

FEDERAL RESERVE BOARD

WASHINGTON

X-3507

August 19, 1922.

SUBJECT: Discounts for Member Banks at
Progressive Rates.

Dear Sir:

There is enclosed herewith copy of a resolution (S.335) submitted to the Senate under date of August 10 and referred to the Committee on Agriculture and Forestry.

While the resolution, which relates to graduated or progressive discount rates charged member banks under the provision of Section 14 of the Federal Reserve Act as amended April 13, 1920 has not been reported out by the Committee, the Board feels that it should be in a position to answer the inquiry as promptly as possible in case it is adopted by the Senate, and therefore requests that a report be rendered covering each member bank in your district which was charged progressive or graduated rates of discount of 10 per cent or more (including the normal basic rate) during any part of the time that such rates were in effect in the district. No report need be submitted covering any bank where the maximum rate charged including the normal rate did not at any time progress beyond $9\frac{1}{2}$ per cent. In order that the information may be compiled on as uniform a basis as practicable, we are enclosing a form to be used in those cases where progressive rates were applied to average excess borrowings over a reserve computation period. Where the graduated rates were applied to current offerings, it will be necessary to modify the attached form by changing item 1 to read "Total borrowings, including current offering," and to substitute the date on which the paper was discounted in lieu of the reserve computation period.

In acknowledging receipt of this letter, it is requested that the Board be advised whether or not there will be any difficulty in supplying the information desired, also approximately when complete reports may be expected. Kindly forward the reports in duplicate.

Very truly yours,

Vice Governor.

(Enclosure)

TO THE GOVERNORS AT
ATLANTA, ST. LOUIS, KANSAS CITY AND DALLAS.

X-3507a

DISCOUNTS FOR MEMBER BANKS WHERE PROGRESSIVE RATES
(INCLUDING NORMAL BASIC RATE) REACHED 10 PER CENT AND OVER.

Name of member bank _____ Capital and Surplus \$ _____

Location _____ Federal Reserve District No. _____

	Reserve computation period	
1. Daily average borrowings - total	\$ _____	\$ _____
2. Basic discount line	_____	_____
3. Borrowings in excess of basic line-total (1-2)	_____	_____
4. Excess borrowings not subject to progressive rates ..	_____	_____
5. Excess borrowings subject to progressive rates:		
(a) Amount	(See note)	
(b) Additional discount charged at superrates*.....	_____	_____
(c) Average superrate (excess over normal rate) as per formula below	_____	_____
(d) Range of rates (From _____ to _____).....	_____	_____
(e) Discount charged at superrates, after deduction of amounts subsequently rebated ..	_____	_____
(f) Range of rates after rebate (From _____ to _____) ..	_____	_____
6. Average superrate (excess over normal rate) if ap- plied to total borrowings, as per formula below	_____	_____
7. Basic discount line as it would have been if re- serve balances required had been used in the cal- culations, instead of reserve balances maintained by the member bank	_____	_____

FORMULAE

Item 5-c should be calculated by multiplying item 5-b by the number of days in the year, and dividing the product by item 5-a multiplied by the number of days in the reserve computation period.

Item 6 should be calculated by multiplying item 5-b by the number of days in year, and dividing the product by item 1 multiplied by the number of days in the reserve computation period.

*Exclusive of discount charged at the normal rate.

NOTE: No report should be submitted covering borrowings of any bank unless the rate of progression (including normal basic rate) during some reserve computation period reached 10 per cent or more. In the case of banks covered by the report, figures should be submitted only for those reserve computation periods during which the rate of progression (including normal basic rate) reached 10 per cent or more.

COPY OF SENATE RESOLUTION 335.
Submitted to Senate August 10, 1922.

Whereas it has been charged on the floor of the Senate that the amendment to the Federal reserve act authorizing the charging of progressive interest rates had been obtained largely as a result of express and definite assurances given to Members of Congress by W. P. G. Harding, governor of the Federal Reserve Board, that the object and purpose of said legislation was to secure a fairer and more equitable distribution of the funds of the Federal reserve system and was expressly designed to prevent the undue absorption of Federal reserve funds in certain large cities at the expense of the great farming interests in the West and South, and at the expense of the smaller business man throughout the country; and

Whereas the official records show that the said "progressive rates" after the passage of the law were put into effect only in the agricultural sections of the West, South, and Southwest, including the four Federal reserve districts of Atlanta, St. Louis, Kansas City, and Dallas, and were not put into effect in New York and other big money centers, where the funds of the Federal reserve system were principally loaned; and

Whereas the official records show that its country banks were charged unconscionable and wholly indefensible interest rates, and that these inhuman rates were exacted from many banks in the States of Alabama, Colorado, Nebraska, Kansas, Oklahoma, Texas, Louisiana, Mississippi, and others; and

Whereas the reserve board defeated two resolutions offered by the former Comptroller of the Currency, one designed to limit interest rates to 6 per cent per annum, and when that was defeated another limiting interest rates charged by Federal reserve banks to 10 per cent per annum; and

Whereas the undue concentration of Federal reserve funds to the big cities is illustrated in the fact that in the autumn of 1920 the official records show that the national banks in New York City, in proportion to their total loans and discounts, were being accommodated with three times as large an amount of Federal reserve funds as were the 7,600 "country" national banks throughout the entire United States; Therefore be it

RESOLVED, That the Federal Reserve Board be requested to obtain from the Federal Reserve Banks of Atlanta, St. Louis, Dallas, and Kansas City statements showing all cases where interest ranging between 10 per cent and 87½ per cent per annum, both inclusive, was exacted from member banks, giving names of the banks, their capital and surplus, and location, where 10 per cent per annum or more was charged on loans and rediscounts, the rate and amount of interest charged in each instance as expressed in dollars and cents; also let the statement show whether the Federal reserve banks have refunded to each member bank from which such exactions were made the amount of such interest collected in excess of 10 per cent per annum upon each loan upon which such interest was charged.