO BRING ABOUT UNIFORMITY IN FEDERAL AND STATE LAWS.

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The Federal Reserve Act is designed, among other things, to make it possible to create a compact banking system out of the several thousand independent and unrelated banking institutions in the United States.

The President has appealed to all eligible banks to enter the system in order that the banking resources of the United States may be used to the greatest advantage in the present emergency.

Under existing laws, many banks are unable to enter the system, while others are deterred from doing so because in the opinion of their officers and directors membership would restrict the operations of such banks, or would impose additional burdens without adequate compensating advantages.

While neither Federal nor State legislation can make it possible for all banking institutions to become members without more or less radical changes in the system, many of the socalled obstacles to membership can be removed by amendments to the Federal Reserve Act and to various State laws. In seeking to procure this necessary legislation, it is important that bills introduced should be drawn with a view of bringing about greater coordination in the powers of national and State banks, and greater uniformity in Federal and State laws regulating the banking business.

In the statement made public through the Federal Reserve Board on October 15, 1917, the President, in appealing to State banks to become members of the system and in referring to the Federal Reserve Act, calls attention to the fact that the "Unification of our banking system and the complete mobolization of reserves are among the fundamental principles of the Act."

This unification can hardly be accomplished by amendments to the Federal laws. The Federal Reserve Act cannot, in other words, be made adaptable to the laws of forty-eight different States, and there must be cooperation as between the State and Federal authorities in the matter of legislation.

In order to secure this cooperation it is important that a definite policy should be adopted; that consideration should be given to the character of legislation necessary on the part of the States, and on the part of the Federal Government, and that the purpose and probable effect of any legislation advocated, should be made

clear. This involves a consideration of those Federal and State laws which either prohibit or have a tendency to prevent nonmember banks from becoming members of the Federal reserve system.

Banks which are prohibited or prevented from entering the system may be divided into three classes:

1. Those which are ineligible to membership under the Federal Reserve Act.

2. Those which are prohibited from becoming members by State laws.

3. Those which, while eligible, are prevented from joining because the character of their assets is such they are unable to obtain adequate accommodation from the Federal Reserve Bank, and are, therefore, unwilling to assume the obligations of membership.

In determining what form of legislation is necessary to increase the membership in the Federal Reserve System, these three classes, for convenience, should be treated separately.

BANKS INELIGIBLE UNDER FEDERAL LAW.

1. The qualifications prescribed by the Federal Reserve Act exclude from membership:

(a) Unincorporated banking associations having no capital stock;
(b) Banks the capital stock of which is insufficient to entitle them to become national banks.

According to the Report of the Comptroller of the Currency for the year 1917, on June 20, 1917, the aggregate resources of State banks, savings banks, private banks, and loan and trust companies, amounted to more than $20,000,000,000. Of this amount, more than $4,800,000,000 was held by the 622 mutual savings banks in the United States, and it is estimated that an equal or greater amount was held by incorporated State savings banks without sufficient capital to entitle them to become national banks. If this estimate is correct, approximately one-half of the banking resources of the United States, other than those held by national banks, are held by banks which are ineligible under the Federal Reserve Act to become member banks. It is, therefore, desirable that provision should be made for the admission of such banking associations as may be admitted without endangering the strength of the system.

Unincorporated associations have no capital stock upon which to base their subscription to the stock of the Federal reserve bank, but most if not all, have surplus and undivided profits which might be used as a basis for such subscriptions. As an alternative plan a limited or qualified membership might be extended to these associations conditioned upon the maintenance of a fixed deposit balance with the Federal reserve bank without any requirement that such banks shall subscribe to the capital stock of the Federal Reserve bank. For reasons hereinafter set forth, however, it is believed to be the more conservative policy to offer membership to all banks made eligible upon substantially similar terms, rather than to have different classes of membership.

It is, therefore, recommended that the Federal Reserve Act be amended so as to permit mutual savings associations to membership, provided their surplus is equal to the amount of capital stock that would be required of a national bank doing business in the same place in which such association is located.

It is also recommended that the Act be amended so as to admit to membership incorporated banks withinsufficient capital stock, provided the combined capital stock and surplus of each such bank is equal to the amount that would be required of a national bank doing business in the place in which such bank is located.

