

TOPICS FOR DISCUSSION AT CONFERENCE WITH GOVERNORS OF  
FEDERAL RESERVE BANKS, JULY 1, 1918.

1. Curtailment of credits
- II. Discount rates at Federal Reserve banks
  - (a) Method of extending "to each member bank such discounts, advancements and accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks."
  - (b) Proposed differential above official discount rate to apply to offerings of member banks in excess of their required reserve balance or multiples thereof.
  - (c) Memorandum of Honorable A. C. Miller.
  - (d) Letter of Honorable Charles S. Hamlin.
- III. Interest rates paid by member banks on bank balances and deposits.
  - (a) Discussion of method for standardizing rates and preventing undue competition between banks for deposits.
- IV. Indirect discounts for non-member banks.
  - (a) Effect of such accommodation through member banks upon Federal Reserve banks and their membership. Should limitations be imposed upon such accommodations?
- V. Branches and Agencies.
  - (a) Are uniform by-laws for branches desirable?

What considerations should govern in the establishment of branches?

Is it desirable to establish agencies in local financial or industrial centers where branches are clearly inexpedient?
- VI. Exchange rates.
  - (a) Is it expedient at this time to regulate charges which may be made by member banks on checks deposited with them which are cleared through the Federal Reserve banks?

VII. Inter-district clearings.

- (a) Time allowances are based at present upon time in transit to each Federal Reserve bank, plus additional time for actual collection of intra-district items, transfers of actual collections being made by wire. In order to protect Federal Reserve banks from excessive float, exchange on other districts is purchased by Federal Reserve banks from member banks at a discount.

Is it feasible or desirable to extend time allowance so as to provide for mail transfers between Federal Reserve banks, thus enabling the Federal Reserve banks to take exchange from member banks at par and involving a redistribution of the float among the member banks and their customers?

VIII. Federal Reserve Exchange drafts.

- (a) To what extent are these instruments being used and do banks which use them promptly advise Federal Reserve banks of their drawings?

Should Federal Reserve exchange drafts, when properly advised, be made instantaneously at any Federal Reserve bank and cleared through the gold settlement fund?

IX. Bankers Acceptances.

- (a) Are they being paid in actually collected funds on day of maturity, or if not, is penalty of one day's additional interest imposed where checks are received payable the next day through the local clearing house?

X. Fiscal Agency operations.

- (a) Discussion of plans for sale of current issues of Treasury certificates and for redeposit and withdrawal of funds.

XI. Negotiations with foreign Governments involving shipments of gold six months after the conclusion of the war.

- (a) Plan for division of this liability among all Federal Reserve banks in an equitable proportion.

XII. Adjustment of employees' salaries.

- (a) How best effected; general discussion of salary question with recommendations.

## EX-OFFICIO MEMBERS

WILLIAM G. MCADOC  
SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

## FEDERAL RESERVE BOARD

WASHINGTON

W. P. G. HARDING, GOVERNOR  
PAUL M. WARBURG, VICE GOVERNOR  
FREDERIC A. DELANO  
ADOLPH C. MILLER  
CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY  
SHERMAN P. ALLEN, ASST. SECRETARY  
AND FISCAL AGENT

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

June 28, 1918.

X-1035

Dear Governor Harding:

I have read very hastily Dr. Miller's memorandum. As I understand it, he favors a substantial increase in all rates of discount of Federal Reserve Banks, including the 4 per cent rate on 15-day collateral notes. His purpose seems to be to force contraction in non-essential industries and to indicate, as he says, "the desire and expectation of the Federal Reserve System that it is not to be made so easy for member banks to carry the certificates as an extra that they need do nothing to curtail."

The position taken by him that the discount rate is the instrument by which the Federal Reserve Bank should control the credit situation, would appear to be sound in normal times, but I wish to point out that his argument logically would seem to require the putting up of all Federal reserve rates above commercial rates, for this is their normal position, unless for special reasons the reserve banks desire to reduce commercial rates, in which case by putting down Federal Reserve Bank rates, the desired reduction could be accomplished.

The present times, however, are not normal. Today war is the normal condition; and, to my mind, we must approach this rate question with a view to present conditions. I am

inclined to believe that a general increase in rates would have little effect in the way of contracting, or wiping out, the non-essential industries. To my mind, it would be much more efficacious if we were to ration credit exactly as we now have to ration food, and in that way directly control non-essential industries. I think it is clear that a great deal of this has already been done by the banks throughout the country.

Dr. Miller points out that our reserve dropped between June 22, 1917, and June 21, 1918, from 71.6 per cent to 63.4; and he seems to think that our reserve situation is perilous. While these figures are accurate, they do not accurately show the whole picture. On April 5, 1917, when we entered into the war, our cash reserves were 83 per cent, while at the end of November they had fallen to 63.2 per cent, thus revealing that the placing of 6.5 billions of loans had pulled down our reserves about 21 per cent. There is, however, another more roseate view of this picture. On January 15, 1918, the last instalment of the Second Liberty Loan was due. On January 18, our reserves were 65.2 per cent, while on June 21, 1918, they had fallen to 63.4 or a decline of only 1.8 per cent. It should be remembered that during this period about 80 per cent of the Third Liberty Loan has been paid, and this, to my mind, tends to show that our reserve situation is not in as great peril as Dr. Miller fears.



On June 19, 1918, the Secretary of the Treasury offered 750 million dollars of Treasury Certificates, bearing interest from June 25. This offer has been before the people for nearly two weeks and the subscription closed on July 2nd. Meantime, the Federal reserve banks have given no notice whatsoever to the banks of any purpose to advance the rates on collateral notes secured by these certificates. It would seem to me that to increase rates on these certificates at the present time or in the near future, unless some startling new situation develops, would savor of bad faith with the banks which have taken these certificates.

It seems to me the banks had a right to assume, in the absence of some notification from the Federal Reserve Board, that no immediate change - at least in these rates - was contemplated.

I believe the discount of member banks' notes secured by United States bonds or Treasury Certificates, is largely confined to operations in the way of financing the Government by the purchase of these certificates. For the whole system, on June 21, about 50 per cent of the total bills discounted, excluding acceptances, consisted of member banks' collateral notes, of which about 92 per cent were secured by Liberty Bonds or Certificates. At the Federal Reserve Bank of New York on June 21, about 65 per cent of the total bills discounted, excluding acceptances, consisted of member banks' collateral notes, on which all of the collateral was Liberty Bonds or Certificates.

I believe we should move very cautiously and conservatively in the matter of increasing rates, and especially on member banks' collateral notes. In a matter such as this I should place great reliance on the judgment of the Federal Reserve Banks of New York and Chicago. They are in the field, and I should hesitate to disregard their judgment, unless it were shown beyond a reasonable doubt that their judgment is in error. I do not know what their judgment is, and regret that I can not be at the meeting, but I have given you my views very hastily, for such use as you may care to put them to.

Very truly yours,

C. S. HAMLIN.

Hon. W. P. G. Harding,  
Governor, Federal Reserve Board.

# FEDERAL RESERVE BOARD

WASHINGTON

OFFICE OF THE GOVERNOR

July 2, 1918.

Receipt is acknowledged of your telegram of the 1st instant urging the establishment of a branch of the Federal Reserve Bank of St. Louis, at Little Rock, Arkansas.

There is not a quorum of the Board in Washington this week, but the subject will be brought up for consideration at an early meeting, at which time I will take pleasure in bringing your telegram to the attention of the Board.

Very truly yours,

Governor.

X-1036.

EX-OFFICIO MEMBERS  
WILLIAM G. MCADOC  
SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD  
WASHINGTON

W. P. G. HARDING, GOVERNOR  
PAUL M. WARBURG, VICE GOVERNOR  
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CHARLES S. HAMLIN  
H. PARKER WILLIS, SECRETARY  
SHERMAN P. ALLEN, ASST. SECRETARY  
AND FISCAL AGENT

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

July 3, 1918.

X1039.

Dear Sir:

The attention of the Federal Reserve Board has been called to the fact that because of the limitations of Section 5200 of the Revised Statutes, many of the ~~smaller~~ national banks are unable to take care of the needs of their customers engaged in the canning business. The canning season is now about to begin and the Board is informed that additional accommodation covering a period of about four months, will be required by many concerns engaged in this business.

It appears that although the canning industries have sold their output in advance, they are unable to realize on these sales until deliveries can be made. In the meantime they are in need of funds with which to purchase materials and to meet payrolls. The increased cost of labor and materials and the demands for larger production make their needs greater than usual. As the canning industries are located mainly in the small towns, few of them have established connections with larger banks in the cities, and have relied hitherto upon local accommodation.

The suggestion has been made that the city banks extend direct credits to the canners upon the recommendation of local banks. While the Federal Reserve Board does not feel warranted in recommending to member banks in the financial centers that credits be extended to customers of other member

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banks in the circumstances recited, it does feel however, that it would be desirable to have the facilities of the Federal Reserve System made available as far as practicable in the present emergency. In order, therefore, to afford some measure of relief, it is suggested that you communicate with some of the larger banks in your district and ascertain if they would be willing to cooperate with the smaller banks in the canning districts by extending temporary credits to such canning enterprises as may be able to make a satisfactory showing as to their financial condition.

Very truly yours,

Governor,

The Governor,  
Federal Reserve Bank,

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H. PARKER WILLIS, SECRETARY  
SHERMAN P. ALLEN, ASST. SECRETARY  
AND FISCAL AGENT

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

July 3, 1918.

X1040.

Dear Sir:

It appears that there is no uniformity in the several Federal Reserve districts as to the method of figuring discount on trade acceptances. In some cases interest is figured on a basis of 360 days to the year and in others, 365 days.

In the opinion of the Board, it is desirable to have a uniform method established, particularly in view of the frequent rediscount operations between Federal Reserve banks. It is therefore suggested that discount calculations be based upon the actual number of days that the acceptances have to run, and that interest tables, based on 360 days to the year, be used.

The Board has already advised all Federal Reserve banks that actual and final payment should be received by the banks holding these acceptances on the day of their maturity, and that in cases where payment is made by check on a member bank payable through the clearing house the next day, discount for one additional day should be charged.

Very truly yours,

Governor.

The Governor,  
Federal Reserve Bank,

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H. PARKER WILLIS, SECRETARY  
SHERMAN P. ALLEN, ASST. SECRETARY  
AND FISCAL AGENT

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

July 5, 1918.

X-1042

Dear Sir:

I inclose herewith, for your information,  
copy of a letter which has been addressed to Major-  
General Crowder, Provost Marshal General, together  
with memorandum of Counsel, asking that bank employees  
be not classified as engaged in non-essential work.

Very truly yours,

Governor.

C O P Y

July 3, 1918.

Major-General E. H. Crowder,  
Provost Marshal General,  
Washington, D. C.

S i r :

The Federal Reserve Board's attention has been called to the fact that in view of your announcement of June 21, 1918, which contains several important rulings explanatory of the recent "Work or Fight" regulations, some of your local Boards are disposed to classify bank clerks as engaged in a non-productive employment.

This office has received a number of letters from officers of Federal reserve banks, and other banks, indicating a very well-defined apprehension that the organization of the several banks may be so seriously disrupted as a result of this interpretation of your order it will be difficult, if not impossible, for the banks to successfully perform the services required of them by the United States Government.

The Federal Reserve Board does not desire to ask for <sup>the</sup> exemption from military service of any non-essential employee nor does it advocate the exemption of bank employees as a class. The forces of the several banks have already been materially depleted by the loss of men of the draft age and their places are being filled as rapidly as possible by older men or by women. The bank officials will continue to replace as rapidly as possible those who, in due course, are called to military service but if the forces of the banks are to be further depleted by a reclassification of those of draft age and by their transfer to other employments, it will be difficult for the banks to meet the increasing demands made upon them by the Government in the conduct of its fiscal affairs.

I am, therefore, taking the liberty of submitting for your consideration a memorandum prepared by Counsel for the Board which deals primarily with the public or Governmental services performed by the several banks. It is hardly necessary to emphasize the importance of maintaining the efficiency of the machinery used by the Government in the



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X-1042

conduct of its fiscal affairs at the present time and the Board, therefore, hopes that upon consideration of all the circumstances you may feel justified in instructing the local Boards not to treat bank employees as engaged in a non-productive occupation or employment.

It is the understanding of this office that the provision contained in the regulations issued May 23, 1918, to the effect that "sales clerks and other clerks employed in stores and other mercantile establishments are engaged in non-productive employments" has been construed as including bank employees. If it was so intended it is hoped that you will consider the advisability of modifying this order so as to give the banks at least a reasonable time within which to reorganize their forces if you do not feel justified in classifying bank employees as engaged in a productive occupation or employment.

Respectfully,

W. P. G. HARDING

Governor.

C O P Y

July 3, 1918.

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Status of bank employees under selective service regulations issued by the Provost Marshal General, May 23, 1918.

MEMORANUDM FOR THE BOARD:

Under regulations issued by the Provost Marshal General,

"Sales clerks and other clerks employed in stores and other mercantile establishments are engaged in nonproductive employment."

The question arises whether banks should be treated as coming within the class of "Other mercantile establishments". This, of course, depends upon whether the Provost Marshal General intended this language to be so construed. As the business engaged in by banks under existing circumstances differs materially from that engaged in by ordinary private mercantile establishments, it may reasonably be argued that the Provost Marshal General did not intend to classify banks as a nonproductive occupation, but the regulations should, of course, be interpreted by his office.

Status of Banks created by Congress.

The constitutionality of the Act of Congress which created the first bank of the United States, was sustained on the ground that a bank is an instrumentality which may be used to aid the Government in the conduct of its fiscal affairs. (McCulloch v. Maryland, 4 Wheat, 316, 401; Osborn v. U. S. Bank, 9 Wheat, 738, 861.) The constitutionality of the Act creating national banks has been sustained on the same ground. (Farmers National Bank v. Dearing, 91 U. S. 29, 33.)

Banks created by Congress are not, therefore, organized solely for the benefit of their stockholders or the community which they serve. In the present emergency the services performed for the Government are not merely incidental to the private operations of the bank, but the converse is a more accurate statement of the situation; that is to say, the private operations of the bank are more or less incidental to the fundamental purpose for which they were created, viz: to assist the Government in the conduct of its fiscal affairs. This is, of course, true of national banks created by the Act of 1864, which Act contains the express provision that that all national banking associations "shall perform all such reasonable duties as depositaries of the public money and financial agents of the Government as may be required of them".

It is especially true of the Federal reserve banks which are also expressly authorized and required to act as fiscal agents of the Government and the earnings of which over and above a certain amount are paid to the Government in lieu of a franchise tax.

Prior to the passage of the Federal Reserve Act, approved December 23, 1913, it is true that the national banks were called upon to perform only limited services for the Government in connection with the collection and disbursement of Government revenues. Since the outbreak of the war in Europe, however, the demands made by the Government on Federal reserve banks, national banks, State banks and trust companies, have been constantly multiplied, and at the present time the Government is utilizing the services of nearly all banks in the conduct of its fiscal affairs.

Services performed by the Banks for the Government.

Since our entry into the war, it has been necessary for the United States Government to borrow from its citizens many billions of dollars to be used in aiding our allies, in building up our Army and Navy, and in placing us on a war footing.

By various acts of Congress, the Secretary has been authorized to sell to the public United States Bonds, certificates of indebtedness, war savings stamps and thrift stamps.

In order to effect these sales it was first of all necessary to create a market in the United States for Government securities. A very large proportion of those outstanding at the beginning of the war was held by national banks and other banking institutions. All foreign markets were, of course, closed, as each country had to dispose of its own securities. The investing public in the United States had little experience in investments of this sort, and it was necessary for the bankers to undertake a very large part of the work in conducting the various Liberty Loan Campaigns that have resulted so successfully. In this work the banks have been called upon (a) to make subscriptions and to purchase bonds for their own account; (b) to receive subscriptions from the public and to sell and deliver United States securities as agents of the Government; (c) to collect the purchase price of securities sold; (d) to act as depositaries of public funds; (e) to keep an accurate account of all transactions engaged in for the Government.

War Finance Act Approved April 5, 1918.

It is, of course, obvious that the sale of such large amounts of Government securities necessarily absorbed a very large part of the resources of the investing public. The Capital Issues Committee was accordingly created, to pass upon the question whether or not the sale of any securities other than Government securities, offered to the public, was compatible with the best interests of the United States; that is to say, was

the company or firms offering such securities engaged in a business which contributed directly or indirectly to the success of the war.

The War Finance Corporation was also created, with power to make loans upon securities which are not eligible for purchase or rediscount by the Federal reserve banks, and the securities so purchased are held by the corporation as collateral security for bonds issued by the corporation and sold to the public in order to provide additional funds for financing enterprises that are necessary to the Government in the conduct of the war.

Federal reserve banks are authorized to act as fiscal agents for the War Finance Corporation and these banks and the member banks of the Federal Reserve System are called upon to perform services both for the Capital Issues Committee and the War Finance Corporation. These services involve making reports as to issues of securities, acting as custodian of securities; and necessitate keeping of additional accounts and records and the employment of additional clerks.

Espionage Act Approved June 15, 1917; Trading  
With the Enemy Act Approved October 6, 1917.

The Acts of Congress known as the Espionage Act and Trading With the Enemy Act, contain provisions regulating the exportation of gold or currency and make it possible for the Government to exercise the control over foreign exchange transactions and transfers of credit or securities for foreign account.

Under these acts persons desiring to export gold or currency are required to obtain a license from the Federal Reserve Board, which licenses are issued through the various Federal reserve banks. Dealers in foreign exchange are required to obtain a license trade certificate from the Federal Reserve Board through the Federal reserve banks and to make detailed reports of all transactions. This entails the employment of additional clerks and employees and the keeping of additional accounts.

Demand for Experienced Clerks and Accountants.

nearly  
In the performance of all of the services required by the Government, it is necessary for the banks to select their employees from those who have had experience in accounting and the accurate keeping of records. It is inevitable that many of the employees must be entrusted with the handling of money and securities of value and great care must be used in the selection of such employees. With the constantly increasing demands made upon the banks, it is difficult for the officers to train those without previous experience. Women are being used for much of this work, but the local laws limiting the number of hours they may be employed, makes it necessary to increase the number of employees in many instances.

Under the circumstances, it is respectfully submitted that the work engaged in by the banks is of vital importance to the United States Government and differs materially from that of the ordinary mercantile establishment.

Respectfully,

M. C. ELLIOTT.

Counsel.

*Printed and transmitted  
with 7-1049*

FEDERAL RESERVE BOARD

WASHINGTON

July 6, 1918.

Dear Sir:

In the Bulletin for April, 1918, the Federal Reserve Board published a statement setting forth the reasons why, in its opinion, a gradual but consistent curtailment of nonessential credits is necessary, and urging the banks and trust companies of the country to do whatever they could in the exercise of a reasonable discretion to restrict credits which are clearly not needed for the prosecution of the war or for the health and necessary comfort of the people.

On June 12, the Secretary of the Treasury addressed a letter to all banks and trust companies, announcing his financial program for the ensuing six months which involves the sale to and through banks of approximately six billion dollars of Treasury certificates of indebtedness, in installments of not less than \$750,000,000 every two weeks between June 25 and the first of November. In this letter each bank and trust company was requested to invest in these certificates an amount equal to approximately  $2\frac{1}{2}$  per cent of its gross resources, or a total of 5 per cent for each month. Announcement was made at the same time that there was in contemplation an issue of two billion dollars of certificates of appropriate maturities in anticipation of income and excess profits taxes, for sale more particularly to taxpayers, and that the amount of the regular semimonthly sales of certificates of indebtedness would be reduced in proportion to the extent to which these tax certificates are taken by the public.

The banking institutions have responded most generously to the appeal of the Secretary of the Treasury. Throughout the country they have pledged themselves without hesitation to subscribe to their allotment, and the result of the initial offering which has just been closed—a subscription of \$838,000,000 in response to a request for not less than \$750,000,000—is evidence of the splendid patriotism of those who direct our national and State banking institutions. The Board hopes that succeeding issues will be subscribed as readily and in the same patriotic spirit.

The Federal Reserve Banks will be prepared to place their facilities—directly or indirectly—at the disposal of such subscribing banks as may legitimately need assistance in taking their allotments. The Board, however, feels in duty bound to reiterate that the banks can render a greater service to the country in this connection, not merely by subscribing their allotments and by using the rediscounting facilities of the Federal Reserve Banks in making payments, but by providing the necessary funds for meeting payments for certificates of indebtedness purchased, by employing for this purpose the accretion of new deposits, and by utilizing the funds that may be made available by a judicious curtailment of credits asked for non-essential purposes.

In order to prosecute the war successfully, the Government is compelled to issue obligations to provide for its large expenditures which involve waste and destruction rather than a permanent addition to the national wealth. This process in itself tends to inflation, and contributes to a rapid increase in the price of necessities. Abnormal demands by the Government, unavoidable and necessary in the present circumstances, must be counteracted by greater economy on the part of the civilian population which must decrease, by combined effort, the normal waste incident to domestic life and business pursuits. There is not an unlimited supply of credit or of goods, or of man power. Wherever possible all such resources should be conserved and set aside for the use of the Government. Credit extended for nonessential purposes involves the use of labor, of transportation, of material and reserves which ought to be kept free for the use of the Government. Unrestricted credit involves unnecessary competition with the Government, and needlessly advances prices, besides impeding and delaying Governmental operations.

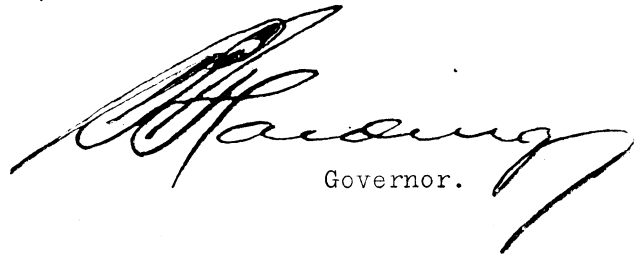
"Business as usual" and "life as usual" are impossible at a time when the supreme business of the country is war, and can not be approximated without interfering with the work of the Government and inflicting serious harm upon the Nation as a whole. The staying power of the country in this emergency depends upon the extent of its resources in men, goods, and gold. An unnecessary use of credit, a needless recourse to the discounting facilities of the Federal Reserve Banks, weakens proportionately the gold reserve of the United States—the financial backbone of the entire allied group. Whoever wastes the raw material and manufactured products of the country adds to our financial burden by increasing the amount the United States must import from other countries and by decreasing, at the same time, the volume of goods that should be available for export purposes—the best means of paying for the goods acquired from abroad.

Conservation of our commodities and of our gold—preservation of our economic strength—is of the greatest importance in making provision for the period of readjustment which will follow the reestablishment of peace. The country having the largest supply of goods and gold available at the end of the war will find itself in the best strategic position for controlling the markets of the world. The Board wishes to point out, also, that by refraining from buying luxuries, and by restricting the use of necessities to the actual requirements of health and reasonable comfort, we can create a reserve purchasing power which will be of the greatest value in bridging over our industries during the period of reaction and reconstruction which must follow when war industries are transformed into peace industries. An intelligent and prudent use of credit, therefore, will be an important factor in strengthening the national resources during the period of the war, in aiding its successful prosecution, and in maintaining the economic strength of the country for the time of rapidly changing conditions which will come when the war has been won and the millions of men in our armies are returning to the employments of peace.

Thus, by giving your cooperation now in the effort to conserve national resources by the exercise of discriminating judgment in granting credits, you will also do your part in averting the danger of unemployment which is apt

to follow a treaty of peace. The Board appreciates the difficulty of laying down a general rule for defining essentials or the degree in which any enterprise is essential, and requests that its remarks on this subject in the April issue of the Bulletin be read again. The Board can not suggest specific ways in which credit should be conserved or unnecessary expenditures curtailed, as each banker must determine this for himself after conferring with the business men of his community and after a careful study of his local situation. Reasonable discretion should be exercised, and, drastic steps calculated to bring about hardships or embarrassments or work injustice should be avoided, but the banks should divert the use of their credit more and more into productive fields, where its employment will result in augmenting the national resources.

Respectfully yours,



Governor.

To the President  
of the Bank or  
Trust Company addressed.

EX-OFFICIO MEMBERS

WILLIAM G. MCADOC  
SECRETARY OF THE TREASURY  
CHAIRMAN  
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AND FISCAL AGENT

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ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

July 6, 1918.

X-1044

Dear Sir:

Referring to my letter of yesterday inclosing copy  
of a letter addressed to Major-General Crowder, Provost Marshal  
General, I hand you herewith, for your information, copy of his  
reply thereto, which is self-explanatory.

Very truly yours,

Governor.



X-1044a

C O P Y

## WAR DEPARTMENT

Office of the Provost Marshal General

WASHINGTON

July 5, 1918.

Honorable William P. G. Harding,  
Governor Federal Reserve Board,  
Washington, D. C.

Dear Sir:

Your communication of the 3rd inst., received and contents noted.

I beg to advise you that bank clerks are excepted from the operation of the regulations which provide for the withdrawal of deferred classification and order number of registrants found to be idlers or engaged in non-productive occupations or employments.

E. H. CROWDER,  
Provost Marshal General,

By  
Carew F. Martindale,  
1st. Lieut., N. A.

CFM-mcf

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## FEDERAL RESERVE BOARD

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H. PARKER WILLIS, SECRETARY  
SHERMAN P. ALLEN, ASST. SECRETARY  
AND FISCAL AGENT

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

X-1049

July 8, 1918.

Dear Sir:

There is being sent to your bank under separate cover from the office of the Secretary of the Board, a supply of circulars to be addressed to all the national banks, state banks and trust companies of your district which are being asked to subscribe to Treasury certificates of indebtedness. There are also being forwarded to your bank franked envelopes which may be used in sending out the circulars, inasmuch as the letter is a direct appeal from the Board to these banks.

This communication from the Board to the banks draws their attention to the importance at the present time of a judicious curtailment of credit granted for so-called non-essential transactions and it urges the banks to do their utmost in cooperating in a policy looking to the gradual but general curtailment of such credits. As you may recall, the Board printed in the Federal Reserve Bulletin for April last a statement defining its views on this subject. This statement has no doubt had some educational value, but it is evident that effective steps in the direction of curtailing unnecessary credits have been taken by only a comparatively small number of banks. The situation as regards credits, however, is now better understood, and it is believed that if the Federal Reserve banks will follow up the Board's appeal with energy and tact, good results may be achieved at this time.

The recommendations made in the April statement are renewed, and it is

-2-

suggested that the Federal Reserve banks organize, each in its own district, local groups comprising the leading bankers and business men, and discuss with them the ways and means of bringing about the results desired. It would seem that those industries and enterprises obviously catering to extravagances and luxuries should be considered first. Upon investigation it may develop that industries of this kind need not be closed down, nor their labor thrown out of employment, but that they can be gradually diverted to essential lines of production and distribution. The War Industries Board and the Capital Issues Committee are moving successfully and energetically along these lines, and with the better knowledge of the general principles involved, it ought not to be difficult now to secure the effective cooperation of banks throughout the country in dealing with individual credits.

It may be well to point out that in the interest of successful Government financing, it would be much better to hold credit within reasonable bounds by intelligent cooperation, rather than to attempt to force contraction by establishing high discount rates.

Very truly yours,

Governor.

The Chairman of the Board  
and Federal Reserve Agent  
Federal Reserve Bank of

EX-OFFICIO MEMBERS  
—  
WILLIAM G. MCADOC  
SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

# FEDERAL RESERVE BOARD

WASHINGTON

W. P. G. HARDING, GOVERNOR  
PAUL M. WARBURG, VICE GOVERNOR  
FREDERIC A. DELANO  
ADOLPH C. MILLER  
CHARLES S. HAMLIN

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H. PARKER WILLIS, SECRETARY  
SHERMAN P. ALLEN, ASST. SECRETARY  
AND FISCAL AGENT

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

X-1050

July 9, 1918.

Dear Sir:

It is desirable to maintain uniformity in figuring interest in rediscount transactions between Federal Reserve banks, and as it has proved most convenient in the purchase of acceptances to use interest tables based on 360 days to the year, the Board has decided that these tables should be used in all rediscount transactions between Federal Reserve banks, and has therefore revoked its previous ruling that the basis of 365 days to the year should be applied, as announced in its circular letter, X-691, dated January 31, 1918.

Very truly yours,

Governor.

## EX-OFFICIO MEMBERS

WILLIAM G. MCADOC  
SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD<sup>X-1052</sup>

WASHINGTON

July 10, 1918.

W. P. G. HARDING, GOVERNOR  
PAUL M. WARBURG, VICE GOVERNOR  
FREDERIC A. DELANO  
ADOLPH C. MILLER  
CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY<sup>25</sup>  
SHERMAN P. ALLEN, ASST. SECRETARY  
AND FISCAL AGENT

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. Curtailment 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

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

-4-

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.

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO  
SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

W. P. G. HARDING, GOVERNOR  
PAUL M. WARBURG, VICE GOVERNOR  
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ADOLPH C. MILLER  
CHARLES S. HAMLIN

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H. PARKER WILLIS, SECRETARY  
SHERMAN P. ALLEN, ASST. SECRETARY  
AND FISCAL AGENT

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

DIVISION OF REPORTS AND STATISTICS

MJ-JCO

July 10, 1918

Dear Sir:

In order that the Board may have available each week complete data regarding changes in the gold holdings of the System as a whole, it is requested that form X-1053 be prepared and mailed to the Board as at close of business each Friday. It is also requested that all items on the form for which code words are given be telegraphed each Friday night in addition to the telegraphic data on forms 34 and 31-b. This will make it unnecessary for you to continue telegraphing the information regarding your gold holdings called for in our telegram of June 22.

Twenty five copies of the form are being forwarded under separate cover today.

Respectfully,

Assistant Secretary

Federal Reserve

X-1055

EX-OFFICIO MEMBERS

WILLIAM G. MCADOC  
SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

X-1057

W. P. G. HARDING, GOVERNOR  
PAUL M. WARBURG, VICE GOVERNOR  
FREDERIC A. DELANO  
ADOLPH C. MILLER  
CHARLES S. HAMLIN

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H. PARKER WILLIS, SECRETARY  
SHERMAN P. ALLEN, ASST. SECRETARY  
AND FISCAL AGENT

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

July 11, 1918.

Gentlemen:

On account of the difficult situation existing in the Tampico district and the necessity of encouraging the production of oil and its importation into the United States, the Federal Reserve Board has undertaken to grant certain licenses for the exportation of limited quantities of gold for the use of American oil producers who are engaged in the production of oil in Mexico, and whose product is shipped to the United States.

For the months of July and August the Board will grant to oil producers licenses to export sums of gold equal to their export taxes and bar dues, due and payable to the Mexican Federal Government in those months.

For the month of August the Board will further grant licenses in favor of oil producers not to exceed in the aggregate one-half of the amount needed for the liquidation of their pay-rolls.

It is understood, however, that no applications for the exportation of gold, either for the payment of taxes or wages, will be granted except upon satisfactory showing that such taxes and wages relate to the production of oil which is actually being shipped into the United States.

Licenses for Taxes.

The Board will permit oil producers to file applications for export licenses, for the present, directly with it instead of through the Federal Reserve banks in the several districts. Blank applications may be obtained from the Federal Reserve Board or from any Federal Reserve bank. In making out such applications there should be included:

(a) A statement of the approximate average amount of oil produced during the six months preceding the application and shipped to the United States by the applicant company, and a statement of the amount of oil shipped to the United States upon which tax has been incurred during the period to which the application relates.

(b) A statement of the quantity and approximate valuation in Mexico of oil upon which the tax is to be paid to the Mexican Government, the rate of taxation, and the amount of the tax.

Tax receipts, copies thereof certified by American Consul, or other original documents showing the actual use of the gold in settling with the Mexican Government should accompany the next application for gold, and no such application will be granted without such accompanying documents attesting the use of the gold previously granted.

Pay-rolls.

In the case of applications for licenses to export gold for payrolls, the application should contain a statement of the

period covered by the payroll in question, the amount of oil produced during the preceding six months, and a statement as to whether or not the average production of oil during the period to which the application relates is expected to be the same as for the preceding period. The application should also state what proportion of the oil produced during the period for which the payroll application is made is actually intended for shipment to the United States.

A statement sworn to before the American Consul by the disbursing officer of the company at Tampico to the effect that the gold has actually been used for payrolls in the way specified in the application should accompany the next application for gold, and no such application will be granted unless accompanied by such a certificate relating to its predecessor.

Very truly yours,

Secretary.

## EX-OFFICIO MEMBERS

WILLIAM G. MCADOO  
 SECRETARY OF THE TREASURY  
 CHAIRMAN  
 JOHN SKELTON WILLIAMS  
 COMPTROLLER OF THE CURRENCY

## FEDERAL RESERVE BOARD

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H. PARKER WILLIS, SECRETARY  
 SHERMAN P. ALLEN, ASST. SECRETARY  
 AND FISCAL AGENT

ADDRESS REPLY TO  
 FEDERAL RESERVE BOARD

MJ-JEH  
 DIVISION OF REPORTS AND STATISTICS

July 12, 1918.

Dear Sir:

In order that the Board may have complete data regarding the placing of certificates of indebtedness issued in anticipation of the fourth Liberty loan, it is requested that your bank furnish us with a statement covering each issue similar to that referred to in our letter of March 29, 1918. In addition to the information which was furnished by your bank for certificates issued in anticipation of the third Liberty loan as requested in the above mentioned letter, please add a recapitulation after each issue, which will include transactions for all previous issues under the fourth loan. In the column "Number subscribing" please give the number of banks, trust companies or individuals subscribing to one or more of the issues, eliminating all duplications, i.e., no bank or individual should be counted more than once regardless of the number of issues to which such bank or individual may have subscribed. It is requested that the recapitulation be submitted in the following form:

	Number Subscribing of total in District	Per Cent of total in District	Amount Subscribed
National banks . . . . .			
State banks . . . . .			
Trust companies . . . . .			
Other banks . . . . .			
TOTAL BANKS . . . . .			
Individuals, corporations, etc.			

Very truly yours,

Assistant Secretary.

Mr.  
 Federal Reserve Agent,

E-1059

## EX-OFFICIO MEMBERS

WILLIAM G. MCADOO  
 SECRETARY OF THE TREASURY  
 CHAIRMAN  
 JOHN SKELTON WILLIAMS  
 COMPTROLLER OF THE CURRENCY

## FEDERAL RESERVE BOARD

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 SHERMAN P. ALLEN, ASST. SECRETARY  
 AND FISCAL AGENT

ADDRESS REPLY TO  
 FEDERAL RESERVE BOARD

DIVISION OF REPORTS AND STATISTICS

MJ-JCO

July 12, 1918

Dear Sir:

It has been noted in the last month or so that certain of the member banks in various parts of the country are showing a disposition to either omit altogether their weekly condition statements or send them in late.

This is a condition which should not be, and you are requested to again urge upon all delinquent member banks in your district the absolute necessity and importance of sending their reports in on time. You are requested further to see to it, when reports are not forthcoming from member banks by Thursday noon of each week, that a telegram be dispatched to such banks asking them to wire you the missing figures at once. In short, every effort should be made to make your weekly statement as complete as possible. In case you find that certain small member banks continue to be delinquent in their weekly reports notwithstanding repeated urging on your part, it will be proper to drop them from the list.

