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X-3513

FEDERAL RESERVE BANK OF BOSTON
30 Pearl St.,

August 10, 1922.

Federal Reserve Board,
Washington, D. C.

Gentlemen:

I beg to acknowledge receipt of the Federal Reserve Board's letter (X-3494) dated August 2, 1922, on the subject of "Special Rates on Commodity Paper".

Although I have discussed this matter with our officers, I have delayed replying to the letter until I could discuss it with our Executive Committee and with our Board of Directors, who have met today. Our Executive Committee today passed the following vote:

"That in the opinion of this Committee there is no demand in this district for a special rate on commodity paper".

Although our member banks were duly notified of the appointment of these rates on commodity paper, we had no notes presented to this bank during the time that the rates were in effect which complied with the terms of commodity paper and would carry preferential rate and we have never had any inquiry since as far as we can remember for such a demand. We have, therefore, come to the conclusion that there is no demand for any such rate or any such kind of a note in this district. As a matter of fact, from the definition of commodity paper all of the transactions which would require commodity paper can easily be carried out just as well under a bill of exchange, and anybody wishing to obtain the lowest rates for that kind of a loan would naturally put it under a bill of exchange which we would buy at $3\frac{1}{8}\%$ discount to $3\frac{3}{8}\%$ discount for all maturities up to 90 days, and at 4% for maturities between 91 and 180 days. The question of a special commodity rate in this district, therefore, has nothing but an academic interest to us.

Very truly yours,

(Signed) Frederic H. Curtiss

Federal Reserve Agent.

FHC/D

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X-3513

FEDERAL RESERVE BANK
OF NEW YORK.

August 10, 1922.

Dear Governor Platt:

I have received the Board's letter of August 2, X-3494, enclosing tentative draft of letter which it is proposed to send to all Federal Reserve Banks in case the Federal Reserve Board should decide to authorize special rates on commodity paper.

It appears from examination of the proposed definition that commodity paper to be entitled to a special rate would have two main characteristics: first, it would necessarily be accompanied and secured by shipping documents, warehouse, terminal or other similar receipts covering readily marketable non-perishable staples; and second, it would have to be paper on which the rate of interest of discount charged the borrower by the member bank does not exceed 6% per annum.

The question for consideration now is whether there is any need or justification for the establishment of a preferential rate on eligible notes, drafts, bills of exchange, or trade acceptances which possess these two characteristics.

CLASS OF SECURITY NOT RECOGNIZED IN THE LAW. While the proposed regulation would not deviate from the principles set forth in the law as to the requirements of eligibility, and while the notes, drafts, bills or acceptances, as the case may be, would of themselves have to be eligible in accordance with those principles even under the proposed regulation, nevertheless to give a preferential rate for eligible paper merely because it is secured by a certain kind of collateral superimposes upon the law a principle which never could have been contemplated and which, indeed, is contrary to the spirit of the Act itself, for it recognizes in a material way, and prefers in a material way, a certain class of security which in fact has no substantial relation either to the eligibility of the paper or to its desirability as an investment.

NOT FEASIBLE TO VARY DISCOUNT RATES IN PROPORTION TO CREDIT RISK INVOLVED. Of course the credit risk to a Reserve Bank is fixed in part by the character of the paper discounted, and in part by the collateral, if any, by which it is secured. But those factors might well be left out of consideration in the determination of the rediscount rate, as distinguished from an open market rate, since in all cases of rediscount the accommodation is secured by the indorsement of the borrowing member bank, and it would be futile, if not impossible, to attempt to vary the discount rate in accordance with the risk involved, aside from the indorsement of the borrowing bank. If once we admit

the principle that the rediscount rate should be lower merely because the credit of the maker is better or the security of the collateral is stronger than the credit or security involved in other discounts, we would be confronted with a refinement of rates that would be impossible of administration.

PREFERENTIAL RATES ON ACCEPTANCES ABOLISHED. There is far more reason that a preferential rate should be given to bankers acceptances, or even to trade acceptances, than there is to paper secured by warehouse receipts if the only question involved is one of goodness of the paper. In the early days of the System it was thought wise to encourage and develop the use of bankers acceptances, an entirely new kind of credit instrument in this country, by a preferential rate, but as soon as an opportunity offered itself in a broad open market for that kind of paper the preferential rate was abandoned and one rate was established for "money", regardless of the character of the obligation upon which it was procured.

Only a few months ago the Federal Advisory Council and the Conference of Governors unanimously opposed the reestablishment of a preferential rate for trade acceptances when that question was presented for consideration. The same reasons prompting that opposition are applicable to the present case. A return to the preferential or differential rate would, in our opinion, be a most unfortunate step backwards.

