

# FEDERAL RESERVE BOARD

WASHINGTON

X-3508

August 21, 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. You will note that the first paragraph of the resolution states that the progressive-rate amendment to Section 14 of the Federal Reserve Act "... 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."

In this connection we have examined the 10-day and 15-day reports of loans in excess of basic line granted to member banks, submitted since May 1920 in response to the Board's letter St. 1133 dated May 5, 1920, and find that they apparently indicate that no member bank in your Federal Reserve Bank city had daily average borrowings at the Reserve Bank during any of such periods equal to 2-1/2 times its basic discount line. This being the case, it appears that had your bank adopted graduated rates (with a normal rate of 6 per cent) progressing at the rate of 1/2 of 1 per cent for each 25 per cent by which the amount of accommodation extended to the member bank exceeded its basic line, in lieu of the flat 7 per cent rate which was actually put into effect, that the average rate chargeable on total accommodation extended to any member bank in your Federal Reserve Bank city would not have reached 7 per cent during any report period. Your attention is invited in this connection to the discussion of the relative effect of progressive rates with a normal rate of 6 per cent and the 7 per cent rate, appearing on pages 58 and 59 of the Board's annual report for 1920.

In order to avoid possibility of error in replying to the Senate resolution in case it is adopted, it will be appreciated if you will have the above conclusions checked and advise the Board whether or not you find them correct.

Very truly yours,

(Enclosure)

Vice Governor.

TO BE SENT TO  
GOVERNORS AT NEW YORK ,CHICAGO AND BOSTON.