The capital requirements of national banks are not unreasonably large and a reduction would not have a tendency to strengthen the system.

Banks with insufficient capital might, however, be permitted to become members if they will agree to maintain a surplus which added to their capital will equal the amount of capital stock required of national banks. A fixed surplus would in such case afford the same protection to those dealing with the bank that is afforded by capital stock, except in those States in which the stockholders are under a double liability for contracts and debts of the association. The stockholders of national banks and of some State banks and trust companies are subject to this double liability, but this is not true of the stockholders of all banks admitted to membership in the Federal reserve system, and there is accordingly no inconsistency in permitting a fixed surplus to be treated as capital stock for the purpose of determining the eligibility of the bank.

Section 1 of the appended bill, page_____, is drawn in accordance with these recommendations.

MEMBERSHIP PROHIBITED BY STATE LAWS.

2. Banks are prevented from becoming members by the laws of only five States. Thirty-one States have passed enabling acts specifically authorizing State banks and trust companies to enter the system. The laws of twelve States do not expressly or impliedly prohibit membership, and so it is necessary to obtain legislation in only five States, in order to make it possible for all banks which meet the requirements of the Federal Reserve Act, to enter the system.

In some States, however, banks and trust companies becoming members of the system, are entitled to enjoy all of the privileges and are subject to the restrictions of other member banks, while in other States, banks and trust companies are permitted to become members, but are still subject to reserve and other requirements of the State laws. It is, therefore, desirable that some standard form of enabling act should be adopted by the several States, designed to place all member banks on an equality. There is appended hereto a tentative draft of bill intended to accomplish this purpose. (See page_____.)

BANKS PREVENTED FROM ENTERING THE SYSTEM BECAUSE OF ADDITIONAL BURDENS INVOLVED IN MEMBERSHIP.

The largest class of nonmember banks is composed of those which engage in the commercial banking business to a limited extent only.

Few of the assets of such banks are eligible for rediscount with, or purchase by, a Federal reserve bank. Except to a very limited extent, such banks are, therefore, unable to procure loans from the Federal reserve bank and the benefits derived from membership do not appear to be of a concrete or practical nature when viewed from the standpoint of the earning capacity of the bank.

The attitude of those in control of institutions of this class may be summed up as follows:

(a) If the investments that they are permitted by State law to make, could be used when necessary to obtain loans from Federal reserve banks, they could reasonably afford to carry the required reserve with the Federal reserve bank, and to invest surplus in interest bearing securities instead of carrying this surplus with other banks at interest.

(b) On the other hand, if their State laws permitted investment in securities which are eligible for rediscount with, or purchase by, Federal reserve banks, they could acquire a reasonable proportion of eligible paper and could thus obtain some advantage from membership in the Federal Reserve system.

Unless their assets come within the category of

eligible paper, they feel that membership imposes additional burden without compensating advantages.

FEDERAL LEGISLATION PERMITTING FEDERAL RESERVE BANKS TO ACQUIRE NON LIQUID SECURITIES NOT CONSISTENT WITH PURPOSES OF FEDERAL RESERVE ACT.

An amendment to the Federal Reserve Act, authorizing Federal reserve banks to require long term securities other than obligations of the United States, would hardly be consistent with the purposes of the Act. The success of the Federal reserve system is dependent upon, to a very great extent, the ability of the Federal reserve banks to respond to the demands made upon them by the member banks in abnormal as well as in normal times. This ability would, undoubtedly, be seriously impaired if the Federal reserve banks were permitted to acquire any large proportion of non liquid securities. Such securities would necessarily be offered to the Federal reserve banks in large quantities at times when the general market for such securities was most inactive, and when the Federal reserve bank itself could not dispose of such securities in order to meet current demands except at a loss. Such an amendment to the Federal Reserve Act would, therefore, inevitably have a tendency to weaken, rather than to strengthen, the system.

STATE LEGISLATION, THE TRUE REMEDY.

The true remedy for this situation would seem to lie with the States. If the State laws are amended so as to authorize noncommercial banks to invest some proportion of their assets in eligible commercial paper, such banks without any material reductions in their earnings may carry such paper as a secondary reserve and will thus be placed in a position as member banks to obtain assistance from the Federal reserve banks when needed.