MOTIVE OF A PREFERENTIAL RATE AND ITS EFFECT. The only apparent reason for the establishment of a preferential rate on so-called commodity paper at this time would be a desire to induce member banks to borrow on this kind of paper and thus indirectly to force more money into credits of this kind. But even if it be that that purpose would be accomplished, it would be unwise as a matter of principle, since it would only tend to create an artificial demand for one particular kind of credit arbitrarily selected by the Federal Reserve Board. It might well lead to pleas for other special rates on eligible paper when secured in other particular ways.

CHARACTER OF PAPER ITSELF HAS NO DIRECT RELATION TO PURPOSE OF REDISCOUNT, - THAT IS, TO BUILD UP RESERVES. There is another practical reason that makes the proposed action unwise. When a member bank borrows from a Federal Reserve Bank it is for the purpose of restoring its general credit reservoir. It is because the aggregate of its day's operations has impaired its reserve balance and because the law requires that that balance be made good before further loans may be made. The money or credit obtained by the member bank from the Federal Reserve Bank by virtue of the discount of its paper does not of itself go directly to the original maker of the note discounted, but rather goes into the credit pool of the member bank for dissipation in the usual course of another day's business. The accommodation to the member

F. R. Bank of New York

- 3 -

X-3513

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bank is, therefore, always for one purpose, - the restoring of its reserve balance which has become impaired because of the net result of all of its transactions during the day. That being the purpose, the rate charged the member bank should not be varied merely because the vehicle by which it obtains its funds differs slightly in the form of its security from any other paper by which it may accomplish the same purpose, - that is the restoring of its reserve balance.

COMMODITY PAPER SERVES NO MORE DESIRABLE PURPOSE THAN OTHER ELIGIBLE PAPER. From a credit standpoint commodity paper would certainly be no better than other eligible paper secured by such collateral as Government bonds, for instance, and from the point of view of commerce, industry and agriculture the so-called commodity paper would have performed no greater service than the unsecured note of the farmer in the planting season or any other kind of paper the proceeds of which were used for a commercial, industrial or agricultural purpose. In fact, if there is any difference at all, it would be against the commodity paper, which, because of its very nature, might induce withholding goods from consumption rather than moving them in the process of distribution. It would be one step toward, and an encouragement of, the so-called "Edison plan"- cheap money for loans secured by agricultural commodities, instead of free money as is contemplated by that plan. The difference is only one of degree.

NOT FEASIBLE TO VARY DISCOUNT RATES ON SOLE BASIS OF RATE CHARGED ON A PARTICULAR PIECE OF PAPER BY THE MEMBER BANK. So far as the second factor in the proposed commodity paper rate is concerned, there is, of course, no more reason to prefer commodity paper merely because the member bank has not charged the original borrower in excess of 6%, than there is to prefer any other class of paper upon which the borrower may have obtained funds from the member bank at that rate or less. It is, of course, obvious that, as a matter of principle, independently of the questions of law involved, it would be impossible to establish discount rates in this country by any such direct relation to rates of interest charged by banks upon customers' paper. To do so on one particular kind of customers' paper would seem to be even less justified as a matter of principle. While Federal Reserve Bank rates might properly be related in a general way to market rates for money in the district in which the bank is located, it is a decidedly different matter to charge a member bank a special rate on a particular note of a customer of the member bank merely on the basis of the amount of interest paid by that customer on that particular note. To follow such a principle logically, and to apply it in all cases, as would be the logical sequence, would result in a confused rate policy that would lack all of the necessary elements of control and purpose.

SERIOUS LEGAL CONSIDERATIONS INVOLVED. In conclusion, while it is presumed that the Board will give due consideration to its legal

F. R. Bank of New York

- 4 -

X-3513

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right under the terms of Section 13 to make a "class" of paper with a special rate out of paper which differs from other eligible paper not in the use of its proceeds but solely in the degree of its security, it has always been our understanding that except in the case of Government obligations, specially dealt with in the law, the character of the collateral to eligible paper could not be considered alone as a ground for defining a "class" of paper. Otherwise it would be perfectly proper legally for the Board to define any eligible paper secured by railroad bonds as one class of paper, entitled to one rate, and other eligible paper, the proceeds of which had been used for precisely the same purpose, secured in another way, as a different class, entitled to another rate. To do this would, in our opinion, ignore every fundamental principle of the Federal Reserve Act, which, except in the case of obligations secured by Government securities, looks not to the collateral to discounts but to the purpose to which the proceeds have been applied by the original borrower.

On questions of principle, questions of policy and questions of practical operation, we are unanimously opposed to the establishment of a preferential rate to the member bank solely upon the ground of the particular kind of collateral by which the paper discounted is secured, or upon the basis of the rate charged a particular borrower on that particular paper.

This letter and its conclusions has the unanimous approval of our executive committee, for whose opinions the Board asked in its letter of August 2.