Please assist us to the best of your ability in this matter and see to it that the number of reporting banks in your district shows no changes from week to week.

Very truly yours,

Secretary

Mr.  
 Federal Reserve Agent,

X-1060

## EX-OFFICIO MEMBERS

WILLIAM G. MCADOO  
 SECRETARY OF THE TREASURY  
 CHAIRMAN  
 JOHN SKELTON WILLIAMS  
 COMPTROLLER OF THE CURRENCY

## FEDERAL RESERVE BOARD

WASHINGTON

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 ADOLPH C. MILLER  
 CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY  
 SHERMAN P. ALLEN, ASST. SECRETARY  
 AND FISCAL AGENT

36

ADDRESS REPLY TO  
 FEDERAL RESERVE BOARD

MT-JCO  
 DIVISION OF REPORTS AND STATISTICS

July 13, 1918

Dear Sir:

With the view of expediting as much as possible the compilation of data on schedules BD-4 received from your bank, will you kindly request your discounting department to carefully note suggestions herein, and if practicable to adopt them in preparing schedules on said form:

1. Make sure that each schedule is in every particular legible. Only originals or good first carbon copies should be sent.
2. Carefully check each schedule and when corrections are necessary, make same in both item affected, the subtotal and the day's total.
3. Group under each discounting institution items by maturities, i.e., all 15-day paper together, all 30-day paper, etc.
4. Double space between each item, and show subtotals after each discounting institution.
5. If possible without entailing too much time and effort, list on separate schedules the different classes of paper discounted; e.g., customers' paper secured by Liberty bonds, member banks' collateral notes, etc., as shown in first table on p. 552 of June 1918 Bulletin. A number of banks now do this, thus greatly aiding our tabulating section in the compilation of discount data.

During the recent months, the volume of discounts reported on schedules BD-4 has grown to such an extent that it is with the utmost effort only that our Statistical Division has been able to compile the data in time for publication in the Bulletin. It is hoped that you will cooperate with us in this matter by adopting the above suggestions and thus enable us to carry on the compilation work under the present plan. Unless this is done we shall have to revert to the former practice of each bank compiling its own monthly data of discount operations.

Yours very truly,

Assistant Secretary.

Federal Reserve

X-1062



EX-OFFICIO MEMBERS

WILLIAM G. MCADOC  
SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

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CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY  
SHERMAN P. ALLEN, ASST. SECRETARY  
AND FISCAL AGENT

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

July 16, 1918.

X-1066.

Dear Sir:

The Board regrets to inform you that the supply of \$1 and \$2 bills is likely to be inadequate until after August 15th. The statement is made at the office of the United States Treasurer that redemptions must first be provided for, and that after exchanging new bills for unfit notes which are sent in, the balance available for new orders is not sufficient to meet the daily demands. Progress is being made at the Bureau of Engraving and Printing in the preparation of plates for the new Federal Reserve bank notes in the \$1 and \$2 denominations, and the Board is informed that the printing of these notes will begin about August 1st, and that after August 15th sufficient amounts will be available to satisfy reasonable demands.

It is suggested that you inform your member banks of the situation, and that you caution them to conserve during the next four weeks their supply of small bills as far as possible.

Very truly yours,

Governor.

The Governor,  
Federal Reserve Bank,

## EX-OFFICIO MEMBERS

WILLIAM G. MCADOC  
SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD  
WASHINGTON

W. P. G. HARDING, GOVERNOR  
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ADOLPH C. MILLER  
CHARLES S. HAMLIN

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H. PARKER WILLIS, SECRETARY  
SHERMAN P. ALLEN, ASST. SECRETARY  
AND FISCAL AGENT

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

X-1068

July 17, 1918.

Dear Sir:

Enclosed herewith I am handing you a copy of the Federal Reserve Bulletin for July, which has just been issued. On pages 597-600 you will find a statement of a new service which the Board is planning and which is designed to furnish information with respect to business conditions. A reading of this statement will afford a fairly comprehensive idea of what is intended. The complete development of the plan will require several months; but it is desired to begin the publication of the different factors in the proposed series of business indices as soon as possible and without waiting for the completion of the whole series. The data relating to banking - and to discount and interest rates particularly - are those which should receive first attention, and it is therefore requested that you consider carefully sub-section (d) in the statement to which reference has already been made. The Board desires that you will obtain and transmit on the 15th of each month, or where the 15th falls on a Sunday or a holiday, on the next business day thereafter, data regarding high and low rates, also rates at which the bulk of the several classes of paper shown below was discounted or purchased during the preceding 30-day period.

1. Prevailing rate of discount charged by banks to customers  
for prime commercial paper such as is now eligible under the  
Federal Reserve Act:

- (a) running 30 - 60 - 90 - days
  - (b) running 4 to 6 months.
2. Prevailing rates for prime commercial paper purchased in open market.
- (a) running 30 - 60 - 90 days.
  - (b) running 4 to 6 months.
3. Prevailing rates charged on inter-bank loans (bills payable).
4. Prevailing rates of interest for bankers acceptances of 60 to 90 days maturities, both endorsed and unendorsed.
5. Prevailing rate of interest for demand paper secured by prime stock exchange collateral or other current collateral.
6. Prevailing rate of interest for time paper secured by collateral mentioned in 5.
- (a) running 3 months.
  - (b) running 3 to 6 months.

In addition to the foregoing it is desired that you obtain and transmit these same data for the years 1911, 1912 and 1913, quotations, likewise, to be for the months ending the 15th throughout the period covered. In case the class of paper generally handled by banks in your district is different from those enumerated, please so state and give quotations for the class of paper typical of your district. It is suggested that the larger member banks in your district that have been active discounters or purchasers in the past of the various classes of paper above described may be able to furnish the desired information from their own records. This will insure uniform

treatment and continuity of the data, moreover, these data will represent actual transactions and not merely nominal quotations, such as are likely to be furnished by bill brokers and commercial paper houses.

Kindly advise the Board at your early convenience by telegraph furnishing these data for the month ending July 15, 1918, for your city and advise how soon you will be able to transmit the figures for past years; also whether they can be obtained in the same way at the places in which your branches, if any, are located.

Yours very truly,

Secretary.

Chairman and Federal Reserve Agent,  
Federal Reserve Bank,

EX-OFFICIO MEMBERS

WILLIAM G. MCADOC  
SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD  
WASHINGTON

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ADOLPH C. MILLER  
CHARLES S. HAMLIN  
H. PARKER WILLIS, SECRETARY  
SHERMAN P. ALLEN, ASST. SECRETARY  
AND FISCAL AGENT

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

X-1070

July 18, 1918.

Dear Sir:

In connection with applications for the exportation of silver, the Federal Reserve Board requests that, for the information of the Board, all applicants for such licenses be requested to state in the application the price paid for the silver to be exported.

Yours very truly,

Assistant Secretary.

Federal Reserve Bank of

EX-OFFICIO MEMBERS

WILLIAM G. MCADOC  
SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

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ADOLPH C. MILLER  
CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY  
SHERMAN P. ALLEN, ASST. SECRETARY  
AND FISCAL AGENT

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

X-1073

July 19, 1918.

Dear Sir:

The Federal Reserve Board wishes to make as complete a collection as possible of the acceptance agreements or contracts that are now being used by the principal banks and trust companies and which constitute the basis upon which the acceptances now afloat in the market rest. I am therefore writing to ask you whether you will transmit at your early convenience copies of such forms or contracts used by your institution. We should like to have your general form of acceptance agreement and also, if you have participated in syndicate agreements for the making of acceptances, copies of those also.

May we ask as early a reply to this letter as practicable.

Yours very truly,

Secretary.

EX-OFFICIO MEMBERS

WILLIAM G. MCADOC  
SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

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ADOLPH C. MILLER  
CHARLES S. HAMLIN

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H. PARKER WILLIS, SECRETARY  
SHERMAN P. ALLEN, ASST. SECRETARY  
AND FISCAL AGENT

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

X-1075

July 19, 1918.

Dear Sir:

The Board has received a letter from one of the Federal Reserve agents suggesting that, in view of unusual conditions now prevailing, the present is an opportune time for the enforcement of a rule providing for signed statements to accompany notes offered for rediscount. The letter expresses the opinion that the necessity for rediscounting is now so urgent that the banks would be willing to conform to a requirement of this sort, and with the explanation that the step is in line with proper conservatism in the handling of paper, that no opposition would be manifested, but that banks would comply with the requirements without objection, particularly as the banks generally understand now better than they formerly did the advantage of obtaining statements.

This letter has been considered by the Board, which is of the opinion that it may be desirable to have Federal Reserve banks require that signed statements accompany notes offered for rediscount, and it is possible that these statements may be elaborated so as to show the purpose for which the credit was granted. The Board believes that this would have an important bearing upon the question

of whether or not the credit is essential, and might be effective in curtailing non-essential credits.

While it does not seem necessary that this matter should be covered by regulation, as it is within the exercise of a proper authority by the directors of the Federal Reserve banks to require a statement, it is deemed desirable that uniform action be taken in all districts, and the Board would therefore appreciate an expression of the views of your Executive Committee or of your directors on this subject.

Very truly yours,

Governor



EX-OFFICIO MEMBERS

WILLIAM G. MCADOC  
SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

W. P. G. HARDING, GOVERNOR  
PAUL M. WARBURG, VICE GOVERNOR  
FREDERIC A. DELANO  
ADOLPH C. MILLER  
CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY  
SHERMAN P. ALLEN, ASST. SECRETARY  
AND FISCAL AGENT

FEDERAL RESERVE BOARD

MJ-JCO

WASHINGTON

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

July 22, 1918

Dear Sir:

The Board desires that you furnish each week, in addition to data on form 38 showing the distribution of all paper, including rediscounts for other Federal Reserve Banks, separate data showing the distribution by maturities of paper rediscounted for, including acceptances bought from, each other Federal Reserve bank and held by your bank at close of business on each Friday as per enclosed form X-1078.

Hereafter it will be unnecessary for you to report any figures against item 3 of form 38, "Rediscounts for other Federal Reserve Banks." These figures should be shown combined with corresponding figures under caption 1 and 2 of said form.

There are enclosed herewith 50 copies of new form X-1078 and you are requested to make your first report on the new form as at close of business July 27, 1918.

Yours very truly,

Assistant Secretary

X-1079

## EX-OFFICIO MEMBERS

WILLIAM G. MCADOO  
SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

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H. PARKER WILLIS, SECRETARY  
SHERMAN P. ALLEN, ASST. SECRETARY  
AND FISCAL AGENT

## FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

July 22, 1918.

X-1080

Dear Sir:

Some of the Federal Reserve banks continue to discount under an agreement to repurchase within fifteen days commercial paper of longer maturities. Transactions of this kind are authorized by the Board's ruling of November 28, 1917, which was made at a time when member banks' fifteen day collateral notes were subject to revenue stamp requirements, even though secured by United States Government obligations. Although the Board's ruling was made for the purpose of facilitating transactions in Government bonds and in Treasury certificates, there is no objection to repurchase transactions in commercial paper, and the Board sees no occasion to withdraw the ruling referred to, although notes secured by Government obligations are now exempt from the stamp tax up to the face value of the Government securities attached as collateral.

The rate for member banks' fifteen day collateral notes secured by commercial paper remains at 4% except at three banks where the rates are  $4\frac{1}{4}$ ,  $4\frac{1}{2}$  and  $4\frac{3}{4}$  % respectively. This short time rate was left undisturbed at nine of the banks, upon the assumption that the stamp tax on the fifteen day notes would bring the interest rate up to about  $4\frac{1}{2}$ %.

It is the view of the Board, however, that wherever Federal Reserve banks give their member banks the privilege of discounting longer term paper, under an agreement to repurchase within fifteen days, instead of requiring the banks to discount their own notes, the rate should be  $\frac{1}{2}$ % higher than that at which collateral notes subject to stamp tax are taken.

Very truly yours,

Governor.

The Governor,  
Federal Reserve Bank,

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO  
SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD  
WASHINGTON

W. P. G. HARDING, GOVERNOR  
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SHERMAN P. ALLEN, ASST. SECRETARY  
AND FISCAL AGENT

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

MJ-JCO

July 23, 1918

Dear Sir:

May I request that in the future you please report on Form 34 gold certificates forwarded to Washington or to a sub-treasury for redemption and credit in the Gold Settlement Fund as "Gold in transit" instead of "Mutilated currency forwarded for redemption" as heretofore. The amount of such certificates should be combined with other gold forwarded to Washington or to a sub-treasury for credit in the Gold Settlement Fund, and reported against code BOAT on Form 34 and included in the block showing "Total reserves" (TEND) of the bank.

Yours very truly,

Secretary

X-1085

## EX-OFFICIO MEMBERS

WILLIAM G. MCADOC  
SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

## FEDERAL RESERVE BOARD

WASHINGTON

W. P. G. HARDING, GOVERNOR  
PAUL M. WARBURG, VICE GOVERNOR  
FREDERIC A. DELANO  
ADOLPH C. MILLER  
CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY  
SHERMAN P. ALLEN, ASST. SECRETARY  
AND FISCAL AGENT

48

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

July 23, 1918.

X-1086

Dear Sir:

The attention of the Board has been called to the large amount of detail work in connection with discount operations between Federal Reserve banks, and, with the desire of doing something to lighten the work, the Board has had under consideration a suggestion which was made at a recent conference with the Governors of Federal Reserve banks. It is hoped that some method, consistent with law and with the regulations of the Board, can be devised which will simplify the operation, but as to the question whether under authority of a provision in Section 14 of the Act a Federal Reserve bank may discount a fifteen day note of another Federal Reserve bank secured by eligible paper, the Board has reached a definite conclusion. The provision referred to is as follows:

(Section 14) \* \* \* \* \* (a) To deal in gold coin and bullion at home or abroad, to make loans thereon, exchange Federal Reserve notes for gold, gold coin, or gold certificates, and to contract for loans of gold coin or bullion, giving therefor, when necessary, acceptable security, including the hypothecation of United States bonds or other securities which Federal Reserve banks are authorized to hold."

If a transaction should be entered into in good faith by a Federal Reserve bank in order to obtain a loan of gold coin or bullion, the evidence of such loan might take the form of a fifteen day note and might be secured by United States bonds or other securities, including eligible paper.

Section 14, however, relates to open market operations of a Federal Reserve bank as distinguished from discount transactions engaged in with member banks and with other Federal Reserve banks. Section 13 relates to rediscount operations with member banks and the provision for such operations as between Federal Reserve banks is found in Section 11.

Any transaction, therefore, between Federal Reserve banks which is to all intents and purposes intended as a rediscount operation, should be consummated in accordance with the provisions of these two sections. There is no authority given in Section 11 for a Federal Reserve bank to make its own note secured by eligible paper, but the Federal Reserve Board is authorized and empowered merely (Section 11-b) "To permit, or, on the affirmative vote of at least five members of the Federal Reserve Board to require Federal Reserve banks to rediscount the discounted paper of other Federal Reserve banks at rates of interest to be fixed by the Federal Reserve Board."

Some years ago this same question was considered in connection with the rediscount of member banks' notes secured by eligible paper, and the conclusion was reached that the statute as it then stood did not authorize the discount of a fifteen day collateral note made by a member bank. In order to make such transactions possible, the Act was amended so as to authorize the Federal Reserve banks to discount notes of member banks having not longer than fifteen days to run, when secured by eligible paper or by obligations of the United States.

The Board is unable to find any authority for the use of notes made by Federal Reserve banks, no matter how secured, in rediscount operations between Federal Reserve banks, and in its opinion the Act would have to be amended to make such transactions permissible.

Very truly yours,

Governor.

The Governor,  
Federal Reserve Bank,

EX-OFFICIO MEMBERS  
WILLIAM G. MCADOC  
SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

# FEDERAL RESERVE BOARD

WASHINGTON

X-1087  
W. P. G. HARDING, GOVERNOR  
PAUL M. WARBURG, VICE GOVERNOR  
FREDERIC A. DELANO  
ADOLPH C. MILLER  
CHARLES S. HAMLIN  
50  
H. PARKER WILLIS, SECRETARY  
SHERMAN P. ALLEN, ASST. SECRETARY  
AND FISCAL AGENT

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

July 25, 1918.

Dear Sirs:

In order to act more effectively upon applications for the exportation of gold from the United States to Mexico presented by metal mining companies operating in Mexico which have exported silver or gold from Mexico into the United States, and which are required under Mexican law to reimport a stated amount of gold into Mexico, the Federal Reserve Board has determined to consider all such applications simultaneously once each month, and at no other time except in case of emergency.

You are therefore advised that your applications covering shipments desired during the month of September must be in hand by August 15th and by the 15th of each month thereafter. Every such application, besides specifying that the gold requested is intended to satisfy the reimportation requirements, must in addition state the purposes for which the gold exported from the United States will be used, classifying the various amounts under the head of taxes, freights, payrolls, supplies, and so forth, and so forth, in such a way as to afford complete information regarding the eventual use of the gold after reaching Mexico. You will be informed of the action taken by the Board upon your application on or before the 22d of August and on or before the 22d of each month thereafter.

Yours very truly,

Secretary.

## EX-OFFICIO MEMBERS

WILLIAM G. MCADOC  
SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

## FEDERAL RESERVE BOARD

WASHINGTON

W. P. G. HARDING, GOVERNOR  
PAUL M. WARBURG, VICE GOVERNOR  
FREDERIC A. DELANO  
ADOLPH C. MILLER  
CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY  
SHERMAN P. ALLEN, ASST. SECRETARY  
AND FISCAL AGENT

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

July 26, 1918.

Dear Sir:

During the past few months the Federal Reserve Bulletin has frequently been delayed in publication as much as a week or ten days beyond the first of the month, the day on which it should appear. The difficulty is largely due to conditions in the Government Printing Office, which for more than a year past has been very much pressed with work. A part of the trouble, however, is due to the fact that the reports of business conditions transmitted by the several Federal Reserve Agents have not been on time. In many cases they are not mailed until after the 23d of the month, although the 23d is the date that they are due in Washington. In the effort to bring the publication of the Bulletin back to the normal time of publication, it is now requested that the reports be made to cover conditions up to about the 15th of each month, and that they be mailed so as to reach Washington not later than the 20th of each month. There are disadvantages in this program; but on the whole it seems to involve less inconvenience than any other. Those Reserve Banks which are nearest to Washington may, of course, defer the transmission of the monthly report longer than others; but their reports should reach Washington on the 20th in the ordinary course of the mails.

Within recent months the business reports have tended to depart from the more or less uniform character and length, which it had been desired they should have. You are therefore reminded that it is desired that the reports should not exceed 1,000 words in length, unless there should be some matter of special interest calling for treatment.

General discussion of political and public questions should be omitted and the reports should deal directly and exclusively with local business conditions in the District. It is suggested that under ordinary circumstances the best type of report would be as follows:

1. Introductory paragraph stating general impressions or summary as to the situation.
2. Outline of banking and financial situation, including changes in rates of interest. In this connection you are requested to include in your monthly report data relating to interest rates which were asked for in the Board's form letter 1068 of July 17th, instead of telegraphing these items separately.
3. More extended treatment of chief activities of the District, as e. g., agriculture in Ninth District; cotton situation in Sixth District; manufacturing situation in Third District, etc.
4. Detailed comment on various important business activities such as retailing, conditions of employment, etc.
5. Other matter considered of importance.

It is further requested that statistical reports be transmitted much more promptly than has been the custom of late. Some Federal Reserve Banks are almost invariably behind in sending their monthly statements. It frequently happens that after telegraphing to them one or more times the reports are received but are found to be incorrect. This necessitates further correspondence and incidentally causes still more delay in issuing the Bulletin.

Yours very truly,

Secretary.

Federal Reserve Agent,  
Federal Reserve Bank,



## EX-OFFICIO MEMBERS

WILLIAM G. MCADOO  
SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

## FEDERAL RESERVE BOARD

WASHINGTON

DIVISION OF REPORTS AND STATISTICS

W. P. G. HARDING, GOVERNOR  
PAUL M. WARBURG, VICE GOVERNOR  
FREDERIC A. DELANO  
ADOLPH C. MILLER  
CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY  
SHERMAN P. ALLEN, ASST. SECRETARY  
AND FISCAL AGENT

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

July 26, 1918.

X-1093

Dear Sir:

The attention of the Board has been called to the fact that in some Federal Reserve districts note brokers, in order to place paper held by them, have advised banks that Treasury certificates of indebtedness will be taken in payment for paper purchased. These certificates are taken by the brokers at a discount and are subsequently offered by them in the market at a price below par.

It is needless for the Board to point out that transactions of this kind are highly detrimental to the interests of the United States and that they should be avoided. It is important however, that no steps be taken which would give any bank the impression that it is not free to sell Treasury certificates owned by it whenever its own condition is such as to make a sale advisable.

The Board is informed that the Federal Reserve Bank of New York recently called a meeting of the New York note brokers, and that after a very full and free discussion of the subject, it was agreed by all present that "effecting an exchange or selling these certificates at a discount from par had an evil effect on the Government's current program for placing large amounts of the certificates bi-weekly, and is a practice that should be stopped."

There is inclosed herewith a list of the firms present at the meeting, all of which agreed to advise their branch offices in the various cities to discontinue the practice above described.

It is suggested that you take such steps as may be necessary to prevent transactions of this kind being undertaken in your district, or to bring about the discontinuance of such a practice if it already exists.

Very truly yours,

Governor,

The Governor,  
Federal Reserve Bank,

COMMERCIAL PAPER BROKERS.NEW YORK CITY

<u>Name</u>	<u>Address</u>	<u>Telephone</u>
Bayne, Hine & Company	61 Broadway	Rector 9580
Blake Brothers & Company	44 Wall Street	John 2431
Bond & Company, S. N.	111 Broadway	Rector 7820
Bond & Goodwin	111 Broadway	Rector 5770
Burr & Company, Geo. H.	120 Broadway	Rector 8740
Campbell, Heath & Company	5 Nassau Street	Rector 2334
Curtis & Sanger	49 Wall Street	Hanover 6144
Gay & Company, W. O.	61 Broadway	Rector 5868
Goldman, Sachs & Company	60 Wall Street	Hanover 5800
Hathaway, Smith, Folds & Company	45 Wall Street	Hanover 6180
Holbrook, Corey & Company	31 Nassau Street	Cortland 5320
Merrill, Lynch & Company	7 Wall Street	Rector 6070
Moseley & Company, F. S.	26 Exchange Place	Hanover 6474
Naumburg & Company, E.	14 Wall Street	Rector 8780
Shaw & Company, Philip M.	15 William Street	Broad 1800
Weil, Farrell & Company	60 Wall Street	Hanover 2217
Saloman Bros. & Hutzler	27 Pine Street	John 6300

July 25, 1918.

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO  
SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

W. P. G. HARDING, GOVERNOR  
PAUL M. WARBURG, VICE GOVERNOR  
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ADOLPH C. MILLER  
CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY  
SHERMAN P. ALLEN, ASST. SECRETARY  
AND FISCAL AGENT

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

DIVISION OF REPORTS AND STATISTICS

July 27, 1918.

X-1094.

Dear Sir:

Since the inauguration of the daily gold settlement fund on July 1st, there have been many inexcusable errors in the settlement telegrams sent to the Federal Reserve Board, apparently due to carelessness.

Such errors result in unnecessary delays in the settlement, and are a source of inconvenience to the other Federal Reserve Banks who exercise more care in the preparation of their messages.

It is requested that you again caution the proper department as to the necessity of extreme care being used in the preparation of settlement telegrams, and you are informed in this connection that an efficiency record will be maintained by the Board so as to determine the banks actually at fault, a copy of which will be sent at the end of each month to all Federal Reserve Banks.

Very truly yours,

Assistant Secretary.

Federal Reserve Bank,

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO  
SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

W. P. G. HARDING, GOVERNOR  
PAUL M. WARBURG, VICE GOVERNOR  
FREDERIC A. DELANO  
ADOLPH C. MILLER  
CHARLES S. HAMLIN

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H. PARKER WILLIS, SECRETARY  
SHERMAN P. ALLEN, ASST. SECRETARY  
AND FISCAL AGENT

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

July 29, 1918.

X-1097

Gentlemen:

The question of local holidays interfering with the daily gold settlement has come up, and in order that there may be uniform practice, you are advised that there will be a settlement every day with the exception of the following:

New Year's Day, January 1st;  
Lincoln's Birthday, February 12th;  
Washington's Birthday, February 22d;  
Decoration Day, May 30th;  
Independence Day, July 4th;  
Labor Day, First Monday in September;  
Columbus Day, October 12th;  
Election Day, First Tuesday in November;  
Thanksgiving Day, Last Thursday in November;  
Christmas, December 25th.

The Board will endeavor to give timely advice that there will be no settlements on the days mentioned.

The Board will not consider other days as holidays so far as the daily settlement is concerned, and your books must be opened for the purpose of making entries incident thereto. You are therefore instructed on other holidays to transmit your settlement telegram either by sending it over commercial wire on the night preceding the holiday, or having your telegraph operator report for duty as usual on the morning of the holiday. If requested to do so, the Board will send its telegram showing result of settlement over commercial wire, but otherwise you must have your operator on duty to receive the message over the leased wires.

Very truly yours,

Assistant Secretary.

Approved:

Governor.

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO  
SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

W. R. G. HARDING, GOVERNOR

ADOLPH C. MILLE  
CHARLES S. HAMLEN

J. A. BRODERICK, SECRETARY  
L. C. ADELSON, ASSISTANT SECRETARY  
W. T. CHAPMAN, ASSISTANT SECRETARY  
W. M. IMLAY, FISCAL AGENT

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

July 31, 1918.

X-1099

Dear

I have the honor to advise you that under the Act of July 3, 1918, the Federal Reserve Board has granted you additional compensation for the fiscal year ending June 30, 1919, at the rate of \$       per annum.

This additional compensation expires by limitation on June 30, 1919.

Very truly yours,

Assistant Secretary.

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO  
SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

W. P. G. HARDING, GOVERNOR  
PAUL M. WARBURG, VICE GOVERNOR  
FREDERIC A. DELANO  
ADOLPH C. MILLER  
CHARLES S. HAMLIN

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H. PARKER WILLIS, SECRETARY  
SHERMAN P. ALLEN, ASST. SECRETARY  
AND FISCAL AGENT

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

August 1, 1918.

X-1100

Dear Sir:

The Federal Reserve Board is desirous of obtaining accurate and trustworthy statistics showing the relative volume of banking business at various points, and to this end it encloses you herewith draft of a letter which it wishes you to send to the manager of each of the clearing houses in your district. The letter will be self-explanatory as to the procedure to be followed up to the time reports are received by you from the several clearing house points. When these reports have been received they should be tabulated and a message giving the replies from each clearing house point should be telegraphed to the Federal Reserve Board, Division of Analysis and Research, on Saturday morning of each week. In view of the importance of the information desired, it is recommended that each Federal Reserve bank bear the cost of all telegrams transmitted to it by clearing house managers.

Very truly yours,

Governor.

Federal Reserve Agent,

Enclosure.

Dear Sir:

The Federal Reserve Board desires to obtain figures showing as nearly as possible the actual volume of banking business transacted at the various clearing house points throughout the country. At present, the "Exchanges for Clearing House" as currently reported, do not always furnish an accurate index to the volume of business at any given point, as they include only those checks which pass through the clearing house.

You are therefore requested to obtain from each of the members of your clearing house figures showing for a period beginning Friday, August 9th, and ending at close of business Thursday, August 15th, and for each weekly period Friday to Thursday thereafter, the total of checks drawn on and paid by each reporting bank:

(a) By individuals, firms and corporations, and the United States Government.

(b) By other banks and bankers.

(DRAFTS AND CHECKS ON OTHER BANKS ARE NOT TO BE INCLUDED)

The figures thus obtained should be telegraphed as combined totals on Friday of each week to the Chairman of the Board of Directors of the Federal Reserve Bank of this District. If, however, there are members of your clearing house who are not members of the Federal Reserve System and who object to furnishing the data called for, you will please forward

totals of the returns actually received by you from assenting banks,  
adding the names of banks which do not report.

The Federal Reserve Board will appreciate your attention to this  
inquiry.

Yours very truly,



August 1, 1918.

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ADVANCES TO BANKS BY THE WAR FINANCE CORPORATION

To Banks and Trust Companies of  
the \_\_\_\_\_ Federal Reserve District:

With reference to our previous statement, and in answer to inquiries for further particulars relating to advances by the War Finance Corporation to banks, applications for which are to be forwarded to this Bank, as fiscal agent for the corporation, please note the following:

1. These advances will be made only in meritorious cases where it is clear that funds are needed for agricultural or stock raising requirements and can not be readily secured at reasonable rates elsewhere.

It will be necessary when applying for a loan to explain your inability to obtain it in the ordinary course of business, from the usual banking sources.

2. When formally making application for a loan, the application must be accompanied by a resolution of the bank, passed at a formal meeting of the Board of Directors, duly authorizing the loan to be made, and the pledge of the bills receivable and other collateral of the bank as security therefor, with the agreement to furnish additional security whenever required, also empowering a specific officer of the bank to execute its note. The application must, further, be accompanied by a full statement of the bank, upon a form which will be supplied for the purpose.
3. The bills receivable of the bank offered as collateral security must be listed upon the regular discount application form of this Bank, and all the information thereon called for must be given. Credit statements of the makers of the paper must be furnished when required. The bills receivable offered must be paper evidencing financial assistance, given after April 6, 1917, directly or indirectly to a person, firm, corporation, or association conducting an established and going business in the United States, whose operations are necessary or contributory to the prosecution of the war. Parties engaged in farming operations, or in the breeding or fattening of live stock, are held to be conducting a business of the kind above referred to.

Respectfully yours,

FEDERAL RESERVE BANK OF \_\_\_\_\_

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO  
SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

W. P. G. HARDING, GOVERNOR  
PAUL M. WARBURG, VICE GOVERNOR  
FREDERIC A. DELANO  
ADOLPH C. MILLER  
CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY  
SHERMAN P. ALLEN, ASST. SECRETARY  
AND FISCAL AGENT

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

X-1109

The Honorable,  
The Secretary of the Treasury,  
Division of Loans and Currency.

Sir:

On behalf of the Federal Reserve Bank of  
you will please deposit with the Comptroller of the Currency,  
two per cent certificates of indebtedness in the amount of \$  
to be held as security for its issue of Federal Reserve bank  
notes.

The said Federal Reserve bank, upon telegraphic advice  
from you of the deposit of the certificates of indebtedness,  
will immediately credit the Treasurer of the United States,  
in general account, with the above amount.

Respectfully,

Governor.

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO  
SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

W. P. G. HARDING, GOVERNOR  
PAUL M. WARBURG, VICE GOVERNOR  
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CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY  
SHERMAN P. ALLEN, ASST. SECRETARY  
AND FISCAL AGENT

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

X-1110

Comptroller of the Currency,  
Washington, D. C.

Sir:

The Secretary of the Treasury has today been requested to deposit with you certificates of indobtodness of the United States in the amount of \$        for account of the Federal Reserve Bank,        as security for Federal Reserve Bank Note circulation.

Please send to the Federal Reserve Bank of  
Federal Reserve bank notes of its own  
issue, in the amounts and denominations as follows:

Respectfully,

Governor.

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO  
SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

W. P. G. HARDING, GOVERNOR  
PAUL M. WARBURG, VICE GOVERNOR  
FREDERIC A. DELANO  
ADOLPH C. MILLER  
CHARLES S. HAMLIN

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H. PARKER WILLIS, SECRETARY  
SHERMAN P. ALLEN, ASST. SECRETARY  
AND FISCAL AGENT

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

CONFIDENTIAL.

August 6, 1918.

X-1111

Dear Sir:

In connection with the American Bankers Association Code now used for transactions in the Gold Settlement Fund, you will please add the four special code words, as follows:

SETONKNAB - You are advised that acting under your power of attorney the Federal Reserve Board has today requested the Secretary of the Treasury to deposit with the Comptroller of the Currency two per cent certificates of indebtedness in the amount of \$ \_\_\_\_\_ to be held as security for your issue of Federal Reserve bank notes. Upon receipt of telegraphic advice from the Secretary of the Treasury that he has deposited certificates of indebtedness for like amount, for your account, you will please credit the Treasurer of the United States, in general account, to cover.

EVRESER - The Comptroller of the Currency has been requested to send to you Federal Reserve bank notes in amounts and denominations as follows:

LAREDEF - There is being shipped to you Federal Reserve bank notes of Federal Reserve Bank of \_\_\_\_\_ \$ \_\_\_\_\_ Your account in Gold Settlement Fund is being charged accordingly.

REDLETTER - Your account Gold Settlement Fund is being credited \$ \_\_\_\_\_ account of your \_\_\_\_\_ Federal Reserve bank notes being shipped to Federal Reserve Bank \_\_\_\_\_

Very truly yours,

Assistant Secretary.

The Governor,  
Federal Reserve Bank,

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO  
SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD  
WASHINGTON

W. P. G. HARDING, GOVERNOR  
PAUL M. WARBURG, VICE GOVERNOR  
FREDERIC A. DELANO  
ADOLPH C. MILLER  
CHARLES S. HANLIN

65

H. PARKER WILLIS, SECRETARY  
SHERMAN P. ALLEN, ASST. SECRETARY  
AND FISCAL AGENT

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

CONFIDENTIAL

August 7, 1918.

X-1113

Dear Sir:

The Board has given special attention of late to the question of reserves, which for some time past have shown a downward tendency. A decline in reserve percentages is inevitable as long as the Treasury is forced to draw upon the financial resources of the country more rapidly than deposits based upon earnings can accumulate. However, we should not forget that \$90,000,000 silver has been withdrawn from circulation since April, and when the Federal reserve bank notes, which we are assured will be available about August 15th, can be put into circulation in an amount equivalent to the silver certificates which have been withdrawn, we will be able to strengthen our gold reserves by approximately \$45,000,000. In addition to this, the Treasury will be able in the near future to turn over to the Federal reserve banks ten or twenty million dollars more of gold, and we should thus be able to maintain our reserves for awhile in the neighborhood of 58%.

The Board has reached the conclusion that before any steps looking to the suspension of reserve requirements are seriously considered, the Federal reserve banks should make an arbitrary computation of their reserves against deposits on a basis of 35%, thereby increasing in a

corresponding degree the reserves against note issues, which, for the time being, on the basis of 35% for reserves on deposits, would be above 75%.

The position of the twelve Federal reserve banks on August 2, 1918, was as follows:

Total cash reserve.....	\$2,034,918,000
Net deposit liabilities.....	1,558,839,000
35% thereof.....	545,594,000
Federal reserve notes in circulation.....	1,906,465,000
Note reserve available.....	1,489,324,000
Per cent.....	78.1

Whenever the reserve against notes shall fall to 40%, the deposits reserve having been maintained at 35%, it will then be the policy of the Board to maintain the note issue reserve at the 40% level, and, if necessary, begin to reduce the reserve against deposits until it reaches a figure materially below normal - say 20%.

