

FEDERAL RESERVE BOARD

WASHINGTON

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING JULY 7, 1922.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total Resources</u>
<u>DISTRICT NO. 6.</u>			
Farmers Bank of Crawford, Crawford, Georgia	\$100,000	\$50,000	\$544,317
Bank of Locust Grove, Locust Grove, Georgia	25,000	5,000	129,722

CONVERTED INTO NATIONAL BANKS:

Northwestern State Bank, Bellingham, Wash.
First State Bank, Garfield, Wash.

INSOLVENT:

Stockmens State Bank, Browning, Mont.

AUTHORIZED TO ACCEPT DRAFTS AND BILLS OF EXCHANGE
UP TO 100 PER CENT OF CAPITAL AND SURPLUS:

The Republic National Bank of Dallas, Texas.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

The Merchants' National Bank, Aurora, Ill.
The Second National Bank, Freeport, Ill.
The Burns National Bank, Durango, Colo.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING JULY 14, 1922.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

None admitted.

WITHDRAWAL:

The Battery Park Bank, Asheville, North Carolina.

CHANGES OF NAMES:

Jenkintown Trust Company, Jenkintown, Pennsylvania,
to Jenkintown Bank & Trust Company.

Old Dominion Trust Company, Richmond, Virginia,
to State & City Bank and Trust Company.

AUTHORIZED TO ACCEPT DRAFTS AND BILLS OF
EXCHANGE UP TO 100 PER CENT OF CAPITAL AND SURPLUS:

The Central National Bank of Richmond, Virginia.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

Lincoln National Bank of New York, New York, N. Y.
Southwestern National Bank of Philadelphia, Penna.
Stroudsburg National Bank, Stroudsburg, Penna.
Phoenix & Third National Bank, Lexington, Ky.
Citizens' National Bank of Raleigh, North Carolina.
First National Bank of Okanogan, Washington.
Whitman County National Bank of Rosalia, Washington.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING JULY 21, 1922.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total Resources</u>
<u>DISTRICT NO. 3.</u>			
Hightstown Trust Co., Hightstown, N. J.	\$100,000	\$16,000	\$319,853
<u>DISTRICT NO. 6.</u>			
Planters Bank, Carlton, Ga.	25,000	3,000	92,732

WITHDRAWAL:

Midwest Reserve Trust Co., Kansas City, Mo.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

The Cinnaminson National Bank of Riverton, N. J.
The First National Bank of Corning, Ark.
The First National Bank of Columbia, Ky.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING JULY 28, 1922.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

None admitted.

CHANGE OF NAME:

The Lincoln Savings Bank & Trust Co., Louisville, Ky.
to the Lincoln Bank & Trust Co.

CONVERSION:

The Citizens Bank of Emporia, Virginia, has converted
into a national bank.

GRANTED PERMISSION TO EXERCISE TRUST POWERS:

The Larchmont National Bank, Larchmont, N. Y.
The Third National Bank, Sedalia, Mo.
The First National Bank, Bismarck, N. Dak.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING AUGUST 4, 1922.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

None admitted.

MERGER:

The following banks have merged with the Los Angeles Trust and Savings Bank, Los Angeles, California, a member bank:

Fidelity Trust & Savings Bank, Fresno, Calif.
Commercial Trust & Savings Bank, Santa Barbara, Calif.
Bank of Santa Maria, Santa Maria, Calif.

GRANTED PERMISSION TO EXERCISE TRUST POWERS:

The First National Bank of Bloomington, Bloomington, Ind.
The Madison National Bank, Madison, Nebr.
The Anglo & London-Paris National Bank, San Francisco, Calif.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING AUGUST 11, 1922.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total Resources</u>
<u>DISTRICT NO. 2.</u>			
The Bank of New York, New York, N. Y.	\$2,000,000	\$6,000,000	\$72,730,995

VOLUNTARY LIQUIDATION:

Briscoe County State Bank, Silverton, Texas.

AUTHORIZED TO ACCEPT DRAFTS AND BILLS OF EXCHANGE
UP TO 100 PER CENT OF CAPITAL AND SURPLUS:

The Bank of New York, New York, N. Y.
The Enid National Bank, Enid, Oklahoma.

GRANTED PERMISSION TO EXERCISE TRUST POWERS:

The First National Bank, Clifton, New Jersey.
The Merchants' National Bank, Newton, New Jersey.
The First National Bank, Dolgeville, New York.
The Mount Kisco National Bank, Mount Kisco, New York.
The Public National Bank, New York, N. Y.
The Citizens National Bank, Emporia, Virginia.
The American National Bank, Frankfort, Indiana.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING AUGUST 18, 1922.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total Resources</u>
<u>DISTRICT NO. 6.</u>			
Union Banking Co., Monroe, Georgia	\$60,000	\$20,000	\$191,381

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING AUGUST 25, 1922.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total Resources</u>
<u>DISTRICT NO. 3.</u>			
York Trust Co., York, Penna.	\$300,000	\$165,000	\$2,901,010

GRANTED PERMISSION TO EXERCISE TRUST POWERS:

The First National Bank of Louisville, Ga.
The First National Bank of Shelbyville, Ind.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING SEPTEMBER 1, 1922.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total Resources</u>
<u>DISTRICT NO. 6.</u>			
Dacula Banking Co., Dacula, Georgia.	\$25,000	\$5,000	\$85,383

GRANTED PERMISSION TO EXERCISE TRUST POWERS:

The Lebanon National Bank, Lebanon, Penna.
The First National Bank, Mason City, Ia.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING SEPTEMBER 8, 1922.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total Resources</u>
<u>DISTRICT NO. 2.</u>			

Perth Amboy Trust Co., Perth Amboy, N. J.	\$200,000	\$200,000	\$4,515,767
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DISTRICT NO. 5.

The Peoples Bank, Bishopville, S. C.	25,000	75,000	332,377
Bank of Harper's Ferry, Harper's Ferry, W.Va.	25,000	6,000	165,163

WITHDRAWAL:

The Bank of Tennessee, Nashville, Tennessee.

INSOLVENT:

The Myton State Bank, Myton, Utah.

GRANTED PERMISSION TO EXERCISE TRUST POWERS:

The Martin County National Bank, Fairmont, Minnesota.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING SEPTEMBER 15, 1922.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total Resources</u>
<u>DISTRICT NO. 12.</u>			
Bank of Prineville, Prineville, Ore.	\$50,000	\$ 5,000	\$184,126

WITHDRAWALS:

The Stratford State Bank, Stratford, Wisconsin.
The Farmers State Bank, Waconia, Minnesota.

GRANTED PERMISSION TO EXERCISE TRUST POWERS:

The City National Bank of Atchison, Atchison, Kansas.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING SEPTEMBER 22, 1922.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total Resources</u>
<u>DISTRICT NO. 2.</u>			
New York Life Insurance and Trust Co., New York, N. Y.	\$1,000,000	\$2,000,000	\$31,757,906
<u>DISTRICT NO. 9.</u>			
Minnetonka State Bank, Excelsior, Minn.	25,000	10,000	507,721

CHANGE OF NAME:

The Los Angeles Trust & Savings Bank, Los Angeles, California, has changed its title to Pacific Southwest Trust & Savings Bank.

MERGER:

The Market Trust Company, Brighton, Mass., a member, has been taken over by the International Trust Company of Boston, a member institution.

CONVERSION:

The State Bank of Kenbridge, Kenbridge, Va., has converted into a national bank.

ABSORBED BY NATIONAL BANK:

The Security Bank & Trust Co., El Paso, Texas, has been taken over by The Border National Bank of El Paso.

AUTHORIZED TO ACCEPT DRAFTS AND BILLS OF EX-
CHANGE UP TO 100 PER CENT OF CAPITAL AND SURPLUS:

New York Life Insurance & Trust Co., New York, N. Y.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

The Merchants' National Bank of Plattsburgh, Plattsburg, N. Y.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING SEPTEMBER 23, 1922.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

None admitted.

WITHDRAWAL:

Spencer State Bank, Spencer, Ohio.

VOLUNTARY LIQUIDATION:

Merchants Bank, Port Townsend, Wash.

MERGER AND CHANGE OF NAME:

The Bank of New York, New York, N. Y., has merged into the New York Life Insurance & Trust Co., New York, N. Y., under the name of Bank of New York & Trust Co.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

The Liberty National Bank, Syracuse, N. Y.
The First National Bank, Savanna, Ill.
The Truman National Bank, Truman, Minn.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING OCTOBER 6, 1922.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total Resources</u>
<u>DISTRICT NO. 2.</u>			
Westwood Trust Co., Westwood, N. J.	\$100,000	\$20,000	\$138,008
Bank of Europe, New York, N. Y.	450,000	225,000	7,866,302
<u>DISTRICT NO. 6.</u>			
Liberty Bank & Trust Co., Savannah, Ga.	300,000	350,000	3,513,735

ABSORPTION:

The Metropolitan Trust Co. and the Back Bay National Bank, both of Boston, Mass., have been absorbed by The Federal Trust Co. of Boston.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

The Citizens' National Bank, Marietta, Ohio.
The Citizens' National Bank, Delphi, Indiana.
The Gate City National Bank, Kansas City, Missouri.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING OCTOBER 13, 1922:

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

<u>DISTRICT NO. 1.</u>	<u>Capital</u>	<u>Surplus</u>	<u>Total Resources</u>
Federal Trust Company, Boston, Mass.	\$1,500,000	.	\$20,300,992

BANKS CLOSED:

State Bank of Belt, Belt, Montana.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

The Mad River National Bank, Springfield, Ohio.
The Security National Bank, East St. Louis, Illinois.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING OCTOBER 20, 1922.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

None admitted.

CHANGE IN NAME:

Gandy State Bank, South Whitley, Indiana,
to
Mayer State Bank, South Whitley, Indiana.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

The Second National Bank of Washington, D. C.
The Continental National Bank & Trust Company,
Kansas City, Missouri.
The Frost National Bank of San Antonio, Texas.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING OCTOBER 27, 1922.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

<u>DISTRICT NO. 8.</u>	<u>Capital</u>	<u>Surplus</u>	<u>Total Resources</u>
Greenwood Bank & Trust Co., Greenwood, Mississippi.	\$200,000	\$50,000	\$955,669
<u>DISTRICT NO. 12.</u>			
Cowlitz Valley Bank, Kelso, Washington	30,000	10,000	207,582

BANK CLOSED:

Farmers & Merchants Bank, Rupert, Idaho.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

The Planters National Bank of Rocky Mount, Rocky Mount, N. C.
The Merchants National Bank of Lawrence, Lawrence, Kansas.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING NOVEMBER 8, 1922.

	<u>Capital</u>	<u>Surplus</u>	<u>Total Resources</u>
<u>DISTRICT NO. 2.</u>			
Springfield Avenue Trust Co., Newark, N. J.	\$200,000	\$100,000	\$4,959,464
<u>DISTRICT NO. 11.</u>			
The Guaranty State Bank, Tahoka, Texas.	25,000	- -	105,154

VOLUNTARY LIQUIDATION:

Garden City Bank & Trust Co., San Jose, Calif.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

American National Bank of Portsmouth, Portsmouth, Va.
The First National Bank of Dalton, Dalton, Ga.
The Long Beach National Bank, Long Beach, Calif.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING NOVEMBER 10, 1922.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

None admitted.

WITHDRAWAL:

First American State Bank, Golden Valley, N. Dak.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

The Batavia National Bank, Batavia, Illinois.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING NOVEMBER 27, 1922.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total Resources</u>
<u>DISTRICT NO. 8.</u>			
Easton-Taylor Trust Co., St. Louis, Mo.	\$200,000	-	\$1,574,513

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

The Collingswood National Bank,	Collingswood,	N. J.
The Hazleton National Bank,	Hazleton,	Pa.
The First National Bank,	Lock Haven,	Pa.
The Lawndale National Bank,	Chicago,	Ill.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING NOVEMBER 24, 1922.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

None admitted.

BANK CLOSED:

St. Anthony Bank & Trust Co., St. Anthony, Idaho.

CONVERTED INTO A NATIONAL BANK:

Farmers Bank & Trust Co., Winston-Salem, N. C.

WITHDRAWAL:

The Thompson Savings Bank, Hudson, Mich.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

The Athens National Bank, Athens, Ohio.

The First National Bank, St. Clairsville, Ohio.

The Farmers National Bank & Trust Co., Winston-Salem, N. C.

The Union National Bank, Knoxville, Tenn.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING DECEMBER 1, 1922.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total Resources</u>
<u>DISTRICT NO. 5.</u>			
Farmers Commercial Bank, Benson, North Carolina.	\$100,000	\$25,000	\$465,224

BANK CLOSED

Huntley State Bank, Huntley, Montana.

VOLUNTARY LIQUIDATION:

Central Bank & Trust Corporation, Atlanta, Ga.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

The manufacturers National Bank of Ilion, Ilion, New York.
The First National Bank of Mooresville, Mooresville, N. Carolina.
The First National Bank of Greeneville, Greeneville, Tennessee.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING DECEMBER 8, 1922.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

None admitted.

BANK CLOSED:

The Ballantine State Bank, Ballantine, Montana.

VOLUNTARY LIQUIDATION:

The Farmers & Merchants Bank, Rupert, Idaho.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

The Citizens National Bank of Waynesboro, Pa.

The First National Bank of Alexandria, Minn.

The First National Bank of Wenatchee, Wash.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING DECEMBER 15, 1922.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total Resources</u>
<u>DISTRICT NO. 10.</u>			
Bankers Trust Co., Denver, Colorado.	\$1,000,000	\$250,000	\$4,265,518

BANK CLOSED:

Morgan County Bank, Madison, Georgia.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

The First National Bank of Washington, N. J.
The Charlotte National Bank, Charlotte, N. C.
The Woodside National Bank of Greenville, S. C.
The Miami Beach First National Bank, Miami Beach, Fla.
The Joplin National Bank, Joplin, Missouri.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING DECEMBER 22, 1922.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

None admitted.

WITHDRAWALS:

Merchants and Planters Bank, Whitecasile, Ia.
Little Horn State Bank, Wyola, Mont.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

The City National Bank, Salem, N. J.
The First National Bank, Mount Carmel, Pa.
The Farmers National Bank, Hutchinson, Minn.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING DECEMBER 29, 1922.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

<u>DISTRICT NO. 6.</u>	<u>Capital</u>	<u>Surplus</u>	<u>Total Resources</u>
Farmers & Merchants Bank, Eatonton, Ga.	\$25,000	-	\$ 26,257
 <u>DISTRICT NO. 8.</u>			
City Trust Company, St. Louis, Mo.	200,000	45,000	1,820,518
Laclede Trust Company, St. Louis, Mo.	200,000	35,000	1,698,849

BANK CLOSED:

The Bank of Hansen, Hansen, Idaho.

FEDERAL RESERVE BANK OF ATLANTA

Office of
Governor

June 15, 1922.

To the President of the Senate,
Washington, D. C.

Sir:-

In response to Senate Resolution No. 304, I enclose regular monthly mailing list of names and addresses in the State of Alabama. The speech of Senator Glass and our accompanying letter were sent to each member of said list.

The questions asked in the Resolution, I answer as follows:

1. The speech of Senator Glass was sent into the State of Alabama by the Federal Reserve Bank of Atlanta, upon its own initiative and responsibility.
2. There is attached hereto copy of circular letter written by the Federal Reserve Bank of Atlanta, and sent, together with the speech of Senator Glass, to member banks, non-member banks, corporations, and individuals on the regular mailing list for our monthly review of business conditions. We distributed the speech for its value as bearing upon an important economic question of the day. Such distribution was to all states in our District, and did not specialize on the State of Alabama. We were actuated by no political motive, nor did we send the documents to these correspondents in their capacities as "voters". Had we done so, we should have been obliged to send out many more than the 856 copies which we actually distributed in Alabama. We regard Senator Glass' address as being public property, inasmuch as it was delivered on the floor of the United States Senate and printed in the CONGRESSIONAL RECORD. The particular letter which went out with the speeches was written by the Federal Reserve Bank of Atlanta, and was sent out without the knowledge, suggestion, or approval of the Federal Reserve Board or any member thereof. It was however approved by the Executive Committee of this Bank, the undersigned (Governor) being absent from the city.
3. The expense of having the speech printed and circulated as above indicated was borne by the Federal Reserve Bank of Atlanta.
4. The funds for such expense were provided out of our current earnings and the amount expended in the printing and distribution of the speech in Alabama was \$27.13

5. The speech of Senator Glass was sent to 856 correspondents of our bank in Alabama.
6. We did not send the speech of Senator Glass or the letter which accompanied it into the State of Alabama at the instance of the Federal Reserve Board. The Board informed us that copies of the speech were available, but neither the Board nor any member thereof made any suggestion as to the number we should send out or as to whom they should be sent. There were 6500 copies of Senator Glass' address ordered by us. The total cost of printing was \$108.69.

Respectfully,

(Signed) M. B. Wellborn,

Governor.

FEDERAL RESERVE BOARD

WASHINGTON

X-3465

July 1, 1922.

SUBJECT: S. Res. 308.

Dear Sir:

I transmit herewith copy of a resolution of the Senate of the United States (S. Res. 308), requesting the Federal Reserve Board to call upon the Federal Reserve Banks, with the exception of the Federal Reserve Bank of Atlanta, to furnish to the Senate certain information therein specified. As this resolution was sent to the Federal Reserve Board, it would seem that your response, which should be addressed to the President of the Senate, should be sent to the Federal Reserve Board for transmittal to the Senate.

Very truly yours,

G o v e r n o r .

(Enclosure)

GOVERNORS OF ALL F. R. BANKS EXCEPT ATLANTA
COPIES TO AGENTS. " "

COPY

X-3465a

S. RES. 308.

In the Senate of the United States,
April 20 (calendar day June 30), 1922.

Whereas it has been charged upon the floor of the Senate that each and every one of the regional Federal reserve banks of the United States has had printed and distributed at its own expense a speech delivered in the Senate by Senator Glass, of Virginia, in which the position of Senator Heflin on the deflation policy of the Federal Reserve Board was assailed and criticized: Therefore be it

RESOLVED, That the Federal Reserve Board is hereby requested to call on all of said Federal reserve banks, except the Federal Reserve Bank of Atlanta, which has already reported to the Senate, to furnish to the Senate in writing all information in their possession, respectively, called for in the following questions:

(1) At whose instance was the speech in question of Senator Glass sent out? (2) At whose expense was said speech printed and distributed? (3) How was the fund provided, and how many copies of said speech were sent out, and how much money was expended in printing and distributing said speech? (4) Did any member of the Federal Reserve Board suggest the printing or distribution of the said speech?

Attest:

(Signed) George A. Sanderson

Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

X-3466

July 6, 1922.

SUBJECT: Decision in San Francisco Par Clearance Case.

Dear Sir:

There is enclosed herewith, for your information, copy of the decision rendered June 26, 1922, by Judge Wolverton of the United States District Court for the District of Oregon, in the case of the Brookings State Bank (Brookings, Oregon) vs. the Federal Reserve Bank of San Francisco.

Very truly yours,

G o v e r n o r .

(Enclosure)

GOVERNORS OF ALL F. R. BANKS (except San Francisco)

Copies to Agents.

DECISION OF DISTRICT JUDGE WOLVERTON,
UNITED STATES DISTRICT COURT FOR THE DISTRICT OF OREGON,
IN THE MATTER OF BROOKINGS STATE BANK, AN OREGON BANKING CORPORATION,
VS. FEDERAL RESERVE BANK OF SAN FRANCISCO.
DECISION RENDERED JUNE 26, 1922.

The Brookings State Bank, the plaintiff herein, is an Oregon corporation, with a capital stock of \$15,000, and is engaged in the banking business at Brookings, a small town in the extreme southwestern part of the state, in Curry County. The town is without express facilities. The bank has correspondents at San Francisco, California, and Portland, Oregon. In making remittances, it has heretofore exacted an exchange charge of one-tenth of one per cent. The defendant, Federal Reserve Bank of San Francisco, exercising its functions as a collecting and clearing house agency, and desiring to make collection from the Brookings Bank, requested payment at par, as it is prohibited by the Federal Reserve Act from paying exchange. This was refused by the Brookings Bank. With the view, therefore, of making such collections without the necessity of paying exchange, the Reserve Bank maintained an agent at Brookings for making collection over the counter, of such paper as might be transmitted to him through cash letters from the Reserve Bank and its branch bank at Portland. The agent was so maintained for the space of about a year, and he collected over the counter during the time something above \$108,000, at an expense to the Reserve Bank of \$3,542, which includes the expense of transmitting the currency to point of destination. The method caused the Brookings Bank much annoyance, and required it to maintain a materially larger reserve than ordinarily would have been necessary in the usual conduct of its business.

The agent was finally withdrawn, and the Brookings Bank was notified that thereafter checks would be forwarded for collection by mail direct to the

bank, with request that they be paid at par and the proceeds remitted by exchange on Portland or San Francisco. Checks were so forwarded, indorsed "Pay to Brookings State Bank for collection only and remittance in full without deduction for exchange or collection charges," but were returned without payment, on the ground that the bank was not called upon to act as agent for the Reserve Bank to make such collections under the terms imposed. The Reserve Bank, upon the return of the checks, returned them to its correspondents, advising them, in effect, that the Brookings Bank refused to pay and had not protested the paper, and that they must look to the Brookings Bank for their protection. A preliminary injunction issued after hearing, restraining the Reserve Bank from sending letters to its clients advising them that they must look to the Brookings Bank for their protection through failure to protest such paper as demand for payment was made upon it on condition that it remit at par.

Wolverton, District Judge:

The Federal Reserve Bank is empowered by the Federal Reserve Act, by authority of which it is permitted to incorporate and transact business, to exercise all powers specifically granted by the provisions of the act, and such incidental powers as shall be necessary to carry on the business of banking within the limitations prescribed by the act (Subd. 7, Sec. 4). By Section 13, as amended by the act of June 21, 1917, (40 Stat. 235), it is provided that any Reserve Bank may receive from any of its member banks deposits of current funds in lawful money, or checks and drafts payable upon presentation, and also, for collection, maturing notes and bills; or, solely for the purpose of exchange or of collection, may receive deposits of checks and drafts, payable upon presentation within its district, and maturing notes and bills payable therein; or, solely for the purposes of exchange or of

collection may receive from any non-member bank or trust company, deposits of current funds in lawful money, National bank notes, Federal Reserve notes, checks, drafts payable upon presentation, or maturing notes and bills; provided, however, that such non-member bank or trust company maintains with the Federal Reserve Bank of its district a balance sufficient to offset the items in transit held for its account by the Federal Reserve Bank; and, "Provided, further, that nothing in this or any other section of this act shall be construed as prohibiting a member or non-member bank from making reasonable charges, to be determined and regulated by the Federal Reserve Board, but in no case to exceed 10 cents per \$100 or fraction thereof, based on the total of checks and drafts presented at any one time, for collection or payment of checks and drafts and remission therefor by exchange or otherwise; but no such charges shall be made against the Federal Reserve Banks."

By Section 16, the Federal Reserve Board is empowered at its discretion to exercise the functions of a clearing house for Federal Reserve Banks, or it may designate a Federal Reserve Bank to exercise such functions, and may also require such bank to exercise the functions of a clearing house for its member banks. By a previous clause of this section, it is provided that every Federal Reserve Bank shall receive on deposit at par from member banks or from Federal Reserve Banks checks and drafts drawn upon any of its depositors, and when remitted by a Federal Reserve Bank, checks and drafts drawn by any depositor in any other Federal Reserve Bank or member bank upon funds to the credit of said depositor in said Reserve Bank or member bank.

The language of the statute is that the Reserve Banks may receive from non-member banks checks and drafts payable upon presentation, and this solely for the purpose of exchange or of collection; but this is on condition that the non-member bank shall, of its own volition, maintain with the Reserve

Bank the appropriate balance as prescribed. In this way, non-member banks can avail themselves of the clearing house privileges afforded by the Reserve Bank. Otherwise, it would seem that non-member banks are not affected by the act. (31 Opinions of Attorneys General, 245). But the preceding clause gives broader scope to the powers of the Reserve Bank. It may receive on deposit, for the purpose of exchange or of collection, "checks and drafts, payable upon presentation within its district". This would seem to comprise all checks and drafts upon whatsoever bank drawn, within its district, without discrimination as to whether member or non-member. The use of the word "may" is indicative of a legislative intendment to concede an optional function only. There is no particular reason assignable why the word should be construed as "shall" or mandatory in its signification.

The clause of Section 16, requiring Reserve Banks to receive at par on deposit from member banks or from Federal Reserve Banks, checks and drafts drawn upon their depositors, carries with it no specific power for making exchange or collections. The function, so to be exercised, is treated of in Section 13. The Reserve Bank having such paper on deposit, however, may be treated as the holder or owner of such paper.

The Federal Reserve Board, apparently recognizing that nonmember banks, unless they voluntarily maintained with the Reserve Bank the appropriate balance, were not otherwise affected by the act, issued a regulation under title "Check Clearing and Collection", as follows:

"Each Federal Reserve Bank will receive at par from its member banks and from nonmember banks in its district which have become clearing members, checks drawn on all member and clearing member banks and on all other nonmember banks which agree to remit at par through the Federal Reserve Bank of their district."

This is in pursuance of a policy inaugurated by the Board to induce

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nonmember banks, which are without the pale of the act, to remit at par, and thus to unify bank clearances and collections throughout the country.

The questions presented here are: First, whether the Reserve Bank has the authority to make collections from nonmember banks; and, Second, whether it can coerce such banks to agree to remit at par.

As to the first, it is already apparent that the Reserve Bank may, at its option, receive paper against such banks for collection. Having that power, it may collect it, if it can find a way of doing so without the payment of exchange which it is prohibited from paying by the act.

It is a banking custom, as well as a legal right which a holder of a check has at all times, to present paper at the counter of the payee bank and demand payment, and, if denied, the paper is subject to dishonor. Paper so presented and paid over the counter is not subject to exchange. It is also a custom among banks, in making collections from other banks where there is not more than one bank in a place, to send checks to the drawee bank with request for remittance, and the request is honored unless there is some special reason why the bank should not pay. These banking rules and regulations are conceded.

As to the second question, the nonmember banks, being without the pale of the Federal Reserve Act, have the right, if they see fit, to charge reasonable exchange on remittances. This is a right the bank may relinquish at its option, but it ought not to be coerced into doing so, or agreeing to do so, and any strategy which has for its purpose the coercion of such nonmember bank to yield its legal right in this respect is unlawful, and will not be approved by the courts. The Supreme Court, speaking through Mr. Justice Holmes, has put the stamp of its disapproval upon the act of a party

massing a number of checks against a bank and presenting them in bulk at the counter for payment, although the holder of paper has the legal right to demand payment, on the ground that it evidences an ulterior purpose of compelling the bank to yield against its will to a demand for payment at par. (American Bank and Trust Company, et al, vs. Federal Reserve Bank, 41 Sup. Ct. Rep. 399). In the opinion, the distinguished jurist has this to say:

"If this were a case of competition in private business, it would be hard to admit the justification of self-interest considering the now current opinion as to public policy expressed in statutes and decisions; but this is not a private business. The policy of the Federal Reserve Banks is governed by the policy of the United States with regard to them and to these relatively feeble competitors. We do not need aid from the debates upon the statute under which the Reserve Banks exist to assume that the United States did not intend by that statute to sanction this sort of warfare upon legitimate creations of the states."

The testimony here impels me to the conclusion that the Federal Reserve Bank has gone to the length of endeavoring to coerce the Brookings Bank to accede to its demand that the latter bank agree to remit at par. Its purpose is obvious, from the fact that it maintained an agent at Brookings for practically a year, at an expense to it of \$3,542, for collecting over the counter checks and drafts drawn upon the Brookings Bank, knowing at the time that the procedure was embarrassing to the bank, and required it to maintain a much larger reserve in its coffers to take care of its current business, thus depriving the bank of a portion of its ordinary earnings. Such a purpose is further manifest from correspondence found in the record. One letter to which I refer is defendant's exhibit "S", from the manager of the Portland Branch to an officer of the Reserve Bank at San Francisco. It relates to an incident of the acceptance by the agent at Brookings of the bank's draft at par in payment of checks presented

over the counter, and advises that, "If we continue to accept exchange we are, of course, extracting the sting from our direct collections." Another is plaintiff's exhibit 20, a letter from the manager at Portland to the Scio State Bank, advising that "Shortly, after all the banks in the country have had time to consider becoming par voluntarily, it will be necessary to use more forcible methods with the few banks that refuse to pay their checks at par." Corroboration is found in other correspondence and evidence adduced at the trial, but the record is too voluminous to attempt to particularize.

But with all this, it appears that the Brookings State Bank was advised by letter of September 20, 1921, that the agent at Brookings would be withdrawn on September 30, and the agent was so withdrawn, and has not since been maintained there, and as this suit was instituted on September 29, 1921, there would seem to be no necessity for enjoining the defendant from maintaining an agent at Brookings for making collections over the counter of the bank, whether absolutely or in modified terms; nor would it have been necessary to go into these matters to the extent we have, but for the earnest insistence that it was the defendant's absolute duty, imposed upon it by the act, and as to which it had no volition, to make such collections. The Federal Reserve Bank, however, has recognized the optional character of its function in this regard by notifying its correspondents that it will accept no more paper on the Brookings State Bank for collection.

As it relates to the method adopted by the defendant for making collections, through the mail by sending checks and drafts drawn upon the Brookings Bank direct to the bank, indorsed "Pay to Brookings State Bank, for collection only and remittance in full without deduction for exchange or collection charges," it is plain that the bank was not called upon so to

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remit, and its return of the checks without payment as demanded was not tantamount to dishonor. I repeat what was said in deciding the matter at the preliminary hearing:

"While, under the prevailing custom, the defendant bank could rightfully remit its checks and drafts drawn against the plaintiff bank direct to the latter for collection and could thereby exact payment of them, it could not impose conditions upon which such payment should be made; much less could it make the plaintiff bank its agent for causing protest to be made for non-payment. The idea of requiring that a maker or drawee shall have protested his own paper is so inconsistent with the functions of an agent that it can hardly receive the sanction of law. No man can have two masters, especially himself and another."

The defendant was, therefore, not authorized to advise its clients that they must look to the plaintiff bank for protection through failure to protest.

The preliminary injunction heretofore decreed will be made permanent, but no injunction will issue respecting the maintenance of agent at Brookings, as such agent had been withdrawn practically at the time of the institution of the suit, and there appears to be no intention upon the part of defendant to replace him.

FEDERAL RESERVE BOARD
WASHINGTON

X-3468

July 7, 1922.

SUBJECT: Change in Proposed Method of Reimbursement
of Fiscal Agency Expenses and New Estimate.

Dear Sir:

There is transmitted herewith, for your information and guidance, copy of a letter received from the Under Secretary of the Treasury, which is self-explanatory. You are requested to forward to the Board, for transmission to the Treasury, a new estimate of reimbursable fiscal agency expenses to be incurred during the six months' period beginning July 1, 1922, under the two titles specified in Mr. Gilbert's letter.

Very truly yours,

G o v e r n o r .

(Enclosure)

GOVERNORS OF ALL F. R. BANKS
COPIES TO AGENTS.

COPY

X-3463a

Treasury Department
Washington

July 5, 1922.

My dear Governor:

I am enclosing with this a copy of a communication from Mr. George L. Harrison, Deputy Governor of the Federal Reserve Bank of New York, dated June 30, 1922, on the question of reimbursement by the Treasury Department of fiscal agency expenses to the Federal Reserve Banks. Mr. Harrison encloses a copy of Governor Strong's letter on this subject to all Governors, a copy of which I understand has been sent to you.

From this correspondence and from various conversations on the subject, I judge that the situation which prompted me to make the offer as set forth in my letter of May 1, 1922, to reimburse Federal Reserve Banks for fiscal agency expenses, no longer exists, and that, as a matter of fact, it is thought that all or practically all of the Federal Reserve Banks now expect to earn enough to pay expenses and dividends during the fiscal year now starting, or at least until the close of the current calendar year, even without making special investments in Government securities for the purpose of revenue. As my offer was tentative and was as a matter of fact presented for discussion, and as it now appears that in the judgment of the majority of the Federal Reserve Banks it need not, for the present at least, be availed of, I am constrained to withdraw the suggestion and, at least until the close of the current calendar year, to proceed on the

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basis followed during the fiscal year ended June 30, 1922, that is to say, upon submission of claims therefor Federal Reserve Banks will be reimbursed necessary and actual expenses incurred in connection with new issues of public debt securities, including particularly as one item Treasury savings securities, and as the second item Treasury certificates of indebtedness and Treasury notes.

In connection with the proposal to reimburse the Federal Reserve Banks for fiscal agency expenses, various estimates of expenses to be incurred for the fiscal year now beginning have been submitted by most but not all of the Federal Reserve Banks. The estimates are not very satisfactory. I shall be very glad indeed if you will call the matter to the attention of all the banks and ask that they resubmit estimates of reimbursable fiscal agency expenses to be incurred during the six-months period beginning July 1, 1922, under the two major titles indicated above, and subdivided as requested in my letter of June 12th to accord to the classification of the objects of expenditure as prescribed by the Comptroller General of the United States.

Very truly yours,

(Signed) S. P. Gilbert, Jr.

Under Secretary.

Hon. W. P. G. Harding

Governor, Federal Reserve Board,

1 enclosure.

FEDERAL RESERVE BOARD

WASHINGTON

July 8, 1922.

X-3469

SUBJECT: Letter to Senate re Senate Resolution 308.

Dear Sir:

There is enclosed herewith, for your information, copy of a letter addressed by the Federal Reserve Board today to the President of the Senate, transmitting replies of three of the Federal Reserve Banks to Senate Resolution 308.

Very truly yours,

G o v e r n o r .

(Enclosure)

GOVERNORS OF ALL F. R. BANK
COPIES TO AGENTS

July 8, 1922.

Sir:

The Federal Reserve Board transmits herewith letters from the Federal Reserve Banks of Philadelphia, Richmond and St. Louis, in reply to Senate Resolution 308. Replies from the other banks will be forwarded as soon as received.

In transmitting this correspondence the Board trusts that it may, without impropriety, avail itself of the opportunity to invite the attention of the Senate to certain matters which have a direct bearing upon the subject of the inquiry.

The corporate powers of the Federal Reserve Banks are defined in Section 4 of the Federal Reserve Act, which provides, inter alia, that "Every Federal Reserve bank shall be conducted under the supervision and control of a board of directors" and that such directors "shall perform the duties usually appertaining to the office of directors of banking associations and all such duties as are prescribed by law".

The banking business is one which rests peculiarly upon the foundation of confidence. While true in the case of any bank, this is particularly true with respect to a Federal Reserve Bank which is the sole custodian of the legal reserves of its member banks and the instrumentality through which is issued the country's fiduciary currency. Anything which tends to undermine public confidence in a bank, and in a Reserve Bank particularly, impairs its ability to perform its functions and unless counteracted may defeat entirely the purposes of its organization. Therefore, those charged with the administration of a bank have the right and are impressed with the duty of using all legitimate means, when necessary, to protect its good name and to prevent any impairment of public confidence.

Criticisms of policy cannot be objected to and have always been welcomed by the Federal Reserve Board, which has never imputed to itself infallibility of judgment. The Board has been charged with the administration of a new and untried law and has from the beginning been confronted with a series of difficult and unprecedented situations. When criticism is based upon the solid foundation of fact, and understanding of the Federal Reserve Act and of banking principles, it is useful; it is helpful to those charged with the duties of administration. To the Federal Reserve Board it has appeared, however, that for the past two years much that has been said under the guise of criticism of policy has not been intended to help, but to discredit the management of the Federal Reserve System through attacks upon the integrity and purpose of members of the Federal Reserve Board and of officers and directors of Federal Reserve Banks.

These attacks have been so repeatedly made and have had such publicity as to justify the suspicion that they are part of a concerted movement

against the Federal Reserve System. The patience and forbearance with which members of the Federal Reserve Board and officers and directors of Federal Reserve Banks have borne these repeated attacks, many of them personally abusive, have been cited as an admission of the truth of charges made and have tended to raise in the minds of some who endorse the principles of the Federal Reserve Act but who had no means of informing themselves as to facts, a question as to whether there may not have been some foundation for the charge that members of the Federal Reserve Board and officers and directors of Federal Reserve Banks have been incapable and corrupt.

Beginning last summer insinuations and charges which had been made on the outside were repeated and amplified on the floor of the Senate of the United States, not merely once or twice but at frequent intervals up to the present time. This circumstance has caused a great amount of correspondence with persons asking for information and Board members, as well as officers and directors of Federal Reserve Banks, have had occasion frequently to consider whether there were any means which might appropriately be employed to inform the public as to the operation of the Federal Reserve Banks and the character of their management.

Respecting the constitutional prerogatives of the members of the Senate, care has been taken to make no criticism of any member thereof in any reply to letters of inquiry. This circumstance also has been construed as an admission of the truth of charges so frequently made on the floor of the Senate, some of which would have been resented as libelous but for the constitutional immunity above referred to.

Many quotations could be made from statements which have been printed in the Congressional Record during the past twelve months, which are misleading and untrue, but their insertion would unduly extend this communication. The Board has seen nothing to indicate that those who made these statements have ever corrected them.

Last January the junior Senator from Virginia, who was Chairman of the Banking and Currency Committee of the House of Representatives which reported the bill creating the Federal Reserve System and who was afterwards Secretary of the Treasury and ex-officio Chairman of the Federal Reserve Board, made a speech on the floor of the Senate, in which he discussed at length the operation of the Federal Reserve Banks and the attitude of the Federal Reserve Board during the recent period of economic reaction and financial stress. The speech was delivered during parts of two days. A brief report of it appeared in the daily papers and requests followed for complete copies of the speech. Officers of Federal Reserve Banks, who for several months had felt themselves obliged to maintain silence while their motives and integrity were being assailed, deemed it not improper to avail themselves of the opportunity then presented to give to their correspondents and to others in their respective communities who had evinced an interest or who were supposed to be interested in the economic questions dealt with, information which would enable them to draw their own conclusions.

- 3 -

The speech was a public document. Having been delivered on the floor of the Senate and having been published in the Congressional Record, the Federal Reserve Board felt that there could be no impropriety in the distribution of copies by the Federal Reserve Banks. The speech dealt so comprehensively with charges and statements which had been made in the same place and printed in the same publication that the Board believed it should be given wide publicity. Having been informed that copies might be obtained from the Public Printer if ordered promptly, it was decided that the Governor should send to each Federal Reserve Bank the following telegram:

"January 18, 1922.

"Think Senator Glass' great speech defending Federal Reserve System should be widely and promptly circulated. Government printing office will print special copies of it Friday 20th and additional orders should be given tomorrow. Printing Office estimates cost of copies at from five to seven cents each. Please wire promptly how many copies your bank wishes.

Harding."

(Note: This estimate of cost was too high. In view of the great demand for the speech and the large number of copies printed, the cost per copy to each Federal Reserve Bank was approximately $1\frac{3}{4}$ cents.)

The Federal Reserve Board assumes responsibility for commending this speech to the Federal Reserve Banks for circulation. Neither the Board nor the Federal Reserve Banks regarded the speech as being an attack upon any Senator and were not interested in it from that point of view. This speech was and is regarded by the Board as a fair presentation of facts. It was commended to the banks for circulation because it was an answer made in the Senate Chamber to charges which had been made on the floor of the Senate. It is a clear exposition of the policies, functions and operations of the Federal Reserve System during a critical period and is an important contribution to current economic discussion.

Respectfully,

(Signed) W. P. G. HARDING

G o v e r n o r .

The President of the Senate.

FEDERAL RESERVE BOARD

WASHINGTON

X-3470

July 8, 1922.

SUBJECT: Code Words to be Used in
Currency Telegrams.

Dear Sir:

Beginning August 1, 1922, the Federal Reserve Board will use the following code word in advising the Federal Reserve Banks by wire of shipments to them of new United States currency:

CLAVICLE: Treasurer, U. S., requested to ship immediately to (name of bank or branch) (amount) (denomination) against your estimate of amount of new currency required during the current month. Please credit Treasurer, U. S., as transfer of funds upon receipt.

The Board will continue to use the code word "CANARDER" which appears on page 40 of the code book in advising Federal Reserve Banks of shipments of Federal Reserve Bank notes.

The Board will continue to use the code word given below in making requests of Federal Reserve Banks for issue of Federal Reserve notes to the Treasurer of the United States for making disbursements in Washington:

CLAYBANK: Treasurer, U. S. desires to obtain your Federal Reserve notes (amount) (denomination). If you can accommodate him please arrange with Agent your bank to wire Board today instructions to deliver your Federal Reserve notes to Treasurer on (date), taking credit in Treasurer's general account same date.

The Federal Reserve Agents in wiring authority to the Board to deliver Federal Reserve notes to the Treasurer, U. S., will continue using the following code word:

CLAYKILN: Collateral having been deposited with me to cover issue, please request Comptroller to deliver to Treasurer, U. S., (date) (amount) (denomination) Federal Reserve notes of this bank. General account of Treasurer, U. S., will be charged same date.

Federal Reserve Agents will continue using the code word given below in making requests of the Board for shipments of Federal Reserve notes:

CLAYMORE: Please request Comptroller of Currency to ship (Assistant) Federal Reserve Agent (bank or branch) Federal Reserve notes as follows: (amount) (denomination). Confirmation is being forwarded by mail today.

This letter supersedes the Board's letters of November 5, 1921, X-3239 and 3240. Please amend all code books (page 49) accordingly.

Very truly yours,

Walter L. Eddy,
Assistant Secretary.

TO ALL CHAIRMEN OF ALL FEDERAL RESERVE BANKS.

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FEDERAL RESERVE BOARD

WASHINGTON

X-3471
July 10, 1922.

SUBJECT: Amendment to Check Collection Circulars
Suggested by Treasury Department

Dear Sir:

I enclose for your information and guidance copy of a letter received today from the Secretary of the Treasury, together with copy of letter addressed by him on July 8, 1922, to the Governor of one of the Federal Reserve Banks. The Federal Reserve Board suggests that those Federal Reserve Banks which have not already done so take steps to amend their check collection circulars so as to conform, on the point mentioned, to the provisions of Treasury Department Circular No. 176, as amended and supplemented May 15, 1922. .

Very truly yours,

G o v e r n o r .

(Enclosures)

GOVERNORS OF ALL F.R.BANKS
COPIES TO AGENTS

WASHINGTON

July 8, 1922.
X3471a

Dear Governor Harding:

On a number of occasions within the past six months the Treasury has had brought to its attention notices circulated by banks, purporting to be based upon circulars of various Federal Reserve Banks, stating that the Government of the United States has for many years reserved the right to charge back unconditionally, at any time, checks and warrants which for any cause have not been considered good. This statement is incorrect and misleading, and calculated to cause the Treasury and the holders of Government warrants and checks considerable difficulty. Difficulty has been experienced on this account in connection with the cashing of Government warrants and checks abroad, and complaints have been received from various correspondent banks in this country. The notice has been so widely circulated and there is so much of a coincidence in the time of the circulation of the notice that it would appear that some bank, or group of banks, is responsible for the circulation of the notice. The Federal Reserve Bank of New York has revised its check collection circular so as to avoid any statements which would afford a basis for the circulation of the objectionable notice, and the Federal Reserve Bank of Chicago is undertaking a revision of its check collection circular with the same end in view. I have just taken the matter up with the Federal Reserve Bank of _____ in a letter, dated July 8, 1922, a copy of which is inclosed for your information. In view of the apparent tendency to spread the circulation of the objectionable notices from one part of the country to another, I would suggest for your consideration that it might be advisable for the Federal Reserve Board to take up with each Federal Reserve Bank the matter of possible amendment of their check collection circulars so as to conform with the provisions of Treasury Department Circular No. 176, amended and supplemented May 15, 1922, (copy inclosed) on this point.

Very truly yours,

(Signed) A. W. Mellon,
Secretary.Hon. W. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.

C O P Y

X-3471b
July 8, 1922.

Dear Governor -----

I enclose a copy of a letter, dated June 23, 1922, addressed by the ----- Trust Company, ----- to Senator ----- with regard to a circular apparently sent to its correspondents by the ----- National Bank of ----- which states that:

"The Federal Reserve Bank of Cleveland reserves the right to charge the account of the last endorsing bank, unconditionally, at any time, with the amount of such returned items deposited with, endorsed to, or otherwise paid by this bank"

in case of all Government warrants and checks received by it from member banks. This misrepresents the Treasury's present practice in its further statement that:

"The United States Treasury has for years exercised the right to return at any time checks and warrants which for any cause have not been considered good."

and is calculated to cause the Treasury considerable difficulty. A notice somewhat similar to the statement just quoted as to the alleged practice of the Treasury with regard to later charging back of checks and warrants previously paid, issued some years ago by the Federal Reserve Bank of New York, was taken by certain New York banks doing a foreign business as a basis for a notice stamped upon foreign advices covering Government items, and, as a result of the circulation of that statement, considerable difficulty has recently been experienced by holders of Government checks in cashing them in certain foreign countries. The Federal Reserve Bank of New York has recently issued a revised circular regarding collection of checks which eliminates the objectionable statement. Because of a similar statement circulated by a certain one of its member banks, which has caused the Treasury considerable trouble, the Federal Reserve Bank of Chicago is also undertaking the revision of its check collection circular so as to make its circular conform strictly with the present practice of the Treasury Department, as outlined in Treasury Department Circular No. 176, amended and supplemented May 15, 1922, (copy enclosed). The member bank of the Federal Reserve Bank of Chicago is also withdrawing its circular.

The notice circulated by the ----- National Bank of ----- of which the ----- Trust Company of ----- complained in its letter of June 23, 1922, is incorrect and misleading as the Government of the United States does not reserve the right to charge back at any later time all warrants or checks which for any reason are not considered good, and the wide circulation of the statement is obviously calculated to put

Government warrants and checks at a disadvantage as compared with commercial items. The Treasury's practice with respect to the payment of Government warrants and checks is stated in paragraphs 35-38 of Treasury Department Circular No. 176, amended and supplemented May 15, 1922, and conforms generally to commercial practice. I should, therefore, appreciate it if you would, if necessary, take up the revising of your regulations on this point along the lines followed by the Federal Reserve Bank of Chicago, or those followed by the Federal Reserve Bank of New York in revising their check collection circulars, and if you would at the same time take the matter up with the ----- National Bank of ----- with a view to preventing further circulation of this notice.

