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ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

FEDERAL RESERVE BOARD

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W. M. INLAY, FISCAL AGENT

October 16, 1919.

X-1701

CONFIDENTIAL

Subject: Study of Present Credit Situation with view  
to devising steps to curtail expansion.

Dear Sir:

In the opinion of the Board the expansion of credits is fast reaching the danger point, and at its conference with the Governors of the Federal Reserve Banks this question will be given serious consideration.

It is evident that some effective steps must be devised to regulate the granting of credits, and the Board requests that each Governor, before coming to the conference, look over the discount lines of his bank and bring with him a memorandum showing the names of all banks which habitually rediscount in excessive amounts, as well as the average line carried by each of such institutions since October 1st.

The Board has knowledge of cases in several of the Federal Reserve Districts where member banks appear to be carrying Liberty Bonds and Treasury certificates far in excess of their combined capital, surplus and deposits and are rediscounting the entire amount with their Federal Reserve Bank, the intention being, apparently, to make the profit out of the differential in rate. As an example your attention is invited to the following figures, which relate to a State member bank in a certain Federal Reserve District:

Loans and Discounts.....	\$ 173,579.00
Liberty Bonds.....	1,658,825.00
United States Victory Notes.....	200,000.00
Stock of Federal reserve bank.....	7,500.00
Other bonds, stocks and securities.....	117,875.00
Lawful reserve with Federal reserve bank..	70,511.00

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Capital stock.....	\$ 200,000.00
Surplus.....	50,000.00
Undivided Profits....	1,854.00
Total gross deposits.....	110,248.86
Bills Payable with Federal reserve bank....	1,950,000.00

This bank has used all its Government securities as collateral to secure its four per cent. notes with the Federal Reserve Bank; it carries no vault cash and does not do an active business; its minimum annual net profit derived from the rediscounting of paper secured by Government obligations is:

1/4% on \$1,658,825.....	\$4,147.00
3/4% on \$ 200,000.....	1,500.00

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5,647.00

This is a net profit which does not call for the investment of any of the bank's capital and surplus.

Very truly yours,

Governor.

Letter to each governor.