Section 11 requires that the Board "shall establish a graduated tax upon the amounts by which the reserve requirements of this Act may be permitted to fall below the amount hereinafter specified". The Board is authorized, therefore, to establish a very moderate graduated tax upon deficiencies in deposit reserves, but in suspending the requirements on note issue reserves, the Board would be bound by the tax imposed by the Act, as follows:

"When the reserve falls below forty per centum, until it reaches thirty two and one half per centum, a tax of not more than one per centum."

Down to  $32\frac{1}{2}\%$ , therefore, the Board has the discretion of imposing a moderate tax upon the deficiencies in note issue reserves in the same manner as it can deal with deposit reserve deficiencies. Whenever the Federal reserve note issue reserve falls below  $32\frac{1}{2}\%$ , however, it will become the Board's duty to impose a tax of not less than  $1\frac{1}{2}\%$  upon each  $2\frac{1}{2}\%$  deficiency or fraction thereof.

There seems to be no reason, however, to apprehend in the near future, if ever, a fall in our reserves to this point, and we can do a great deal in the manner above indicated to delay any such development. When confronted with such a condition, we can then consider the advisability of asking Congress to modify the terms of the Act.

Before any action is taken looking to the suspension of reserve requirements, we should exert every effort to complete the concentration of gold in the Federal reserve banks. There are still in the vaults of member and non-member banks, in circulation, and in hoarding, - entirely outside of the vaults of the Federal reserve banks - about \$800,000,000. of gold and gold certificates. As much of this gold as possible should be brought into the banks while our note reserves are still high and before there is any tendency upon the part of the public to become alarmed.

In view of the foregoing the Federal Reserve Board desires that the Federal reserve banks adopt a dual method of calculating their reserves, as follows:

- 1: As heretofore, (a) gold reserve and (b) cash reserve on combined deposits and note issues;
- 2: Fixed reserve on deposits of 35%, in gold and lawful money, 5% on Federal reserve bank notes, leaving a fluctuating reserve on the Federal reserve note issue, which would receive the benefit of the entire excess above 35%, and 5% respectively.

These reserve percentages will be published in the weekly statement of the Federal Reserve Board, and in this way the public will gradually become accustomed to a reserve of 35% against deposits, while Federal reserve note issues will, for a considerable time show a very strong gold cover.

The Federal reserve banks are not expected to publish their percentages in their own statements, and this letter is confidential and not for publication.

Very truly yours,

Governor.



EX-OFFICIO MEMBERS

WILLIAM G. MCADOO  
SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD  
WASHINGTON

W. P. G. HARDING, GOVERNOR  
PAUL M. WARBURG, VICE GOVERNOR  
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ADOLPH C. MILLER  
CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY  
SHERMAN P. ALLEN, ASST. SECRETARY  
AND FISCAL AGENT

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

69

August 12, 1918.

X-1118

Dear Sir:

Recently the Federal Reserve Bank of Chicago raised its rate on transfer drafts sold from 10 cents to 15 cents per day per one thousand dollars. This was equivalent to an increase in rates from 3.65% to approximately  $5\frac{1}{2}\%$  per annum.

Believing that you will be interested, I am inclosing herewith copy of the letter received from Deputy Governor McKay of the Federal Reserve Bank of Chicago, showing the effect of the change.

Very truly yours,

Governor.

Federal Reserve Agent,

Inclosure.

C O P Y

X-1118-a

FEDERAL RESERVE BANK OF CHICAGO  
79 West Monroe Street.

August 7, 1918.

Hon. W. P. G. Harding, Governor  
Federal Reserve Board,  
Washington,  
District of Columbia.

My dear Governor Harding:

Mr. McDougal, before leaving on his vacation a few days ago, requested me to advise you regarding our operations in the purchase of domestic exchange. You will recall that when Mr. McDougal was in Washington recently, he made the suggestion that the rates for the purchase of New York exchange be increased from 3.65 per cent to approximately  $5\frac{1}{2}$  per cent.

Following your suggestion that instead of all the Federal Reserve Banks raising the rates, that the Federal Reserve Bank of Chicago, might raise its rate in order to determine what the results would be, beginning August 1st we raised the rates of exchange purchased on all of the Federal Reserve cities from 10 cents per thousand dollars per day to 15 cents per thousand dollars per day, the latter rate being approximately at the rate of  $5\frac{1}{2}$  per cent per annum.

During the month of July, when the old rates were in effect, we purchased exchange in the form of drafts amounting to \$208,150,000. being an average of \$8,005,000. per day. Since August 1st, we have purchased \$14,452,000. in drafts, the daily average being \$2,890,000.

The daily outstanding drafts purchased, or in other words, the amount of float we carried on these drafts during July averaged \$12,364,000. Since August 1st, the amount of float has averaged \$3,897,000. daily. The telegraphic transfers purchased during the month of July amounted to \$88,475,000. the daily average being \$3,403,000. Since August 1st, the telegraphic transfers purchased have amounted to \$33,925,000., daily average of \$6,785,000.

Our action in increasing the rate of purchase of transfer drafts from 3.65 per cent to  $5\frac{1}{2}$  per cent has resulted in reducing the amount of float carried on transfer drafts \$8,467,000. and has more than doubled the daily average amount of transfers purchased by telegraph.

We are of course accepting transfer drafts from member banks on other Federal Reserve cities for deferred availability at par, in accordance with our time schedule. The reduction in the float has correspondingly increased our reserve position and we feel that the results obtained are quite satisfactory.

The above is submitted for your information.

Respectfully submitted,

C. R. MCKAY.

Deputy Governor.

EX-OFFICIO MEMBERS

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SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

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SHERMAN P. ALLEN, ASST. SECRETARY  
AND FISCAL AGENT

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

August 12, 1918.

X-1120

Dear Sir:

There is inclosed for your information copy of an opinion by Counsel as to the treatment as a liability of the maker to the bank for borrowed money, of a note which has been rediscounted by a member bank. The Board does not mean to suggest that member banks should avail themselves generally by rediscounting, of their authority to grant lines of credit in excess of 10 per cent of their capital and surplus as prescribed by Section 5200 of the Revised Statutes, as it is the belief of the Board that wherever compatible with the public interest, credit should be curtailed rather than expanded. Banks should keep in mind their contingent liability on rediscounted paper which, if not paid by the maker, must be taken up by the endorsing bank, and if unable to rediscount a renewal, the bank would find itself encumbered with an excess line. In cases, however, where banks wish to grant larger credits with Government obligations as security, the power outlined in the Counsel's letter may be availed of to advantage.

Very truly yours,

Governor.

The Governor,  
Federal Reserve Bank,

Inclosure.

## FEDERAL RESERVE BOARD

WASHINGTON

August 7, 1918.

M. C. Elliott  
Counsel

My dear Governor:

In an opinion approved by the Board and published on page 638 of the July, 1918, Bulletin, the question was considered whether a note rediscounted by a member bank should thereafter be treated as a liability of the maker to the bank for borrowed money. In that opinion the following statement appears:

"This question was considered by the Board and by the office of the Comptroller in connection with the limitations prescribed by Section 5200 Revised Statutes on liabilities to a national bank of any one person, firm or corporation.

The conclusion was reached in that case that notes which have been rediscounted by a national bank and which are no longer owned or held by the bank, should not be included as a liability of the maker to the bank for borrowed money within the meaning of Section 5200."

Exception has been taken to this conclusion by some of the officers of the Federal reserve banks, and by certain national bank examiners, and there seems to be some apprehension on their part that this ruling of the Board may be used by member banks for the purpose of evading the limitations prescribed by Section 5200.

You have asked this office to give further consideration to the question involved and to suggest what, if any, action the Board or the Comptroller should take to prevent excessive loans from being made under authority of this ruling.

This question is one which involves the application of the law of negotiable instruments.

Under Section 5136 Revised Statutes, which prescribes the corporate powers of national banks, such banks are authorized, among other things, to discount and "negotiate" promissory notes.

Under the Negotiable Instruments Law (Sec.30)

"An instrument is negotiated when it is transferred from one person to another in such manner as to constitute the transferee the holder thereof".

Under Section 5200 Revised Statutes the liabilities to a national bank of any one person for borrowed money are limited to an amount which must not exceed ten per cent of the capital and surplus of the lending bank.

Under authority of these two sections it is clear that a national bank may discount the note of a customer which does not exceed in amount ten per cent of its capital and surplus and may subsequently negotiate or sell this note to a bona fide purchaser for value without notice.

The question involved is whether the maker of the note continues liable to the bank after the note has been negotiated and is owned by a bona fide holder in due course.

Section 51 of the Negotiable Instruments Law provides that -

"The holder of a negotiable instrument may sue thereon in his own name and payment to him in due course discharges the debt".

It is clear, therefore, that when such a note is rediscounted by a bank its rights are transferred to the holder in due course and the maker becomes liable to the holder. It necessarily follows that the maker's liability to the bank ceases. If this were not true the maker might obtain a discharge of his liability on the note by paying the bank even after it had transferred its rights by endorsement of the note to a bona fide holder.

To hold that the maker of a note continues liable to a national bank for money borrowed, after the bank has rediscounted the note, would be equivalent to holding that a negotiable promissory note loses its negotiability when discounted for the maker by a national bank. There is clearly no legal justification for such a conclusion.

It has been suggested that the position taken in the opinion under consideration constitutes a radical departure from previous rulings of the Comptrollers office.

It is true that for many years it was customary for national banks to continue to carry as assets notes which had been rediscounted. This practice, which necessarily resulted in a duplication of the assets of national banks, has, however, been discontinued and while the reports of condition now show the amount of bills or notes rediscounted these amounts are not included in the total assets of the bank.

It necessarily follows that unless a note remains an asset of a bank after it has been rediscounted it does not constitute a liability of the maker to the bank but becomes a liability of the maker to the bona fide holder.

This principle has been consistently recognized by the Comptroller's office in the administration of the estates of failed banks. The maker of a note held by a failed bank is ordinarily entitled to offset his deposit balance with the bank against the note but in the administration of receiverships the Comptroller has consistently declined to allow the maker of a note to offset his deposit balance if the note is not in the hands of the receiver but is held by some other bank under rediscount on the ground that he may thereby obtain preference over other creditors to the extent of the offset if the estate of the bank is insufficient to pay the depositors in full. This question was involved in the case of United States Bank v. McNair, 116 N. C. 550; 21 S. E. 389. In that case the maker of the note was endeavoring to have his liability treated as a liability to the bank in order to obtain the benefit of an offset but the court disallowed his claim.

With all due deference to the opinion of those who have taken exception to this ruling of the Board, the fear that it may be successfully used by banks to evade the limitations of Section 5200 seems to be very much exaggerated.

So long as the customer's paper is well secured or is of such intrinsic value as to find a ready market with other banks the contingent liability incurred by the endorsing bank is not of serious consequence. On the other hand, if the paper offered for rediscount is not intrinsically valuable and the offering bank is merely seeking to evade the limitations of Section 5200, it is not likely that other banks would feel disposed to rediscount such paper. They would in such case be much more likely to require the borrowing bank to execute its note secured by its customer's note with a proper margin, in which case the customer's paper would remain the property of the borrowing bank and would have to be included in the liabilities of the makers to the borrowing bank. If the borrowing bank, in order to evade the limitations of Section 5200, should enter into an agreement with its correspondent to repurchase rediscounted paper before maturity, or to leave the proceeds of the rediscount on deposit with it, the transaction would not have been entered into in good faith and an examiner or officers of a Federal reserve bank would be justified in treating such paper as subject to the limitations of Section 5200.

As stated by Daniel on Negotiable Instruments  
(Section 779-b, Volume 1, Sixth Edition)-

"Under several provisions of the statute (Negotiable Instruments Law), it is held that merely giving the transferrer credit does not constitute the transferee a holder in due course. Thus when a bank simply discounts a note and credits the amount thereof on the endorser's account, without paying to him any value for it, such bank is not a purchaser for value or a holder in due course as defined by the statute".  
(Albany County Bank v. People's Co-operative Ice Co.,  
86 N. Y. S. 772, 92).

If, however, a bank negotiates a note of its customer in good faith in order to obtain additional funds to take care of the needs of other customers, there would seem to be no justification for ~~treating~~ the liability of its customer to the bona fide holder of the note as a liability to the bank itself. The fact that the bank is contingently liable as endorser and may be called upon to pay the note if the maker defaults should very properly be taken into consideration in determining liabilities that may be incurred by the bank under Section 5202 but should not be taken into consideration in determining the liabilities that may be incurred to the bank under Section 5200.

The Board has heretofore ruled that a national bank may lend to one customer an amount equal to ten per cent of its capital and surplus and may thereafter accept drafts of the same customer under authority of the Federal Reserve Act. In this case the bank assumes a direct and not a contingent liability on the drafts accepted and is the primary obligor. This fact, however, does not justify the Board in requiring banks to treat this liability assumed by the bank as a liability of its customer to the bank for borrowed money within the meaning of Section 5200.

If the Board feels that it is necessary to take any affirmative action to prevent its ruling from being used by member banks as a means of evading the limitations of Section 5200, it is suggested that it might amend Section III of Regulation "A", series of 1917, to read substantially as follows:

### III. Applications for Rediscount.

"All applications for the rediscount of notes, drafts or bills of exchange, must contain



a certificate of the member bank in form to be prescribed by the Federal reserve bank, that to the best of the knowledge and belief of the officers of the applicant bank, such notes, drafts or bills of exchange have been issued for one or more of the purposes mentioned in 2 (a); such certificate shall also show whether the notes, drafts or bills discounted for any one borrower whose paper is offered for rediscount, exceeds ten per cent of the capital and surplus of the applicant bank, including notes, drafts or bills held in its own portfolio or under rediscount with other banks.

If the aggregate of such notes, drafts or bills does exceed ten per cent of the capital and surplus of the applicant bank, such certificate shall show (a) the amount held in its own portfolio, (b) the amount rediscounted with other banks, (c) the amount and character of security held, (d) whether or not the member bank is under agreement to repurchase at or before maturity notes, drafts and bills rediscounted, (e) whether or not it has received the actual proceeds of notes, drafts and bills rediscounted or merely a book credit therefor."

With this regulation in force, the Federal reserve bank would be able to determine the amount of secured and unsecured paper discounted by the applicant bank for any one borrower and rediscounted with other banks. If properly secured, the contingent liability of the member bank on the paper rediscounted in good faith would constitute merely a nominal liability. On the other hand, if the intrinsic value of the paper rediscounted appeared to be such as to make it more than probable that the endorsing member bank would be called upon to pay it, the Federal reserve bank could in its discretion determine whether such paper through technically eligible should be accepted for rediscount by the Federal reserve bank.

The Comptroller of the Currency might in like manner require national banks to show in their reports of condition information called for in the Regulation of the Board as amended in accordance with the foregoing suggestion.

The National Bank Examiner might likewise require the officers of the national bank to certify on oath whether the bank is under agreement to repurchase rediscounted paper and whether it has received the proceeds of such paper or merely a book credit and, for reasons hereinbefore stated, might treat all paper rediscounted under an agreement to repurchase or for which merely book credits have been received, as subject to the limitations of Section 5200.

Respectfully,

M. C. Elliott,

Counsel.

Hon. W. P. G. Harding,  
Governor,  
Federal Reserve Board.

EX-OFFICIO MEMBERS

WILLIAM M. MCADOO  
SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

# FEDERAL RESERVE BOARD

WASHINGTON

W. P. G. HARDING, GOVERNOR  
PAUL M. WARBURG, VICE GOVERNOR  
FREDERIC A. DELANO  
ADOLPH C. MILLER  
CHARLES S. HAMLIN  
H. PARKER WILLIS, SECRETARY  
SHERMAN P. ALLEN, ASST. SECRETARY  
AND FISCAL AGENT

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

August 12, 1918.

X-1121

Dear Sir:

At the suggestion and upon invitation of the Federal Reserve Bank of Cleveland, an informal meeting was held on August 7th, at the office of the Federal Reserve Board to discuss Federal Reserve Exchange drafts. The meeting was attended by representatives of six Federal Reserve Banks. The recommendations made, a copy of which is inclosed with this letter, have been considered and approved by the Board.

(1) Federal Reserve Exchange Drafts.

Effective September 3rd, the limit of drawings of such drafts shall be increased from \$250 to \$5,000. Federal Reserve Banks paying Exchange drafts of other Federal Reserve Banks, will be permitted to deduct the amount paid from the total credits reported in the Gold Settlement clearing for the day. The daily transcript, forwarded to each Federal Reserve Bank, should show the items credited for the day and a deduction therefrom of the Exchange drafts paid for its account. The net credit should agree with the figures reported in the Gold Settlement clearings.

(2) The Board deems it desirable for the Reserve Banks to adopt the recommendation of the Committee, that all Reserve Banks give immediate credit for Clearing House items on the day such items are received from other Federal Reserve Banks, the balances so credited to be included in the credit balances reported for settlement through the Gold Fund clearings. The actual payment for such balances would then be made on the same day as settlement is received by the paying Federal Reserve Bank for the checks and other items it collects.

(3) With respect to the recommendation that a more detailed analysis be made of the 'float' situation (i. e., the extent to which immediate credit has been given upon uncollected items) there is inclosed herewith a memorandum prepared by the Statistical Division based upon the information which it has at hand. The Board is willing to have a more detailed study of this question made, but to do so will require a call for the necessary data from each Federal Reserve Bank and it is believed that such study could best be made at the different Federal Reserve Banks.

Very truly yours,

Governor.

Inclosures.

C O P Y

81

Washington, August 7, 1918.

Federal Reserve Board,  
Washington, D. C.

Gentlemen:

At a meeting held in the Treasury Department Building in the Board Room of the Federal Reserve Board, August 7, 1918, at which the following were present:

Mr. M. J. Fleming, Asst. Cashier, Federal Reserve Bank,  
Cleveland.  
Mr. S. H. Hendricks, Cashier, Federal Reserve Bank,  
New York.  
Mr. Pierre Jay, Federal Reserve Agent, New York.  
Mr. F. J. Carr, Asst. Cashier, Federal Reserve Bank,  
Chicago.  
Mr. Chas. A. Peple, Deputy Governor, Federal Reserve Bank,  
Richmond.  
Mr. Thos. Gamon, jr., Asst. Cashier, Federal Reserve Bank,  
Philadelphia.  
Mr. C. C. Bullen, Cashier, Federal Reserve Bank, Boston.

It is recommended to the Federal Reserve Board that the limit for the drawings of Federal Reserve exchange drafts be increased from \$250 to \$5,000 and that Federal Reserve Banks holding Federal Reserve exchange drafts of other Federal Reserve Banks be permitted to deduct such Federal Reserve exchange drafts from the total credits reported to the Federal Reserve Board in the Gold Settlement Fund each day.

In order to bring about a daily settlement for clearing house items, it is recommended that all Federal Reserve Banks give immediate credit for clearing house items the day received from other Federal Reserve Banks, without regard to the time of day received, inasmuch as the balance so created is reported to the Gold Settlement Fund at the close of business but is really settled the following day when the checks have been collected.

It is voted that the Federal Reserve Board be asked to cause a more detailed analysis of the "float" situation in each Federal Reserve Bank to be made, for such period as the Board may deem advisable, in order that there may be a more exact knowledge as to what constitutes a large amount of "float" now appearing in the statement of the Federal Reserve system and in order that each Federal Reserve Bank may study in a more detailed way methods of eliminating its own "float".

Respectfully,

M. J. FLEMING.

Chairman.

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO  
SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD  
WASHINGTON

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ADOLPH C. MILLER  
CHARLES S. HANLIN

82

H. PARKER WILLIS, SECRETARY  
SHERMAN P. ALLEN, ASST. SECRETARY  
AND FISCAL AGENT

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

MJ-JEH

August 16, 1918.

Dear Sir:

Beginning with October 1, 1918, it will be necessary for your bank to submit reports on the third Liberty loan, form 127, only as at close of business on the last day of each month. It is requested, however, that you continue to send in the weekly reports during the remainder of August and for the month of September as promptly as practicable after the close of business each Friday.

The manuscript for forms to be used in reporting transactions under the fourth Liberty loan will be forwarded to the printer at an early date, and it will be appreciated if you will advise us at your earliest convenience of any changes which you may wish to have made in the form now used for the third Liberty loan.

Very truly yours,

Assistant Secretary.

Mr.  
Federal Reserve Agent,

X-1132

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO  
SECRETARY OF THE TREASURY  
CHAIRMAN  
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COMPTROLLER OF THE CURRENCY

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CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY  
SHERMAN P. ALLEN, ASST. SECRETARY  
AND FISCAL AGENT

83

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

August 16, 1918.

X-1133

S i r :

For your information, there is inclosed  
herewith an opinion of Counsel with respect to the  
negotiability of a trade acceptance containing the  
provision: "If this acceptance is paid on or before  
\_\_\_\_\_, a discount of 5% will be allowed".

Very truly yours,

Governor.

Inclosure.

C O P Y

FEDERAL RESERVE BOARD  
WASHINGTON

K-1133-a

August 1<sup>st</sup>. 1918.

My dear Governor:

In the accompanying letter the Board is asked for a ruling on the negotiability of a trade acceptance containing the following provision:

"If this acceptance is paid on or before ..... a discount of 5% will be allowed".

In an opinion of this office, approved by the Board and published on page 200 of the March 1918 Federal Reserve Bulletin, the conclusion was reached that -

"A trade acceptance which consists of an order to pay a certain amount, which is the amount of the debt minus a discount for prompt payment at maturity, or, if not paid at maturity, to pay a greater amount, which is the amount of the debt without any discount, is an order to pay a sum certain and is negotiable."

The principle involved in the two cases is somewhat analogous - the only difference being that in one case the discount is allowed if payment is made at maturity while in the other the discount is allowed if maturity is anticipated. In both cases the test of negotiability, according to the text writers on the Negotiable Instruments Law, is whether or not the sum payable can be ascertained from the face of the instrument and both forms, in the opinion of this office, meet this condition.

As pointed out, however, by Counsel for the Federal Reserve Bank of Chicago, it has been held in Minnesota, Nebraska, Texas and Canada that a promise to pay a certain sum with a provision that a fixed discount is allowed if paid before maturity, or before a certain date is negotiable, although the contrary has been held in Michigan, Oklahoma, South Dakota and Tennessee.

The reasoning of the courts in the cases sustaining the negotiability of such instruments seems to be more consistent with the general principles incorporated in the Negotiable Instruments Law and I fully agree with Counsel for the Federal Reserve Bank of Chicago that such an instrument should be held by the courts to be negotiable. In view, however, of the lack of uniformity of the decisions of the courts on this point the Board should not approve for general use an acceptance containing this condition since its ruling would, of course, have no binding effect on the State courts.

Respectfully,

(Signed) M. C. ELLIOTT.

Counsel.

Hon. W. P. G. Harding,  
Governor, Federal Reserve Board.



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H. PARKER WILLIS, SECRETARY  
SHERMAN P. ALLEN, ASST. SECRETARY  
AND FISCAL AGENT

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

August 17, 1918. X-1136

Dear Sir:

The supply of the Second Edition of the Index-Digest of the Federal Reserve Act and Amendments is exhausted, with the exception of a dozen copies, and the tremendous congestion of war work at the Government Printing Office makes it very unlikely that a reprint of this book could be obtained without a delay of several months. It, therefore, becomes necessary for the Board to announce that no further orders can be filled. Furthermore, it is felt that the twelve copies now on hand will not be a sufficient number for the Board's own use in the future. It has been suggested that perhaps some of the Federal reserve banks have a surplus of these Digests on hand which they have not disposed of or do not need, and the purpose of this letter is to inquire whether your bank has any copies which could be returned to the Board for its use. If such is the case will you kindly forward them to the Board, billing them to the Board at the price you paid, (franked slips for this purpose are herewith inclosed). The price at which these books sold, as you know, was \$1.25 for those bound in buckram, and \$1.00 for those bound in paper.

Very truly yours,

Assistant Secretary.

The Governor,  
Federal Reserve Bank,

Inclosure.

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO  
SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

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AND FISCAL AGENT

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

August 19, 1918.

X-1139

The suggestion has been made that the Federal Reserve Board should prepare and publish an analysis of State laws affecting the operations of foreign banking corporations.

Under authority of the Federal Reserve Act, some of the national banks have established branches in foreign countries, while others have subscribed to stock in banking corporations organized under State laws which engage in a foreign or in an international banking business.

As our foreign trade continues to develop, it may reasonably be expected that the foreign activities of banks organized in the United States will continue to increase and that banks organized in foreign countries will desire to enlarge the scope of their operations in the United States.

In seeking to bring about a standardization of State and national banking laws, it is, therefore, very important that this subject be given careful consideration.

I have had prepared in this office a tentative analysis of those provisions of the several State statutes which relate to foreign banking corporations. Having only limited facilities at my disposal, this analysis is probably incomplete. I am, therefore, inclosing two copies and will appreciate it very much if you will indicate what additions or changes should be made in the analysis of the laws of the States included in your District.

I have assumed that the language "Foreign banking corporations" would be held by the State courts to include corporations organized under the laws of other countries as well as corporations organized under the laws of other States.

I will be glad to have your views on this question, together with any suggestions you may be kind enough to make.

Sincerely yours,

Counsel.

Inclosure.

STATE LAWS AFFECTING THE OPERATIONS OF FOREIGN BANKING CORPORATIONS.ALABAMAExamination:-

"The superintendent of banks shall also have the power to examine or cause to be examined every agency located in this State, or any foreign bank for the purpose of ascertaining whether it has violated any law of the State and for such other purposes and to such other matters as the superintendent may prescribe." (Banking Laws of Alabama, 1911, sec.7.)

CALIFORNIALimitations on Banking Powers:-

I. Foreign banking corporations are denied the right to accept deposits of money. (An exception is made as to banks exercising the privilege when the law was enacted.)

II. They are allowed to transact "only" the business of:

1. Buying and selling, paying and collecting bills of exchange.
2. Issuing letters of credit.
3. Receiving money for transmission or transmitting the same.
4. Making loans.

(California Bank Act, as amended 1917, sec. 7.)

Conditions precedent to Transacting Business:

No foreign corporation may transact a banking business in the State without first complying with all the requirements of the State laws relative to banks, nor until it has assigned to its business in the State the amount of paid-up capital and surplus required by the banking law for the transaction of such business within the State, and has received a certificate from the superintendent of banks. (California Bank Act, as amended 1917, sec. 7.)

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~~-13-~~CALIFORNIA CONT'D

Must Keep Separate Accounts, etc.-

The capital of any foreign banking corporation assigned to its business in the State and all funds, deposits, and accounts incident to its business in the State must be kept separate and apart from its general business, assets and accounts, in the same manner as if the business conducted within the State was of a separate and independent corporation organized under the State laws. (California Bank Act, as amended 1917, sec. 7.)

California Cont'd.Funds in the State Security for Deposits:-

"Such funds and investments or loans thereof shall be appropriated solely to the security and payment of such deposits, and shall not be mingled with the investments of the capital stock or other money or property belonging to such corporation or be liable for the debts or obligations thereof." (California Bank Act, as amended 1917, sec. 7.)

Disposition of Income from Funds in the State:

"All income received from the investment of said funds over and above such funds as may be paid to depositors as interest or shall be carried to the surplus fund,\*\*\*shall accrue as profits to the corporation and may be transferred to its general funds." (California Bank Act, as amended 1917, sec. 7.)

Subject to State Supervision and Regulation:-

Foreign banking corporations transacting business in the State are subject to the supervision of the State superintendent of banks, and must conduct all their business in accordance with the State banking laws. (California Bank Act, as amended 1917, sec. 7.)

Subject to State Limitations on Loans, Investments, etc.:-

All of the provisions of the State law affecting investments, loans, deposits and conducting business in any respect apply to such assigned capital, investments, loans, deposits, assets, funds and business in the same manner as if they constituted the business of a separate and independent corporation. (California Bank Act, as amended 1917, sec.7.)

Same-Exceptions:-

But, if a foreign corporation has assigned to its business in the State a paid-up capital and surplus equal to 20% of its deposit liability to residents of the State, it may make loans based on its entire paid-up capital and surplus. (California Bank Act, as amended 1917, sec. 7.)

"Nothing in this act shall limit or affect the right of any foreign corporation doing a banking business in this State, to lend within this State, moneys of such corporation which do not form a part of the moneys, deposits or assets of such corporation assigned

California Cont'd.

or belonging to its business in this State." (California Bank Act, as amended 1917, sec. 7.)

Loans by Corporations having no Offices in the State:-

"This section shall not be construed to prohibit foreign banking corporations, which do not maintain an office in this State for the transaction of business, from making loans in this State secured by mortgages on real property, nor from accepting assignments of mortgages covering real property situated in this State, nor from making loans through correspondents which are engaged in the business of banking in this State under the laws of this State." (California Bank Act, as amended 1917, sec. 7.)

Authorizing Superintendent to Receive Service of Process:-

No foreign corporation may transact any banking business in the State until it has appointed the superintendent of banks its attorney, upon whom all process issued in the State may be served, "with the same effect as if such corporation was formed under the laws of this State and had been lawfully served with process therein. Such service upon such attorney shall be deemed personal service on such corporation." (California Bank Act, as amended 1917, sec. 7.)

Examination:-

The superintendent of banks has power to examine any foreign banking corporation. (California Bank Act, as amended 1917, sec. 124.)

Reports:-

Every foreign corporation transacting the business of banking in the State must make the same reports of condition, so far as its business in the State is concerned, as is required of domestic banks. (California Bank Act, as amended 1917, sec. 130.)

Representatives of Foreign Banking Corporations:-

Representatives of foreign banking corporations may maintain offices in the State which do not purport to be the places of business of banks or trust companies; but they must obtain licenses from the superintendent of banks, which he may refuse or revoke at his discretion. (California Bank Act, as amended 1917, sec. 12-c.)

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COLORADO

Authority to Engage in Banking:-

There is no provision specifically affecting foreign banks; but the following provision might be construed to prohibit them from engaging in business in the State:

"If the State Bank Commissioner shall be satisfied that a bank has been legally organized in full conformity with the provisions of this Act, and the capital thereof paid in cash, he shall issue\*\*\*to such bank a certificate authorizing it to conduct the business proposed, and no bank shall advertise or hold itself out as engaged in banking nor shall it transact any business until so authorized." (Colorado Sessions Laws 1913, Chap. 44, sec.9.)

CONNECTICUT

How May Engage in Banking:-

Foreign banks may transact business only as "private bankers;" and must deposit with the treasurer of the State surety bonds or securities in the amount of \$20,000.00, if located in a city or town having a population of 20,000 or less, or in the amount of \$40,000.00, if located in a city or town having a population of over 20,000. (Public Acts 1915, Chap. 328; Public Acts 1917, Chap. 397.)

DELAWARE

Banking Powers Denied:-

"No foreign corporation as aforesaid shall, within the limits of this State, by any implication or construction, be deemed to possess the power of discounting bills, notes, or other evidences of debt, of receiving deposits, of buying gold or silver bullion or foreign coin, of buying and selling bills of exchange, or of issuing bills, notes or other evidences of debt upon loan for circulation as money, anything in its charter or articles of incorporation to the contrary thereof notwithstanding." (Delaware Code, Sec. 2101-g.)

FLORIDA

May not Engage in Banking:-

"No person, firm or company shall be allowed to conduct a banking business in this State without being incorporated under the banking laws of this State, or being authorized to do

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business under the National Banking Laws, except as otherwise provided in this Act."

The sole exception provided in the act is that persons, firms, or companies engaged in a private banking business at the time of the passage of the act may be permitted by the Comptroller to continue to conduct such business. They must have a capital of not less than \$15,000, and are subject to the banking laws of the State. (Laws of Florida, 1915, Chap. 6812-No.6.)

#### IDAHO

##### Power to Engage in Banking:-

It shall be unlawful for any individual, firm or corporation to receive money upon deposit or transact any other form of banking business except as authorized by this Act.\*\*\*" (Idaho Banking Law, sec.62.)

The only authorization to engage in the business of banking provided for in the Act refers only to banks incorporated under the Act itself. (See Idaho Banking Law, sec.28.)

#### IOWA

##### Power to Engage in Banking:-

"No corporation shall engage in the banking business, receive deposits, and transact the business generally done by banks unless it is subject to and organized under the provisions of this Title, or of the banking laws of the State heretofore existing.\*\*\*" (Code of Iowa, Title IX, chap. 12, sec. 1889.)

(SEE NEXT PAGE FOR "KENTUCKY")

#### LOUISIANA

##### Who May Engage in Banking in the State:-

"The business of banking shall be carried on only by such incorporated associations as shall have been organized under the laws of this State, and of the United States, by individual citizens of the State and by firms domiciled in the State whose active members shall be citizens of this State, provided that no private Banker or other person or persons not incorporated under this Act shall be permitted to use the title Bank, Banking Association or Saving Bank in connection with its name." (Act 179 of 1902, sec.1, as amended by Act 140 of 1906.)



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-5 $\frac{1}{2}$ -KENTUCKYPower to Engage in Banking:-

"No corporation shall engage in business other than that expressly authorized by its articles of incorporation or amendments thereto; nor shall any corporation, directly or indirectly, engage in or carry on in any way the business of banking or insurance of any kind, unless it has become organized under the laws relating to banking and insurance;\*\*\*) Kentucky Statutes, sec. 567.

Tax on Foreign Banks:

"All banks, banking associations, banking corporations or banking companies doing business in this State but domiciled in other States of the Union or in foreign countries, who may in their own name or in the name of their agents or representatives, engage in this State in the business of lending money or dealing in bills of exchange exclusively, shall pay a yearly license tax of two hundred and fifty dollars to the State and like tax to the Municipal or Parochial corporation; and in addition to said license tax shall pay to the State an annual tax of 2-1/2 per cent. on the gross interest earned on all money loaned, and to the Municipal or Parochial corporation a like tax of 2-1/2 per cent., and shall be subject to no other or further taxation either by the State or by any political subdivision thereof." (Amendment to Constitution of Louisiana, proposed by Act 31 of 1914, and ratified in November 1914.)

MAINEMust pay Tax:

"Every banking association or corporation, not incorporated under the laws of this state or of the United States, that maintains a branch or agency in this State for the transaction of a banking business, shall pay to the treasurer of State a tax of three-quarters of one per cent a year on the amount of such business done in this State. \*\*\*\*" (Revised Statutes of Maine, Chap. 52, sec. 67).

Must Keep Accounts and Make Reports:

Foreign banks must keep accounts and make semi-annual reports showing the amount of money employed and the business done in the State at all times. (Id., sec. 68, 69).

Power To Engage In Banking:

"Except as hereinbefore provided, no banking association, unless incorporated under the laws of this State or of the United States, shall maintain any branch or agency in this State for the transaction of banking business. \*\*\*\*" (Id., sec. 70).

MASSACHUSETTS.Power To Engage In Banking:

No foreign banking association or corporation may

engage in banking in the State until it has obtained a certificate authorizing it to do such business from a board composed of the bank commissioner, the treasurer, the receiver general, and the commissioner of corporations. (Massachusetts Acts, 1906, Chap. 347, sec. 1.).