Very truly yours,

(Signed) A. W. Mellon,
Secretary.

FEDERAL RESERVE BOARD
WASHINGTON

X-3472

July 10, 1922.

SUBJECT: Reimbursement of Certain Specified
Fiscal Agency Expenses.

Dear Sir:

Referring to Board's letter of July 7th,
X-3468, there is enclosed herewith for your informa-
tion copies of correspondence between the Under Secretary
of the Treasury and the Governor of one of the Federal
Reserve Banks, relating to the reimbursement of certain
fiscal agency expenses therein specified.

Very truly yours,

G o v e r n o r .

(Enclosures)

TO GOVERNORS OF ALL F. R. BANKS
COPIES TO F. R. AGENTS

COPY

X-3472a

900

July 7, 1922.

My dear Governor:

I received the letter of June 14, 1922 ----- regarding reimbursement for fiscal agency expenses, and have delayed reply pending further consideration of the whole matter with the Federal Reserve Board. To some extent at least the situation is now covered by my letter of July 5, 1922, to Governor Harding, a copy of which is enclosed for your information.

On the specific questions presented in the letter from your bank, it is clear that even under the plan outlined in the letter of July 5th, the expenses of handling accounts with special depositaries, in connection with the sale of new securities, will be reimbursed upon application as an expense of new issues. Expenses involved in the receipt and redemption of Victory $4\frac{3}{4}\%$ notes in payment of allotted subscriptions to Treasury notes are likewise held to be expenses of new issues and properly reimbursable. Expenses of the redemption of Victory $3\frac{3}{4}\%$ notes will not, however, be an item for the fiscal year beginning July 1, 1922, though expenses incurred in this connection during the fiscal year 1922 will be reimbursed as previously stated. Expenses related to the purchase of Victory $4\frac{3}{4}\%$'s this year are likely to be small in amount and the Treasury regards them also as non-reimbursable, there being now but little connection between them and new issues of notes.

Very truly yours,

(Signed) S. P. Gilbert, Jr.,

Under Secretary.

June 14, 1922.

Dear Mr. Gilbert:

We are in receipt of a letter from the Federal Reserve Board (X-3432), dated June 8, 1922, quoting from your letter received on that day on the matter of "Claims for Fiscal Agency Reimbursements". It is noted that "fiscal agency expenses for which reimbursement may be claimed . . . will not include expenses incident to the paying of Government warrants or checks or interest coupons or the redemption of matured securities for the account of the Treasurer of the United States, nor will it include any expenses arising in connection with the handling of depository accounts . . ."

May we inquire if this letter reverses the ruling of the Department embodied in your telegram of March 16, 1922, wherein

- (1) the redemption of Victory $3\frac{3}{4}\%$ Notes,
- (2) the purchase of Victory $4\frac{3}{4}\%$ Notes, and
- (3) the receipt and redemption of Victory $4\frac{3}{4}\%$ Notes in payment of allotted subscriptions to Treasury Notes

are a part of the operations of Treasury Notes and expenses are properly chargeable to the appropriation "Expenses of Loans, Act September 24, 1917, as Amended and Extended," and that reimbursement for such expenses will be made upon application in regular course?

We also wish to make inquiry as to the exclusion of any expenses arising in connection with the handling of depository accounts, if such term covers War Loan Accounts, which accounts arise now only through the sale of Certificates of Indebtedness or Treasury Notes and would seem to be properly reimbursable as a part of the cost of operation in connection with the floating of these issues.

Yours truly,

Governor.

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Washington, D. C.

FEDERAL RESERVE BOARD

WASHINGTON

X-3473

July 11, 1922.

SUBJECT: Advice to Board of Date of Refund on Capital Stock to Banks discontinuing Membership.

Dear Sir:

The Federal Reserve Board does not appear to be getting prompt advice from a number of Federal Reserve Banks of the date of refund on account of capital stock where member banks go into voluntary liquidation or otherwise discontinue membership, as requested in circular letter X-3093 of April 9, 1921. In order that the Board may keep its records more nearly up to date, it is requested that information of this character be sent to it by wire at the time refund is made. In advising the Federal Reserve Board the Federal Reserve Banks are requested to use the following code word, which should be added to the bottom of page 159 of the new code book, following the code word MUTTER.

MUTTON Refund of capital stock payment has today been made on account of the (name and location of bank).

Very truly yours,

W. W. HOXTON,
Secretary.

TO ALL F. R. AGENTS.

FEDERAL RESERVE BOARD

WASHINGTON

July 13, 1922.

X-3474.

SUBJECT: Eligibility of paper of cooperative marketing associations.

Dear Sir:

For your information, there is enclosed herewith a copy of a letter which the Board has just approved and sent to the Governor of the Federal Reserve Bank of Richmond, and which constitutes a ruling by the Board with regard to the eligibility of certain classes of paper of cooperative marketing associations.

There is also enclosed a copy of a memorandum prepared by the Board's Counsel explaining this ruling in the light of certain previous rulings.

Federal Reserve Banks are at liberty, of course, to circulate copies of the Board's letter in accordance with whatever policy may have been established with regard to the circulation of rulings, but the Board does not believe it is advisable or necessary to give any wide or general circulation to the memorandum of counsel.

Yours very truly,

G o v e r n o r .

(Enclosures)

ALL FEDERAL RESERVE AGENTS AND GOVERNORS.

COPY

X-3474a
July 10, 1922

Mr. George J. Seay,
Governor, Federal Reserve Bank,
Richmond, Virginia.

Dear Governor Seay:

The Federal Reserve Board has given careful consideration to your letter of June 1, 1922, with reference to the eligibility of paper created by a Tobacco Growers' Cooperative Association which has been formed recently embracing the States of Virginia, North Carolina and South Carolina.

It appears that this association, like that described in the ruling published on page 1199 of the Federal Reserve Bulletin for October, 1921, is a non-stock and non-profit corporation, and its members consist exclusively of growers of tobacco who have agreed to sell and deliver to the association all the tobacco grown by or for them, or acquired by them as landlords or lessors. The agreements between the growers and the association provide for the distribution of the proceeds of each pool pro rata among the growers who have contributed to that pool. The association is given power to sell the tobacco in such form and upon such terms as may be deemed most advantageous to the growers, it being contemplated that a part of the tobacco will be sold without being redried and that such of the tobacco as cannot be sold at a reasonable price in that form will be redried and stored by the association and sold as there is a demand for redried tobacco. The association is also specifically given the right to "borrow money in its name on the tobacco, through drafts, acceptances, notes or otherwise, or on any warehouse receipts or bills of lading or upon any accounts for the sale of tobacco or on any commercial paper delivered therefor"; and it is agreed that the association "shall pro-rate the money so received among the growers equitably, as it may determine, for each district and period of delivery."

The first question is as to the eligibility for re-discount at Federal Reserve Banks of notes made by the association and discounted at banks for the purpose of obtaining funds with which to make payments to the growers for tobacco delivered by them. This question depends upon whether the payments are to be regarded as payments on account of the purchase price of goods bought by the association, in which case the proceeds of the association's notes may be said to be used for a commercial purpose which would make the notes eligible, or are to be regarded as advances or loans, in which case the proceeds must be said to be used for a finance purpose which would make the notes ineligible.

- 2 -

The agreement between the association and the growers puts the transaction in the form of a sale and transfers title in the tobacco to the association and gives the association full control over the tobacco and over the resale thereof, so that unless the form of the transaction is to be disregarded the proceeds of the association's notes may be said to be used for the commercial purpose of buying the tobacco from the growers and the association's notes may be considered eligible for rediscount when they have maturities not in excess of 90 days and when they otherwise comply with the provisions of the law and the Board's regulations. It is true that the sales of tobacco by the growers to the association have the unusual feature that the purchase price is not fixed at the time of delivery, but is dependent upon the price at which the tobacco is resold by the association, so that the risks incident to resale by the association are borne by the growers; and for this reason the Board has held that for some purposes the transactions between growers and such associations should be regarded in substance as consignments rather than sales. Considering, however, that a cooperative marketing association is a non-profit corporation and in the last analysis the participating members rather than the association itself must assume the ultimate risk of loss and must benefit directly from any gain resulting from the operation of the association, these transactions between the association and its members conform to the usual type of sale as closely as they can consistently with the nature and purposes of an association of this character. In other words, there is no material difference between these transactions and ordinary sales except that the sellers, the growers, have the ultimate hope of gain and risk of loss resulting from resale by the purchaser, the association, and this difference exists by reason of the relation that necessarily exists between the association and its members; so that to conclude that the transactions are not sales when considered from the point of view of the association would be in effect to say that it is impossible for the association and its members to engage in purchase and sale transactions between themselves.

The Board is of the opinion, therefore, that the notes of the association, the proceeds of which have been or are to be used to make payments to the growers for tobacco delivered to the association, may be considered eligible for discount by Federal Reserve Banks with maturities not in excess of 90 days, provided, of course, that the notes comply in other respects with relevant provisions of law and the regulations of the Federal Reserve Board.

The second question relates to the eligibility of drafts drawn upon the association by the growers, accepted by the association, and discounted by the growers at their banks. As was held in the ruling published in the October 1921, Bulletin such drafts are eligible for

- 3 -

rediscount as agricultural paper if the proceeds are used by the growers for an agricultural purpose. You state, however, that it appears to you that practically the only use which the growers are likely to make of the proceeds of such drafts when discounted is to pay debts previously incurred by them in growing and harvesting the crop, and that, unless this can be held to be using such funds for an agricultural purpose, little or no agricultural paper can be created in this way.

In defining the character of notes, drafts and bills of exchange eligible for rediscount, in Section II of its Regulation A, the Board has determined that, "(a) It must be a note, draft, or bill of exchange which has been issued or drawn, or the proceeds of which have been used or are to be used in the first instance, in producing, purchasing, carrying, or marketing goods in one or more of the steps of the process of production, manufacture, or distribution, or for the purpose of carrying or trading in bonds or notes of the United States." The Board has held heretofore that for all practical purposes any note which is secured by Government bonds usually may be considered to be drawn either for the purpose of carrying or trading in those bonds within the meaning of the Federal Reserve Act, and it should not be incumbent upon a Federal Reserve Bank to look further than that fact in order to determine the technical eligibility of such a note. That holding was based on the theory that if the owner of bonds has obligations which he cannot meet without either selling his bonds or borrowing money on them, the borrowing of money on such bonds with which to meet his obligations enables him to "carry" the bonds. Similarly, money borrowed by a grower to enable him to meet his obligations without selling his crop immediately enables him to "carry" the crop. The Board's answer to your specific inquiry is, therefore, that when a grower delivers his crop to a cooperative marketing association which is actually engaged in orderly marketing, and when the grower is obliged to borrow money for ordinary general purposes, such as the payment of obligations previously incurred in growing or harvesting the same crop, a draft drawn by the grower on the association for a part of the market value of the crop may properly be considered to be drawn for an agricultural purpose.

It is well recognized that agricultural products should not be dumped upon the market as soon as grown, but on the contrary should be marketed gradually as and when there is a normal demand. Consequently, the carrying of tobacco and other agricultural products for such periods as are reasonably necessary in order to accomplish the orderly marketing thereof is a legitimate and necessary step incident to normal distribution, and the Board has held heretofore that a farmer's note which is drawn, or the proceeds of which are used, to finance the carrying of the farmer's products for such reasonable period is a note which has been issued or drawn for an

agricultural purpose within the meaning of Section 13 of the Federal Reserve Act and which may, therefore, be eligible for discount by Federal Reserve Banks. It is hard to imagine how a grower could use the proceeds of a loan to finance the carrying of a crop except by using them to meet obligations or make necessary expenditures which would necessitate the immediate sale of his crop if he did not obtain a loan.

It must be recognized, however, that there is a distinction between carrying agricultural products for such periods as are reasonably necessary to effect orderly marketing and mere speculative withholding from the market, at a time when there is a normal demand, in the hope ultimately of obtaining a higher price. Such withholding is not an agricultural purpose within the meaning of Section 13, and if a marketing association should engage in such a speculative holding of a crop instead of marketing it in an orderly manner, drafts drawn to finance the growers of such a crop during the holding of it for speculation should not be considered to be drawn for an agricultural purpose. The exact dividing line between legitimate carrying and speculative withholding is, of course, very difficult to determine. The question of whether a doubtful case falls on one side or the other of this line is a question of fact which it is not for the Federal Reserve Board to determine but which should be determined rather by the local bank whose customer desires the loan and by the Federal Reserve Bank if the paper representing the loan is offered for rediscount.

The third question raised in your letter relates to the eligibility of paper created by the association and secured by warehouse receipts for tobacco stored in warehouses which, although they may be owned by the association or by corporations organized and controlled by the association, yet have independent management and organization. Inasmuch as the eligibility of paper other than bankers' acceptances is not dependent upon the existence of character of collateral security, the question whether such paper of the association is technically eligible for rediscount is not dependent upon whether the warehouse issuing the receipt offered as collateral security is independent of the borrower. The character of a warehouse receipt or other security offered as collateral for paper other than bankers' acceptances is material only as bearing upon the acceptability of the paper as distinguished from its eligibility, and the question of the acceptability is for the determination of the Federal Reserve Banks rather than the Federal Reserve Board.

The subject of the eligibility of bankers' acceptances drawn by cooperative marketing associations against warehouse receipts covering agricultural commodities was discussed in a ruling issued by the Board under date of July 20, 1921, copies of

which were sent to the Governors and Federal Reserve Agents of all Federal Reserve Banks under date of July 27, 1921 (X-3175) and acceptances drawn by the association now under consideration against warehouse receipts issued by warehouse corporations organized by it would come within the principles set forth in that ruling. Inasmuch as this association takes title to the tobacco and is given full control thereof and is, moreover, specifically given the right to borrow money in its own name on warehouse receipts issued against the tobacco, it is clear that it can store the tobacco and obtain negotiable warehouse receipts conveying security title. The Board has indicated already the general principles to be applied by Federal Reserve Banks in determining under what circumstances warehouses are to be considered independent of the borrowers in passing upon bankers' acceptances, and the application of those principles to specific cases involves questions of fact which are primarily for the determination of the Federal Reserve Banks. See rulings on pages 31, 634 and 862, respectively of the 1918 Bulletin.

Yours very truly,

(Signed) W. P. G. HARDING

Governor.

(COPY)

OFFICE CORRESPONDENCE.

X-3474b
June 10, 1922To - The Federal Reserve Board
From - Walter S. Logan-General CounselSubject: Notes of Cooperative
Marketing Associations-Reply to
Letter of June 1st from Governor
Seay.

There is submitted herewith a draft of reply to Governor Seay's letter of June 1, 1922, in which he raises three questions as to the eligibility of paper arising out of the operations of the Tobacco Growers Cooperative Association formed recently and embracing the States of Virginia, North Carolina and South Carolina. The answer to the second and third questions do not, in my opinion, involve any new principle, although the answer to the second question contains a more precise definition than the Board has given before of the circumstances under which paper may be said to be drawn for the purpose of carrying agricultural products pending orderly marketing. The first question, however, raises an important point never passed upon in any published ruling, and the suggested answer to which is contrary to opinions expressed in two informal letters which were approved by the Board but not published, and may be thought to be inconsistent also with previous published rulings of the Board upon several other related points. I wish to submit to the Board, therefore, in connection with the answer to this first question, a full discussion of the subject so that the Board may fully understand the effect of the proposed ruling and so that if the ruling is approved the Board may be prepared to answer any future inquiries calling for a reconciliation of the ruling with certain former rulings.

Governor Seay's first question is as to the eligibility of notes made by the cooperative marketing association for the purpose of raising funds with which to pay the growers for tobacco delivered to the association. The transactions between the association and the growers are in the form of sales, the association taking title to the tobacco delivered and having full control over and power to sell and hypothecate the tobacco. The final purchase price to be paid by the association is not, however, fixed at the time of delivery, but is dependent upon the average price at which all the tobacco of the same kind and quality is resold, so that the growers, rather than the association, assume the risks incident to the resale. In the draft of letter which I have prepared I have suggested that this first question be answered by stating that the Board is of the opinion that the notes of the association, the proceeds of which are to be used to make payments to the growers for tobacco delivered by them, may be considered eligible for rediscount, with maturities not in excess of 90 days, provided, of course, that the notes comply in other respects with the provisions of the law and the regulations of the Board.

There are three published rulings in regard to cooperative marketing association paper which might possibly be thought to be inconsistent with the ruling now proposed. The first is the ruling in which

the Board stated that drafts drawn by growers and accepted by cooperative marketing associations should not be considered trade acceptances, because the transactions between the growers and the associations are in substance consignments rather than sales. This ruling was made in a letter, dated October 22, 1920, to Mr. Aaron Sapiro, and was referred to in a ruling published in the October, 1921, Bulletin, pages 1199 and 1200. I do not believe, however, that there is any difficulty in reconciling the proposed ruling with the ruling just mentioned, because the law does not in any way define trade acceptances and the Board may decide upon any basis it deems reasonable whether or not a certain instrument should or should not be included within this special class of eligible paper. In other words, there is no real inconsistency in saying that the transactions between the association and the growers are in form sales and will be so regarded in determining the eligibility of the notes of the association and in saying at the same time that the transactions are not sales of a kind that can be made the basis of trade acceptances which are supposed to be a particularly desirable kind of paper and which may be accorded a preferential rate.

The second of the former published rulings that I have in mind, and the one which is most difficult to reconcile with the ruling now proposed, is the main part of the ruling on page 1199 of the October, 1921, Bulletin, to the effect that drafts drawn by growers and accepted by a cooperative marketing association, similar to the one now under consideration, may be eligible for rediscount with maturities up to six months, because they may be considered agricultural rather than commercial paper. This ruling was made also on the ground that the transactions between the growers and the association were in substance consignments rather than sales, so that in accepting the drafts the association was in effect lending its credit to the growers, rather than making payment for goods purchased, thereby constituting the growers the real borrowers and making the classification of the drafts dependent upon the use of the proceeds made by the growers. I believe that the Board was justified in regarding these transactions in substance as consignments rather than as sales in considering the classification of the drafts; for from the point of view of the growers, the transactions constitute something in the nature of irrevocable consignments with transfers of title, the grower's right against the association being conditional both as to the maturity and amount, upon the resale by the association. From the point of view of the association, however, which is the important angle in considering the eligibility of the notes of the association itself, the transactions between the association and the growers are as much sales as they can be consistently with the nature and purposes of an association of this character. I have tried to make this point clear in the draft of letter to Governor Seay. The only difference between these transactions and sales between ordinary persons and corporations is that the ultimate risk of loss is borne by the sellers, the growers, rather than the purchaser, the association, and this difference is inherent in the relation of the association to its members, the association being a non-profit corporation which has no capital out of which to pay losses and which must distribute all of its profits among its members.

There is^a further ground upon which the ruling now proposed can be reconciled with the former ruling with regard to the classification of drafts drawn by growers and accepted by cooperative marketing associations. There would have been no question but that these drafts might be classified as agricultural paper had it not been for the rulings of the Board to the effect that paper given by a dealer to a farmer in payment for agricultural products should be regarded as commercial rather than agricultural paper. In these rulings it was recognized that in such cases the purchaser is the real taker of credit and since he is engaged in a commercial business his paper should be regarded as commercial paper rather than agricultural paper. On the other hand, however, the Board has recognized that the eligibility of paper given in payment for articles purchased may in some cases be determined by looking at the transactions from the point of view of the seller instead of the purchaser. For example, a note given by the purchaser of a pleasure automobile to an automobile dealer would be eligible as commercial paper, although from the point of view of the purchaser the automobile would be a permanent or fixed investment. From the point of view of the dealer the sale of the automobile is a commercial transaction regardless of the purpose for which it is to be used by the purchaser, and the purchaser's paper in the hands of the dealer would be commercial or business paper actually owned by him. Similarly, a sale of agricultural products by a farmer to a dealer or a cooperative marketing association is an agricultural transaction from the point of view of the farmer; and the paper which he receives from the purchaser as a result of such sale is agricultural paper in his hands.

I do not mean to suggest that the Board should have ruled otherwise with respect to paper given by a dealer to a farmer. A dealer's normal turnover would not seem to require in excess of 90 days and as a general rule, therefore, it would not be proper for the dealer to purchase commodities on credit terms in excess of 90 days. I am suggesting merely that it would have been legally possible for the Board to regard the transaction between the dealer and the farmer from the standpoint of the seller, and to rule that paper given by the purchasing dealer to the selling farmer might be considered agricultural paper, and that by analogy the Board's ruling in regard to the classification of drafts drawn by growers upon cooperative marketing associations can be justified on the theory that in considering such drafts, which represent the direct obligations of the growers, it is proper to regard the transactions between such associations and the growers from the point of view of the latter. If this be recognized as the correct basis for the ruling in regard to farmers' drafts accepted by cooperative marketing associations, there clearly is no conflict in principle between that ruling and the ruling now proposed, for the recognition that the transaction between the growers and the association is a sale could not then be used as an argument against the classification of the drafts as agricultural paper.

Although it is not necessary to consider this point at the present time, I am inclined to the opinion that the line of reasoning I have just suggested is the true ground upon which to base the Board's previous ruling as to the classification of growers' drafts accepted by cooperative marketing associations. If this is so, it follows that technically as a matter

of the law the drafts would be eligible irrespective of the use by the growers of the proceeds from subsequent discounts, and irrespective also of whether the associations were engaged in speculative holdings or orderly marketing. It seems to me, however, that eligibility should as a matter of regulation be conditioned upon some further requirement, for the liquidity of the drafts is dependent, to a larger degree than is the case with drafts growing out of ordinary sales, upon the rate of resale by the purchaser. In the former ruling it was stated that eligibility was conditioned upon the use by the growers of the proceeds of the drafts for agricultural purposes. As explained in the proposed answer to Governor Seay's second question, this requirement is complied with if the association is actually engaged in orderly marketing and if the grower borrows money for ordinary general purposes such as the payment of obligations previously incurred in growing or harvesting the same crop.

The third ruling that may be thought to be inconsistent with the ruling now proposed is that published on page 1312 of the November, 1921 Bulletin, in which the Board held that notes of packing and marketing associations should, when eligible at all, be classified as commercial rather than as agricultural paper. I do not think, however, that there is even an apparent conflict between these rulings. The ruling in regard to the classification of notes of packing and marketing associations was based upon the principle that the business of selling agricultural products by persons or corporations other than growers of such products must be regarded as a commercial business rather than as an agricultural business, and in the proposed ruling this principle is recognized by stating that the eligibility of the notes of the tobacco growers cooperative marketing association is conditional upon the notes having a maturity at the time of discount of not in excess of 90 days.

While, as this memorandum indicates, the logic of the Board's former rulings and the technical arguments that may readily be adduced therefrom point somewhat to the opposite result, I feel nevertheless that the more liberal ruling suggested in the annexed draft of letter to Governor Seay is sound when the question be viewed from its broader aspect and does not contravene any principle which the Board has heretofore announced in its published rulings.

The proposed ruling is intended to have application only to cases where the facts correspond to those presented in Governor Seay's letter. That is, it is intended to apply only to associations which are strictly non-stock and non-profit, and which under their agreements with their members take full legal title to the commodities and have full control thereof. The ruling is not intended to apply to associations which operate on the consignment basis.

Respectfully,

(Signed) Walter S. Logan
General Counsel.

WSL
OMC

TREASURY DEPARTMENT
Office of the Secretary
WASHINGTON

July 14, 1922.

The Governor
Federal Reserve Board.

Sir:

You are hereby advised that the Department has referred to the General Accounting Office, Treasury Department Division, for settlement, the account of the Bureau of Engraving and Printing for preparing Federal Reserve notes during the period June 19, 1922, to June 30, 1922, amounting to \$34,011.88, as follows:

<u>Federal Reserve Notes, 1914</u>						
	<u>\$5</u>	<u>\$10</u>	<u>\$20</u>	<u>\$50</u>	<u>\$100</u>	<u>Total</u>
Boston	---	4,000	---	---	---	4,000
New York	172,000	50,000	36,000	1,000	1,000	260,000
Philadelphia..	21,000	11,000	4,000	---	---	36,000
Cleveland	50,000	8,000	18,000	---	---	76,000
Richmond	41,000	10,000	5,000	---	---	56,000
Atlanta	46,000	14,000	4,000	---	---	64,000
Chicago	15,000	---	---	---	---	15,000
St. Louis	2,000	12,000	---	---	---	14,000
Minneapolis...	18,000	6,000	---	---	---	24,000
Kansas City...	9,000	9,000	5,000	---	---	23,000
Dallas	2,000	---	---	---	---	2,000
San Francisco.	74,000	19,000	19,000	---	---	112,000
	<u>450,000</u>	<u>143,000</u>	<u>91,000</u>	<u>1,000</u>	<u>1,000</u>	<u>686,000</u>

686,000 sheets at \$49.58 per M \$34,011.88

The charges against the several Federal Reserve Banks are as follows,-

	<u>Sheets</u>	<u>Compen- sation</u>	<u>Plate Printing</u>	<u>Materials</u>	<u>Inc. Com- pensation</u>	<u>Total</u>
Boston	4,000	\$ 66.60	\$ 63.88	\$ 48.84	\$ 19.00	\$ 198.32
New York	260,000	4,329.00	4,152.20	3,174.60	1,235.00	12,890.80
Philadelphia.	36,000	599.40	574.92	439.56	171.00	1,784.88
Cleveland ...	76,000	1,265.40	1,213.72	927.96	361.00	3,768.08
Richmond	56,000	932.40	894.32	683.76	266.00	2,776.48
Atlanta	64,000	1,065.60	1,022.08	781.44	304.00	3,173.12
Chicago	15,000	249.75	239.55	183.15	71.25	743.70
St. Louis ...	14,000	233.10	223.58	170.94	66.50	694.12
Minneapolis..	24,000	399.60	383.28	293.04	114.00	1,189.92
Kansas City..	23,000	382.95	367.31	280.83	109.25	1,140.34
Dallas	2,000	33.30	31.94	24.42	9.50	99.16
San Francisco	112,000	1,864.80	1,788.64	1,367.52	532.00	5,552.96
	<u>686,000</u>	<u>11,421.90</u>	<u>10,955.42</u>	<u>8,376.06</u>	<u>3,258.50</u>	<u>34,011.88</u>

The Bureau appropriations will be reimbursed in the above amount from the indefinite appropriation "Preparation and Issue of Federal Reserve Notes, Reimbursable", and it is requested that your board cause such indefinite appropriation to be reimbursed in like amount.

Respectfully,
M. Jacobs,
Deputy Commissioner.

FEDERAL RESERVE BOARD

914

WASHINGTON

X-3478

July 20, 1922.

SUBJECT: Expense Main Line, Leased Wire System, June, 1922.

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-3477a and X-3477b, covering in detail operations of the main line, Leased Wire System, during the month of June, 1922.

Please credit the amount payable by your bank in the general account, Treasurer, U. S., on your books, and issue C/D Form 1, National Banks, for account of "Salaries and Expenses, Federal Reserve Board, Special Fund", Leased Wire System, sending duplicate C/D to Federal Reserve Board.

Very truly yours,

Fiscal Agent.

Enclosures.

GOVERNORS OF ALL BANKS EXCEPT CHICAGO.

X-3478a

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS
TRANSMITTED OVER MAIN LINE OF THE FEDERAL RESERVE
LEASED WIRE SYSTEM FOR THE MONTH OF JUNE, 1922.

From	Bank Business	Per cent of Total Bank Business	Treasury Dept. Business	War Finance Corp. Business	Total
Boston	36,259	3.35	10,013	281	46,553
New York	212,847	19.64	16,537	-	229,384
Philadelphia	55,829	5.15	12,189	-	68,018
Cleveland	81,780	7.55	11,942	71	93,793
Richmond	70,272	6.48	9,620	522	80,414
Atlanta	59,978	5.53	13,293	241	73,512
Chicago	142,884	13.18	14,379	-	157,263
St. Louis	86,959	8.02	13,143	-	100,102
Minneapolis	43,771	4.04	8,193	202	52,166
Kansas City	88,259	8.14	12,635	201	101,095
Dallas	64,064	5.91	7,857	159	72,080
San Francisco	<u>140,945</u>	<u>13.01</u>	<u>19,421</u>	<u>305</u>	<u>160,671</u>
Total F. R. Banks	1,083,847		149,222	1,982	1,235,051
Washington	<u>320,459</u>	<u>100.00</u>	<u>199,171</u>	<u>1,989</u>	<u>521,619</u>
Grand Total	1,404,306		348,393	3,971	1,756,670
Per cent of Total	79.94%		19.83%	.23%	
Bank Business	1,404,306	words or	80.12%		
Treasury Business	<u>348,393</u>	" "	19.88		
	<u>1,752,699</u>		100.00		

FEDERAL RESERVE BOARD,
WASHINGTON, D. C.
JULY 20, 1922.

REPORT OF EXPENSE
MAIN LINE
FEDERAL RESERVE LEASED WIRE SYSTEM, JUNE, 1922.

Name of Bank	Operators' Salaries	Operators' Overtime	Wire Rental	Total Expense	Pro rata Share of Total Expense	Credits	Payable to Federal Reserve Board
Boston	\$ 250.00	\$ -	\$ -	\$ 250.00	\$ 756.11	\$ 250.00	\$ 506.11
New York	789.98	15.00	-	804.98	4,432.85	804.98	3,627.87
Philadelphia	225.00	-	-	225.00	1,162.38	225.00	937.38
Cleveland	366.00	-	-	366.00	1,704.07	366.00	1,338.07
Richmond	305.00	-	-	305.00	1,462.57	305.00	1,157.57
Atlanta	240.00	-	-	240.00	1,248.15	240.00	1,008.15
Chicago	(#)5,094.89	8.00	-	5,102.89	2,974.79	5,102.89	2,128.10(*)
St. Louis	290.00	-	-	290.00	1,810.15	290.00	1,520.15
Minneapolis	298.25	-	-	298.25	911.85	298.25	613.60
Kansas City	326.64	-	-	326.64	1,837.24	326.64	1,510.60
Dallas	232.35	-	-	232.35	1,333.92	232.35	1,101.57
San Francisco	395.00	-	-	395.00	2,936.42	395.00	2,541.42
Fed. Res. Board			17,500.04	17,500.04			
Total	\$8,813.11	\$23.00	\$17,500.04	\$26,336.15 (a)3,765.65 \$22,570.50	\$22,570.50	\$8,836.11	\$15,862.49 (&)2,128.10 \$13,734.39

(#) Includes salaries of Washington Operators.

(&) Amount reimbursable to Chicago.

(*) Credit.

(a) Received \$3,676.58 from Treasury Dept. and \$89.07 from War Finance Corporation covering business for months of December, 1921 and May, 1922, respectively.

FEDERAL RESERVE BOARD

WASHINGTON, D. C.

JULY 20, 1922.

FEDERAL RESERVE BOARD
WASHINGTON

X-3480

July 21, 1922.

SUBJECT: Act of July 1, 1922 amending Section 9 of the
Federal Reserve Act.

Dear Sir:

For your information, there is enclosed herewith a copy of a memorandum which has been approved by the Board and which will be published in the Law Department of the Federal Reserve Bulletin for August, 1922, explaining the effect of the Act of Congress approved July 1, 1922, amending Section 9 of the Federal Reserve Act.

The memorandum contains also an analysis of the provisions of Section 5200 of the Revised Statutes and a brief discussion of the limitation on the amount of paper of any one borrower that a Federal Reserve Bank may discount for any one member bank.

Yours very truly,

G o v e r n o r .

TO ALL FEDERAL RESERVE AGENTS
AND GOVERNORS.

UNDER THE ACT APPROVED JULY 1, 1922, THE
REDISCOUNT PRIVILEGE OF MEMBER STATE BANKS
IS CONDITIONAL ONLY ON COMPLIANCE WITH THE
TERMS OF SECTION 5200 REVISED STATUTES.

The Act approved July 1, 1922, the text of which was published in the Law Department of the Federal Reserve Bulletin for July, 1922, amended Section 9 of the Federal Reserve Act by striking out the following proviso in the 10th paragraph:

"That no Federal reserve bank shall be permitted to discount for any State bank or trust company notes, drafts, or bills of exchange of any one borrower who is liable for borrowed money to such State bank or trust company in an amount greater than ten per centum of the capital and surplus of such State bank or trust company, but the discount of bills of exchange drawn against actually existing value and the discount of commercial or business paper actually owned by the person negotiating the same shall not be considered as borrowed money within the meaning of this section".

and substituting in lieu thereof the following:

"That no Federal reserve bank shall be permitted to discount for any State bank or trust company notes, drafts, or bills of exchange of any one borrower who is liable for borrowed money to such State bank or trust company in an amount greater than that which could be borrowed lawfully from such State bank or trust company were it a national banking association".

The provisions of Section 5200 of the Revised Statutes determine the amount which a single customer may legally borrow from a national bank and the effect of the amendment to Section 9 of the Federal Reserve Act is, therefore, to permit a Federal Reserve Bank to rediscount for a member State bank the eligible paper of a customer of that State bank whenever the total loans of the State bank to that customer are not in excess of the limits prescribed by Section 5200 of the Revised Statutes. This section excludes from consideration as money borrowed, as did the old provision of Section 9 of the Federal Reserve Act, the discount of bills of exchange

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drawn in good faith against actually existing values, and the discount of commercial or business paper actually owned by the person negotiating the same, and provides also that certain other kinds of paper, which were not referred to in Section 9, may be discounted in excess of the normal limit of ten per cent of the bank's capital and surplus. The effect of the amendment is, therefore, to broaden the rediscount privilege of member State banks and to place these banks on an equality with national banks in this respect. The amendment does not, of course, affect any part of Section 9 except the proviso which is specifically referred to, and under the terms of the sentence that immediately follows this proviso it is still necessary that "The Federal reserve bank, as a condition of the discount of notes, drafts, and bills of exchange for such State bank or trust company, shall require a certificate or guaranty to the effect that the borrower is not liable to such bank in excess of the amount provided by this section, and will not be permitted to become liable in excess of this amount while such notes, drafts, or bills of exchange are under discount with the Federal reserve bank."

Analysis of Section 5200 R. S.

In view of this amendment, and for the information of member State banks particularly, the Federal Reserve Board deems it appropriate at this time to re-publish the analysis of the provisions of Section 5200 of the Revised Statutes which was previously published on page 1055 of the Federal Reserve Bulletin for November, 1919.

- 3 -

The analysis states the amount which may be loaned to any person, company, firm or corporation (including in the liability of a company or firm the liability of the several members thereof) under the various clauses of Section 5200, as last amended by the Act approved October 22, 1922. These amounts are stated in terms of the percentage of the paid-in and unimpaired capital and surplus of the lending bank.

<u>Character of Loans</u>	<u>Amount Loanable.</u>
(A) Accommodation or straight loans, whether or not single name,	Maximum limit, 10% of bank's paid-up and unimpaired capital and surplus.
(B) "Bills of exchange drawn in good faith against actually existing values". The law expressly provides that this phrase shall also include: (a) Drafts and bills of exchange secured by shipping documents conveying or securing title to goods shipped. (b) Demand obligations, when secured by documents covering commodities in actual process of shipment. (c) Bankers' acceptances of the kinds described in Section 13 of the Federal Reserve Act.	No limit imposed by law.
(C) Commercial or business paper (of other makers) actually owned by the person, company, corporation or firm negotiating the same	No limit imposed by law.
(D) Notes secured by shipping documents, warehouse receipts or other such documents, conveying or securing title covering readily marketable non-perishable staples, including live stock. No bank may make any loan under (D), however, (a) Unless the actual market value of the property securing	15% of bank's capital and surplus <u>in addition to</u> the amount allowed under (A): or if the full amount allowed under (A) is not loaned then the amount which may be loaned in the manner described under (D) is increased by the loanable amount not used under (A). In other words, the amount loaned under (A) must never be more than 10% but the

Character of LoansAmounts Loanable.

<p>the obligation is not at any time less than 115% of the face amount of the note, and</p> <p>(b) Unless the property is fully covered by insurance, and in no event shall the privilege afforded by (D) be exercised for any one customer for more than six months in any consecutive twelve months.</p>	<p>aggregate of (A) and (D) may equal, but not exceed, 25%.</p>
<p>(E) Notes secured by not less than a <u>like face amount</u> of bonds or notes of the United States issued since April 24, 1917, or by certificates of indebtedness of the United States.</p>	<p>10% of bank's capital and surplus, <u>in addition to</u> the amount allowed under (A), or if the full amount allowed under (A) is not loaned, then the amount which may be loaned in the manner described under (E) is increased by the loanable amount not used under (A). In other words, the amount loaned under (A) must never be more than 10%, but the aggregate of (A) and (E) may equal, but not exceed, 20%</p>
<p>(F) Notes secured by U.S. Government obligations of the kinds described under (E) the face amount of which is at least equal to 105% of the amount of the customer's notes.</p>	<p>No limit, but this privilege, under regulations of the Comptroller of the Currency, expires December 31, 1922.</p>

- 5 -

Some examples of what may be loaned to any one customer under Section 5200 of the Revised Statutes, expressed in terms of percentage of the lending bank's capital and surplus.

	<u>Illustration 1</u>	<u>Illustration 2</u>	<u>Illustration 3</u>
(A) Accommodation or straight loans,	10%	5%	5%
(D) Notes secured by warehouse receipts, etc.	15%	20%	15%
(E) Notes secured by a like face amount of Government obligations	10%	10%	15%
Total	35%	35%	35%
(B) Bills of exchange drawn against actually existing values		No limit imposed by law.	
(C) Commercial or business paper	"	"	"
(F) Notes secured by at least 105% of U. S. Government obligations,	"	"	"

What a Federal Reserve Bank may re-
discount for its member banks.

A Federal Reserve Bank may not, of course, under any circumstances, rediscount paper other than that which is eligible under the terms of the Federal Reserve Act. So also the limitations imposed upon the amounts of rediscounts which Federal Reserve Banks may make for member banks, whether State or national, are determined by the provisions of the Federal Reserve Act and are not in any way affected by the amendment to Section 5200.

Under the provisions of Section 13 of the Federal Reserve Act any Federal Reserve Bank may rediscount for any member bank, whether State or national, eligible paper of any one borrower to the extent of ten per cent of the member bank's capital and surplus but it is expressly provided that "this restriction shall not apply to the discount of bills of exchange drawn against actually existing values".

In the opinion of the Federal Reserve Board this phrase "bills of exchange drawn against actually existing values" includes "drafts or bills of exchange secured by shipping documents conveying or securing title to goods shipped" and "bankers' acceptances of the kinds described in Section 13 of the Federal Reserve Act" even though Section 13 (unlike the amendment to Section 5200) does not expressly state that those two classes of paper are bills of exchange drawn against actually existing values. In the opinion of the Board, however, accepted demand bills on which the drawer is released from liability are not "bills of exchange" within the meaning of Section 13 and must, therefore, be included in determining the limits on the amount of paper of any one borrower which a Federal Reserve Bank may rediscount for any member bank.

FEDERAL RESERVE BOARD

WASHINGTON

X-3481

July 22, 1922.

924

SUBJECT: Redemption of Currency Fit for Circulation.

Dear Sir:

I enclose herewith copy of a letter from the Secretary of the Treasury, to which your attention is invited.

I enclose also tables showing the results of test examinations of each kind of paper currency presented for redemption during the month of June, 1922, by your bank and its branches. In discussing this matter with Treasury officials, I am convinced that unless the percentage of fit notes sent in for redemption is very materially reduced there is danger that the existing methods may be changed so as to transfer to the Treasury all the details of redemption and distribution now handled by the staffs of the banks and the Board.

Very truly yours,

G o v e r n o r .

(Enclosures)

GOVERNORS OF ALL F. R. BANKS
COPIES TO AGENTS.

COPY

X-3481a

TREASURY DEPARTMENT
WASHINGTON.

July 18, 1922.

My dear Governor:

I have just had brought to my attention by the Currency Committee the Treasurer's report for June of test examinations of paper currency received during that month from Federal Reserve Banks for redemption. I am transmitting copies herewith. If these tests reflect the actual situation, I confess to great astonishment and I think the matter is one to receive the serious consideration of the Board and the several Federal Reserve Banks.

You will note very satisfactory assortment is being made by all the banks with respect to Federal reserve bank notes and National bank notes. With respect to United States currency, the only creditable showing appears to have been made by the Federal Reserve Banks of Richmond and Minneapolis; all other banks show an amount of notes fit for further circulation having been cancelled far in excess of any reasonable standards. The Treasury is directly and particularly concerned in the situation, and must insist that United States currency be more carefully assorted before it is cancelled and forwarded to the Treasurer for redemption. It would seem entirely feasible to assort United States currency notes to the same standard as apparently is applied to Federal reserve and National bank notes.

As regards the assortment of Federal reserve notes, the percentage of fit forwarded by each of the banks is so excessive that I am sure there must be some exceptional circumstances to account for the matter. The most cursory examination of the Treasurer's reports indicates the situation, for it appears that approximately seventy-five per cent of Federal reserve notes fit for further circulation are being forwarded for redemption.

Very truly yours,

(Signed) A. W. Mellon,
Secretary.

Hon. W. P. G. Harding,
Governor, Federal Reserve Board.

RESULTS OF TEST EXAMINATION OF EACH KIND OF PAPER CURRENCY FORWARDED BY FEDERAL RESERVE BANKS FOR REDEMPTION DURING THE MONTH OF JUNE, 1922.