Very truly yours,

(Signed) Benj. Strong,

Governor.

Honorable Edmund Platt,
Vice Governor, Federal Reserve Board,
Washington, D. C.

COPY

FEDERAL RESERVE BANK OF PHILADELPHIA

August 9th, 1922.

My dear Governor Harding:

Your letter of the 2nd instant, in reference to the advisability of re-establishing special rates on commodity paper, was presented at a meeting of our Executive Committee this morning, and the subject was fully discussed. The officers and Committee are unanimously of opinion that there are no interests in this District which would be served by the establishment of such a rate, and that the only possible effect of its establishment would be an effort to convert other paper into what might be represented as "commodity paper". We can imagine that in some other Districts some useful purpose might be served by the establishment of this special rate, but if it were to be authorized by the Board it would not be established by this Bank, nor would it be generally availed of even if it were established. I am,

Very truly yours,

(Signed) Geo. W. Norris,

Governor.

Hon. W. P. G. Harding, Governor,
Federal Reserve Board,
Washington, D. C.

COPY

FEDERAL RESERVE BANK OF CLEVELAND

August 12, 1922.

Hon. Edmund Platt, Vice Governor,
Federal Reserve Board,
Washington, D. C.

Dear Sir:

With further reference to the Board's letter X-3494,
dated August 2, 1922, subject - Special Rates on Commodity Paper, -

I wish to advise that the Board's letter, together
with the reply of this bank dated August 4, 1922, was read to
our Board of Directors yesterday, and by a unanimous vote they
approved the reply, stating the present position of the Board
with respect to fixing its commodity rate, and wished me to
advise you further that they are opposed to legitimatizing a
spread of 2-1/2% between the rediscount rate of the Federal
Reserve Bank and the rate charged by member banks to their
customers.

Very truly yours,

(Signed) D. C. Wills,

Chairman of the Board.

D.

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COPY

FEDERAL RESERVE BANK OF CLEVELAND.

August 4, 1922.

Hon. W. P. G. Harding, Governor,
Federal Reserve Board,
Washington, D. C.

Dear Sir:

Your letter X-3494, dated August 2, 1922, in respect to the subject of special rates on commodity paper, has been received.

The Federal Reserve Board is aware that this bank has never established a preferential rate on commodity paper, nor has it asked permission from the Federal Reserve Board to do so.

Our Board discussed the matter thoroughly when these rates were being established by a few of the other Federal Reserve Banks, and were unanimous in their opinion against their establishment, 1st: because the volume of that kind of paper in this district is inconsequential, and 2nd: because it was regarded as unsound to quote a rate that might be regarded as subsidizing a single industry.

Our directors also regarded it as unwise to set a precedent that might be construed as dictating to banks what rates they should charge their borrowers.

Your letter will be brought to the attention of our Board of Directors at its next meeting.

Very truly yours,

(Signed) D. C. Wills

Chairman of the Board.

E

X-3513

COPY

FEDERAL RESERVE BANK
OF RICHMOND.

August 9, 1922.

SUBJECT: Special Rates on Commodity Paper.Edmund Platt, Esq., Vice Governor,
Federal Reserve Board,
Washington, D. C.

Dear Sir:

Governor Harding's letter of August 2nd, X-3494, on the above subject, with confidential tentative draft of letter which the Board is considering sending out on this subject, was presented to our Board of Directors at their meeting today, together with copy of my reply of August 3rd.

After discussion and consideration of the matter, our Board passed the following resolution:

"RESOLVED, That we are opposed to any special commodity rate."

I am forwarding this for the information of the Board.

Very truly yours,

(Signed) Caldwell Hardy

Chairman of the Board.

E

X-3513

COPY

FEDERAL RESERVE BANK
OF RICHMOND.

August 3, 1922.

SUBJECT: Special Rates on Commodity Paper

Hon. W. P. G. Harding, Governor,
Federal Reserve Board,
Washington, D. C.

My dear Governor:

Your favor of the 2nd, X-3494, to hand on the above subject. The question was discussed confidentially at our officers conference this morning, Governor Seay being absent on his usual annual holiday.

When we had a special commodity rate before we found that South Carolina members preferred to pay our full commercial rate, because they made more money by doing this and charging their borrowers 8%. At the same time, our North Carolina members availed of our special rate more often. There were very few commodity loans from the balance of the district. We are inclined to think that the granting of a special rate, on condition that our member is to charge not more than a given rate, is somewhat questionable in principle, although we realize that such a policy is doubtless necessary in order to protect the original borrower. We feel sure that little, if any, of the benefit of any special rate we might make is passed to the original borrower.

Conditions are quiet in our district, irritating discussions are much less frequent, and we feel that any new changes, the results of which would be at best of minimum advantage to original borrowers, would not be desirable.