Supervision and Examination:

Foreign banks doing business in the State are subject to supervision and examination by the State Bank Commissioner, and are subject to the equity jurisdiction of the State Supreme Court. (Massachusetts Acts 1906, Chap. 347, secs. 1-4).

Power to do Savings Bank Business:

No foreign banks may engage in the business of savings banks; except those which were doing such business at the time the statute was passed, and they must conduct such business as a separate department and must conform to all the State laws and regulations applicable to savings banks. (Massachusetts Acts 1906, chap. 377; Mass. Acts 1907, chap. 533.)

MICHIGAN

Power To Engage In Banking:

In connection with the incorporation of banks, it is provided that "no bank shall transact any business except such as is incidental and necessarily preliminary to its organization until it has been authorized by the commissioner of the banking department to commence the business of banking". (Compiled Laws of Michigan, sec. 6093) The only authorization by the bank commissioner to commence the business of banking which is expressly provided for in the banking laws applies to banks newly incorporated under the State laws. (See Compiled Laws of Michigan, sec. 6096.)

MISSOURI

Power to Transact Business:

"No foreign banking corporation, other than a bank organized under the laws of the United States, shall transact in this State the business of buying, selling or collecting bills of exchange, or of issuing letters of credit or of receiving money for transmission or transmitting the same by draft, check, cable or otherwise, or of making sterling or other loans or transacting any part of such business, or maintaining in this State any agency for carrying on such business, or any part thereof, unless such corporation shall have:

1. Been authorized by its charter to carry on such

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business and shall have complied with the laws of the State or country under which it is incorporated.

2. Furnish to the commissioner such proof as to the nature and character of its business and as to its financial condition as he may require.

3. Designated the bank commissioner by a duly executed instrument in writing, its true and lawful attorney, upon whom all process in any action or proceeding by any resident of the State against it may be served with the same effect as if it were a domestic corporation and had been lawfully served with process within the State.

4. Paid to the bank commissioner a license fee of two hundred and fifty dollars.

5. Received a license duly issued to it by the commissioner as provided in section fourteen of this act.

This section shall not be construed to prohibit foreign banking corporations which do not maintain an office in this State for the transaction of business from making loans in this State secured by mortgages on real property, nor from accepting assignments of mortgages covering real property situated in this State, nor from making loans through correspondents which are engaged in the business of a bank or trust company in this State under the laws of the State. (Revised Statutes of Missouri, Chap. 12 Art. II, sec. 104.)

#### Conditions Precedent to Doing Business:

Before commencing the business of banking a foreign corporation must be actually worth \$250,000 in excess of its liabilities; it must obtain a license from the bank commissioner good for one year and renewable from year to year; and must comply with all the requirements of the State law. (Id., Art. I, sec. 14; Art II, sec. 103, 105).

#### Must Make Reports of Condition:

Foreign banks doing business in the State must make written reports of its condition whenever required by the bank commissioner. (Id., Art. II, sec. 106.)

### MONTANA

#### Power to Engage in Banking:

"Every person, firm, company, copartnership, or corporation, domestic or foreign", doing or holding itself out as doing a banking business in the State "must have the proper capital stock paid in

and set aside for the purpose of transacting such business, and must have received from the Superintendent of Banks, as provided for in this Act, a certificate to do a banking business." (Montana Session Laws 1915, Chap. 89, sec. 25.) The only corporations to which the Superintendent of Banks is specifically authorized to issue certificates of authority to engage in banking are corporations organized or to be organized under the State laws. (See Montana Session Laws 1915, Chap. 89, sec. 8, 67.)

#### Examination and Regulation:

"Every person, firm, company, copartnership, or corporation doing any of the things or transacting any of the business defined in this section, must transact such business according to the provisions of the bank act, and the Superintendent of Banks, or his deputy or examiners, shall have authority to examine the accounts, books, papers, cash and credits of every such person, firm, company, copartnership, or corporation, domestic or foreign, in order to ascertain whether such person, firm, company, copartnership, or corporation has violated or is violating any provisions of this section". (Id., sec. 25)

#### Foreign Corporations <sup>May</sup> Lend Money:

"Any corporation organized under the laws of any country or State other than this State, which has complied with all of the laws of this State pertaining to foreign corporations, and is not engaged in the business of banking or receiving money on deposit in this State, may lend money in this State and, for that purpose may maintain offices in this State, and sue and be sued in this State under its proper corporate name, notwithstanding any prohibitions contained in this act as to the use of any word in the name, signs, or advertising matter of corporations not under the supervisions of the Superintendent of Banks". (Id., sec. 26).

### NEBRASKA

#### Power to Engage in Banking:

"It shall be unlawful for any corporation, partnership, firm or individual to engage in or transact a banking business within this State, except by means of a corporation duly organized for such purpose under the laws of this State". (Revised Statutes of Nebraska, 1913, as amended 1915, sec. 281).

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NEVADAMust Obtain License:

"No individual, bank, banking firm, trust company, corporation, company, or other corporation, incorporated under the laws of this State, or of any other State or territory or foreign country, doing a banking business in this State, except banks doing business under the laws of the United States, shall engage in the banking business in this State without first obtaining from the bank examiner a license in the form presented by him, authorizing such individual, firm, corporation, company, or trust company, to use the name and transact the business of a bank. \*\*\*" (Nevada Banking Law (as amended) Section 47.).

NEW HAMPSHIREMay not do Savings Bank Business:

"No person, copartnership, incorporation, or association, except savings banks incorporated in this State, and trust companies, loan and trust companies, loan and banking companies thereto empowered by their charters granted in this State, shall hereafter" engage in the business of a savings bank. (New Hampshire Laws of 1907, chap. 112.).

NEW YORKApplications for License:

"Every foreign banking corporation before being licensed by the superintendent of banks to transact in this State the business of buying, selling, paying or collecting bills of exchange, or of issuing letters of credit or of receiving money for transmission or transmitting the same by draft, check, cable or otherwise, or of making sterling or other loans, or any part of such business, or before maintaining in this State any agency for carrying on such business or any part thereof, shall subscribe and acknowledge and submit to the superintendent of banks at his office, a separate application certificate in duplicate for each agency which such foreign corporation proposes to establish in this State, which shall specifically state:

1. The name of such foreign bank corporation.
2. The place where its business is to be transacted in this State; and the name of the agent or agents through whom such business is to be transacted.
3. The amount of its capital actually paid in cash and the amount subscribed for and unpaid.

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4. The actual value of the assets of such corporation, which must be at least two hundred and fifty thousand dollars in excess of its liabilities; and a complete and detailed statement of its financial condition as of a date within sixty days prior to the date of such application.

At the time such application certificate is submitted to the superintendent, such corporation shall also submit a duly exemplified copy of its charter and a verified copy of its by-laws, or the equivalent thereof." (New York Banking Law, sec. 144.)

Conditions Precedent to Transacting Business:

"No foreign banking corporation, other than a bank organized under the laws of the United States, shall transact in this State the business of buying, selling or collecting bills of exchange, or of issuing letters of credit or of receiving moneys for transmission or transmitting the same by draft, check, cable or otherwise, or of making sterling or other loans or transacting any part of such business, or maintaining in this State any agency for carrying on such business, or any part thereof, unless such corporation shall have:

1. Been authorized by its charter to carry on such business and shall have complied with the laws of the State or country under which it is incorporated;

2. Furnish to the superintendent such proof as to the nature and character of its business and as to its financial condition as he may require;

3. Designated the superintendent of banks by a duly executed instrument in writing, its true and lawful attorney, upon whom all process in any action or proceeding by any resident of the State against it may be served with the same effect as if it were a domestic corporation and had been lawfully served with process within the State;

4. Paid to the superintendent of banks a license fee of two hundred and fifty dollars;

5. Received a license duly issued to it by the superintendent as provided in section twenty-seven of this chapter.

This section shall not be construed to prohibit foreign banking corporations which do not maintain an office in this State for the transaction of business from making loans in this State secured by mortgages on real property, nor from accepting assignments of mortgages covering real property situated in this State, nor from making loans through correspondents which are engaged in the business of banking in this State under the laws of the State." (New York Banking Law, sec. 145)

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Rights and Privileges-Renewal and Revocation of License:

"When the superintendent shall have issued a license to any such banking corporation, it may engage in the business specified in the immediately preceding section of this article at the location specified in such license for a period of one year from the date of such license; and such license may, in the discretion of the superintendent, be re-issued from year to year upon the payment by such foreign banking corporation of the sum of two hundred and fifty dollars upon each date that such license is re-issued. No such license shall be transferable or assignable and shall be at all times conspicuously displayed in the place of business specified therein. In the event that such license shall have been revoked by the superintendent, as provided in section twenty-nine of this chapter, it shall be surrendered to the superintendent within twenty-four hours after such corporation has received written notice of such revocation.

Whenever the superintendent shall have revoked any such license and shall have taken the action to make such revocation effective specified in section twenty-nine of this chapter, all the rights and privileges of such foreign corporation to transact business in this State shall forthwith cease and determine." (New York Banking Law, sec. 146.)

Reports of Condition:

"Every foreign banking corporation licensed by the superintendent to engage in business in this State, shall at such times and in such form as the superintendent shall prescribe, make written reports to the superintendent under the oath of one of its officers, managers, or agents transacting business in this State, showing the amount of its assets and liabilities and containing such other matters as the superintendent shall prescribe. \*\*\*" (New York Banking Law, sec. 147).

May Not Do Savings and Loan Business:

"No foreign corporation shall transact the business of a savings and loan association within this State or maintain an office in the State for the purpose of transacting such business. \*\*" (New York Banking Law, sec. 420.)

Power to Engage in Banking: NORTH DAKOTA

"No person except national banking corporations shall transact a banking business nor use the words bank, banking company



or banker in any sign, advertisement, letter head or envelope or in any corporate or firm name, without complying with and organizing under the provisions of this chapter." (Compiled Laws of North Dakota, 1913, Chap. 28, sec. 5177.)

### OHIO

#### Power to Engage in Banking:

"No bank or banking institution incorporated under the laws of any other State, shall be permitted to receive deposits, or transact banking business of any kind in this State, except to lend money." (General Code of Ohio, sec. 9796.)

### OKLAHOMA

#### Power to Engage in Banking:

"It shall be unlawful for any individual, firm, association, or corporation to receive money upon deposit or transact a banking business except as authorized by the laws of the State of Oklahoma, or of the United States. \*\*\*" (Oklahoma Session Laws 1915, p. 98.).

The only banks expressly authorized to engage in banking by the Oklahoma laws are those organized under such laws. (See Harris-Day Code of Oklahoma, sec. 258.)

### OREGON

#### Conditions Precedent to Doing Business:

Before transacting business in the State, every foreign corporation must file certain declarations and statements, pay an entrance fee, appoint some resident of the State its attorney to receive service of process and must obtain from the Secretary of State a certificate of authority to do business in the State. (Lord's Oregon Laws, sec. 6726, 6727, 2728.)

#### Rights and Powers:

Upon compliance with the State laws, foreign corporations have the same rights, powers, and privileges as corporations incorporated under the State laws. (Lord's Oregon Laws, sec. 6736.)

#### Annual Statements and License Fees:

Foreign corporations must file annual statements of their condition and pay annual license fees to the State authorities.

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(Lord's Oregon Laws, sec. 6707; Oregon Laws 1911, chap. 50; Oregon Laws 1913, chap. 381.)

Must Maintain Certain Capital in the State:

"Every foreign bank heretofore having established or hereafter maintaining one or more offices in this State shall have and at all times maintain at every such office a capital of not less than the amount required by this Act for the organization of other banks; and no foreign bank or bankers shall set forth on the stationery of such bank, or in any manner advertise, in the place where such office or offices are located, a greater capital, surplus or undivided profits than are actually maintained at any office or offices within this State; and such foreign bank or banker shall at all times maintain a capital and surplus which must equal at least ten per cent of the deposit liabilities of such foreign bank or banker." (Lord's Oregon Laws, sec. 4591.)

Subject to State Laws:

"Every foreign bank doing business in this State shall be subject to all the provisions of this Act to the same extent as banks or bankers organized or doing business under or by virtue of the laws of this State. \*\*\*" (Lord's Oregon Laws, sec. 4592.)

Oaths of Officers:

The officers, managers and agents of foreign banks doing business in the State must subscribe to the same oath of office as is required of the directors of domestic banks. (Lord's Oregon Laws, as amended 1915, sec. 4572 (a).)

Examinations:

"The managers, officers or agents of foreign banks doing business in the State must make the same semi annual examinations as is required of State banks and must file reports thereof with the State superintendent of banks." (Lord's Oregon Laws, as amended 1915, sec. 4572 (d).)

RHODE ISLAND

Power to Engage In Banking:

"No corporation, either domestic or foreign, and no person, partnership or association, except banks, savings banks, or trust companies incorporated under the laws of this State" shall transact or hold itself out as transacting the business of a bank, savings bank or trust company. (General Laws of Rhode Island, title XXII, chap 237, sec. 23.)

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SOUTH DAKOTAPower to Engage in Banking:-

"It shall be unlawful for any individual, firm or corporation to advertise, publish or otherwise represent that they are engaged in the banking business; without first having obtained authority from the public examiner as herein provided.

\*\*\*<sup>41</sup> (South Dakota Bank Guaranty Law, Art.II, sec.51.)

The only banks which the public examiner is specifically authorized to grant authority to engage in the banking business are those newly incorporated under the State law. (See South Dakota Bank Guaranty Law, Art.II, sec. 9.)

TENNESSEEExamination:-

"The Superintendent of Banks shall also have the power to examine, or cause to be examined, every agency located in this State of any foreign bank or banking corporation, in the same manner and for the same purpose as he shall examine domestic banks." (General Banking Act of Tennessee, sec. 7.)

TEXASPower to Engage in Banking:-

"No foreign corporation other than the national banks of the United States shall be permitted to do a business of banking and discount in this State." (Texas Acts 1905, S.S. p. 511, sec. 79.)

UTAHMust Comply with State Laws:-

"No foreign corporation shall transact a banking business in this state without first complying with all the requirements of the laws of this state relating to banks, as defined in this act, and without having the capital paid up in this state, as required by this act, and without having complied with the other laws of this state relating to foreign corporations." (Laws of Utah, 1911, Chap. 25, sec. 22.)

Reports of Condition:-

Foreign banks are required to make the same quarterly reports of condition to the State bank commissioner

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as domestic banks are required to make. (Laws of Utah, 1911, chap. 25, sec. 36.)

### VIRGINIA

#### Power to Engage in Banking:-

"No person, copartnership or corporation, except corporations duly chartered and already conducting the business of banking under authority of the law of this state or of the United States, or which shall hereafter be incorporated under the provisions of this act, or authorized to do business under the banking laws of the United States, shall engage in the business of banking in this State.\*\*\*" (Virginia Code, sec. 1170, as amended March 13, 1912.)

### WASHINGTON

#### What Business Foreign Banks May Transact:-

"A foreign corporation, whose name contains the words "bank", "banker", "banking", or "trust", or whose articles of incorporation empower it to do a banking or trust business and which desires to engage in the business of loaning money on mortgage securities or in buying and selling exchange, coin, bullion, or securities in this state may do so, but only upon filing with the state bank examiner and with the secretary of state a certified copy of a resolution of its governing board to the effect that it will not engage in banking or trust business in this state, which copy shall be duly attested by its president and secretary. Such corporation shall also comply with the general corporation laws of this State relating to foreign corporations doing business herein." (Washington Bank Laws 1917, sec. 52)

#### Branches of Foreign Banks Already Doing Business:-

"A branch of any foreign bank or banker actually and publicly engaged in banking in this state in full compliance with the laws hereof, which were in force immediately prior to the time when this law becomes operative and which branch has a capital not less in amount than that required for the organization of a State bank as provided in this act at the time and place when and where such branch was established, may continue its said business, subject to all of the regulations and supervision provided for banks." (Washington Bank Laws, 1917, sec. 53.)

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WEST VIRGINIAPower to Engage in Banking:-

"It shall be unlawful for any individual or association of individuals doing business in this state to use in connection with such business the term "bank," "banker," "banking company," or "trust company," or receive deposits, or sell foreign exchange, until they shall have taken out a charter and complied with the statutes governing banks and trust companies." (West Virginia Banking Laws, as amended, sec. 78.)

WISCONSINPower to Engage in Banking:-

"No bank shall transact any business, except such as is incidental or necessarily preliminary to its organization, until it has been regularly authorized by the commissioner of banking to commence the business of banking." (Wisconsin Statutes of 1915, sec. 2024-10)

The only banks which the commissioner of banking is specifically empowered to authorize to commence the business of banking are banks newly incorporated under the laws of the State. (See Wisconsin Statutes of 1915, sec. 2024-12.)

WYOMING

"No body politic or corporate (except national banks) shall establish a bank or engage in the business of banking, of any kind, or carry on or maintain any loan or trust business without fully complying with the express provisions of this chapter." (Compiled Statutes of Wyoming, 1910, Chap. 269, sec. 4074.)

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO  
SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD  
WASHINGTON

CHARLES S. HAMLIN, GOVERNOR  
FREDERIC A. DELANO, VICE GOVERNOR  
PAUL M. WARBURG  
W. P. G. HARDING  
ADOLPH C. MILLER

H. PARKER WILLIS, SECRETARY  
SHERMAN P. ALLEN, ASST. SECRETARY

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

X-1146

Federal Reserve Bank,

Gentlemen:

There are being sent to you herewith a supply of blank forms which are to be filled out by mining companies and oil companies, and made a part of their applications for the exportation of gold.

These forms have been prepared for the purpose of standardizing the special information desired by the Federal Reserve Board.

Very truly yours,

Assistant Secretary.

W

Information submitted as a part of the application of \_\_\_\_\_

\_\_\_\_\_ for permission to export

\$ \_\_\_\_\_ gold during the month of \_\_\_\_\_

Average monthly amount of oil produced during pre-  
ceding six months .....: \_\_\_\_\_Proportion of the average monthly production shipped :  
to the United States .....: \_\_\_\_\_Period during which tax has been incurred and upon :  
which this application is predicated .....: \_\_\_\_\_

Amount of oil produced during same period .....: \_\_\_\_\_

Proportion of the amount of oil produced during same :  
period which was exported to United States .....: \_\_\_\_\_

Rate of taxation .....: \_\_\_\_\_

Amount of tax .....: \$ \_\_\_\_\_

Original tax receipts showing actual use of gold :  
in settling with Mexican Government, or copies :  
thereof certified by American Consul, covering :  
last license granted by Federal Reserve Board :  
are attached and aggregate .....: \$ \_\_\_\_\_

Average monthly payroll during preceding six months ..: \$ \_\_\_\_\_

Payroll for month preceding this application .....: \$ \_\_\_\_\_

Estimated payroll during month upon which this ap-  
plication is predicated .....: \$ \_\_\_\_\_Statement sworn to before American Consul by dis-  
bursing officer of this Company to the effect :  
that gold (stating amount) permitted to be ex- :  
ported for payroll purposes under license :  
granted for the month second preceding the month :  
this application is intended to cover, has :  
actually been so used, is attached .....: \$ \_\_\_\_\_

for permission to export \$                      gold during  
month of                      .

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 Federal Reserve Bank of St. Louis



EX-OFFICIO MEMBERS  
CARTER GLASS  
SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

# FEDERAL RESERVE BOARD

WASHINGTON

W. P. G. HARDING, GOVERNOR  
ALBERT STRAUSS, VICE GOVERNOR  
ADOLPH C. MILLER  
CHARLES S. HANLIN  
109  
J. A. BRODERICK, SECRETARY  
L. C. ADELSON, ASSISTANT SECRETARY  
W. T. CHAPMAN, ASSISTANT SECRETARY  
W. M. INLAY, FISCAL AGENT  
ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

X-1148

## MEMORANDUM FOR THE FEDERAL RESERVE BOARD:

The collateral deposited by the Federal Reserve Bank  
of \_\_\_\_\_ against its issue of Federal Reserve bank  
notes has all been availed of.

Federal Reserve bank notes of its issue are now  
available for shipment to the extent of \$ \_\_\_\_\_  
and, acting under the power of attorney filed by said bank,  
authority is asked for the purchase of \$ \_\_\_\_\_  
special 2% certificates of indebtedness of the United States  
to be issued in the name of the Treasurer of the United States  
( in trust for account of said bank and as security for its  
Federal Reserve bank notes ), and delivered to the Comptroller  
of the Currency.

Respectfully,

Secretary.

APPROVED:

\_\_\_\_\_  
GOVERNOR.

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO  
SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

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PAUL M. WARBURG, VICE GOVERNOR  
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ADOLPH C. MILLER  
CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY  
SHERMAN P. ALLEN, ASST. SECRETARY  
AND FISCAL AGENT 1153

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

August 26, 1918.

Dear Sir:

For your information, there is submitted the following statement as to changes on the Staff of the Federal Reserve Board:

Mr. H. Parker Willis has resigned as Secretary, effective August 31st. The Board is pleased to announce that Mr. Willis will continue, after September first, to act as Editor of the Federal Reserve Bulletin and as Chief of its new Division of Analysis and Research.

Mr. J. A. Broderick has been elected Secretary of the Board, effective September first. He will be charged with the administrative details of the Boards work and, in addition, will continue to exercise general supervision over the work of examining Federal Reserve banks and applications made by state banks for admission to the system. Mr. Broderick will, from time to time, visit the various Federal Reserve Banks and report as to the methods, management and policies of such institutions.

Mr. Adelson, the Assistant Secretary, will perform the Secretary's duties in the absence of Mr. Broderick and, in addition, has been designated as Secretary of the Gold Export Committee.

-2-

He will, also, from time to time, make visits to the various Federal Reserve Banks in connection with the work outlines in the previous paragraph.

Mr. W.T. Chapman has been elected Assistant Secretary of the Board, effective September 1st. He will perform the duties of general assistant to Messrs. Broderick and Adelson.

The Board announces the appointment of S.G. Sargent as Federal Reserve Examiner in the Twelfth District, effective September 16th. Messrs. John A. Will, J. F. Herson, W.E. Walter, S.G. Sargent, W.W. Paddock, W.J. Donald, G.F. Hamilton, examiners on the staff of the Board, are authorized to examine the Federal Reserve banks and branches.

Messrs. Buchanan, Laning, Augherton, Gordon, Kraft, Chamberlin and Atkins are authorized to examine branches of Federal Reserve banks on presentation of proper letter of authority signed by Examiner in charge of the examination.

Very truly yours,

Governor

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO  
SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

W. P. G. HARDING, GOVERNOR  
VICE GOVERNOR  
ADOLPH C. MILLER  
CHARLES S. HAMLIN

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J. A. BRODERICK, SECRETARY  
L. C. ADELSON, ASSISTANT SECRETARY  
W. T. CHAPMAN, ASSISTANT SECRETARY  
W. M. IMLAY, FISCAL AGENT

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

August 28, 1918.

X 1160

Gentlemen:

Under date of \_\_\_\_\_ license No. \_\_\_\_\_  
permitting the exportation of \$ \_\_\_\_\_  
gold to Mexico was issued to you by the Federal  
Reserve Board. In order that its records may be  
complete, the Federal Reserve Board desires that you  
furnish on the enclosed form full details showing the  
disposition of this gold, subdivided as follows:

Mexican reimportation requirements (against  
gold and silver separately) -----;

Mexican government taxes: -----;

Export taxes (against gold, silver or  
other metals separately) -----;

Payrolls -----;

Mexican import duties -----;

Other purposes (specifying in detail). -----;

Total -----;

Please mail your report to reach us not later  
than September 10.

Yours very truly,

Assistant Secretary.

Excerpt from a letter received by  
the Federal Reserve Board.

"The enormous demand for raw materials owing to the war and the resulting high price of them has made the Neutrals creditors of the Allies and as the export of gold, the usual medium of settling adverse balances, on has been largely prohibited rates of exchange on the United States and our Allies are ruling at a considerable discount in the neutral countries. This discount has increased to us the cost of the very necessary raw materials at least the amount of the discount. All the Allies including ourselves have endeavored by arranging special credits, that is by borrowing money in those countries, to keep the exchange from being too much against us, just as England before our entry into the war, ~~after~~ having sold us all the securities that she could, borrowed heavily in this country to buy our necessary products.

My suggestion is that we change our recent policy and settle balances in gold. I well understand the fear that if the war lasts a long time we shall find our gold being depleted and our reserves endangered. This fear is, I think, based on the fallacy which I had hoped had passed with the enactment of the Federal Reserve Act that a fixed proportion of gold or legal tender must be held absolutely intact against outstanding bank notes or deposits. The strength of a bank is not in its proportion of cash reserve but in the character of its loans and discounts and in its reputation. It makes no difference if its cash is 60% or 10% of its liabilities provided this proportion is large enough for the public to feel confident that they can obtain the kind of money that they wish when drawing their deposits or when presenting notes for payment. Fortunately in this country our people are not accustomed to the use of gold, so that a removal of what are practically restrictions on gold payments would not result in any withdrawals of gold except for export.

How much would be withdrawn for export to settle our exchanges? Our Allies would not withdraw gold as the exchanges with the Allies are still very much in our favor. With Holland, Switzerland, and the Scandinavian countries our imports have nearly ceased and if necessary we can prevent gold going to these countries as contraband. With Spain now that withdrawals of German deposits to that country are being prevented and the army purchases have been covered by a special loan no large withdrawal of gold need to be expected. The European neutrals want our products not gold which is at a discount with them owing to its superabundance. The South American countries alone will take our gold, and this is especially true of Argentina.

Suppose fifty, or even one hundred million dollars in gold were shipped during the next year to Argentina, this amount would not materially effect our enormous stock of gold or reduce materially the sixty per cent of gold which is held against the Federal notes. Only forty per cent was contemplated by the Federal Reserve Act so that the amount is now one and one-half as much as was planned. A reserve is of no use except as it gives credit and as it is used. Forty per cent gold, or even less will amply protect our credit.

X-1162

- 2 -

Besides the obvious savings in the purchasing power, by having our dollar worth its gold equivalent in foreign countries, which would result from free export of gold, the general credit of this country would be wonderfully strengthened in foreign countries both during the wartime and afterwards. There is nothing that hurts the credit of a country and its merchants so much as a depreciated currency and a refusal to pay in the international standard of value, namely gold. We have been endeavoring to build up our commerce with South America, but unsatisfactory delivery of merchandise and the refusal to ship gold has given its people a bad opinion of our country and its merchants.

Moreover, if the neutral countries were certain that they could obtain gold from this country, they would not want it. They all have more gold than ever before and they have no use for more. If our credit was good, they would have large deposits with our banks or instead of rediscounting at once in this country all time bills of exchange on the United States, their bankers would have such bills held for their account so as to earn the interest, just as our bankers before our entry into the war held large amounts of long Sterling bills. England, besides paying for a portion of the necessary supplies from the United States in gold, also thereby reduced rates of interest in this country so that we held her bills and loaned the government money. It seems to me that this would work in exactly the same way in the neutral countries. Not only would we pay for products which we need with gold, which we do not need, but re-establish our credit and by lowering interest rates in the neutral countries, induce their people to place their funds in this country and thereby stop their demand for our gold. In fact, I doubt very much if it would take nearly fifty millions of gold to rectify the exchanges with Argentina or even with the whole world. If this is so, it seems extremely foolish for the United States to pay interest on loans from Spain or Argentina and still have to pay a premium of from 10 to 25% on its purchases, owing to our depreciated exchange, and also to ruin our credit as a nation, not only for now, but for all time.

(August 29, 1918)

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO  
SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD  
WASHINGTON

W. P. G. HARDING, GOVERNOR  
VICE GOVERNOR  
ADOLPH C. MILLER  
CHARLES S. HAMLIN

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J. A. BRODERICK, SECRETARY  
L. C. ADELSON, ASSISTANT SECRETARY  
W. T. CHAPMAN, ASSISTANT SECRETARY  
W. M. IMLAY, FISCAL AGENT

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

August 29, 1918.

X-1163

Dear Sir:

Several inquiries have been made during the past few months as to possibilities of simplifying the present plan of operation in handling rediscounts between Federal Reserve Banks.

The attached memorandum has been prepared by the Statistical Division, and it would be appreciated if you will please give the undersigned the benefit of your criticisms or suggestions, preferably by wire.

Very truly yours,

Acting Secretary.

August 27, 1918. 116

## REDISCOUNTS BETWEEN FEDERAL RESERVE BANKS.

There is submitted below a plan for handling rediscounts between Federal Reserve banks which it is believed will effect as great a saving in clerical work as is possible under the present law.

(1) When one Federal Reserve bank rediscounts the paper of another it will be necessary for the discounting bank to endorse all paper and furnish the rediscounting bank and the Federal Reserve Board with a statement on Schedule BD - 4 or 7 showing the identification number, the name of each maker, the due date, the maturity value, and the rate at which rediscounted.

(2) Credit should be given by the rediscounting bank, in the daily settlement or by transfer if necessary, for the entire maturity value of the paper without deduction for unearned discount.

(3) Instead of figuring discount on each piece of paper separately it will be sufficient to calculate the discount on the entire amount for one day and to credit the rediscounting bank daily, or at and as of close of business each Friday, also on the last day of each month with the amount of discount then accrued; or discount may be accrued daily on the same basis as interest is now accrued on U.S. bonds and settlement made between the banks when the rediscounted paper is redeemed or at such other time or times as may be agreed upon. It will be assumed under this plan that the paper is rediscounted for the entire period it has to run, although the discounting bank may redeem the paper at any time by merely crediting the rediscounting bank with the maturity value of the paper plus the amount of discount accrued, if any. If the paper is redeemed as above before maturity date the Board should be furnished with a statement to the effect that paper rediscounted with Bank "A" on a given date, as shown by Schedule No. \_\_\_\_\_ dated \_\_\_\_\_ was redeemed on \_\_\_\_\_.

(4) In case the above plan is adopted, bookkeeping entries in connection with earned and unearned discount could be made as follows:

By Discounting Bank: Debit unearned discount and credit either the rediscounting bank or discount accrued on rediscounts (liability item).

By Rediscounting Bank: Credit earned discount and debit either the discounting bank or Discount accrued on rediscounts (asset item).

It is of course assumed that under this plan the rediscounting Federal Reserve bank will carry the paper rediscounted on its books at its maturity value regardless of the period for which the discounting bank may desire accommodation. In view of the fact, however, that Federal Reserve banks file their bill holdings according to maturity dates it is thought that very little extra work will be necessary in order to comply with the maturity classification shown on form 34.



EX-OFFICIO MEMBERS

WILLIAM G. MCADOO  
SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

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VICE GOVERNOR  
ADOLPH C. MILLER  
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L. C. ADELSON, ASSISTANT SECRETARY  
W. T. CHAPMAN, ASSISTANT SECRETARY  
W. M. IMLAY, FISCAL AGENT

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

August 30, 1918.

X-1164

Gentlemen:

The United States Department of Agriculture has issued a Bulletin, No. 729, entitled "Suitable Storage Conditions for Certain Perishable Food Products".

This bulletin contains much valuable information for growers of various kinds of produce, and the Department has furnished the Federal Reserve Board with a quantity for shipment to the Federal Reserve Banks for distribution among their members in the farming communities.

I trust that you will see that publicity is given to this bulletin, and that it is distributed in such manner as to give the maximum benefit to the producers of the communities in your district.

Very truly yours,

Governor.

Federal Reserve Bank,

## EX-OFFICIO MEMBERS

WILLIAM G. MCADOO  
 SECRETARY OF THE TREASURY  
 CHAIRMAN  
 JOHN SKELTON WILLIAMS  
 COMPTROLLER OF THE CURRENCY

W. P. G. HARDING, GOVERNOR  
 PAUL M. WARBURG, VICE GOVERNOR  
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 CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY  
 SHERMAN P. ALLEN, ASST. SECRETARY  
 AND FISCAL AGENT

## FEDERAL RESERVE BOARD

WASHINGTON

DIVISION OF REPORTS AND STATISTICS

ADDRESS REPLY TO  
 FEDERAL RESERVE BOARD

August 30, 1918

118

Dear Sir:

Reports of the total check transactions received for the two previous weekly periods make it desirable to supplement our letter of August 1, transmitted to you through the Chairman of the Board of Directors of the Federal Reserve bank of your district. There are indications that the instructions regarding the information desired have not been interpreted in exactly the same manner in all the centers from which data have been requested. Hence it is believed desirable, in order that the information secured may be placed upon a strictly comparable basis, to state in greater detail what sort of information is wanted.

It is desired to have each clearing house member bank in your city report to you each week for the previous weekly period ending Wednesday evening,

- (a) the total debits charged by it to account of individuals, firms and corporations, and the United States government. Checks against all accounts, including savings and trust accounts with such banks, cashiers' checks, expense checks and certificates of deposit paid should be included. Corrections or like charges should be excluded.
- (b) total charges to accounts of banks and bankers, excluding debits in settlement of clearing house balances and corrections or like charges. Drafts and checks drawn by reporting bank on other banks are not to be included.

While this office does not wish to impose any undue burden, it is very important that in all cases separate figures be shown for the two items, debits to individual accounts (code word ISHA) and debits to banks' and bankers' accounts (code word IPSE) instead of one total figure covering all debits.

The combined totals, in even thousands, for your local clearing house banks, item ISHA and item IPSE for the week ending Wednesday evening should be telegraphed on Thursday of each week to the Chairman of the Board of Directors of the Federal Reserve bank of your district. In case some member or members of your clearing house who are not members of the Federal Reserve System object to furnishing this data called for, we would again request that you please forward totals of the returns actually received by you from assenting banks, adding the names of banks which do not report.

Respectfully,

Assistant Secretary.

X-1165

## EX-OFFICIO MEMBERS

WILLIAM G. MCADOO  
SECRETARY OF THE TREASURY  
CHAIRMAN

JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

W. P. G. HARDING, GOVERNOR  
PAUL M. WARBURG, VICE GOVERNOR  
FREDERIC A. DELANO  
ADOLPH C. MILLER  
CHARLES S. HAMLIN

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H. PARKER WILLIS, SECRETARY  
SHERMAN P. ALLEN, ASST. SECRETARY  
AND FISCAL AGENT

## FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

DIVISION OF REPORTS AND STATISTICS

August 30, 1918

Dear Sir:

Analysis of the data received for the past two weeks makes it desirable to supplement our circular letter X-1100 dated August 1, and subsequent telegrams, relating to returns by clearing house managers of checks paid by their member banks, also our instructions regarding weekly telegrams from the several Federal Reserve Banks of total debits to member banks' and Government accounts.

There is enclosed herewith copy of letter which is being sent to the several clearing house managers from whom it is desired to secure reports, with the view of securing greater uniformity in the returns, and placing the data upon a strictly comparable basis. This letter is thought to be self explanatory.

It is also thought desirable to eliminate certain of the smaller clearing house centers from which reports have been received. Accordingly a list of the centers in your district from which it is desired to secure weekly returns, is given below. Kindly use your best efforts to secure the information for such cities on the list as do not at present report, in addition to those cities for which you have been able to secure the weekly data.

Any suggestions with regard to the above list will be welcome.