As these banks are not subject to the same proportion of demand liabilities as commercial banks, it will not be necessary for them to carry a large proportion of their assets in eligible paper, but they should be permitted to carry some proportion so as not to be in times of stress, dependent upon other banks for assistance.

Many of the banks in this class will, no doubt, become members, notwithstanding the fact that under existing laws the burdens of membership are in many cases believed to outweigh its advantages.

A CHANGE IN RESERVE REQUIREMENTS OF MEMBER BANKS SHOULD ENCOURAGE NONCOMMERCIAL BANKS TO ENTER SYSTEM.

Assuming that State legislation is necessary to overcome this situation ultimately, the question arises whether or not membership cannot be encouraged by an amendment to the Federal Reserve Act designed to recognize the principle that the amount to be contributed to resources of the Federal reserve bank should be based to some extent upon the advantages to be derived from membership. In other words, if the assets of a bank are such that it can procure only limited accommodation from the Federal reserve bank, it would seem to be consistent to require less reserve to be maintained than is maintained by commercial banks.

It is not unusual for bankers to require large borrowers to maintain a greater deposit balance than those who do not seek loans from the bank. It may be reasonably assumed that noncommercial banks will have occasion to apply for fewer loans than commercial banks since such banks are not subject to demand liabilities to the same extent as commercial banks.

The recognition of the principle that resources contributed to the Federal reserve bank should bear some relation to the benefits received would not involve any change in the capital requirements since the stock of the Federal reserve banks is now yielding a fair return to the subscriber and constitutes a desirable and conservative investment for either a commercial or a noncommercial bank. It would, however, require some change in the reserve requirements.

In determining the reserve to be maintained, the character of liability to which the member bank is subject should be taken into consideration. While not expressed in the statute this principle was recognized in the National Bank Act in fixing the reserve requirements of national banks.

Banks in reserve and central reserve cities were, and are, required to carry a higher reserve than other banks. This distinction was no doubt made because the banks in such cities carry a larger amount of bank deposits than those located elsewhere. Reserve requirements should be based on the character of deposit liability rather than on the geographical location of the bank.

Bank deposits owned by other banks which are in turn subject to demand liabilities of their customers are more subject to withdrawal than other classes of deposits and a higher reserve should be maintained against this than against any other class.

Adopting the principle that in fixing reserve requirements special consideration should be given to the extent to which the deposit is subject to withdrawal, it is recommended that Section 19 of the Federal Reserve Act be amended so as to provide for the following classifications:

(a) bank deposits;
(b) commercial deposits, that is, deposits of persons, firms, or corporations used in the conduct of their business;
(c) individual deposits, that is, checking accounts of individuals used in the payment of current expenses;
(d) investment deposits, that is, funds held for investment. This class to include savings accounts, certificates of deposit and other time deposits.

The reserve to be maintained against these several classes to be as follows:

Bank deposits	15 per cent.
Commercial deposits	10 do
Individual deposits	7 do
Investment deposits	5 do

Section 2 of the appended bill (page_____) is drawn in accordance with this recommendation.

FEDERAL LEGISLATION NECESSARY TO BRING ABOUT GREATER COORDINATION IN POWERS OF STATE AND NATIONAL BANKS, AND TO PROMOTE UNIFORMITY IN FEDERAL AND STATE LAWS REGULATING THE BANKING BUSINESS.

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The amendments to Federal and State laws hereinbefore suggested are intended to remove some of the legal obstacles to State bank membership, and to encourage the nonmember banks to enter the system. In order to develop and strengthen the system, however, it is necessary not only to increase the membership, but it is equally important to insure as far as possible the same rights and privileges to all members and to place all member banks in a position to meet successfully the competition of nonmember banks.

If banks are induced to become members in the present emergency from patriotic motives, and at the end of the war feel that membership places them at a disadvantage in competition with nonmember banks, there will naturally be a tendency to withdraw. From every standpoint, therefore, it is important that membership should add to the strength of the member bank and should not result in unduly restricting the operations of such bank.