We think a special commodity rate would naturally encourage speculative holding and unnecessarily delay orderly marketing. We have had some friction in handling regular loans against cotton three or four years old, which ought to have been sold long ago, and if a new commodity rate is to be established we think we should have a certificate that the commodity produced is not more than 12 months old. On the whole we are not impressed with the desirability of a special commodity rate at the present time.

Yours very truly,

(Signed) Caldwell Hardy

Chairman of the Board.

FEDERAL RESERVE BANK

X-3513

ATLANTA

COPY

F

August 14, 1922.

SUBJECT: Commodity rate; letter X-3494.

Dear Mr. Platt:

I am in receipt of your letter of August 11th on the above subject, answering my letter of the 7th.

In reply beg to say that I submitted to our Board of Directors on Friday, August 11th, copy of the Board's letter X-3494, and my reply of the 7th. Also Governor Wellborn, in making his report to our Board concurred in my views, as expressed in his report and my letter of the 7th.

Our Directors thereupon voted that they were in thorough accord with the views expressed by the Chairman and the Governor, i. e., they did not believe that a commodity rate would be of full value to the producers of commodities for the reasons stated in said communications.

Very truly yours,

(Signed) JOS. A. MCCORD.

Chairman.

Hon. Edmund Platt,
Vice Governor, Federal Reserve Board,
Washington, D. C.

X-3513

FEDERAL RESERVE BANK
ATLANTA

COPY
F

August 7, 1922.

SUBJECT: Special Rates on Commodity Paper.

Dear Governor Harding:

Your letter X-3494, August 2, 1922.

In reply beg to say that I am doubtful as to whether the commodity rate would be of any special benefit to the producers of commodities that could be stored in warehouses in this district. You no doubt know that the farmers in the interior deal with the smaller banks. We haven't the large plantations or ranges in this district that they have in some of the western states. The large plantation idea has been gradually eliminated in this district.

The landlords owning vast tracts of land have tenants on their property, and these tenants largely deal with the smaller banks in the interior towns, and the smaller banks have a flat rate of 8% per annum, and in some instances charge more than that.

When we had our commodity rates in 1915 only a few banks availed themselves of the rate. They preferred to charge 8% and pay us our regular commercial and agricultural discount rate, rather than to take the lower rate of 3% when they would be compelled to loan to their customers at 6% per annum. Some few banks in the district availed themselves of the privilege at that time. Others endeavored to handle it purely for land owners, who lived in the smaller towns and who hoped to speculate in cotton, as that is the principal product; but when we advised them that cotton could not be held for speculative purposes under the commodity rate, they would then relieve it from that rate and put it on another basis.

If we could get all the banks to make a preferential rate to the planter, I would be heartily in favor of the commodity rate, but the larger city banks charge practically only 6 or 7% interest, and cotton that is shipped in from country towns to large cities like Atlanta, Savannah, Montgomery, Mobile, New Orleans, and Jackson, Miss., the loans are usually made by the larger city banks at a 6% rate where the cotton is pledged as collateral thereto.

The subject of the commodity rate is of so vital importance that I shall read your letter to our Board of Directors on Friday next, and ask their opinion whether a commodity rate would be appreciated and used, and whether our member banks would take advantage of the low rate provided they would have to loan to their customers at not over 6% including all commissions. I shall endeavor to obtain a concensus of opinion from our Directors on Friday and will then write you relative thereto.

Very truly yours,

(Signed) JOS. A. MCCORD.

Chairman.

Hon. W. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.

FEDERAL RESERVE BANK
ATLANTACOPY
F

August 5, 1922.

Mr. W. P. G. Harding,
Governor,
Federal Reserve Board,
Washington, D. C.

Dear Sir:

Replying to your circular letter X-3494 of August 2, 1922, I wish to advise that our Executive Committee has considered the matter of establishing a special rate of $3\frac{1}{2}\%$ on commodity paper, on which the rate of interest or discount - including commission - charged the borrower does not exceed 6% per annum.

Our Committee is not inclined to favor this special rate, as, in our earnest opinion, member banks generally would not be disposed to avail themselves of it. Our reasons for reaching this conclusion are:

In the larger cities of our District, the prevailing rate is now 6%. The banks in the smaller communities have an established rate of 8% which, it is believed, they would not care to abrogate. For them to give a preferential rate on commodities would assuredly create confusion among their customers. In the smaller banks, it is really necessary to charge 8% in order to make a reasonable profit; and we believe that they would prefer a continuance of the present rate of $4\frac{1}{2}\%$ on our part, thus permitting them to maintain their charge of 8%. This would yield them a greater profit on their borrowings than they would receive if they discounted paper with us at $3\frac{1}{2}\%$, but were themselves restricted to a charge of 6%. This being the attitude of the member banks, the borrowers would derive very little benefit from our establishing the preferential rate.