Confirmation of the telegrams received after the last statement was issued have shown that several errors occurred in transmission. It is believed desirable, therefore, to have separate totals for both classes of items given, so as to enable this office to discover such errors immediately, and take the necessary steps to ascertain the correct figures. In order to avoid any misunderstanding, the following standard form of telegram has been devised. Kindly state figures in even thousands and use numerals, also if

(X-1166)

-2-

no report is received for a city on the list, please so specify. Please give by name non-reporting banks in cities for which incomplete returns are being forwarded. It is suggested that you use this form in obtaining the information from the several clearing house managers:

MEMBERS CLEARING HOUSE REPORT.

ISHA Debits to individual account  
IPSE Debits to banks' and bankers' account  
Total

FEDERAL RESERVE BANKS

IKRA Debits to bank account  
IMLY Debits to government account  
Total

There has been some misunderstanding as to the items to be included in the reports of debits by the Federal Reserve bank and branches. These have been stated as follows:

- (a) all debits to accounts carried by the Federal Reserve bank or branch, exclusive of government account, and created either by checks or written or telegraphic order, and
  - (b) all debits, including checks paid, on U.S. Treasurer's account.
- These figures are to be given separately, in even thousands, for each Federal Reserve bank and branch carrying separate accounts, the branches in the latter case reporting direct to the Board. These data should also cover the weekly period ending Wednesday evening.

Copies of these instructions are transmitted direct to Federal Reserve branches having deposit accounts.

Respectfully,

Assistant Secretary.

X-1166

## EX-OFFICIO MEMBERS

WILLIAM G. MCADOO  
 SECRETARY OF THE TREASURY  
 CHAIRMAN  
 JOHN SKELTON  
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 AND FISCAL AGENT

## FEDERAL RESERVE BOARD

WASHINGTON

DIVISION OF REPORTS AND STATISTICS

ADDRESS REPLY TO  
 FEDERAL RESERVE BOARD

August 30, 1918

Dear Sir:

Analysis of the reports of discount and interest rates prevailing in the several Federal Reserve and Federal Reserve branch cities during the 30-day periods ending July 15, 1918 and August 15, 1918, shows that it is desirable to supplement in certain particulars our circular letter X-1068, dated July 17, and our letter of August 2.

It is very important that the data be upon strictly a comparable basis. May we therefore ask that before transmitting the report to this office you kindly compare the current report with the previous week's report and verify any striking changes which may appear. Please also bear in mind that the data from each Federal Reserve bank and branch are to be confined to rates prevailing in the respective city only, and not in the entire district, nor should they include rates on loans in outside cities by banks in the city for which the report is made. The local rate for each class of paper is desired, not the rate secured elsewhere as for instance in New York on loans temporarily made there. Kindly eliminate rates charged infrequently on loans for small amounts, which rates do not actually represent charges for prime paper, but include a considerable risk element as well.

Rates on prime member bank acceptances eligible for rediscount at the Federal Reserve Bank are desired in class 4-B. In certain of the centers in which this class of paper is actively dealt in, it should be possible to secure separate quotations for endorsed and unendorsed bankers' acceptances, and we would request again that you endeavor to secure such quotations. Under the head of special types of paper reported in class 7, it appears that there are two classes for which quotations should be given if such paper is current locally, namely commodity paper, secured by warehouse receipts, etc., and cattle paper. In addition to the rates for which current information is sent, it would be desirable to have also information regarding rates charged during the 30-day period for paper secured by Liberty bonds and certificates of indebtedness.

Copies of these instructions are transmitted to Federal Reserve branches direct.

Respectfully,

Assistant Secretary.

X-1168

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO  
SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

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CHARLES S. HAMLIN

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H. PARKER WILLIS, SECRETARY  
SHERMAN P. ALLEN, ASST. SECRETARY  
AND FISCAL AGENT

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

September 6, 1918.

X-1177

Dear Sir:

In consideration of applications for membership received from State institutions, the Board and Federal Reserve Banks have been embarrassed on several occasions because it had become publicly known that an application had been submitted, and declination might have caused very unfavorable comment upon the applying institution, or might even have resulted in heavy withdrawal of deposits.

The Board has instructed me, therefore, to suggest to you that, upon receipt of an informal inquiry or formal application from a State bank or trust company, a request be made to such institution that no public announcement be made of its intention to join the Federal Reserve System until the application has been formally approved by the Board, and the conditions imposed accepted by the applying bank.

Very truly yours,

Secretary.

The Chairman,  
Federal Reserve Bank,

EX-OFFICIO MEMBERS

CARTER GLASS

SECRETARY OF THE TREASURY  
CHAIRMAN

JOHN SKELTON WILLIAMS

COMPTROLLER OF THE CURRENCY

W. P. G. HARDING, GOVERNOR  
ALBERT STRAUSS, VICE GOVERNOR  
ADOLPH C. MILLER  
CHARLES S. HAMLIN

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FEDERAL RESERVE BOARD

WASHINGTON

J. A. BRODERICK, SECRETARY  
L. C. ADELSON, ASSISTANT SECRETARY  
W. T. CHAPMAN, ASSISTANT SECRETARY  
W. M. INLAY, FISCAL AGENT

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

September 7, 1918.

X-1179

Dear Sir:

I enclose herewith copy of letter received from the Postmaster at Washington, under date of September 6, making complaint that Federal Reserve Banks are slow in paying his bills for postage advanced in connection with shipments of currency.

May I ask that you do all that you can to facilitate the harmonious operation of the arrangement effected with the postoffice.

Very truly yours,

Secretary.

The Governor,  
Federal Reserve Bank of

September 6, 1918.

X-1179 a

Federal Reserve Board,  
Treasury Department,  
Washington, D.C.

Gentlemen:

You will recall that sometime ago the Post Office effected arrangements through your Board with the Federal Reserve Banks whereby shipments of currency were made to the bank and postage stamps affixed thereto by this office prior to payment for the stamps by the banks. It was the understanding at that time that the banks would promptly remit for this postage upon the receipt of a bill therefor from the Post Office and I have to call your attention to the fact that there is a tendency of late on the part of some of the banks to be somewhat remis in forwarding checks for the postage, and as the result we are compelled to carry on our books open accounts of thousands of dollars. This is very unsatisfactory to the office and I would appreciate your cooperation in having the banks make remittances more promptly.

Very respectfully,

(signed) M.O. Chance.

Postmaster.



EX-OFFICIO MEMBERS

WILLIAM G. MCADOO  
SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

W. P. G. HARDING, GOVERNOR  
ADOLPH C. MILLER, VICE GOVERNOR  
CHARLES S. HAMLIN

J. A. BRODERICK, SECRETARY  
L. C. ADELSON, ASSISTANT SECRETARY  
W. T. CHAPMAN, ASSISTANT SECRETARY  
W. M. IMLAY, FISCAL AGENT

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

September 11, 1918.

X-1189

Dear Sir:

Section 4 of the Federal Reserve Act provides that  
"any compensation that may be provided by boards of directors  
of Federal Reserve banks for directors,  
officers or employes shall be subject to the approval of the  
Federal Reserve Board."

In meeting the requirements of the law, the Federal  
Reserve Board has undertaken to pass upon salary lists of the  
Federal Reserve Banks and it has been customary for the Banks  
in the past to submit statements of salaries of officers and  
employes approximately January 1st and July 1st of each year,  
for approval by the Board of modification in salaries.

Some of the banks have made a practice of reporting  
to the Board increases in compensation during the year, but  
there has been no uniform rule in this respect. It is therefore  
requested;

-2-

That a list be submitted, say by or before the last week in December, and by or before the last week in June of each year, giving the following information;

Name;	Position;	Date of Employment;	Present Annual Salary	Proposed Annual Salary	Increase
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Where the increase amounts to \$300 or more per annum, a statement should be made as to the qualifications of the employe, description of the duties, length of service and the reasons for the increase.

In the case of the appointment of any new employe whose salary is to be \$2,400 or more per annum, it is requested that prompt advice be sent to the Board with the proper statement as to description of duties, qualifications, and proposed salary.

While the foregoing may carry little variation from the usual practice of some of the Banks, this suggestion is made for the sake of uniformity of all reports of this character.

Kindly acknowledge receipt and oblige.

Very truly yours,

Governor.

## EX-OFFICIO MEMBERS

WILLIAM G. MCADOO  
SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

## FEDERAL RESERVE BOARD

WASHINGTON

W. P. G. HARDING, GOVERNOR  
\_\_\_\_\_, VICE GOVERNOR  
ADOLPH C. MILLER  
CHARLES S. HAMLIN

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J. A. BRODERICK, SECRETARY  
L. C. ADELSON, ASSISTANT SECRETARY  
W. T. CHAPMAN, ASSISTANT SECRETARY  
W. M. INLAY, FISCAL AGENT

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

September 11, 1918.

X-1190

Dear Sir:

The Board is anxious to obtain all information possible as to interest and discount rates throughout the country, and requests that you ask your member banks to indicate on their rediscount application blanks the rate of interest or discount charged by them on each note or bill offered for rediscount with a Federal Reserve bank; or, in the case of purchased paper, exclusive of acceptances, the rate at which the purchase has been made by the member bank.

For the information of the Board you are requested to give instructions that there be reported on Schedule B.D. 4, the customer's rate on notes discounted, e.g.,

Rate  
4-1/2 (5-1/2)

the first figures being the reserve bank rate and the second (in parenthesis) the rate charged by the member bank. In case there is not room on the form to insert the customer's rate in the order indicated, it may be inserted anywhere else on the line.

In order to provide ample time for communication with member banks, it is suggested that they be asked to furnish this additional information on their application blanks beginning Monday, September 23, 1918.

Your compliance with this request will be greatly appreciated by the Board.

Very truly yours,

Governor.

-A-

ACT AMENDING SECTION 25 AND SECTION 7 OF THE  
FEDERAL RESERVE ACT.

## Explanatory Note:

Section 25 is amended by adding two subsections to be known as 25 (a) and 25 (b).

(1) Section 25 (a) provides for the incorporation of a bank to engage principally in the business of international and foreign banking. It is contemplated that all of the stock of this bank will be subscribed for by the twelve Federal reserve banks, such stock to be paid for out of the net earnings of the Federal reserve banks, which would otherwise be paid to the United States as a franchise tax. This stock is known as Class "B" stock. Stock known as Class "A" stock may, however, be sold to member banks or to the United States Government, if the subscriptions to Class "B" stock are insufficient to furnish the necessary capital for the corporation's needs. Class "A" stock is entitled to receive an annual dividend of 6% which is cumulative. All other net earnings are paid to holders of Class "B" stock, except the amount set aside in the surplus account.

The earnings of the corporation will, therefore, supplement the earnings of the Federal reserve banks and will ultimately be paid the United States as a franchise tax. The effect of this plan is that the United States invests earnings it would otherwise be entitled to receive in the immediate future in stock of the Federal Reserve Foreign Exchange Bank.

This bank is designed to enable it to extend to Federal reserve banks and member banks any accommodation that might be extended by banks engaged in the business of international or foreign banking; to aid the United States in the development of its foreign trade and to stabilize the dollar as a medium of international exchange. It will conduct its operations under the general supervision of the Federal Reserve Board and under the immediate supervision of a Board of Directors appointed by that Board.

(2) Subsection 25 (a) provides for the incorporation under Federal charter of banks to engage primarily in the business of international and foreign banking. The stock of these banks may be subscribed for by member banks. Member banks are thus given the option either to handle their foreign transactions through the Federal Reserve Foreign Exchange Bank or through banks organized and controlled by the member banks. Such banks are likewise operated under the general supervision of the Federal Reserve Board, but under the immediate supervision of directors selected by the member banks.

This section also provides for the conversion of State banks heretofore created for the purpose of engaging primarily in international and foreign banking into Federal banks organized for this purpose.

(3) Section 7 is amended so as to permit the Federal reserve banks to use net earnings which would otherwise be paid to the United States as a franchise tax in the purchase of stock in the Federal Reserve Foreign Exchange Bank.

BE IT ENACTED BY THE SENATE AND HOUSE OF REPRESENTATIVES OF THE UNITED STATES OF AMERICA IN CONGRESS ASSEMBLED, That the Act approved December 23, 1913, known as the Federal Reserve Act, as amended by the Act of August 4, 1914, August 15, 1914, March 3, 1915, September 7, 1915, and June 21, 1915, be further amended as follows:

SECTION 1. By inserting new section to be known as Section 25 (a) after Section 25 to read as follows:

Section 25 (a). The Federal Reserve Board shall supervise the organization of a corporation for carrying on the business of banking under the provisions of this Section.

#### ORGANIZATION.

The several Federal reserve banks shall enter into articles of association, which shall specify in general terms the object for which the corporation is formed, and may contain any other provisions not inconsistent with law which the corporation with the approval of the Federal Reserve Board may see fit to adopt for the regulation of its business and the conduct of its affairs. These articles shall be executed by the Chairman of the Board of Directors and the Secretary of each Federal Reserve bank, under the seal of each bank, and a copy of them shall be forwarded to the Comptroller of the Currency, to be filed and preserved in his office. Such articles of association when filed with the Comptroller of the Currency, shall be accompanied by an organization certificate executed in the same manner as the articles of association, which shall specifically state:

First, the name of the corporation which shall be Federal Reserve Foreign Exchange Bank,

Second, the amount of capital stock which shall not be less than \$20,000,000, but which may be increased from time to time with the approval of the Federal Reserve Board,

Third, the fact that the certificate is made to enable the several Federal reserve banks to avail themselves of the advantages of this Section.

#### POWERS.

Upon the filing of such certificate with the Comptroller of the Currency as aforesaid, the said Federal Reserve Foreign Exchange Bank, for convenience hereinafter referred to as the Corporation, shall become a body corporate, and as such shall have power -

- (1) To adopt and use a corporate seal.
- (2) To have succession for a period of twenty years from its organization unless it is sooner dissolved by an act of Congress,
- (3) To make contracts,
- (4) To sue and be sued, complain and defend, in any court of law or equity.

(5) To prescribe by its board of directors, by-laws, not inconsistent with law, regulating the manner in which its general business may be conducted, and the privileges granted to it by law may be exercised and enjoyed.

(6) To receive deposits from the United States, from foreign governments, and from the several Federal reserve banks in gold, gold certificates, or lawful money, national bank notes, Federal reserve notes, Federal reserve bank notes, or checks and drafts payable upon presentation and, solely for exchange purposes, to receive from member banks similar deposits.

(7) To deal in gold and silver coin and bullion at home or abroad, to make loans thereon and to contract for loans of gold coin or bullion, giving therefor acceptable security, including the hypothecation of United States bonds or such other securities as the corporation is authorized to hold.

(8) To buy and sell at home or abroad bonds and notes of the United States, bonds and notes of foreign governments and bills of exchange or acceptances drawn in transactions which involve the importation or exportation of goods, and which have a maturity at the time of purchase of not exceeding ninety days.

(9) To rediscount for Federal reserve bank notes, drafts or other securities held by such banks.

(10) To make loans to Federal reserve banks on their promissory notes having a maturity not to exceed 30 days and secured by bills, notes, or other securities held by such banks.

(11) To establish from time to time, subject to review and determination of the Federal Reserve Board, the rates of discount and exchange, and commissions for the opening credits at home or abroad.

(12) Under rules and regulations prescribed by the Federal Reserve Board, to establish branches or agencies in foreign countries and their dependencies or in dependencies of the United States, for the purpose of facilitating commerce with the United States;

(13) To carry accounts with or for correspondents in foreign countries.

(14) Under regulations to be prescribed by the Federal Reserve Board to issue directly or through the Federal reserve banks or member banks, commercial letters of credit and travelers checks.

(15) To purchase through foreign correspondents, agencies or branches, bills of exchange and banker's acceptances.

(16) To engage in the business of banking through its foreign branches or agencies to the extent permitted, and subject to limitations imposed by the laws of the country in which such branches or agencies are located.

(17) To act as fiscal or financial agent for the government of the United States whenever required to do so by the Secretary of the Treasury.

(18) To exercise by its board of directors, or duly authorized officers or agents, all powers specifically granted by the provisions of this section and such incidental powers as shall be necessary to carry on the business of banking within the limitations prescribed by this section.

Such corporation shall not transact any business except such as is incidental and necessarily preliminary to its organization, until it has been authorized by the Comptroller of the Currency to commence the business of banking.

#### CAPITAL STOCK

The capital stock of such corporation shall be divided into shares of \$100 each and shall be deemed personal property. Such shares shall be issued in two classes, to be known as Class A stock and Class B stock respectively. Class A shares shall be transferable upon the books of the corporation under regulations to be prescribed by the Federal Reserve Board. Every member bank becoming a shareholder by such transfer shall, in proportion to its shares, succeed to all the rights and liabilities of the prior holder of such shares. Class B shares shall not be transferred nor hypothecated. Each Federal reserve bank shall subscribe for and purchase such an amount of Class B shares of the corporation as the Federal Reserve Board, with the approval of the Secretary of the Treasury, may allot to it, but no such bank shall subscribe for an amount greater than it is authorized to invest in such stock under Section 7 of the Federal Reserve Act, as amended by this Act. The Federal Reserve Board shall prescribe the manner in which such stock subscriptions shall be paid.

Should the amount of Class B stock subscribed for and sold to Federal Reserve Banks, in the judgment of the Federal Reserve Board, be insufficient to provide the amount of capital required for the corporation, then and in that event the Federal Reserve Board, under conditions and regulations to be prescribed by it, may offer to member banks such an amount of Class A shares of stock in such corporation as the Federal Reserve Board shall determine to be necessary, and may fix the terms and conditions under which such stock may be sold and allotted, but no stock shall be sold at less than par. When offered by the Federal Reserve Board member banks shall be authorized to subscribe to and purchase Class A shares of stock in the corporation in an amount which does not exceed ten per cent of the capital and surplus of such member bank. Should the total subscriptions to Class B stock by Federal reserve banks and to Class A stock by member banks, in the judgment of the Federal Reserve Board, be insufficient to provide the amount of capital required by the corporation, then and in that event the Federal Reserve Board shall allot to the United States such an amount of Class A stock as said Board shall determine to be necessary.



Said stock shall be paid for at par out of any money in the Treasury not otherwise appropriated, and shall be held by the Secretary of the Treasury, for the benefit of the United States, and may be later disposed of through the Federal Reserve Board to member banks applying therefor under the terms and conditions to be fixed by the Secretary of the Treasury, but no such stock shall be sold at less than par.

#### GENERAL SUPERVISION.

The affairs of the Corporation shall be conducted under the general supervision and control of a board of directors consisting of nine members appointed by the Federal Reserve Board. Upon the organization of the first Board, one of the members shall be designated by the Federal Reserve Board as Governor, and one as Vice Governor. The directors may elect a committee of five to be known as the Executive Committee, and may delegate to this committee such powers and authority as may be deemed necessary or advisable. Five members of the Board shall constitute a quorum for the transaction of any business, and three members of the Executive Committee shall constitute a quorum of that committee. Members of the Board shall be citizens of the United States over thirty-five years of age, shall be men of tested mercantile experience and be fairly representative of the various parts of the United States. The directors first appointed by the Board shall serve for terms of from one to nine years respectively, and thereafter each member so appointed shall serve for a term of nine years unless sooner removed for cause by the Federal Reserve Board. After the first year the directors shall annually elect the Governor and Vice Governor from the directors appointed by the Federal Reserve Board. The Governor shall receive an annual salary of \$25,000 and the Vice Governor an annual salary of \$15,000. The salary of the directors shall be fixed by the Federal Reserve Board, and the salaries of all other officers shall be fixed by the directors subject to the approval of the Federal Reserve Board. The directors, other than officers, shall receive in addition to their salaries a reasonable allowance for necessary expenses in attending meetings of the Board. The Board of directors shall perform the duties usually pertaining to the office of director of a banking association and such other duties as are prescribed by law. Such Board shall administer the affairs of the corporation fairly and impartially and without discrimination and subject to the provisions of law and orders of the Federal Reserve Board, shall extend to Federal reserve banks and member banks such accommodations as may be safely and reasonably extended under authority of this section.

## REPORTS AND EXAMINATION.

The corporation shall make reports of its conditions on forms prescribed by the Federal Reserve Board as and when called upon by the Federal Reserve Board. The Federal Reserve Board shall cause examinations to be made by examiners selected by it of the affairs of such corporation at least twice in each year, and all the expenses of such examinations, including the examination of branches or agencies, shall be paid by the Corporation upon an assessment being made by the Federal Reserve Board.

## FEDERAL RESERVE BANKS.

The corporation may carry accounts with or for Federal reserve banks, which banks shall be authorized to receive deposits from or to make deposits with the corporation, and to purchase from or rediscount for, with or without its endorsement, any securities said Federal reserve banks are authorized by law to hold or to make loans on the promissory note of such corporation having a maturity not to exceed thirty days and secured by bills and notes or other securities eligible for rediscount or purchase by the Federal reserve banks.

## DIVISION OF EARNINGS.

After all necessary expenses of the corporation have been paid or provided for, Class "A" stockholders shall be entitled to receive an annual dividend of six per cent. on the paid in capital stock, which dividend shall be cumulative.

After the aforesaid dividend claims have been fully met, all the net earnings shall be distributed pro rata among the Class "B" stockholders, except that one-half of such net earnings shall be paid into a surplus fund until it shall amount to forty per cent. of the paid in capital stock of such bank.

## TAX EXEMPTION.

The corporation, including the capital stock and surplus therein, and the income derived therefrom, shall be exempt from Federal, State or local taxation, except taxes upon real estate.

Section 2. By inserting a new section to be known as Section 25 (b) after section 25 (a) to read as follows:

Banking corporations to be organized for the purpose of engaging principally in international or foreign banking, or banking in a dependency or insular possession of the United States, either directly or through the agency, ownership, or control of local institutions in foreign countries, or in such dependencies or insular possessions as provided by this section, and to act when required as fiscal agents of the United States, may be formed by any number of natural persons, not less in any case than five.

Such persons shall enter into articles of association which shall specify in general terms the object for which the association is formed and may contain any other provisions not inconsistent with law which the association may see fit to adopt for the regulation of its business and the conduct of its affairs.

These articles shall be signed by the persons uniting to form the association and a copy of them shall be forwarded to the Federal Reserve Board to be filed and presented with its records.

The persons uniting to form such association shall, under their hands, make an organization certificate which shall specifically state:

(1) The name assumed by such association, which name shall be subject to the approval of the Federal Reserve Board;

(2) The place or places where its operations are to be carried on;

(3) The place in the United States where its home office shall be located;

(4) The amount of its capital stock which shall be not less than \$2,000,000 and the number of shares into which the same shall be divided;

(5) The name and places of residence or of business of the shareholders and the number of shares held by each of them;

(6) The fact that the certificate is made to enable such persons to avail themselves of the advantages of this section.

The organization certificate shall be acknowledged before a judge of some court of record or a notary public and shall be, together with the acknowledgment thereof, authenticated by the seal of such court or notary and transmitted to the Federal Reserve Board, which shall record and carefully preserve the same in its business.

Upon duly making and filing articles of association and organization as provided in this section the corporation shall become as from the date of its execution of its organization certificate a body corporate, and as such and in the name designated in the organization certificate it shall have power under such conditions and regulations as the Federal Reserve Board may prescribe:

First. To adopt and use a corporate seal.

Second. To have succession for a period of twenty years from its organization unless sooner dissolved by an act of Congress or unless its franchises shall become forfeited by some violation of law.

Third. To make contracts.

Fourth. To sue and be sued, complain and defend, in any court of law or equity as fully as natural persons.

Fifth. To elect or appoint directors, a majority of whom shall be citizens of the United States, and by its board of directors to appoint such officers and employees as they may deem proper, define their duties, require bonds of them and fix the penalty thereof, dismiss such officers or employees, or any of them, at pleasure, and appoint others to fill their places.

Sixth. To prescribe by its board of directors by-laws, not inconsistent with law and the regulations of the Federal Reserve Board, regulating the manner in which its stock shall be transferred, its directors elected or appointed, its officers and employees appointed, its property transferred, its general business conducted, and the privileges granted to it by law exercised and enjoyed.

Seventh. To purchase and sell or discount and negotiate notes, drafts, checks, bills of exchange, acceptances, cable transfers, or other evidences of debt; to purchase and sell securities, including securities of the United States or any State in the Union; to accept bills or drafts drawn upon it subject to such limitations and restrictions as may be imposed by the Federal Reserve Board; to purchase and sell exchange, coin, and bullion; to borrow and to lend money on real or personal security; to exercise the trust powers of national banks; to receive deposits and generally to exercise such powers as are incidental to the banking business as conducted in the country or countries, dependency or dependencies in which its operations are carried on.

Eighth. To establish and maintain for the transaction of its business a branch or branches, agency or agencies in foreign countries and their dependencies or in the dependencies of the United States at such places and under such rules and regulations as the Federal Reserve Board may prescribe; and to establish and maintain such additional branches or agencies as the Federal Reserve Board may from time to time authorize even in countries or dependencies not specified in the original organization certificate.

Ninth. To purchase, use, and hold stock or other certificates of ownership in any other banking corporation organized under the provisions of this section or chartered under the laws of any foreign country or of any State in the United States not doing business in the United States except such business as in the judgment of the Federal Reserve Board is necessarily incidental to its international or foreign business: Provided, however, That it shall not hold stock in any one corporation in excess of ten per centum of its own paid-up and unimpaired capital and surplus, except with the consent of the Federal Reserve Board. The provisions of the Act approved October fifteenth, nineteen hundred and fourteen, entitled "An Act to supplement existing laws against unlawful restraints and monopolies, and for other purposes," shall not apply to corporations or to officers, directors, or employees of corporations organized under this section or under Section 25 a.

X-1191

Corporations organized under authority of this section or of Section 25 (a) of this Act may be granted permission by the Federal Reserve Board to exercise any or all of the powers specified in Section 11 (k) of the Federal Reserve Act in so far as the exercise of said power may be necessary in the conduct of the foreign or international business engaged in by such corporations.

No national bank or other member of a Federal reserve bank shall subscribe for or hold stock in banking corporations organized under the provisions of this section aggregating more than ten per centum of the unimpaired capital and surplus of the subscribing bank. Shareholders in corporations organized under this section shall not be liable for the contracts, debts, and engagements of such corporations. Any member bank may act as agent for any corporation organized under the provisions of this section for the purpose of dealing with any Federal reserve bank, and the Federal Reserve Board shall promulgate rules and regulations defining and governing transactions which such corporation may have with Federal reserve banks either direct or through the agency of member banks. No such corporation, however, shall become a member of any Federal reserve bank.

Should any banking corporation organized under the provisions of this section fail to comply with any of its provisions or of any applicable laws of the United States, all the rights, privileges, and franchises of such corporation granted to it under this section shall thereby be forfeited. Any noncompliance with or violation of such laws shall, however, be determined and adjudged by a United States court of competent jurisdiction in a suit brought for that purpose in the district or territory in which the home office of such corporation is located, by the Federal Reserve Board before the corporation shall be declared dissolved. In case of such noncompliance or violation every director who participated in or assented to the same shall be held liable in his personal or individual capacity for all damages which said bank, its shareholders, or any other person shall have sustained in consequence of such violation. Such dissolution shall not take away or impair any remedy against such corporation, its stockholders, or officers for any liability or penalty which shall have been previously incurred. Any such banking corporation may go into liquidation or be closed by a vote of its shareholders owning two-thirds of its stock. Whenever the Federal Reserve Board shall become satisfied of the insolvency of any such banking corporation, it may appoint a receiver who shall proceed to administer the estate of such corporation in the same manner in which he would administer the estate of a national bank, the disposition of the assets of the branches to be subject

to any special provisions of the laws of the country under whose jurisdiction such assets are located .

The annual meeting of every such banking corporation shall be held at its home office in the United States, and every such banking corporation shall keep at its home office books containing the names of all stockholders of such corporation, and members of its board of directors, together with copies of the records furnished by it to the Federal Reserve Board, exhibiting in detail and under appropriate heads the resources and liabilities of the banking corporation. Every banking corporation shall make reports to the Federal Reserve Board at such times as it may require and shall be subject to examinations when deemed necessary by the Federal Reserve Board through examiners appointed by it, the cost of such examinations and the compensation of such examiners to be fixed by the Federal Reserve Board and to be paid by the corporation examined.

#### CONVERSION OF STATE BANKS.

Section 3. Any bank incorporated by special law of any State, or under the general laws of the United States, having unimpaired capital of not less than \$2,000,000, and which has been organized for the purpose of engaging principally in international or foreign banking, or banking in a dependency or insular possession of the United States, either directly or through the agency, ownership or control of local institutions in foreign countries, or any dependencies or insular possessions of the United States, may, by the vote of the shareholders owning fifty-one per centum of the capital stock of such association and by compliance with the provisions of Section 5154 of the United States Revised Statutes, be converted into a Federal corporation, and be vested with all powers and subject to all restrictions and limitations that are contained in Section 25 (b) of this Act, provided, however, that said conversion shall not be in contravention of State law.

Section 3. By inserting after the first paragraph of Section 7 a proviso so that such paragraph as amended shall read as follows:

"After all necessary expenses of the Federal Reserve Bank have been paid or provided for, the shareholders shall be entitled to receive an annual dividend of six per centum on the paid in capital stock, which dividend shall be cumulative. After the aforesaid dividend claims have been fully met all the net earnings shall be paid to the United States as a franchise tax, except that one-half of such net earnings shall be paid into a surplus fund until it shall amount to forty per centum of the paid in capital stock of such bank, Provided, however, that whenever the Federal Reserve Board shall allot to any Federal Reserve Bank stock in the corporation created by Section 25 (a)

of this Act as amended. So much as may be necessary  
of the net earnings which would otherwise be paid  
to the United States as a franchise tax shall be  
used to pay the purchase price of such stock".



EX-OFFICIO MEMBERS

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SECRETARY OF THE TREASURY  
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FEDERAL RESERVE BOARD  
WASHINGTON

W. P. G. HARDING, GOVERNOR  
\_\_\_\_\_, VICE GOVERNOR  
ADOLPH C. MILLER  
CHARLES S. HAMLIN

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J. A. BRODERICK, SECRETARY  
L. C. ADELSON, ASSISTANT SECRETARY  
W. T. CHAPMAN, ASSISTANT SECRETARY  
W. M. IMLAY, FISCAL AGENT

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

September 13, 1918.

X-1192

Dear Sir:

For the information of the Board, please advise this office the present method employed by you in the handling of deposits received from Collectors of Internal Revenue and Customs for credit to the general account, Treasurer of the United States.

Is it your practice to hold over for credit on the following day such deposits received after banking hours? Are your relations with these Collectors and your present practice mutually satisfactory, or have you any suggestions to make that might tend to improve or simplify these operations?

Very truly yours,

The Governor,

Secretary.

X-1193

Report to Federal Reserve Board at a meeting of  
the Board held at \_\_\_\_\_ M on \_\_\_\_\_  
\_\_\_\_\_ 1919, of the purchase, under the  
power of attorney filed by the respective Federal  
Reserve Banks, of special 2% certificates of Indebtedness  
of the United States for deposit with Comptroller of the  
Currency as collateral for Federal Reserve bank notes.

For the Federal Reserve Bank of - (Date) (Amount)

Respectfully,

Secretary.

EX-OFFICIO MEMBERS  
WILLIAM G. MCADOO  
SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

# FEDERAL RESERVE BOARD

WASHINGTON

W. P. G. HARDING, GOVERNOR  
VICE GOVERNOR  
ADOLPH C. MILLER  
CHARLES S. HAMLIN

143

J. A. BRODERICK, SECRETARY  
L. C. ADELSON, ASSISTANT SECRETARY  
W. T. CHAPMAN, ASSISTANT SECRETARY  
W. M. IMLAY, FISCAL AGENT

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

SUBJECT: Revenue Stamps. Drafts  
drawn to finance sales of goods  
to Allied Purchasing Commission.

September 16, 1918.

X-1196

Dear Sir:

The Board's attention has been called to the fact that in some districts banks are requiring revenue stamps to be affixed to drafts drawn to finance sales of goods to the Allied Purchasing Commission, while in others this requirement is not enforced by the banks.

It is, of course, desirable that the practice should be uniform. Attention is, therefore, called to the ruling of the Commissioner of Internal Revenue, published on page 614 of the July 1918 Bulletin, which reads as follows:

"Referring to your letter of June 5 and my acknowledgment of June 10, it seems from Mr. Curtis's letter that under credit agreements conforming with the regulations of the Federal Reserve Board packers may draw bills of exchange on domestic banks against sales of goods to the Allied Purchasing Commission, such bills running for a period of time covering approximately the transit of the shipment from the interior point to the seaboard, where the goods are taken on board ship for the ocean voyage at the convenience of the Allied Purchasing Commission.

In *Wm. E. Peck & Co. (Inc.) v. Lowe*, decided in the United States Supreme Court May 20, 1918, which held that the income tax of 1913 was valid as applied to net income derived from sales in foreign commerce, the court has occasion to discuss the effect of the constitutional prohibition against taxing articles exported, and it referred to and distinguished certain of its former decisions on the subject. It concluded that when the tax is not laid on the articles themselves while in course of exportation, the true test of its validity is whether it so directly and closely bears on the process of exporting as to be in substance a tax on the exportation. In the present circumstances

it can probably fairly be said that the tax on the drafts, although they are to be paid before the actual ocean voyage begins, bears so directly and closely on the process of exporting as to be in substance a tax on it. The goods are doubtless "in course of exportation" from the time the first carrier receives them.

The same principle would seem to apply as in the case of the transportation tax. In Article 31 of Regulations No. 42 rules for determining when property may be deemed to be in the course of exportation are laid down, and apparently the present situation is within their scope.

It is accordingly held that the stamp tax imposed by subdivision 6 of Schedule A of Title VIII of the act of October 3, 1917, does not attach to drafts on domestic banks in connection with the shipment of articles from the interior to the seaboard, where such articles have been sold to the United States agent of a foreign purchaser for export under circumstances entitling the transportation within the United States to exemption from the transportation tax."

Very truly yours,

Governor.

The Chairman,  
Federal Reserve Bank of

EX-OFFICIO MEMBERS  
WILLIAM G. MCADOO  
SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

# FEDERAL RESERVE BOARD

WASHINGTON

W. P. G. HARDING, GOVERNOR  
ADOLPH C. MILLER, VICE GOVERNOR  
CHARLES S. HAMLIN  
J. A. BRODERICK, SECRETARY  
L. C. ADELSON, ASSISTANT SECRETARY  
W. T. CHAPMAN, ASSISTANT SECRETARY  
W. M. INLAY, FISCAL AGENT  
ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

September 16, 1918.  
X-1200

IN RE: - STATE BANK APPLICATIONS- RECOMMENDATIONS  
OF RESERVE BANK COMMITTEES AND CONDITIONS SUGGESTED.

Dear Sir:

Examination reports filed in connection with applications made by State Banks, for membership, are analyzed by or for the respective Reserve Bank Committees. In a number of cases with the analysis received it has been possible more promptly to consider the applications. In all other instances however it has been necessary to have a thorough analysis prepared here before the applications could be presented to the Board.

It will be appreciated if you will arrange to submit, with each application, an analysis of the report and data, on the enclosed form, a supply of which has been sent to you under separate cover.