X-3411b

	Number of Notes examined						U. S. CURRENCY.						Percent of Fit Notes					
	1's	2's	5's	10's	20's	Total	1's	2's	5's	10's	20's	Total	1's	2's	5's	10's	20's	Total
Boston	38,900	3,500	3,100	800	-	46,300	13,843	2,249	1,927	166	-	18,185	36	64	62	21	-	39
New York	119,000	7,100	10,200	1,000	-	137,300	29,276	2,529	3,593	577	-	35,975	25	36	35	58	-	26
Buffalo	5,300	400	400	-	-	6,100	707	49	46	-	-	802	13	12	11	-	-	13
Philadelphia	38,100	2,600	3,300	-	-	44,000	14,982	984	1,204	-	-	17,170	39	38	36	-	-	39
Cleveland	16,800	1,100	1,600	-	-	19,500	6,014	265	596	-	-	6,875	35	24	37	-	-	35
Cincinnati	14,000	900	1,200	100	-	16,200	1,731	179	355	82	-	2,347	12	19	30	82	-	14
Pittsburgh	15,500	1,000	1,500	100	-	18,100	4,042	238	564	41	-	4,885	26	24	38	41	-	27
Richmond	2,100	-	300	-	-	2,400	54	-	41	-	-	95	03	-	14	-	-	04
Baltimore	12,200	800	1,000	200	-	14,200	3,255	354	671	90	-	4,370	27	44	67	45	-	31
Atlanta	13,500	400	900	-	-	14,800	2,698	66	63	-	-	2,827	20	17	07	-	-	19
Nashville	3,500	100	300	-	-	3,900	477	55	13	-	-	545	14	55	04	-	-	14
Birmingham	4,100	-	-	-	-	4,100	471	-	-	-	-	471	11	-	-	-	-	11
New Orleans	10,000	400	900	100	-	11,400	3,411	120	509	45	-	4,085	34	30	57	45	-	36
Jacksonville	5,000	100	500	-	-	5,600	404	28	93	-	-	525	08	28	19	-	-	09
Chicago	56,100	5,300	5,300	-	-	66,700	14,214	1,434	2,170	-	-	17,868	25	28	41	-	-	27
Detroit	10,800	900	700	400	-	12,800	859	103	107	50	-	1,119	08	11	15	13	-	09
St. Louis	18,200	1,400	1,600	200	-	21,400	8,621	918	1,122	80	-	10,741	47	66	70	40	-	50
Memphis	1,800	100	100	-	-	2,000	521	-	36	-	-	557	29	-	36	-	-	28
Louisville	5,100	300	500	100	-	6,000	1,719	99	325	87	-	2,230	34	33	65	87	-	37
Little Rock	2,500	200	200	-	-	2,900	362	26	107	-	-	495	14	13	53	-	-	17
Minneapolis	4,000	300	400	100	-	4,800	420	25	18	18	-	481	11	08	05	18	-	10
Helena	500	100	-	-	-	600	52	12	-	-	-	64	10	12	-	-	-	11
Kansas City	7,000	600	600	100	-	8,300	2,324	155	250	32	-	2,761	37	26	42	32	-	33
Denver	1,200	100	-	-	-	1,300	496	25	-	-	-	521	41	25	-	-	-	40
Omaha	900	-	100	-	-	1,000	116	-	2	-	-	118	13	-	02	-	-	11
Oklahoma Cy.	1,000	100	100	-	-	1,200	214	44	-	-	-	258	21	44	-	-	-	22
Dallas	16,500	500	-	-	-	17,000	3,369	165	-	-	-	3,534	20	33	-	-	-	21
El Paso	600	-	-	-	-	600	205	-	-	-	-	205	34	-	-	-	-	34
San Francisco	1,900	100	100	-	-	2,100	1,013	62	58	-	-	1,133	53	62	58	-	-	54
Los Angeles	2,700	200	200	-	-	3,100	1,275	69	118	-	-	1,462	47	35	59	-	-	47
Seattle	1,000	100	-	-	-	1,100	532	52	-	-	-	584	53	52	-	-	-	53
Spokane	1,000	-	100	-	-	1,100	245	-	23	-	-	268	25	-	23	-	-	24
Portland	900	100	-	-	-	1,000	555	72	-	-	-	627	62	72	-	-	-	63
Salt Lake Cy.	1,000	-	100	-	-	1,100	273	-	48	-	-	321	27	-	48	-	-	29

FEDERAL RESERVE BANK NOTES

	Number of Notes examined						Number of Fit Notes						Percent of Fit Notes					
	1's	2's	5's	10's	20's	Total	1's	2's	5's	10's	20's	Total	1's	2's	5's	10's	20's	Total
Boston	14,700	19,700	200	-	-	34,600	496	1,418	31	-	-	1,940	3.3	7.1	15.5	-	-	5.6
New York	23,300	20,000	10,900	-	-	54,200	1,061	3,266	1,155	-	-	5,482	4.5	16.3	10.5	-	-	10.1
Buffalo	6,000	8,000	-	-	-	14,000	46	335	-	-	-	381	0.7	4.1	-	-	-	2.7
Philadelphia	18,900	12,600	-	-	-	31,500	2,268	1,040	-	-	-	3,308	12.0	8.2	-	-	-	10.5
Cleveland	33,500	14,700	2,400	-	-	50,600	919	411	330	-	-	1,660	2.1	2.7	13.7	-	-	3.2
Cincinnati	12,000	3,000	3,000	-	-	18,000	619	69	141	-	-	829	5.1	2.3	4.7	-	-	4.6
Pittsburgh	6,000	9,800	7,100	-	-	22,900	481	228	3,877	-	-	4,586	8.0	2.3	54.6	-	-	20.0
Richmond	12,500	1,500	-	-	-	14,000	583	70	-	-	-	653	4.6	4.6	-	-	-	4.6
Baltimore	13,700	10,400	-	-	-	24,100	724	767	-	-	-	1,491	5.2	7.3	-	-	-	5.1
Atlanta	24,300	2,050	4,450	200	-	31,000	411	71	201	50	-	733	1.2	3.4	4.5	25.0	-	2.3
Nashville	12,900	300	-	-	-	13,200	186	1	-	-	-	187	1.4	0.3	-	-	-	1.4
Birmingham	16,000	1,000	100	-	-	17,100	288	4	8	-	-	300	1.8	0.4	8.0	-	-	1.7
New Orleans	18,801	11,700	-	-	-	30,501	1,959	556	-	-	-	2,515	10.4	4.7	-	-	-	8.2
Jacksonville	16,000	2,000	1,300	200	100	19,600	412	66	337	62	34	911	2.5	3.3	25.9	31.0	34.0	4.6
Chicago	19,900	14,000	2,000	-	-	35,900	544	856	57	-	-	1,457	2.2	6.1	2.8	-	-	4.0
Detroit	15,900	6,000	1,100	-	-	23,000	618	252	-	-	-	870	3.8	4.2	-	-	-	3.7
St. Louis	20,100	3,000	2,500	100	-	25,700	1,038	119	343	25	-	1,525	5.1	3.9	13.7	25.0	-	5.9
Memphis	7,900	1,000	-	-	-	8,900	656	78	-	-	-	734	8.3	7.8	-	-	-	8.2
Louisville	16,000	1,000	400	100	-	17,500	1,970	50	100	18	-	2,138	12.3	5.0	25.0	18.0	-	12.2
Little Rock	13,600	600	1,500	100	2,800	18,600	56	25	2	4	1	88	0.4	4.1	0.1	4.0	0.0	0.4
Minneapolis	18,800	-	1,600	100	-	20,500	708	-	46	12	-	766	3.2	-	2.2	12.0	-	3.7
Helena	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Kansas City	26,200	7,500	1,800	-	-	35,500	1,055	1,595	145	-	-	2,795	4.0	21.2	8.0	-	-	7.8
Denver	11,400	1,300	7,900	-	-	20,600	1,162	2	548	-	-	1,712	10.1	0.1	6.9	-	-	8.3
Omaha	9,900	2,000	6,900	-	100	18,900	294	62	114	-	-	470	2.9	3.1	1.6	-	0.0	2.4
Oklahoma City	12,000	1,000	3,400	-	-	16,400	218	3	106	-	-	327	1.7	0.3	3.1	-	-	1.9
Dallas	22,500	2,500	2,200	-	-	27,200	1,236	371	100	-	-	1,707	5.4	14.8	4.5	-	-	6.2
Houston	4,400	1,000	-	-	-	5,400	37	8	-	-	-	45	0.8	0.8	-	-	-	0.8
El Paso	-	-	100	-	-	100	-	-	5	-	-	5	-	-	5.0	-	-	5.0
San Francisco	29,700	16,900	1,900	-	-	48,500	5,682	2,330	156	-	-	8,168	19.1	13.7	8.2	-	-	16.8
Los Angeles	12,600	6,100	1,300	-	-	20,000	1,454	972	319	-	-	2,745	11.5	15.9	24.5	-	-	13.7
Seattle	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Spokane	3,800	-	-	-	-	3,800	1,568	-	-	-	-	1,568	41.2	-	-	-	-	41.2
Portland	11,200	1,400	-	-	-	12,600	2,592	130	-	-	-	2,722	23.1	9.2	-	-	-	21.6
Salt Lake City	6,800	1,600	400	300	-	9,100	111	190	41	53	-	395	1.6	11.8	10.2	17.6	-	4.3

FEDERAL RESERVE NOTES (Half Notes)

	Number of Notes examined					total	Number of Fit Notes					total	Percent of Fit Notes					
	5's	10's	20's	50's	100's		5's	10's	20's	50's	100's		5's	10's	20's	50's	100's	total
Boston	15,800	19,000	18,900	-	-	53,700	11,617	14,306	13,474	-	-	39,397	73.5	75.2	71.2	-	-	73.3
New York	19,600	20,000	19,900	-	-	59,500	15,447	14,342	15,046	-	-	44,835	78.8	71.7	75.6	-	-	75.3
Buffalo	15,900	16,000	15,400	-	-	47,300	11,718	11,980	12,798	-	-	36,496	73.6	74.8	83.1	-	-	77.1
Philadelphia	20,100	20,000	16,525	-	-	56,625	15,163	16,000	13,704	-	-	44,867	75.4	80.0	82.9	-	-	79.2
Cleveland	10,900	7,500	6,900	-	-	25,300	9,014	5,583	4,432	-	-	18,029	73.5	74.4	64.2	-	-	71.2
Cincinnati	16,000	16,000	12,000	-	-	44,000	11,681	11,538	8,156	-	-	31,375	73.0	72.1	67.9	-	-	71.3
Pittsburgh	8,000	16,100	16,000	-	-	40,100	5,750	11,536	11,174	-	-	28,460	71.8	71.6	69.8	-	-	70.9
Richmond	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Baltimore	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Atlanta	4,000	3,000	1,000	-	-	8,000	2,479	1,757	810	-	-	5,046	61.9	58.5	81.0	-	-	63.0
Nashville	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Birmingham	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
New Orleans	15,000	14,800	6,800	-	-	36,600	12,268	12,675	5,715	-	-	30,658	81.7	85.6	84.0	-	-	83.7
Jacksonville	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Chicago	21,800	24,000	22,100	-	-	67,900	14,639	17,253	16,033	-	-	49,975	67.3	71.8	81.5	-	-	73.6
Detroit	16,000	15,900	16,000	-	-	37,900	10,529	9,216	10,501	-	-	30,246	65.8	59.2	65.6	-	-	79.8
St. Louis	15,900	12,000	12,000	-	-	39,900	11,941	9,297	10,528	-	-	31,766	75.1	77.4	87.7	-	-	79.6
Memphis	4,000	4,000	2,300	-	-	10,300	3,083	3,407	1,291	-	-	7,781	77.0	85.1	56.1	-	-	75.5
Louisville	8,000	5,600	5,600	-	-	19,200	5,429	4,528	4,729	-	-	14,686	67.8	80.8	84.4	-	-	76.4
Little Rock	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Minneapolis	8,000	7,600	1,100	-	-	16,700	4,326	5,278	896	-	-	10,500	54.0	69.4	81.4	-	-	62.8
Helena	4,000	2,000	2,000	-	-	8,000	1,091	1,342	1,552	-	-	3,985	27.2	67.1	77.6	-	-	49.8
Kansas City	15,000	16,000	16,000	-	-	47,000	8,194	11,375	11,295	-	-	30,864	54.6	71.0	70.5	-	-	65.6
Denver	4,100	2,000	1,600	-	-	7,700	1,916	1,011	1,336	-	-	4,263	46.7	50.5	83.5	-	-	55.3
Omaha	7,900	7,000	3,500	-	-	18,400	2,074	3,916	2,719	-	-	8,709	26.2	55.9	77.6	-	-	47.3
Oklahoma Cy.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dallas	8,000	2,500	1,900	-	-	12,400	4,629	1,473	1,229	-	-	7,331	57.8	58.9	64.6	-	-	59.1
Houston	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
El Paso	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
San Francisco	20,000	20,000	19,700	-	-	59,700	16,091	15,990	17,717	-	-	49,798	80.4	79.9	89.9	-	-	83.4
Los Angeles	12,000	11,800	11,900	-	-	35,700	8,349	8,821	10,415	-	-	27,585	69.5	74.7	87.5	-	-	77.2
Seattle	16,000	12,000	13,000	-	-	41,000	11,399	9,494	11,032	-	-	31,925	71.2	79.1	84.8	-	-	77.8
Spokane	4,000	1,900	1,500	-	-	7,400	2,694	1,561	1,302	-	-	5,557	67.3	82.1	86.8	-	-	75.0
Portland	8,000	10,000	10,500	-	-	28,500	6,130	8,112	8,895	-	-	23,137	76.6	81.1	84.7	-	-	81.1
Salt Lake Cy.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

NATIONAL BANK NOTES

X-3481b

	No. of Notes Examined						No. of Fit Notes						Percent of Fit Notes					
	5's	10's	20's	50's	100's	Total	5's	10's	20's	50's	100's	Total	5's	10's	20's	50's	100's	Total
Boston	15,000	13,400	4,300	80	50	32,830	710	709	339	7	6	1,771	4.7	5.2	7.8	8.7	12.0	5.3
New York	22,700	23,400	17,000	2,200	2,250	67,550	2,997	1,532	885	203	338	5,955	13.2	6.5	5.2	9.2	15.0	8.8
Buffalo	4,000	3,800	3,000	100	-	10,900	0	73	186	5	-	264	0	1.8	6.2	5.0	-	2.4
Philadelphia	16,250	18,750	5,025	200	65	30,290	1,411	779	244	37	6	2,477	8.6	4.1	4.8	18.5	9.2	8.1
Cleveland	26,900	25,900	21,100	-	60	73,960	959	657	2,197	-	0	3,813	3.5	2.5	10.4	-	0	5.1
Cincinnati	16,000	17,000	3,000	-	-	36,000	1,028	752	106	-	-	1,886	6.4	4.4	3.5	-	-	5.2
Pittsburgh	20,000	12,000	-	100	-	32,100	2,889	729	-	1	-	3,619	14.4	6.0	-	1.0	-	11.2
Richmond	3,300	500	200	20	10	4,030	118	7	5	0	0	130	3.5	1.4	2.5	0.0	0.0	3.2
Baltimore	4,100	3,500	1,200	20	30	8,850	266	231	35	0	0	532	6.4	6.6	2.9	0	0	6.0
Atlanta	20,500	10,600	1,175	50	50	32,375	1,021	597	100	6	4	1,728	4.7	5.6	8.5	12.0	8.0	5.3
Nashville	6,000	4,000	1,600	-	-	11,600	85	45	146	-	-	276	1.4	1.1	9.1	-	-	2.3
Birmingham	14,800	10,500	3,400	30	5	28,735	1,541	609	104	3	0	2,257	10.4	5.8	3.0	10.0	0	7.8
New Orleans	10,900	11,200	3,750	100	50	26,000	839	945	263	14	16	2,077	7.6	8.4	7.0	14.0	32.0	7.9
Jacksonville	11,600	13,300	2,200	30	5	27,145	1,458	1,221	244	0	1	2,924	12.5	9.1	11.0	0	6.6	10.7
Chicago	21,900	21,600	9,600	300	100	53,500	881	1,071	651	1	0	2,604	4.0	4.9	6.7	0.3	0	4.8
Detroit	8,000	7,000	4,000	200	-	19,200	179	152	48	3	-	382	2.2	2.1	1.2	1.5	-	1.9
St. Louis	20,500	17,600	4,400	210	70	42,780	1,308	3,053	184	7	1	4,553	6.3	17.3	4.1	3.3	1.4	10.6
Memphis	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Louisville	17,500	14,000	4,900	160	32	36,592	2,713	4,164	914	10	0	7,801	15.5	29.0	18.6	6.2	0.0	21.3
Little Rock	7,600	9,900	1,500	105	30	19,135	7	107	28	2	0	144	0.0	1.0	1.8	1.9	0	0.7
Minneapolis	2,700	5,700	800	-	-	9,200	74	168	15	-	-	257	2.7	2.9	1.8	-	-	2.7
Helena	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Kansas City	18,200	19,200	3,600	5,000	1,200	44,800	2,303	3,458	286	17	7	6,073	12.6	18.0	5.1	1.7	3.5	13.6
Denver	17,500	16,300	6,800	200	100	40,900	509	1,571	192	15	1	2,288	2.9	9.6	2.8	7.5	1.0	5.5
Omaha	5,100	9,600	4,000	56	20	18,776	3	670	37	-	-	710	0.0	6.9	0.9	0.0	0.0	3.7
Oklahoma City	7,700	10,800	3,400	100	-	22,000	96	121	118	20	-	355	1.2	1.1	3.4	20.0	-	1.6
Dallas	12,200	13,300	4,300	100	40	29,940	1,171	1,501	634	13	0	3,319	9.5	11.2	14.7	13.0	0	11.0
Houston	9,200	2,300	1,200	-	-	12,700	227	41	27	-	-	295	2.4	1.7	2.2	0	-	2.3
El Paso	6,300	3,400	600	20	20	10,340	841	444	1	0	0	1,246	13.3	13.0	0.1	0	0	12.4
San Francisco	28,200	35,600	24,400	998	356	89,454	2,366	10,018	3,510	190	65	16,149	8.3	28.1	14.3	21.1	18.1	18.0
Los Angeles	11,900	7,000	8,200	400	300	27,800	3,035	1,077	2,062	68	90	6,332	25.5	15.3	25.1	17.0	30.0	22.7
Seattle	3,800	5,900	1,100	123	49	10,972	474	812	184	8	1	1,479	12.4	13.7	16.7	6.5	2.0	13.4
Spokane	800	2,200	600	-	-	3,600	7	40	16	0	-	63	0.8	1.8	2.6	0	-	1.7
Portland	7,500	11,500	1,700	-	-	20,700	2,530	1,956	680	-	-	5,166	33.7	17.0	40.0	-	-	24.9
Salt Lake Cy.	10,000	8,100	1,200	36	8	19,344	374	487	52	0	0	913	3.7	6.0	4.3	0.0	0.0	4.2

FEDERAL RESERVE BOARD
WASHINGTON

X-3484

July 27, 1922.

SUBJECT: Extension of Maturity Dates on 2% Certificates
of Indebtedness Pledged to Secure Federal
Reserve Bank Note Circulation.

Dear Sir:

As you have been advised by the Secretary of the Treasury, the maturity date of all 2% certificates of indebtedness deposited by the Federal Reserve Banks with the Treasurer of the United States to secure Federal Reserve Bank note circulation maturing on or after August 20, 1922, and prior to August 20, 1923, has been extended one year.

For your information, proper notation of this extension has been made by the Treasurer of the United States on the receipts given by that officer and held by the Board in trust for your bank covering certificates deposited to secure your bank note circulation.

Very truly yours,

Walter L. Eddy,
Assistant Secretary.

TO THE GOVERNORS OF ALL FEDERAL RESERVE BANKS.

F E D E R A L R E S E R V E B O A R D .

STATEMENT FOR THE PRESS

For release in afternoon papers,
Wednesday, August 2, 1922.

CONDITION OF THE ACCEPTANCE MARKET, JUNE 15 TO JULY 15, 1922.

According to reports received by the Federal Reserve Board from the Federal Reserve Banks of the various districts, the acceptance market was irregular throughout the entire period under review and showed but slight signs of activity. The supply of bills in most districts was limited, but was adequate to meet the small demand.

In District No. 1 (Boston) the supply of bills showed an upward tendency at the beginning of the reporting period, but fell off at the close. Demand for bills was very small, bankers and corporations who had idle funds preferring to invest them in certificates of indebtedness rather than in acceptances. At the close of the period, the bill market improved somewhat and bills of 30 and 60 days' maturity moved freely.

In District No. 2 (New York) the supply of bills in most cases was sufficient to meet the demand. The bill market in this District was largely influenced by the prevailing money situation. Bankers sold their bills when money rates tended to advance and increased their holdings when money was plentiful. The demand for bills for foreign account continued to be a strong factor in this District, and

is responsible for the continuance of the prevailing rates for bills of longer maturities.

Districts No. 7 (Chicago), No. 9 (St. Louis) and No. 12 (San Francisco) report a dull market throughout the entire period. In the last mentioned District, 35 dealers report a decrease of \$3,424,817, or 38%, in the volume of acceptances bought and \$998,772, or 19.4%, in the amount of bills accepted during June as compared with the previous month. In District No. 7, however, a slight improvement was noticeable at the close of the period, when grain bills were in fairly active demand and moved freely. In this District, too, the bill market was influenced mainly by the prevailing money situation. In District No. 3 (Philadelphia) the supply of bills was fair.

A slight improvement in the acceptance market is noticeable in Districts No. 4 (Cleveland), No. 10, (Kansas City) and No. 11 (Dallas). In the last mentioned District, the demand for bills was strong and exceeded the available supply, although there was an increased volume of acceptances arising out of domestic shipments and the storage of goods in warehouses. The volume of foreign acceptances, however, decreased. The opposite situation prevailed in District No. 6 (Atlanta), where the volume of bills arising in connection with imports and exports increased about 31% over the previous period.

The bulk of acceptances executed in the various districts were based upon the exportation of cotton, wheat, and rubber goods, the importation of sugar and coffee and the warehousing of crude oil and corn. In Districts No. 2 (New York), No. 4 (Cleveland) and No. 12 (San Francisco)

- 3 -

X-3485

maturities of 60 to 90 days were preferred. In the other Districts, the best demand was for 30 to 60 day bills. District No. 12 reports the distribution of maturities as follows:

<u>Maturity</u>	<u>June 15 to July 15</u>	<u>May 15 to June 15</u>
30-days	10.4%	2.4%
60-days	34.6%	45.3%
90-days	49.0%	51.6%
120-days	6.0%	0.2%

The rates throughout the period were as follows:

		<u>Rates on prime bills</u>		<u>Range during period</u>		<u>Close</u>			
		Bid		Offered		Bid		Offered	
No. 1 (Boston)	30 day maturity	3 - 3/4		2-7/8 - 3-1/8		3-1/8		3	
	60 " "	3-1/8-3 1/4		3		3-1/8			
	90 " "	" "		" "		" "			
	120 " "	" "		" "		" "			
No. 2 (New York)	30 day maturity	3-1/8 - 3 1/4		2-7/8-3-1/8		3-1/8		2-7/8 - 3	
	60 " "	" "		" "		" "		" "	
	90 " "	" "		" "		" "		" "	
	120 " "	3-1/8 - 3-3/8		3 - 3 1/4		" "		3	
	150 " "	3 1/4 - 3 3/8		" "		3 1/4-3-3/8		3- 3-1/8	
180 " "	" "		" "		" "		" "		
No. 3 (Philadelphia)	30 day maturity	3 - 3 1/4		2-7/8 - 3-1/8		3 - 3-1/8		2-7/8 - 3	
	60 " "	" "		" "		" "		" "	
	90 " "	3-1/8- 3 1/4		" "		3-1/8		" "	
	120 " "	3-1/8- 3 1/4		3 - -3-1/8		3-1/8		3 - 3-1/8	
	150 " "	3 1/4 - 3-3/8		3 - - 3 1/4		3-1/8-3-3/8		3- 3-1/8	
180 " "	3 1/4 - 3 3/8		3-1/8 - 3-3/8		" "		" "		
No. 7 (Chicago)	30 day maturity	3-1/8 - 3 1/4		3 - 3-3/8		3 - 3-1/8		3	
	60 " "	" "		" "		" "		" "	
	90 " "	" "		" "		" "		" "	
	120 " "	" "		" "		3-1/8 - 3 1/4		" "	
	150 " "	3-1/8 - 3-3/8		" "		3-1/8-3-3/8		3 - 3-1/8	
180 " "	3 1/4 - 3-3/8		" "		" "		" "		

F E D E R A L R E S E R V E B O A R D

STATEMENT FOR THE PRESS

X-3486

For release in Morning Papers,
Tuesday, August 1, 1922.

The following is a summary of general business and financial conditions throughout the several Federal Reserve Districts during the month of July, as contained in the forthcoming issue of the Federal Reserve Bulletin.

The outstanding feature of the greater part of the month has been the continuance of business and industrial activity at the relatively high rate recently attained. In fact, production has shown further increases in some lines, while in those which normally would be noticeably affected by seasonal influences, decreases on the whole have been relatively slight. Reflecting this movement, debits to individual account, which are a fair index of volume of business, were considerably higher in June than in May, although they showed some decrease in July. At the same time, prices have continued their upward tendency, the index number of the Federal Reserve Board for June being 162, an increase of 4 points over the May figure, further increases being indicated for July. As the current month progressed, the effects of the coal and railroad strikes began to make themselves felt. This influence has served recently to restrain productive activities in various lines, noticeably iron and steel. The plans recently announced by the Administration are expected to relieve the situation.

The output in various lines of manufacture, showed further improvement in June. This was particularly noticeable in the case of

iron and steel, copper, automobiles and tanning. In the textile industries, increased output of both cotton and woolen goods was reported during June, although some seasonal recessions have been experienced since the opening of July. Construction activity has been well sustained, only slight recessions occurring in June, and the production of lumber and other building materials accordingly has continued at a high level. The amount of bituminous coal mined in June showed a considerable increase, but since the opening of the present month has fallen off greatly. Coal stocks have consequently been further drawn upon. Anthracite production has been negligible, and stocks, with the exception of pea sizes, are practically exhausted. Petroleum output continues large; stocks are, in fact, accumulating.

A further reduction in the number of persons out of work was reported during June, and scarcity of labor continued to be noted, especially in the building trades. Certain districts also reported a scarcity of agricultural labor. Unemployment remained a factor only in those lines, such as textiles, coal and transportation, in which labor difficulties exist.

Agricultural prospects are still very satisfactory for the country as a whole, although there has been a considerable deterioration in the condition of wheat and oats. Fruit crops are reported to be above the average, and the tobacco outlook in general excellent. The cotton crop shows some improvement during June, but it is still too early to estimate the amount of damage from the boll weevil.

In wholesale trade there was a general improvement in most

lines during June. Groceries sales in particular were large, and showed increases in all districts over last year. The majority of the districts likewise reported an increase in dry goods sales. Boot and shoe sales declined slightly during the month of June, and the situation in respect to hardware was not so satisfactory as in recent months, although better than a year ago. The volume of retail trade was well sustained during June, although slightly less than in May.

Financially there have been few new developments noted for the month. The Federal Reserve Banks of Dallas and San Francisco reduced the discount rate to 4-1/2 and 4 per cent respectively. Of much interest has been the announcement by the Treasury on July 26 calling for redemption on December 15, 1922, of approximately \$1,000,000,000 of the 4-3/4 per cent Victory notes. Federal Reserve Bank portfolios show little change, while member bank loans, other than those secured by stocks and bonds, show a downward tendency. Foreign exchange rates have remained steady, except for the mark, which reached the lowest figure to date. The foreign trade figures for June show a substantial increase over May, both for imports and exports.

FEDERAL RESERVE BOARD

WASHINGTON

August 1, 1922.
X-3490

Subject: Economy and Efficiency in Federal Reserve Banks.

My dear Mr.

I am enclosing herewith copy of a letter on the subject of economy and efficiency addressed to the Governor of your Bank. An identical letter is being sent to the Governors of all other Reserve Banks, and copies to the respective Chairmen. Will you please bring this letter to the attention of your Board of Directors at its next meeting, with a supplementary statement by yourself regarding the interest of the Federal Reserve Board in this subject and the desire of the Board to have the cooperation, not only of the officers, but of the directors of the Federal Reserve Banks, in bringing the operating efficiency of their respective banks to the highest level.

Believe me,

Very sincerely yours,

Chairman of the Committee
on Economy and Efficiency.

(Enclosure)

To the Chairmen of all Federal Reserve Banks.

X-3469
August 1, 1922.

Subject: Economy and Efficiency in Federal Reserve Banks.

My dear

In connection with the matter of improving the operating methods of the Federal Reserve Banks with a view to securing greater economy and efficiency, I am writing to say that it is the opinion of the Board's committee, after a further and thorough consideration of the problem with the Auxiliary committee of the banks on economy and efficiency, that the largest and speediest results in promoting economy and efficiency within each of the Federal Reserve Banks can at this stage still be obtained through continuous and active work by the committees on procedure, or on economy and efficiency, that have been set up in each of the banks.

In order that the Board's committee may be kept fully informed of the work being done by the committees of the banks, you are requested to make a report on behalf of the committee of your bank showing the lines along which it is proceeding, and stating the results which have been accomplished to date. In this connection, we also wish to be informed whether your procedure committee is making a thorough review of each department based upon a predetermined program, or whether it is dealing only with what appear to be the more obvious problems and matters requiring attention.

It is our expectation that in prosecuting its work, your committee will develop some improvements or modifications of operating methods which should be of value to other Federal Reserve Banks. Any such improvements should be promptly reported to the Committee on Economy and Efficiency of the Federal Reserve Board in order that they may be passed on to the other banks. The Board's committee will also welcome any suggestions that may be offered with respect to improvement or modification of operating organization or methods affecting the Reserve Banks as a whole.

The committee would like to be advised of the policy your bank is pursuing with respect to reducing the number of your employees as the volume of business of your bank declines. Specifically, it would like to be informed whether you are retaining employees now in excess of your operating requirements in the expectation that their services will be needed in the future, or whether you are releasing them, and if so, on what principle you are proceeding.

The committee desires for its information a list of the members of your committee on economy and efficiency, specifying the chairman of the committee and the position in your bank occupied by each member of the committee.

The Board's committee, in cooperation with the Auxiliary committee of the banks, is devoting continuous and systematic study, not only to the comparative operating costs of the several Reserve Banks, but to methods of operating organization and detail affecting the banks in general. These matters will be made the subject of special letters at a later date.

Believe me,

Yours very truly,

Chairman of the Committee
on Economy and Efficiency.

To the Governors of all F.R.Banks
Copies to all Chairmen.

IN THE DISTRICT COURT OF THE UNITED STATES
FOR THE EASTERN DISTRICT OF NORTH CAROLINA.

AT RALEIGH.

D. J. Malloy and J. H. Malloy,

Trading as Malloy Brothers

vs.

Federal Reserve Bank of Richmond and

Napier H. G. Balfour.

(
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(
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(
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)
(
)
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No. 923.

Sinclair & Dye

of Fayetteville, N. C.

For Plaintiff

M. G. Wallace,

of Richmond, Va.

Little & Barnes,

of Raleigh, N. C.

For Defendant Federal
Reserve Bank.

McCormick & Clark,

of Fayetteville, N. C.

For defendant Balfour.

CONNOR, DISTRICT JUDGE.

Action for recovery of amount of check alleged to have been lost
by negligence of defendant, in course of collection.

The parties waived trial by jury and submitted the case to the
Court to find the facts and render judgment thereon.

The evidence disclosed the following facts:

Defendant Napier H. G. Balfour, on November 30, 1920, drew and sent
to plaintiffs by mail at Quitman, Georgia, his check for Nine Thousand Dollars
(\$9,000.00) on the Lumber Bridge Bank, a duly chartered and organized

corporation authorized to carry on the business of banking at Lumber Bridge, North Carolina, to be applied to the credit of his indebtedness to plaintiffs, evidenced by his note, secured by mortgage on real estate situated in North Carolina.

Plaintiffs received the check on the morning of December 1st, 1920, credited the amount on Balfour's note, and sent the check properly endorsed, with a deposit slip, on same day, to Perry Banking Company at Perry, Florida, at which place said Banking Company was engaged in the banking business.

The Perry Banking Company, on December 3rd, received the check for collection and credit, and, on the next day, sent to plaintiff a credit card on which was printed, "Checks, drafts, etc. received for collection or deposit, are taken at the risk of the endorser until actual payment is received."

The Perry Banking Company, on the same day, endorsed and sent the check to the Atlantic National Bank of Jacksonville, Florida, and on December 6, 1920, said Bank endorsed and sent it to the branch of Citizens and Southern Bank at Atlanta, Georgia.

The said Bank, December 8th, 1920, endorsed the check with the double endorsement stamp of itself and the Federal Reserve Bank of Atlanta, and sent it to the Federal Reserve Bank of Richmond for collection and credit to the Federal Reserve Bank of Atlanta, Georgia, the Citizens and Southern Bank of Atlanta being a member of the Reserve Bank of Atlanta, Georgia.

On December 10, 1920, the Federal Reserve Bank of Richmond, sent to the Bank of Lumber Bridge a letter containing the Balfour, and several other checks drawn upon said bank, aggregating \$9,356.44, for collection and remittance. This letter, by due course of mail between Richmond and Lumber

Bridge, should have been received by the Bank of Lumber Bridge on Saturday, December 11th, 1920. On Tuesday, December 14th, the Cashier of the Lumber Bridge Bank stamped the Balfour check "Paid" and charged it to the account of Balfour on which there was to his credit, subject to check, \$9,204.90.

On the same day the Lumber Bridge Bank drew and mailed to the Federal Reserve Bank of Richmond, its check on the Atlantic Banking and Trust Company of Greensboro, North Carolina, for the sum of \$9,204.90, the aggregate amount of the checks sent to said bank by the Federal Reserve Bank of Richmond, in its letter of December 10th, less the amount of checks on said Bank for which the drawers did not have balances sufficient to pay.

The Federal Reserve Bank of Richmond received said letter, containing the check, December 15th, 1920, and on same day forwarded the check to the drawee, Atlantic Banking & Trust Company, of Greensboro, North Carolina, for payment. On December 17, 1920, the Atlantic Banking & Trust Company, wired the Federal Reserve Bank of Richmond that the Lumber Bridge Bank did not have sufficient funds to its credit to pay said check.

The defendant, Richmond Bank, on the same day, wired the Lumber Bridge Bank notice of the dishonor of its check, calling upon said Bank to make the check good, which wire the Lumber Bridge Bank answered promising to do so.

Upon its failure to make the check good, the defendant Richmond Bank sent a representative to Lumber Bridge who reached there on the morning of December 20th, 1920, being Monday, saw the Cashier of the Lumber Bridge Bank and demanded payment of the check on the Greensboro Bank. The Cashier stated that the Bank did not have sufficient funds to pay the amount of its dishonored check on the Greensboro Bank. That the Directors of the Bank

would meet that night and make an effort, by endorsing a note of the Bank to the Bank of Lumberton, North Carolina, upon which the Bank would be able to secure funds with which it could pay the amount of the dishonored check.

On Tuesday morning, December 21, 1920, the Cashier of the Lumber Bridge Bank informed the representative of defendant Richmond bank that the Directors refused to endorse the note with which to secure funds and that he could not pay, or take up, the check. Defendant, the Federal Reserve Bank of Richmond, on the same day, wired the Citizens and Southern Bank of Atlanta, that the Balfour-Malloy check was unpaid and on same day sent a letter to said Bank, stating the facts in connection therewith, and that the amount of the check, Nine Thousand Dollars (\$9,000.00), would be charged to the account of said Bank if the Check of the Lumber Bridge Bank was not ultimately paid. Malloy Brothers were promptly notified of the situation. Upon being notified by Malloy, Balfour was informed by the Cashier of the Lumber Bridge Bank that he could not make the check on Greensboro good. Upon appropriate proceedings under the North Carolina statutes, on December 24, 1920, the Lumber Bridge Bank was closed and its assets placed in the custody of a Receiver.

The defendant, Richmond Bank, charged the amount of the check to the Federal Reserve Bank of Atlanta, which charged same to the Citizens and Southern Bank. The several Banks handling the check charged the amount to their several correspondents until it was charged back to Malloy Brothers by the Perry Banking Company. At the date of the institution of this action no dividends had been paid by the Receiver. The defendant Federal Reserve Bank of Richmond retained the check on Greensboro. Upon the trial it was stated that there was reasonable cause to believe that a dividend of 75% would be paid.

The Bank of Lumber Bridge was not a member of the Reserve Bank system, but had, prior to the date of this transaction, pursuant to the Regulations of the Federal Reserve Board (October, 1920, Regulation J) entered into an arrangement with said bank for the collection of checks drawn upon it, at par. The Regulation (1) provides that, "Each Federal Reserve Bank will receive at par from its member banks and from non-member clearing banks, in its district, checks drawn on all member and non-member clearing banks, and on all other non-member banks which agree to remit at par through the Federal Reserve Bank of this District. The same privilege is extended to (2) "Federal Reserve Banks to receive checks for collection from other Federal Reserve Banks and from all member and non-member clearing banks regardless of their location Checks drawn upon all member and non-member clearing banks of its district and upon all other non-member banks of its district whose checks are collected at par by the Federal Reserve Bank."

This action was brought in the Superior Court of Cumberland County, North Carolina, and upon petition of defendant Bank, removed into this Court. Plaintiffs, following the allegations covered by the foregoing facts, allege:

"That as plaintiffs are informed and believe, the defendant Reserve Bank of Richmond, negligently mailed said check to the said Bank of Lumber Bridge, and negligently accepted in payment thereof the latter's draft of a Bank in Greensboro, North Carolina, which check the drawee bank on December 14, 1920, marked "Paid" and charged to the account of the drawer, and subsequently charged to the defendant, Napier H. G. Balfour."

"That Balfour had, at the time said check was charged against his account, to-wit: December 14, 1920, on deposit with said Bank of Lumber Bridge an amount sufficient to pay said check of Nine Thousand Dollars (\$9,000.00)."

"That the defendant Federal Reserve Bank of Richmond, carelessly and negligently failed to notify plaintiffs that it had not received the money for said check until December 21, 1920 and that, as plaintiffs are informed and believe, had the defendant bank notified them of the non-payment of said check promptly, as it was its duty to do, they and the defendant Balfour could and would have collected the said check."

"That, as plaintiffs are informed and believe the defendant Federal Reserve Bank of Richmond, acted as their agent, and that it was careless and negligent in sending said check direct to the drawee bank; in accepting its draft on the Greensboro Bank, in surrendering said check to the Bank of Lumber Bridge, North Carolina, without having collected the money therefor; and in failing to notify plaintiffs until December 21, 1920, that it had not collected said check."

In the light of these allegations several of the questions discussed by counsel become immaterial.

Defendant's counsel insist that plaintiffs can not maintain the action because there is no contractual relation, or privity of contract, between plaintiffs and defendant, the Federal Reserve Bank of Richmond. This argument is based upon the theory that the check became the property of the Perry Banking Company upon its deposit, or that said Banking Company was not authorized, by the deposit of the check for collection, to appoint sub-agents for that purpose and that such other banks as it transmitted the check to, became its agents and not the agents of the owners of the check. This view was, upon the facts in that case, adopted by the Supreme Court of Florida in *Brown vs. Peoples Bank*, 59 Florida, 163; 52 So. 719; 52 L.R.A.N.S. 608. It is not necessary to do more than refer to the very interesting and learned

discussion by Chief Justice Whitfield in that case because he states, at the conclusion of his opinion, that since the transaction out of which that case arose, but before the decision, the legislature of Florida enacted a statute by which it is provided that:

"When a check is deposited in a bank for collection, it shall be considered due diligence on the part of the bank in the collection of any check, etc. so deposited to forward, en route, the same, without delay, in the usual commercial way in use according to the regular course of business of banks, and that the maker, etc. shall be liable to the bank until actual payment is received."

For the purpose of ~~this~~ discussion the statute authorized the Perry Banking Company to employ sub-agents in making collection of the check, with the result that such sub-agents became the agents of the owner of the check. This statute crystallizes into positive law of the State, the rule which has been adopted in other jurisdictions as the proper method to be pursued and the extent of liability of collecting banks in such cases. This principle has been clearly stated by Judge Bynum, upon the authority of Fabens vs. Mercantile Bank, 23 Pick. 330, Bank vs. Bank, 75 N. C. 534, that:

"It is well settled that, when a note is deposited with a bank for collection, which is payable at another place, the whole duty of the bank so receiving the note in the first instance, is seasonably to transmit the same to a suitable bank or other agent at the place of payment. And as a part of the same doctrine, it is well settled that if the acceptor of a bill or promissor of a note has his residence in another place, it shall be presumed to have been intended and understood between the depositor for collection and the bank that it was to be transmitted to the place of residence of

the promissor". The rule is stated, with citation of authorities pro and con, in 2 Michie on Banks and Banking, Section 162(2). This rule is usually referred to as the "Massachusetts Rule". In Exchange National Bank vs. Third National Bank, 112 U. S. 276, Justice Blatchford said:

"The authorities which support this rule rest on the proposition that, since what is to be done by a bank employed to collect a draft, payable at another place, can not be done by any of its ordinary officers or servants, but must be entrusted to a subagent, the risk of the neglect of the sub-agent is upon the party employing the bank, on the view that he has implied authority to employ the sub-agent," citing *Dorchester Bank vs. New England Bank*, 1 Cush. (55 Mass.); *Milling Co. vs. Kuester*, 158 Ill. and many other decisions.

The result of this rule is that the sub-agent selected by the bank undertaking to collect the check, becomes the agent of the owner of the check, thus establishing the contractual relation between the owner and such sub-agent and entitling the owner to sue either of the sub-agents for breach of duty. *Bank vs. Floyd*, 142 N. C. 163; *Winchester vs. Milling Co.*, 120 Tenn. 225; 111 S. W. 246.

It is in recognition of this principle that plaintiffs sue the defendant Federal Reserve Bank of Richmond, alleging the relation of principal and agent and breach of duty, in that the defendant Federal Reserve Bank negligently sent the Balfour check for collection to the drawee Bank of Lumber Bridge, thus eliminating several questions discussed by counsel and narrowing the controversy to two questions:

1st. Was the defendant Richmond Bank negligent in sending the check to the drawee bank for collection?

2nd. Was the defendant guilty of negligence in accepting the check

of the Bank of Lumber Bridge on the Greensboro Bank in payment of the Balfour check?

From this view point no question respecting the manner or time in which the Perry Banking Company and its sub-agents, forwarded the check to the several banks and presented it to the drawee for payment. It will tend to simplification of the issues raised by the pleadings and the facts, in respect to which there is no controversy, to ascertain the extent of the liability of defendant bank, by regarding the relations between the parties to this action, as principal and agent, as alleged by plaintiffs.

Approached from this view point, the first question for decision is, whether the defendant Federal Reserve Bank was negligent in the discharge of its duty by sending the check to the drawee Bank of Lumber Bridge. This question has been the subject of much discussion, resulting in differing conclusions. The general principle is stated in Michie on Banks and Banking, 2 Vol. Section 162 (1 b) with citation of authorities. The Supreme Court of North Carolina in Bank vs. Floyd, 142 N. C. 163, held that it was negligent in a bank, having a draft for collection to send it directly to the drawee; that the fact that the drawee was the only bank at the place of payment did not affect the principle, and that no custom to the contrary would excuse the sending bank. The writer of this opinion, writing for the Court, in that case, gave the subject careful investigation and cited the controlling authorities. The legislature of North Carolina, however, at its Session of 1919, Public Laws, Ch. 11, now Section 233, Consolidated Statutes, changed the law in that respect, by enacting a statute providing that "Any banking corporation or banking or trust company, doing a fiduciary business in this State receiving for collection or deposit any check drawn upon,

or payable at, any other bank, located in another city or town, within or without this State, may forward such instrument for collection directly to the bank on which it is drawn or at which it is made payable, and such method of forwarding direct to the payer shall be deemed due diligence; and the failure of such payer bank, because of its insolvency or other default, to account for the proceeds thereof, shall not render the forwarding bank liable therefor, provided such forwarding bank shall have used due diligence in other respects in connection with the collection of such instrument. The provisions of this Act shall not apply where there is more than one bank in a town".

Plaintiffs insist that the defendant Federal Reserve Bank of Richmond, is not within the terms of this statute, and can claim no immunity under its provisions, because it is not a banking corporation or banking or trust company "doing a fiduciary business in this State."

I incline to an agreement with plaintiffs' contention that the statute was intended, and its terms apply only to banks organized and doing business in the sense of having its principal office in this State. It is a well settled principle adopted in the construction of statutes, that their provisions in respect to persons coming within their scope, are confined to citizens or corporations resident in the State, unless otherwise clearly expressed.

This question, however, becomes immaterial in this case, because Regulation J(3) made by the Federal Reserve Board provides that:

"In handling items for member and non-member clearing banks,

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a Federal Reserve Bank will act as agent only. The Board will require that each member and non-member clearing bank authorize its Federal Reserve Bank to send checks for collection to banks on which checks are drawn and except for negligence, such Federal Reserve Bank will assume no liability."

This regulation, to the extent of its permissive provisions, must be taken to have been known to the Citizens and Southern Bank at Atlanta and the Federal Reserve Bank at Atlanta. The check was sent by them and received for collection by the defendant Reserve Bank of Richmond, subject to the regulation which permitted the Richmond Bank to send the check to the drawee Bank of Lumber Bridge. This was done promptly - the check was mailed at Atlanta, December 3th, mailed by the defendant Federal Reserve Bank, December 10th, 1920, and received by the Lumber Bridge Bank, December 11th, 1920, being Saturday.

The Lumber Bridge Bank was the only Bank in the town of Lumber Bridge. There is no suggestion that, at that time, it was not in good standing and credit, or that defendant Federal Reserve Bank of Richmond had any cause to question its solvency or manner of conducting its business. It had made "a par collection" agreement with defendant Bank.

I am led to the conclusion that the defendant Federal Reserve Bank of Richmond was not negligent in sending the check

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to the Lumber Bridge Bank for collection, and that it acted in that respect promptly and in accordance with the terms upon which it accepted and undertook to act as agent in collecting the check.

We are thus brought to the last and determinative averment of negligence: the acceptance by the defendant Federal Reserve Bank of Richmond of the check of the Lumber Bridge Bank on the Greensboro Bank. Preliminary to the decision of this question, it becomes material to ascertain what effect the conduct of the Lumber Bridge Bank had upon the status of the Balfour check and his liability thereon as drawer.

In *Bank vs. Floyd*, supra, it was conceded that by charging the check to the account of the drawer, its depositor, who had to his credit a balance sufficient to pay it and cancelling it, by the Dunn Bank, occupying in that case, pro hac vice the position of the Lumber Bridge Bank, the check was paid and the drawer released.

In Bank vs. South Weymouth Bank, 184 Mass. 49, the note of a customer of the defendant bank, payable at that bank, and due, was sent by the holder, endorsed "for collection and remittance" to the defendant bank. The makers of the note had to their credit and subject to check in the defendant bank, an amount sufficient to pay the note. Describing the conduct of the cashier of the defendant bank, Hammond, J. says:

"He intends as agent of the makers to pay this note to his own bank, the indorsee and holder, and as such entitled to receive payment and discharge the note. He intends as cashier of his own bank to cancel and discharge the note when paid, and then as agent of the makers to hold the paid note for them. After the note has been paid he intends to send the proceeds to the plaintiff. With these intentions he begins. The note is before him. He first draws on a bank in Boston his check as Cashier of the defendant, payable to the order of the plaintiff, for the amount of the proceeds of the note. It is to be observed that this is not the check of the makers, nor is it made by the Cashier as their agent, but in his capacity as agent of the defendant, and in the performance, not of a duty owed by the makers, but of a duty owed by the defendant to the plaintiff. It is not the check by which the note was paid, because none was needed, but was the check by which the proceeds were to be transmitted by the defendant to the plaintiff. He then makes a memorandum of this check upon a block, stamps upon the face of the note, "Paid Oct. - 1901" and perforates it in three places and puts the note, thus stamped and mutilated, in the file with his checks so that a proper record of the transaction may be entered at the

end of the day upon the permanent books. The Cashier, at this time was called to the phone and notified that the makers of the note have made an assignment for the benefit of creditors and is requested by the assignee to hold the account. He withheld the check which he had drawn and undertook to retrace his steps."

In an action by the Bank, owning and sending the note to the defendant Bank, for the proceeds of the note, "in assumpsit for money had and received", the Court held that "prior to the call to the telephone, the note had been paid by the makers to the defendant and that the only remaining duty resting upon the defendant was to remit the proceeds to the plaintiff The note was itself equivalent to a check When the Bank, through its cashier, wrote upon the face of the note, in its own name, as the incorsee and holder, that it was paid, and perforated it and put it in the files as a thing paid, nothing more was to be done as to the payment. By those acts there had been set apart and appropriated, to the payment of the note, so much of the deposit then standing to the credit of the makers as was sufficient for that purpose, just as though the makers had presented to the bank their check in payment of a note due it from them." With appropriate changes and arrangement of the parties, the case is, in all essential respects, on "all fours" with the instant case and the conclusion irresistible the same to which the Massachusetts Court came.

The same conclusion was reached by the Supreme Court of Tennessee in *Milling Company vs. Black*, 120 Tenn. 225, in which it was held that:

"When a check given by a debtor on a certain bank in payment of his debt was by another bank acting as collector for the creditor and payee forwarded for collection or payment to the drawee bank, in which there was more than enough money on deposit to the credit of the drawer at the time the check arrived there to pay the same, whereupon the drawee bank drew its draft upon another bank for the amount of the check and forwarded the same to the collecting bank and charged, cancelled and surrendered the check to the drawer, he was thereby discharged from liability on the debt". In that case it was held that the owner of the original check, by receiving the worthless check, ratified its acceptance by the collecting bank. Corporation Commission vs. Bank, 137 N. C. 697.

It is well settled by these and other authorities, as well as upon principle that when the Cashier of the Lumber Bridge Bank stamped the check "Paid", charged it to his account and delivered it to Balfour, who had to his credit, subject to his check, an amount more than sufficient to pay his check, that the check was paid and his liability as maker or drawer discharged.

The Lumber Bridge Bank on December 14th, 1920, had credit balances as follows: Atlantic Banking & Trust Company, Greensboro, \$6,225.01; American National Bank, \$8,157.00; Merchants National Bank, \$3,000.00; the National Bank, \$2,549.96; Cash, \$4,574.69, Merchants National Bank, Raleigh, \$379.75, aggregating \$16,810.98.