Very truly yours,

(Signed) M. B. WELLBORN

Governor.

FEDERAL RESERVE BANK

X-3513

CHICAGO

COPY

G

August 5, 1922.

Subject: Special Rates on
Commodity Paper.

Dear Governor Harding:

Answering your letter of August second (X-3494) I will state that I laid your letter before our Executive Committee at its regular session yesterday. I regret that only a bare quorum of the committee were present and that so many of the members of our board are, at the moment, beyond reach. One is in Europe; another is up in the wilds of Canada; and so on.

The Federal Reserve Bank of Chicago never established a special rate on commodity paper, if my remembrance is correct. When a number of the other Federal Reserve Banks established such special rates a number of years ago the sentiment of our board was always against it. At that time, if I remember rightly, none of the members of our board favored it. While the complexion of our board has changed somewhat since that time a majority of the old members are still serving, and I have no reasons to believe that any of them have changed their minds in regard to this matter.

The sentiment of our Executive Committee yesterday was, that on the basis of information thus far before us, the Chicago bank would not care to establish such special rates on commodity paper, and that probably no considerable number of our member banks would avail themselves of it.

Very truly yours,

(Signed) W. A. HEATH

Chairman.

Mr. W. P. G. Harding, Governor,
Federal Reserve Board,
Washington, D. C.

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COPY

X-3513

FEDERAL RESERVE BANK
OF
ST. LOUIS.

August 7, 1922.

Dear Governor:

In the absence of Mr. Martin I am replying to your letter X-3494, bearing date of the 2nd, after having discussed the subject thereof with other officers of this bank, but cannot at this time convey the opinion of our Executive Committee relative thereto because, due to vacations, the Committee is not meeting regularly.

The establishment of a special rate on commodity paper would be of benefit to a certain class of borrowers, provided the member banks reduced their interest rate to such borrowers to 6%.

In this district, with the exception of one state and the larger centers in the others, the customary interest rate is above 6%. For this reason it is unlikely that, if a special rate on commodity paper is established, any benefit will accrue therefrom to the borrowers, although member banks would no doubt take advantage thereof on any paper held by them or acquired on which the rate charged was 6% or less.

In other words, it is not likely that the establishment of such a rate would result in any change in the rates of the member banks to their customers, although the member banks would benefit whenever they happened to hold and rediscount any paper which would come within the definition of commodity paper and on which the rate of interest charged was within the limit.

In the rural communities of this district, with the exception of the cotton and tobacco sections, little paper is found that would come within the Board's definition of commodity paper. It therefore follows that the rate would be of advantage primarily to the member banks financing the grower or buyer of cotton and tobacco and the middle man handling other commodities in this district.

Generally speaking, we are not in favor of special rates on certain classes of paper. As we see it, the principal, if not the sole advantage in the establishment of such a rate would be its possible psychological effect in that it would indicate that the commodities of the farmer could be marketed with cheap money whereas in practical operation such would probably

H
F. R. Bank of St. Louis

- 2 -

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not be the case.

Since in our judgment the establishment of such a rate would, generally speaking, benefit only certain member banks and then only in a limited way, it is doubtful whether our Board would feel disposed to establish a special rate on the class of paper in question should the Federal Reserve Board permit same.

Yours very truly,

(Signed) D. C. Biggs.

Governor.

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

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COPY

X-3513

FEDERAL RESERVE BANK
OF MINNEAPOLIS

August 17, 1922.

Mr. Edmund Platt, Vice Governor,
Federal Reserve Board,
Washington, D. C.

Dear Governor Platt:

The Board's letter of August 2, (X-3494) was received when I was in Northern Michigan. Commodity rates and others were discussed by our Directors at their meeting Monday, and I enclose herewith excerpts from our minute book which will be self-explanatory of the views of our Directors.

You will note in the excerpts of the minutes that our Directors believe that if a 4% rate was established on commodity paper, a similar rate should be established on notes secured by U. S. Government bonds.

The Board also makes inquiry whether, in our opinion, our member banks generally will be inclined to avail themselves of the commodity rate. It is our opinion that the banks in the larger centers will no doubt take advantage of it, but we doubt very much whether the banks in the smaller communities will attempt to use it. Banks in the smaller centers generally secure much better than a six per cent rate from their customers, and we do not believe that such small banks would make a 6% rate to their customers on commodity paper even though the same could be rediscounted with us one half or one per cent less.

Yours very truly,

(Signed) R. A. Young

Governor.

COPY

Federal Reserve Bank
of Minneapolis.

Copy of excerpts from minute book.