It would also be of material assistance to this office if the Committees would specify what, if any, conditions of membership should be imposed upon applying banks; for example:

"The undersigned Committee recommends approval of the application subject to the following conditions:

1. Reduction of loans to directors.
2. Immediate charge to Profit and Loss Account  
Bad Debts \$10,000  
20% of depreciation shown in investment securities."

Very truly yours,

Enclosure.

The Chairman,  
Federal Reserve Bank of

Secretary.

EX-OFFICIO MEMBERS  
WILLIAM G. MCADOO  
SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD  
WASHINGTON

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VICE GOVERNOR  
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CHARLES S. HAMLIN

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J. A. BRODERICK, SECRETARY  
L. C. ADELSON, ASSISTANT SECRETARY  
W. T. CHAPMAN, ASSISTANT SECRETARY  
W. M. INLAY, FISCAL AGENT

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

September 16, 1918.

X-1201

SUBJECT- EXAMINATION OF STATE MEMBER  
INSTITUTIONS AND ANALYSIS OF REPORTS  
OF EXAMINATIONS.

Dear Sir:

Referring to the last two paragraphs of Circular  
Letter X-677 dated January 26, 1918, the Federal Reserve Board  
would be pleased to receive -

1. List of States in your district wherein your Board  
of Directors has not by resolution authorized the  
acceptance of examinations by State authorities.
2. List of State institutions in your district which  
were members December 31, 1917, and which have not  
been examined during the current calendar year.
3. List of State institutions which were members on  
December 31, 1917, which it will be necessary for  
your force to examine during this calendar year.

It is understood that the Credit or Examining depart-  
ments in the various Reserve Banks will analyze the reports of  
the examinations of State member banks. For the purpose of  
uniformity the Board is enclosing herewith a copy of analysis  
form which it would be pleased to have filled out and forwarded  
with each report of examination. A supply of the forms has  
been sent you under separate cover.

Very truly yours,

Enclosure.

The Chairman,  
Federal Reserve Bank of

Secretary.

EX-OFFICIO MEMBERS  
CARTER GLASS  
SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

# FEDERAL RESERVE BOARD

WASHINGTON

W. P. G. HARDING, GOVERNOR 147  
ALBERT STRAUSS, VICE GOVERNOR  
ADOLPH C. MILLER  
CHARLES S. HAMLIN

J. A. BRODERICK, SECRETARY  
L. C. ADELSON, ASSISTANT SECRETARY  
W. T. CHAPMAN, ASSISTANT SECRETARY  
W. M. IMLAY, FISCAL AGENT

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

September 17, 1918.

SUBJECT: GOLD EXPORTS  
TO MEXICO.

X-1205

Mr.  
Governor, Federal Reserve Bank,

Dear Sir:

In connection with applications of metal mining companies for licenses to export gold to Mexico in satisfaction of the Mexican reimportation requirements, you are requested to see that the reports submitted by applicants on form X-1146B give the necessary details before forwarding the applications to the Board. Many improper reports have been received by the Board. Model of a correct return on this form is enclosed herewith.

Confusion has arisen in the minds of applicants as to the section of the report calling for

"Proportion of amount named in application to be used to satisfy Mexican reimportation decree. Gold Silver"

The information called for by this item is simply a division of the sum total of the amount presently applied for as between reimportation requirements against gold and against silver. For instance, if the total of the application is \$40,000 and the estimated export to the United States is \$20,000 gold and \$80,000 silver, then the figures for this item should be \$10,000 (100%) under "gold" and \$20,000 (25%) under "silver."

The last section asks for a report as to the proposed disposition of the gold applied for if the license is granted. The entire amount for which license is asked should be divided among the various uses to which it is expected the gold will be applied, such classification to be estimated from knowledge based on the use of gold received under previous licenses.

Respectfully,

Assistant Secretary.



EX-OFFICIO MEMBERS  
WILLIAM G. MCADOO  
SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

# FEDERAL RESERVE BOARD

WASHINGTON

MJ-JCO

W. P. G. HARDING, GOVERNOR  
VICE GOVERNOR  
ADOLPH C. MILLER  
CHARLES S. HAMLIN

149

J. A. BRODERICK, SECRETARY  
L. C. ADELSON, ASSISTANT SECRETARY  
W. T. CHAPMAN, ASSISTANT SECRETARY  
W. M. IMLAY, FISCAL AGENT

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

September 18, 1918

Dear Sir:

Beginning with the fourth Liberty Loan, bonds sold to employees and others on the installment plan will be included in the Board's weekly statement with "All other earning assets" if the bank receives an income from such bonds, and with "All other resources" if no income is had by the Federal Reserve bank.

Accordingly it is requested that beginning with the fourth loan, Liberty bonds sold to individual subscribers on the installment plan and for which the bank retains the income, be shown on form 34 separately from other bonds under caption "Liberty bonds sold on installment plan" to which the code word BARD (to follow BISE on form 34) is assigned. The full amount of bonds so sold may be reported against this caption and installment payments received credited to liability account "Contracts to deliver Liberty bonds sold" or the net amount only may be reported against item BARD. In the Friday night report the net amount due the bank under this account should be telegraphed to the Board. In case no income is derived by the bank from such bonds they should be shown on form 34 in the fourth subdivision and included with item TARE.

In either case it will not be necessary to furnish the Board with investment schedules (S-2) covering transactions in these bonds.

Yours very truly,

Secretary

X-1206

W. P. G. HARDING, GOVERNOR  
ALBERT STRAUSS, VICE GOVERNOR  
ADOLPH C. MILLER  
CHARLES S. HAMLIN

J. A. BRODERICK, SECRETARY  
L. C. ADELSON, ASSISTANT SECRETARY  
W. T. CHAPMAN, ASSISTANT SECRETARY  
W. M. INLAY, FISCAL AGENT

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

EX-OFFICIO MEMBERS  
CARTER GLASS  
SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

# FEDERAL RESERVE BOARD

WASHINGTON

September 19, 1918.

X-1213

SUBJECT: Rediscounts between  
Federal Reserve Banks.

Dear Sir:

After carefully considering the several suggested plans for lessening the clerical work connected with the handling of rediscounts between Federal Reserve Banks, the Board has concluded that no material change should be made at this time in present methods, which, it is understood, closely follow the procedure adopted in handling discounts for member banks.

An outline of the clerical work connected with the handling of rediscounts between Federal Reserve Banks, as provided by the Board's circular letter X-212 of June 15, 1917, and the accompanying memoranda, is given below for the purpose of simplifying and making as uniform as practicable the methods used by all Federal Reserve Banks. Two methods are outlined whereby Reserve Banks desiring accommodation for a period short of the actual maturity of the rediscounted paper may repurchase such paper from the lending Reserve Bank before maturity by making the necessary transfer of funds through the Gold Settlement Fund.

(1) MATURITIES AND CLASSES OF PAPER REDISCOUNTED: When a Federal Reserve Bank rediscounts paper with another bank it is necessary for the discounting bank to furnish the rediscounting bank and the Federal Reserve Board with a statement on schedule BD-4 or 7, showing the identification number, name of each maker, class of paper rediscounted as called for by

form 38, and particularly the amount of each item secured by government obligations, also due date, face amount and rate at which rediscounted. It will not be necessary to give the names of endorsers on schedules BD-4 or 7 in reporting rediscounts. Paper thus rediscounted will be carried on the book of the lending bank in the same manner as paper discounted for member banks. It will be necessary also to telegraph the lending bank sufficient data regarding maturities of paper rediscounted to enable it to furnish the Board on the following Friday with the maturity distribution of its bill holdings for the Board's weekly statement. The total amount of paper secured by government obligations also should be telegraphed.

(2) ENDORSEMENT: Rediscounted paper must be endorsed by the borrowing bank. Rubber stamp endorsement is recommended and may be made in blank or substantially as below:

Pay to the order of any Federal Reserve  
Bank or Federal Reserve Agent.  
FEDERAL RESERVE BANK OF BOSTON  
C.C. Bullen, Cashier

(3) UNEARNED DISCOUNT: Rediscounted paper should be classified on schedules BD-4 or 7 in accordance with maturity dates. The following hypothetical example is given to illustrate a simple method of computing discount:

Number of days to maturity	Face amount of all paper having maturity shown in preceding column.	Rate at which discounted	Unearned discount
37	\$1,000,000	4-3/4%	\$4881.94
38	1,500,000	"	7,520.83
40	1,000,000		5,277.78
48	2,000,000		12,666.67
54	550,000		3,918.75
56	<u>450,000</u>		<u>3,325.00</u>
	\$6,500,000		\$37,590.97

Net credit (face amount less unearned discount) \$6,462,409.03

The discounting bank should credit gold settlement fund - suspense account on form 34 for the account of the borrowing bank with the face amount of the paper with a later adjustment for unearned discount. In case it is necessary to protect the reserves of the borrowing bank, an immediate transfer through the gold settlement fund may be effected.

(4) RELEASE FOR PAYMENT: Rediscounted paper may be rebated or taken up by the borrowing bank before maturity upon payment through the gold settlement fund of the face amount of the paper less the amount of unearned discount. Unearned discount on notes taken up before maturity may be calculated in the same manner as indicated in paragraph 3. Suppose, for example, that all paper rediscounted as above was taken up at the expiration of 35 days from the time it was rediscounted, then unearned discount would be figured as follows:

<u>Number of days to maturity</u>	<u>Face amount of all paper having maturity shown in previous column</u>	<u>Rate at which discounted</u>	<u>Unearned discount</u>
2	\$1,000,000	4-3/4%	\$ _____
3	1,500,000		_____
5	1,000,000		_____
13	2,000,000		_____
19	550,000		_____
21	450,000		_____
<b>Total</b>	<b>\$6,500,000</b>		<b>\$ _____</b>

Net credit (face amount less unearned discount) \$ \_\_\_\_\_

(5) RELEASE FOR COLLECTION: Rediscounted paper released to the borrowing bank for collection should be endorsed (rubber stamp) by the Federal Reserve Agent of the borrowing bank, substantially as below:

Pay to the order of the Federal  
Reserve Bank of Boston for coll-  
ection for the account of  
F.H. CURTISS  
FEDERAL RESERVE AGENT.

-4-

X-1213

When this endorsement is used, written instructions substantially as follows should accompany the delivery of the paper to the bank:

\_\_\_\_\_  
(Date)

Federal Reserve Bank of \_\_\_\_\_

Dear Sir: \_\_\_\_\_

I hand you herewith for collection and credit of the Federal Reserve Bank of \_\_\_\_\_ for the account of the Federal Reserve Agent at \_\_\_\_\_ the following commercial paper, which has been held in trust for the Federal Reserve Agent named. Please advise the Federal Reserve Bank to this effect.

-----  
Maturity                      Amount                      Maturity                      Amount

Very truly yours,

Federal Reserve Agent.

Receipt of the above described commercial paper is hereby acknowledged.

-----  
Assistant Cashier.  
-----

When payment is received by the borrowing Federal Reserve Bank for rediscounted paper collected by it, proper transfer through the Gold Settlement Fund should be made to the credit of the lending Federal Reserve Bank with appropriate advice to the Federal Reserve Agent.

(6) BORROWING FOR FIXED PERIODS: Under the Federal Reserve Act, any accommodation extended by one Federal Reserve Bank to another must be in the form of rediscounts, and therefore borrowing for fixed periods on

promissory or collateral notes would require an amendment to the Federal Reserve Act. In case, however, a Federal Reserve Bank is reasonably sure that it will not need accommodation for the entire period for which paper under rediscount has to run, an agreement may be entered into, whereby, if the accommodation is desired for say 15, 30 or 45 days, discount may be calculated for the period for which the accommodation is desired. Under this plan all paper must have a maturity of at least or beyond the period for which accommodation is required. While the calculation of unearned discount for fixed periods will be permitted, the lending Federal Reserve Bank must classify the paper on form 38 according to the actual maturities and without regard to the period for which discount has been figured. Paper released upon payment by the borrowing bank will again be taken into its bill holdings. No report covering this latter transaction need be furnished to the Federal Reserve Board.

REDISCOUNTS UNDER PARAGRAPH 6.

Bank "A" arranges to rediscount \$10,000,000 of commercial paper with bank "B" for 30 days at 4-3/4%. (Face amount of paper \$10,004,372. Discount \$\_\_\_\_\_.) Debit and credit entries may be made as below:

BANK "A"At time of rediscount:

<u>Debits</u>		<u>Credits</u>
Gold Settlement Fund	\$ _____	Bills discounted, members
Unearned discount	\$ _____	

At expiration of 30 days:

Bills discounted, members	\$ _____	Gold Settlement Fund	\$ _____
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BANK "B"At time of rediscount:

<u>Debits</u>		<u>Credits</u>
Bills discounted, other		Gold Settlement Fund
F.R. banks	\$ _____	Unearned discount
		\$ _____

At expiration of 30 days:

Gold Settlement Fund	\$ _____	Bills discounted, other	
		F.R. banks	\$ _____

Debit and credit entries made by both bank "A" and bank "B" at the expiration of the 30-day period will be reduced by amounts rebated, if any. Any necessary adjustment in unearned discount account may be made at the time the periodic proof is taken to determine whether the amount held in the account is sufficient to cover interest unearned on discounted paper or at the expiration of the period for which the paper was rediscounted.

Yours very truly,

Secretary.

Approved;

Governor.

## EX-OFFICIO MEMBERS

WILLIAM G. McADOO  
SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

## FEDERAL RESERVE BOARD

WASHINGTON

W. P. G. HARDING, GOVERNOR  
VICE GOVERNOR  
ADOLPH C. MILLER  
CHARLES S. HAMLIN

156

J. A. BRODERICK, SECRETARY  
L. C. ADELSON, ASSISTANT SECRETARY  
W. T. CHAPMAN, ASSISTANT SECRETARY  
W. M. IMLAY, FISCAL AGENT

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

September 19, 1918.

X-1215

SUBJECT: ELECTION OF CLASS "A" AND CLASS "B" DIRECTORS.

Dear Sir:

House Bill No. 11285, generally known as the Phelan Bill, has passed both Houses of Congress and now awaits the signature of the President. Section 4 of the Federal Reserve Act, which relates to the election of directors of Class "A" and Class "B", amended by this bill, read as follows:

"Directors of Class A and Class B shall be chosen in the following manner:

"The Federal Reserve Board shall classify the member banks of the district into three general groups or divisions, designating each group by number. Each group shall consist as nearly as may be of banks of similar capitalization. Each member bank shall be permitted to nominate to the chairman of the board of directors of the Federal reserve bank of the district one candidate for director of Class A and one candidate for director of Class B. The candidates so nominated shall be listed by the chairman, indicating by whom nominated, and a copy of said list shall, within fifteen days after its completion, be furnished by the chairman to each member bank. Each member bank by a resolution of the board or by an amendment to its by-laws shall authorize its president, cashier, or some other officer to cast the vote of the member bank in the elections of Class A and Class B directors.

"Within fifteen days after receipt of the list of candidates the duly authorized officer of a member bank shall certify to the chairman his first, second, and other choices for director of Class A and Class B, respectively, upon a preferential ballot upon a form furnished by the chairman of the board of directors of the Federal reserve bank of the district. Each such officer shall make a cross opposite the name of the first, second, and other choices for a director of Class A and for a director of Class B, but shall not vote more than one choice for any one candidate." No officer or director of a member bank shall be eligible to serve as a Class A director unless nominated and elected by banks which are members of the same group as the member bank of which he is an officer or director.

Any person who is an officer or director of more than one member bank shall not be eligible for nomination as a Class A director except by banks in the same group as the bank having the largest aggregate resources of any of those of which such person is an officer or director.



It will be observed that the Federal Reserve Board is now required to classify the member banks of each district into three groups or divisions as a preliminary to the election of directors. The Board will be glad to have suggestions from you as to the proper classification of banks in your district.

It will also be observed that under this amendment each member bank is required by resolution of its Board, or by amendment to its bylaws, to authorize its President, Cashier, or some other officer to cast the vote of the member bank in the election of Class "A" and Class "B" directors instead of having a district reserve elector perform this service.

This amendment also prohibits any officer or director of a member bank from serving as a Class "A" director unless nominated and elected by banks which are members of the same group as the member bank of which he is an officer or director. Any person who is an officer or director of more than one member bank is not eligible for nomination as a Class "A" director except by banks in the same group as the bank having the largest aggregate resources of any of those of which such person is an officer or director. The attention of the member banks in your district should be called to this change in the method of procedure for the election of directors and in the qualification of candidates.

Each bank in your district should be requested either to amend its bylaws so as to authorize one of its officers to cast the vote of the bank in the election of Class "A" and Class "B" directors, or to pass a resolution to this effect, and to file with you a copy of the amendment to its bylaws or of the resolution adopted.

As soon as the Federal Reserve Board has classified the banks in your district arrangements should be made to hold an election of directors to succeed those whose terms expire on December 31, 1918.

The Board, will, therefore, be glad to have your suggestions as to grouping of banks in your district as early as possible.

Very truly yours,

Governor.

The Chairman,  
Federal Reserve Bank,

EX-~~OFFICIO~~ MEMBERS

WILLIAM G. MCADOO  
SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

W. P. G. HARDING, GOVERNOR  
VICE GOVERNOR  
ADOLPH C. MILLER  
CHARLES S. HAMLIN

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J. A. BRODERICK, SECRETARY  
L. C. ADELSON, ASSISTANT SECRETARY  
W. T. CHAPMAN, ASSISTANT SECRETARY  
W. M. IMLAY, FISCAL AGENT

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

September 20, 1918.

X-1216

SUBJECT: PAYMENT BY FEDERAL RESERVE  
BANKS OF EXPENSES INCIDENT  
TO TRANSFERS OF CURRENCY AND  
SECURITIES PLEDGED AS COLLATERAL;  
TO AND FROM FEDERAL RESERVE BANKS.

Dear Sir:

Federal Reserve banks are now paying the cost of transportation on Federal Reserve notes from Washington, and these notes are available to banks located in Federal Reserve and Federal Reserve branch cities without charge for delivery. The banks have also abolished their service charges for collecting checks, and in many cases they are paying all transportation charges in connection with the exchange of currency for gold, as well as charges on currency forwarded by country banks to offset debits made against them represented by the total footings of letters containing checks for collection.

The Board has under consideration the propriety of extending further facilities to member banks by having Federal Reserve banks pay all charges incident to the transfers to and from the Federal Reserve banks of currency, and securities pledged or to be pledged as collateral for loans.

This question was discussed at the meeting of the Federal Advisory Council on the 17th instant and received the cordial support of that Body.

The Board will be pleased to receive from you an estimate of the probable cost (say for a two months period) to your bank if it should absorb the entire expense involved in the plan outlined below:

MEMBER BANKS: (a) Payment of all postage, express, insurance, etc., incident to shipments to and from member banks of currency, collateral notes and bills for rediscount, and securities deposited as collateral to member bank promissory notes and notes rediscounted.

(b) Payment of charges on all telegrams received from or sent to member banks in connection with currency, exchange transfers, loans and deposit transactions.

NON-MEMBER BANKS MAINTAINING CLEARING ACCOUNTS WITH FEDERAL RESERVE BANKS:

(a) Payment of postage, insurance and expressage in connection with shipments of currency in settlement of clearing balances.

NON-MEMBER BANKS ON PAR LIST:

All postage in connection with remittances made to cover collections ( to be provided for by enclosing return stamped envelope)

All expenses incident to shipments of currency to Federal Reserve banks in payment of items sent for collection.

It is thought that the extension of the privileges above indicated to member banks will remove the feeling that many country banks have that the Federal Reserve Act discriminates against them in favor of the banks in the larger cities, and will at the same time prove an added stimulus to the state banks to apply for membership.

Should the plan be adopted, the Board would, of course, reserve the right to modify or rescind it at any time upon reasonable notice.

You are requested also to give the Board the benefit of your opinion as to the expediency of the adoption of the proposed plan by all Federal Reserve banks.

Very truly yours,

Governor.

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO  
SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

W. P. G. HARDING, GOVERNOR  
VICE GOVERNOR  
ADOLPH C. MILLER  
CHARLES S. HAMLIN

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J. A. BRODERICK, SECRETARY  
L. C. ADELSON, ASSISTANT SECRETARY  
W. T. CHAPMAN, ASSISTANT SECRETARY  
W. M. IMLAY, FISCAL AGENT

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

September 20, 1916.

SUBJECT: Collateral pledged with U. S.  
Treasurer against outstanding F. R. bank notes.

Dear Sir:

An examination of the daily statements, form 34, received from a number of the Reserve banks, indicates that they are reporting their total holdings of U. S. securities deposited with the U. S. Treasurer to secure Federal Reserve bank notes, against item "U. S. bonds to secure circulation" without reference to whether the securities are long or short-term obligations.

It is important that your holdings of the various classes of government securities be stated correctly on form 34 and it is accordingly requested that in the future U. S. bonds only be reported against caption "U. S. bonds to secure circulation," and that certificates of indebtedness be set up separately against caption "Certificates of indebtedness to secure circulation," code word BUFF.

Inasmuch as all one-year Treasury notes held by the Federal Reserve banks have been deposited with the U. S. Treasurer as security against Federal Reserve bank note issues, it will be satisfactory to us if the banks will report such holdings against the caption "One-year Treasury notes" on form 34.

Yours very truly,

Secretary.

X-1217

## EX-OFFICIO MEMBERS

WILLIAM G. MCADOO  
SECRETARY OF THE TREASURY  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

## FEDERAL RESERVE BOARD

WASHINGTON

W. P. G. HARDING, GOVERNOR  
VICE GOVERNOR  
ADOLPH C. MILLER  
CHARLES S. HAMLIN

161

J. A. BRODERICK, SECRETARY  
L. C. ADELSON, ASSISTANT SECRETARY  
W. T. CHAPMAN, ASSISTANT SECRETARY  
W. M. IMLAY, FISCAL AGENT

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

September 23, 1918.

X-1218

SUBJECT: CLASSIFICATION AND RECLASSIFICATION OF  
REGISTRANTS UNDER THE SELECTIVE DRAFT LAW.

Dear Sir:

For your information there is enclosed herewith copy of letter from this office to the Provost-Marshal General submitting certain questions and photostat copy of reply received, both of which explain themselves.

From inquiries received and complaints filed with this office by several banks it appears that the interpretations given to the rulings of the office of the Provost-Marshal General by the local or district boards have not been entirely uniform and that in some instances bank employees who were originally given a deferred classification on other grounds than that of their employment have had their deferred classification withdrawn under regulations dated May 23, 1918, and generally referred to as the "Work or Fight" regulations. This although the Provost-Marshal General under date of July 5, 1918, ruled that bank employees were not subject to reclassification under this order.

The forces of the banks have already been materially depleted by the loss of registrants between the ages of 21 and 31. Under the new selective draft law which extends the age limits so as to include those from eighteen to forty-five, inclusive, it is of course obvious that some steps must be taken to secure deferred classification for those employees who are vitally necessary to the successful operations of the banking business.

With the constantly increasing demands made upon the banks a further material depletion of their forces would render it difficult for the banks to perform the services required of them by the United States in the present emergency.

While the Federal Reserve Board, of course, realizes that the officers of the Federal reserve banks will not desire to ask for deferred classification for employees who may be spared to enter the military service, it is of prime importance to our Government that its fiscal operations conducted through the banks shall be maintained at the highest standard of efficiency and to this end that all necessary steps should be taken to procure a proper classification of necessary employees in accordance with the letter and spirit of the selective draft act and regulations of the War Department.

To this end it is necessary that some uniform practice should be adopted by the several banks in presenting claim for deferred classification and that the regulations and rulings of the War Department which specifically affect bank employees should be called to the attention of all local boards.

The accompanying memorandum which suggests a method of procedure to be followed has accordingly been prepared for the information of the officers of Federal reserve banks and member banks.

Respectfully,

Governor,

3 Enclosures

The Chairman,  
Federal Reserve Bank,

COPY

## FEDERAL RESERVE BOARD.

September 11, 1918.

Major General E.H. Crowder,  
Provost Marshal General,  
War Department,  
Washington, D.C.

S i r:

Receipt is acknowledged of your letter of September 6, addressed to the Secretary of the Federal Reserve Board, and which relates to a ruling reported by the press as having been made by your office to the effect that bank clerks may be given a deferred classification on the ground that they are engaged in an essential occupation or employment.

You state that your office has not ruled that employees of banking institutions as such are entitled to deferred classification.

The Board understands that bank clerks as a class are not by reason of their employment entitled as a matter of right to a deferred classification, but has understood your previous ruling to be that where a bank clerk has for other reasons been given a deferred classification, it is not necessary for a local or district board to reclassify him under what is known as the work or fight order.

As pointed out in previous correspondence with your office, the forces of the banks have already been materially depleted and the officers of the banks are endeavoring to replace as rapidly as possible those who have been called under the selective draft law with women or with men who are not of draft age. It is difficult at best, however, for the banks to maintain a force sufficient to meet the demands made upon them in the present circumstances and, since the age limit has been extended so as to include most of the officers as well as the employees of the bank, the problem of maintaining the banking forces has become an even more serious one.

While there is no desire on the part of the Federal Reserve Board, nor of the officers of the federal reserve banks, to

ask for exemption or deferred classification of nonessential officers or employees who may be utilized in the military service, you will, of course, understand that if such officers and employees are required under the work or fight order to seek other employment, it will be impossible for the banks to perform the services required of them by the United States.

The same problem is involved in the maintenance of the force of the Federal Reserve Board. A case has arisen during the past week which illustrates the difficulties that are being encountered. One of the messengers employed by the Federal Reserve Board who is within the draft age, was classed in Class 4 (a) by the local board in January 1918 because of the fact that he had dependents and not because of the fact that he was employed by the Board. Under the work or fight order he was recently summoned before the board to show cause why he should not be reclassified and has been advised that he must find another position within ten days or he will be subject to the draft.

The effect of this ruling appears to be that the work of the Federal Reserve Board is classified by the local or district board as nonessential. It is, of course, obvious that if this position is to be taken by your local board, and if every employee of the Federal Reserve Board who for other reasons has been given deferred classification, is required under the work or fight order to seek other employment or to be subject to the draft, it will not be possible for the Board to perform its functions.

In your letter to this office dated July 5, 1918, you state:

"I beg to advise you that bank clerks are excepted from the operations of the regulations which provide for the withdrawal of deferred classification and order number of registrants found to be idlers or engaged in nonproductive occupations or employments."

It is assumed that this ruling will also apply to clerks and employees of the Federal Reserve Board, but this view has apparently not been taken by your local board and has not been regularly applied by other local and district boards to bank clerks and employees. In other words, it appears to this office that some of the local boards have confused your regulations which relate to the original classifications of registrants with your work or fight regulation which requires reclassification of registrants in a deferred class who are engaged in nonessential occupations.



In order that the Board may be advised as to the proper procedure to be followed in cases which affect its employees and may advise the Federal reserve banks and member banks in cases affecting officers and employees of such banks, this office will greatly appreciate a specific ruling on the following cases:

First,- Are employees of the Federal Reserve Board excepted from the operations of the regulations which provide for the withdrawal of deferred classification and order number of registrants found to be idlers or engaged in nonproductive occupations or employment?

Second,- Is it within the province of a local or district board to reclassify a registrant engaged in an occupation or employment which has been excepted from the operation of the work or fight regulation, where the deferred classification of such registrant is not based upon his employment but upon other grounds?

Third,- If a local or district board reclassifies a registrant under the work or fight regulation on the ground that he is engaged in a nonproductive occupation or employment, is the finding of the board conclusive or may it be reviewed other than by the President?

Four,- If a local or district board reclassifies a registrant on the ground that he is engaged in a nonproductive occupation or employment and the attention of the board is called to the fact that the occupation or employment engaged in is one which has been excepted by your office from the operations of the work or fight order, can the board annul such reclassification?

The Board would like to issue a circular to the banks outlining procedure to be followed in cases where local boards have reclassified employees under the work or fight order in violation of your ruling of July 5, and also as to the procedure to be followed in obtaining a deferred classification for essential officers or employees when those who are required to register on September 12 are classified. It is understood, of course, that none of such registrants will be given a deferred classification because of their employment, even though banking is classified as an essential occupation, unless the officer or employee is one whose services cannot be dispensed with without serious detriment to the work of the bank.

If your office has prepared any forms to be used in this connection or any specific regulations as to the method of procedure to be followed, the Board will greatly appreciate it if you will have it furnished with copies. It desires to cooperate with your office in every way in facilitating the proper classification of the employees of the Federal Reserve Board and the officers and employees of the several banks. To this end the Board will be glad to receive any and all instructions you may desire to have transmitted to the banks or to have published in its monthly bulletin. It will also be glad to have its counsel confer with a representative of your office if agreeable to you, in order that the Board may obtain the information necessary to enable it to deal with questions arising under your regulations.

Respectfully,

Governor.

CLASSIFICATION OF REGISTRANTS UNDER THE ACT OF  
MAY 18, 1917.

AS ORIGINALLY ENACTED:

Under the Act of May 18, 1917, entitled "An Act to Authorize the President to Increase temporarily the Military Establishment of the United States ", registrants may be given a deferred classification by reason of their employment when "engaged in industries, including agriculture, found to be necessary to the maintenance of the military establishment, or the effective operations of the military forces, or the maintenance of national interests during the emergency."

The District Board has exclusive jurisdiction over cases of this sort and local boards are not authorized to give a registrant a deferred classification on the ground of his employment. It is understood that the District Boards have ruled that banking is not an industry within the meaning of this statute, and that bank clerks cannot, therefore, be given a deferred classification by reason of their employment.

AS AMENDED BY THE ACT OF AUGUST 31, 1918:

The Act of August 31, 1918, amends the Act of May 18, 1917, in several particulars. The provision quoted above is amended so that registrants may now be given a deferred classification when "engaged in industries, occupations or employments, including agricultural, found to be necessary to the maintenance of the military establishment, etc."

In response to an inquiry submitted by the Federal Reserve Board, the Provost Marshal General, under date of September 16, 1918, has ruled as follows:

"Under this amendment district boards may properly consider claims for deferred classification of those engaged in banking, and as with industrial claims, so with occupational claims, each case must be considered by the district board on its merits. It must be shown both ~~that the~~ enterprise in which the registrant is engaged is necessary, and that he is necessary to the enterprise."

RECLASSIFICATION OF REGISTRANTS BETWEEN THE AGES OF 21 AND 31 EN-  
GAGED IN ESSENTIAL EMPLOYMENT:

It is understood that a number of bank employees whose claims for deferred classification were based on the ground of their employment, have not yet been called to the military service. The question, therefore, arises whether in view of the amendment above quoted, these employees may now be given a deferred classification if it can be demonstrated that they are necessary to the successful operation of the banks employing them.

The Provost Marshal General has been asked for a ruling on this question. If he rules that such cases may be reopened by the District boards, a copy of his ruling will be furnished upon request for presentation to the District boards, and in such cases, banks should apply for a reclassification of those employees who are necessary to the operations of the bank. Each case will, of course, have to be considered on its merits.

WITHDRAWAL OF DEFERRED CLASSIFICATION UNDER THE WORK OR FIGHT ORDER:

It appears that in some instances registrants between the ages of 21 and 31 have been given a deferred classification on grounds other than their employment and have subsequently been reclassified under what is usually referred to as the "Work or Fight Order". This order, which was promulgated on May 23, 1918, provides in part that:

"Whenever, after July 1, 1918, any registrant in Class 1, 11, 111, or 1V, wherever he may be located, is reported to or observed by any local board\*\*\* to be an idler, or to be engaged in any occupation or employment defined and described in these Regulations or any amendments thereof as a nonproductive occupation or employment, such Local Board shall, by notice as hereinafter prescribed, notify him and set a day and hour when the registrant may appear and present such evidence, by affidavit or otherwise, bearing upon the reasons for his status, as he may care to submit."

In answer to inquiry submitted by the Federal Reserve Board, the Provost Marshal General on July 5, 1918, ruled that bank clerks were not subject to reclassification under this order, and under date of September 16, 1918, ruled that

"It is not within the province of a local or district board to withdraw deferred classification or order number on the ground that the registrant is engaged in a nonproductive occupation in any case which has been excepted from the operation of the Regulations authorizing such withdrawal."

In any case in which a bank employee has been reclassified under the "Work or Fight Order," the officers of the bank should call the matter to the attention of the Adjutant General of the State for correction.

CLAIM FOR DEFERRED CLASSIFICATION OF BANK CLERKS WHO REGISTERED ON  
SEPTEMBER 12:

While the Provost Marshal General has ruled that under the Selective Draft Act as amended, bank clerks may be given a deferred classification by reason of their employment, he has repeatedly called attention to the fact that each individual case must be considered on its merits and that no employees will be entitled as a class to automatically receive a deferred classification. Officers of banks desiring to file claim for deferred classification of necessary employees, should therefore procure a copy of extract from Revised Selective Service Regulations, which sets forth very clearly the procedure to be followed and character of proof required in each case.

XI218 b

As each case must be considered on its own merits, it is suggested that banks seeking to obtain deferred classification for necessary employees should proceed as follows:

First,- Prepare and submit to the District Board evidence showing the nature and extent of the bank's operations and character of service rendered to the Government, together with any information that may be necessary to satisfy the Board that the bank itself is "a necessary occupation", within the meaning of the Act of May 18, 1917, as amended by the Act of August 31, 1918.

Second,- A list of those employees necessary to the bank should be carefully prepared and arrangements should be made with such employees to submit their questionnaires to a committee appointed by the bank before they are filed.

Proper notation should be made by the bank on the questionnaire of claim for deferred classification, using Series XI, entitled, "Industrial Occupation".

The Provost Marshal General has called attention to the fact that it was necessary to print the questionnaires before Congress amended the law so that the necessary changes could not be made therein. While, therefore, banking has been held not to be an industry, claim for deferred classification is made under this general head.

It is further suggested that such questionnaires should be accompanied by an affidavit of an officer of the bank containing the following information as to the status of each employee for whom a deferred classification is claimed.

- (a) Character of service rendered;
- (b) Length of time the employee has been in the service of the bank;
- (c) The capacity, training and experience of employee, and the extent and value of his services;
- (d) The effect on the operations of the bank that might be expected to result from the loss of his services;
- (e) Difficulty that would be experienced in filling the place of employee;
- (f) That officers of the bank have no reason to believe or to suspect that the employee obtained service with the bank for the primary purpose of evading military service.

#### APPEALS:

In cases where district boards decline to give a necessary employee deferred classification, the vote of the Board should be ascertained and if one or more members voted in favor of deferred classification, the case may be appealed to the President. Such appeal must be accompanied by the written and signed recommendation of one member of the local board and either the Government Appeal Agent or Adjutant General of the State.

WAR DEPARTMENT

Office of the Provost Marshal General

WASHINGTON

September 16, 1918.

Honorable William P.G. Harding,  
Governor, Federal Reserve Board,  
Washington, D.C.

Dear Sir:-

I am in receipt of your letter of September 11, in which you ask for specific rulings in regard to the recent amendments to the Selective Service Regulations which prescribe certain occupations as non-productive.