The dealings between the Lumber Bridge Bank and the Atlantic Banking & Trust Company between December 14th and December 18th, did not materially change the state of its accounts, nor does it appear that the available assets of the Lumber Bridge Bank were reduced prior to

December 24th, 1920.

The question is presented - what, upon this state of the case, was the measure or standard of duty owed by the defendant Federal Reserve Bank of Richmond to the plaintiffs, owners of the check, in respect to the receipt from the Lumber Bridge Bank of its check on the Greensboro Bank.

The authorities appear to be practically uniform in holding that, in the absence of any instruction or permission from the owner of the check, or any custom brought to the notice of such owner to the contrary the bank had no authority to accept or receive in payment of the check entrusted to it for collection anything other than money.

Among many other decided cases the following are cited as sustaining this proposition.

In *Ward vs. Smith*, 74 U. S. 447, Justice Field says:

"When the instrument is lodged with the bank for collection, the bank becomes the agent of the payee or obligee to receive payment. The agency extends no further and without special authority an agent can only receive payment of the debt due his principal in the legal currency of the country or in bills which pass as money at their par value, by the common consent of the community." *Midland National Bank vs. Brightwell*, 148 Mo. 358; 71 Am. St. Rep. 608. In *Fifth National Bank vs. Ashworth*, 123 Penn. 212; 2 L. R. A. 402, Paxson, J. says:

"It is safe to say, as a general rule, that when a bank receives a check from one of its depositors for collection, it must return him the check or the money. It is also equally clear that if the collecting bank surrenders the check to the bank upon which it is drawn and accepts the

cashier's check or other obligation, in lieu thereof, its liability to its depositor is fixed - as much so as if it had received the cash. It has no right, unless it is specially authorized to do so, to accept anything in lieu of money."

In that case, W. gave to A. his check on the Penn Bank. On the same day A. endorsed the check to the Fifth National Bank, with whom he was a depositor, which sent the check to the Penn Bank and received in return therefor a cashier's check, delivering to A. his check. The cashier's check was protested for non-payment and the Penn Bank went into liquidation.

The Judge Said:

"The plaintiff (Ashworth) has neither his check nor his money. Watson's account with the Penn Bank was good when the account was charged up to him. I am unable to see, therefore, that the plaintiff has any remedy against either Watson or the Penn Bank."

In National Bank vs. Am. Exch. Bank, 155 Mo. 320; 74 Am.St. Rep. 527, the Court quotes with approval 2 Daniel on Negotiable Instruments (4th Ed.) Section 1625.

In the United States it is quite certain that a banker, or other agent, holding a bill or note for collection, would act at his peril in delivering up a receipt or a check for the amount; and that if the debtor did not pay the amount in money, and the drawer, or endorser, were not duly notified, they would be discharged and the loss would fall on the collecting agent This seems to us the correct doctrine, for the agent exceeds authority in taking the check, and, therefore, acts at his peril, And while it may be, and as a general rule undoubtedly is,

the practice of creditors, in mercantile communities, to take checks in the collection of debts, and frequently to surrender other instruments on receiving them, such a practice on the part of a principal, falls far short of a usage which would permit the agent to do likewise." Bank vs. Cummings, 89 Tenn. 609; 24 Am. St. Rep. 618. There is no evidence of any custom existing either in Virginia or North Carolina, by which collecting banks are authorized to accept from their agents or sub-agents, or from the drawee banks in settlement of collections sent them, anything other than money in settlement of such collections. Plaintiff J. H. Malloy testified that he was engaged in the lumber business and knew "very little about the workings of a bank - did not instruct the Perry Banking Co. - just sent the check down there for credit during the course of business."

I am of the opinion that the defendant Federal Reserve Bank of Richmond was not authorized to accept in payment of the proceeds of the check from the Lumber Bridge Bank, its check or draft on the Greensboro Bank, and that, in doing it, was negligent, or probably to state the situation more clearly, it exceeded its authority and is liable to plaintiffs for the amount of the Balfour check, unless it may reduce the amount by showing that on the date of its acceptance, December 15, 1920, it was impossible for the Lumber Bridge Bank to pay the amount in money or its equivalent.

The Lumber Bridge Bank had, on December 14th, \$16,810.00 and, so far as appears, on December 24, 1920, when it went into the hands of a Receiver, cash \$4,574.00, and which, with balances in other banks, ag-

gregated about \$11,000.00. It held also bills and notes to an amount not stated in the evidence.

It was not until the last named day that a Receiver was appointed. During this time, the plaintiffs were without any remedy against Balfour, whose check was paid on December 14th, or the Lumber Bridge Bank, whose check was held, and is now held, for the proceeds of the Balfour check by defendant Bank.

I am of the opinion that, upon the undisputed facts, the defendant Reserve Bank of Richmond is liable to the plaintiffs for the amount of the Balfour check.

Judgment will be signed that defendant Balfour is not liable as maker or drawer of the check, and that plaintiffs recover of defendant Federal Reserve Bank of Richmond Nine Thousand Dollars, with interest from December 14, 1920, and the cost to be taxed by the Clerk.

Raleigh, North Carolina,

July 1920.

United States District Judge.

FEDERAL RESERVE BOARD

WASHINGTON

August 1, 1922.
X-3492

SUBJECT: Franchise Taxes, Surplus funds, and depreciation charges.

Dear Sir:

With reference to the Board's letter X-3462 of June 29, 1922, enclosing a copy of Counsel's opinion dated June 5, 1922, regarding the proper method of building up surplus funds by Federal Reserve Banks and of determining the amount of franchise taxes payable to the U. S. Government, you are advised that in accordance therewith, those banks which transferred amounts to supersurplus account on December 31, 1920 should recalculate the amount of franchise taxes payable to the Government and the amount transferable to surplus account.

In view of the ruling that the supersurplus account is a bookkeeping entry only and that the law contemplates only one surplus fund, all charges heretofore made against supersurplus account to cover depreciation on bank premises or for reserves for undetermined liabilities, should be reversed. No charges against the normal surplus or supersurplus will be authorized in the future to cover depreciation on bank premises or for the purpose of setting up special reserves, as such charges if made might affect amounts subsequently payable to the Government as franchise taxes.

For your information there is enclosed herewith a statement which shows the necessary adjustments to be made by each Federal Reserve Bank in order that the correct amount may be paid to the Government as a franchise tax and proper credit made to surplus account. It will be appreciated if you will kindly have the figures checked so far as they relate to your Bank, and advise the Board at your early convenience as to whether or not you find them correct. The amounts payable to the Government on account of franchise taxes due for former years should be charged to surplus account on December 31, 1922 before closing of books, and paid to the U. S. Government in accordance with instructions to be issued at a later date.

In view of the fact that no depreciation charges will be made against supersurplus, the Board will review before the end of this year the policy which has been pursued heretofore with reference to depreciation charges on bank premises. It is accordingly desired that your requests for authority to charge off depreciation on bank premises, or to set up a reserve for depreciation, be accompanied with a statement in a form similar to that indicated below, showing separately for the head office and each branch, the cost, estimated market value, and book value (less reserves) of land owned, and the cost to date, estimated replacement cost, and book value (less reserves) of new buildings, either completed or in course of construction, or of remodeled buildings.

LAND

Cost	\$ _____
Estimated market value	_____
Book value (net)	_____

	<u>TOTAL</u>	<u>BUILDINGS IN- CLUDING VAULTS</u>	<u>FIXED MACHINERY AND EQUIPMENT</u>
<u>BANKING HOUSE</u>			
Cost to date	\$ _____	\$ _____	\$ _____
Estimated replacement cost	_____	_____	_____
Book value (net)	_____	_____	_____

In passing upon requests to set up depreciation reserves or to charge off depreciation allowances, the Board will in general permit a charge against current net earnings of not exceeding 2 per cent of the estimated replacement cost of bank buildings, including vaults but excluding fixed machinery and equipment. In case, however, the estimated replacement cost is considerably below the book value, the Board will consider requests from Federal Reserve Banks for permission to write off a depreciation charge in excess of 2 per cent.

The estimated replacement cost, less residual value, of fixed machinery and equipment, such as boilers, engines, dynamos, motors, power pumps, elevators, heating, plumbing, lighting and ventilating systems, pneumatic tubes, refrigeration plants, automatic fire sprinkler equipment, and vacuum cleaners, should be determined and a reserve set aside each year out of current net earnings to cover replacements. Annual additions to this reserve should be based on the estimated life of the machinery and equipment, with a view to the ultimate replacement of the machinery and equipment, but shall in no case exceed 10 per cent of the cost thereof.

No charges against current net earnings will be authorized by the Federal Reserve Board to cover depreciation on land where the estimated market value of the land is equal to or in excess of its net book value.

The estimate of the market value of land and of the replacement cost of buildings either completed or in course of construction and of fixed machinery and equipment, should be obtained from the best available authorities and a copy of the estimates thus obtained enclosed with your request for authority to charge current net earnings with depreciation on bank premises. The estimated replacement cost of buildings including vaults, but excluding fixed machinery and equipment, may be arrived at by determining the mean of two amounts, namely; (1) the total actual cost of construction, and (2) the estimated cost of construction based on the lowest prices that have existed during the last fifteen years.

Where properties have been purchased with the intention of razing existing buildings and of erecting new banking quarters the Board will consider requests for permission to deduct from current net earnings an amount equal to the difference between the cost of the property and the market value of the building site exclusive of improvements.

Advance approval of the Federal Reserve Board shall be obtained for all depreciation and other charges against current net earnings whether in connection with bank premises as outlined above or for other purposes.

Very truly yours,

G o v e r n o r .

LETTER TO ALLCHAIRMEN.

ADJUSTMENTS TO BE MADE IN SURPLUS ACCOUNTS AT END OF 1922 AND ADDITIONAL AMOUNTS
PAYABLE TO UNITED STATES GOVERNMENT AS FRANCHISE TAXES FOR FORMER YEARS.

Federal Reserve Bank	Amounts previously charged to supersurplus to be credited to surplus fund and debited to account originally credited as follows -				Amount to be charged to surplus fund and paid to U. S. Government as franchise tax for former years	Total surplus fund (revised) on Dec. 31, 1922 before closing of books
	Total	Bank premises account	Depreciation reserve on bank premises	Reserve for undetermined liabilities		
Boston	\$ -	\$ -	\$ -	\$ -	\$ 247,349.91	\$ 16,235,807.79
New York	1,000,000	-	-	1,000,000	1,604,549.37	59,592,577.77
Philadelphia	-	-	-	-	36,366.25	17,908,779.79
Cleveland	125,000	125,000	-	-	-	22,634,279.19
Richmond	225,276.50	225,276.50	-	-	20,459.01	11,234,665.60
Atlanta	-	-	-	-	213,628.77	8,899,942.22
Chicago	2,030,000	-	2,030,000	-	710,189.99	30,345,275.43
St. Louis	-	-	-	-	-	9,388,223.25
Minneapolis	-	-	-	-	52,423.36	7,416,054.44
Kansas City	-	-	-	-	208,169.99	9,437,561.82
Dallas	-	-	-	-	-	7,394,097.30
San Francisco	250,000	-	250,000	-	306,925.46	15,142,126.72
TOTAL	\$ 3,630,276.50	\$350,276.50	\$ 2,280,000	\$ 1,000,000	\$ 3,400,062.11	\$215,629,391.32

COMPARISON OF NUMBER AND SALARIES OF EMPLOYEES IN THE FEDERAL RESERVE AGENT'S DEPARTMENT WITH THOSE
IN THE OPERATING DEPARTMENT OF EACH FEDERAL RESERVE BANK AS OF JUNE 30, 1921, and JUNE 30, 1922.

Name of Bank	Federal Reserve Agent's Department				Operating Department				Proportion of salaries in Fed. Res. Agent's Dept. to total salaries		Average salary paid to each employee			
	No. of employ-ees		Salaries		Number of employees		Salaries				Fed. Res. Agent's Dept.		Operating Dept.	
	'21	'22	1921	1922	1921	1922	1921	1922	1921	1922	1921	1922	1921	1922
Boston	29	33	\$ 57,000	\$ 66,030	687	717	\$ 950,160	\$ 1,010,520	5.66%	6.13%	\$1965	\$2002	\$1383	\$1409
New York	106	86	201,380	174,860	2969	2595	4,292,723	3,832,963	4.48	4.36	1900	2033	1446	1477
Philadelphia	36	56	71,500	105,406	881	778	1,104,910	1,015,350	6.07	9.40	1986	1883	1254	1305
Cleveland	31	33	71,272	76,776	1017	911	1,543,227	1,466,060	4.41	4.97	2299	2326	1517	1609
Richmond	23	22	60,140	49,900	688	726	819,220	868,720	6.84	5.43	2615	2268	1191	1197
Atlanta	11	12	20,820	23,520	483	436	596,590	548,140	3.37	4.11	1892	1960	1234	1257
Chicago	71	83	137,240	156,030	1666	1521	2,288,580	2,185,610	5.66	6.66	1932	1879	1374	1437
St. Louis	10	11	23,760	25,520	778	666	1,004,675	890,630	2.31	2.78	2376	2320	1291	1337
Minneapolis	12	12	17,960	22,360	478	437	579,336	570,568	3.07	3.77	1497	1863	1212	1306
Kansas City	15	20	29,940	33,742	872	838	1,232,602	1,234,284	2.37	2.66	1996	1687	1414	1473
Dallas	24	20	58,320	51,759	608	571	856,270	822,357	6.38	5.92	2430	2587	1408	1440
San Francisco	35	32	73,700	80,040	1272	1102	1,855,340	1,700,480	3.82	4.49	2106	2501	1459	1543
SYSTEM (Officers not included)	403	420	823,032	865,993	12,399	11,298	17,123,633	16,145,682	4.59	5.09	2042	2062	1381	1429

FEDERAL RESERVE BOARD

WASHINGTON

X-3494

August 2, 1922

CONFIDENTIAL

SUBJECT: Special Rates on Commodity Paper.

Dear Sir:

It has been proposed that the Board revive the special rates on commodity paper which were first established during the year 1915. Before taking action, however, the Board is desirous of obtaining the opinion of the officers and executive committees of all Federal Reserve Banks as to the advisability of reestablishing special rates on commodity paper. There is enclosed herewith a tentative draft of a letter which it is proposed to send to all Federal Reserve Banks in case the Board should decide to authorize special rates on commodity paper; and your comments, criticisms and suggestions are invited. You are requested also to advise the Board whether your bank would feel disposed to establish a special rate on this class of paper and, if it should, whether in your opinion your member banks generally would be inclined to avail themselves of it.

Very truly yours,

G o v e r n o r .

(Enclosure)

TO ALL FEDERAL RESERVE AGENTS
COPIES TO GOVERNORS.

CONFIDENTIAL TENTATIVE DRAFT.

SUBJECT: Revival of Special Rates on Commodity Paper.

Dear Sir:

Prior to 1913 there were in effect at some of the Federal Reserve Banks special rates on so-called commodity paper. Section VII of Regulation A, Series of 1917, and earlier regulations, defined commodity paper and prescribed the conditions under which such paper would be eligible for rediscount by Federal Reserve Banks. All such special rates were suspended during November and December 1917 and the regulations issued since that time have not contained any special provisions regarding commodity paper.

The Board has considered the matter and has decided that it will, at the request of any Federal Reserve Bank, approve the establishment by the applying bank of a special rate of not less than $3\frac{1}{2}\%$ on commodity paper on which the rate of interest or discount - including commission - charged the borrower does not exceed 6% per annum.

The Board's definition of commodity paper, and the conditions of eligibility applicable to such paper are as follows:

Definition.- Commodity paper is defined as a note, draft, bill of exchange, or trade acceptance accompanied and secured by shipping documents or by a warehouse, terminal, or other similar receipt covering approved and readily marketable, nonperishable staples properly insured.

Eligibility.--To be eligible for rediscount at the special rates, authorized to be established for commodity paper, such a note, draft, bill of exchange, or trade acceptance must also comply with the respective sections of this Regulation A, Series of 1922, applicable to it, must conform to the requirements of the Federal Reserve Bank relating to shipping documents, receipts, insurance, etc., and must be a note, draft, bill of exchange, or trade acceptance on which the rate of interest or discount - including commission - charged the borrower, does not exceed 6 per cent per annum. Paper which is issued or drawn, or the proceeds of which have been or are to be used, for the speculative holding of commodities, as distinguished from the carrying of commodities pending the orderly marketing thereof, is not eligible for rediscount.

The foregoing definition and conditions of eligibility are substantially the same as those prescribed in the Board's former Regulation A, Series of 1917. In approving any special rate pursuant to this letter it should be understood that the Federal Reserve Board reserves the right, which it always reserved when it approved similar rates in the past, to suspend such rate whenever such a course seems desirable.

Very truly yours,

G o v e r n o r .

FEDERAL RESERVE BOARD

WASHINGTON

X-3495

August 2, 1922.

Memorandum for the Staff of the Federal Reserve Board.

The Federal Reserve Bank of Chicago is now occupying its new building, and mail for that bank, or officers thereof, should be addressed as follows:

First Class Mail: Post Office Box 834, Chicago.

All other classes of mail, including mail in sacks:
160 West Jackson Boulevard, Chicago.

John DeLaMater,
Chief Clerk.

FEDERAL RESERVE BOARD

WASHINGTON

X-3496

August 2, 1922.

SUBJECT: Victory Notes Payable December 15, 1922.

Dear Sir:

The Under Secretary of the Treasury has requested the Federal Reserve Board to secure from the Federal Reserve Banks the following information:

1. How many 4-3/4 per cent Victory notes are now held by the Federal Reserve Banks for their own account, and
2. How many of these notes will become payable on December 15, 1922, pursuant to the call for redemption issued under date of July 26, 1922.

The Board would request that you furnish it with this information at your early convenience, in order that reply may be made to the letter of the Under Secretary.

Very truly yours,

G o v e r n o r .

GOVERNORS OF ALL F. R. BANKS
COPIES TO CHAIRMEN.

FEDERAL RESERVE BOARD

WASHINGTON

X-3498

August 7, 1922.

SUBJECT: Reduction in Rate on Special Certificates.

Dear Sir:

There is enclosed herewith for your information copy of a letter received from the Under Secretary of the Treasury which is self-explanatory. You are requested to advise the Board of your attitude toward the proposed reduction from 3 to $2\frac{1}{2}$ per cent in the interest rate on special certificates of indebtedness issued by the Treasury from time to time to the Federal Reserve Banks.

Very truly yours,

G o v e r n o r .

(Enclosure)

TO THE GOVERNORS OF ALL F. R. BANKS
COPIES TO THE CHAIRMEN.

COPY

X-3498a

THE UNDERSECRETARY OF THE TREASURY

WASHINGTON.

August 5, 1922.

My dear Governor:

I received your letter of August 1, 1922, with respect to the proposed reduction in the interest rate on special certificates of indebtedness issued by the Treasury from time to time to the Federal Reserve Banks. I note from your letter that the lowest rate which now prevails at any of the Federal Reserve Banks is a minimum of $2\frac{1}{2}$ per cent on open market purchases of prime bankers' acceptances, and accept your suggestion that in these circumstances it would be more logical to consider a reduction in the rate on special certificates to $2\frac{1}{2}$ per cent, rather than to 2 per cent. I assume that the Federal Reserve Board will take the matter up with the Federal Reserve Banks on this basis, and see no good reason why the Federal Reserve Banks should object to such a reduction, since a one or two day special certificate of the Government ought to be entitled to at least as good a rate as a prime banker's acceptance.

Very truly yours,

(Signed) S. P. Gilbert, Jr.

Under Secretary.

Hon. W. P. G. Harding,
Governor, Federal Reserve Board.

TREASURY DEPARTMENT
Office of the Secretary.
WASHINGTON

August 7, 1922.

The Governor
Federal Reserve Board.

Sir:

You are advised that the Department has referred to the General Accounting Office, Treasury Department Division, for settlement, the account of the Bureau of Engraving and Printing for preparing Federal Reserve Notes during the period July 1 to July 31, 1922, amounting to \$75,559.92, as follows:

	<u>Federal Reserve Notes, 1914</u>					
	<u>\$5</u>	<u>\$10</u>	<u>\$20</u>	<u>\$50</u>	<u>\$100</u>	<u>Total</u>
Boston	--	2,000	--	--	--	\$2,000
New York	118,000	157,000	110,000	17,000	3,000	405,000
Philadelphia ..	13,000	41,000	--	2,000	--	56,000
Cleveland	100,000	22,000	70,000	18,000	--	210,000
Richmond	75,000	20,000	9,000	--	--	104,000
Atlanta	90,000	30,000	7,000	1,000	1,000	129,000
Chicago	74,000	--	--	--	--	74,000
St. Louis	41,000	16,000	8,000	1,000	--	66,000
Minneapolis ...	35,000	15,000	--	--	--	50,000
Kansas City ...	27,000	18,000	7,000	2,000	1,000	55,000
Dallas	41,000	--	4,000	1,000	1,000	47,000
San Francisco..	<u>181,000</u>	<u>77,000</u>	<u>63,000</u>	<u>2,000</u>	<u>3,000</u>	<u>326,000</u>
	795,000	398,000	278,000	44,000	9,000	1,524,000

1,524,000 sheets at \$49.58 \$75,559.92

The charges against the several Federal Reserve Banks are as follows:

	<u>Sheets</u>	<u>Compen- sation</u>	<u>Plate Printing</u>	<u>Materials</u>	<u>Inc.Com- pensation</u>	<u>Total</u>
Boston	2,000	33.30	31.94	24.42	9.50	99.16
New York....	405,000	6,743.25	6,467.85	4,945.05	1,923.75	20,079.90
Philadelphia	56,000	932.40	894.32	683.76	266.00	2,776.48
Cleveland...	210,000	3,496.50	3,353.70	2,564.10	997.50	10,411.80
Richmond....	104,000	1,731.60	1,660.88	1,269.84	494.00	5,156.32
Atlanta	129,000	2,147.85	2,060.13	1,575.09	612.75	6,395.82
Chicago.....	74,000	1,232.10	1,181.78	903.54	351.50	3,668.92
St. Louis...	66,000	1,098.90	1,054.02	805.86	313.50	3,272.28
Minneapolis.	50,000	832.50	798.50	610.50	237.50	2,479.00
Kansas City.	55,000	915.75	878.35	671.55	261.25	2,726.90
Dallas	47,000	782.55	750.59	573.87	223.25	2,330.26
San Francisco	<u>326,000</u>	<u>5,427.90</u>	<u>5,206.22</u>	<u>3,980.46</u>	<u>1,548.50</u>	<u>16,163.08</u>
	1,524,000	25,374.60	24,338.28	18,608.04	7,239.00	\$75,559.92

The Bureau appropriations will be reimbursed in the above amount from the indefinite appropriation "Preparation and Issue of Federal Reserve Notes, Reimbursable", and it is requested that your Board cause such indefinite appropriation to be reimbursed in like amount.

Respectfully,
R. W. Barr,
Acting Deputy Commissioner.

X-3499a

TREASURY DEPARTMENT
Office of the Secretary
WASHINGTON

August 7, 1922.

The Governor
Federal Reserve Board.

Sir:

You are advised that the Department has referred to the General Accounting Office, Treasury Department Division, for settlement, the account of the Bureau of Engraving and Printing for preparing Federal Reserve notes during the period July 1 to July 31, 1922, amounting to \$54.54, as follows:

Federal Reserve Notes, 1918

	<u>\$500</u>	<u>\$1000</u>	<u>\$5000</u>	<u>Total</u>
Atlanta	200	100	-	300
Kansas City	100	500	-	600
San Francisco	-	100	100	200
	<u>300</u>	<u>700</u>	<u>100</u>	<u>1,100</u>

1,100 sheets at \$49.58 \$54.54.

The charges against the several Federal Reserve Banks are as follows:

	<u>Sheets</u>	<u>Compen- sation</u>	<u>Plate Printing</u>	<u>Materials</u>	<u>Inc.Com- pensation</u>	<u>Total</u>
Atlanta	300	\$5.00	\$4.79	\$3.66	\$1.42	\$14.87
Kansas City..	600	9.99	9.58	7.33	2.85	29.75
San Francisco	<u>200</u>	<u>3.33</u>	<u>3.20</u>	<u>2.44</u>	<u>.95</u>	<u>9.92</u>
	1,100	\$18.32	\$17.57	\$13.43	\$5.22	\$54.54

The Bureau appropriations will be reimbursed in the above amount from the indefinite appropriation "Preparation and Issue of Federal Reserve Notes, Reimbursable", and it is requested that your Board cause such indefinite appropriation to be reimbursed in like amount.

Respectfully,

R. W. Barr,
Acting Deputy Commissioner.

FEDERAL RESERVE BOARD

WASHINGTON

August 9, 1922.
X-3500

SUBJECT: Bank Salaries.

Dear Sir:

The Board desires to adopt a uniform policy with respect to considering salary recommendations submitted by the Federal Reserve Banks. Accordingly, until further notice, at the close of each year the Board will consider and review all salary recommendations for officers and employees for the ensuing year. Departmental schedules should be prepared containing the names of all officers and employees showing the present salaries and proposed adjustments and forwarded to the Board on or before December 15th of each year.

The Board is of the opinion that the management of the Federal Reserve Banks should determine all salary increases which do not bring the annual salary to more than \$2,500 and adjustments affecting such salaries need not be submitted to the Board before becoming effective. The salaries of all employees, however, will be reviewed annually by the Board as provided above.

It is expected by the Board that salaries approved for more than \$2,500 will obtain throughout the year, except in exceptional cases where adjustment may be necessary.

While it is recognized that it is necessary for a Federal Reserve Bank to meet the scale of salaries paid by the commercial banks located in the same city, it is most necessary that the strictest economy and efficiency be exercised by the management in the operation of the Federal Reserve Banks.

Very truly yours,

G o v e r n o r .

TO ALL FEDERAL RESERVE AGENTS.

FEDERAL RESERVE BOARD
WASHINGTON

August 10, 1922.
X-3501

SUBJECT: Methods used in Collecting Items Drawn upon
Non-par Banks

Dear Sir:

It has come to the attention of this office that one or more of the Federal Reserve Banks have somewhat modified their procedure and methods in the matter of collecting items drawn upon non-member banks which decline to remit at par. In order to make an analysis of the situation obtaining in this respect as of this date, this letter is sent to all Federal Reserve Banks, with the request that they furnish a statement in detail, showing the banks in each District which decline to remit at par and information as to the methods used by the Federal Reserve Banks in making these collections. We are particularly interested in ascertaining at this time to what extent items are collected by messengers or agents of a Federal Reserve Bank through presentation at the counter.

Very truly yours,

Wm. W. HOXTON,
Secretary.

TO THE GOVERNORS OF ALL FEDERAL RESERVE BANKS.

x-3503

THE FARMER AND THE FEDERAL RESERVE SYSTEM

1919 - 1921.

E. L. Sherman.

X-3503

"The Farmer and the Federal Reserve System" was written as his Harvard thesis by Mr. E. L. Sherman, a recent Harvard graduate and the son of a Montana banker.

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OFFICIAL PUBLICATIONS.

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2. The Federal Reserve Bulletin, 1919-1922.
3. The Annual Report of the Federal Reserve Board, 1919-1920.
(The 1921 Report was not available.)
4. The Congressional Record, 1919-1922.
5. The Report of the Comptroller of the Currency, 1920.

PERIODICALS.

1. American Economic Review, 1921.
2. Annals of the American Academy of Political and Social Science, January, 1922.
3. Commercial and Financial Chronicle, 1919-1922.
4. Commercial West, 12 November, 1921.
5. Literary Digest, 1920-1921.
6. Manufacturer's Record, 1919-1922.
7. Nation, 1920.
8. New Republic, 1919-1922.
9. New York Times Index, 1919-1921.
10. Non-Partisan Leader, (The National Leader), 1920-1922.
11. Review of Economic Statistics, 1919-1922.

MISCELLANEOUS.

1. Hearings of the Joint Commission of Agricultural Inquiry as reported in the NEW YORK TIMES. Unfortunately the Commission's report was unavailable as a whole, but the COMMERCIAL AND FINANCIAL CHRONICLE of 7 January, 1922, contains a summary.
2. Letters.
3. Minneapolis Pamphlet; speech of Governor Harding at Charlotte, N. C., 22 September 1921. Published by Federal Reserve Bank of Minneapolis.
4. Moulton, H. G. Financial Organization of Society, Chicago, 1921.

"Whether justified or not, there is a belief on the part of the farmer that he is not receiving a square deal at the hands of the Federal Reserve System." 1

"The farmers feel that they have been subject to discrimination in the matter of credit." 2

The above quotations, one setting forth a general feeling, the other voicing a definite and specific criticism, state most succinctly the sentiment that a great many farmers hold today toward the Federal Reserve System and especially toward the Federal Reserve Board. This thesis is an attempt to find out so far as it is possible what is back of this feeling; and to assess this criticism (and other minor ones) for their justice and truth.

In the far-away and, from this point of vantage, halcyon days before the war, the United States adopted a new banking system. 3 This new Federal Reserve System was a direct outgrowth of the panic of 1907, 4 and was designed, as the title of the act indicates, 5 primarily to improve the conditions of commercial banking. Perforce, from our banking organization, it had to

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1. Senator Kenyon, Congressional Record, 16 Jan. 1922, p.1455
 2. H. R. Mussey, "The Farmers and Congress", Nation, 5 Jan. 1921, p. 12
 3. Act of 23 Dec. 1913.
 4. W. P. G. Harding, "The Federal Reserve System - What It Is and What It Is Not." Address at Charlotte, N. C. 22 Sept. 1921, published by Federal Reserve Bank, Minneapolis, p. 3.
 5. "An Act ... to afford means of rediscounting commercial paper" Index-Digest of the Federal Reserve Act and Amendments. published by Federal Reserve Board 1915. p. 1.

have a great deal to do with financing agriculture; and consequently the Act provided, as an exception to the general rule that paper to be rediscounted "must have a maturity at the time of discount of not more than ninety days" that "notes, drafts, and bills drawn or issued for agricultural purposes or based on live stock and having a maturity not exceeding six months may be discounted in an amount to be limited to a percentage of the assets of the Federal Reserve Bank, to be ascertained and fixed by the Federal Reserve Board." ¹ And, in addition, to meet another and quite different agricultural credit need, the Act ² gave permission to national banks to "make loans secured by improved and unencumbered farm land." Thus to the farmer the new system appeared as a distinct gain, and the passage of the Federal Reserve Act was tantamount to opening the gates of the "Promised Land." . . . the users of credit, especially the agriculturalists calling themselves the people, said: "The Federal Reserve System shall make the country banker-panic proof. . . . Never again shall an honest man with the earth's produce for security be unable to borrow at the bank on the specious ground that there is no more credit." ³ "The Federal Reserve Bank system,

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1. Section 13 of the Federal Reserve Act. Index-Digest of the Federal Reserve Act and Amendments, published by Federal Reserve Board 1915 p. 15 In 1915 the Board set the percentage named at 99%, and has never changed it, proof of the Board's wish to help agriculture. Gov. Harding in a letter to Senator Smoot, Federal Reserve Bulletin. Aug. 1921, p. 899.
 2. Section 24, *Ibid* p. 25.
 3. Garet Garrett, in New Republic. 3 Nov. 1920. p. 233-5

which controls the issue of currency and dispenses credit to the bankers, was created to dominate the nation's banking policy; and the Federal Reserve Board, which governs the system, was to see that credit should become a people's commodity, subject to the people's interest." 1

But, unhappily for the farmer and unfortunately for the peace of mind of the rest of us, the millenium which the Federal Reserve Act was popularly supposed to have inaugurated had not (and has not yet) come. The war and its aftermath for a time concealed this, but at last the truth came out. As a result we find the farmer today as loud in his denunciation of the banks as he ever was in the old days. "Hard times" are the words most often upon his tongue, and with them are excoriations of the Federal Reserve Board and appeals to Congress for help. In these complaints is an added bitterness, coming from disappointed hopes. The new banking system, of which so much had been expected, seems only to have made matters worse, to be simply another and more efficient and powerful instrument in the ruthless hands of "the money trust". Consequently the attack is directed principally - almost exclusively in fact - upon the Federal Reserve System and especially upon the heart of the system, the Federal Reserve Board. Indeed, it is not too much to say that the attack is solely upon the Board;²

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1. Garet Garrett, in New Republic, 3 Nov. 1920. p. 233-5
 2. Gov. Harding recognizes this clearly. In an address at Charlotte, N. C. 22 Sept. 1921 he said: "This Act is admitted to be a great constructive piece of legislation and is applauded both by friends and critics of the Federal Reserve System." The speech has been published as a pamphlet by the Federal Reserve Bank of Minneapolis.

the attackers frequently and commonly take scrupulous pains to make clear that they criticize not the system, but the Board and its administration. As an example we find Senator Heflin of Alabama saying: "We created the greatest banking system that ever was devised by the genius of man; a system under which no power can produce a panic if the system is honestly administered... The system was intended to be a panic proof banking system, and it is such when honestly and intelligently administered."¹ Likewise another critic writes:² "It (the Federal Reserve Act) is one of the greatest pieces of legislation ever placed upon the statute books ... "And the Manufacturer's Record of Baltimore, Md., bitterest and most uncompromising of critics, scarcely ever mentions the system; it is always "the action of the Federal Reserve Board", or, "the Board's deflation policy." ³

There is in the attack a vast amount of empty vapid and spouting - much big talk with but little meaning; but there are at the same time certain very definite criticisms.⁴ The chief, of course, is that the Board has discriminated against agriculture in granting of credit. Then, there is the charge that the Board

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1. Congressional Record, 23 Feb. 1922, pp. 3275-82 Senator Heflin Ibid 20 Feb. 1922, p. 3100-6.
 2. Pres. Naktimen of the City National Bank of Ft. Smith, Ark. in Manufacturer's Record 1 July 1920 p. 131.
 3. See also Senator Harris, Congressional Record, 15 Jan. 1922. p. 1303; and Note 2 on preceding page.
 4. For some typical expressions of the criticisms see: for the first

has exacted usurious rates of discount, leading to enormous earnings and "profiteering." And as a corollary to this, it is charged that the Board has been unduly extravagant in both its building and salary policies.

This, then, is the farmer's case, and these are his criticisms, the specific expressions of the general feeling voiced by Judge (then Senator) Kenyon: "Whether justified or not, there is a belief on the part of the farmer that he is not receiving a square deal at the hands of the Federal Reserve System." 1

Adequately to deal with these criticisms, to pass upon them and assess them for their worth, it is necessary to go back into the dim past - "dim" advisedly, for two or three years ago is more remote than fifty - and find out, if possible what gave rise to them.

Whistles and bells announced on 11 November 1918 the end of the war, and foretold also the end of the war-time period of banking. The essence of that banking lay in making the needs of the Treasury instead of generally accepted banking theory and practise the

4. Cont.

Senator Heflin in Congressional Record, 20 Feb. 1922. Manufacturer's Record, 20 Nov. 1919; for the second: "Heflin, Congressional Record, 6 Jan. 23 Feb. 1922, and Manufacturer's Record, 13 May 1920; for the third: Heflin, Congressional Record, 6 Jan. 1922 and Watson, Ibid, 7 March. In each case the charge is laid against the Board, displaying an incredible ignorance of the provisions and operations of the Act.

1. Reference as before. This statement is the exception proving the rule that it is the Board and not the system that is under fire.

determining factor in all operations.¹ The consideration controlling the system's discount policy was not the condition of the money market, but the absolute necessity of aiding the Government Treasury to float great issues of long-term bonds and short-term certificates.² The discount policy of the Federal Reserve System became to all intents and purposes a part of the Treasury's loan policy, and the system temporarily yielded up its normal function of regulating credit.³ Obviously such a policy was dictated by expediency, and as to its wisdom there is a divided opinion. Governor Harding himself has said; "The Federal Reserve Board adopted a policy in order to assist in the war financing which was economically unsound."⁴ Discount rates were held artificially low,⁵ and in addition preferential rates were given paper secured by Government bonds and certificates as against purely commercial paper.⁶ Thus the Federal Reserve Bulletin for January 1919 (p. 98) gives the following table of discount rates in effect at the end of 1918:

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1. Federal Reserve Bulletin, Oct. 1919, p. 10 said, "Their (the Federal Reserve Banks) discount policy, in particular, has been shaped first with the view of facilitating the placement of the great issues of both long-term and short-term obligations brought out by the Treasury and secondly with the view of stabilizing the market for Liberty Bonds."
 2. A. C. Miller. "Federal Reserve Policy" American Economic Review June 1921 p. 185. See also the above note.
 3. *Ibid* p. 185.
 4. At Joint Hearings of Senate House Committees on Agriculture, 3 Dec. 1920. Quoted by Miller, as above, p. 185. For a defense of the policy see Federal Reserve Bulletin, Oct. 1919. p. 910.
 5. "The discount rates of the Federal Reserve Banks during the year 1919 were below the market rates..." Gov. Harding - Minneapolis Pamphlet, p. 13
 6. Miller, *Ibid*. p. 186. See also Federal Reserve Bulletin Oct. 1919. pp. 943-4 for a short review, "Discount Rates of the Federal Reserve Banks during the War Period, "in which this is well brought out.

DISCOUNT RATES OF EACH FEDERAL RESERVE BANK
APPROVED UP TO 31 DECEMBER 1918

F. R. Bank	MATURITIES								
	Discounts					Trade Acceptances			
	Within 15 days, inclu- ding mem- ber banks' notes	16-60 days	61-90 days	Agricultur- al & Live- stock paper over 90 days	Secured by Govern- ment War Paper within 15 days	1-60 days	61-90 days		
Boston	4	$4\frac{3}{4}$	$4\frac{3}{4}$	5	4	$4\frac{1}{2}$	$4\frac{1}{2}$	$4\frac{1}{2}$	$4\frac{1}{2}$
New York	4	$4\frac{3}{4}$	$4\frac{3}{4}$	5	4	$4\frac{1}{2}$	$4\frac{1}{2}$	$4\frac{1}{2}$	$4\frac{1}{2}$
Philadelphia	4	$4\frac{3}{4}$	$4\frac{3}{4}$	5	4	$4\frac{1}{2}$	$4\frac{1}{2}$	$4\frac{1}{2}$	$4\frac{1}{2}$
Cleveland	$4\frac{1}{4}$	$4\frac{3}{4}$	$4\frac{3}{4}$	$5\frac{1}{2}$	4	$4\frac{1}{2}$	$4\frac{1}{2}$	$4\frac{1}{2}$	$4\frac{1}{2}$
Richmond	$4\frac{1}{2}$	$4\frac{3}{4}$	$4\frac{3}{4}$	5	$4\frac{1}{2}$	$4\frac{1}{2}$	$4\frac{1}{2}$	$4\frac{1}{2}$	$4\frac{1}{2}$
Atlanta	$4\frac{1}{4}$	$4\frac{3}{4}$	$4\frac{3}{4}$	5	4	$4\frac{1}{2}$	$4\frac{1}{2}$	$4\frac{1}{2}$	$4\frac{1}{2}$
Chicago	4	$4\frac{3}{4}$	$4\frac{3}{4}$	$5\frac{1}{2}$	4	$4\frac{1}{2}$	$4\frac{1}{2}$	$4\frac{1}{2}$	$4\frac{1}{2}$
St. Louis	4	$4\frac{3}{4}$	$4\frac{3}{4}$	$5\frac{1}{2}$	4	$4\frac{1}{2}$	$4\frac{1}{2}$	$4\frac{1}{2}$	$4\frac{1}{2}$
Minneapolis	$4\frac{1}{2}$	$4\frac{3}{4}$	5	$5\frac{1}{2}$	4	$4\frac{1}{2}$	$4\frac{1}{2}$	$4\frac{1}{2}$	$4\frac{1}{2}$
Kansas City	$4\frac{1}{2}$	5	5	$5\frac{1}{2}$	$4\frac{1}{2}$	$4\frac{1}{2}$	$4\frac{3}{4}$	$4\frac{3}{4}$	$4\frac{3}{4}$
Dallas	$4\frac{1}{2}$	$4\frac{3}{4}$	5	$5\frac{1}{4}$	4	$4\frac{1}{2}$	$4\frac{1}{2}$	$4\frac{1}{2}$	$4\frac{1}{2}$
San Francisco	$4\frac{1}{4}$	5	5	$5\frac{1}{2}$	$4\frac{1}{2}$	$4\frac{1}{2}$	$4\frac{3}{4}$	$4\frac{3}{4}$	$4\frac{3}{4}$

Given the policy illustrated and indicated by the foregoing table, and the inevitable result is currency and credit inflation, ¹ especially since these low discount rates were contemporaneous with market rates centering around 6%. ² Under such circumstances member banks could engage in rediscount operations at a profit, directly contrary to the orthodox theory of rediscounting. ³ Consequently we find that the system as a whole, on 29 November 1918 held total gold reserves of \$2,065,213,000, total discounts of \$1,815,195,000 (5/7 of them secured by government war obligations), total bills bought in the open market of \$375,341,000. and enough other items to bring the total of earning assets up to \$2,312,359,000; while Federal Reserve notes in actual circulation amounted to \$2,568,768,000. ⁴

The armistice might very naturally be expected to have put an end to this anomalous situation. But it did not. Financially speaking, the war did not end with the armistice, nor even with the new year, but went on for six or eight months

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1. J. S. Davis "World Banking and Currency: A Review of Recent Developments." Review Economic Statistics, Aug. 1920, p. 213.
 2. For market rate see Federal Reserve Bulletin, Jan. 1919, p. 76.
 3. Harding, W. P. "The principle is well established that in theory the Federal Reserve Bank discount rate should be slightly in excess of current rates." Annals of American Academy of Political & Social Sciences. Jan. 1922, p. 184. See him to the same effect in hearings of Joint Commission of Agricultural Inquiry. New York Times. 5 Aug. 1921, p. 12.
 4. Federal Reserve Bulletin. Jan. 1919. p. 87-8.

longer. 1 And as long as it continued the hands of the Federal Reserve Board were shackled, with the result that the discount market ran wild. In place of the expected business recession - the Federal Reserve Bulletin for February 1919² had declared confidently: "Business recession, indeed, is the primary economic phenomenon of the moment... That the process of liquidation has begun is not to be doubted by any close observer of existing conditions". - which proved to be but a temporary slump, a mere breathing spell, a tremendous "boom" developed. The war-time price and credit controls, such as the War Industries Board, War Trade Board, &c, were removed and a seller's market speedily took rise. "Inflation was becoming cumulative and systemic in its effect, and pervading the whole body economic." 3 The Board saw the dangers of the situation, but could take no positive action, as Treasury needs continued to dominate affairs. 4 However, it could, and did, issue warnings, - a vain testing of the theory that the credit situation could be controlled without advancing the Federal Reserve Banks' discount rates. 5 Then, toward the end of 1919 the Treasury's war financing was com-

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1. Gov. Harding. Minneapolis Pamphlet, p. 13. Gov. Strong of New York Federal Reserve Bank, "We could not leave the Treasury out of consideration in 1919, for the war was not over from a financial point of view." Hearings, Joint Commission Agricultural Inquiry, N. Y. Times, 9 Aug. 1921, p. 15.
 2. P. 103
 3. Miller. As before, p. 187
 4. Ibid. p. 189
 5. W. P. Harding. Address to Chamber of Commerce, Cleveland, Ohio. 16 Sept. 1920. Published as pamphlet. p. 5.

pleted¹ and the Federal Reserve Board and Banks were at last free to deal with the situation. Said the Federal Reserve Bulletin at the time,² "... the disappearance of the Treasury from the long term loan market and the rapid reduction in its requirements for short term accommodation foreshadows the approach of the time when the financial operations of the Government will cease to be the important factor in shaping Federal Reserve Bank policies and rates which they have been. A review of all the conditions in the banking situation has confirmed the Board in the view that in the application of its discount policy an advance of rates should no longer be deferred." Accordingly "early in November the Federal Reserve Banks advanced their rates to the extent of about one-half of 1 per cent."³ Thus did the system signalize its reassumption of control over the discount market.

