

FEDERAL RESERVE BOARD

WASHINGTON

X-3404
May 16, 1922.

SUBJECT: Senate Bill No. 3531.

Dear Sir:

For your information there is enclosed herewith a copy of Senate Bill No. 3531 and a copy of the Board's letter to the Chairman of the Senate Committee on Banking and Currency, setting forth its views with respect to the proposed legislation.

Very truly yours,

V i c e G o v e r n o r .

(Enclosures)

TO THE FEDERAL RESERVE AGENTS OF ALL THE BANKS

COPY TO GOVERNORS.

COPY

X-3404a

May 4, 1922.

Honorable George P. McLean,
Chairman, Banking & Currency Committee,
United States Senate.

My dear Mr. Chairman:

Receipt is acknowledged of your letter of May 2, 1922, in which you request the views of the Federal Reserve Board with regard to Senate Bill 3531. The bill, if enacted, would amend Section 9 of the Federal Reserve Act so as to make eligible for membership in the Federal Reserve System State banks having a capital of not less than 60% of the amount required under the terms of the present law, provided, that 20% of the net income of a bank admitted to membership under the authority of this amendment shall be set aside annually in a fund from which the capital of the bank shall be increased from time to time until its capital amounts to not less than that now required by the law.

At the time your letter was received a conference of the Governors of the Federal Reserve Banks was in session, and I laid your letter and S. 3531 before that conference. After some discussion of the proposed legislation a vote was taken, the result of which indicated that 8 of the 11 Governors then present favored the enactment of the bill.

The Federal Reserve Board has also considered the proposed legislation and by a majority vote has instructed me to write you expressing its approval of S. 3531.

The effect of the enactment of the bill would be to make eligible for membership in the Federal Reserve System a large number of State banks, with a capital of \$15,000 to \$20,000, which are not eligible at the present time because Section 9 of the Federal Reserve Act now requires that every State bank applying for membership shall have a capital sufficient to entitle it to become a national bank in the place where it is located, and the minimum capital required of national banks is \$25,000. The bill at the same time recognizes the principle embodied in the National Bank Act that every incorporated bank should have a capital of at least \$25,000, for under the proposed amendment every bank admitted to membership with a smaller capital would be required to set aside 20% of its net earnings until it possessed a capital equal to that amount.

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There is no doubt that the banking machinery of this country would be made more effective and generally useful, if the sound and properly managed banks which still remain outside the Federal Reserve System were brought into it. This fact was pointed out, in the chapter entitled "Defects and Deficiencies of the Banking Machinery", in Part II of the recent report of the Joint Commission of Agricultural Inquiry, from which the following paragraph is taken:

"A further defect in the banking machinery of the country is found in the fact that about 20,000 of the independent banks of the country, representing from 35 to 40 per cent of the banking resources, are not members of the Federal Reserve System. These banks are without direct access to the general reservoir of credit, consequently must rely for the expansion necessary in times of stress or business expansion upon the accommodations which it is possible to secure from their correspondents. These banks contribute little to the general reserves of the country, as those reserves are now represented principally by deposits in the Federal Reserve Banks. Consequently, if they are permitted to borrow either directly or indirectly from the Federal Reserve Banks in times of stress or business expansion they must do so at the expense of the reserves contributed by the banks which are members of the Federal Reserve System."

The Board feels that the enactment of S-3531 would be a distinct step toward remedying this defect. As the great majority of banks with capital of less than \$25,000 are located in the agricultural sections of the country, and as a greater proportion of their loans represent advances to farmers than is the case with the larger institutions, there can be little doubt that the passage of S.3531 would be effective in making the benefits of the Federal Reserve System more generally available to small farmers.

Two members of the Board desire me to express their opposition to this proposed legislation upon the ground inter alia that it discriminates against national banks.

Respectfully,

(Signed) W. P. G. Harding

G o v e r n o r .

67th Congress, 2d Session.

IN THE SENATE OF THE UNITED STATES

April 20 (calendar day, May 1), 1922.

Mr. Harris introduced the following bill; which was read twice and referred to the Committee on Banking and Currency.

A BILL

To amend section 9 of the Federal Reserve Act.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That paragraph 9 of section 9 of the Federal Reserve Act as amended is amended to read as follows:

"No applying bank shall be admitted to membership in a Federal reserve bank unless (a) it possesses a paid-up, unimpaired capital sufficient to entitle it to become a national banking association in the place where it is situated under the provisions of the National Bank Act, or (b) it possesses a paid-up, unimpaired capital of at least 60 per centum of the amount sufficient to entitle it to become a national banking association in the place where it is situated under the provisions of the National Bank Act and, under such rules and regulations as the Federal Reserve Board may prescribe, it sets aside annually in a fund an amount not less than 20 per centum of its net income for the preceding year and it increases its capital from such fund from time to time until it possesses a paid-up, and unimpaired capital not less than the capital which would have been required if such bank had been admitted to membership under the provisions of subdivision (a) of this paragraph."