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FEDERAL RESERVE BOARD X-1052

WASHINGTON

July 10, 1918.

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

Dear Sir:

The Board has given careful consideration to the various topics which were discussed at the recent conference with the governors of Federal Reserve banks, and has directed that this letter be sent to inform the governors of the conclusions reached.

1. Curtailement of Credits.

The Board has decided to send a letter to all national banks, state banks and trust companies, inviting their cooperation in a campaign for a judicious curtailment of non-essential credits, and to address a letter to all Federal Reserve banks asking them to take such steps as may be necessary to arouse the interest of bankers and business men in this movement.

11. Discount Rates of Federal Reserve Banks.

At the conference the view was generally expressed by the governors that they could control any excessive rediscounts by any member bank, by informing the applying bank that it had reached its limit; by requiring additional collateral; or, with respect to fifteen-day borrowings, by availing themselves of the authority given them by the Board to raise the interest rate in case of renewals. These devices have been used in the past, and the Board has reached the conclusion that for the time being, it would be better to adopt this policy rather than to insist upon changes in discount rates. The adoption of this policy will give the Federal Reserve banks an opportunity to demonstrate that credit may be restricted without re-

sorting to higher discount rates as a means of compulsion. In two

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Federal Reserve districts the fifteen-day rate for member banks' notes secured by Government obligations is now $4\frac{1}{4}\%$, and should other Federal Reserve banks find it necessary for their own protection to recommend that their rates for such paper be advanced to $4\frac{1}{4}\%$, the Board will be inclined to approve. This question of discount rates will be again considered by the Board in the light of additional experience whenever conditions warrant it.

III. Interest Rates Paid by Member Banks on Bank Balances and Deposits.

The governors are requested to give this matter especial attention, and to take vigorous steps to get results, beginning with the important reserve cities in the respective districts.

IV. Indirect Discounts for Non-Member Banks

The Board has decided not to issue any regulations at this time defining limitations to the accommodations which may be granted indirectly to non-member banks through members, but suggests that the officers of the Federal Reserve Banks exercise proper discretion in preventing abuse of rediscount privileges.

V. Branches and Agencies.

The Board believes that by-laws for branches should be as nearly uniform as possible, making due allowance for local conditions in certain districts. It appears to be advisable also, as a rule, that the manager of a branch bank should be one of the three directors appointed by the Federal Reserve Bank. The Board would like to test clearing the plan for establishing/agencies, based upon the active cooperation of local clearing houses. It appears that an agency of

this kind would give the banks in the cities which are local financial centers, but which have no Federal Reserve bank or branch, most of the benefits which accrue to banks located in a Federal Reserve city. It will not be the policy of the Board, however, to establish any branch or agency in any city which is not classified as a reserve city.

VI. Exchange rates

In view of the unanimous opinion expressed at the conference, and having in mind the large number of banks which have not yet applied for membership in the Federal Reserve system, the Board has decided that it is not expedient at present to fix the charges which may be made by member banks on checks deposited with them which are cleared through the Federal Reserve banks. The Board is willing to defer action on this matter until such time as the par lists include a much larger number of state banks and trust companies.

VII. The Board does not contemplate making any change in the time allowance for the collection of interdistrict items, but has determined that Federal Reserve exchange drafts drawn by a member bank upon its Federal Reserve Bank when promptly advised at the time the drafts are drawn, should be treated as payable upon presentation at any Federal Reserve bank, and cleared through the Gold Settlement Fund.

VIII. The Board has addressed a letter to all Federal Reserve banks stating that bankers' acceptances should be paid in actually collected funds on day of maturity, and that in cases where accepting banks pay by cashier's check or by check on some member

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bank of their locality, one day's additional discount should be figured when the acceptance is bought.

IX. The Board urges all Federal Reserve banks to combine with their efforts for the sale of Treasury certificates of indebtedness, the exertion of every energy for adding to their state bank membership, and for the further concentration of gold in the Federal Reserve banks.

X. The Board desires all Federal Reserve banks to participate in the benefit and liability of accounts opened with any particular Federal Reserve banks, by foreign governments, or foreign government agencies, which are predicated upon the obligation given by the Treasury or the Federal Reserve Board, or both, to pay the deposits in gold within a certain time after the conclusion of a treaty of peace. A letter treating this question more in detail will be addressed in due course to all Federal Reserve banks, and will set forth the method of distributing these foreign accounts in the proportions applied in the case of the agreement with the Bank of England.

XI. The Board adheres to its view that a distribution of a bonus should, as far as practicable, be undertaken only at the end of the year, and that any adjustment that may become necessary during the year should be made on the basis of an increase in salary. In the opinion of the Board, it is not expedient to have the bonus constitute too large a part of the salaries paid employees of Federal Reserve banks.

With respect to topics not ~~as~~ the program, which were discussed with the governors, the Board holds:

XII. That domestic acceptances drawn against a pledge of

warehouse receipts or similar instruments, should be regarded as eligible by Federal Reserve banks only in cases where the acceptor remains secured; that is to say, in such cases the collateral should not be released by the acceptor after the acceptance has been made. It is not practical in every case for these documents to remain attached to the acceptance, but if not attached they should remain in the hands of the acceptor, or subject to his order and control, until the acceptance has been paid or other approved collateral has been substituted. In some cases, documents have been deposited in trust with the Federal Reserve bank, and this appears to the Board to be an excellent precaution in dealing with weaker acceptors. In all cases the acceptance should contain a reference to the collateral by which it is secured, sufficiently clear as to identify and locate it.

XIII. Trade Acceptances;

Whenever desirable trade acceptances are offered with the endorsement of a member bank, they should be purchased by Federal Reserve banks in the same manner as if offered directly by the endorsing bank. When a trade acceptance is offered with the endorsement of a member bank located outside of the district in which the acceptance is offered, it is suggested that before purchasing, the Federal Reserve bank should communicate with the Federal Reserve bank of which the endorsing bank is a member. The Board deems it important that Federal Reserve banks should advise each other as to local conditions and credits affecting trade acceptances and bankers' acceptances.

Yours very truly,

Governor.