Chairman Rich brought up for discussion the existing discount rates of this bank, which were thoroughly considered. He stated that while the Federal Reserve Board has offered no suggestion, some of its members have the impression that the spread between the rates of this bank and those of the other Federal Reserve Banks is greater than it should be, Minneapolis and Kansas City being the only institutions still maintaining the 5 per cent rediscount rate. The subject was thoroughly discussed and the Chairman asked for the individual opinions of the members of the Board, following which Director Bigelow, supported by Director Bassett, moved that the rediscount rate of this bank on all paper and all maturities with the exception of bankers acceptances, should be reduced to $4\frac{1}{2}$ per cent, subject to the approval of the Federal Reserve Board. The resolution was adopted, Director Hixon voting no.

Governor Young then presented the Board's general letter X-3494 of the 2nd inst., upon the revival of special rates on commodity paper. After thorough discussion, Director Hixon, supported by Director Bigelow, moved that the Executive Committee be authorized to establish a commodity rate at not less than 4 per cent, if the action of other Federal Reserve Banks and conditions in this district should, in their judgment, warrant such action.

After a discussion as to the advisability of establishing special rates on notes secured by Government bonds, Director Bassett, supported by Director McDowell, moved that the Executive Committee be authorized to establish a special rate on paper secured by Government securities, the rate to be the same rate agreed on for commodity paper should a commodity rate be established, and if such special rates are established by other reserve banks on the same class of paper.

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Telegram from
Federal Reserve Bank of Minneapolis

August 17, 1922

Hoxton,
Washington

Letter X-3494 discussed at our Directors' meeting Monday.
Our Directors approve of establishment of commodity rate and
have authorized executive committee to establish such rate
at not less than four per cent if action of other Federal
Reserve Banks and conditions in this district should in their
judgment warrant such action. Letter follows giving details.

(Signed) Young.

J

COPY

X-3513

FEDERAL RESERVE BANK
OF
KANSAS CITY.

August 10, 1922.

Federal Reserve
Washington, D. C.

Gentlemen:

Regarding the Board's letter (X-3494) on special rates for commodity paper, our board requests me to say that it hesitates to request a special rate on this class of paper and is of the opinion that member banks generally would not be inclined to avail themselves of it. At this time there is ample credit available for the purpose of carrying the commodities of this District, pending the orderly marketing thereof and at rates that are entirely satisfactory.

Yours very truly,

(Signed) Asa E. Ramsay

Chairman of the Board.

FEDERAL RESERVE BANK
DALLAS

X-3513

COPY
K

August 7, 1922.

Mr. W. P. G. Harding, Governor,
Federal Reserve Board,
Washington, D. C.

Dear Governor Harding:

Referring to your X-3494, on the subject, "Special Rates on Commodity Paper," I am writing to say that in advance of our meeting this morning I sounded out some of our leading bankers on the subject of the effect of putting in these commodity rates, to what extent, in their opinion, they would be availed of, and what effect the adoption of such rates would have on the general financial situation.

With only one exception the bankers were inclined to think that the effect of the adoption of the $3\frac{1}{2}\%$ commodity rate would be good. One of the bankers, Mr. Pondrom, thought a better plan would be to reduce our discount rates to 4% on all classes of paper. I found pretty ready interest, among all the bankers present at the meeting, in this view, and some of our own directors were inclined to the same view. However, Governor McKinney and myself both took a pretty firm position that the financial conditions and the current interest rates in this district would not justify any further reduction of our discount rate, and further we felt sure the Board would not approve the reduction, calling their attention to your telegram inquiring whether our Board had considered the effect when fixing rate of $4\frac{1}{2}\%$, and the small earning percentage on our assets.

The matter was discussed at length by our Board and they unanimously agreed and asked that the $3\frac{1}{2}\%$ rate be adopted, subject, of course, to all of the provisions contained in your confidential, tentative draft. It was thought that the psychological effect of this rate would be good, that it would be an assurance of the willingness and ability of the Federal Reserve Banks to do their part in marketing the present crop at a preferential rate, and that the announcement of this rate would tend to stabilize conditions and help out generally. It was further believed that if a rate of this kind were put in over the south generally it would have a good effect abroad, and among domestic consumers of cotton, as notice of the willingness and ability of the System to function and do its part in the marketing of the crop.

As you will doubtless recall, when this rate was enforced in 1915 and 1916, it was not availed of much in this section, however, interest rates have decreased somewhat in this state since then, and a great many, perhaps hundreds of warehouses, scattered over the District have been built, making it easier to meet the conditions in respect to this sort of paper. I am inclined to believe that the banks will be more inclined to avail themselves of this facility than heretofore, and on the whole the adoption of this rate will have a good effect.

C O P Y
K

If the rate is adopted at all it should be done so speedily. Cotton is moving to some extent in the extreme southern and southwest Texas, and in a few weeks will be moving in substantial volume in central Texas. I notice that cities less than fifty miles south of us have been receiving their first bale.