State banks and trust companies which become members derive their corporate powers from the States by which they are created. It is not within the power of Congress to broaden or enlarge these powers, but this must be accomplished by legislation on the part of the States. It is, however, within the power of Congress to make it possible for all such banks to enter the national system by conversion into national banks under circumstances which will insure to such banks the exercise of all powers enjoyed by competing State banks. National bank powers should be broadened to enable them to meet competition of other banks.

In the recent case of Bank v. Fellows, 224 U. S. the Court has fully sustained the right of Congress to grant to national banks any and all powers exercised by corporations created under State laws which come into competition or quasi competition with such banks.

To preserve and perpetuate the Federal Reserve System, it is obviously advisable to vest in national banks all powers which can be safely and conservatively exercised and which are necessary to enable them to meet the competition of State banks and trust companies. It has, heretofore been

generally conceded that the corporate powers of national banks have been much more limited in scope than those of competing State banks and trust companies, and that the limitations on the exercise of their corporate powers have been such as to place them at a disadvantage in meeting the competition of other banks.

PROBABLE EFFECT ON OTHER BANKS AND ON STATE LEGISLATION.

If the powers of national banks are broadened so as to enable them to engage in the same classes of business as their competitors, State banks which enter the system but which are subject to certain disadvantages resulting from dual control by State and Federal authorities will be encouraged to convert into national banks. Those which have remained out of the system because of the belief that their powers will be restricted will be encouraged to enter since they may, if it becomes necessary, convert into national banks without loss of power.

Assuming that banks entering the system are subject to certain limitations on their operations prescribed by the laws of the United States for the purpose of safeguarding the banking business, this fact will in the end prove an asset in meeting competition of nonmember banks since the public will prefer to deal with those banks which are subject to proper safeguards in their operations. The State authorities will, therefore, be encouraged to adopt similar restrictions and the much desired uniformity in laws regulating the business of banking will thereby be expedited. To accomplish this purpose it is recommended:

FIRST: That the trust powers of national banks be broadened so as to enable such banks under appropriate safeguards to conduct this class of business on the same basis as trust company competitors. There has already been introduced in Congress a bill recommended by the Board which is designed to accomplish this purpose and which provides for segregation of assets and the creation of a trust department.

SECOND: That national banks be authorized to conduct a separate savings department under appropriate safeguards, on the same basis as State savings bank competitors. Section 3 of the appended bill, page , is drawn in accordance with this recommendation.

It is not contemplated that there should be any assignment of capital to each department, but merely that the assets of the three departments should be segregated and the books and

accounts kept independently. The capital and surplus of the bank will, therefore, be used to cover deficiencies in the assets of any department.

EFFECT OF THESE AMENDMENTS.

If these two amendments to the Federal laws are adopted national banks will be authorized to engage in the business of commercial banks, savings banks and trust companies. The business of savings banks and trust companies is more or less local in character and can properly be conducted in accordance with the State laws subject to such restrictions as the Federal Reserve Board may find it necessary to impose. The business of commercial banks, on the other hand, is both local and national in character.

Deposits received from and loans made to customers at the place of business of the bank may be classed as local transactions but the services performed by the commercial bank for its customers include the transfer of funds or credits from one State to another, the collection of obligations maturing in other States, and other transactions which necessitate the establishment of relations with correspondent banks located outside of the State in which the commercial bank has its place of business.

Few of the customers of a commercial bank conduct their business operations wholly within the State in which the bank is located. Such banks are, therefore, called upon to act as agents and to perform other services in transactions involving interstate as well as intrastate commerce. It is, therefore, proper that this branch of the banking business should be conducted subject to the provisions of the National Bank Act as from time to time amended. Many of the provisions of this Act have already been incorporated in the laws of several States and in the course of time it will no doubt become the standard form of act regulating the commercial banking business in the United States. The restrictions on banking operations contained in the National Bank Act, which appear to be the subject of most concern to State banks contemplating conversion into national banks, are those which limit loans on real estate and which limit the amount that may be loaned to any one person, firm or corporation.