Indeed, it was high time. The preceding ten months of readjustment from war to peace were marked by abnormal conditions on every hand. "Prices are very high; there has been great expansion of bank credit; extravagant expenditure, both public and private, is found on every hand ... Economy has not been the order of the day and inflation has been the result."⁴ - such was

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1. J. S. Davis - as before, p. 225. "In consequence of this improvement the first increases in the discount rate were made, and followed gradually by others."
 2. Nov. 1919, vol. 5, p. 1011.
 3. Federal Reserve Bulletin, Dec. 1919, p. 1106.
 4. C. J. Bullock, "Economic Conditions Since the Armistice." Review of Economic Statistics. December (1919) Supplement.

the record of the year. A few figures will bring this out most clearly:

Index Numbers of Wholesale Prices.¹
(Average 1913 = 100)

Year	Month	Farm Products	Animal Products	Consumer's Goods	Producer's Goods	All Commodities
1913	October	240	211	214	204	205
1919	January	234	203	216	196	203
	April	246	224	214	214	203
	July	261	233	230	230	219
	October	253	212	225	223	223
	December	253	209	244	229	233

Holdings of Discounted Paper by F. R. Banks
on last Friday of each Month, 1919²

Month	Amount	Month	Amount
January	\$1,601,128,000	July	\$1,867,602,000
February	1,879,320,000	August	1,815,834,000
March	1,886,240,000	September	1,882,282,000
April	1,950,412,000	October	2,123,547,000
May	1,989,392,000	November	2,214,139,000
June	1,813,040,000	December	2,194,878,000

1. Federal Reserve Bulletin. December 1919, p. 1159; January 1920, p. 109.
2. Federal Reserve Bulletin, for 1919.

Federal Reserve Notes in Actual Circulation.
Last Friday in each Month, 1919.¹

Month	Amount	Month	Amount
January	\$2,450,729,000	July	\$2,504,497,000
February	2,472,307,000	August	2,530,629,000
March	2,521,776,000	September	2,655,354,000
April	2,549,552,000	October	2,752,376,000
May	2,519,292,000	November	2,852,277,000
June	2,499,130,000	December	3,057,646,000

Before reaching this point it will doubtless have been observed that in the preceding outline of the great inflationary movement following upon the Armistice, continuing through the year, and receiving its first slight check only in November, the farmer has not been mentioned at all. This is not to be wondered at, for the farmer had at that time but little to say, and that little had still less to do with the Federal Reserve Board. The Department of Agriculture sent out a questionnaire to farmers in the West and Northwest asking them what their biggest problem was, and received the following answers: ²

Labor	682
Improved Farm Practises	637
Marketing	309
Better Organization for Farmers	55
Financial Assistance	21
Roads	14
Repeal of Daylight Saving	9
Schools	1

1. Federal Reserve Bulletin for 1919.
2. Literary Digest 21, Feb. 1920, p. 19.

Evidently, the Federal Reserve Board and its credit policy were not weighing heavily upon the farmer in 1919. Indeed, why should they? The wheat and corn crops were larger than those of 1918; and while the cotton crop was a million bales less, its money value was high.¹ The value of all crops was \$15,873,000,000 - 10% greater than the corresponding figure in 1918.² The following short table will give a further idea of the condition of agriculture during this year:

Prices of Leading Farm Products, 1919³

Commodity	Low	High	Month	December
Winter Wheat	\$2.35 per bu.	2.75	May	2.45
Corn	1.37 " "	1.92	August	1.45
Cotton	.255 " lb.	.40	December	.40
Wool	1.07 " "	1.25	November	1.25
Cattle	15.46 " cwt.	18.51	March	17.07

And to throw somewhat more light upon matters, individual deposits in national banks stood at \$13,314,015,000 on 17 November 1919, an increase of over 2 1/2 millions over the corresponding figure for the previous year.⁴ There were 5 1/2 million automobiles in use,

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1. C. J. Bullock, as before.
 2. W. Berridge, "Statistical Summary of 1919" in Dec. (1919) supplement to Review Economic Statistics.
 3. Federal Reserve Bulletin, February 1920, p. 169-70.
 4. Report of Comptroller of Currency, 1919, vol. 1. p. 20

as against 4 1/2 million in 1918.¹ And farm land values were increasing, the average for average grade plowed land being \$74.31 per acre, as against \$65.35 a year before and \$62.17 in 1917.²

The farmer had no complaint against the Federal Reserve System in 1919; or, if he did have one, he hugged it to himself and did not voice it - but that is not the farmer's way. And as proof conclusive that in 1919 the word was "All's right with the world" let us quote Senator Heflin, a faithful spokesman in the agricultural interest. When delivering one of his daily attacks upon the Federal Reserve Board, early in 1922, he said: "The banking system under this reserve board, ... enabled us to fight and win the fight in 1919:"³ the system was working "like a Corliss engine"³ (the Senator's simile) and there was no objection to it at all; "we did not need money in the South, for cotton was bringing a good price, business was moving along smoothly, the Federal Reserve Board was functioning properly, and Wall Street stood afar off and did not control it." ³

But the Eden pictured by Senator Heflin was drawing to a close. The slight changes in discount rates made in November of 1919 had been merely a fore-taste of what the new year was to bring. The Board and the Banks were coming back into their own, and January of 1920 saw a sweeping change in rates. Those upon

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1. World Almanac, 1920, p. 266.
 2. New York Times, 23 April 1919, p. 27.
 3. Cong. Rec. 23 Feb. 1922, p. 3275-32

discounts secured by war obligations advanced to $4 \frac{3}{4}$ and $5 \frac{1}{2}$ %; on acceptances to 5 and 6 %; and on discounts unsecured or secured otherwise than by war obligations (including 90-180 day agricultural and livestock paper) to 6%.¹ The increases were published by the Federal Reserve Banks, starting 21 January; there could be no reasonable doubt as to their object, for the Federal Reserve Bulletin said in speaking of them: "They are, in brief, an effort to restrict the rapid growth of credit to which attention has been called in recent weeks."² In addition, in April, the Federal Reserve Act was amended at the Board's request so as to permit the Banks to establish basic lines of credit for members and impose progressive rates for discounts in excess of the basic line amounts, and four of the Banks speedily entered upon an exercise of the new powers.³ And, as a final touch, to leave no stone unturned, the Board urged the banks, regional and member alike, to discriminate, when loaning, between speculative and commercial loans, and between loans for essential commercial purposes and those for other uses.⁴

The net, and indeed the intended, result of these activities was first a check, and then a halt to inflation. Price indexes reached their climax in April and May, and in the second quarter of the year

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1. Federal Reserve Bulletin, Feb. 1920, p. 211.
 2. Federal Reserve Bulletin, Feb. 1920, p. 118.
 3. J. S. Davis: "World Banking & Currency: A Review of Recent Developments", Review of Economic Statistics, Aug. 1920, p. 217. Annual Report, Federal Reserve Board, 1920, p. 55.
 4. Davis, as before, p. 219. Also his references: Federal Reserve Bulletin, Feb. 1920, p. 116, 118; June, 1920, p. 580, 583.

liquidation began,¹ to be reflected in the Federal Reserve Banks' accounts in the fall, as the total of bills discounted reached a peak in October of \$2,301,297,000,² and then fell off gradually.

Then it was, when prices began to fall and business began to slacken under the consumer's strike and consumer's speculation, then it was, when the long delayed liquidation materialized, that the farmer gave tongue to his grievances and made the welkin ring with his denunciations and outcries against the Federal Reserve Board. From that day to this there has been scarcely a pause in the clamor.

The rise and progress of the feeling which developed into something not far different from implacable hatred is an exceedingly interesting and instructive study. The first trace of discontent is to be seen late in 1919 when the cotton interests complained that the Board was using its vast authority to hold down the price of cotton.³ The root of the trouble at this time was a circular issued by the Federal Reserve Bank of Richmond, stating that no loans would be made on warehouse receipt collateral, unless the receipts contained a statement of the grade of cotton represented: this because cotton grades vary considerably, and because with a fluctua-

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1. Bullock: "Review of Second Quarter of 1920", Review Economic Statistics, June 1920, p. 173.
 2. See chart, p. 28a.
 3. Mfrs. Record, 20 Nov. 1919, p. 93-4

ing market - such as then existed - a larger margin for safety was necessary. All this is brought out in a letter¹ from Governor Harding of the Reserve Board to Senator Smith of South Carolina - a letter which contained in addition to this information the entirely proper declaration that the Federal Reserve Board was not to be used to allow the withholding of cotton from the market in order to force prices to an unreasonable level. From this apparently trivial and innocent circumstance the feeling against the Board took rise - though reference to the table given on page 13 discloses that cotton was still rising and reached its high figure for the year a month later.

Two weeks later, after the first slight increase in discount rates, the Manufacturer's Record struck a somewhat different note, when it said editorially: "We do not know that inflation is such a dreadful thing as to require arbitrary deflation as a cure."²

Then, when the more considerable changes of 21 January were inaugurated, the pack gave full tongue and the hunt was on. The first cry was over the slump in the prices of Liberty Bonds and Victory Notes which followed.³ This was the original grievance, one, it may be said in passing,

1. Given in Mfrs. Record, 20 Nov. 1919, p. 113.

2. 4 Dec. 1919, p. 120.

3. Starting January & continuing through the spring. See Federal Reserve Bulletin, vol. 6. May, 1920, p. 446. June 1920, p. 555.

which is not yet forgotten by any means.¹ According to one very earnest critic popular confidence in Government securities was shaken, and the spirit of thrift and saving dealt a hard blow - "the people do not say anything, but it is deep in their hearts."² That last is not exactly accurate, for "the people" said plenty - week after week the Manufacturers Record pounded away along the line of "The Action of the Federal Reserve Board in Deflation and in Getting Government Bonds out of the Banks Endangers National Honor."³

Meantime the repercussion was felt in the halls of Congress. On 29 January, Representative Luce of Massachusetts delivered a short warning against the dangers of inflation and overissue of Federal Reserve Notes.⁴ It is the swan song of another and earlier phase of criticism of the Board. Already forces were at work preparing a new and immeasurably more formidable assault upon the System, and on 9 February the opening gun was fired - Senator Gronna of North Dakota introducing, and the Senate passing unanimously, a resolution to investigate alleged withdrawals of grain credit, leading to a depression in the grain market.⁵

But the principal criticism remained that relating to

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1. In a private letter written in the West in March 1922 this was brought up as "the bitterest criticism".
 2. Pres. Nakdimen of City Natl. Bank, Ft. Smith, Ark. In Mfrs. Rec. 1 July 1920, p. 131.
 3. An editorial, 12 Feb. 1920, p. 93.
 4. Cong. Record, 29 Jan. 1920, pp. 2199-2201.
 5. See N. Y. Times, 10 Feb. 1920, p. 25.

the increased rates and consequent fall in Liberty Bonds and Victory Notes - a criticism by small country bankers, rather than by farmers proper. This remained true as long as prices held firm - when they began to tend downward louder and ever louder "howls" went up from a growing circle of unfortunates. A few figures will aid materially in fixing the time of the new outcry:

Index Numbers of Wholesale Prices, 1920¹
(Average 1913 - 100)

Month	Farm Products	Animal Products	Consumer's Goods	Producer's Goods	All Commodities
January	246	213	240	236	242
April	246	196	257	274	263
July	235	184	250	251	250
October	182	172	203	209	208
December	144		171	171	171

The break, it will be seen, came in the quarter between April and July. Corn was at a peak of \$1.96 per bushel in May - in October it was only 87¢; cotton fell off from 41¢ per pound in April to 20¢ in October; winter wheat, \$2.97 a bushel in May, brought but \$2.20 in October; wool, which was \$1.23 per pound in March, by October had declined to 72¢, and so on through the list.² The indignation and soreness at heart of the agricultural interest was a bit slow in attaining adequate and organized

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1. Federal Reserve Bulletin, December, 1920, p. 1326; Feb. 1921, p. 210-11
 2. Federal Reserve Bulletin, Dec. 1920, vol. 6, p. 1327.

expression, but by late summer it had begun to be heard.¹ The drop in wool was perhaps the first to bring results (June),² the wheat interest was next in line (September)³, and then (in October), the South and cotton let go with a terrific bang.⁴ The lid was off, the sky was the limit, and in good old hammer-and-tongs, free-for-all style the critics bent to their work. Such items as the following came to be seen in the papers:⁵

"Fiery threats of a general agricultural strike unless the Federal Reserve Board is more generous in allowing extension of credits to farmers were made here this afternoon at a meeting of farmers from Southern and Western States. The farmers were vigorous in expressing indignation over the Board's present policy ... The Federal Reserve Board was hammered right and left. Alfred Tumlin of Cove Springs, Ga., said it was 'an octopus' and was 'robbing the people' ... 'There is a panic here right now, and it was made by the Federal Reserve Board'" -
 stated
 so/ex-Senator Marion Butler of North Carolina. In December it was said, in regard to farmers' complaints as to discrimination and restriction, "these charges have been made many times within the last three months, beginning ... in October".⁶ Further quotation would only lengthen out unduly a familiar story. Suffice it to say that, the pebble having been dropped into the pool,

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1. The Commercial & Financial Chronicle, recording the principal attacks on the Federal Reserve, shows that the murmuring started only in the third quarter of 1920 and reached full size only in the fourth. See Index for 1920.
 2. N. Y. Times 4 June 1920, p. 13; &c.
 3. Ibid, 25 Sept. 1920, p. 16.
 4. Ibid, 13 Oct. 1920, p. 15.
 5. N.Y. Times, 13 Oct. 1920, p. 15. Reference is to a meeting in Washington, D. C. on 12 Oct.
 6. N.Y. Times, 25 Dec 1920, p. 3.

the waves it created were not slow in spreading to the farthest shores. During the rest of 1920, throughout the whole of 1921, and even into 1922 the chorus continued undiminished. Of late, however, it has been to some degree allayed by the recent increases in the price of farm products. For our purpose it is unnecessary to follow through to the very end the attacks and criticisms; the conditions producing them, as well as their rise and early progress have been set forth, and the later attacks merely continued along the road that we have seen begun.

The agitation was nothing if not productive of tangible results. These were, in the main, threefold, and all had, to a greater or lesser degree, some connection with the Federal Reserve System. The first was a revival of the War Finance Corporation. This came about in December of 1920,¹ when the murmurs and outcries against the Board had had time to spread throughout the country and then react in the form of demands upon senators and representatives in Congress. The second was the establishing of a Joint Commission of Agricultural Inquiry, in the early summer of 1921 to investigate and report within ninety days upon agricultural condition in general, and upon "the banking and financial resources of the country, especially as affecting agricultural credits", among other special topics.²

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1. C. & F. Chron. 25 Dec. 1920, p. 2469. The measure passed the Senate 13 Dec. and the House 18 Dec.
 2. Cong. Record, 31 May 1921, p. 1899-1901. 7 June 1921, p. 2207-8.

The hearings of this committee proved to be an opportunity for the disgruntled to launch attacks upon the Federal Reserve Board as well as the occasion for the Board and System to defend themselves. And finally, the third result was nothing less than an attempt to amend the Federal Reserve Act, whereby the membership of the Board would be increased to eight and in selecting the six appointive members, the president would "have due regard to a fair representation of the different commercial, industrial, agricultural, and geographical divisions of the country." ¹ In addition "No Federal Reserve bank shall have authority hereafter to enter into any contract or contracts for the erection of any building of any kind or character, or to authorize the erection of any building, in excess of \$250,000 without the consent of Congress having previously been given therefor in express terms." ² This amendment has passed the Senate ² and the House is soon to take action upon it. These, then, are the three most direct results of the agitation against the Board - in addition of course, to the farmer's feelings of wrath, anger, and bitterness, of which the whole agitation is at once a symptom and a cause. They do not greatly concern us here, but in passing it is interesting to note that the third - the attempted amendment to the Federal Reserve Act - although it bears most directly upon the

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1. Commercial and Financial Chronicle. 21 January 1922, p. 247.
 2. Ibid, p. 248.

System will probably least affect it (if it is finally passed); while the other two, and particularly the investigation of the Joint Commission, are likely to have an important bearing upon the System, both in the way of supplementing it in the present and leading to future changes in our agricultural credit structure. But, however significant this triple development may be in the general field of agricultural credit it is not essentially germane to the matter in hand.

Up to this point everything has been directed to creating and shaping the background necessary to the attack upon the real problem of the thesis. The farmer's case has been stated, the conditions giving rise to it outlined, and its inception and early progress traced - it remains, now, to examine the justice of the farmer's criticisms.

At the very outset of such an examination it is to be noted that a considerable number of the charges against the Board and even against the System can be fully dealt with by a simple exposition of the terms of the Federal Reserve Act, so largely do they rest upon ignorance or misconception.¹ These may be disposed of easily and in short order. "There are seven men on the Federal Reserve Board, and there they sit, with the approval of the President, and smiling blandly up into his face while they reach their arms up to the arm

1. Gov. Harding has aptly said, "It is because so many have no real conception of the purposes or meaning of the Act that there has been so much criticism of its administration." p.3, Mpls. Pamphlet. Also J. H. Rich, Federal Reserve Agt. Mpls. foreword to same: "Some of the recent criticisms of the Federal Reserve Banks and of ... the Federal Reserve Board might easily have been avoided if there had been a better public knowledge of the fact that the Federal Reserve Banks operate in direct accordance with a comprehensive Federal law which anyone can read and understand."

pits into the earnings of the Federal Reserve banking system and dish it out, \$26,000,000 at one time, for a bank building in Wall Street"¹ - thus it is that Senator Heflin of Alabama expresses one misapprehension in regard to the Board, namely that it is responsible for the buildings, &c owned by the Federal Reserve Banks. In this instance, Senator Heflin's alter ego, Senator Watson of Georgia, answered the charge in saying: "The Federal Reserve Banks have appropriated to themselves over and above the 6% profits (allowed by law) \$67,000,000 of the net earnings of these banks,"² the method used being expenditures for land and buildings - the point is that it is the regional banks themselves, through their boards of directors, who control their building operations. Another, and indeed, a very common, misconception has to do with the manner in which discount rates are established. One could assemble an almost infinite number of quotations which put the responsibility for this upon the Board,³ quotations which entirely overlook the fact that it is the regional banks who do so, although it must be admitted that their action is subject to the approval of the Board.⁴ Again, the board has been rated (or should one more properly say envied?) because it is "the only body of men on

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1. Cong. Rec. 6 Jan. 1922, p. 1602-03
 2. Cong. Rec. 7 March 1922, p. 3919-21. Italics mine.
 3. For a few see: Heflin, Cong. Rec. 6 Jan. 1922. Philadelphia North American, quoted in Mfrs. Rec. 22 Jan. 1920; Mfrs. Rec. 5 Feb. 1920; "S. C. State Farmer's Union" resolutions in ibid. 19 Feb. 1920.
 4. Federal Reserve Act. Sec. 13.

earth that exercise (sic) the function of fixing their own salaries." ¹ Perusal of the Federal Reserve Act ² would have shown that the salaries of the Board are fixed by law, and not by the Board. A fourth of these rather picayune refutations presents itself in the relation of the Board to loans - some critics think or at least would have us think, that the Board itself makes loans; ³ it does not, and moreover, cannot, for it is merely a supervisory body with no loanable funds of its own. ⁴ And as a last example of the ignorance of some critics stand the assertions that the Board "contracted the currency"; ⁵ this is obviously the result of either dire ignorance or gross misrepresentation, for the terms of the section and of the Act ⁶ dealing with the issue and retirement of Federal Reserve notes cut off the Board from any power of initiative as to either expansion or contraction of the currency. Then, as regards the system there is the complaint, one might almost say the classic complaint, that whereas dealers in raw materials and finished products are allowed to use the System as a means of withholding their goods from the market in order to bring about

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1. Sen. Watson. Cong. Rec. 7 March 1922, 67 Cong. 2 Sess. p. 3919-21
 2. Section 10.
 3. Mfrs. Record 20 Nov. 1919; also Sen. Watson's charge that Board lent itself money with which to speculate, given in Sen. Glass's speech of 16-17 Jan. 1922, which appeared in the Cong. Record 24 Jan. 1922, p. 7870-84.
 4. Sen. Glass in his speech - reference as above, p. 7870.
 5. See Mfrs. Rec. 5 Feb. 1920; and *ibid.* 19 Feb. 1920, the S. C. State Farmer's Union Resolutions.
 6. Section 16. Federal Reserve Act.

higher prices, this privilege is denied to the farmer.¹ In answer to this it may be said, first, that extension of credit by Federal Reserve Banks for the purpose of carrying on speculative operations is prohibited by law, and second, that the period of maturity allowed agricultural rediscounts is twice that allowed commercial discounts.² More fundamental, however, is the answer to the theory underlying the criticism.³ That theory assumes that the assumption of such a speculative risk is an integral part of farming. Such is not the case, for, although farming is a business and consequently subject to certain risks and hazards, this matter of "feeding" products onto the market, or withdrawing them for better prices is rather a part of the function of distribution, and as such is without the farmer's province. And back of all the position of the Federal Reserve banks is to be considered. They are not banks for the farmers alone, any more than they are banks for manufacturers or dealers alone; it is their function to serve the whole business of the country; consequently it is of the highest importance that they be always in a highly liquid condition.⁴ This means that they cannot, in the interests of

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1. Mfrs. Rec. 20 Nov. 1919 p. 93-A, 113. Sen. Smith of S. C., N. Y. Times, 13 Oct. 1920. p. 15. Senator Heflin in almost any of his attacks, notably 20 Feb. 1922, Cong. Rec.
 2. Federal Reserve Act. Sec. 13
 3. Following is a pithy statement of the theory: "The farmers are obsessed with the idea that the purpose of bank credits is to sustain prices, rather than to move crops into consumption or export." N. Y. Times, editorial, 15 July 1921, p. 10.
 4. See Gov. Harding on this, pp. 5-6, Minneapolis Pamphlet.

safety, (for they hold the ultimate banking reserves of the Country), afford to become loaded down with frozen credits, issued to permit farmer, dealer or manufacturer to keep his goods and products off the market in order to force up prices. It will be remembered that the beginnings of the farmers' complaints centered around this point,¹ and all along it has been in more ways than one the root of the whole trouble; probably it will continue to be so in the future, for it is next to impossible to convince the farmer that speculation is, to put it baldly, none of his business. The report² of the Joint Commission of Agricultural Inquiry outlines a plan which virtually allows the farmer to speculate - in the common sense of the word - at pretty much his own risk, with the minimum of harm to his banker. If it is carried out we may hear less of the iniquities of the Federal Reserve System in this respect.

So much for the minutiae of the farmer's case. The long road to the heart of the problem has been traversed, and we are at length ready to examine the facts of agricultural credit in the period under survey, 1919-21.

Tackling the unfailing cry that agriculture was discriminated against "in the matter of credit",³ the question - were

1. See p. 16 above.

2. See a summary in the Commercial & Financial Chronicle, 7 Jan. 1922, p. 19-20.

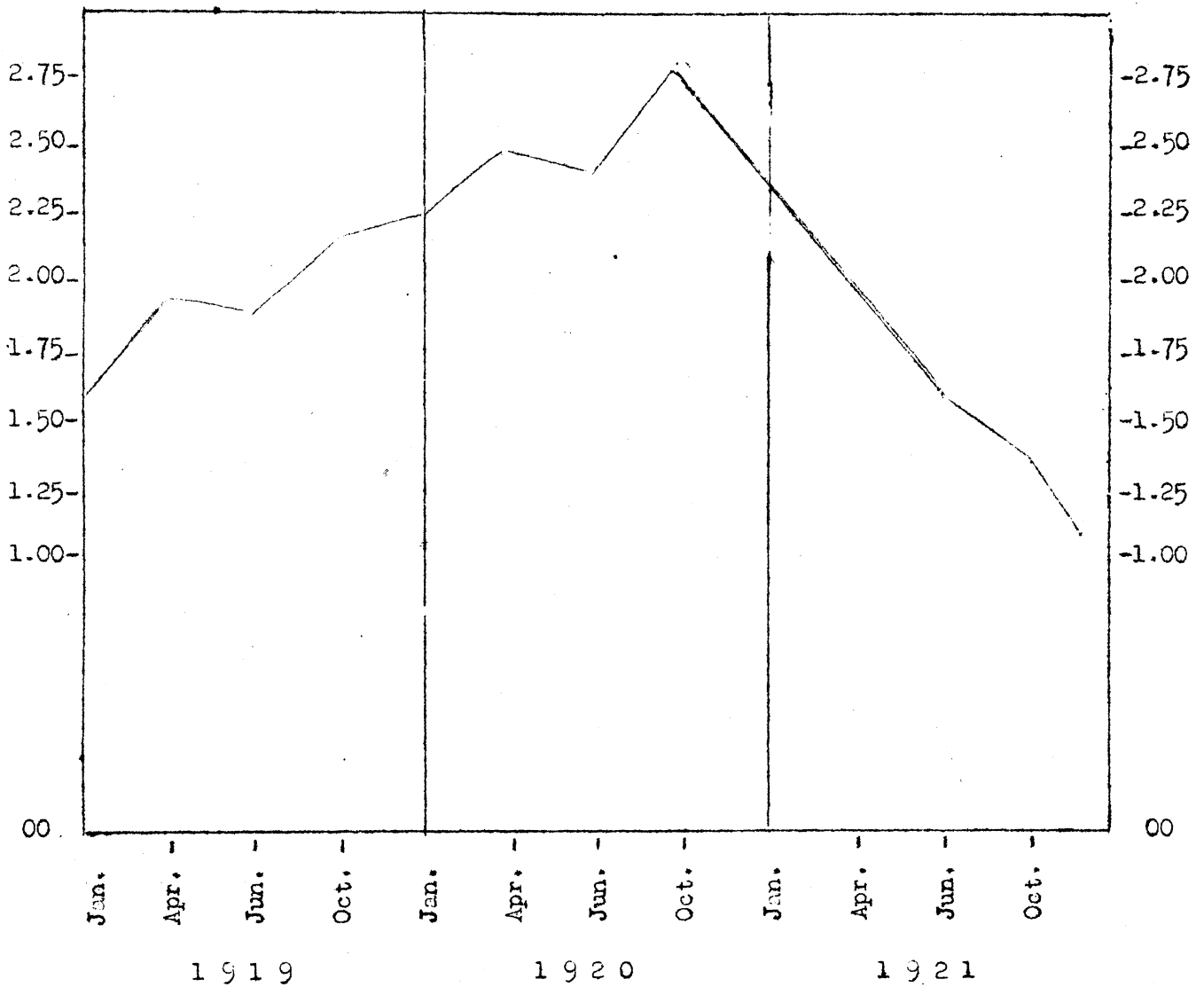
3. See quotation at start.

the agricultural districts discriminated against? - may be set up as a guidepost. Of the twelve Federal Reserve districts, four - Boston, New York, Philadelphia, and Cleveland - are beyond question primarily non-agricultural in character. Seven are equally beyond question essentially agricultural - Richmond, Atlanta, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco. The remaining one - Chicago - is less unquestionably so; but, as it contains the whole of the agricultural state of Iowa, together with Northern Illinois and Southern Wisconsin, it may be grouped with the agricultural districts without too great a strain. The question to be answered, then, comes down to this: How does contraction and expansion in the eight agricultural districts compare with contraction and expansion in the four non-agricultural districts? But first some idea of conditions in the system as a whole is necessary:

REDISCOUNT HOLDINGS OF FEDERAL RESERVE BANKS
1919 - 1921

Billions
of
Dollars

Billions
of
Dollars



Inspection of this chart discloses that rediscount holdings reached a peak of \$2,600,000,000 in October of 1920 (the very time at which the farmer's outcry was achieving organized expression)¹ in three great "steps" of approximately 250 million dollars each. A closer scrutiny of the conformation of each "step" shows that the lifts came in the first and third quarters of the year. Now, speaking generally, the first quarter of the year is the period in which manufacturing and trade does its borrowing, whereas the third quarter is characteristically the borrowing period of agriculture - the crop moving period.² Prima facie evidence thus tends to show that in the expansion of credit agriculture fared equally well with industry and trade. From January to April 1919 rediscounts increased by 351 millions; July to October the jump was 261 millions;³ January to April 1920 saw a lift of 361 million - prices still tending up - July to October, (agriculture's period), the lift was 310 million, about 50 million less, it is true, but an increase made in the face of swiftly receding prices.⁴ The latter month saw the start of an amazing tobogganing of rediscounts; without check or halt they fell month by month during all of 1921, standing on the last Friday of the year at \$1,144,347,000-half a billion less than when the climb

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1. See p. 20 above.
 2. See Moulton, H. G., Financial Organization of Society pp. 495-7, "Seasonal variations in the demand for funds".
 3. A smaller jump, to be sure; but see Senator Heflin, P. 14 above.
 4. See table p. 19.

began. In the race for the valley neither agriculture nor trade and industry lagged behind the other - the latter part of the graph is one continuous, symmetrical decline.

The farmer would point to the downward slope as proof positive of the justice of his contention. He would not, however, be fully warranted in doing so. It is plain that during the second and third quarters of 1920, when prices were tumbling, a great extension of credit was forthcoming. But, when it was seen that the fall was no mere passing flurry the process of indiscriminate loaning was ended. The Federal Reserve banks lend only upon paper arising from actual commercial transactions, or upon agricultural paper; with business becoming stagnant the former class of rediscounts would naturally shrink, and with prices of farm products headed for the bottom of the hill agricultural loans would also tend to contract, if only because of the wasting away of collateral values. The Federal Reserve banks helped business - agriculture included - as much as they could; but they could not achieve the impossible and fend off a fall in prices almost daily aggravated and accelerated by consumer's speculation. With the fall in prices and the inevitable check to business, rediscounts declined - it could not be otherwise, for the Federal Reserve System cannot be used to hold goods and products off the market for speculative purposes.

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1. See Gov. Harding on this point in a letter to Sen. Smith of S. C. Given in Mfrs. Rec. 20 Nov. 1919, p. 113.

As to what happened in the individual districts, agricultural and non-agricultural alike, the following short table will give some idea.

SUMMARY OF FEDERAL RESERVE BANK REDISCOUNT OPERATIONS¹

1919 - 1921.

F. R. Bank	(000's omitted)		Date	Per cent of Increase	(000's omitted) December 1921	Per cent of Decrease from Peak
	January 1919	Peak of Rediscounts Amount				
Boston	\$ 125,856	\$195,865	Mar. 1920	56.0	\$59,171	59.0
New York	633,701	937,223	Oct. 1920	48.0	209,080	77.6
Philadelphia	171,338	213,976	May 1920	25.1	88,552	58.8
Cleveland	95,679	221,667	Sep. 1920	132.6	114,594	48.4
Richmond	83,074	115,499	Nov. 1920	39.7	94,668	18.0
Atlanta	71,206	140,673	Oct. 1920	97.1	90,827	35.7
Chicago	153,865	475,869	Dec. 1920	210.4	185,520	61.0
St. Louis	53,594	120,654	Oct. 1920	126.4	63,053	47.5
Minneapolis	21,733	84,670	Oct. 1920	300.0	51,212	39.2
Kansas City	63,536	115,777	Oct. 1920	82.5	69,980	39.1
Dallas	50,348	77,638	Oct. 1920	54.0	50,597	35.0
San Francisco	77,088	170,156	Sept. 1920	125.9	67,093	60.5
Total	1,601,128	2,801,237	Oct. 1920	74.9	1,144,347	59.1

1. Federal Reserve Bulletin, 1919-20-21

A glance serves to show that expansion and contraction alike were considerable. The agricultural districts made by far the larger percentage expansion, and also made smaller contractions; in the non-agricultural districts the average expansion for each Federal

Reserve Bank was 64.1%, and each bank contracted on an average 63.6%; in the agricultural banks, on the other hand, while there was almost twice as great an expansion, 129.4%, there was only a 48.% contraction. In other words, while the contraction of the Boston, New York, Philadelphia districts, in every case brought the rediscount item down far lower than it had stood in January 1919, the agricultural districts, (all except^s San Francisco)¹ held at the end of 1921 appreciably larger rediscounts than in January 1919. Contraction, therefore, was less thoro-going, less drastic, less far-reaching in agricultural than in non-agricultural regions. There was no discrimination - the farming district received relatively greater aid than the industrial section, and they were accorded a much more lenient treatment when the "dies irae" of contraction came.

This conclusion is powerfully strengthened by introducing into the analysis the factor of inter-reserve bank accommodation. "During the period of greatest demand for interbank accommodation, in fact from April 1920, until January 1921, the principal banks granting accommodation were those of Boston, Cleveland, and New York. The three Southern banks, Richmond, Atlanta, and Dallas, owing to the decline in the price of cotton, as well as the middle western banks of Chicago, St.

1. San Francisco figure was 10 million lower; it is balanced, however, by a 10 million higher figure in Cleveland.

Louis, Minneapolis, and Kansas City, where decreases in the prices of other agricultural staples were felt, were receiving accommodation from other reserve banks throughout the period of greatest stress in 1920".¹ The case is understated, if anything, for during 1921 the same three banks² continued to lend largely to the banks of Richmond, Atlanta, Minneapolis, and Dallas. Chicago was a minor borrower, and apparently got what little help it needed, from the neighboring bank of St. Louis.³ The inference is plain: the agricultural districts needed help - the industrial districts supplied it⁴ - there was no discrimination. "That is a pretty good alibi"⁵ for the Board, for it is the medium through which inter-bank accommodation is arranged. The Act⁶ authorizes the Board "to permit, or ... to require Federal Reserve Banks to rediscount the discounted paper of other Federal Reserve banks ..." Governor Harding has said that in the stressful times in the fall of 1920 the Board was "deluged" with telegrams from reserve banks seeking help in this way, and, although "it was pretty close figuring trying to keep the reserves", not once was a request refused.⁷ Just how low the reserves got may be seen from the following table.

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1. Federal Reserve Bulletin, p. 26, Jan. 1922
 2. New York was borrowing Jan to March.
 3. Ibid., p. 27- 9.
 4. "Those (districts) which have received accommodation from others have been primarily agricultural districts," and help came from "the distinctly industrial districts". Federal Reserve Bulletin vol. 7, p. 1032. Sept. 1921.
 5. See N. Y. Times, in an editorial, p. 14. 21 July 1921.
 6. Sec. 11.
 7. In testimony before Joint Commission of Agricultural Inquiry, 4 Aug. 1921, N. Y. Times, 5 Aug. 1921, p. 17.

Reserve Ratio of Federal Reserve System, 1919-1921.¹

Month	1919	1920	1921
January	51.2	44.5	49.0
April	52.2	42.4	54.8
July	50.8	44.2	63.7
October	49.7	43.1	70.6

Of the individual banks Dallas ran lowest; from April of 1920 to November of 1921 the adjusted ratio was never over 37%, and at three times (Sep. 1921, Aug., Sept., 1920), it was as far down as 10%. Richmond and Atlanta, Minneapolis and Kansas City also showed low reserves; while Boston, Philadelphia, and Cleveland ran higher, with New York hovering about the 40% mark during a large part of 1920.²

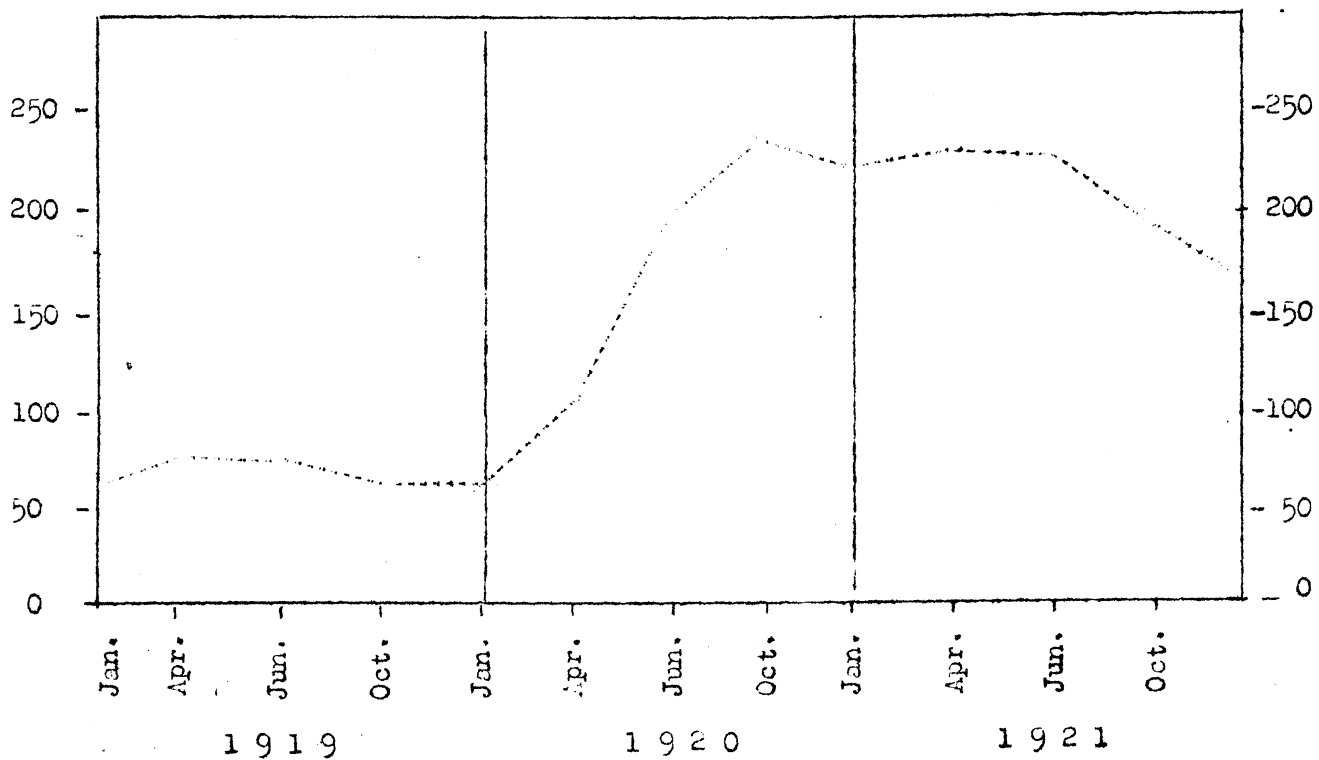
One final buttress to this section of the argument: New York occupies a peculiar place in a discussion such as the present one. Though not in a position directly to extend aid to farming regions the reserve bank there undoubtedly affords no little help in a roundabout way, for its member banks loan largely to correspondent banks, and surely it is a reasonable assumption that some of the credit so extended ultimately reaches the farmer.³

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1. For 1919, W. M. Persons. "The Basis for Credit Expansion under the Federal Reserve System." Review of Economic Statistics, Jan. 1920, p. 24. For 1920-21, Federal Reserve Bulletin, Jan. 1922, p. 30-1.
 2. Federal Reserve Bulletin, p. 30-1, Jan. 1922.
 3. Annual Report of Federal Reserve Board 1920, p. 15-18. The same holds true of member banks in other centers - Minneapolis, Chicago, Kansas City, & al.

It has been proved conclusively that the agricultural regions of the country were, far from being discriminated against in the expansion and contraction of credit, on the contrary, highly favored. The same conclusion, that agriculture was not ill treated, but rather greatly pampered can be reached by a slightly different road, following another guidepost - was agriculture as such discriminated against? Here, as before, the first step may well be a survey of the system as a whole:

(See chart on page 35a)

FEDERAL RESERVE BANKS' HOLDINGS
of
AGRICULTURAL and LIVESTOCK PAPER
1919 - 1921



Federal Reserve Bulletin, 1919 - 1920 - 1921.

If, in scrutinizing this chart, the general contour of the graph of Total Rediscount Holdings (p. 31) is kept in mind, only a minimum of explanation will be necessary. It will be recalled that the earlier chart consisted of three "steps" and a toboggan slide; the present one, on the other hand, has but one great "step" and no slide - in its place there is an extensive plateau. During 1919 there was no expansion of agricultural and livestock paper comparable to that in rediscounts as a whole. The reason is not far to seek - crops were large, prices were high, "we did not need money in the South, for cotton was bringing a good price, (and) business was moving along smoothly."¹ In 1920, when there was need, credit was forthcoming in large amounts; in January the twelve banks held a total of \$56,905,000. of agricultural and livestock discounts, by January of 1921 the figure had quadrupled, standing at \$229,048,000 (it had reached a peak of \$246,940,000 in the preceding month). And it stayed at practically that same figure during a large part of 1921. By December of that year it had receded to \$178,706,000, a decline of 27.6% from the peak figure, while at the same time total rediscounts were contracting 59.1% from their high mark. Discrimination against AGRICULTURE, indeed!

The story is the same in the various districts, as the following table will show:

1. Senator Heflin, citation on p. 14, note 3.

SUMMARY OF FEDERAL RESERVE BANKS' HOLDINGS OF AGRICULTURAL
AND LIVESTOCK PAPER²
1919 - 1921.

F. R. Bank	(000's omitted)		Date	Per Cent of Increase	(000's omitted)		Per Cent of Decrease from Peak
	January 1919	Maximum Holdings Amount			December 1921		
Boston	\$ 1 ¹	\$ 5,091	Jul 1920	509,000.0	\$ 858	83.1	
New York	158	863	Dec 1921	446.2	863	0.0	
Philadelphia	173	718	Dec 1921	315.0	718	0.0	
Cleveland	117	1,777	Dec 1921	1,418.8	1,777	0.0	
Richmond	22,344	12,466	Aug 1921	432.2	9,173	26.4	
Atlanta	2,229	19,233	Oct 1920	762.0	13,518	29.7	
Chicago	9,367	58,103	Apr 1921	520.2	46,025	20.8	
St. Louis	185	11,598	Aug 1921	6,169.1	8,480	26.9	
Minneapolis	1,870	67,831	Nov 1920	3,527.3	27,711	59.1	
Kansas City	19,584	46,840	Dec 1920	139.1	29,208	37.6	
Dallas	15,373	35,966	Jun 1921	133.9	26,602	26.0	
San Francisco	7,601	38,478	Aug 1920	460.2	13,773	64.3	
Total	59,001	246,940	Dec 1920	318.5	178,706	27.6	

1. Mar. 1919. Boston held no such paper in Jan., Feb., Apr., May, June, Aug., or Sep. 1919; May, Sep., Oct., Dec. 1920.

2. Federal Reserve Bulletin, 1919-20-21.

Before a condition of affairs such as the above table discloses the farmer's cry of "Discrimination and Injustice!" must fade away as mist before the rising sun. While total discounts were expanding 74.9%, agricultural and live stock discounts grew by 318.5%; while total discounts contracted 59.1%; agricultural and live stock discounts contracted only 27.6%. Wonder that the farmer should complain of such a condition of affairs is rivaled only by wonder at the absence of a thunderous outcry from the non-agricultural population. If there is any complaining to be done, (and that is not admitted) surely those people have the greater right to do so.

To prove the proof the following short tables from the Federal Reserve Bulletin may be put forward:

ESTIMATED AMOUNTS OF REDISCOUNTS OF PAPER BASED ON PRODUCTION AND SALE
OF FARM PRODUCTS, 1919 - 20.³

F. R. Bank	1919	1920	REMARKS
Boston	2,642,000	4,979,000	Farm and dairy loans only. Add advances on cotton and wool, etc.
New York	(1)	(1)	
Philadelphia	2,971,000	3,560,000	Add paper of wool dealers, cotton merchants, implement men, & al.
Cleveland	612,000	1,753,000 ²	in addition many members borrow on U. S. Securities and use proceeds to aid agriculture.
Richmond	102,000,000	325,000,000	Exclusive of commercial paper discounts proceeds of which went to aid agriculture.
Atlanta	91,300,000	230,000,000	As above.
Chicago	47,263,000	128,408,000	As above.
St. Louis	220,000,000	665,000,000 ²	-
Minneapolis	75,000,000	225,000,000	-
Kansas City	123,431,000	229,431,000	-
Dallas	28,297,000	44,911,000	Exclusive of member banks' collateral borrowing to aid agriculture.
San Francisco	35,000,000	122,000,000	-
Total	729,266,000	1,980,063,000	-

1. No data.

2. 11 months.

3. Annual Report, Federal Reserve Board, 1920, p- 17.

INCREASE OR DECREASE IN LOANS, BORROWINGS AND DEPOSITS OF MEMBER BANKS, 1920-1. (1)

(Amounts in millions of dollars)

	Agri. Counties		Semi-Agri. Counties		Non-Agri. Counties		Total	
	Amt.	Percent	Amt.	Percent	Amt.	Percent	Amt.	Percent
Loans and Discounts	-36.5	-1.2	-18.7	-1.3	-827.1	-5.6	-882.3	-4.5
Borrowings from F. R. Banks	+127.6	+56.5	-0.3	-0.2	-629.1	-28.5	-501.8	-19.5
Borrowings from other Banks	+45.2	+65.7	+6.1	+19.0	+0.5	+0.6	+51.8	+27.3
Total Deposits	-411.8	-11.1	-87.7	-0.2	-665.7	-4.4	-1165.2	-5.7

(1) Federal Reserve Bulletin, Sep. 1921, p. 1043.

BORROWINGS FROM FEDERAL RESERVE BANKS COMPARED WITH BASIC LINE ON 28 APRIL, 1921. (1).

(Amounts in millions of dollars)

F. R. Banks	Agricultural Counties			Semi-Agri. Counties			Non-Agri. Counties		
	Borrowings Amt. (1)	Basic Line Amt. (2)	Ratio of (1) to (2) Per cent	Borrowings Amt. (1)	Basic Line Amt. (2)	Ratio of (1) to (2) Per cent	Borrowings Amt. (1)	Basic Line Amt. (2)	Ratio of (1) to (2) Per cent
Boston	2.5	4.6	53.5	1.5	2.9	50.0	95.1	184.1	51.7
New York	8.8	24.6	35.7	6.4	10.7	59.4	574.1	1083.0	53.0
Philadelphia	8.6	15.7	54.8	3.6	6.3	56.7	136.2	171.0	79.0
Cleveland	6.4	21.6	29.4	19.3	57.6	33.5	114.5	180.7	63.3
Richmond	24.3	19.9	122.3	22.1	12.7	173.9	78.2	68.8	113.7
Atlanta	29.7	15.9	186.8	19.4	12.4	156.9	63.6	55.0	115.6
Chicago	83.4	72.2	115.5	33.1	31.6	104.7	250.3	300.1	83.4
St. Louis	23.0	22.2	103.7	2.0	4.2	48.1	55.7	88.8	62.7
Minneapolis	36.1	33.3	108.6	4.7	7.7	61.7	34.5	39.6	87.0
Kansas City	33.3	45.1	74.0	5.8	11.0	53.0	56.1	72.9	77.0
Dallas	45.8	39.3	116.4	11.2	15.7	71.6	15.7	28.7	54.7
San Francisco	51.2	41.4	123.6	8.5	18.6	45.7	103.8	145.4	71.3
Total	353.1	355.8	99.2	137.6	191.4	71.9	1577.8	2418.1	65.2

(1) Federal Reserve Bulletin, Sep. 1921, p. 1050.

A study of the above tables, while it may fill in the chinks, adds very little to what has already been proved. The simple truth, borne home so forcibly at every step along the two roads we have followed, is that the farmer has not a leg to stand on when he seeks to put himself forward and cry "I have not been given fair treatment!"

In delving into the logomachy between the attackers and defenders of the Federal Reserve System one encounters the most amazing charges as to the part played by the System in the collapse of prices. Mr. Benjamin Marsh, director of the Farmer's National Council, in December 1920 told the Chicago Federation of Labor that "predatory financial interests" control the Federal Reserve System, and that a conspiracy existed to drive the prices of farm products below the cost of production.¹ Mr. Maurice McAuliffe, president of the Kansas Farmer's Union, told the Joint Commission of Agricultural Inquiry "that the deflation of agricultural products was 'artificially and criminally precipitated'".² And so on. The charge is a persistent note in the farmer's hymn of hate; it is not a new strain, merely an old and familiar chord in a new setting. It is inconceivable that those who advance it do so seriously, the idea is too grotesque. But it remains and endures, a veritable jack-in-

1. N. Y. Times, 7 Dec. 1920, p. 12.
2. Ibid. 15 July 1921, p. 10.

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the-box, alternately subsiding and reappearing. In the present instance we are fortunately able to dismiss it with ease. All that is necessary is recourse to the table of price indexes given above (p. 19) and to the graphs of total rediscounts (p. 28) and agricultural and live-stock rediscounts (p. 35). There we see that it was precisely during the period of falling agricultural prices that the Federal Reserve banks gave their greatest aid to agriculture. That they did so to the farmer's disadvantage is now recognized: "if their credits had been reduced when prices were higher, and were seen to be destined for a fall, the farmers would have had in their pockets millions which they lost by following the advice of those who now are proposing to heckle the Federal Reserve."¹ Thus the charge that the Federal Reserve Board and Banks, bewitched by "the Delilah of Wall Street,"² exerted a malign influence upon the course of prices bears the light no better than the charge of unfavorable credit discrimination.