If and when the Board has fully determined the course of the matter I shall be glad to receive advice by wire so announcement can be made.

Very truly yours,

(Signed) W. F. RAMSEY

Chairman.

X-3513

TELEGRAM
from
FEDERAL RESERVE BANK
DALLAS

C O P Y
K

August 7, 1922.

Harding,
Washington.

Our board of directors today after fully canvassing the matter are inclined to believe the special commodity rate suggested, your X-3494, would have good effect in many ways and would probably be pretty well availed of not only by the smaller banks of the District but the large ones and that it would tend to somewhat increase efficiency in our marketing system and they instruct me to advise the Board that they had at this meeting requested the Federal Reserve Board to approve the establishment of a special rate of $3\frac{1}{2}\%$ on commodity paper on which the interest of the discounting bank would not exceed 6%. If this can be done at all it would seem to me that it would be wise to take this step immediately and I would be glad to be advised of the approval of this rate fixed by our board of directors at the earliest practicable moment.

RAMSAY.

X-3513

F E D E R A L R E S E R V E B A N K

SAN FRANCISCO

C O P Y
L

August 21, 1922.

SUBJECT: Special Rate on Commodity Paper.

My dear Governor:

Receipt is acknowledged of your letter of 14th instant.

The Board's suggestion regarding a special rate on commodity paper was presented to our directors at their meeting after discussion in the Executive Committee. After going over the matter the Board voted that it approve the view expressed to you in my letter of 8th instant.

Yours very truly,

(signed) John Ferrin.

Chairman of the Board.

The Honorable Edmund Platt,
Vice Governor, Federal Reserve Board,
Washington, D. C.

F E D E R A L R E S E R V E B A N K

SAN FRANCISCO

C O P Y
L

August 8, 1922.

SUBJECT: Special Rates on Commodity Paper.

My dear Governor:

Receipt is acknowledged of your letter of August 2nd, X-3494, enclosing copy of a confidential tentative draft, X-3494a. This matter was discussed somewhat at our Executive Committee meeting this morning, and I have had a further discussion with Governor Calkins. It seems to be the consensus of our opinions that this bank would not be disposed to establish a special rate for commodity paper at this time, and also, that if we did establish such a rate that there would be no general disposition on the part of member banks to avail themselves of it.

I shall present the matter again next week at the meetings, both of our Executive Committee and of our Directors, and shall write you further thereafter.

In response to your invitation to comment, criticize or suggest, I may say that we are disposed to raise a question as to the desirability of fixing a Federal Reserve bank discount rate conditioned upon the rate charged by a member bank. Beyond this we have no suggestion to make.

Yours very truly,

(Signed) JOHN PERRIN

Chairman of the Board.

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

FEDERAL RESERVE BOARD

WASHINGTON

August 31, 1922.

X-3514.

SUBJECT: Leave of absence, officers of Federal Reserve Banks.

Dear Sir:

For the information of your Board of Directors, you are advised that the following resolution was adopted at a meeting of the Federal Reserve Board held today:

RESOLVED: That in all cases where officers of Federal Reserve Banks are granted, by their Boards of Directors, absences for a longer period than thirty days, whether for vacation or on account of illness, the amount of salary that they shall receive during such absence shall be submitted to the Federal Reserve Board for its approval.

Very truly yours,

Vice Governor.

TO THE CHAIRMAN OF ALL FEDERAL RESERVE BANKS.

FEDERAL RESERVE BOARD of the Government

WASHINGTON

Original letter addressed to the
Federal Reserve Board.

September 8, 1922.

X-3517.

CONFIDENTIAL

SUBJECT: Functional Expense Reports, July, 1922.

Dear Sir:

As Chairman of the Board's Committee on Economy and Efficiency, I take pleasure in enclosing herewith Functional Expense Exhibit No. 2 for July, 1922, based on the first complete expense reports by functions received from the Federal Reserve Banks, and showing for each Federal Reserve Bank and Branch the cost of operating each function and expense unit, together with the number of employees and units handled. These data are being furnished to all Federal Reserve Banks not for the purpose of disclosing operating costs in one bank to the officials in another bank, but to enable the senior officers and the Economy and Efficiency Committee in each bank more intelligently to examine into their own operating costs in the light of what is being done at other Reserve Banks.

The Committee has kept in mind that conditions vary in each bank, and is aware that discrepancies still exist in the figures due to lack of full understanding of the instruction manual. The Committee believes, however, that this exhibit of costs will indicate to the senior officers and to the Economy and Efficiency Committees at the banks, as it has to the Board and its Committee on Economy and Efficiency, which functions or expense units are out of line, and it is expected that through the use of this exhibit the Committee in each bank will be able to determine where operating costs are too high or where the figures they have reported need revision.