Inasmuch as real estate loans under the foregoing plan could be handled through the savings department of the bank, the commercial department would be in a position to compete on more or less equal terms with State commercial banks in nearly all States except in some States State banks are permitted to lend to one person, firm or corporation an amount greater than ten per cent of the capital and surplus of the landing bank. In

those States Section 5200, which prohibits national banks from lending an amount greater than ten per cent of their capital and surplus to any one person, firm or corporation, might still deter State banks from converting into national banks.

It is not believed that this limitation should be removed or that the amount that may be loaned by a national bank to one person, firm or corporation should be increased by statute. It is, however, important that the Federal Reserve Board should be permitted to suspend this limitation under certain circumstances.

It is generally conceded that during periods when cotton or other crops are being assembled for movement to the market, it has not always been possible to enforce strictly the provisions of Section 5200 without serious consequences, and some discretion should be vested in the Board to remedy this situation.

In many States, the law provides that a bank may lend ten per cent to one person, firm or corporation, and may lend an additional amount under proper security.

If this provision should be incorporated in the Federal laws, without qualification, it might enable the purchaser of cotton, grain, and other commodities to hold such commodities an indefinite period for speculative purposes. If, however, the Board is authorized to suspend these limitations during certain periods when such commodities are being assembled, the banks would be able to assist in the marketing of such commodities without resorting to the various devices now used to evade the limitations of Section 5200.

It is, therefore, recommended that the McKellar bill which has heretofore been introduced in Congress, and the provisions of which are incorporated in Section 2 of the appended bill, page 6a included in the recommendations of the Board to Congress.

RESUME.

Section I of the appended bill is intended to make it possible, without actually reducing the capital requirements of national banks, for mutual savings banks and certain incorporated banks not now eligible to membership, to become members of the Federal Reserve System.

Section II is intended to place the reserve requirements of the Federal Reserve Act on a more equitable basis and to encourage those banks to enter the System the officers of which now feel that membership involves the assumption of burdens without compensating advantages.

Section III is intended to broaden the powers of national banks enabling them, with the aid of other amendments recommended, to meet all competition of State banks and trust companies. It is believed that this will encourage conversion of State banks and trust companies and promote uniformity in State laws regulating the banking business. If national banks are placed in a position to extend any reasonable accommodation to customers under appropriate safeguards, the State authorities will necessarily be induced to place banks organized under State law in a position to meet the competition of national banks under similar safeguards. On the other hand, if national banks continue to be handicapped in their operations there will be no inducement for the State authorities to adopt laws similar to the Federal statutes.

Section IV is intended to give some flexibility to the limitations of Section 5200 Revised Statutes and to make it possible for commercial banks to meet conditions which normally recur periodically without resorting to various methods of evasion.

Respectfully submitted,

Counsel.

X-799 - C.

PROPOSED FEDERAL LEGISLATION.

FORM OF BILL DRAWN IN ACCORDANCE WITH RE-

COMMODATIONS MADE.

BE IT ENACTED BY THE SENATE AND HOUSE OF REPRESENTATIVES OF THE UNITED STATES OF AMERICA IN CONGRESS ASSEMBLED:

SECTION 1. That, that paragraph of Section 9 of the Act approved December 23, 1913, known and herein referred to as The Federal Reserve Act, which reads:

> "No applying bank shall be admitted to membership in a Federal reserve bank unless it possesses a paid-up, unimpaired capital sufficient to entitle it to become a national banking association in the place where it is situated under the provisions of the national-bank act,"

be amended and re-enacted to read as follows:

> "No applying bank shall be admitted to membership in a Federal reserve bank unless it possesses a paid up, unimpaired capital sufficient to entitle it to become a national banking association in the place where it is situated under the provisions of the national-bank act, or unless its combined capital stock and surplus are equal to the amount of capital stock it would be required to have to become a national banking association in the place where it is situated, and unless such bank agrees as a condition of membership that it will not permit its combined capital stock and surplus to be reduced below that amount while a member of the Federal reserve system. Provided, however, that mutual savings associations without capital stock, but having a surplus equal to the amount of capital stock that would be required of national banks doing business in the place where such associations are situated, may be admitted to membership in the Federal Reserve system upon subscribing to the amount equal to six per cent. of such surplus and upon entering into an agreement not to permit such surplus to be reduced below the amount of capital stock a national bank would be required to have in the place where the association is situated while a member of the Federal Reserve System."