It will be remembered that the second main complaint, or group of complaints, centered around the earnings of the Federal Reserve banks, and their usurious rates of discount.³ A detailed discussion of the rates is not necessary for our purpose. Suffice it to repeat that during 1919 they were held at artificially low levels due to the exigencies of the war

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1. N. Y. Times in an editorial, 15 July 1921, p. 10.
 2. See Sen. Heflin in Cong. Rec. 19 Dec. 1921, p. 610.
 3. See above p. 5.

financing operations of the Government; that starting in January of 1920 they were put up to 6 and 7%, remaining there to the spring of 1921, when they began to drop, reaching the $4\frac{1}{2}$ and 5% level in November. 90 to 130 day paper (typically agricultural and live-stock) received the same treatment as the typically commercial and industrial 60 to 90 day paper. The level of rates was on the whole the same the country over, with slightly higher figures in those districts which had low reserves.¹ In regard to the magnitude of the rates there is this to be said - borrowers are never, and will never be, quite satisfied with them, no matter how low they may go;² and if, during these years, they did go as high as 6 and 7%, it must be remembered they were put there with a purpose, - a purpose that was not a profit-making one.³

The "usurious" rates of so many of the attacks upon the Federal Reserve are the "progressive" rates in effect in four of the districts during parts of 1920 and 1921. These rates derive their sanction from an amendment to the Federal Reserve Act, passed in April of 1920, at the request of the Board. The amendment authorized, "Federal Reserve Banks, subject to the approval, review, and determination of the Federal Reserve Board to establish discount rates graduated or progressed on the

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1. See p. 34 above.
 2. The influence of the artificially low rates of 1919 in leading borrowers to expect more than they should have in the way of rediscount rates is not to be overlooked.
 3. See p. 10 above.

basis of the amount of the advances and discount accommodations extended by the Federal Reserve Bank to the borrowing bank." The purpose of this amendment was to check excessive borrowing from Federal Reserve Banks by any one member bank by making it possible for the Federal Reserve Banks to charge higher rates against a member bank which is overborrowing than against one which limits its borrowings to a reasonable amount.¹ Soon after they were authorized progressive rates were established by the banks of Kansas City, St. Louis, Atlanta and Dallas. For the first three banks the basic line was a sum two and one half times 65% of the reserve balance required to be kept by the member bank, plus its paid up subscription to capital stock in the Federal Reserve Bank; for Dallas, the basic line was the equivalent to the member bank's combined capital and surplus. Discounts in excess of these amounts were charged the normal rate plus $\frac{1}{2}\%$ for each excess accommodation of 25% above the base line. Inasmuch as the progressive rate applies only to excess borrowings a bank with accommodations equal to twice its basic line would be subject to a maximum penalty of only 2%; and as the 2% applies only to the last increment of 25% of the basic line the average penalty on the entire borrowing would be only 0.625%. In actual application the surcharge was generally from $\frac{1}{2}$ to $2\frac{1}{2}\%$; excessively high rates were necessary only in isolated cases, particularly where the member bank

1. Annual Report, Federal Reserve Board, 1920 p. 97.

allowed its reserve balance with the Federal Reserve Bank to sink below the legal minimum, thus reducing its basic line.¹

Progressive rates were in force in Atlanta from May to November 1920, in Dallas, May 1920 to February 1921; in St. Louis May 1920 to June 1921; and in Kansas City, April 1920 to August 1921.²

Mr. John Skelton Williams in particular has made much ado about these rates, and in his enthusiasm has rather overreached himself. A charge of a 200% rate appears to have been, in reality, something like this - a member bank, borrowing from the Federal Reserve Bank at 6% charged a customer the equivalent of about 200%.³ This proves nothing, for the Federal Reserve has no concern with or control over rates charged by members to their clients. "Mr. Williams alone is informed about his special cases, but the Agricultural Department is equal or better authority on the rates of interest paid by farmers in general"; and in 1920 the rate was 7.95%, with 9.06% the highest average for any district.⁴ It was shown that one small southern bank was charged 27½%⁵ - a bank that was below its legal reserve for eleven out of twelve months, which had exceeded its basic

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1. Annual Report, Federal Reserve Board, 1920, pp. 58-9.
 2. J. S. Davis, "World Banking, Currency & Prices, 1920-1". Review Economic Statistics, Sept. 1921, p. 306.
 3. Hearings, Joint Commission Agricultural Inquiry, N. Y. Times, 15 July 1921, p. 16.
 4. N. Y. Times, editorial, 21 July, 1921, p. 14.
 5. Hearings, Joint Commission of Agricultural Inquiry; see D Friday, "Federal Reserve & the Farmer", New Republic, 15. Feb. 1922.

line nearly tenfold, which had loaned 90% of its capital upon notes endorsed by its president¹ - but the Board ordered the excess over 12% returned.²

Progressive rates, then, were usurious neither in purpose nor in operation; they were merely a part of the Board's policy of getting credit conditions under control, and were abandoned as the need for them passed.

No one denies that the Federal Reserve banks made in the period under discussion, incredibly large profits. But that was to be expected. Whether rediscount rates are high or low profits may be expected to be high if a large use is made of rediscount facilities.³ And that is precisely what happened in 1919-21. One can hardly blame the critics for objecting to the earnings of the Federal Reserve banks, for they are fatal to the critics' case in regard to discrimination: The whole matter is absurdly simple - the \$131,000,000 gross earnings of the Federal Reserve System during 1920⁴ are the best possible proof that the banks did help business, agriculture included. Had the earnings been small, the charge that help was not given, that agriculture was discriminated against would have been just so much strong-

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1. Sen. Glass, Cong. Rec. 24 Jan. 1922 (speech delivered 16-17 Jan. 1922), p. 7870-84.
 2. David Friday, "Federal Reserve & the Farmer", New Republic, 15 Feb. 1922.
 3. "During a period of credit strain it is natural and inevitable that the volume of business of the Federal Reserve Banks will be large. With a large volume of business their earnings will naturally be large." Letter, J. H. Rich, Federal Reserve Agent, 9th District (Mpls.) to Editor, Pioneer Press, St. Paul, Minn., 12 Nov. 1921.
 4. Annual Report of Federal Reserve Board, 1920, p. 87.

er; the greater the earnings - and those of the banks in the eight non-agricultural districts were relatively quite as large as those of the four bigger banks¹ - the weaker from the outset is the critics' case. It would have been far wiser for them to drop this particular charge, for it had (and has) very much of the nature of a boomerang. It needs no further proof, and defenders of the System should be quite content to accept any figures in this regard that the attackers may advance. The bigger the earnings the bigger the outcry - and the harder the repercussion upon the complainants.

And yet were the earnings so large? Upon capital alone in 1920 they were 153.4%, it is true; and upon capital and surplus combined they were 62.9%. But the Federal Reserve Banks have deposits of a billion and a half (the reserves of member banks) upon which they pay no interest; include these and the earnings shrink to a conservative 7%. Then, too, there are the Federal Reserve notes, another large source of earnings. If they are included with reserve deposits, capital, and surplus the 1920 earnings of the System dwindle to a nominal 2.9%.² The following diagram brings all this out most effectively:

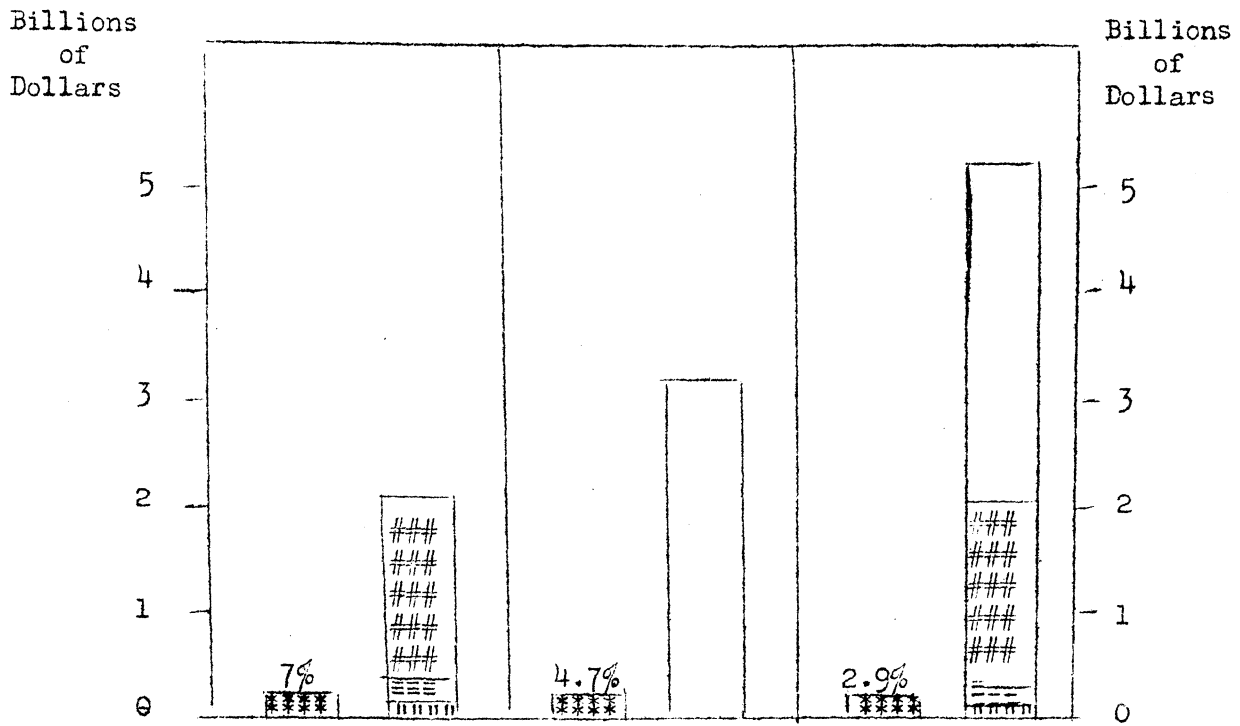
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1. Annual Report of Federal Reserve Board 1920, p. 113-9.
 2. Summary of Gov. Harding's speech while on tour in West, 1921. Federal Reserve Bulletin, June 1921, p. 673.


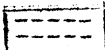
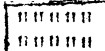
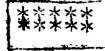
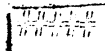
(See chart on page 47a)

"The profits of the Federal Reserve Banks were enormous and the Board grew dizzy with so much wealth at their command, and proceeded to raise salaries and plan expensive buildings."¹ So may the third of the principal charges against the Federal Reserve be formulated. It is the irony of circumstance, that, of the three charges we are here mainly concerned with, this one, and the last in order of importance and the least significant, should

1. From a private letter, March 1922.

Net Earnings of Federal Reserve Banks in 1920
 Related to Daily Average Paid-in Capital,
 Surplus, Members' Reserve Deposits
 and
 Federal Reserve Note Circulation.



-  F. R. Note Circulation
-  Surplus
-  Capital
-  Net Earnings
-  Members Reserve Deposits

(From Federal Reserve Bulletin June, 1921, p- 673)

be the one containing the most truth. "The salaries paid by the Federal Reserve Banks need very little comment. They are not excessive and are maintained at a level which is lower than the compensation for equal and similar services in commercial banks." In the year 1920 the twenty-two banks in the United States with net resources of \$100,000,000 or more spent in salaries to officers from \$85,000 to \$809,000, only four spending less than \$200,000.² During the same time the officers salaries³ accounts of the Federal Reserve Banks were as follows:

SALARIES OF OFFICERS AND EMPLOYEES OF FEDERAL RESERVE BANKS, 1920.

F. R. Banks	Total amount of officers salaries	Average Salary		F. R. Banks	Total amount of officers salaries	Average Salary	
		Officers	Employees			Officers	Employees
Boston	116,600	9,269	1,271	Chicago	216,541	6,304	1,310
New York	383,760	11,275	1,460	St. Louis	126,916	6,486	1,209
Philadelphia	123,338	10,182	1,259	Minneapolis	77,637	7,240	1,262
Cleveland	143,171	7,738	1,360	Kansas City	116,274	5,158	1,209
Richmond	105,945	7,014	1,189	Dallas	117,768	5,895	1,271
Atlanta	156,996	5,426	1,149	San Fran.	188,017	5,581	1,366

1. Annual Report, Federal Reserve Board, 1920, p. 115.

1. Letter J. H. Rich, Federal Reserve Agt., 9th Dist. to Editor, Pioneer Press, St. Paul, Minn. 12 Nov. 1921, also in Commercial West, 19 Nov. 1921, p. 20-1.
2. Report Comptroller Currency for 1920, vol. 1, p. 58.
3. Annual Report, Federal Reserve Board, 1920, p. 115.

Need more be said? So far from having paid unduly large salaries the tendency has been rather in the other direction. Five governors of Federal Reserve banks have been taken away by commercial banks at increased salaries, and "all Federal Reserve Banks have experienced the same drain on their official staffs..."¹

As regards building expenditures the opposition has a better case. To say the least some of the estimates are unfortunate. In New York, $5\frac{1}{2}$ millions have already been spent, and the estimated final cost is $17\frac{1}{2}$ millions; in Chicago, $5\frac{3}{4}$ millions have been spent, with $10\frac{1}{2}$ the final goal; in Cleveland, 6 millions are to be spent, in Minneapolis, $3\frac{1}{2}$; and so on.² It is hard to believe that suitable buildings could not have been had for somewhat less than these appear to be costing. However, beside the larger issues involved in the farmer's feeling toward the Federal Reserve, this matter of the buildings is infinitesimal in importance; nor is it a subject pertaining to the farmers alone. In happier days, in more prosperous times, it would probably have been overlooked. In any case, if the proposed amendment to the Federal Reserve Act³ passes the future will be guarded against a repetition of the charge.

And now the web is spun, the structure completed. The

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1. J. H. Rich as above.
 2. Federal Reserve Board figures, quoted in Wall St. Journal, 6 Feb. 1922, and from it in Mfrs. Record, 2 Mch. 1922, p. 34.
 3. See p. 22 above.

farmer's case has been stated, the circumstances leading to it outlined, its rise and progress traced, and the case itself tried for its justice and truth. It has been shown that, while there may be some ground for censuring the building expenditures of the System, there is certainly no reasonable cause for finding fault with the salaries it has paid. Excessively large earnings and usurious rates of discount have been demonstrated to be, the one a misconception and a boomerang, the other a myth. And as for the main count in the farmer's indictment, the point upon which his whole case must stand or fall, it has been proved conclusively and beyond doubt that the cry "Discrimination!" was true only in the opposite sense from that in which the critics used it. "The real discrimination was in the farmer's favor. The point is worth establishing because it is of the first importance to the country that the farmers should not have just cause for complaint."¹

Of the results of the farmers' attacks a brief word may be ventured. The first and most immediate - the revival of the War Finance Corporation - was patently but a stop-gap, an expedient which conceivably may bear to agricultural credit the relation borne by the Aldrich-Vreeland Act to banking as a whole. The third (in point of time) was the attempt to add another member to the Federal Reserve Board, with the idea of insuring the farmers a representative in that body. If the

1. N. Y. Times editorial 4 Aug. 1921, p. 14.

amendment passes it can have no very great permanent effect; it will stand simply a sign of the times, and only as such will it be important. The second result - the establishing of the Joint Commission of Agricultural Inquiry, its hearings, and report - outweighs in significance for the future both of the others combined. It has served to direct serious thought and careful consideration to the weak spot in our banking fabric - provision for agricultural credits. What further steps, what permanent measures will be adopted the future must reveal. At any rate, the period of sharpest attack upon the Federal Reserve is over, the return of higher prices having acted as a soothing ointment to heal the farmers' bitterness and animus.

FEDERAL RESERVE BOARD
WASHINGTON

X-3504

August 16, 1922.

SUBJECT: Charging Back of Government Warrants and Checks
Previously Paid by Treasurer of United States.

Dear Sir:

On July 10, 1922, the Board sent to all Federal Reserve Banks a letter (X-3471), subject "Amendment to Check Collection Circulars Suggested by Treasury Department", dealing with the Treasury's practice with regard to the later charging back of Government warrants and checks previously paid by the Treasurer of the United States. In this connection there is enclosed herewith, for your information, copy of a letter received today from the Secretary of the Treasury transmitting copies of correspondence between the Treasury Department and the National City Bank of New York, setting forth in full the Treasury's position with regard to the charging back of Government items, the method of handling such items by the Federal Reserve Banks upon charging back and the respective functions of the Federal Reserve Banks and the Treasury with regard to reclamation on such items.

Very truly yours,

Vice Governor.

(Enclosure)

TO THE GOVERNORS OF ALL F. R. BANKS
COPIES TO AGENTS.

C O P Y

THE SECRETARY OF THE TREASURY

Washington

X-3504a
August 12, 1922.

My dear Mr. Platt:

Referring to previous correspondence relative to the Treasury's practice with regard to the later charging back of Government warrants and checks previously paid by the Treasurer of the United States, I enclose copies of recent correspondence between the Treasury and the National City Bank, consisting of the Bank's letters of July 8, 1922, July 27, 1922, and August 7, 1922, and my letters of July 19, 1922 and July 29, 1922. These letters set forth in full the Treasury's position with regard to the later charging back of Government items, the method of handling such items by the Federal Reserve Banks upon charging back, and the respective functions of the Federal Reserve Banks and the Treasury with regard to reclamation on such items. As there has recently been considerable misunderstanding and difficulty regarding this matter, much of which has been traceable to the action of the National City Bank, I would suggest the advisability of sending copies of the correspondence to all the Federal Reserve Banks in connection with your previous circular letter on this subject dated July 10, 1922.

Very truly yours,

(Signed) A. W. Mellon,
Secretary.Hon. Edmund Platt,
Vice-Governor, Federal Reserve Board,
Washington, D. C.

5 enclosures.

X-3504a

COPY

THE NATIONAL CITY BANK
of New York

Office of the
President

New York, August 7, 1922

My dear Mr. Mellon:

I have received your letter of July 29th regarding the form of credit advice used by us with respect to warrants and checks drawn on the Treasury of the United States, and I delayed a reply until, for the purpose of our record, a confirmation of your definition of the capacity in which the Federal Reserve Bank acted in such matters was obtained through Mr. Strong, who advised me that a copy of your letter had been sent to him. That confirmation has now been received, and I am pleased to write that with a full concurrence of counsel we have determined to discontinue the form of credit advice which was objectionable to you.

This matter stands in a much clearer light than heretofore, and I want to express my personal appreciation for your cooperation in closing it thus satisfactorily.

Yours very truly,

(Signed) C. E. Mitchell

President.

Hon. Andrew W. Mellon
Secretary of the Treasury,
Washington, D. C.

(Copy)

1035

THE SECRETARY OF THE TREASURY

Washington

July 29, 1922.
X-3504a

Dear Mr. Mitchell:

I received your letters of July 24 and July 27, 1922 regarding the form of credit advice used by the National City Bank of New York with respect to warrants and checks drawn on the Treasurer of the United States. I note that your counsel are not satisfied on the question as to whether the Federal Reserve Bank acts in a private or governmental capacity in handling such items, and that this question is in their opinion relevant, for the reason that the Federal Government would not be barred by the statute of limitations and in case of a forged endorsement might bring action for recovery years after the discovery of the forgery when an ordinary individual would be barred by the lapse of time. The Federal Reserve Banks do not pay Government warrants and checks, but cash them under Treasury regulations. The Treasurer of the United States, as the drawee of Government warrants and checks, makes payment thereof, and the Government, rather than the Federal Reserve Bank, is the real party at interest when the question arises of recovery on warrants and checks paid on forged endorsements. I take it to be clear that in the absence of a statute expressly providing otherwise, the United States Government would not be barred by the statute of limitations, or by laches, and that there might therefore be cases where it could bring suit for recovery in respect to Government warrants and checks which had been paid on a forged endorsement, even though enough time might have elapsed to bar recovery by private parties similarly situated. I do not see that there is any escape from this situation. The Government is the sovereign, and from time immemorial this has been the rule. I do not understand, however, how this contingency justifies the form of credit advice used by the National City Bank of New York. The letter of October 3, 1921, from the Cashier of the bank states that this clause reads as follows: "All instruments against the Government of the United States are credited subject to final payment by the Treasury Department. Therefore, any item which subsequently may be returned unpaid to us by the Department will be charged back against your account". As the Treasury has previously pointed out, the fact that warrants and checks drawn on the Treasurer of the United States must be credited "subject to final payment by the Treasury Department" is not unusual and does not warrant any discrimination as between commercial items and Government items. In the nature of the case, warrants and checks must be subject to final payment by the drawee, and the terms and conditions on which the Treasurer of the United States makes examination and payment are set forth in paragraphs 35 to 38 of Treasury Department Circular No. 176, dated May 15, 1922. The second sentence of the credit advice refers to returned items, and the Treasury's practice in this regard has already been fully explained in previous correspondence. Under this practice, as outlined in subdivision 2 of paragraph 37 of Treasury Department Circular No. 176,

July 29, 1922.

-2-

X-3504a

warrants and checks paid by the Treasurer which are subsequently found to bear a forged endorsement, or to bear any other material alteration or defect not discoverable upon first examination, will be returned to the Federal Reserve Bank or national bank depository which cashed the item, but the Federal Reserve Bank or other depository will not be expected to give credit therefor to the Treasurer until it has actually received reimbursement therefor from the person liable on the forgery or alteration. The term "remitting bank" as used in this paragraph applies to the Federal Reserve Bank, rather than to the bank presenting the item to the Federal Reserve Bank, as has already been explained in my letter of July 19, but even as between the Federal Reserve Bank and the bank which presented the item the practice would be, as I understand it, to call upon the presenting bank for reimbursement, and not to charge its account with the item under any arbitrary procedure. In other words, the items would not be "charged back" by the Federal Reserve Bank, but would be treated in substance like collection items. In the event that recovery could not be made in this manner it would, of course, be necessary to bring suit, and in ordinary course suit would be brought by the United States, rather than by the Federal Reserve Bank, since the Federal Reserve Banks act in such matters for account of the United States and the United States is the real party at interest. Under the procedure thus established the items cannot properly be said to be "charged back", and the credit advice used by the National City Bank of New York is therefore incorrect and misleading. As a matter of fact, save for the one question as to the effect of lapse of time the procedure would be the same as with commercial items, and on the question of the lapse of time it would, of course, be the policy of the Treasury to move at the earliest possible moment after discovery of the forgery or alteration. The Treasury cannot undertake that the Government in these matters will be barred by lapse of time, but even assuming a case where there might be a sufficient lapse of time to bar private parties, the result would be a suit brought in regular manner by the Government of the United States, and not an arbitrary charging back of the item through the channels from which it was received.

I wish that you would consider the matter further in the light of the considerations suggested by this letter and advise me if it is not possible under the prevailing conditions to discontinue the use of the credit advice in question. In this connection I should like to refer to your Cashier's letter of December 15, 1921, from which the Treasury understood that notwithstanding the point raised by counsel the National City Bank would change its forms as soon as the Federal Reserve Bank changed its circular.

Yours very truly,

(Signed) A. W. Mellon,
Secretary.

C. E. Mitchell, Esq.,
President, The National City Bank of New York,
New York, N. Y.

X-3504a

COPY

THE NATIONAL CITY BANK

of New York

New York, July 27, 1922.

Office of
the PresidentHon. Andrew W. Mellon,
Secretary of the Treasury,
Washington, D. C.

My dear Mr. Mellon:

Referring further to your letter of July 19, regarding the form of advice which we use when remitting the proceeds of Government warrants and checks paid by the Treasury of the United States, I have conferred with our counsel, upon whose definite advice you will realize that we must rely. I had hoped that your letter would definitely close the matter in their minds, but it appears that while it did dispose of the first question raised in our letter of July 3, it does not seem to have satisfied them on the question as to whether the Federal Reserve Bank acts in a private or Governmental capacity when it pays these items.

This question in their opinion is relevant for the reason that by decision of the Supreme Court, the Federal Government is not barred by the Statute of Limitations, and in case of a forged prior endorsement might, if it saw fit, bring an action for recovery several years after it otherwise would be barred. Consequently, if the Federal Reserve Bank acts as a Governmental agent in this respect, it would have the same power, and we are advised that it probably is not possible for the Government to deprive itself of this power without express law to that effect.

I feel sure you understand the difficulty of our position. We do not want you to interpret us as doubting either the good intentions of your Department or of the Federal Reserve Bank, and we would be only too glad to acquiesce and discontinue the use of this stamp, - but we do not wish to assume any unnecessary risk with respect to collection items.

If you have at hand any decisions or opinions showing that the Federal Reserve Bank in receiving this type of paper for collection is acting in a private and not a Governmental capacity, so that the usual commercial laws will apply between this Bank and it, I will be very glad to receive them.

New York, July 27, 1922.

- 2 -

On receipt of your reply to this letter, I can assure you the matter will be definitely closed.

Yours very truly,

(Signed) C. E. Mitchell

President.

COPY

X-3504a

THE SECRETARY OF THE TREASURY

Washington

July 19, 1922.

PERSONAL

My dear Mr. Mitchell:

I have received from your cashier a letter dated July 5, 1922, with further reference to a form of credit advice used by the National City Bank of New York which contains an objectionable statement regarding the charging back of Government warrants and checks previously paid by the Treasurer of the United States. This credit advice has resulted in many difficulties with foreign banks, and has been the cause of some embarrassment to the Government of the United States. I had supposed that its use was discontinued some time ago by your bank, but it now appears that it is still in use and that the bank does not yet regard the question as settled. The correspondence has been going on since early last fall, and there have been several letters from your cashier, particularly letters dated December 15, 1921, March 16, 1922, and June 21, 1922, indicating that the National City Bank would discontinue the use of its stamp as soon as the Federal Reserve Bank of New York revised its check collection circular. This revision was made a couple of months ago, and the Federal Reserve Bank at that time advised the Treasury that the National City Bank had actually given up the objectionable form of advice. Apparently this has not been done. In these circumstances I should appreciate it if you would give the matter your personal attention, in order that it may be settled once and for all.

The Treasury's procedure in respect to returned items has been many times explained in letters to the National City Bank, and the regulations of the Treasury and of the Federal Reserve Bank of New York have been revised in order to state the situation in as clear and definite terms as possible. As to the specific questions raised in your Cashier's letter of July 5, the term "remitting bank" used in Section 37 (2) of Treasury Department Circular No. 176, as amended and supplemented May 15, 1922, means the Federal Reserve Bank rather than the bank which has transmitted the paper to the Federal Reserve Bank. On the second question, as to whether the "Reserve Banks in dealing with this type of paper are acting in a Governmental or private capacity", I do not quite understand what is meant nor what relation the inquiry has to the matter under discussion. It is clear, of course, that under Section 15 of the Federal Reserve Act, the Federal Reserve Banks act as depositaries and fiscal agents of the United States, and their duties as depositaries and fiscal agents in respect to the payment of Government warrants and checks are set forth in the provisions of the

July 19, 1922.

X-3504a

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aforesaid Treasury Department Circular No. 176. The Federal Reserve Banks also act for their member banks in connection with the collection of checks and similar items, and their responsibilities in this regard are usually set forth in their own circulars.

Very truly yours,

(Signed) A. W. Mellon,

Secretary.

C. E. Mitchell, Esq.,
President, The National City Bank of New York,
New York, N. Y.

(Copy)

THE NATIONAL CITY BANK OF NEWYORK

New York, July 8, 1922.

In replying please quote initials

CBL-T

X-3504a

Hon. A. W. Mellon,
Secretary of the Treasury,
Washington, D. C.

Dear Sir: RE:-Checks and warrants drawn on the
Treasurer of the United States.

We are glad to acknowledge your letter of June 23, 1922, giving assurance that it is your intention to treat checks and warrants drawn on the Government in accordance with the usual commercial practice, and referring us to Sections 35 to 38 of Treasury Department Circular 176, dated May 15, 1922.

It is gratifying to this Bank to note your stand with respect to the payment of Government checks and warrants. However, under present banking practice, as you know, a great proportion of this paper is collected through the Federal Reserve Banks, which in certain respects act as an agency of the Government. This has raised two questions: first, whether the "remitting bank" referred to in Section 37(2) is to be interpreted as the Federal Reserve Bank, or the bank which has transmitted the paper to the Reserve Bank, and second, whether the Reserve Banks in dealing with this type of paper are acting in a governmental or private capacity?

We would like very much to conform to your desire and discontinue at once the use of the stamp referred to in former correspondence, which is subject to so much criticism from our foreign correspondents. Our counsel, however, do not feel free to advise that course until they know the attitude of the Department of the Treasury on the points mentioned.

Yours very truly,

(Signed) N. C. Lenfestey,

Cashier.

FEDERAL RESERVE BOARD

WASHINGTON

X-3506

August 19, 1922.

SUBJECT: Expense Main Line, Leased Wire System, July 1922.

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-3506a and X-3506b, covering in detail operations of the main line, Leased Wire System, during the month of July, 1922.

Please credit the amount payable by your bank in the general account, Treasurer U. S., on your books, and issue C/D Form 1, National Banks, for account of "Salaries and Expenses, Federal Reserve Board, Special Fund", Leased Wire System, sending duplicate C/D to Federal Reserve Board.

Very truly yours,

Fiscal Agent.

(Enclosure)

TO GOVERNORS OF ALL BANKS EXCEPT CHICAGO.

X-3506a

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS
TRANSMITTED OVER MAIN LINE OF THE FEDERAL RESERVE
LEASED WIRE SYSTEM FOR THE MONTH OF JULY, 1922.

From	Bank Business	Per cent of Total Bank Business(*)	Treasury Dept. Business	War Finance Corp. Business	Total
Boston	33,660	3.42	5,821	-	39,481
New York	177,271	18.01	8,753	-	186,024
Philadelphia	57,081	5.80	5,939	-	63,020
Cleveland	75,210	7.64	5,199	217	80,626
Richmond	63,278	6.43	5,335	-	68,613
Atlanta	56,753	5.77	7,346	-	64,099
Chicago	130,792	13.29	8,304	50	139,146
St. Louis	79,612	8.09	7,331	-	86,943
Minneapolis	40,397	4.10	6,893	-	47,290
Kansas City	81,734	8.30	8,535	16	90,285
Dallas	58,031	5.90	4,364	168	62,562
San Francisco	<u>130,360</u>	<u>13.25</u>	<u>10,677</u>	-	<u>141,038</u>
Total F. R. Banks	984,179	100.00	84,497	451	1,069,127
Washington	<u>300,558</u>		<u>176,465</u>	<u>743</u>	<u>477,766</u>
Grand Total	1,284,737		260,962	1,194	1,546,893
Per cent of Total	83.05%		16.87%	.08%	
Bank Business		1,284,737 words or 83.12%			
Treasury Business		<u>260,962</u> " " 16.88%			
TOTAL		1,545,699	100.00%		

(*) These percentages used in calculating the pro rata share of leased wire expenses as shown on the accompanying statement (X-3506b)

FEDERAL RESERVE BOARD
WASHINGTON, D. C.
August 19, 1922.

REPORT OF EXPENSE
 MAIN LINE
 FEDERAL RESERVE LEASED WIRE SYSTEM JULY, 1922.

X-3506b

Name of Bank	Operators' Salaries	Operators' Overtime	Wire Rental	Total Expense	Pro rata Share of Total Expense	Credits	Payable to Federal Reserve Board
Boston	\$ 250.00	\$ -	\$ -	\$ 250.00	\$ 695.01	\$ 250.00	\$ 445.01
New York	954.98	173.00	-	1,127.98	3,659.96	1,127.98	2,531.98
Philadelphia	225.00	-	-	225.00	1,178.67	225.00	953.67
Cleveland	366.00	-	-	366.00	1,552.59	366.00	1,186.59
Richmond	305.00	-	-	305.00	1,306.69	305.00	1,001.69
Atlanta	240.00	-	-	240.00	1,172.57	240.00	932.57
Chicago	(#) 4,947.38	12.00	-	4,959.38	2,700.77	4,959.38	2,258.61 (*)
St. Louis	290.00	-	-	290.00	1,644.04	290.00	1,354.04
Minneapolis	288.35	-	-	288.35	833.20	288.35	544.85
Kansas City	326.64	67.74	-	394.38	1,686.71	394.38	1,292.33
Dallas	170.00	-	-	170.00	1,198.99	170.00	1,028.99
San Francisco	395.00	-	-	395.00	2,692.64	395.00	2,297.64
Fed. Res. Board			16,952.22	16,952.22			
Total	\$8,758.35	\$252.74	\$16,952.22	\$25,963.31 (a) 5,641.47 <u>\$20,321.84</u>	\$20,321.84	\$9,011.09	\$13,569.36 (&) 2,258.61 <u>\$11,310.75</u>

(#) Includes salaries Washington Operators.

(&) Amount reimbursable to Chicago.

(*) Credit.

(a) Received \$5,561.97 from Treasury Department and \$79.50 from War Finance Corporation covering business for months of Jan. and February, and June, 1922, respectively.

FEDERAL RESERVE BOARD,
 WASHINGTON, D. C.,
 AUGUST 19, 1922.

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.

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.

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

X-3510

For release in Morning Papers,
Friday, September 1, 1922.

The following is a summary of general business and financial conditions throughout the several Federal Reserve Districts during the month of August, as contained in the forthcoming issue of the Federal Reserve Bulletin.

The outstanding feature of the month has been the inherent soundness which the general business situation has manifested in the face of the difficulties which have been encountered. This has been shown by the continuance of activity at a relatively high level despite labor disturbances, in particular those in the coal and transportation industries, and despite the fact that some recession of activity is normally to be expected at this season of the year. Prices of important commodities continued their upward tendency during July, the index number of the Federal Reserve Board for that month being 165, or 4 points greater than the June figure. During August, however, conflicting tendencies in price movements were apparent. The excellent agricultural prospects provide an encouraging outlook for the fall trade. Furthermore, increase of demand for certain commodities to compensate for restricted output or delay in placing orders owing to uncertainty, is also in prospect. Even so, business must necessarily proceed under handicaps for some time to come, as a result of fuel shortage and transportation difficulties.

Manufacturing activity in general has been maintained at a high level during both July and August. In those industries, such

as automobiles and building construction, in which seasonal recession is shown, activity is still far in excess of a year ago, Cotton manufacturing likewise shows some decrease, but wool machinery on August 1 showed greater activity than on July 1. The output of the nonferrous metals other than copper has also increased, and prices have advanced, in particular in the case of zinc. The fuel shortage and traffic congestion, however, have resulted in some decrease of activity in the iron and steel industry, particularly since the opening of August. Bituminous coal production has increased steadily during the present month, and, with the resumption of operations, output may shortly attain maximum levels. Pending the settlement of labor difficulties, anthracite production continues almost negligible. Petroleum output increased somewhat in July, and stocks show further accumulation.

The labor situation showed considerable improvement during August. The bituminous coal strike has been settled in many fields and the majority of the New England cotton mill workers have returned to the factories. Shortages are reported in various industries, in particular in the western copper mines. Reflecting this situation, wage increases have been granted for certain classes of labor. The only important disturbances still existing are those in transportation and the anthracite coal industry, in both of which negotiations for settlement have been actively proceeding.

Agricultural prospects on the whole continue very satisfactory. There was a notable improvement in the condition of the

corn crop during July, and the Spring wheat crop promises to be unusually large. It is impossible as yet to estimate definitely the final yield of the cotton crop, but the weevil damage has been less than anticipated. The prospects for the tobacco crop are exceptionally good, and most of the other crops are considerably above the average.

Wholesale trade suffered a decline during July as compared with June in all lines except dry goods, which was more active because of fall buying in all districts except those most affected by labor difficulties. Recessions in groceries, hardware, boots and shoes, and drugs were largely seasonal. Most lines were in a better position than a year ago, especially hardware. Retail trade, however, was slightly smaller than last year, although larger in New England and on the Pacific Coast.

Financially few new developments occurred during the month. The Federal Reserve Banks of Kansas City and Minneapolis each reduced their discount rate to $4\frac{1}{2}\%$. None of the Federal Reserve Banks now have rates in excess of that figure. Both Federal Reserve and Member Bank portfolios show little change. The rapid decline of the mark has been the outstanding feature of the foreign exchanges, francs and lire remaining practically constant and sterling showing some increase until recently. In foreign trade, the value of both imports and exports showed a decline from the June figures to approximately the same level as in May.

F E D E R A L R E S E R V E B O A R D.

STATEMENT FOR THE PRESS.

For release in afternoon papers,
Saturday, September 2, 1922.

CONDITION OF THE ACCEPTANCE MARKET, JULY 15 TO AUGUST 15, 1922.

According to reports received by the Federal Reserve Board from the Federal Reserve Banks of the various Districts, the acceptance market during the period under review, for the most part, continued dull with a disinclination on the part of banks to build up their portfolios at the present level of rates. The supply of bills, while limited, was sufficient to meet the small demand, except in the case of District No. 12 (San Francisco) towards the close of the period.

In District No. 2 (New York) both the supply and demand were irregular. During the first part of the period, they were approximately equal, but towards the close, bills came in somewhat faster than they could be distributed, inasmuch as New York City banks were practically out of the market for their own account and there was but a fair demand from banks in the interior. Rates for call money and Treasury certificates, together with the foreign demand, continued to be the dominant factors in the market. In District No. 3 (Philadelphia) a condition very similar to that in the New York District existed. That is to say, there was still a pronounced tendency on the part of banks to seek the higher returns which could be obtained from Government and other securities. In District

No. 1 (Boston), the market for the greater part of the period was slow and featureless. Supply of bills at first was limited, but later became ample to meet the demand.

In District No. 7 (Chicago), the volume of bills accepted by reporting banks during July showed a large increase over the preceding month, but the bills bought decreased approximately 80 per cent. The volume of bills held at the close of July, however, changed only slightly from that at the close of June. Ten of the twentyseven banks reporting showed no transactions in bankers' acceptances. Districts No. 11 (Dallas) and No. 12 (San Francisco) both report a considerable increase in the volume of the acceptance business. In the former, the acceptances outstanding July 31, amounted to \$879,783.08 as compared to \$516,610.50 on June 30, while in the latter District the total bills accepted during July increased 97.4 per cent over the June figures; those bought, 114.5; and the acceptance portfolios of reporting banks at the close of the month, 39.4 per cent. In this District the market from the middle of July to the middle of August was featured by a short period of activity, followed by a relapse to the previous state of dullness. The bulk of the demand was still from city banks. District No. 4 (Cleveland) reports the market very quiet while the same is true in Districts No. 6 (Atlanta) and No. 8 (St. Louis).

The bulk of acceptances executed in the various districts was based upon the importation of raw sugar, coffeee, and silks; the exportation of cotton, grain, and automobile tires; the storage of

- 3 -

crude oil, canned goods, and wheat; and transactions in meats, canned or dried fruits, wool and hides.

In District No. 1 (Boston) 30-day acceptances moved best, and in Districts No. 3 (Philadelphia) and No. 4 (Cleveland) there was a preference for 30 and 60 day maturities. In District No. 2 (New York) local buyers showed a preference for short maturities, while longer bills found a readier market among country banks. In District No. 7 (Chicago) 75.1 per cent of the bills purchased by reporting banks had 90-day maturities; 7.7 per cent, 30-day; 7.0 per cent, 60-day; and 10.2 per cent, 180-day. District No. 12 (San Francisco) reports the distribution of maturities as follows:

Maturity	July 15 to August 15	June 15 to July 15
30 days	3.8%	10.4%
60 days	27.8%	34.6%
90 days	67.8%	49.0%
120 days	0.6%	6.0%

Rates on prime bills in the various districts were as follows:

		Range during period		Close	
	Maturity	Bid	Offered	Bid	Offered
District No. 1 (Boston)	30-day	3 - 3-1/8	3-7/8 - 3	3 - 1/8	3
	60-day	"	"	"	"
	90-day	"	"	"	"
	120-day	"	"	"	"
	150-day	"	"	"	"
	180-day	"	"	"	"
<hr/>					
District No. 2 (New York)	30-day	3 - 3-1/4	2-7/8 - 3	3-1/8 - 3-1/4	3
	60-day	"	"	"	"
	90-day	"	"	"	"
	120-day	3-1/8 - 3-1/4	3	"	"
	150-day	3-1/8 - 3-1/2	3 - 3-1/4	3-3/8 - 3-1/2	3 - 3-1/8
	180-day	"	"	"	"
<hr/>					
District No. 3 (Phila- delphia)	30-day	3-1/8 - 3-1/4	3	3-1/8 - 3-1/4	3
	60-day	"	"	"	"
	90-day	"	"	"	"
	120-day	"	3 - 3-1/8	"	3 - 3-1/8
	150-day	3-1/4 - 3-3/8	3 - 3-1/4	3 - 1/4 - 3-3/8	3 - 3-1/4
	180-day	3-1/4 - 3-1/2	"	3-1/4 - 3-1/2	"
<hr/>					
District No. 4 (Cleveland)	30-day	3-1/4 - 3-1/8	3	3-1/8	3
	60-day	"	"	"	"
	90-day	"	"	"	"
	120-day	"	"	"	"
	150-day	3-3/8 - 3-1/4	3-1/8	3-1/4	3-1/8
	180-day	"	"	"	"
<hr/>					
District No. 7 (Chicago)	30-day	3 - 3-1/4	2-7/8 - 3	3-1/8	3
	60-day	"	"	"	"
	90-day	"	"	"	"
	120-day	3-1/8 - 3-3/8	2-7/8 - 3-1/8	3-1/8 - 3-3/8	3 - 3-1/8
	150-day	"	3 - 3-1/8	"	"
	180-day	"	"	"	"

FEDERAL RESERVE BOARD

WASHINGTON

X-3512

August 28, 1922.

SUBJECT: Joint Conference of Federal Reserve Agents
and Governors.

Dear Sir:

The Board has designated Tuesday, October 10th, as the opening date for the annual joint conference of Federal Reserve Agents and Governors of Federal Reserve Banks. It is the Board's desire that this conference be conducted in the same manner as last year and that both joint and separate sessions be held. It is suggested that the presiding officer of each body be constituted a committee of one to arrange a list of topics for separate discussion and that they act together in arranging the program for the joint meeting. The Board in due course will prepare a list of topics which it desires to have considered and it is hoped that the program can be completed and a copy placed in the hands of each Federal Reserve Agent and Governor not later than October 1st.

Very truly yours,

Vice Governor.

TO FEDERAL RESERVE AGENTS
AND GOVERNORS.

COPY

A

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

COPY B

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

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X-3513

B

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

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X-3513

B

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.

X-3513 1064

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.

FEDERAL RESERVE BANK
ATLANTACOPY
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.

H

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 -

X-3513

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.

I

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.

I

X-3513

COPY

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
S A N F R A N C I S C O

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.

TREASURY DEPARTMENT
OFFICE OF THE SECRETARY
WASHINGTON

X-3520

September 12, 1922.

The Governor
Federal Reserve Board.

Sir:

You are advised that the Department has referred to the General Accounting Office, Treasury Department Division, for settlement, the account of the Bureau of Engraving and Printing for preparing Federal Reserve notes during the period August 1 to August 31, 1922, amounting to \$111,187.60, as follows:

Federal Reserve Notes 1914

	<u>\$5</u>	<u>\$10</u>	<u>\$20</u>	<u>\$50</u>	<u>\$100</u>	<u>Total</u>
New York	144,000	235,000	96,000	20,000	-	495,000
Philadelphia	35,000	59,000	-	-	-	94,000
Cleveland	104,000	28,000	73,000	20,000	-	225,000
Richmond	115,000	20,000	-	-	-	135,000
Atlanta	80,000	38,000	-	1,000	-	119,000
Chicago	86,000	2,000	-	-	-	88,000
St. Louis	41,000	25,000	-	-	-	66,000
Mimeapolis	40,000	26,000	-	-	-	66,000
Kansas City	31,000	39,000	-	-	-	70,000
Dallas	61,000	-	-	-	-	61,000
San Francisco	<u>217,000</u>	<u>125,000</u>	<u>95,000</u>	<u>5,000</u>	<u>3,000</u>	<u>445,000</u>
	954,000	597,000	264,000	46,000	3,000	1,864,000

1,864,000 sheets at \$59.65 \$111,187.60

The charges against the several Federal Reserve Banks are as follows:

	<u>Sheets</u>	<u>Compen- sation</u>	<u>Plate Printing</u>	<u>Materials</u>	<u>Inc.Com- pensation</u>	<u>Total</u>
New York	495,000	9,825.75	10,419.75	\$6,707.25	\$ 2,574.00	\$29,526.75
Philadelphia	94,000	1,865.90	1,978.70	1,273.70	488.80	5,607.10
Cleveland	225,000	4,466.25	4,736.25	3,048.75	1,170.00	13,421.25
Richmond	135,000	2,679.75	2,841.75	1,829.25	702.00	8,052.75
Atlanta	119,000	2,362.15	2,504.95	1,612.45	618.80	7,098.35
Chicago	88,000	1,746.80	1,852.40	1,192.40	457.60	5,249.20
St. Louis	66,000	1,310.10	1,389.30	894.30	343.20	3,936.90
Mimeapolis	66,000	1,310.10	1,389.30	894.30	343.20	3,936.90
Kansas City	70,000	1,389.50	1,473.50	948.50	364.00	4,175.50
Dallas	61,000	1,210.85	1,284.05	826.55	317.20	3,638.65
San Francisco ...	<u>445,000</u>	<u>8,833.25</u>	<u>9,367.25</u>	<u>6,029.75</u>	<u>2,314.00</u>	<u>26,544.25</u>
	1,864,000	37,000.40	39,237.20	\$25,257.20	\$ 9,692.80	111,187.60

The Bureau appropriations will be reimbursed in the above amount from the indefinite appropriation "Preparation and Issue of Federal Reserve Notes, Reimbursable", and it is requested that your Board cause such indefinite appropriation to be reimbursed in like amount.