First: Employees of the Federal Reserve Board are not included within the operation of the Regulations which provide for the withdrawal of deferred classification and order number of registrants found to be idlers or engaged in nonproductive occupations or employments, unless they are engaged in certain occupations enumerated in paragraphs (a) and (b) of Section 121-K, Selective Service Regulations, a copy of which is herewith enclosed.

Second: It is not within the province of a Local or District Board to withdraw deferred classification or order number on the ground that the registrant is engaged in a nonproductive occupation in any case which has been excepted from the operation of the Regulations authorizing such withdrawal.

Third: The findings of a Local and District Board are conclusive, unless there is at least one negative vote in the District Board and the appeal is accompanied by the written and signed recommendation of one member of the Local Board and either the Government Appeal Agent or the Adjutant General of the State, in which case it may be reviewed by the President, as provided in Section 121-J.

Fourth: If a Local or District Board reclassifies a registrant on the ground that he is engaged in a nonproductive occupation or employment and the person, as a matter of fact, is not engaged in such nonproductive employment, the matter should be called to the attention of the Adjutant General of the State for correction, or if as outlined above there is a negative vote in the District Board, etc., it may be appealed to the President.

Fifth: A messenger should not have his deferred classification and order number withdrawn as he is not within the provisions of Section 121-K of the Selective Service Regulations.

With reference to occupational claims for deferred classification for employees of the Federal Reserve Board, I am sending you herewith two copies of the Questionnaire, the key list of occupations, an explanatory memorandum to be inserted in each Questionnaire and an extract from the revised Selective Service Regulations, which states the amended rules with respect to classification on occupational grounds. 171

As you are aware, Congress has amended the Selective Service Act, so that District Boards now have jurisdiction to consider and grant claims for deferred classification on the ground of engagement in necessary industries, occupations or employments, including agriculture. Under this amendment District Boards may properly consider claims for deferred classification by those engaged in banking, and as with industrial claims, so with occupational claims, each case must be considered by the District Board on its merits. It must be shown both that the enterprise in which the registrant is engaged is necessary, and that he is necessary to the enterprise. As stated in the explanatory memorandum enclosed herewith, all such claims should be made on the Questionnaire, using Series XI entitled "Industrial Occupation". It was necessary to print the Questionnaire before Congress amended the law, so that the necessary changes could not be made therein.

This office is not fully informed as to the status of employees of the Federal Reserve Board, but if they are legally employees of the United States, it is suggested that claims for their deferment might be made under the provisions for the deferred classification of necessary federal employees, for which provision is made in Series VIII, Part A, of the Questionnaire and in Section 77 of the Selective Service Regulations. A copy of this last mentioned Section is herewith enclosed, together with a copy of telegram B-2710 of August 20 giving further instructions with respect to the proof required in support of such claims.

Attention is invited to the fact that claims for necessary federal employees are within the jurisdiction of the Local Boards; whereas, the District Boards have exclusive original jurisdiction of occupational claims.

E.H. CROWDER.

Provost Marshal General.

By

JOSEPH FAIRBANKS.

Lieut. Colonel, Judge Advocate.

JF-lwr.

Encls. - Two Questionnaires  
Two Key Lists  
Two Memo  
Two Extracts S.S.R.  
Sec. 121-K S.S.R.  
Tel. B-2710  
Sec. 77 S.S.R.

EX-OFFICIO MEMBERS  
CARTER GLASS  
SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD  
WASHINGTON

W. P. G. HARDING, GOVERNOR 172  
ALBERT STRAUSS, VICE GOVERNOR  
ADOLPH C. MILLER  
CHARLES S. HAMLIN

J. A. BRODERICK, SECRETARY  
L. C. ADELSON, ASSISTANT SECRETARY  
W. T. CHAPMAN, ASSISTANT SECRETARY  
W. M. IMLAY, FISCAL AGENT

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

X-1221

SUBJECT: PAMPHLET ON UNIFORM BALANCE  
SHEET STATEMENTS.

Dear Sir:-

Referring to your request for a copy of the Federal Reserve Board's pamphlet reprinted from the Federal Reserve Bulletin of April, 1917, I beg to advise that we have now received from the press the fourth edition of this pamphlet. The title has been changed somewhat, it now being called "Approved Methods for the Preparation of Balance Sheet Statements." There is, however, no change in the reading matter.

The price of this pamphlet is 10¢ per copy, and we shall be pleased to entertain your order.

Yours very truly,

FEDERAL RESERVE BOARD.

By W.T. CHAPMAN.

ASSISTANT SECRETARY.



EX-OFFICIO MEMBERS

WILLIAM G. MCADOO  
SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
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W. M. IMLAY, FISCAL AGENT

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

September 21, 1918.

X-1222

SUBJECT: PAMPHLET ON UNIFORM BALANCE SHEET STATEMENTS.

Dear Sir:

In April, 1917, there was published in the Federal Reserve Bulletin a "Tentative Proposal on Uniform Balance Sheets" under the caption "Uniform Accounting". The demand for this Bulletin was so great that it was decided to publish the information in pamphlet form. A fourth edition of this pamphlet has now been published under the caption "Approved Methods for the Preparation of Balance Sheet Statements;" there has been no change, however, in the reading matter.

On account of the increased cost of labor and material, we have been obliged to increase the price of this pamphlet to 10¢ per copy.

The foregoing information is given you in case you have inquiries for copies of this pamphlet.

Yours very truly,

Assistant Secretary.

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO  
SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

W. P. G. HARDING, GOVERNOR  
VICE GOVERNOR  
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CHARLES S. HAMLIN

J. A. BRODERICK, SECRETARY  
L. C. ADELSON, ASSISTANT SECRETARY  
W. T. CHAPMAN, ASSISTANT SECRETARY  
W. M. IMLAY, FISCAL AGENT

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

FEDERAL RESERVE BOARD

WASHINGTON

September 25, 1918.

X-1227

SUBJECT: CLASSIFICATION AND RECLASSIFICATION OF REGISTRANTS  
UNDER THE SELECTIVE DRAFT LAW.

Dear Sir:

In further reference to Circular Letter of September 23, 1918, on the above subject, there is enclosed herewith photostat copy of ruling of the Provost Marshal General to the effect that the Act of May 18, 1917, as amended by the Act of August 31, 1918, applies without distinction to the registrants of all registrations and that the District Board having jurisdiction over a registrant may up to the time of induction by the Local Board, reopen the case previously determined and grant a deferred classification where the case on its merits entitles the registrant to such classification.

In cases where employees between the ages of 21 and 31 are necessary to the successful operation of the bank, but have been placed in Class 1, the District Board should be asked to reconsider their cases under authority of the ruling of the Provost Marshal General and to give them a deferred classification on the grounds of their employment.

In all such cases it will be necessary to submit the same character of proof that is required in the case of an original classification.

Respectfully,

The Chairman,  
Federal Reserve Bank,

Secretary.

Inclosure.

X-1227a

(Copy of Photostat)

WAR DEPARTMENT

## OFFICE OF THE PROVOST MARSHAL GENERAL

September 21, 1918.

Honorable W. P. G. Harding,  
Governor, Federal Reserve Board,  
Washington, D. C.

Sir:

This office is in receipt of your letter under date of September 20th, making inquiry whether the Act of August 31, 1918, amending the Act of May 18, 1917, will apply to bank employees between the age of twenty-one and thirty-one who have heretofore been placed in Class I, who (a) have not been called to the military service, the finding of the Local Board having been appealed from and the appeal being pending before the District Board, or (b) whose appeal has been confirmed by the District Board but who has not been called.

With respect to the foregoing you are advised that the Act as amended applies without distinction to the registrants of all registrations, and that the District Board having jurisdiction over a registrant may, up to the time of actual induction by the Local Board, reopen a case previously determined, and grant deferred classification upon a finding that the registrant is actually and completely engaged in an industry, occupation, or employment, including agriculture, that is necessary to the maintenance of the Military Establishment, or the effective operation of the military forces, or the maintenance of the national interest during the emergency, and that such registrant occupies such a necessary status with respect thereto that he cannot be replaced without direct substantial material loss and detriment to the adequate and effective operation of the same.

E.H. CROWDER,  
Provost Marshal General.

By Roscoe S. Conkling,  
Lieut. Colonel, J.A.,  
Chief, Classification Division.

EX-OFFICIO MEMBERS

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SECRETARY OF THE TREASURY  
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W. T. CHAPMAN, ASSISTANT SECRETARY  
W. M. IMLAY, FISCAL AGENT

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

FEDERAL RESERVE BOARD

WASHINGTON

October 2, 1918.

X-1237

SUBJECT: PAYMENT BY FEDERAL RESERVE BANKS OF EXPENSE  
INCIDENT TO TRANSFERS OF CURRENCY TO AND  
FROM FEDERAL RESERVE BANKS.

Dear Sir:

Confirming telegram of even date, I beg to advise that the Board has authorized the inauguration at the earliest possible date of the plan outlined in its circular letter X-1216, under date of September 20th, with modifications as hereinafter indicated:

- MEMBER BANKS: (a) Payment of all postage, expressage, insurance, etc., incident to shipments of currency to and from member banks.
- (\*)
- (b) Payment of charges on all telegrams received from or sent to member banks in connection with currency, exchange transfers, and deposit transactions.

NONMEMBER BANKS MAINTAINING CLEARING ACCOUNTS WITH FEDERAL RESERVE BANKS:

- (a) Payment of postage, insurance and expressage in connection with shipments of currency in settlement of clearing balances.

NONMEMBER BANKS ON PAR LIST:

- (a) All postage in connection with remittances made to cover collections (to be provided for by enclosing return stamped envelope).
- (b) All expenses incident to shipments of currency to Federal Reserve banks in payment of items sent for collection.

- (\*) Currency does not include silver or subsidiary coin.

You will notice that paragraph (a) under 'MEMBER BANKS' has been revised so as to omit, for the present at least, the payment of postage, expressage, insurance, etc. incident to shipments to and from member banks of 'collateral notes and bills for rediscount, and securities deposited as collateral to member bank promissory notes and notes rediscounted'. Paragraph (b) has been revised so as to omit the payment of charges on all telegrams in connection with 'loans'.

It is believed that payment by the reserve banks of these expenses will have the effect of more nearly equalizing the advantages offered member banks, and will also be helpful in our campaign for State member banks. The Board, of course, in adopting this plan, reserves the right to modify or rescind it at any time upon reasonable notice, should it be deemed advisable.

You were also advised in the telegram above referred to that the Federal Reserve Board appreciates the excellent results already attained by the Federal reserve banks in gathering gold from the banks in their respective districts and strongly urges that efforts be continued to the end that all available gold be mobilized in the Federal reserve banks. The Board authorizes you to absorb the abrasion and to pay all expenses incident to the shipment of gold to your bank and shipment of Federal reserve notes in exchange therefor.

Kindly acknowledge receipt of this letter and oblige,

Very truly yours,

Secretary.

The Governor,  
Federal Reserve Bank,

X-1045.

## S T A T E M E N T   F O R   T H E   P R E S S .

July 6, 1918.

The Federal Reserve Board has received a letter from Major-General E. H. Crowder, Provost Marshal General, stating that "bank clerks are excepted from the operation of the regulations which provide for the withdrawal of deferred classification and order number of registrants found to be idlers or engaged in non-productive occupations or employments".

PRESS STATEMENT

The Federal Reserve Board today decided to undertake the collection of statistics designed to furnish an accurate and trustworthy index of the volume of banking business at the various clearing house points throughout the country. It transmitted to each Federal Reserve bank a letter requesting that the manager of each clearing house in the district be asked to obtain from each of the members of such clearing house figures showing, for each week, the total of checks drawn on and paid by each reporting bank, separating those drawn by individuals, firms, corporations and the United States Government under one head and those drawn by other banks and bankers under a second head.

It is intended to have these figures telegraphed each week to the Chairmen of the Board of Directors of each Federal Reserve Bank of each district, who will then transmit the combined returns to the Federal Reserve Board. In this way reports showing the actual volume of business at clearing house points will be obtained. Present clearing house returns show only the total of checks which actually pass through the clearing house and thus fail to take account of the large volume of checks which are settled through the individual member banks. They also lack uniformity in that outside items are included in some cases.

August 1, 1918.

OF AUGUST 11th.

On August ninth my four year term of office as a member of the Federal Reserve Board will expire. I do not know whether or not, under the constant burden of grave and pressing decisions, you have reached the point where you wish to deal with the question of naming my successor, or whether or not you contemplate to have me continue in this work. Nor would I presume to broach this question were it not that I felt that, in consequence of recent occurrences, it has become one of policy rather than of personalities.

Certain persons have started an agitation to the effect that a naturalized citizen of German birth, having near relatives prominent in German public life, should not be permitted to hold a position of great trust in the service of the United States. (I have two brothers in Germany who are bankers. They naturally now serve their country to the utmost of their ability, as I serve mine).

I believe that the number of men who urge this point of view is small at this time. They probably have not a proper appreciation of the sanctity of the oath of allegiance or of the oath of office. As for myself, I did not take them lightly. I waited ten years before determining upon my action, and I did not swear that "I absolutely and entirely renounce and abjure all allegiance and fidelity to any foreign potentate, and particularly to Wilhelm II, Emperor of Germany", etc. until I was quite certain that I was willing and anxious to cast my lot unqualifiedly and without reserve with the country of my adoption and to defend its aims and its ideals.

These are sad times. For all of us they bring sad duties, doubly hard indeed for men of my extraction. But, though, as in the Civil War, brother must fight brother, each must follow the straight path of duty, and in this spirit I have endeavored to serve during the four years that it has been my privilege to be a member of the Federal Reserve Board.

I have no doubt that all fair-minded and reasonable men would consider it nothing short of a national disgrace if this country, of all countries, should condone or endorse the attitude of those who would permit the American of German birth to give his all, but would not trust him as unreservedly and as wholeheartedly as he, for his part, serves the country of his adoption. Unfortunately, however, in times of war, we may not always count upon fair reasoning. It is only too natural that, as our casualty lists grow, bitterness and indiscriminating suspicion will assert themselves in the hearts of increasing numbers - even though these lists will continue to show their full proportion of German names.



ingly evident that should you choose to renominate me this might precipitate a harmful fight which, in the interest of the country, I wish to do anything in my power to avoid and which, even though resulting in my confirmation, would be likely to leave an element of irritation in the minds of many whose anxieties and sufferings may justify their intense feelings. On the other hand, if for reasons of your own, you should decide not to renominate me it is likely to be construed by many as an acceptance by you of a point of view which I am certain you would not wish to sanction. In these circumstances, I deem it my duty to state to you myself that it is my firm belief that the interest of the country will best be served if my name be not considered by you in this connection.

I am frank to admit that I have reached this conclusion with the deepest regret both on account of its cause and its effect. I have considered it the greatest privilege to serve my country at this time, and I do not abandon lightly a work, half done, in which I am deeply and genuinely interested. But my continuation in office under present conditions might make the Board a target of constant attack by unscrupulous or unreasoning people, and my concern to save any embarrassment to you and to the Board in the accomplishment of its work would make it difficult for me to conserve that independence of mind and freedom of action without which nobody can do justice to himself or his office.

In writing you this letter, I have been prompted solely by my sincere conviction that the national welfare must be our only concern. Whatever you may decide to be best for the country will determine my future course. We are at war, and I remain at your orders.

May your patience and courage be rewarded and may it be given to you to lead our country to victory and peace!

Respectfully and faithfully yours,

Signed.....PAUL M. WARBURG.

The President,  
The White House,  
Washington.

9 August, 1918.

My dear Mr. Warburg:

I hope that my delay in replying to your letter concerning your retirement from the Federal Reserve Board has not given you an impression of indifference on my part or any lack of appreciation of the fine personal and patriotic feeling which made that letter one of the most admirable and gratifying I have received during these troubled times. I have delayed only because I was hoping that the Secretary of the Treasury would be here to join me in expressing the confidence we both feel, alike in your great ability and in your unselfish devotion to the public interest.

Your retirement from the Board is a serious loss to the public service. I consent to it only because I read between the lines of your generous letter that you will yourself feel more at ease if you are left free to serve in other ways.

I know that your colleagues on the Board have not only enjoyed their association with you, but have also felt that your counsel has been indispensable in these first formative years of the new system which has served at the most critical period of the nation's financial history to steady and assure every financial process, and that their regret is as great as my own that it is in your judgment best now for you to turn to other methods of service. You carry with you in your retirement from this work to which you have added distinction, my dear Mr. Warburg, my sincere friendship, admiration, and confidence, and I need not add, my cordial good wishes.

Cordially and sincerely yours,

Signed....WOODROW WILSON

Hon. Paul M. Warburg,

Federal Reserve Board.

## STATEMENT FOR THE PRESS

Release for the morning  
papers of August 14, 1918.

Effective September 1, 1918, Mr. J. A. Broderick has been appointed Secretary of the Federal Reserve Board to succeed Dr. H. Parker Willis, resigned to accept the Chair of Banking at Columbia University, New York. Mr. Broderick has been acting as Secretary of the Board since August 6.

Upon the organization of the Board in 1914, Mr. Broderick became Chief Examiner and has been in charge of all examinations of Federal Reserve Banks since that time. Prior to joining the Federal Reserve organization, Mr. Broderick was connected with the Banking Department of the State of New York where he rendered conspicuous service in introducing a system of foreign exchange department examinations. In this connection, in 1912 he went to Europe and was the first American official to examine banking branches abroad. During the same year, he organized the Credit Bureau of the State Banking Department. He is a member of the New York Credit Men's Association and has been active in the affairs of the National Association of Supervisors of State Banks, of which organization he is an honorary member. He has also been prominent in the educational activities of the American Institute of Banking.

For immediate release  
August 15, 1918.

S T A T E M E N T   F O R   T H E   P R E S S

The President has redesignated Honorable W. P. G. Harding as Governor of the Federal Reserve Board for a period of one year, or until otherwise ordered.

This appointment is made in pursuance of the custom heretofore prevailing of naming each year a member to serve as executive officer of the Board. Mr. Harding was first appointed Governor on August 10, 1916, and now enters upon his third successive term in the office.

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO  
SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD  
WASHINGTON

W. P. G. HARDING, GOVERNOR  
PAUL M. WARBURG, VICE GOVERNOR  
FREDERIC A. DELANO  
ADOLPH C. MILLER  
CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY  
SHERMAN P. ALLEN, ASST. SECRETARY  
AND FISCAL AGENT

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

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August 15, 1918.

X-1130

Dear Sir:

For your information I am inclosing copy of a statement given to the press today by the Treasury Department, which relates to an agreement between the Federal Reserve Board and the Treasury Department, and outlines the future policy of the Board with respect to silver exportations.

Very truly yours,

Assistant Secretary.

The Governor,  
Federal Reserve Bank,

Inclosure.

PRESS STATEMENT BY THE TREASURY DEPARTMENT  
AUGUST 15, 1918.

Under the authority of the Act of Congress approved April 23, 1918, silver has been sold by the Secretary of the Treasury at a price which will permit the Treasury from new purchases of a corresponding amount of silver at the price of \$1.00 per fine ounce to recoin the silver purchased into silver dollars without loss. In order to provide for the various items of expense involved it was found necessary to fix the price for which silver was sold at \$1.01 $\frac{1}{2}$  per fine ounce and it was made a condition of sale that the purchaser should not pay a higher price for silver in other markets than in those of the United States.

Up to the present time the Federal Reserve Board has freely granted licenses for the export of silver. In order, however, to conserve the use of silver, export licenses for silver will hereafter be granted only for civil or military purposes of importance in connection with the prosecution of the war and only in cases where the exporter certifies that the silver to be exported has been purchased at a price which does not directly or indirectly exceed \$1.01 $\frac{1}{2}$  per ounce one thousand fine, at the point where silver is refined in the case of silver refined in the United States or at the point of importation in the case of imported silver. Applications for licenses to export silver should also state from whom the silver was purchased, the point at which silver was delivered to purchaser, for whose account and by whose order and for what purpose the silver is to be exported.

X-1131.

Release for afternoon  
papers of August 16, 1918.

STATEMENT FOR THE PRESS

The Federal Reserve Board has ruled that it does not approve for general use form of trade acceptance which contains condition that any discount will be allowed if payment is made before maturity.

Effective August 16, Mr. John A. Will, auditor of the Federal Reserve Bank of St. Louis, and Mr. W. W. Paddock, examiner of the Federal Reserve Bank of Philadelphia, have been appointed Federal Reserve Examiners.

X-1141

For immediate release.

August 21, 1918.

P R E S S   S T A T E M E N T

The Illinois Trust and Savings Bank and the Northern Trust Company, Chicago, have been admitted to membership in the Federal Reserve System. These are two of the largest trust companies in Chicago; the Illinois Trust having total resources of \$112,500,000. and the Northern \$39,500,000. Monthly record of State bank admissions has been broken already this month, 81 institutions having been admitted to the system, 37 of which are in the Chicago district. Total number of State institution members to date is 670, with resources of about \$6,600,000,000., 181 of which are in the Chicago Federal Reserve district.



For immediate release September 18, 1918.

STATEMENT FOR THE PRESS

The Federal Reserve Advisory Council held its regular quarterly session on September 16 and 17, two joint sessions being held with the Federal Reserve Board.

The members of the Council were present as follows:

Messrs. Wing (Boston), Morgan (New York), Rue (Philadelphia), Rowe (Cleveland), Norwood (Richmond), Lyerly (Atlanta), Forgan (Chicago), Watts (St. Louis), Mitchell (Minneapolis), Swinney (Kansas City), Wilmot (Dallas), and Fleishacker (San Francisco).

The existing financial situation was fully discussed, and the Council expressed itself as being in entire accord with the discount policy at present pursued by the Board, feeling that satisfactory progress is being made in the curtailment of nonessential and less essential credits, and that proper regulation of the entire credit situation can be accomplished without further advances in discount rates.

Release for morning papers  
of September 6, 1918.

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Summary of address by  
Hon. W. P. G. Harding,  
Governor, Federal Reserve Board,  
At Columbus, Ohio, September 5th.

In an address to the Ohio Bankers Association at Columbus yesterday, Governor Harding of the Federal Reserve Board went quite fully into the question of inflation and curtailment of nonessential credits.

Answering the charge of inflation laid by some at the door of the Federal Reserve System, he said:

"Since the amendments to the act the issue of Federal reserve notes outstanding has expanded greatly, having risen from something over \$500,000,000 on June 1, 1917, to slightly more than \$2,000,000,000 on August 23, 1918. The fact that this growing volume of our paper currency has been accompanied by a continuous advance in wages and commodity prices has been frequently commented upon and has subjected the Federal reserve system to some unmerited criticism. While the evils of constantly rising prices and inflation are beyond question, and while it is undeniable that present prices might in ordinary circumstances be justly attributed to currency inflation, we should, in considering the Federal reserve note as a factor in our present economic and financial situation, analyze the circumstances out of which our present situation has resulted.

The outbreak of the European war in August 1914, was followed immediately by a convulsion in business and a financial crisis throughout the world. In this country, relief was afforded by the issue of about \$375,000,000 of emergency national bank notes, and following the establishment of the Federal reserve banks on November 16, 1914 there was a rapid return to more normal conditions. The effect of purchases in this country by belligerent nations began to be felt early in 1915 and the volume of these purchases increased rapidly during that and the succeeding year. As there was no coordination in the purchases of the respective governments, they were placed in the position of bidding against each other, and as their needs for large quantities of raw materials and manufactured goods and munitions was urgent, -- quick deliveries being desired above everything else -- there was no restraint upon prices. Very large profits were obtained by sellers; labor naturally demanded and obtained a part of the profits in the shape of increased wages, and the large volume of gold which came into the country to pay for goods purchased, amounting to about \$1,200,000,000 during these two years, affected all prices and brought about a sympathetic advance in those articles which were not needed for shipment abroad as well as those which were in demand for war purposes. There is no doubt that we felt the effect in 1915 and 1916 of an inflated currency, but the inflation was a gold inflation, and it became necessary, in order to avoid the greater evils

which would have resulted from a sudden and unregulated outflow of gold, -- a gold contraction, -- to take steps to impound the gold in order that its use and outflow might be kept under control."

In adverting to the close relation of prices, circulating medium, deposits, and loans and discounts of banks, the Governor quoted the three following tables:

( From the Official Bulletin of the U.S.  
Bureau of Labor Statistics)

Index Number	January 1914	-----	100
"	July 1914	-----	99
"	March 1917	-----	155
	Increase about		55%
"	July 1918	-----	198
	Increase since March 1917,		about 28%

( In thousands of dollars )

	November 2, 1914	February 1, 1917	August 1, 1918
Gold coin	\$665,800	\$641,500	\$448,900
Gold certificates	913,300	1,281,900	498,000
Standard silver dollars	70,300	71,000	77,300
Silver certificates	482,800	461,500	353,100
Subsidiary silver	162,500	187,900	218,900
Treasury notes of 1890	2,400	2,000	1,800
United States notes	234,900	329,700	295,000
Federal reserve notes	-----	258,400	1,855,300
Federal reserve bank notes	---	3,500	11,700
National bank notes	1,083,500 *	678,900	689,700
	<u>\$3,615,500</u>	<u>\$3,216,300</u>	<u>\$4,449,700</u>

Total stock of gold  
in the United States \$1,835,000,000 \$2,912,465,116 \$3,080,767,801

\* Including \$360,000,000 " Aldrich-Vreeland currency."

	TOTAL GROSS DEPOSITS OF NATIONAL BANKS.	TOTAL LOANS AND DIS- COUNTS ( INCLUDING OVERDRAFTS) OF NA- TIONAL BANKS.
October 31, 1914	\$8,075,942,000	\$6,335,276,000
March 5, 1917	12,958,172,000	8,720,250,000
June 29, 1918	14,016,087,000	9,632,899,000

Dwelling upon the large increase in Federal reserve notes outstanding, the Governor stated that those crying inflation apparently overlook the character of the note and its cover and the fact that in increasing in volume, it has decreased the amount outstanding of gold and other forms of currency and pointed out that the figures above quoted showed that with an increase in Federal reserve notes between February 1, 1917 and August 1, 1918, of \$1,596,900,000, the increase in circulating medium outstanding was but \$533,363,000.

Commenting upon the figures generally, the Governor said:

"There is of course a direct relation between the deposits and loans of the banks, the normal condition being that they move up or down together. It should be remembered that the use of Federal reserve notes has never anticipated an increase in deposits of loans of the banks except in so far as notes may have been used in exchange for gold. Increased loans of member banks, which create additional deposit liability, result in rediscounts at Federal reserve banks and the issue of Federal reserve notes follows the rediscounting of eligible paper. The Federal reserve note, therefore, does not initiate expansion. It is merely an incident of an expansion which has already taken place. It is true, however, that the machinery which has been provided for the issue of Federal reserve notes and the knowledge on the part of the member banks that Federal reserve notes are available if needed has undoubtedly encouraged discounting at local banks. But the provision of the act as to eligibility of paper which may be rediscounted by the Federal reserve banks are rigid, and have been strictly enforced by the Federal Reserve Board. Member banks have been repeatedly and consistently advised to keep themselves in liquid condition and to confine their loans as far as possible to short time commercial paper issued for essential purposes, in order to maintain themselves in position to cooperate with the Treasury in the unparalleled financial operations which war requirements have forced it to undertake.

The Federal Reserve Board has had constantly in mind the dangers of inflation. While it has devoted itself assiduously to building up the gold holdings of the Federal reserve banks it has, in permitting the issuance of Federal reserve notes, always insisted that they be used as sparingly as possible, with the double purpose of maintaining the strength of the banks and of avoiding redundancy. While the Federal reserve note is a direct obligation of the Government, the safeguards and limitations thrown around it by law give it many of the characteristics of a bank note.

Federal reserve notes should not be confused with Federal reserve bank notes, of which there were in circulation on August 23rd, \$16,864,000. These notes are direct obligations of the Federal reserve banks and are similar in their character to national bank notes. These notes are being issued in small denominations to take the place of silver certificates which have been retired for the purpose of releasing silver dollars to be melted

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for export to foreign countries. The amount of silver which may be used in this way is limited to \$350,000,000. The issue of these notes is thus limited to this amount and as they merely replace silver as withdrawn, they have no effect upon the volume of circulation outstanding."

Governor Harding dealt with the difficulties of controlling loans through the medium of discount rates, saying:

"The Board does not believe that in the existing situation marked advances in rates would be advisable in view of the obvious necessity of avoiding any policy likely to disturb the financial operations of the Treasury. The needs of those industries and commercial enterprises which are directly contributory to the conduct of the war must be supplied at all hazards, and a drastic advance in discount rates would not reduce the financial requirements of such concerns, but would merely impose an added cost upon the people."

and went on to say that the Board:

"Believes that the exercise of discriminating judgment on the part of the banks throughout the country in making their loans will be more effective in counteracting any tendency toward credit expansion than an advance in rates would be. The suggestion has been made by the Board that the Federal reserve banks organize local groups of leading bankers and business men, to discuss ways and means of bringing about the result desired."

He was very emphatic, however, in cautioning against unscientific discrimination in the control of credits, saying:

"It is exceedingly difficult to lay down any fixed and definite rules to govern in distinguishing between essential and non-essential credits. A loan might be desired for what appears at first glance to be a non-essential purpose, and yet failure to obtain the credit might create a condition which might indirectly have a distinctly harmful effect upon the ability of productive enterprises in the community to obtain credit. In the same way, in the larger centers, refusal by banks as a group to lend on standard securities would seriously impair the liquidity of investments and would force liquidation which might disturb very seriously the whole financial situation. It is important to avoid sharp and radical readjustments of credit and wherever possible lines of credit should be reduced without undue hardship to the borrower or without causing a shock which would render the granting of necessary credits more difficult."

It would seem that those interests and enterprises obviously catering to extravagances and luxuries should be considered first. Upon investigation it may develop that industries of this kind need not be closed down, nor their labor thrown out of employment, but that they can be gradually diverted to essential lines of production and distribution. Existing high prices are creating an added strain on the financial resources of the country and are contributing enormously to the cost of the war. It is probably impossible to effect any reduction in the prices of necessary materials and commodities or in the compensation of those engaged in producing them, but there are two means, and the employment of both will be necessary, of retarding a further advance. One is by curtailing credits which are not necessary and by diverting such portion of these credits as may be needed into productive channels; and the other is to increase the production of the raw materials and manufactured articles which are needed in our military and naval operations and which are essential for the sustenance and necessary comfort of the people.

In times like these, high prices and high wages do not always increase production. We see too frequently a disposition to accept as ample the returns from limited production and from fewer working days to the week. We have now 1,500,000 men on the shell scarred fields of France, and their deeds of valor have already thrilled the allied world. Soon this number will grow to 3,000,000, then to 4,000,000, thus assuring complete and glorious victory and the perpetuation of that heritage of liberty for which our forefathers fought; and those millions of us who are unable to take our places at the front, but who must remain behind to do that work which is necessary to sustain the nation at home, and to maintain our fighting heroes in France, should strain every nerve to furnish all that is necessary, in gold, credit, services and goods. The war must be won by force of arms abroad, supported by greater production, economy and thrift at home. "

THE FEDERAL RESERVE NOTE, ITS FUNCTIONS AND LIMITATIONS.

FROM AN ADDRESS OF W. P. G. HARDING,  
GOVERNOR OF THE FEDERAL RESERVE BOARD,  
BEFORE THE CONVENTION OF THE OHIO  
BANKERS ASSOCIATION AT COLUMBUS, OHIO,  
THURSDAY, SEPTEMBER 5, 1918.

FOR RELEASE IN MORNING PAPERS OF  
FRIDAY, SEPTEMBER 6th.

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The caption or short title of the Federal Reserve Act defines it as "An act to provide for the establishment of Federal reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes." It is evident therefore, that two of the principal objects of the act are

- (1) To furnish an elastic currency, and
- (2) To afford means of discounting commercial paper.

Section 16 provides that the elastic currency referred to, namely, Federal reserve notes, may be "issued at the discretion of

the Federal Reserve Board for the purpose of making advances to Federal reserve banks \* \* \* and for no other purposes."

That the relationship between the currency authorized and the re-discounting of commercial paper is a close one, is clear, for the reason that Section 16 as originally enacted provided that applications of the Federal Reserve agent for Federal reserve notes must be accompanied with a tender of collateral in amount equal to the sum of Federal reserve notes applied for and that the collateral security thus offered shall be notes and bills accepted for re-discount under the provisions of Section 13, which section relates not to open market transactions, but entirely to eligible notes, bills and acceptances which may be discounted by a Federal reserve bank under specified terms and conditions. In addition to requiring the pledge of 100% of discounted paper, Federal reserve banks were also obliged to maintain reserves in gold and lawful money of not less than 40 per centum against their Federal reserve notes in actual circulation and not offset by gold or lawful money deposited with the Federal Reserve agent.

Under a strict construction of this section, it would have been difficult, if not impossible, for the Federal reserve banks to mobilize in their own vaults the gold holdings of the country, since the extent to which Federal reserve notes could be issued depended entirely upon the amount of commercial paper held under discount by



these banks, and in as much as they are required to maintain a 40% gold reserve against Federal reserve notes, they could not acquire gold in exchange for Federal reserve notes, unless the notes were first issued against an equal amount of commercial paper. It was, therefore, necessary to resort to the expedient of first issuing notes against 100% commercial paper and of subsequently permitting the Federal reserve banks to deposit gold in order to reduce their liability against such notes and thereafter to issue additional notes against commercial paper which was released by this process.

It was also difficult to mobilize the gold in the Federal reserve bank, because of the fact that Section 19 of the act, as originally passed, required member banks to maintain only a part of their required reserves with the Federal reserve banks, the balance being held in gold or lawful money in their vaults, or carried with correspondent banks.

In order to enable the Federal reserve banks more effectively to control the country's gold which was widely diffused, being used for purposes of circulation and held in the vaults of member and non-member banks, and to be in position at the same time to issue notes in such volume as might be necessary to supply an adequate circulating medium, Congress amended the act on June 21, 1917 by providing that all of the lawful reserves of member banks be kept

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on deposit with the Federal reserve banks and that Federal reserve notes might be issued to the reserve banks without limit against deposits of gold or gold certificates, any gold thus obtained to be counted as part of the 40% gold reserve which the reserve banks

are obliged to hold against outstanding Federal reserve notes. Thus the new method permits the dilution of gold with commercial paper and requires only 60% of paper in addition to 40% of gold as against 100% of paper and 40% of gold as provided in the original enactment. The effect of these amendments has been to add enormously to the gold holdings of the several Federal reserve banks and to enlarge the discounting power of the reserve system. The right to issue Federal reserve notes against deposits of gold has been availed of very freely, and gold received in the course of the daily transactions of the banks has been retained and payments have been made in reserve notes instead of in gold. This practice has been urged repeatedly upon the reserve banks and also upon member and non-member banks, which have been asked to transfer their gold as it accumulates to the Federal reserve banks, the argument being that in the vaults of the reserve banks gold is available as a basis either of new note issues, or as a means of extending their loaning facilities, while in circulation or distributed among the 25,000 or more commercial banks of the country it is of no more value than any other form of currency.