SECTION 2. That Section 19 of the Federal Reserve Act be amended and re-enacted as follows:

> "Bank deposits, within the meaning of this Act, shall be held to mean the net amount due to other banks after deducting therefrom the amount due from other banks.
>
> Commercial deposits shall be held to mean deposits of persons, firms, or corporations used in the conduct of their business.
>
> Individual deposits shall be held to mean deposits of individuals used in the payment of current expenses. Investment deposits shall be held to include all deposits payable after thirty days, all savings accounts and certificates of deposit

which are subject to not less than thirty days' notice before payment.

Every bank, banking association, or trust company which is or which becomes a member of any Federal reserve bank, shall establish and maintain reserve balances with its Federal reserve bank as follows:

(a) An actual net balance equal to not less than fifteen per cent of its bank deposits;

(b) An actual net balance equal to not less than ten per cent. of its commercial deposits;

(c) An actual net balance equal to not less than seven per cent. of its individual deposits;

(d) An actual net balance equal to not less than fice per cent of its investment deposits.

No member bank shall keep on deposit with any State bank or trust company which is not a member bank, a sum in excess of ten per cent. of its own paid up capital stock. No member bank shall act as a medium or agent of a non-member bank in applying for or receiving discounts from a Federal reserve bank under the provisions of this act, except by permission of the Federal Reserve Board. The required balance carried by a member bank with a Federal reserve bank may under the regulations of, and subject to, such penalties as may be prescribed by the Federal Reserve Board, be checked against and withdrawn by such member bank for the purpose of meeting existing liabilities. Provided, however, That no bank shall at any time, make new loans or shall pay any dividends unless and until the total balance required by law is fully restored. National banks, or banks organized under local laws, located in Alaska, or in a dependency or insular possession of any part of the United States outside the continental United States, may remain nonmember banks, and shall in that event, maintain reserves and comply with all the conditions provided by law regulating them; or said banks may, with the consent of the reserve board, become member of any one of the reserve districts, and shall in that event, take stock, maintain reserves, and be subject to all the other provisions of this act.

SECTION 3. "Any bank incorporated by special law or organized under the general law of any State which becomes a national banking association by conversion under authority of Section 5154, Revised Statutes, and which at the time of such conversion is conducting a separate savings department under authority of the laws of the State in which such bank is located, may continue, after becoming a national banking association, to conduct or operate such savings department as a separate department of the bank and may invest deposits received in such department in accordance with the laws of the State. Provided, however, That the Federal Reserve

Board, by regulation, may determine to what extent such deposits may be invested in notes, drafts, bills of exchange, acceptances, or other securities eligible for rediscount with, or purchase by, Federal reserve banks, and to what extent such deposits may be invested in any particular class of security or property which savings banks are permitted by the laws of the State to invest in; Provided further, That in those States the laws of which do not prescribe the character of investments to be made by savings banks the Federal Reserve Board, by regulation, may prescribe the nature and character of investments to be made. Every national bank operating a separate savings department under authority of this Act shall segregate and set apart all assets belonging to such department and, under regulations of the Federal Reserve Board, shall keep a separate set of books and records, showing in proper detail all transactions engaged in. No such national bank shall receive in its savings department any deposits other than time deposits or savings deposits, as defined by Section 19 of the Federal Reserve Act.

In case of liquidation of a national bank operating a separate savings department either by a receiver duly appointed or by a liquidating agent, the depositors in the savings department shall have a first lien on assets held in such department. The Federal Reserve Board, by regulation, may permit any national bank to establish and maintain a separate savings department to be operated in accordance with the provisions of this act so far as applicable.