Respectfully,
Wm. S. Broughton,
Commissioner.

FEDERAL RESERVE BOARD

WASHINGTON

X-3522
September 20, 1922.

SUBJECT: Expense Main Line, Leased Wire System, August, 1922.

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-3522a and X-3522b, covering in detail operations of the main line, Leased Wire System, during the month of August, 1922.

Please credit the amount payable by your bank in the general account, Treasurer U. S., on your books, and issue C/D Form 1, National Banks, for account of "Salaries and Expenses, Federal Reserve Board, Special Fund", Leased Wire System, sending duplicate C/D to Federal Reserve Board.

Very truly yours,

Fiscal Agent.

(Enclosure)

TO GOVERNORS OF ALL BANKS EXCEPT CHICAGO.

X-3522a

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS
TRANSMITTED OVER MAIN LINE OF THE FEDERAL RESERVE
LEASED WIRE SYSTEM FOR THE MONTH OF AUGUST, 1922.

From	Bank Business	Per cent of Total Bank Business(*)	Treasury Dept. Business	War Finance Corp. Business	Total
Boston	32,553	3.13	8,362	-	40,915
New York	206,254	19.82	13,342	-	219,596
Philadelphia	60,422	5.81	9,200	-	69,622
Cleveland	79,554	7.65	8,754	150	88,458
Richmond	65,669	6.31	8,254	-	73,923
Atlanta	60,152	5.78	11,076	122	71,350
Chicago	131,837	12.67	11,309	51	143,197
St. Louis	80,769	7.76	9,806	-	90,575
Minneapolis	35,395	3.40	8,360	-	43,755
Kansas City	84,743	8.14	10,104	85	94,932
Dallas	63,692	6.12	6,414	240	70,346
San Francisco	<u>139,582</u>	<u>13.41</u>	<u>13,890</u>	<u>179</u>	<u>153,651</u>
Total F. R. Banks	1,040,622		118,871	827	1,160,320
Washington	<u>321,981</u>	<u>100.00</u>	<u>117,589</u>	<u>1,330</u>	<u>440,900</u>
Grand Total	1,362,603		236,460	2,157	1,601,220
Per cent of Total	85.10%		14.77%	.13%	
Bank Business	1,362,603 words or		85.21%		
Treasury Business	<u>236,460</u> " "		<u>14.79%</u>		
TOTAL	1,599,063		100.00%		

(*) These percentages used in calculating the
Pro rata share of leased wire expenses as
shown on the accompanying statement (X-3522b).

FEDERAL RESERVE BOARD
WASHINGTON, D. C.
SEPTEMBER 20, 1922.

REPORT OF EXPENSE
MAIN LINE
FEDERAL RESERVE LEASED WIRE SYSTEM AUGUST, 1922.

X-3522b

Name of Bank	Operators' Salaries	Operators' Overtime	Wire Rental	Total Expense	Pro rata Share of Total Expense	Credits	Payable to Federal Reserve Board
Boston	\$ 250.00	\$ -	\$ -	\$ 250.00	\$ 584.98	\$ 250.00	\$ 334.98
New York	1,269.98	147.00	-	1,416.98	3,704.27	1,416.98	2,287.29
Philadelphia	225.00	-	-	225.00	1,085.86	225.00	860.86
Cleveland	366.00	-	-	366.00	1,429.75	366.00	1,063.75
Richmond	305.00	-	-	305.00	1,179.31	305.00	874.31
Atlanta	240.00	-	-	240.00	1,080.26	240.00	840.26
Chicago	(#)5,091.32	-	-	5,091.32	2,367.97	5,091.32	2,723.35(*)
St. Louis	290.00	-	-	290.00	1,450.31	290.00	1,160.31
Minneapolis	275.00	-	-	275.00	635.44	275.00	360.44
Kansas City	326.64	1.90	-	328.54	1,521.33	328.54	1,192.79
Dallas	170.00	-	-	170.00	1,143.80	170.00	973.80
San Francisco	395.00	-	-	395.00	2,506.27	395.00	2,111.27
Fed. Res. Board				16,876.98	16,876.98		
TOTAL	\$9,203.94	\$148.90	\$16,876.98	\$26,229.82	\$18,689.55	\$9,352.84	\$12,060.06
				(a) <u>7,540.27</u>			(&) <u>2,723.35</u>
				\$18,689.55			\$ 9,336.71

(#) Includes salaries of Washington Operators

(&) Amount reimbursable to Chicago.

(*) Credit

(a) Received \$7,517.36 from Treasury Department and \$22.91 from War Finance

Corporation covering business for months of March and April, and July, 1922, respectively.

FEDERAL RESERVE BOARD,
WASHINGTON, D. C.
SEPTEMBER 20, 1922.

FEDERAL RESERVE BOARD
WASHINGTON

September 25, 1922.
X-3524

Subject: Appointment of Mr. W. W. Stewart

Dear Sir:

You are advised that Mr. W. W. Stewart has been appointed by the Board to succeed Dr. H. Parker Willis as Director of the Division of Analysis and Research of the Federal Reserve Board. Mr. Stewart assumed his duties on September 15, 1922.

Very truly yours,

Walter L. Eddy,
Assistant Secretary.

To all F.R. Agents.
Copies to Governors.

FEDERAL RESERVE BOARD

WASHINGTON

September 25, 1922.

X-3525

SUBJECT: Reinvestment of Proceeds of Maturing Government Securities.

Dear Sir:

For your information, there is quoted below the text of a letter received this morning from the Under Secretary of the Treasury which is self-explanatory:

"I gather from the statement of the Federal Reserve Board as to the condition of the Federal Reserve Banks at the close of business September 20, 1922, that up to that date the Federal Reserve Banks generally had not made any reinvestments of the proceeds of their September 15th maturities. It seems to me that it would be helpful to the general situation if the Federal Reserve Banks concerned would continue to follow this policy. I notice in this connection that the Federal Reserve Banks' basic holdings of bills purchased in the open market has increased within the past few months from a relatively insignificant amount to about \$200,000,000. This, I assume, should reduce the pressure to invest in Government securities for the purpose of making expenses and dividends."

Yours very truly,

Vice Governor.

GOVERNORS OF ALL F. R. BANKS
COPIESTO CHAIRMEN.

FEDERAL RESERVE BOARD
WASHINGTON

X-3526
September 27, 1922.

SUBJECT: Election of Class "A" and "B" Directors.

Dear Sir:

This will confirm my telegram to you of this date advising that the electoral groups of member banks for the election of Class "A" and "B" directors this year will be on the same basis as prescribed by the Board in its letter of October 3, 1918, X-1240, and that the Board has designated Thursday, November 16, 1922, as the date for opening the polls.

Very truly yours,

Wm. W. Hoxton,
Secretary.

TO THE CHAIRMEN OF ALL FEDERAL RESERVE BANKS.

F E D E R A L R E S E R V E B O A R D

STATEMENT FOR THE PRESS

X-3528

For release in Morning Papers,
Sunday, October 1, 1922.

The following is a summary of general business and financial conditions throughout the several Federal Reserve Districts during the month of September, as contained in the forthcoming issue of the Federal Reserve Bulletin.

The chief development of the current month has been the improvement in the labor situation. The amount of voluntary unemployment has been greatly reduced, and wages have shown a distinct upward tendency. Mining output increased about 3 per cent during August and has shown a tremendous expansion during September, due to the reopening of most of the bituminous and anthracite coal mines. Manufacturing is also being maintained at relatively high levels, increased production being reported in most important industries. The crop prospects are somewhat less encouraging than a month ago, as there has been a rather general deterioration of the growing crops. Both wholesale and retail trade showed marked expansion during August. Financial conditions continue to be very sound, while domestic money rates show a slight upward tendency. The general level of prices has remained constant during the past month; the August index number of the Federal Reserve Board being the same as that for July.

Manufacturing was slightly curtailed in August, but has recovered during September. Iron furnaces and steel mills are increasing their rate of production to satisfy the continued large demand of railroads and automobile companies. The market for nonferrous metals continues reasonably strong and reflects a further increase in mine output of copper and lead. Cotton mills and knit goods factories have increased their output and woollen machinery is slightly more active, while August silk consumption was the largest for any month since 1919. The continued building activity has resulted in an improved demand for lumber, cement, and other building materials. Petroleum consumption has increased due to the shortage of other fuel, but stocks continue to accumulate.

The volume of employment has increased during September in consequence of the return to work of several hundred thousand coal miners, railroad shopmen and textile workers. The period from August 15 to September 15, moreover, contained by far the largest number of wage increases reported in any month since the decline of business activity in 1920. The most important increases occurred at copper mines, steel mills, cotton mills and in the building industry. Unskilled or semi-skilled workers received most of these advances.

The average condition of farm crops declined somewhat during August. The cotton crop has suffered severe damage from boll weevils and from drought. Ginnings prior to September 1 were much larger than in either 1920 or 1921. The estimates of the corn crop have been much reduced, but the prospects for spring wheat have considerably improved. The grain crops are being marketed more slowly than last year except in the case of rye.

Wholesale trade improved substantially during August in all reporting lines. Every District reported increases in dry goods sales, which averaged almost 50 per cent higher than in July. Sales of furniture and shoes were also much larger. Comparisons with a year ago indicate improvement for all lines except groceries and shoes. Retail trade improved considerably during August, and the volume of business was larger in most sections than in August, 1921.

The banks are in a strong position and are meeting the seasonal demand for credit with ease. This seasonal demand has led to increases in both call and time money rates at New York. Federal Reserve Banks have somewhat increased their bill holdings. European exchange rates have generally declined during September, and there has also been a slight decline in Asiatic exchanges. The value of exports was practically the same in August as in July, but there was a moderate increase in the value of imports.

F E D E R A L R E S E R V E B O A R D .

STATEMENT FOR THE PRESS.

X-3529

For release in afternoon papers,
Tuesday, October 3, 1922.

CONDITION OF THE ACCEPTANCE MARKET, AUGUST 15 TO SEPTEMBER 15, 1922.

According to the reports received by the Federal Reserve Board from the Federal Reserve Banks, the acceptance market during the period under review, for the most part, continued dull with a disinclination on the part of buyers to purchase bills at the present level of rates. The supply of bills in most centers was limited but ample to meet the slight demand.

In District No. 2 (New York) both the supply and demand were light. The market was very quiet although at times during the period dealers reported very good business. Rates for call money and Treasury Certificates, together with the foreign demand, continued to be the dominant factors. Dealers were cautious in their commitments and conducted mainly day to day trading operations while there was a continued tendency towards decreasing outside distribution of bills. Similar conditions are noted in District No. 1 (Boston) in which it is stated the supply of bills was larger than the market would absorb at the offered rates. District No. 3 (Philadelphia) likewise reports more or less

apathetic conditions, with inland and local banks displaying no inclination to buy.

District No. 7 (Chicago) reports a considerable decrease in acceptance transactions during August as compared with July. Bills accepted decreased 25 per cent and bills bought continued the decrease noted in the last report. The volume of bills sold declined for the third consecutive month, the decrease during the current month being 11.6 per cent, while bills held, after showing a gradual increase for the two preceding months, showed a decrease of 60 per cent at the end of August. Twelve of the 27 reporting banks in the District show no transactions in bankers' acceptances during the month.

In District No. 12 (San Francisco), which the latter part of the previous period experienced a shortage of bills, reports that new bills are being offered in good volume and this in conjunction with the offerings in other parts of the country has created a supply at least equivalent to the present demand. Acceptances executed in District No. 11 (Dallas) on August 31 amounted to \$476,241.06 as compared with \$879,783.08 on July 31 and \$516,610.50 on June 30. District No. 4 (Cleveland) reports the market continues to be very quiet and the same is true of Districts No. 6 (Atlanta) and No. 8 (St. Louis).

The bulk of the acceptances executed in the various Districts were based upon exportation of cotton, grain and meat; importation of sugar, coffee, silk, coal and rubber; warehousing of sugar and tobacco; transactions in wool and oil; and dollar exchange.

In District No. 1 (Boston) no bills moved easily, but the best demand was for short bills, especially those with maturities under 30 days. In District No. 4 (Cleveland) preference was for the shorter bills of 30 and 60 days, although there was some demand for 90-day bills. Maturity of purchases in District No. 7 (Chicago) were 30-day, 24.8 per cent; 60-day, 17.9 per cent; and 90-day, 57.3 per cent. District No. 12 (San Francisco) also reports the best demand for short bills and gives the distribution of maturities as follows:

<u>Maturities</u>	<u>August 15 to September 15</u>	<u>July 15 to August 15</u>
30 days	22.8%	3.8%
60 days	55.3%	27.8%
90 days	19.4%	67.8%
120 days	2.5%	0.6%

Rates on prime bills in the various Districts were as follows:

Rates on Prime Bills

		Range during period		Close	
	Maturity	Bid	Offered	Bid	Offered
District No. 1 (Boston)	30-day	3-1/8 - 3-1/4	3 - 3-1/8	3-1/4	3-1/8
	60-day	"	"	"	"
	90-day	"	"	"	"
	120-day	"	"	"	"
	150-day	"	"	"	"
	180-day	"	"	"	"
<hr/>					
District No. 2 (New York)	30-day	3-1/8 - 3-1/4	3- 3-1/8	3-1/4	3-1/8
	60-day	"	"	"	"
	90-day	"	"	"	"
	120-day	"	"	"	"
	150-day	3-1/4 - 3-1/2	3-1/8 3-3/8	3-3/8 - 3-1/2	3-1/4
	180-day	"	"	"	"
<hr/>					
District No. 3 (Phila- delphia)	30-day	3-1/8 - 3-3/8	3 - 3-1/8	3-1/8 - 3-3/8	3- 3-1/8
	60-day	"	"	3-1/4 - 3-3/8	3-1/8
	90-day	"	"	"	"
	120-day	3-1/8 - 3-1/2	"	"	"
	150-day	3-1/4 - 3-1/2	3-1/8 - 3 1/4	3-1/4 - 3-1/2	3-1/8 - 3 1/4
	180-day	3-1/8 - 3-3/4	"	3-1/4 - 3-3/4	"
<hr/>					
District No. 4 (Cleve- land)	30-day	3-1/4 - 3-1/8	3	3-1/8	3
	60-day	"	"	"	"
	90-day	"	"	"	"
	120-day	"	"	"	"
	150-day	3-3/8 - 3-1/4	3-1/8	3-1/4	3-1/8
	180-day	"	"	"	"
<hr/>					
District No. 7 (Chicago)	30-day	3-1/8 - 3-3/8	3 - 3-1/8	3-1/8 - 3 1/4	3 - 3-1/8
	60-day	"	"	"	"
	90-day	"	"	"	"
	120-day	"	"	"	"
	150-day	3-1/8 - 3 1/2	"	3-1/8 - 3 1/2	3 - 3-1/4
	180-day	"	3 - 3-1/4	"	"

(Preliminary Draft)

X-3530.

STATUS OF BRANCH BANKING UNDER THE LAWS OF THE SEVERAL STATES.States Prohibiting Branch Banking By Law:No. of States

*Alabama	*Indiana	Oregon	
Colorado	Missouri	Texas	
Connecticut	New Hampshire	Utah	15
*Florida	*New Jersey	*Washington	
Idaho	New Mexico	*Wisconsin	

No specific provision but branches not permitted:

Illinois	Montana	Oklahoma	
Iowa	Nebraska	South Dakota	
Kansas	Nevada	Vermont	12
Minnesota	North Dakota	West Virginia	

States Prohibiting Branch Banks but Permitting Branch Offices or Agencies:

Kentucky	Michigan	*Mississippi	*Pennsylvania	4
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States Permitting Branch Banking with no Geographical Limitations:

Arizona	Georgia	Rhode Island	
Delaware	North Carolina	Virginia	3
California	South Carolina		

States Permitting Branches within Geographical Limitations:

Louisiana	Massachusetts	Ohio	5
Maine	New York		

States Permitting Branches without Express Authorization of Law:

Arkansas	Maryland	Tennessee	3
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Wyoming permits branches by implication but no branches are in operation.

48

*In these states banks are permitted to maintain and are operating branches which were in existence before the establishment of branches was prohibited.

STATUS OF BRANCH BANKING UNDER THE LAWS OF THE SEVERAL STATES.

As given in reports from the twelve Federal Reserve Agents.

ALABAMA

Branch banking prohibited, except in the case of those banks having branches in operation prior to March 2, 1911.

Six banks are thus operating twenty branches.

ARIZONA

Subject to the approval of the Superintendent of Banks, a bank may establish branches, provided it has not less than \$50,000 capital and surplus, plus \$15,000 of additional capital and surplus for each and every branch.

Seven banks are operating twenty branches.

There are only twenty-three banks in the State with a capital and surplus of \$65,000 or over.

ARKANSAS

No specific provision in the statutes, but there are 3 banks operating 4 branches in the State.

CALIFORNIA

Subject to the approval of the Superintendent of Banks to be granted when "public convenience and advantage will be promoted by such a branch", a bank may establish any number of branches in any part of the State. The capital requirements for branch offices are:

1. For each branch office located in the place of principal business of the parent bank, the paid-in capital, in cash must exceed by \$25,000 the capital required for a bank in that place.

2. For each branch office of a bank other than an exclusive trust company located in any place in the State other than the place of principal business of the parent bank, the amount of the paid-in capital, in cash, of the parent bank must exceed the amount required by law in the sum required for an independent bank organized in that locality, exclusive of the capital required for a trust department.

3. For each branch of an exclusive trust company established or maintained in a place other than the place of principal business of the parent bank, the paid-in capital, in cash of the parent bank must exceed the sum otherwise required by law in the sum of \$25,000.

On June 30, 1922, there were 429 state banks, of which 82 were operating a total of 281 branches.

The Bank of Italy with 59 branches conducts a statewide banking business.

The Los Angeles Trust & Savings Bank has 44 branches located either within the city or in the territory economically tributary.

The California Bank of Los Angeles has 28 branches, all located within the city or suburbs.

The Security Trust & Savings Bank of Los Angeles has 19 branches within the city and the near vicinity.

COLORADO

Branch banking prohibited and no branches in operation.

CONNECTICUT

Branch banking prohibited and no branches in operation.

DELAWARE

Branches may be established with the consent of the State Bank Commissioner. The applying bank must have at least \$25,000 capital for each office or place of business then established and for the branch to be established and a surplus of at least \$25,000 for each office or place of business then established.

Three banks, each with two branches, have allocated capital stock to each of the branches.

Two banks, one with 1 branch in the same city, and one with 11 branches throughout the State have not allocated any stock to the separate branches.

Total for the State, five banks with 18 branches.

FLORIDA

Branch banking prohibited. Under a previous statute one bank is operating two branches.

GEORGIA

The establishment of branch banks is permitted subject to the approval of the Superintendent of Banks, and with a proviso that each branch is to have allocated to it separate capital in an amount prescribed by the Superintendent of Banks.

Eighteen banks are operating 34 branches.

IDAHO

Branch banking prohibited and no branches in operation.

ILLINOIS

No provision for branch banks and none being operated.

INDIANA

Branch banks are prohibited by a statute of 1921.

Banks having branches prior thereto and still being operated are:

Lincoln Trust Co., Ft. Wayne,	1 branch
Farmers & Merchants Bank of Clay City,	1 "
Union Trust Co., Indianapolis,	1 "
<u>Fletcher Savings & Trust Co., Indianapolis</u>	<u>5</u> "
4 Banks with	8 branches

IOWA

No provision for branch banks and none being operated.

KANSAS

No provision for branch banks and none being operated.

KENTUCKY

Branches are prohibited by law but recently one state bank has been authorized to open six agencies and one national bank four agencies.

LOUISIANA

Any state bank which has a capital of \$50,000 or more may have as many as two branches in the same parish (county), and trust companies may have as many as they please. (In towns of more than 30,000 population the minimum capital requirement for any bank is \$100,000.)

32 banks are operating 77 branches.

MAINE

Trust Companies are permitted to have branches in the same or adjoining counties.

16 Trust Companies are at present operating 27 branches:

11 have 1 branch	Total branches	11
4 " 3 "	" "	12
1 has 4 "	" "	4
Total - 16 Trust Companies		27 branches

MARYLAND

No specific provision in law, but the statutes are construed to permit branches.

11 banks are operating 41 branches.

MASSACHUSETTS

Subject to the approval of the Board of Bank Incorporation, Trust Companies are permitted to have branches in the same city or town as the parent bank. At present 34 Trust Companies are operating 51 branches:

24	have	1	branch	Total	branches	24
7	"	2	branches	"	"	14
2	"	3	"	"	"	6
1	has	7	"	"	"	7
Total- 34 Trust Companies						51 branches

The present tendency in Boston is for the larger Trust Companies to acquire the small banks and continue their offices as branches. In the rest of the State branches show a tendency to increase.

MICHIGAN

"Industrial" banks are permitted to establish branches within the limits of the municipality designated in the parent bank charter. There is no specific authority for other banks to establish branches to carry on a general banking business, but such branches are prohibited by a ruling of the Attorney General. Banks are permitted, however, to establish agencies in the same city or village designated in the charter of the parent bank. These agencies may receive and pay out deposits and deal in exchange. 47 banks are operating 257 branches or agencies. The greatest development is in Detroit, where 14 banks are operating 189 branches.

Two national banks, converted from state banks, continue to operate branches, and the National Bank of Commerce of Detroit has been permitted to open an additional office.

MINNESOTA

No specific provision in law, but Attorney General holds that banks cannot establish branches without legislative authority.

Three national banks are operating six branches.

MISSISSIPPI

The law prohibits branch banks but permits banks in cities of 10,000 or over to establish, with the permission of the State Bank Examiner, branch offices within the city. Branch banks in operation prior to 1906 are permitted to continue.

The State Bank Examiner reports 9 banks operate 21 branches. (This apparently has reference only to the branches established prior to 1906).

MISSOURI

Branch banking prohibited and no branches in operation.

MONTANA

No specific provision but two opinions of Attorney General hold that state banks have not the power to establish branches. No branches in operation.

NEBRASKA

No provision for branch banks and none being operated.

NEVADA

No provision for branch banks and none being operated.

NEW HAMPSHIRE

Branch banking prohibited and no branches in operation.

NEW JERSEY

Branch banking prohibited. Prior to 1899 branches could be established. In 1913 an act was passed authorizing branches of Trust Companies in the same county where the principal office was located. This was repealed in 1915.

There are at present 11 Trust Companies operating 18 branches and one State Bank operating 1 branch.

NEW MEXICO

Branch banks prohibited, except that any mercantile corporation which maintains a banking department in accordance with the provisions of the laws may receive deposits and buy and sell exchange at any of its branch stores.

NEW YORK

Subject to the approval of the Superintendent of Banks, state banks and trust companies are permitted to have branches in the same city as the parent bank under the following conditions:

Branches of State Banks

1. The bank must be in a city of more than 50,000 population.
2. For each branch opened since April 27, 1908, the actual paid-in capital of the parent bank must exceed \$100,000, the minimum capital requirement, by \$100,000, and for each branch opened before April 27, 1908, and thereafter maintained, the actual paid-in capital must exceed \$100,000, the minimum requirement, by \$50,000.

BRANCHES OF TRUST COMPANIES

Subject to the approval of the State Superintendent of Banks, a Trust Company may establish branches in the same city as the parent bank, provided that the actual paid-in capital of such Trust Company exceeds by \$100,000 for each branch opened the amount otherwise required by law.

Capital requirements:

Population not exceeding 25,000	Capital required	\$100,000
" 25,000 to 100,000	" "	150,000
" 100,000 to 250,000	" "	200,000
" 250,000 and over	" "	500,000

State Banks and Trust Companies having Branches:

In New York City:

1 has	51	branches
1 "	21	"
1 "	9	"
1 "	8	"
3 have	7	"
3 "	6	"
2 "	4	"
6 "	3	"
8 "	2	"
<u>11</u> "	1	"
37		

Total branches:

51
21
9
8
21
18
8
18
16
<u>11</u>
181

In New York State:

1 has	18	branches
1 "	7	"
1 "	6	"
1 "	4	"
1 "	3	"
5 have	2	"
<u>5</u> "	1	branch
15		

18
7
6
4
3
10
<u>5</u>
53

Total: 52 banks operating 234 branches.

Outside of New York City the greatest development is in Buffalo, where banks are operating 39 branches:

National Banks having Branches:

In New York City:

2 have	12	branches
1 has	8	"
1 "	7	"
1 "	5	"
1 "	3	"
1 "	2	"
<u>*1</u> "	1	branch
8		

Total branches:

24
8
7
5
3
2
<u>1</u>
50

In New York State:

Albany - 1 bank has 1 branch
 *Buffalo- $\frac{1}{2}$ " " $\frac{1}{2}$ "

*Offices opened recently under the ruling of the Comptroller that National Banks might establish offices but not branches.

NORTH CAROLINA:

Any bank may establish branches subject to the approval of Corporation Commission. The banks must have capital of \$15,000 for the home office and \$20,000 for each branch in a place of less than 3,000 inhabitants, \$30,000 for each branch in a place having from 3,000 to 10,000 inhabitants, \$50,000 for each branch in a place having between 10,000 and 25,000 inhabitants, and \$100,000 for each branch in a place of more than 25,000 inhabitants.

37 banks are operating 53 branches.

NORTH DAKOTA:

No provision for branch banks and none being operated.

OHIO:

Subject to the consent of the Superintendent of Banks a bank may establish branches in the place of its principal business and in a city or village contiguous thereto.

(‘Contiguous’ has not always been construed as adjacent.)

At present 44 banks are operating 156 branches.

Distributed by cities they are:

	No. of banks operating branches	No. of branches
Akron	5	9
Cincinnati	10	24
Cleveland	6 (1,2,6,8,10,49)	76
Toledo	7	18
Elsewhere in the State	<u>16</u>	<u>29</u>
	44	156

OKLAHOMA

No provision for branch banks and none being operated.

OREGON.

Branch banking prohibited but the law provides that whenever, in the future, national banks are authorized to maintain branches in Oregon, the Superintendent of Banks may authorize State Banks to maintain branches on similar terms.

PENNSYLVANIA

Certain banks operating under old charters have branch banking privileges. With those exceptions branch offices are prohibited, but banks and trust companies may establish sub-agencies in the city or borough or township in which its principal place of business is located, providing a full report of the operations is made to the principal place of business at the close of the day, the assets transferred thereto, and the liabilities reported.

This development is confined principally to Philadelphia, in which city -

13 state banks, trust companies, and savings banks	
maintain 1 branch, 13 branches;	
5 state banks, trust companies, and savings banks	
maintain 2 branches, 10 branches	
2 state banks, trust companies, and savings banks	
maintain 3 branches, 6 branches	
Total - 20	Total branches - 29

(It is not reported which of the above, listed as "branches", are true branches and which are offices.)

Two national banks in Camden maintain offices in Philadelphia.

One national bank in Philadelphia maintains 1 branch.

RHODE ISLAND

Subject to the approval of the Board of Bank Incorporation, Trust Companies are permitted to have branches.

Seven Trust Companies are at present operating 17 branches:

5 have 1 branch .	Total branches 5
1 has 2 branches	" " 2
<u>1</u> " 10 "	" " <u>10</u>
7	17

There is a tendency for the larger Trust Companies to absorb the smaller banks and to continue the offices as branches.

SOUTH CAROLINA

Any bank may establish branches.
7 banks are operating 15 branches.

SOUTH DAKOTA

No provision for branch banks and none being operated.

TENNESSEE

Though not specifically authorized, the law is construed to permit branch banking, and 15 banks are operating 29 branches.

TEXAS

Branch banking prohibited and no branches in operation.

UTAH

Branch banking prohibited and no branches in operation.

VERMONT

No No specific provision for branch banking in the Act but branches are not permitted.

VIRGINIA

Subject to the approval of State Corporation Commission, banks having capital of \$25,000 or over may establish branches.

23 banks are operating 41 branches. Several national banks have recently opened branch offices in Richmond.

WASHINGTON

Branch banking prohibited since January, 1915. 4 banks are operating 5 branches established prior thereto.

WEST VIRGINIA

No provision for branch banks and none being operated.

WISCONSIN

An Act passed in 1903 prohibited branch banking except in the case of banks operating branches before the enactment of that law. Under this exception 7 banks are operating 9 branches.

WYOMING

Branch banking permitted by implication. The law provides that banks may be organized to carry on "a general banking, savings bank, loan and trust company business at such place or places in this state as shall be designated in their Articles of Association." While this provision seems to indicate that branches are permitted, there is no other reference in the statutes directly applicable to them, and no branches are in operation.

FEDERAL RESERVE BOARD
WASHINGTON

X-3531

October 3, 1922.

CONFIDENTIAL.

SUBJECT: Functional Expense Reports
August 1922.

Dear Sir:

There is enclosed herewith one copy of Functional Expense Exhibit No. 2 for the month of August 1922, showing for each Federal Reserve Bank and branch the cost of operating each function and expense unit together with the number of employees and of units handled.

As stated in my letter X-3517 of September 8, 1922, forwarding the July exhibit, these reports are furnished to all Federal Reserve Banks for the confidential use of the senior officers, the bank's Committee on Economy and Efficiency, and the department managers directly concerned in order that they may more intelligently examine into their own operating costs in the light of what is being done at other Reserve Banks.

For the present it has been thought best not to distribute more than one copy of the exhibit to each Federal Reserve Bank.

Very truly yours,

Chairman, Committee on
Economy and Efficiency.

FEDERAL RESERVE BOARD

WASHINGTON

X-3532

October 5, 1922.

SUBJECT: Bank Salaries.

Dear Sir:

Referring to the Board's letter of August 9, 1922, X-3500, on the subject of "Bank salaries", in which the Federal Reserve Banks are requested to prepare and forward to the Board each year, on or before December 15th, departmental schedules containing the names of all officers and employees and showing the present and proposed salaries for each, you are advised that the Board desires separate lists for head office and each branch. Specimens of the forms on which the Board desires the lists to be submitted are enclosed herewith.

From time to time in the past the Board has had occasion to note that reports relating to personnel received from the several Federal Reserve Banks and branches have not been compiled on a strictly comparable basis for the reason that persons performing similar work have been listed by some banks as officers and by others as employees. In order to insure uniformity of classification at all Reserve Banks, there is given below a list of the various titles which, for comparative purposes, the Board will consider as designating official positions. Any changes in this list will be promptly brought to the attention of each Federal Reserve Bank. In submitting reports to the Board, persons holding such positions (including those designated to act in that capacity pending the filling of the position with a permanent appointee) should be classified as officers, while all others should be included with employees of the Banking, Federal Reserve Agent's, Auditing, or Fiscal Agency Departments:

AT HEAD OFFICES

Chairman and Federal Reserve Agent
Assistant Federal Reserve Agent
Governor
Deputy Governor
Assistant to Governor
Assistant Deputy Governor
Cashier or Controller
Assistant Cashier or Manager
Comptroller, or Controller of Accounts
Auditor

AT BRANCHES

Manager
Assistant Manager
Cashier
Assistant Cashier
Assistant Federal Reserve Agent
Assistant Auditor

- Assistant Auditor
- Secretary
- Assistant Secretary
- Counsel (full time - not including Consulting Counsel, whose only regular compensation from bank is a retainer fee)
- Assistant Counsel (full time - not including Consulting Counsel, whose only compensation from bank is a retainer fee)

In order that the Board may keep its personnel records up to date, it should be advised by letter at the end of each month of the termination of the employment of any officer or employee receiving \$2501, or more per annum. New appointments of officers and employees at a salary of \$2501, or more per annum should be made subject to the approval of the Federal Reserve Board, and the Board's approval had before such officer or employee begins service with the bank.

This letter supersedes all previous requests for statements relating to personnel, and accordingly, it will not be necessary to submit statements other than those provided for herein unless specifically called for by the Board.

Very truly yours,

Vice Governor.

NUMBER AND SALARIES OF OFFICERS ON DECEMBER 1, 192__.

Federal Reserve Bank - Branch _____ 192__.

Date of Original Employment	Name	Title	Present annual salary	Proposed annual salary	Functions supervised
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NOTE: Separate report as of December 1 should be prepared for each Federal Reserve bank and branch and forwarded to the Federal Reserve Board not later than December 15 of each year.

NUMBER AND SALARIES OF EMPLOYEES RECEIVING MORE THAN \$2500 PER ANNUM

(Employees recommended for salaries in excess of
\$2500 should also be included in this report)

Federal Reserve Bank - Branch _____ 192__.

Date of Original Employment	Name	Title	Present annual Salary	Proposed annual salary	Function to which assigned
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_____ Department*

*Employees should be grouped under the following 4 departments -
Banking - Federal Reserve Agent - Auditing - Fiscal Agency

NOTE: Separate report as of December 1 should be prepared for each Federal Reserve bank and branch and forwarded to the Federal Reserve Board not later than December 15 of each year.

NUMBER AND SALARIES OF EMPLOYEES RECEIVING \$2500 OR LESS PER ANNUM.

(Employees recommended for salaries in excess of \$2500 should not be included in this report)

Federal Reserve Bank - Branch _____ 192__.

Date of Original Employment	Name	Title	Total of salary increases during the current year	Salary as of January 1, 1923
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_____ Department*

*Employees should be grouped under the following 4 departments - Banking - Federal Reserve Agent - Auditing - Fiscal Agency.

NOTE: Separate report as of December 1 should be prepared for each Federal Reserve bank and branch and forwarded to the Federal Reserve Board not later than December 15 of each year.

FEDERAL RESERVE BOARD

WASHINGTON

X-3533

To Officers and Employees of the Federal Reserve Board:-

Annual Leave of Absence.

Employees of the Federal Reserve Board will be granted annual leave, exclusive of Sundays and holidays, under the following conditions:

Permanent employees in the service of the Board at the beginning of the year who have served two years or more may be granted leave during any calendar year not to exceed thirty days, such leave to be allowed at the discretion of the head of the division or office when the work of the division or office will permit.

Permanent employees in the service of the Board at the beginning of the year who have served six months or more and less than two years may be granted leave of absence not to exceed fifteen days before July 1, such leave to be allowed at the discretion of the head of the division or office; and the full period of thirty days or any unused portion thereof may be granted at any time after June 30th. Application for leave in excess of fifteen days before July 1st will be considered by the Board when recommended by the proper administrative officer thereof.

Temporary employees will not be allowed leave with pay during the first month of service. Beginning with the second month, leave with pay will accrue at the rate of two and one-half days for each successive month of service. Such leave will not be granted, however, until it has been earned.

Employees leaving the service may be allowed accrued leave.

Annual leave is not cumulative. All leave not taken within the calendar year lapses.

Absence under all classes of leave must be reported daily to the Secretary's office by the chiefs of divisions.

Extension of Leave of Absence on Account of Sickness.

Slight illness or indisposition will not be accepted as sufficient cause for allowing sick leave. Mere dental work where there are no complications does not constitute sick leave. Such absence should be charged as annual leave.

Sick leave will not be granted in advance, neither will it be granted for a period of less than one day. Cases of personal illness or exposure to contagious diseases must be reported promptly to the division or office to which the employee is attached, and the head of such division or office must in turn immediately report all cases of contagious diseases to the office of the Secretary of the Board.

Absence on account of sickness on Saturday during the summer months in which Saturday is a four-hour day by Executive order will be charged as one day.

Applications for sick leave must be submitted for the consideration of the approving officer on the form prescribed therefor within three days after the applicant's return to duty. If the application is for two days or less, it need not be accompanied by a certificate of an attending physician, but specific reasons for not having had a physician in attendance must be stated. If the application is for a period of absence in excess of two days, a physician's certificate will be required.

Enforced absence of an employee on account of exposure to contagious disease will be approved as sick leave when a proper certificate is furnished by the public health officer.

Leave Without Pay.

Applications for leave should be submitted on the form provided therefor. If leave without pay on account of sickness is applied for, a certificate of an attending physician should be attached. If leave without pay is applied for, for any other reason, applicant must state reason for requesting such leave.

Absence Without Leave.

An employee detained by causes beyond control, and unable to report for duty at the opening hour, must notify the division or office in which he is employed not later than 10:30 A. M. on the first day of absence. Absence from duty for any cause, without prior permission, must be satisfactorily explained.

Sundays, Legal Holidays, Etc.

Sundays and legal holidays, and holidays by Executive Order, whether for the whole or part of a day, will not be counted as annual leave.

EDMUND PLATT

Vice Governor.

WM. W. HOXTON

Secretary

October 5, 1922.

FEDERAL RESERVE CREDIT POLICY.

Program:

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.

Summary of Selected Topics:

The following summary is a selection and condensation of statements made in the papers and memoranda prepared by Governors and Chairmen, with special reference to those points on which opinion is apparently divergent. The topics considered do not follow the order of the program.

1. Relation of credit policy to commodity price levels.

"Federal Reserve credit policy should be directed to effecting steadier credit and price conditions". This object should not be confused with stabilization of prices at present levels. "No one can now predict or control the level at which prices will ultimately become stabilized. We should merely direct our policy (1) so as to prevent any serious inflation, and (2) in times of deflation and depression, so as not to impede those who wish to move forward by using more credit". Credit volume, of course, is not the only factor affecting price levels, but without more credit prices do not rise very far, and with less credit prices almost invariably fall. In agreement with this position is the statement: "Regulation of the volume of credit (which may greatly affect prices) therefore becomes our greatest responsibility".

Another paper states that "very little consideration should be given to commodity price levels. It is no part of the business of a Reserve Bank to seek to advance or depress the price of commodities". Furthermore, "the influence of changes in Federal Reserve Bank rates has been greatly exaggerated, and their power to affect the price-level or control the amount of credit is not only very limited, but very slow in producing effects". No policy, however, should be adopted that is likely to accentuate price fluctuations,

and one test of the soundness of policy is whether it "tends indirectly to stabilize prices by stabilizing credit conditions, and stabilizes credit conditions by checking inflation and deflation before disaster comes". Another paper points to the limited control exercised by Federal Reserve policy over the movements and volume of credit and urges that "it is manifestly impossible in a country so large and so governed as ours to assume that the Federal Reserve Banks initiate or stop credit movements because of high or low prices, active or inactive business, etc. ". The conclusion of another writer is that "the inflation which started in 1919 and broke in 1920 was not controlled, and in my opinion could not have been controlled, by any policy which the Federal Reserve Banks could have adopted".

II. Value and meaning of "discretion in rediscounting" as a method of making credit policy effective.

Two papers reach similar conclusions on this question. One concludes: "Based on the experience of this bank, and giving due consideration to conditions prevailing, 'discretion' in rediscounting is more effective in controlling the credit situation than changes in discount rates". The other says that Federal Reserve Bank "credit and discount policy will be made effective through the exercise of discretion in granting rediscounts, and not through regulation by the discount rate". Among the considerations on which discretion in granting or refusing rediscounts must be based are: (1) occasion for rediscounting, (2) soundness of member bank's condition, (3) integrity and skill of its management, (4) its season-

al rediscount program, (5) general business, banking, and credit outlook.

Another paper concludes that "discretion" in granting discounts should be used merely to supplement regulation by rate, and then chiefly in sections where interest rates are high. "In special cases and districts personal 'discretion' will be inescapable, but its employment should be resisted and moderately used". "'Discretion' implies knowledge of details of member banks business. Such discretion extended to all member banks would necessitate passing upon every loan and investment of every member, causing annoyance, criticism of the system, and possibly radical legislation. 'Discretion' when required should be exercised more as to the total borrowings of a member, rather than as to any specific use of the proceeds. 'Discretionary' control over borrowings by members, except to a limited extent when rate control is ineffective, will develop the desire to exercise still greater power."

III. Effectiveness of rate policy in controlling flow of credit.

The opposing points of view are indicated by the following statements:

- (1) "The effective method of regulation demonstrated by long experience abroad is by the discount rate."
- (2) "The discount rate cannot be the major influence making the credit policy effective."

In support of the first statement:

"The rates established by the Federal Reserve Banks have been measurably effective in influencing the loaning policy of member banks."

And: "The rate of discount of a reserve bank regulates in general how much member banks borrow, and consequently influences increases or decreases in the total volume of credit."

In agreement with the second statement: "The experience of this bank has demonstrated that while increasing the discount rate may have an indirect influence in developing an attitude of caution, it will not be wholly effective in curbing a tendency toward excessive borrowing at Federal Reserve Banks."

It is recognized that the control exercised by regulation depends partly upon the condition of member banks. "It is only when the banks generally are compelled to call upon Federal Reserve Banks that the power of the Reserve Banks to exercise any control over credit begins, and it is at such times that the rates and the rate policy assume greatest importance." And: "Particularly is the influence of the discount rate slight during a period of liquidation such as began in 1920."

IV. Relation of discount policy to reserve position.

There is a marked diversity of opinion regarding the relative importance of Federal Reserve reserves in determining discount policy.

The extremes are indicated by two statements:

- (1) "Too much emphasis cannot be placed upon the Federal Reserve reserves in fixing discount rates."
- (2) "The reserve ratio of a bank or of the system is a very easy but a very bad guide to discount policy."

In accord with the first statement: "The rate to be charged for this assistance (to member banks and the open market) shall be determined by the percentage of gold reserve at the Federal Reserve Banks, as well as its trend." The paper most insistent upon establishing a close relation between discount policy and reserves suggests a plan by which a series of rate advances are definitely related to declines in reserve ratios. This paper says: "If, when their reserves were declining, it was the plain duty of Federal Reserve Banks to protect them by raising discount rates, which resulted in a curtailment of business, why then, when reserves have become exceedingly large, is it not likewise their duty to lower their rates and thus give a stimulus to business?"

In contrast to this is the statement that "it seems probable that a Federal Reserve Bank could render to its member banks substantially its full rediscount service by establishing a moderate rate of say 5 per cent or 6 per cent, and maintaining such a rate without change".

Another paper states that "At the present time, when Federal Reserve Bank reserves are at a high ratio, and the reserves of member banks of the country are in excess of commercial demand and seeking investment in

securities, it is obvious that the protection of Federal Reserve Bank reserves cannot be the primary reason for fixing rates, and that other reasons will and must naturally come to the fore." Yet, when other factors "combine to effect a drain upon the reserves, present or prospective, then the protection of Reserve Bank reserves would become the primary consideration."

V. Relation of discount rates to rates charged by member banks.

Opposing statements:

(1) "I must express the conviction that no object can be accomplished, and no policy can be effective, unless the discount rates of the Reserve Banks are generally maintained at or above rates charged to the public, particularly during periods of expansion."

(2) "Our experience thus far confirms the contention that Federal Reserve discount rates will normally not be above and usually below the lending rates for the paper rediscounted."

Another paper supports the first statement: "Federal Reserve Bank rates to their members must as a governing principle be based upon and bear a close relation to the prevailing rates for bank funds on line of credit paper current in any particular part of the country".

In general accord with the second statement: "Discount rates have ordinarily a very limited effect upon the rate made by such members to their customers and were not intended to control the rate to the customer, and do not, in fact, exercise such an influence". Another writer says: "I believe member banks should get accommodation for the necessary requirements of their customers at Reserve Bank rates; and that the rates they charge customers are of minor importance".

VI. Timeliness of rate changes, and method of consideration.

The opinion is expressed that "the real power of the Federal Reserve Bank would seem to be that which results from the wisdom it has exercised in taking the leadership of its members". An object which credit policy should seek to accomplish is "to give timely notice of any distinct change which is anticipated in credit conditions". Changes in rates should be of a character which would indicate "what way the current was running, how strongly it was running, and whether there was likely to be a change in its direction". In agreement with this, another paper states that "an advance in the discount rate, simply recording the accomplished fact of increased credit demand, could serve no important purpose, but an advance made as a cautionary warning of an expected trend of increased demand, should serve as a steadying influence to those engaged in industry and commerce. If it be urged that those guiding a Federal Reserve Bank's policies cannot infallibly forecast the trend of credit demand, it may be said, in the first place, that mathematical precision is not necessary, and further, that the control of the ultimate banking reserves lays upon them the responsibility to be informed of the real trend of business and industry. The discount rate would be the natural medium of expressing their judgment of the credit outlook".

Two papers present plans for bringing about timely and competent consideration of matters of credit policy:

- (1) "Frequent conferences of the Governors and Chairmen of the Federal Reserve Banks with the Federal Reserve Board, or a small

committee representative of the Board and the Banks, for the express purpose of considering credit conditions."

(2) Local credit policies should be dictated, except so far as certain general principles of credit policy are concerned, by the Board of Directors of each Federal Reserve Bank. Open market operations should be handled by one or possibly two committees of Governors of certain of the Federal Reserve Banks within convenient reach. The general principles of credit policy in both cases to be laid down by the Federal Reserve Board."

October 6, 1922.

The Governor,
Federal Reserve Board.

Dear Sir:

You are advised that the Department has referred to the General Accounting Office, Treasury Department Division, for settlement, the account of the Bureau of Engraving and Printing for preparing Federal Reserve notes during the period September 1 to September 30, 1922, amounting to \$106,475.25, as follows:

Federal Reserve Notes 1914

	<u>\$5</u>	<u>\$10</u>	<u>\$20</u>	<u>\$50</u>	<u>Total</u>
Boston.....		130,000			30,000
New York....	185,000	150,000	86,000	18,000	437,000
Philadelphia	36,000	9,000	9,000		54,000
Cleveland...	59,000	58,000	31,000	15,000	163,000
Richmond....	72,000	12,000	22,000		106,000
Atlanta.....	83,000	57,000	40,000	2,000	182,000
Chicago.....	81,000	6,000			87,000
St. Louis...	78,000	22,000	22,000		122,000
Minneapolis.	35,000	18,000	6,000		57,000
Kansas City.	58,000	20,000	23,000		101,000
Dallas.....	98,000		9,000		107,000
San Francisco	<u>200,000</u>	<u>64,000</u>	<u>75,000</u>		<u>339,000</u>
	981,000	446,000	323,000	35,000	1,785,000

1.785.000 sheets at \$59.65..... \$106,475.25

The charges against the several Federal Reserve Banks are as follows:

	<u>Sheets</u>	<u>Compen- sation</u>	<u>Plate Printing</u>	<u>Materials</u>	<u>Inc. Com- pensation</u>	<u>Total</u>
Boston.....	30,000	\$ 595.50	631.50	406.50	156.00	1,789.50
New York.....	437,000	8,674.45	9,198.85	5,921.35	2,272.40	26,067.05
Philadelphia...	54,000	1,071.90	1,136.70	731.70	280.80	3,221.10
Cleveland.....	163,000	3,235.55	3,431.15	2,208.65	847.60	9,722.95
Richmond.....	106,000	2,104.10	2,231.30	1,436.30	551.20	6,322.90
Atlanta.....	182,000	3,612.70	3,831.10	2,466.10	946.40	10,856.30
Chicago.....	87,000	1,726.95	1,831.35	1,178.85	432.40	5,189.55
St. Louis.....	122,000	2,421.70	2,568.10	1,653.10	634.40	7,277.30
Minneapolis....	57,000	1,131.45	1,199.85	772.35	296.40	3,400.05
Kansas City....	101,000	2,004.85	2,126.05	1,368.55	525.20	6,024.65
Dallas.....	107,000	2,123.95	2,252.35	1,449.85	556.40	6,382.55
San Francisco..	<u>339,000</u>	<u>6,729.15</u>	<u>7,135.95</u>	<u>4,593.45</u>	<u>1,762.80</u>	<u>20,221.35</u>
	1,785,000	35,432.25	37,574.25	24,166.75	9,282.00	106,475.25

The Bureau appropriations will be reimbursed in the above amount from the indefinite appropriation "Preparation and Issue of Federal Reserve Notes, Reimbursable", and it is requested that your Board cause such indefinite appropriation to be reimbursed in like amount.