Since the amendments to the act the issue of Federal reserve notes outstanding has expanded greatly, having risen from something over \$500,000,000 on June 1, 1917, to slightly more than \$2,000,000,000 on August 23, 1918. The fact that this growing volume of our paper currency has been accompanied by a continued

advance in wages and commodity prices has been frequently commented upon and has subjected the Federal reserve system to some unmerited criticism. Half-truths are often the most dangerous falsehoods, and while the evils of constantly rising prices and inflation are beyond question, and while it is undeniable that present prices might in ordinary circumstances be justly attributed to currency inflation, we should in considering the Federal reserve note as a factor in our present economic and financial situation, analyze the circumstances out of which our present situation has resulted.

The outbreak of the European war in August 1914, was followed immediately by a convulsion in business and a financial crisis throughout the world. In this country, relief was afforded by the issue of about \$375,000,000 of emergency national bank notes, and following the establishment of the Federal reserve banks on November 16, 1914 there was a rapid return to more normal conditions. The effect of purchases in this country by belligerent nations began to be felt early in 1915 and the volume of those purchases increased rapidly during that and the succeeding year. As there was no co-ordination in the purchases of the respective governments, they were placed in the position of bidding against each other, and as their needs for large quantities of raw material and manufactured goods and munitions was urgent, -- quick deliveries being desired above everything else -- there was no restraint upon prices.

Very large profits were obtained by sellers; labor naturally demanded and obtained a part of the profits in the shape of increased wages, and the large volume of gold which came into the country to pay for goods purchased, amounting to about \$1,200,000,000 during these two years, affected all prices and brought about a sympathetic advance in those articles which were not needed for shipment abroad as well as those which were in demand for war purposes. There is no doubt that we felt the effect in 1915 and 1916 of an inflated currency, but the inflation was a gold inflation, and it became necessary, in order to avoid the greater evils which would have resulted from a sudden and unregulated outflow of gold, -- a gold contraction, -- to take steps to impound the gold in order that its use and outflow might be kept under control.

When this country entered the war in April 1917, prices had already advanced from the low point in 1914 to a greater extent than they have since advanced, index figures being as follows:

( From the Official Bulletin of the U.S.  
Bureau of Labor Statistics)

Index Number	January 1914	-----	100
"	July 1914	-----	99
"	March 1917	-----	155
	Increase about		55%
"	July 1918	-----	198
	Increase since March 1917, about		28%

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Attention is called to a comparative statement showing money outside the Treasury and the Federal reserve banks as of November 2, 1914, just prior to the opening of the Federal reserve banks; on February 1, 1917, the date of our break with Germany; and on August 1, 1918, the latest date for which accurate figures are available:

(In thousands of dollars)

	November 2, 1914	February 1, 1917	August 1, 1918
Gold coin	\$665,800	\$641,500	\$448,900
Gold certificates	913,300	1,281,900	498,000
Standard silver dollars	70,300	71,000	77,300
Silver certificates	482,800	461,500	353,100
Subsidiary silver	162,500	187,900	218,900
Treasury notes of 1890	2,400	2,000	1,800
United States notes	234,900	329,700	295,000
Federal reserve notes	-----	258,400	1,855,300
Federal reserve bank notes	-----	3,500	11,700
National bank notes	1,083,500 *	678,900	689,700
	\$3,519,500	\$3,916,300	\$4,449,700

\* Including \$360,000,000 "Aldrich-Vreeland currency."

and the total stock of gold in the United States on these dates is estimated at

	November 2, 1914	February 1, 1917	August 1, 1918
	\$1,835,000,000	\$2,912,465,116	\$3,080,767,801

respectively.

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While the amount of Federal reserve notes in circulation increased between February 1, 1917 and August 1, 1918 by about \$1,596,000,000, there was a decrease, during the same period, in gold and gold certificates, represented by the increased holdings in gold of the Federal reserve banks, of about a billion dollars, and there has been a slight decrease in the volume outstanding in other forms of currency, so that the net increase in circulation between these two dates has been \$533,363,000. As compared with November 2, 1914 the figures for August 1, 1918 show an increase of \$834,300,000. On making allowance for the Aldrich-Vreeland notes outstanding on November 1, 1914, (\$360,000,000) which have all been retired, the increase in circulation outstanding has been \$1,194,600,000, just about equal to our gain in gold during that period. In the meantime there has been since the fall of 1914 a very large increase in the deposits and in the loans and discounts of the national banks and of the state banks and trust companies. A comparative statement of these items as shown by the abstract of reports of national banks on the dates called by the Comptroller which are nearest to the dates used in making the comparison of circulation outstanding, follows:

TOTAL GROSS DEPOSITS OF NATIONAL BANKS.		TOTAL LOANS AND DIS- COUNTS ( INCLUDING OVERDRAFTS) OF NA- TIONAL BANKS.
October 31, 1914	\$8,075, 942,000	\$6,335,276,000
March 5, 1917	12,958,172,000	8,720,250,000
June 29, 1918	14,016,087,000	9,632,899,000

The exact figures for the state banks and trust companies are not available, but their addition would make a total something more than double the figures for the national banks alone. It is evident, therefore, that the deposits of member and non-member banks were increased from October 30, 1914 to June 29, 1918, by more than \$11,000,000,000 and the loans by about \$7,000,000,000. There is of course a direct relation between the deposits and loans of the banks, the normal condition being that they move up or down together. It should be remembered that the use of Federal reserve notes has never anticipated an increase in deposits or loans of the banks except in so far as notes may have been used in exchange for gold. Increased loans of member banks, which create additional deposit liability, result in rediscounts at Federal reserve banks and the issue of Federal reserve notes follows the rediscounting of eligible paper. The Federal reserve note therefore, does not initiate expansion. It is merely an incident



of an expansion which has already taken place. It is true however, that the machinery which has been provided for the issue of Federal reserve notes and the knowledge on the part of the member banks that Federal reserve notes are available if needed has undoubtedly encouraged discounting at local banks. But the provisions of the act as to eligibility of paper which may be re-discounted by the Federal reserve banks are rigid, and have been strictly enforced by the Federal Reserve Board. Member banks have been repeatedly and consistently advised to keep themselves in liquid condition and to confine their loans as far as possible to short time commercial paper issued for essential purposes, in order to maintain themselves in position to cooperate with the Treasury in the unparalleled financial operations which war requirements have forced it to undertake.

On July 6th the Federal Reserve Board addressed a letter to all the banks and trust companies in the United States, calling attention to the necessity for a gradual, but consistent curtailment of non-essential credits and urging that the banks exercise a reasonable discretion in restricting credits which are clearly not needed for the prosecution of the war or for the health and necessary comfort of the public. In this letter the Board called attention to the fact that in order to prosecute the war

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successfully, the Government is compelled to issue obligations to provide for its large expenditures which involve waste and destruction rather than a permanent addition to the national wealth. War is inexorable in its demands, and any financial plan which involves the expenditure of \$24,000,000,000 a year, unless based entirely upon taxation of a confiscatory character, necessarily forces expansion of credits and is apt to cause an advance in the price of necessities. Abnormal demands by the Government, unavoidable and necessary in the present circumstances, must be counteracted by increased production and by a greater economy on the part of the civilian population which must decrease, by combined effort, the normal waste incident to domestic life and business pursuits.

The Federal Reserve Board has had constantly in mind the dangers of inflation. While it has devoted itself assiduously to building up the gold holdings of the Federal reserve banks it has, in permitting the issuance of Federal reserve notes, always insisted that they be used as sparingly as possible, with the double purpose of maintaining the strength of the banks and of avoiding redundancy. While the Federal reserve note is a direct obligation of the Government, the safeguards and limitations thrown around it by law give it many of the characteristics of a bank note.

It is not a legal tender, but is receivable by all national and member banks and Federal reserve banks and is receivable for all taxes, customs and other public dues; it bears a distinctive letter and serial number indicating the Federal reserve bank through which it is issued, and cannot be paid out by any other Federal reserve bank under penalty of a tax of ten per centum upon the face value of notes so paid out. It is redeemable in gold on demand at the Treasury or in gold or lawful money at any Federal reserve bank, and is a first and paramount lien upon the assets of the issuing bank, which is required to maintain a reserve in gold of not less than forty per centum against the total of its Federal reserve notes in actual circulation,

The consolidated statement of all Federal reserve banks as of August 23rd shows that there were \$2,032,837,000 of Federal reserve notes in actual circulation on that date. The actual gold reserves held by these banks on the same date amounted to \$2,003,051,000. After setting aside the reserve required by law against deposits, the ratio of gold reserves to Federal reserve notes in actual circulation, was 73.7%, the notes being otherwise secured by eligible paper and acceptances discounted or acquired by the banks. Federal reserve notes should not be confused with Federal reserve bank notes, of which there were in circulation on August 23rd, \$16,864,000. These notes are direct obligations of

the Federal reserve banks and are similar in their character to national bank notes. They may be issued against any bond of the United States which has the circulation privilege, against Treasury one year notes and against Treasury certificates of indebtedness. When issued against a 2% obligation of the Government they are taxed at the rate of  $\frac{1}{2}\%$  per annum, and if issued against Government obligations bearing a higher rate, the tax is increased correspondingly. These notes are being issued in small denominations to take the place of silver certificates which have been retired under the Act of April 5, 1918 for the purpose of releasing silver dollars to be broken up and melted for export to India and other foreign countries. The amount of silver which may be used in this way is limited to \$350,000,000. The issue of these notes is thus limited to this amount and as they merely replace silver as withdrawn, they have no effect upon the volume of circulation outstanding.

The Federal reserve note should not be confused with fiat issues of other times, nor is it a bond secured currency. Its issue is carefully safeguarded, and while a gradual increase in the volume outstanding will no doubt be necessary for sometime to come, thus testing one phase of its elastic quality, there is no

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doubt that whenever the requirements of the country permit, it will prove its flexibility by its contraction or by the increase of gold reserve against it to a point where it will more nearly approximate a gold certificate. It was originally intended that the Federal reserve note supersede in the course of twenty years, the national bank note. Provision was made in the Federal Reserve Act for the purchase by the Federal reserve banks of the bonds securing national bank notes and for the resale of the bonds to the Treasury for cancellation. This process was well under way when it was interrupted by the war, but the increase in national bank note circulation has been slight, - only about \$11,000,000 since February, 1917. Contraction of Federal reserve note circulation, in so far as it is secured by eligible paper, will be natural and automatic as the discount operations of the banks are reduced, but the note is in no sense an emergency currency, for it is and will remain our principal circulating medium, its dominance in this respect increasing as the remaining \$900,000,000 of gold which is outside of the Treasury and the Federal reserve banks are absorbed by the reserve banks.

Ever since the establishment of the Federal reserve banks the Board has endeavored persistently and consistently to increase the aggregate gold holdings of the banks. Since the entry of the

United States into the war, the necessity for such an effort has been emphasized, while the inclination of the public and of the banks to cooperate has been marked. More than \$2,000,000,000 of gold and gold certificates have been withdrawn from circulation and transferred into the vaults of the Federal reserve banks, but as already stated, there still remains in circulation and in bank vaults about \$900,000,000 of gold certificates and coin, most of which can be deposited and should be deposited, their place to be taken as far as necessary by Federal reserve notes. It is the intention of the Board in the future, as in the past, to watch closely the loaning operations of the banks, and it is not its purpose in mobilizing the gold of the country into the vaults of the Federal reserve banks, to increase the volume of loans beyond the amount actually required, but those are war times, and any inability on the part of Federal reserve banks to respond to legitimate demands made upon them would be disastrous. It is clear that in proportion as the gold holdings of the Federal reserve banks are increased, the ability of such banks to extend needed accommodation to other banks or to issue notes is enlarged. As reserve holdings are curtailed, the lending power of the banks is correspondingly reduced. As member banks are no longer required to carry reserves

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of lawful money in their own vaults, it follows that gold held by them is of no more value than any other form of currency, and every dollar of gold that is hoarded by individuals is withdrawn, not only from reserve use, but also from circulation; and is a net loss to the community. The effect of hoarding therefore, is to impair the ability of the Board to provide the strongest possible gold cover for our growing volume of Federal reserve notes and deposits, -- and deposits will necessarily continue to increase during the continuance of the war. It is desirable in the existing circumstances to have every dollar of gold in the Federal reserve banks, letting the circulating medium consist of currency based on gold. Money of every kind, whether gold or silver, should be deposited in bank and used, but not hoarded. Surrender to the Federal reserve banks of gold coin and gold certificates and abstention from hoarding means an increase in the volume of bank credit available for the community and increased ability to finance the war and the necessary requirements of business.

It seems proper, in this connection, in view of the general impression that because of its power to control discount rates the Board can regulate the volume of rediscounted paper, to say something regarding the discount policy of the Board. During the year 1915 and for the greater part of 1916, owing to the abnormal ease

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of the money market, there was but little resort to the discount facilities of the Federal reserve banks. During this period the deposits of member and non-member banks were increasing by leaps and bounds, and the banks as a rule were able to take care of the legitimate needs of customers and to make large purchases of commercial paper without using their credit either with correspondent banks or with the Federal reserve banks. In such circumstances, it is clear that the Board's control over discount rates was merely nominal. Reserve bank rates were low, in conformity with the general trend of the money market, and even by engaging in open market operations the Federal reserve banks found it difficult to invest a sufficient portion of their funds to enable them to meet in full their dividend requirements. Higher rates would of course have brought in even a smaller volume of business. Late in the year 1916, rates began to stiffen and the volume of discounts with the Federal reserve banks showed a tendency to increase, but the banks generally still held a surplus of funds and any drastic advance in Federal reserve discount rates would not have materially affected the money market.

After our entrance into the war the whole situation underwent a radical change. The President, in an address to Congress on April 2, 1917, pledged the entire resources of the nation to the successful conduct of the war, and war became the paramount business



of the country. An issue of Treasury certificates announced immediately, was followed by the first Liberty bond campaign, the avowed purpose of which was to secure subscriptions to \$2,000,000,000 of bonds bearing  $3\frac{1}{2}\%$  interest. It was apparent that this issue would be followed by others, and it was manifestly the duty of the Board to support the financial plan of the Treasury. Within twelve months about \$10,000,000,000 of bonds were sold by the Government, and since April 1917, there has been outstanding an average of about \$1,000,000,000 of Treasury certificates, issued in anticipation of taxes or of the proceeds of bond sales.

Mindful of the effect which high interest rates on Government obligations would have upon investment securities and the money market as a whole, it has been the aim of the Secretary of the Treasury to hold rates down to the lowest possible level, and it is now his announced purpose to maintain as a maximum a rate of  $4\frac{1}{2}\%$  on Treasury certificates and  $4\frac{1}{2}\%$  on Liberty bonds. In these circumstances, the Federal Reserve Board has felt that it should direct the policies of the system so as to insure prompt accommodation to banks whose customers might require assistance, either in providing for commercial demands caused by increased business

activities, or in making their payments for bonds, as well as to banks which bought bonds for their own account. It was deemed important that there should be no disturbance in the money market and that interest rates should be kept as nearly normal and free from fluctuation as possible. Therefore the Board, before the subscriptions to the first Liberty bond issue were closed, established a preferential rate of discount for notes of member banks secured by Government obligations, whether certificates or bonds, and, in order further to assist the Treasury in disposing of bonds, the Board authorized Federal reserve banks to discount for non-member banks upon the endorsement of a member bank, notes secured by Government obligations, whether made by non-member banks themselves or by their customers, when the proceeds had been or were to be used for the purpose of carrying Treasury certificates or United States bonds. The Board, therefore, distinguished between commercial loans and loans made upon the security of Government obligations, by giving a preferential in favor of the latter. The policy of the Board has thus far been justified by results. The bonds were widely distributed and each subsequent issue has shown a larger number of subscribers than the preceding one, the number of subscribers to the third Liberty loan being more than 17,000,000. Only 4% of the total amount of bonds issued up to this time were

held on June 29th as investments by the national banks, or 2.29% of their resources, while they were carrying loans secured by Liberty bonds amounting to \$457,000,000, or 2.56% of their resources. As the rates on Government obligations were advanced, the preferential rates on paper secured by these obligations were increased correspondingly at the Federal reserve banks. So that instead of a rate of from 3 to  $3\frac{1}{2}\%$  as first established, rates at the banks are now ranging from 4 to  $4\frac{1}{4}\%$  on paper secured by Government issues, with a maximum rate of  $5\frac{1}{4}\%$  on 90 day commercial paper and  $5\frac{1}{2}\%$  on 6 months agricultural paper.

The Board does not believe that in the existing situation marked advances in rates would be advisable in view of the obvious necessity of avoiding any policy likely to disturb the financial operations of the Treasury. The needs of those industries and commercial enterprises which are directly contributory to the conduct of the war must be supplied at all hazards, and a drastic advance in discount rates would not reduce the financial requirements of such concerns, but would merely impose an added cost upon the people.

In its letter of July 6th, to which reference has already been made, the Board called attention to the importance of a wise discrimination between essential and non-essential credits. It

believes that the exercise of discriminating judgment on the part of the banks throughout the country in making their loans will be more effective in counteracting any tendency toward credit expansion than an advance in rates would be. The suggestion has been made by the Board that the Federal reserve banks organize, each in its own district, local groups comprising leading bankers and business men, in order to discuss ways and means of bringing about the result desired.

It is exceedingly difficult to lay down any fixed and definite rules to govern in distinguishing between essential and non-essential credits. A loan might be desired for what appears at first glance to be a non-essential purpose, and yet failure to obtain the credit might create a condition which might indirectly have a distinctly harmful effect upon the ability of productive enterprises in the community to obtain credit. In the same way, in the larger centers, refusal by banks as a group to lend on standard securities would seriously impair the liquidity of investments and would force liquidation which might disturb very seriously the whole financial situation. It is important to avoid sharp and radical readjustments of credit and wherever possible lines should be reduced without undue hardship to the borrower or without causing a shock which would render the granting

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of necessary credits more difficult.

It would seem that those interests and enterprises obviously catering to extravagances and luxuries should be considered first. Upon investigation it may develop that industries of this kind need not be closed down, nor their labor thrown out of employment, but that they can be gradually diverted to essential lines of production and distribution. Existing high prices are creating an added strain on the financial resources of the country and are contributing enormously to the cost of the war. It is probably impossible to effect any reduction in the prices of necessary materials and commodities or in the compensation of those engaged in producing them, but there are two means, and the employment of both will be necessary, of retarding a further advance. One is by curtailing credits which are not necessary and by diverting such portion of these credits as may be needed into productive channels; and the other is to increase the production of the raw materials and manufactured articles which are needed in our military and naval operations and which are essential for the sustenance and necessary comfort of the people.

In times like these, high prices and high wages do not always increase production. We see too frequently a disposition to

accept as ample the returns from limited production and from fewer working days to the week. We have now 1,500,000 men on the shell scarred fields of France, and their deeds of valor have already thrilled the allied world. Soon this number will grow to 3,000,000, then to 4,000,000, thus assuring complete and glorious victory and the perpetuation of that heritage of liberty for which our forefathers fought to give us; and those millions of us who are unable to take our places at the front, but who must remain behind to do that work which is necessary to sustain the nation at home, and to maintain our fighting heroes in France, should strain every nerve to furnish all that is necessary, in gold, credit, services and goods, and we should not overlook or slur the fourth Commandment, -- that Divine injunction to Moses, wherein we are directed not merely to rest on the seventh day, but are sharply reminded of our present duty in the command, "Six days shalt thou labor and do all that thou hast to do." The war must be won by force of arms abroad, supported by greater production, economy and thrift at home.

THE NATIONAL BANKS IN WAR TIME. -- THEIR PROBLEMS AND WORK.

FROM AN ADDRESS OF W.P.G.HARDING,  
GOVERNOR OF THE FEDERAL RESERVE BOARD,  
BEFORE THE NATIONAL BANK SECTION OF  
THE AMERICAN BANKERS ASSOCIATION AT  
CHICAGO, ILL., WEDNESDAY, SEPTEMBER  
25, 1918.

FOR RELEASE IN MORNING PAPERS OF  
THURSDAY, SEPTEMBER 26th.

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In these stirring times our thoughts are constantly with our sons and brothers who are in the fighting lines in France, or who are keeping watch upon the high seas. We are thrilled by the accounts of their military prowess, our hearts are gladdened by their constant advance against a formidable enemy and we are inspired by their courage and unswerving determination to overcome the enemy.

Within a short while there will be more than two million men in khaki on the other side to support the gallant troops of England, France, Belgium, Italy and Greece, and the Czecho-Slovaks, in their battles to free the world from the curse of German militarism and autocracy;

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and we know that their numbers will be steadily increased until the full fruition of our hopes and aspirations shall have been attained. But human activities in this great war are not confined to the military fronts; the battle lines are not alone in Siberia, in the Balkan Peninsula, in northern Italy, in Lorraine, Picardy and Flanders, but they extend throughout the civilized world. There is an American front, manned by millions of men and women who constitute the great home guard, and who must furnish the munitions and supplies and the transportation facilities for those who are actually exposed to the shot and shell and poisonous vapors of the enemy. Without the work which is being done at home, and which must be carried on in constantly increasing measure, the efforts of our soldiers and sailors could not be long exerted.

Important sectors of our home front are held by the bankers of America, who are on the financial firing line, and it is of their work and of their problems which I wish to speak today. The national banks of the United States have in other times and in other wars proved their loyalty and efficiency. In fact they were born in the midst of the convulsions of a country torn by civil war and their creation is due to the desperate needs of the nation in those dreadful days.

Through the establishment of the national banking system not



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only was a market afforded for United States bonds, but facilities were provided for the issuance of a national currency capable of circulating without discount in all sections of the country. So rapidly did the national banking system grow that in 1865, shortly after the close of the Civil War, there were 1517 national banks, having aggregate assets of \$1,359,867,074, included in which were United States bonds to secure circulation of \$272,634,200. and about \$75,000,000 government bonds held as investments.

In 1898, when we were at war with Spain, consciousness of our banking strength undoubtedly had much to do with the ease with which \$200,000,000 of 3% bonds were sold to the public at a substantial premium; but the national banks coordinated under the Federal reserve system are now engaged in the most stupendous work they have ever undertaken, and in according to the national banks their meed of praise, I do not wish to slur nor underestimate the importance of the work which has been done by the state banks, savings banks and trust companies as well. There is no question, however, that through the operation of the Federal Reserve system the vast fiscal undertakings of the government have been successfully carried out thus far without any undue disturbance to our financial structure and without a money panic of ~~prieis~~ any kind.

For three years the burden of supporting the Federal Reserve

system was borne almost entirely by the national banks, - all through those times when many of the banks could not perceive that any substantial benefit would be likely to enure from membership, and when stock in the Federal Reserve banks was looked upon as a dead investment. Even a year ago, five months after the United States had entered the war, there were only 86 non-national banks which were members of the Federal Reserve system. It is gratifying to note however, that henceforth the responsibilities and privileges of membership will be shared by the state institutions which are now coming over in constantly increasing numbers and that today about 750 state banks and trust companies are members, with total resources of nearly six and three quarters billions of dollars.

The problems of the American banker have always been more complex and difficult than those of banks in other countries and their work is more varied and exacting. This is due, in part, to our wide expanse of territory and to the amount of pioneering which has to be done incident to the building up and development of a new country. It is due also to the fact that the spirit of American institutions demands independence of action and that the tendency in this country has been toward a large number of independent banking units, most of them of small and moderate capital, rather than toward a compact group of highly capitalized banks conducting their operations throughout the

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country through the medium of branches. The need of some means of coordinating this large number of independent banks, of reserving a portion of their resources for the common defense of the financial front, the necessity for providing a more elastic currency which could expand and contract in accordance with business requirements, and of establishing a broad discount market, are some of the causes which led to the establishment of the Federal Reserve system. It is not my intention, however, to attempt to discuss your routine work or your every day problems, but I wish instead to touch upon some of those questions which confront you, and those militant duties which are imposed upon you, in your work of holding the financial trenches in the great battle now raging for liberty and civilization.

The Liberty Loan organizations are about to begin the campaign for the fourth Liberty Loan. The success of this campaign depends upon the cooperation of the banks, - not upon a half-hearted or complacent acquiescence on their part in the plans adopted, but upon their active, incessant and aggressive cooperation, given in a genuine American spirit worthy of the cause for which the loan is to be raised. For weeks past most of you have been taking your allotments of Treasury Certificates of Indebtedness which are issued in anticipation of this loan, just as you have done in the case of the certificates which anticipated previous loans. In order to meet

your allotments you have been obliged no doubt to reduce your regular discount lines and to decline to take paper which, in ordinary circumstances, would have been attractive to you. But you have made it possible for the government to meet its financial requirements and you have also provided means, to the extent of certificates held, of taking care of the payments that you will be called upon to make for the Liberty Bonds which will be subscribed for by your customers. The opinion and advice of every good banker on financial matters is constantly being sought; your influence is great, and your value as an educational force is incalculable. Banks are the great distributing agencies through which the bonds pass into the hands of the public and it is desirable, wherever practicable, that the bonds should be placed with the customers of banks, and with those who are not depositors, rather than taken for investment by the banks themselves. But it is expected, of course, that banks will do their full part in placing the bonds in the hands of the public, by continuing their practice of lending freely against bonds as security, calling in turn upon the Federal Reserve banks for such assistance as may be needed.

The Liberty Loan is essentially a popular loan. No issue since the first has full exemption from income taxes. The second,

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third and fourth loans therefore, pay a higher return in the hands of men of moderate means than they do when held by the millionaire. The discount rates at Federal Reserve banks are so adjusted as to enable banks to lend at approximately the rate borne by the bonds, with a small margin of profit. Previous issues have been widely distributed, and each issue has shown a larger number of subscribers than the preceding one, the number in the case of the third Liberty Loan being more than 17,000,000. The Comptroller of the Currency is authority for the statement that of the total amount of bonds issued up to this time only 4% were held on June 29th as investments by the national banks, or 2.29% of their resources, while they were carrying at the same time loans secured by Liberty Bonds amounting to \$475,000,000, or 2.56% of their resources.

The Federal Reserve Board, from the time when it became evident that this country would be forced into the war, has spared no pains to fortify the position of the Federal Reserve banks, in order to enable them to meet all legitimate demands which may be made upon them and to render the greatest amount of assistance to the member banks in the performance of their war time duties to the government. Upon the recommendation of the Federal Reserve Board, Congress amended the Federal Reserve Act in several important particulars on June 21, 1917. The effect of these amendments has been to bring into the system a large number of state banks, besides enabling the Federal Reserve banks more effectively to control the country's gold which had been widely diffused, having been

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used for purposes of circulation and held in vaults of member and non-member banks. As you know, all the lawful reserves of member banks are now kept on deposit with the Federal Reserve banks, and as Federal Reserve notes may be issued without limit against deposits of gold or gold certificates, the gold holdings of the Federal Reserve banks have <sup>been</sup> augmented to an amount exceeding \$2,000,000,000, and the discounting power of the Reserve banks has thereby been greatly increased. Both the member and non-member banks have been urged repeatedly to transfer their gold as it accumulates to the Federal Reserve banks, and the appeal has not been in vain, for the response has been very general and gratifying. In the vaults of the Reserve banks gold is available either as a basis of new note issues or as a means of extending their loaning facilities, while in circulation or distributed among the 25,000 or more commercial banks, it is of no more value than any other form of currency. There still remains in circulation and in bank vaults however, about \$900,000,000 in gold certificates and coin, most of which can be deposited and should be deposited, their place to be taken as far as necessary by Federal Reserve notes. In mobilizing the gold of the country into the vaults of the Federal Reserve banks, it is not the intention to increase the volume of loans beyond the amount actually required, but these are war times, and any inability on the part of Federal Reserve

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banks to respond to legitimate demands made upon them would be disastrous. It is clear that in proportion as the gold holdings of the Federal Reserve banks are increased, the ability of such banks to extend accommodation to other banks or to issue notes is enlarged. As reserve holdings are curtailed, the lending power of the banks is correspondingly reduced.

The national banks of the country can render good service at this time by informing the people in their respective communities of the absolute falsity of the statements which have been made occasionally and which appear to be the result of a deliberate propaganda, that it is the intention of the government to confiscate bank deposits. Such a statement is absurd upon its face, but is well calculated to alarm the ignorant, and, although it has been denied and denounced in the strongest terms by the Secretary of the Treasury and other high authorities, it is evident, from the proportion of the money paid out every week in payrolls which does not return to the banks, that large amounts in the aggregate are being hoarded or carried upon their persons by workmen who are now receiving unusually high wages. Banks should give especial attention to the problem of bringing into sight any money hoarded in their communities, and should urge its investment in war savings stamps or

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Liberty Bonds, as well as the establishment of bank accounts. There is good reason to believe that the present is an opportune time, in industrial communities especially, for organizing systematic campaigns for bringing concealed money into the vaults of the banks, or for effecting its exchange for government obligations.

One of the most important functions of any bank is the granting of credits. This is a power which should be exercised with prudence and discretion in any circumstances, but under present conditions there are many new and perplexing features to be considered. As the paramount business of this country at present is war, and as the government is the largest purchaser of all essential commodities, it is clear that the banks of the country should do their part, not only in aiding the government to obtain the funds and credits needed, but that they should so readjust their own lending operations as to contribute most effectively toward supplying the government with necessary articles and commodities. Therefore the question of credit conservation has been a vital one for months past. War expenditures are essentially different from any which are ordinarily made in times of peace. Instead of contributing toward a permanent addition to the national wealth, the large payments which the government is making for the maintenance and equipment of our military and naval establishments involve waste and destruction, -- inevitable concomitants of war.



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This process necessarily tends to inflation, which, together with concentrated demand and the need for quick deliveries, brings about rapid advances in the price of necessities. Infinities such as are dealt with in higher mathematics, have no place in the arithmetic of war financing, even though the figures run into the billions. The supply of credit, of goods, and of man power is limited, and as far as possible these resources should be conserved and set aside for the use of the government, whose abnormal demands -- inevitable and necessary in the present circumstances -- must be counteracted by greater economy on the part of our civilian population, whose efforts should be directed toward decreasing the normal waste incident to our business pursuits and to our every day life.

Credit extended for non-essential purposes involves the use of labor, of transportation, of material, and of reserves which ought to be kept free for purposes of the government. Unrestricted credit means unnecessary competition with the government, and tends to impede and delay its operation, and needlessly advances prices.

At a time when the supreme business of the country is war, it is idle to talk of business as usual, for our accustomed business and personal habits cannot in many cases be continued without interfering with the government's work and the consequent infliction of serious injury upon the nation. Uncle Sam, at this time, is a world banker -- he is extending credits in large amounts to foreign

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countries associated with him in the war and his power to continue to play the part of "Uncle" in the financial sense depends upon the extent of his resources in men, goods and gold, and the avoidance of unnecessary credit. Needless recourse to the facilities of the Federal Reserve banks weakens proportionately his gold reserve, and this gold reserve is the financial backbone of civilization. Any waste of the raw materials and manufactured products of the country adds to our financial burdens by increasing the amount which we must import from other countries, and such waste at the same time reduces the volume of goods which should be available for export purposes — the best means of paying for imported commodities.

The far sighted banker does not content himself by considering merely present problems, but he turns his eyes to the future and endeavors to lift the veil in order that he may see the shadow of coming events and make his plans accordingly. Many thoughtful bankers feel, therefore, that the preservation of our economic strength is of the greatest importance in making provision for that period of readjustment which will follow inevitably the re-establishment of peace. By refraining from buying luxuries and by restricting the use of necessities to the actual requirements of health and reasonable comfort, a reserve purchasing power can be created which

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will be of the greatest value in bridging over our industries during the period of reaction and reconstruction which will follow the war, when "swords will be beaten into plow shares" and Mars will give place to Mercury and Ceres.

An intelligent and prudent use of credit will be an important factor in strengthening the national resources during the period of the war, in aiding its successful prosecution, besides maintaining our economic strength for the time when our armies will return to the employments of peace. It is important, however, that a wise discretion should be exercised and that there should be a careful discrimination between essential, less essential, and non-essential credits.

It is difficult to suggest any fixed and definite rule to govern in distinguishing between these various classes of credits. A loan might be desired for what appears at first glance to be a non-essential purpose, and yet failure to obtain the credit might create a condition which might indirectly have a distinctly harmful effect upon the ability of productive enterprises in the community to obtain credit. It is important, therefore, that bank officers should inform themselves as to the ultimate use to which the proceeds of a proposed loan will be diverted. Present conditions

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fully justify the banks in taking such steps as may be necessary to restrain speculation, but at the same time, a general refusal to make loans on good security would seriously impair the liquidity of investments and would force liquidation which might disturb very seriously the whole financial situation. It is important to avoid sharp and radical readjustments of credit and wherever possible lines should be reduced without undue hardship to the borrower or without causing a shock which would render the granting of necessary credits more difficult.

The problem of non-essential credits is, however, not entirely one for the consideration of the banks. The question will be determined for them in many instances by the Capital Issues Committee and by other governmental bodies such as the War Industries Board, which has large powers in the determination of the character and quantity of production and of priorities in the delivery of materials and goods.

In normal times great enterprises and large developments are the result of credits previously arranged by bankers, but the military necessities of today have changed the order so that in many cases developments are predetermined, and bank credits are adjusted to conditions instead of creating them, thus becoming an effect instead

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of a ~~case~~. Your problems gentlemen, are by no means confined to placing proper restrictions upon non-essential or less essential credits, but they include means of sustaining through adequate credits, the vast number of enterprises and industries whose operations are essential or contributory to the conduct of the war and to the health and necessary comfort of the public. In addition to direct advances to the government, you are being called upon to furnish funds for use of the mercantile community and for the payrolls of mining and manufacturing and transportation companies, and for the production and movement of crops and livestock. In these operations you will find your membership in the Federal Reserve system of the greatest value, for not only can you rediscount freely with your Federal Reserve banks the notes which represent your loans in most of these transactions, but you can effect through these banks such exchange transfers as you may desire and can call upon them to send you any currency that you may need. Shipments from Reserve banks or branches can reach most of you within twenty-four hours, and in order to facilitate your transactions and to encourage a freer movement of domestic exchange, serious consideration is now being given to having the Federal Reserve banks absorb all costs incident to transfers of currency for member banks, both from and to Federal Reserve banks. You have also recourse to the War Finance Corporation, which is authorized to make advances

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to banks, bankers, or trust companies, and to savings banks, upon terms and conditions set forth in Sections 7 and 8 of the War Finance Corporation Act.

Your attention is directed to the great importance of increasing our supplies of food stuffs, of cotton and wool, of coal, and of all manufactured articles of an essential character, and it is hoped that you will extend your credit lines with this object in view as far as may be consistent with the principles of sound banking and business prudence. While it is desirable that you should remain free to exercise your own discretion as regards <sup>the security of loans and</sup> the details of your business, it is necessary nevertheless, that we should all work together in carrying out a general policy. The exigencies of the times require that banking policy must be determined in Washington to a greater extent than would normally be the case, but every confidence is felt that the splendid patriotism which has been manifested in the past by national bankers in the hour of the nation's peril, <sup>continue to</sup> will be exhibited today when our country is engaged in the greatest war of all history, and that through your cordial and effective cooperation complete victory will crown our military undertakings, to be followed by a lasting and American peace.