SECTION 4. That section eleven of the Federal Reserve Act, as amended by Act of September seventh, nineteen hundred and sixteen, be further amended by adding a new paragraph as follows:

"Upon the affirmative vote of a majority of its members, the Federal Reserve Board shall have power to suspend a limitation imposed by section fifty-two hundred of the Revised Statutes of the United States, which provides in substance that the total liabilities to any national or member bank of any person, company, corporation, or firm for money borrowed, including in the liabilities of the company or firm the liability of the several members thereof, shall at no time exceed one-tenth part of the amount of capital stock of such national or member bank actually paid in and unimpaired, and one-tenth part of its unimpaired surplus: Provided, however, That in any case in which such limitations are suspended, the Federal Reserve Board shall require, as a condition of such suspension, that the notes, drafts, and bills of exchange, or other evidences of debt, discounted by a national or member bank in excess of the amount

provided by section fifty-two hundred shall be secured by a first lien upon cotton, corn, wheat, or some other staple agricultural products, or by obligations of the United States. The Federal Reserve Board shall, by regulation, prescribe the length of time that such limitation shall be suspended, and the amount that any person, firm, or corporation may be permitted to become liable to a national or member bank under the provisions of this Act."

PROPOSED STATE LEGISLATION

FORM OF BILL DRAWN IN ACCORDANCE WITH

RECOMMENDATIONS

MADE

An Act authorizing any bank or trust company incorporated under the laws of this Commonwealth to become a member of a Federal reserve bank; to vest in such bank all powers conferred on member banks; to provide that the exercise of such powers shall be subject to all of the provisions of the Federal Reserve Act and to regulations of the Federal Reserve Board, made pursuant thereto; to allow any such bank or trust company to comply with reserve requirements of the Federal Reserve Act in lieu of those established by this Commonwealth; to permit the authorities of this Commonwealth which supervise and examine banks and trust companies organized under its laws, to accept the examinations and audits made pursuant to the Federal Reserve Act in lieu of those required by the laws of this Commonwealth and to disclose to the Federal authorities information relating to the condition and affairs of banks and trust companies organized under the laws of this State which have become or which seek to become members of the Federal Reserve System.

Be it enacted by the Senate and House of Representatives of the Commonwealth of _____ in General Assembly met, and it is hereby enacted by the authority of the same.

SECTION 1. The words "Federal Reserve Act as herein used shall be held to mean and to include the Act of Congress of the United States approved December 23, 1913, as heretofore and hereafter amended.

The words "Federal Reserve Board" shall be held to mean the Federal Reserve Board created and described in the Federal Reserve Act.

The words "Federal reserve bank" shall be held to mean the Federal reserve banks created and organized under authority of the Federal Reserve Act.

The words "member bank" shall be held to mean any national bank, State bank or banking and trust company which has become or which becomes a member of one of the Federal reserve banks created by the Federal Reserve Act.

SECTION 2. That any bank or trust company incorporated under the laws of this Commonwealth shall have the power to subscribe to the capital stock and become a member of a Federal reserve bank.

SECTION 3. Any bank or trust company incorporated under the laws of this Commonwealth which is, or which becomes a member of a Federal reserve bank, is by this Act vested with all powers conferred upon member banks of the Federal reserve banks by the terms of the Federal Reserve Act as fully and completely as if such powers were specifically enumerated and described herein, and all such powers shall be exercised subject to all restrictions and limitations imposed by the Federal Reserve Act, or by regulations of the Federal Reserve Board made pursuant thereto. The right, however, is expressly reserved to revoke or to amend the powers herein conferred.

SECTION 4. A compliance on the part of any such bank or trust company with the reserve requirements of the Federal Reserve Act shall be held to be a full compliance with those provisions of the laws of this State which require banks or trust companies to maintain cash balances in their vaults or with other banks, and no such bank or trust company shall be required to carry or maintain reserve other than such as is required under the terms of the Federal Reserve Act.

SECTION 5. Any such bank or trust company shall be subject to the examinations required under the terms of the Federal Reserve Act, and the authorities of this State having supervision over such bank, may in their discretion accept such examination in lieu of the examination required under the laws of this Commonwealth. Such authorities, their agents and employees, may furnish to the Federal Reserve Board, the Federal reserve banks, or to examiners duly appointed by the Federal Reserve Board, or the Federal reserve banks, copies of all examinations made, and may disclose to such Federal Reserve Board, Federal reserve banks, or examiner, any information with reference to the condition or affairs of State banks or trust companies organized under the laws of this State which become members of a Federal reserve bank, or which apply for membership in a Federal reserve bank.

SECTION 6. All acts and the parts of acts inconsistent herewith are hereby repealed.

4-13-18