It will be noted that separate sheets have been used for each function in the preparation of the exhibit in order that data pertaining to a particular department may be given to that department without disclosing the figures of any other department, as it is the

desire of the Board's Committee that this information be kept for the confidential use of the bank's senior officers, the bank's Committee on Economy and Efficiency, and department managers directly concerned. The Secretary of the Committee, Mr. Cramer, will continue to answer any questions concerning the application of instructions in the manual.

It is suggested that in certain instances you may find it desirable, after examining in detail the exhibit enclosed herewith, to communicate with some of the other Federal Reserve Banks for the purpose of determining whether or not the operating costs of a given department in your bank have been compiled on a basis comparable with that followed by such other banks, and if so, to obtain a general outline of the operating methods at those banks with a view to improving conditions in your own bank.

The Committee appreciates the promptness with which the reports for the month of July have been prepared and submitted, and the cooperative efforts manifested by all Federal Reserve Banks in an endeavor to obtain comparable operating costs for each function.

Very truly yours,

Chairman, Committee on
Economy and Efficiency.

FEDERAL RESERVE BOARD

WASHINGTON

X-3518
September 9, 1922.

SUBJECT: Discussion of Federal Reserve Credit Policy at the
Joint Conference of Governors and Chairmen.

Dear Sir:

It has been suggested to the Federal Reserve Board that one or more sessions of the forthcoming conference (called for October 10th) of the Governors and Chairmen with the Board should be devoted to a comprehensive discussion of -

FEDERAL RESERVE CREDIT POLICY.

The Board shares this view, and following is the list of topics which it has been decided should form the basis of this discussion:

1. What object should Federal Reserve credit policy seek to accomplish and by what test may we know that it is sound?

Discussion to be led by Messrs. Norris and Wills.

2. What relative importance should be given to the following factors in determining such policy?

- a. Federal Reserve reserves.
- b. Interest rates in the open market.
- c. Interest charged by member banks.
- d. Interest rates paid on time deposits.
- e. Balance of trade and inward or outward movement of gold.
- f. Credit conditions in, and exchanges with, leading foreign countries.
- g. Volume of bank loans and deposits.
- h. Business and industrial activity, present or prospective.
- i. Commodity price levels.
- j. Condition of security markets.

Discussion to be led by Messrs. Jay and Seay.

3. What light does the experience of the Federal Reserve Banks throw on the value of different methods of making their credit and discount policy effective?-

- a. Discount rates.
- b. Open market operations.
- c. Discretion in rediscounting.
- d. Credit examination of member banks.
- e. Credit ratings of commercial borrowers.

Discussion to be led by Messrs. Strong and Perrin.

4. What is the most practicable method of bringing about timely and competent consideration of matters of credit policy by all of the Federal Reserve Banks and effective action to obtain the results aimed at?

Discussion to be led by Messrs. McDougal and Curtiss.

- - -

In order that the discussion of the general subject of credit policy at the forthcoming conference may be thoroughgoing, productive, and pointed, it is desired by the Board that careful preparation and study of the topics to be considered be made in advance of the conference, and also that there should be a preliminary exchange of views in written form. Assignments have therefore been made in connection with the program to those who are to start the discussion.

Each Governor and Chairman to whom an assignment has been made as above, is requested to prepare a written statement on the assigned subject, not to exceed 1200 words in length. Each statement or paper should bear a title and a brief introductory paragraph setting forth the proposition or conclusion it is intended to establish. These papers should be mimeographed and copies should be mailed to all other members of the conference (Governors and Chairmen of Federal Reserve Banks)

and to members of the Federal Reserve Board not later than Thursday, September 28th.

Each Governor and Chairman other than those listed in the above program is requested to select one of the four main topics on the program and to prepare a memorandum of his views upon it, considering in this connection the discussion of the topic by those to whom the preparation of leading papers has been assigned. These memoranda should not exceed 600 words in length, and should bear a title and a brief introductory paragraph setting forth the proposition or conclusion the writer has intended to establish. These memoranda should be mimeographed and mailed out to all members of the conference and to members of the Federal Reserve Board not later than Friday, October 6th. In addition, 25 copies of each memorandum should be mailed to the Secretary of the Federal Reserve Board.

The preliminary exchange of papers and memoranda is intended to lay the foundation for the oral discussion at the session on Federal Reserve credit policy. Each of the topics listed in the above program will be taken up, and those to whom assignments have been made in connection with the program will present their revised views and conclusions in oral statements not exceeding fifteen minutes each, after which there will be a general discussion by the conference.

Following the afternoon session devoted to the above program, it is proposed to devote an evening session to the question -

What does the present business and credit situation indicate with reference to the prospective demand for credit and the need or advisability of any action at the present time by Federal Reserve Banks with respect to matters of credit and discount policy?

General discussion.

Very truly yours,

W. W. Hoxton,
Secretary.