Respectfully,
S. R. JACOBS,

2132

FEDERAL RESERVE BOARD

WASHINGTON

X-3539

October 16, 1922.

SUBJECT: Alteration of Warehouse Receipts for Cotton
issued by Memphis Terminal Corporation.

Dear Sir:

For your information there is enclosed herewith a copy of a telegram addressed to the Federal Reserve Board by Mr. W. G. Turner, Vice President of the Memphis Terminal Corporation, Memphis, Tennessee, stating that a great number of warehouse receipts issued by that Company, which is licensed under the United States Warehouse Act, have been altered so as to lower or raise the grade of cotton called for by such receipts.

It is feared that such alterations will seriously hamper the financing by member banks of the storage and handling of cotton, and it is hoped that each Federal Reserve Bank will cooperate to such extent as is practicable in all efforts made to detect such alterations and to devise means of preventing similar alterations in the future.

Yours very truly,

Vice-Governor.

(Enclosure)

COPY

X-3539a

Memphis, Tenn. Oct. 12 1922

Vice Governor, Federal Reserve Bank
Washington, D. C.

Following telegram just sent to Mr. H. S. Yohe in charge administration
United States Warehouse Act, United States Department of Agriculture
Washington, D. C.

"We have a United States bonded warehouse license to operate under the United States Bonded Warehouse Act two of our warehouses. We have one United States bonded classer properly licensed. We have two bonded United States weighers properly licensed. In checking up the negotiable United States bonded warehouse receipts issued by this company as a United States bonded warehouse last season we find the following:

A very great number of the warehouse receipts issued by ourselves showing the grades which grades were declared to be the true grade of this cotton by our United States bonded classer have been changed over our signature and been lowered and raised by some one presumably the party to whom the original warehouse receipts were issued and a carbon copy kept of same. How many hundreds or thousands of these receipts have been so changed and raised or lowered at will we have not yet determined accurately but know within the next few days. These receipts are now in our possession properly cancelled and the cotton has been delivered. Every receipt is plainly stamped in red ink not stapled according to your directions and permission the length of staple has been inserted over our signature on these receipts by someone.

The alteration of the grades after the grades have been carefully determined by a United States bonded warehouse classer either by the owner of the receipts, his representative, or any one else is, the writer believes, a forgery; in fact, just as much a forgery if the grade has been raised as it would be to raise a United States bank note of any denomination.

We do not know how far the United States Department of Agriculture feels themselves responsible for an act of this kind. We do not. We think that the intent and purpose of the Warehouse Act was for the protection of all banks in the United States who negotiated these United States bonded warehouse receipts and particularly the Federal Reserve Banks.

Before instituting prosecution on our own initiative we would be glad to be informed as to whether the prosecution or prosecutions for these acts should take place through your department or through the Department of Justice under your auspices or whether we are expected to take charge of this matter ourselves. In a matter of this kind it is the opinion of the undersigned that if the United States Bonded Warehouse Act is intended to safeguard the interest of banks and such alteration or alterations by the owners of the cotton deposited be allowed which, of course, changes the representation of the values represented on the face of the ware-

house receipt then this company are very much disappointed in their view of the intention of the Warehouse Act. All of the receipts in question are available for your inspection or the inspection of any one who may be interested. Please advise as soon as possible whether your department is interested enough to see these receipts or whether the Department of Justice if it is under their jurisdiction desires to inspect them.

Copy of this message has been sent to Senator K. D. McKellar, representing Western Tennessee, Hubert Fisher, Congressman from this district, and Vice Governor of the Federal Reserve Bank at Washington.

W. G. TURNER

Vice President, Memphis Terminal Corporation.

135

FEDERAL RESERVE BOARD

WASHINGTON

October 17, 1922.
X-3540

SUBJECT: Manual of Leased Wire Service.

Dear Sir:

The Board has revised the Manual issued by it in October, 1919, outlining briefly the plan of operating the Federal Reserve Main Line Leased Telegraph Wires, and there have been sent you today, under separate cover, a number of copies of the Manual as revised for the guidance of the officers and employees of your Bank.

Very truly yours,

Vice Governor.

FEDERAL RESERVE BOARD

WASHINGTON

X-3542

October 21, 1922.

SUBJECT: Expense Main Line, Leased Wire System, September, 1922.

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-3542a and X-3542b, covering in detail operations of the main line, Leased Wire System, during the month of September, 1922.

Please credit the amount payable by your bank in the general account, Treasurer U. S., on your books, and issue C/D Form 1, National Banks, for account of "Salaries and Expenses, Federal Reserve Board, Special Fund", Leased Wire System, sending duplicate C/D to Federal Reserve Board.

Very truly yours,

Fiscal Agent.

(Enclosure)

X-3542a

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS
TRANSMITTED OVER MAIN LINE OF THE FEDERAL RESERVE
LEASED WIRE SYSTEM FOR THE MONTH OF SEPTEMBER, 1922.

From	Bank Business	Per cent of Total Bank Business (*)	Treasury Dept. Business	War Finance Corp. Business	Total
Boston	32,761	3.17	8,335	20	41,116
New York	212,057	20.53	18,148	-	230,205
Philadelphia	53,937	5.22	8,514	19	62,470
Cleveland	76,075	7.37	10,054	203	86,332
Richmond	60,825	5.89	7,866	36	68,727
Atlanta	60,807	5.89	10,585	103	71,495
Chicago	124,100	12.02	11,457	199	135,756
St. Louis	83,260	8.06	9,375	-	92,635
Minneapolis	42,267	4.09	8,281	914	51,462
Kansas City	83,908	8.13	9,395	96	93,399
Dallas	67,404	6.53	7,613	817	75,834
San Francisco	<u>135,288</u>	<u>13.10</u>	<u>17,409</u>	<u>1,380</u>	<u>154,077</u>
Total F. R.					
Banks	1,032,689		127,032	3,787	1,163,508
Washington	<u>303,755</u>	<u>100.00</u>	<u>118,891</u>	<u>2,041</u>	<u>424,687</u>
Grand Total	1,336,444		245,923	5,828	1,588,195
Per cent of Total	84.15%		15.48%	0.37%	
Bank Business	1,336,444	words of	84.46%		
Treasury Business	<u>245,923</u>	" "	<u>15.54%</u>		
TOTAL	1,582,367		100.00%		

(*) These percentages used in calculating the pro rata share of leased wire expenses as shown on the accompanying statement (X3542b)

FEDERAL RESERVE BOARD
WASHINGTON, D. C.
OCTOBER 21, 1922.

REPORT OF EXPENSE
 MAIN LINE
 FEDERAL RESERVE LEASED WIRE SYSTEM SEPTEMBER, 1922.

X-3542b

Name of Bank	Operators' Salaries	Operators' Overtime	Wire Rental	Total Expense	Pro rata Share of Total Expense	Credits	Payable to Federal Reserve Board
Boston	\$ 250.00	\$ -	\$ -	\$ 250.00	\$ 489.73	\$ 250.00	\$ 239.73
New York	1,269.98	180.00	-	1,449.98	3,171.69	1,449.98	1,721.71
Philadelphia	225.00	-	-	225.00	806.44	225.00	581.44
Cleveland	366.00	-	-	366.00	1,138.60	366.00	772.60
Richmond	305.00	-	-	305.00	909.95	305.00	604.95
Atlanta	240.00	-	-	240.00	909.95	240.00	669.95
Chicago (#) (4)	648.29	2.00	-	4,650.29	1,856.98	4,650.29	2,793.31 (*)
St. Louis	205.00	-	-	205.00	1,245.19	205.00	1,040.19
Minneapolis	275.00	-	-	275.00	631.87	275.00	356.87
Kansas City	326.64	-	-	326.64	1,256.01	326.64	929.37
Dallas	170.00	-	-	170.00	1,008.82	170.00	838.82
San Francisco	395.00	-	-	395.00	2,023.83	395.00	1,628.83
Fed. Res. Board			16,984.92	16,984.92			
TOTAL	\$ 8,675.91	\$ 182.00	\$16,984.92	\$25,842.83	\$15,449.06	\$ 8,857.91	\$ 9,384.46
				<u>(a) 10,393.77</u>			<u>(&) 2,793.31</u>
				\$15,449.06			\$ 6,591.15

(#) Includes salaries of Washington operators.

(&) Amount reimbursable to Chicago

(*) Credit

(a) Received \$10,347.15 from Treasury Department and \$46.62 from War Finance Corporation covering business for months of May, June and July, and August, 1922, respectively.

FEDERAL RESERVE BOARD,
 WASHINGTON, D. C.
 OCTOBER 21, 1922.

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

X-3545

For release in Morning Papers,
Wednesday, November 1, 1922.

The following is a summary of general business and financial conditions throughout the several Federal Reserve Districts during the month of October, as contained in the forthcoming issue of the Federal Reserve Bulletin.

Difficulties in handling the increased freight traffic due to car shortage have become an important factor in the current industrial situation. The total number of cars loaded increased during September chiefly because of heavy loadings of coal and live stock, and during the last week of the month the car loadings were greater than for any week since October, 1920. The production of bituminous and anthracite coal was checked in the latter part of September by the general shortage of coal cars, a shortage of over 40,000 coal cars developing in less than a month after the settlement of the strike. A shortage of box cars appeared in the first week in August, and by October 7 amounted to 71,063 cars. The difficulty in securing cars for shipment has led to some curtailment of production in lumber and finished steel products. The output of pig iron and steel ingots, however, has expanded steadily since August. Cotton and woolen mills continue to operate at close to capacity and shoe factories have a large volume of business. Agricultural receipts, particularly those of live stock, continue to be heavy.

The chief reporting lines of wholesale trade showed improvement during September. Increases in sales of hardware and furniture as compared with August¹⁹²² and September, 1921, reflect the large volume of residential building during recent months. Seasonal declines occurred in sales of farm implements and automobile supplies, but sales were much larger than a year ago. Retail trade continued to improve during September and department store sales were larger in all Districts than in September, 1921.

The wholesale price index of the Bureau of Labor Statistics declined from 155 in August to 153 in September. This drop was chiefly due to the decline in coal prices after the opening of the mines. Prices of building materials and metals continued to rise as a result of the prolonged building activity and the scarcity caused by traffic embargoes and the car shortage.

Bank debits to individual accounts in 140 cities excluding New York, were 4 per cent larger in September than in August, 1922, and 9 per cent larger than in September, 1921. In New York City debits in September were 5 per cent larger than a month earlier and 19 per cent larger than in 1921.

Loans of reporting banks in leading cities show an increase of \$366,000,000 for the four weeks ended October 13, and their demand deposits show an advance of \$245,000,000. Investments of these banks, in United States securities, which showed some decline during the early part of the period, increased by \$144,000,000 during the last week when the Government floated its first post-war long-term bond issue. Federal

Reserve Bank discounts for the four weeks ended October 25 show an increase of \$49,000,000, their holdings of acceptances increased by \$20,000,000, while Government securities held by these banks declined by \$43,000,000. Federal reserve note circulation expanded by \$55,000,000 during the period. The reserve ratio shows a decrease from 78.4 to 77.6 per cent. This change in the ratio resulted from the increase in note liabilities, only partially offset by an increase of \$9,000,000 in cash reserves.

F E D E R A L R E S E R V E B O A R D .

STATEMENT FOR THE PRESS.

X-3546

For release in afternoon papers,
Thursday, November 2, 1922.

CONDITION OF THE ACCEPTANCE MARKET

SEPTEMBER 15 to OCTOBER 15, 1922.

According to the reports received by the Federal Reserve Board from the various Federal Reserve Banks the acceptance market was for the most part irregular and sluggish during the first part of the period under review but later became active and showed a considerable improvement. The advance in rates to a level more nearly in line with that of other short term investments of equal security has caused bills to move more freely and has widened the market to some extent.

In District No. 2 (New York) during the first part of the period under review the supply of bills was too large for the market to absorb at the offered rates, and dealers were reluctant to take a position in view of the general feeling that rates were out of line. As rates advanced from $3\frac{1}{4}$ bid to $3\frac{1}{8}$ offered to $3\frac{5}{8}$ at $3\frac{7}{8}$ bid and $3\frac{1}{2}$ offered a better demand developed. The market widened and during the current period bills were sold to various investors including savings banks which have been out of the market for some time past. District No. 1 (Boston) reports that bills were limited but became abundant towards the close of the

period. With the advance in rates the demand increased considerably but not sufficient to take care of all offerings. District No. 3 (Philadelphia) also reports a steadily improved market as money became firmer.

Districts No. 4 (Cleveland) and No. 7 (Chicago) both report a slight demand and limited supply. In the latter District (Chicago) there has been a continuation of the decrease in the volume of bills accepted and bills sold, noted in the last report, although bills bought have increased over 200 per cent and bills held at the close of September, over 90 per cent.

In District No. 12 (San Francisco) the supply remains sufficient to meet a slightly increased demand. In this District a widening of the market has been manifest with more numerous inquiries from country banks. District No. 10 (Kansas City) reports a scant supply and strong demand for bills, with the result that paper has moved freely. In District No. 6 (Atlanta) the market has continued very quiet, twenty-one of the twenty-five reporting banks showing no transactions in acceptances for the period. District No. 8 (St. Louis) also reports that the market has continued dull and featureless. In District No. 11 (Dallas) there was increased activity, the volume of acceptances executed and outstanding increasing from \$476,241 on August 31, to \$1,403,750 on September 30.

In District No. 2 (New York) the bulk of acceptances executed were based upon the following commodities, in order of their

importance, cotton, grain, sugar, silk, meat products, coffee and dollar exchange. In addition bills were executed in other Districts against agricultural implements, hides and skins, wool, wheat, oils, iron, the importation of shellac, woolen rags and tea, the exportation of paint and varnish, and the storage of canned goods.

In Districts No. 1 (Boston), No. 2 (New York), and No. 4 (Cleveland), the increased demand has caused bills to move more freely while District No. 3 (Philadelphia) and No. 7 (Chicago) report they are not yet moving freely at the offered rates. The best demand has been for 30 to 60 day maturities, with a slight demand for 90 day maturities. District No. 12 (San Francisco) reports a growing preference for longer term bills and gives the distribution of maturities for the period under review as follows:

<u>Maturities</u>	<u>September 15 to October 15</u>	<u>August 15 to September 15.</u>
30 days	25.5	22.8
60 days	21.6	55.3
90 days	35.9	19.4
120 days	15.0	2.5
150 days	2.0	--

Rates on prime bills in the various Districts were as follows:

Rates on Prime Bills

		Range during period		Close	
	Maturity	Bid	Offered	Bid	Offered
District No.1 (Boston)	30 day	3-1/8 - 3-5/8	3 - 3 1/2	3-5/8	3 1/2
	60 day	"	"	"	"
	90 day	"	"	"	"
	120 day	"	"	"	"
	150 day	"	"	"	"
District No.2 (New York)	30 day	3-1/4 - 3-7/8	3-1/8 - 3 1/2	3-5/8 - 3-7/8	3 1/2
	60 day	"	"	"	"
	90 day	"	"	"	"
	120 day	3-3/8 - 4	3 1/4 - 3 3/4	3 3/4 - 4	3 1/2 - 3 3/4
	150 day	3 1/2 - 4 1/4	3 3/4 - 4	3-7/8 - 4 1/4	3-5/8-4
District No.3 (Philadelphia)	30 day	3-1/8 - 3-7/8	3 - 3 3/4	3 3/4 - 4	3 1/2 - 3 3/4
	60 day	"	"	"	"
	90 day	"	"	"	"
	120 day	3 1/4 - 4	3-1/8 - 3-7/8	3-7/8-4-1/8	3 1/2-3-7/8
	150 day	3-3/8 - 4 1/2	"	3-7/8-4 1/4	3 1/2 - 4
District No.4 (Cleveland)	30 day	3 1/4 - 4	3 - 3-7/8	4	3 3/4
	60 day	"	"	"	"
	90 day	"	"	"	"
	120 day	"	"	"	"
	150 day	"	"	"	"
District No.7 (Chicago)	30 day	3 1/4 - 3 3/4	3-1/8 - 3 1/2	3-5/8 - 3 3/4	3 1/2
	60 day	"	"	"	"
	90 day	"	"	"	"
	120 day	3 1/4 - 3-7/8	"	3-5/8-3-7/8	3 1/2 - 3-5/8
	150 day	3 1/4 - 4	"	3-5/8 - 4	3 1/2 - 3 3/4
180 day	3-3/8 - 4	3-1/8 - 3-5/8	3 3/4 - 4	"	

FEDERAL RESERVE BOARD

WASHINGTON

X-3547
October 30, 1922.

SUBJECT: Monthly Report of Leased Wire Operations.

Dear Sir:

The Federal Reserve Board has decided to discontinue, effective November 1, 1922, the use of Form X-3006a, Monthly Report by the Federal Reserve Banks of Expenses chargeable to and business transmitted over the Main Line Federal Reserve Leased Wire System, and in lieu thereof requests each Federal Reserve Bank to telegraph the following information to the Board during the first week of each month: (1) Amount of salaries paid Main Line operators during the preceding month; (2) Amount paid said operators for over-time; (3) Total number of words contained in all messages (including messages on Treasury and War Finance Corporation business) sent over Main Line Leased Wires during the preceding month by head office and branches.

The information above requested is all that is necessary to enable the Board to prorate among the Federal Reserve Banks the expense of operating the Main Line Leased Wire System.

In order to expedite settlement of the monthly bills rendered the Treasury Department covering telegraph service afforded the several Bureaus of that Department, the Board has entered into an arrangement effective October 1, 1922, whereby the Treasury will pay a flat monthly rate of \$3100 for the remainder of the present fiscal year. This figure (\$3100) represents the average monthly charge made on the Treasury Department for telegraph service rendered during the fiscal year ending June 30, 1922. At the close of the present fiscal year, the Board will quote the Treasury a new flat monthly rate for the forthcoming fiscal year, which will be approximately one-twelfth of the cost of handling Treasury business during the present fiscal year figured on the basis of the actual cost per word.

Very truly yours,

Vice Governor.

FEDERAL RESERVE BOARD

WASHINGTON

X-3548

October 31, 1922.

SUBJECT: Biographical Sketches.

Dear Sir:

An examination of the Board's files shows them to contain little or no information of a biographical nature concerning the directors of the Federal Reserve Banks and branches, the governors, deputy governors, assistant Federal reserve agents and branch bank managers.

The Board would like to have such information on file available for ready reference whenever occasion requires and, therefore, requests you to obtain and forward to it a biographical sketch, reciting fully the past and present principal business connections of each director of your bank and branch and of each officer above named.

Very truly yours,

Vice Governor.

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FEDERAL RESERVE BOARD

WASHINGTON

X-3549

October 31, 1922.

SUBJECT: Branch Bank Development.

Dear Sir:

For the information of the Board and to enable it to check its records, you are requested to furnish at as early a date as possible the following information, supplemental to that furnished in response to Mr. Mitchell's letter of August 18, 1922, relative to the development of branch banking in your district:

- (1) Name and location of all banks (member and non-member) in your district operating branch offices;
- (2) Location of each branch office and title thereof.
- (3) Dates on which opened;
- (4) Whether branch offices are full-power branches or merely so-called service station branches.

The Board would also like information with respect to any so-called "chain-bank systems" in operation in your district.

Very truly yours,

Vice Governor.

FEDERAL RESERVE BOARD

WASHINGTON

X-3550

November 2, 1922.

SUBJECT: Bank Debits - Inclusion of Debits by Banks in
Non-clearing House Centers in Board's Published
Statement.

Dear Sir:

Babson's Statistical Organization, Inc., has recently sent letters to a number of Federal Reserve Banks, stating that several manufacturers have written to it asking which sections of the country offer the most advantageous location for the establishment of a factory, warehouse, branch office, or other expansion in their business. In replying to such inquiries, Babson's Statistical Organization calls attention to statistics of debits to individual account published weekly by the Federal Reserve Board. It is our understanding that this organization has also written letters to bankers, Chambers of Commerce, etc., in a number of cities in various Federal Reserve Districts advising them of the statement of bank debits issued by the Board and suggesting that they take up with the local Federal Reserve Bank the question of having figures for their city included in the weekly statement.

It will be recalled that early in January (See letter X-3294, dated January 6, 1922) the Federal Reserve Board authorized the addition to the list of practically all cities which had clearing-house associations. It now appears, however, that there is a demand for the inclusion in the list of a number of cities which do not have clearing house associations. It will be appreciated, therefore, if you will kindly advise the Board whether or not you have received communications in this regard from Babson's Statistical Organization or from local business organizations, and also which cities, if any, you feel should be added to the list of reporting centers in your district beginning with January 1923.

In submitting the names of such cities will you kindly furnish the Board with a statement giving the banking resources of each city and a brief memorandum as to why weekly figures of debits to individual account for such cities would be of value to the public.

There are at the present time a few cities on the list of reporting centers which have no clearing house associations, and the Board feels that if there are any cities in your district which are of sufficient importance to warrant their addition to the present list they should not be excluded simply because there is no clearing house, provided a local bank, the chamber of commerce, or some other commercial organization is willing to collect and furnish the figures to your bank promptly each week.

Very truly yours,

Walter L. Eddy,
Assistant Secretary.

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FEDERAL RESERVE BOARD

WASHINGTON

X-3551

November 2, 1922.

SUBJECT: Decision in Cleveland Par Clearance Case.

Dear Sir:

There is enclosed herewith for your information a copy of the opinion rendered October 14, 1922, by the United States District Court for the Eastern District of Kentucky in the case of Farmers & Merchants Bank of Catlettsburg v. Federal Reserve Bank of Cleveland.

It will be noted that this was merely a decision on a motion for a preliminary injunction, and the case has not yet been thoroughly tried on its merits. Before it decides whether or not to issue a permanent injunction the court will have to try the case on its merits, and on such a trial the evidence will be much more thoroughly presented. Furthermore, on the motion for a preliminary injunction the witnesses were not subjected to cross examination, while they will be subjected to cross examination during the trial on the merits.

Very truly yours,

Vice-Governor.

(Enclosure)

SN-RMc 10-19-22 5 car.

October 14, 1922.

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF KENTUCKY

FARMERS & MERCHANTS BANK)	
OF CATLETTSBURG, KENTUCKY)	PLAINTIFF
)	
VS)	
)	
THE FEDERAL RESERVE BANK OF)	
CLEVELAND, OHIO, and MARY)	DEFENDANTS
B. McCall,)	

This cause is before me on plaintiff's motion for a preliminary injunction.

The plaintiff is a Kentucky corporation doing banking business at Catlettsburg, a city with a population of about 4,500 in this district. It has a capital stock of \$50,000, surplus of about \$40,000 and deposits of about \$500,000. The defendant bank is a national corporation and is the Federal Reserve Bank for the Fourth District of the Federal Reserve System of the United States. It has a Branch Bank in Cincinnati, Ohio, and plaintiff is in the Cincinnati Division of such district. The individual defendant is a resident of Catlettsburg and, at the time this suit was brought, to-wit: July 15th, 1921, was acting as the defendant Bank's agent in the daily collection in cash over Plaintiff's counter of checks drawn on it by its depositors, payable to persons at a distance from Catlettsburg, which had come into such defendant's hands and had been sent to her by the Branch Bank at Cincinnati for that

purpose, and in the transmission of such cash to such Branch Bank by express or registered mail, and she had been so acting continuously since March 23rd, 1920. The suit was originally brought in the State Court, in whose territorial jurisdiction Catlettsburgh is situated, and it was removed thence to this Court upon the joint petition of the two defendants upon the ground that it arose under the constitution and laws of the United States. It is the plaintiff's practice where such checks are sent to it through the mail for payment by other than one of its correspondent banks to remit exchange on one of such banks and to charge not exceeding one tenth of one per cent of the amounts of the checks for so doing. By sending such checks as come into its hands for collection by an agent in cash over the counter the defendant Bank though it incurs the expense of so doing avoids having to pay such charges. It had been advertising for a year and half that it would collect all such checks on plaintiff free of charge. What plaintiff seeks to have enjoined is such conduct, i. e., the collection of such checks by defendants in this way and the advertisement by defendant Bank that it will collect such checks free of charge. It claims that it is injurious to it in that it deprives it of such charges, requires it to keep a greater reserve in cash than it would otherwise have to do, scandalizes it, affects its credit and humiliates it. A temporary restraining order was granted by the Clerk of the State Court when the suit was brought and has been in force ever since. The case is of the same general character as that in the Northern District of

Georgia covered by the decisions in

American Bank & Trust Co.	Federal	v. Reserve Bank of Atlanta,	269 Fed. 4
same		v. same	256 U. S. 450
same		v. same	280 Fed. 940

and that in the District of Oregon covered by the decision in
Brooking's State Bank v. Federal Reserve Bank of San Francisco, 277 Fed.

430. Reference to these decisions relieves me in presenting the case here of doing more than calling attention to its particular facts and then proceeding to dispose of the question which it calls for decision.

I will first state the facts as they appear from Plaintiff's affidavit. As early as January, 1918, the defendant Bank began by letter to solicit the plaintiff to enter into a written agreement with it to remit exchange in payment of checks of the character stated at par, i. e., free of such charges. This it continued to do at intervals until December 1919. The plaintiff not yielding to such solicitations, at that time, it sent its traveling representative, H. A. Magee, who had in charge the matter of personally soliciting non-member banks, i. e., state banking institutions, to enter into such agreements, to Catlettsburg to interview plaintiff on the subject. He made four separate visits for that purpose. He first attempted persuasion and, this failing, he insisted and demanded that plaintiff agree and finally threatened it with the consequences of a refusal to do so. He said that the American Express Company would be employed to collect the checks in cash, which would be very embarrassing to plaintiff, that, though this would be expensive to the defendant Bank, it did not matter, as

there was a principle involved, and plaintiff would be mighty glad to sign up before long as no bank could exist that did not - that the Federal Reserve System was like a mighty battleship coming up as it were from a smooth sea and all banks that did not affiliate with it could not stand its swells and must get in its wake for safety, and that in the next five years there would be no small banks.

The plaintiff remaining recalcitrant, on January 6th, 1920, the defendant Bank employed the American Express Company to collect such checks as came into its hands, through its local agent at Catlettsburg. The checks would be delivered to the Company at Cincinnati by the Branch Bank, carried to Catlettsburg and there presented and payment in cash demanded by such agent and upon receipt of same would carry it back to Cincinnati. The Express Company continued so to act until February 26th, 1920, when it refused to do so any further. During this time Magee was in Catlettsburgh from time to time looking after the matter and frequently visiting the Bank. As the express agent would collect large sums in cash he would, shortly afterwards, come in the bank and see whether or not the method used had broken the spirit of those in charge and suggest that they submit to the desire of his principal that plaintiff go on the par list. About the middle of January 1920 he asked the plaintiff's assistant cashier to use his influence with the cashier who was handling the matter on behalf of plaintiff, in an effort to have him agree to the par clearance method. He stated that if they did not consent to it the Federal Reserve Bank would continue its

method of collection by the Express Company demanding cash at the counter and that it would be annoying and expensive to both banks and that plaintiff could not stand that method of paying items in cash. The reason for the Express Company's refusal to act further was that the task was too burdensome.

Thereupon Magee went to Catlettsburg and for several days, possibly until March 3, 1920, made the collections himself. Each day during this time he went to a drug store on the corner opposite plaintiff's bank, where there was a soda fountain, the most prominent place in the city, and remained there from three to five hours walking up and down in the store room and looking across the street at the bank as though he were on the watch for what was being done there. On that date he employed Frank K. Barbee, a resident of the city and night clerk in a hotel to act as agent. He continued so to act until March 23rd, 1920, when he surrendered the job and the defendant Miss McCall was employed. Whilst Barbee was acting as agent Magee was in Catlettsburg the most of the time instructing him and overseeing the performance of his duties. The place of instruction was the corner drug store heretofore referred to. Magee spread the checks upon a refreshment table in front part of the store in a conspicuous place where those coming in and out of the store could readily see and hear what was going on, assorted and listed and endorsed them and explained to Barbee the details of presenting the checks at the counter and demanding payment in cash. Frequently he accompanied Barbee to the bank.

He stated to Barbee that the reason and necessity for such method of collection was that the defendant Bank insisted that the checks be cleared at par and such was the only method whereby plaintiff would be forced to an agreement so to do and that though the method of collection was far more expensive to the defendant Bank than the payment of the clearance fees it was not the expense they cared about but was simply the principle of the matter and that sooner or later the plaintiff would be forced to sign an agreement to clear all checks at par or that it would be forced out of business. He gave Barbee a number of pamphlets containing an exposition of the merits of universal par clearance and instructed him to call upon as many of plaintiff's depositors as he could see from time to time and leave one of those pamphlets with them.

After Miss Magee's (McCall's?) employment McCall (Magee?) remained in Catlettsburg for some time, possibly until April 10th, instructing her and overseeing the performance of her duties. The place of instruction and the manner thereof was exactly the same as in the case of Barbee. He also accompanied her to the Bank frequently. It should be said that both Barbee and Miss McCall, at Magee's instance, inquired of plaintiff whether it was agreeable for them to act as such agent and were told that if any one was to be employed to render the services they might as well secure the position. Miss McCall was a maiden lady who had the respect of the people of Catlettsburg. Magee's manner whilst in and about plaintiff's bank, as heretofore set forth, was domineering, dictatorial and boisterous. He sought opportunity to attract attention of those who might be in

or near the bank by loud and quarrelsome conversation. He took occasion to create scenes and disturbances at times, when there would be many customers in the lobby of the bank. At the time when he undertook to collect checks after the Express Company quit plaintiff suggested that it had not received any letter designating him as agent. He made a row about this, intimating that it was refusing to recognize his authority. Much disturbance was caused in the bank by the colloquy over this matter. During Barbee's agency he brought on a heated argument with plaintiff's assistant cashier over a certain check.

Whilst the Express Company was acting as agent plaintiff countered by stamping upon a great many of its blank checks furnished its depositors an endorsement in these words:

"Payable in cash or exchange draft at the option of the Farmer's & Merchant's Bank of Catlettsburgh, Kentucky." Up to February 19, 1920, the defendant Bank accepted checks so endorsed and when presented for payment exchange drafts were accepted. From February 19th, to February 28th, 1920, it refused to accept them. From February 28th, 1920, to March 9th, 1920, it again accepted them. Since then it has refused to do so. On February 28th, 1920, Magee was acting as agent. He presented on that date fourteen checks so endorsed amounting to \$573.80 and demanded and received fourteen separate drafts, one for each check in payment thereof.

On March 10th, 1920, during Barbee's agency Magee visited C. C. Magann who had the exclusive agency to handle and sell Ford cars at Ashland, Kentucky, a neighboring city, in the same county, and who was one of plaintiff's depositors at his place of business, introducing himself as a representative of defendant Bank and stated that he wanted to discuss some business with him. Magann took him into his private office and he then stated that his check to the Ford Motor Company of date March 8th, 1920, for \$3,756.72 on plaintiff had been presented and payment thereof refused and exhibited a letter to him from the Cincinnati Branch corroborating his statement. Magann immediately went to Catlettsburg in his automobile and ascertained that his check had been paid that day and that it had not been presented for payment before then and payment thereof had never been refused.

On March 26th, 1920, during Miss McCall's agency, Magee visited O. H. Salyern, another of plaintiff's depositors, who owned and operated a store in Catlettsburg. He stated in the presence of Salyer's customers in an abrupt, high-handed and loud manner that he represented defendant Bank and, presenting a check drawn by him on plaintiff for \$108.29 in favor of a Cincinnati party which possibly contained the endorsement as to payment heretofore referred to, demanded to know of Salyer why he had not filled the check out in the proper manner, and stated that he had presented it for payment and could not get any money on it.

On the same day he visited F. H. Carpenter, Secretary of D. H. Carpenter & Co., engaged in wholesale and retail dry goods and

notions business in Catlettsburg and a depositor of plaintiff, introduced himself as a Federal Reserve man, presented a check drawn by his company on plaintiff containing the endorsement referred to, inquired as to why his Company permitted the bank to put such an endorsement upon the check and stated that it was injurious to the credit of his Company and that to save its credit it should do business with some other bank.

Magee whilst in Catlettsburg made inquiries of Clerks in the drug store, post office and express company office as to where the plaintiff was getting its cash from. He also made inquiries as to the worth and standing of plaintiff and the man in charge of its business.

As stated Magee left Catlettsburg about April 10th, 1920. The reason for his leaving was that an indictment was returned against him by the state grand jury in which that city is situated charging him with making and circulating statements derogatory to the plaintiff contrary to the Kentucky Statutes and he has never been back since. He continued in the defendant Bank's employ until July 17th, 1920, Whilst he was in Catlettsburg he made reports of progress to the Assistant Cashier of defendant Bank who was overseeing the matter.

For a while after Miss McCall was employed it was her custom to go to the bank with a go cart in which to carry away from it the money received. Seemingly the plaintiff purposely gave her more coin than she could otherwise carry. One day she was given as much as ninety four pounds in silver. And at times it would wad the bills. Later on the go cart seems to have been abandoned, possibly because not needed. It took much time to wait upon her in counting the money and after she was waited

upon she took much time in recounting it, in separating it into the separate denominations and in mailing a list thereof, which she was required to do. She carried an instrument bearing defendant Bank's seal which was used in sealing with lead a canvass sack in which the money was shipped. She always carried openly a pistol to protect herself from robbery and often was accompanied by one or two dogs.

After defendant Bank refused to accept checks drawn on plaintiff bearing the endorsement as to payment in cash or exchange at plaintiff's option it did not content itself with returning the checks to the banks from whom they came, but took pains to write to the payees of the checks giving its reason for not accepting them. That was that the checks by reason of the endorsement were non-negotiable. The concluding paragraph of each letter was:

"We are writing this letter in order that you may be advised that items bearing notation similar to that set forth on the check mentioned above are uncollectible through a Federal Reserve Bank and for that reason as a medium of payment the usefulness of such checks are impaired."

About two weeks before May 18th, 1920, defendant Bank's Branch Bank at Cincinnati wrote plaintiff's main Cincinnati correspondent, a national bank and member of the Federal Reserve System, a letter in which it said:

"We are instructed by the head office to refuse to handle checks bearing the endorsement of the Farmers & Merchants Bank of Catlettsburg. Accordingly in case any checks with their endorsement are deposited with us, by you, we shall return them. Please so instruct your Transit Department. This is effective at once and until further notice."

While the American Express Company was acting as agent in January and February, 1920, its General agent at Cincinnati, and local agent at Ashland, which had supervision of the Catlettsburg office, called

upon the manager of the defendant Bank's Branch Bank at Cincinnati to explain delay in two or three shipments of proceeds of checks collected by the Express Company. They inquired of the Manager how long such method of collection would be kept up and according to the General Agent, he replied:

"I do not know how long it will be continued, but it will be continued until the Farmers & Merchants Bank agrees to handle our collections without charge to us."

According to the local agent he replied that they would continue their method of collecting checks over the counter until they had forced the plaintiff to handle them at par and intimated that it would not be long until it would be forced to clear at par.

Such is the showing on substance made by the affidavits introduced on behalf of plaintiff. As against it, so far as Magee's conduct is concerned, defendants have introduced the affidavit of Magee and the oral testimony of Miss McCall. In his affidavit Magee states that in his various conferences with plaintiff's cashier he never endeavored to coerce the plaintiff into agreeing to clear check drawn on it at par, but at all times sought to point out to him that the par collection system was a great progressive movement in banking practice and that plaintiff as a representative banking institution in Catlettsburg should give its sanction to this practice and that he never uttered to any person any statement derogatory to the reputation or solvency of plaintiff. Other than these general statements he makes no denial of the statements in plaintiff's affidavits as to his conduct. Possibly his affidavit is to be understood as stating that he was not in Catlettsburg any time whilst the Express Company was acting as agent. If so, this statement may be said to amount to an indirect denial of what is stated in plaintiff's affidavit as to his conduct in Catlettsburg.

at that time, Miss McCall testified that Mr. Magee was never boisterous or ungentlemanly in any way and was always quiet and gentlemanly when she was thrown with him. There is no reason for not accepting this testimony as true. Possibly it can be reconciled with statements in plaintiff's affidavit by the fact that her presence had a restraining influence upon him. It is to be noted, however, that seemingly the indictment was not returned against him until over two weeks after Miss McCall began to act as agent. In the light of the showing made on both sides I am constrained to accept that made by plaintiff as to Magee's conduct as being substantially true. It is hard to believe some of it, that as to his conduct in relation to Magann for instance. And a tendency to exaggerate seems to pervade plaintiff's affidavits. Yet with this said, in view of the number of them and the persons making them, all of whom are in good standing I have not other recourse than that stated.

The defendant bank's Assistant Cashier who has represented it in this matter testified that the conduct of Magee complained of was never authorized by the defendant bank and if he was guilty of any such conduct it was absolutely unknown to it and that he never intimated that he was doing anything at Catlettsburg except to carry out instructions which was to endeavor to persuade plaintiff to agree to remit at par and to treat it politely. At one time, however, a complaint of Magee was conveyed to defendant bank through the president of plaintiff's principal Cincinnati correspondent. Magee was instructed to see such president about it. He did so and explained the matter to his satisfaction. The defendant bank learned of Magee's indictment and inquired of him about the matter. He gave an outline of his actions whilst in Catlettsburg and according to that outline there was nothing

in his conduct which would indicate that the indictment was based upon well established facts. But it made no independent investigation in regard to the matter, sent no one to Catlettsburg to inquire into Magee's conduct, made no effort to have the indictment against him brought to trial, expressed no regret to plaintiff for his conduct if possibly he did go too far and continued to keep him in its employ until July 17th, 1920, the reason for his then quitting not appearing.

Seemingly the defendant Bank would have the Court, in disposing of this motion, turn its back on Magee's conduct as a thing long of the past when this suit was brought and view it in the light of the fact that at that time all it had to apprehend was Miss McCall's daily visits, with her pistol by her side, accompanied at times with one or two dogs. But that conduct is relevant, notwithstanding that such is all that plaintiff has reason to apprehend in the future. It gives color to defendant's Bank's purpose in initiating and continuing this procedure directed against plaintiff. Possibly it may be true that it was not aware of Magee's conduct, at least to the full extent to which he went. But how is such conduct on McGee's part to be accounted for. It cannot be accounted for on any other basis than knowledge on his part of what defendant Bank's purpose was in setting on foot the movement against plaintiff. It was begotten by such purpose and hence gives color to it.

The showing made by plaintiff's affidavits as to the other particulars than Magee's conduct and as to his conduct except as stated are uncontradicted.

The facts as to two other matters should be stated. One of them is as to the accumulation of plaintiff's checks by defendant Bank. There was no other accumulation than such as was caused by its advertisement that it would collect plaintiff's checks at par. This necessarily resulted in an accumulation to some extent. It can be accepted that this undertaking was availed of by all in whose hands plaintiff's checks ^(came) who otherwise would have been compelled to pay for remittances in payment thereof. And because of this plaintiff was obliged to keep a greater reserve than would have been the case had the checks been allowed to straggle in one at a time as they did before defendant bank set on foot the movement against it. The other is as to the effect on plaintiff of defendant Bank's course of procedure. It deprived it of income from remittance to the extent of from \$800 to \$1,000 a year. It required it to keep a greater cash reserve and, therefore, affected its income from loans to a certain extent. It caused it to lose depositors. There was a shrinkage in deposits in the time between the initiation of the movement and just before the bringing of this suit of nearly \$100,000. But it cannot be said from this mere fact alone that this shrinkage was caused by that movement. There was a greater shrinkage in the same time of the deposits of another banking institution of Catlettsburg. But the Cashier's affidavit gives the names of seven depositors which plaintiff lost for this reason and this statement is uncontradicted. And the movement, especially whilst Magee was at Catlettsburg, was calculated to cause plaintiff to lose depositors. The movement scandalized plaintiff in Catlettsburg and was calculated to injure its reputation and credit.

What was going on was a matter of public notoriety. No attempt was made to keep it from the public. And the procedure could not help being humiliating to plaintiff.

Yet still another fact should be stated in order to a full presentation of this case. This is that when this suit was brought the checks which came into defendant bank's hands for collection and which were presented by it for payment over the counter were dwindling in number. At the time the movement was begun plaintiff had reason to expect that checks amounting to as much as \$8,000 might be presented for payment at any time. At the time suit was brought the reasonable expectation did not exceed \$3,700. This shrinkage was due to the endorsement on its checks, which were increasingly being put there, to the effect that payment might be made in cash or exchange which checks the defendant Bank refused to handle.

It remains to determine the law of this case. As to this there can be no question as it has been settled by the decision of the Supreme Court in the Atlanta case. It all depends on defendant Bank's purpose in adopting this unusual and heretofore unheard of procedure of seeking out plaintiff's checks for collection and presenting them in a body for payment over the counter, i. e., what was its immediate purpose in so doing. Was it for the purpose of breaking down the plaintiff's business as then conducted? If so, it was unlawful and subject to be restrained by a court of equity. It does not follow that because the holder of a check has a right to present it to the bank upon which it is drawn for payment over the

counter that one has the right to seek to become the holder of all the checks drawn on a bank as they are drawn and then present them in a body for payment in cash over the counter. If such was defendant Bank's immediate purpose in so doing it was not justified by the ulterior purpose which it has in view, to-wit of freeing commerce from the burden of such charges. Here, as never, did the end justify the means. Such a course of procedure is a kind of refined highway-manship. It is a holdup. It is one of the inalienable rights of a person to be unprogressive, selfish and mean. This is said without intending to so characterize plaintiff's position. No other person has the right to coerce him into being otherwise. The idea that there is such a right was at the bottom of the night rider troubles in Kentucky some years ago. Those who were in the pool thought that those who were out were selfish. And they undertook to coerce them into joining the pool by shooting them into their homes.

What then was the defendant Bank's purpose in initiating this movement against plaintiff and keeping it up for over a year and a half, i. e. until stopped from further doing so by the temporary restraining order? There is but one answer to this question and that was to break down plaintiff's business as it was being conducted not to put it out of business, but to compel it to do business in this particular as it would have it do and not as plaintiff desired. Notwithstanding it was having its way in conducting its business it was not willing that plaintiff should have its way in conducting its business. It desired to impose its will on plaintiff. That such



was defendant Bank's purpose is the meaning of the course of procedure adopted. It can be accounted for on no other basis. Such a purpose was avowed by those acting on its behalf, and it was admitted on the witness stand by its assistant cashier that if the plaintiff at any time had signed an agreement to remit at par the agency would have been withdrawn. Each side appeal to the decision in the Oregon case as favoring its contention. It seems to me to favor that of plaintiff. In that case the Reserve Bank had been maintaining an agent at Brookings but at the time of the application for preliminary injunction that agent had been withdrawn and the Reserve Bank had been forwarding to the State Bank checks drawn on it endorsing them for collection only and remittance in full without deduction for exchange, and, upon the State Bank returning them unpaid, had been returning them its correspondents advising them that the State Bank refused to pay and had not protested same and they must look to the State Bank for their protection which was in effect that the checks had been dishonored. A preliminary injunction was granted restraining the Reserve Bank from so advising its customers. That in the decision of Judge Wolverton on which the defendant bank relies is his statement that the Reserve Bank was acting within its authority in maintaining an agent Brookings for making collections over the counter of plaintiff's bank and paying the expenses thereof. But in making this statement he was merely referring to the corporate power of the Reserve Bank and he based this on the decision in the Atlanta case.

He was not considering the right of the Reserve Bank to so act as against the State Bank. On the contrary he seemingly condemns the action of the Reserve Bank in this particular as well as in the particular as to which the injunction was granted. He said:

"The question remains for determination as it respects the motive that induced the defendant bank to pursue the course it did in attempting to make collection from the plaintiff bank. It appears by defendant's answer that it expended \$1,915.32 in making collections over the counter of plaintiff's bank of \$102,850.33 during the year from October 1, 1920 to October 1, 1921. The method employed, considering the occasion for it, or rather the lack of reasonable necessity, was to say the least extraordinary, extravagant and unbusinesslike."

Again he said:

"I am persuaded, however, that the action of the defendant bank in adopting the methods pursued by it toward the plaintiff's bank, and in persistently adhering to them indicates most convincingly that it was for the purpose of coercing the latter bank into adopting the policy of the Reserve Bank to remit at par. Although the policy may be commercially sound, the plaintiff was entitled to pursue its own method, without being harrassed and annoyed because it persisted in so doing."

It is not unlikely that the withdrawal of the agent from Brookings was due to the decision of the Supreme Court in the Atlanta case and was an interpretation of that decision as condemning such action.

The decision of Judge Evans in the Atlanta case after its return consisted of certain findings in that case, based upon its particular facts. In so far as such findings may conflict with what I have held herein I am unable to follow it.

The only thing that has given me any concern in this case is plaintiff's delay in asserting its right. No explanation

is given of this. Possibly it thought that it would be able to wear out the defendant Bank in the long run. But it is not unlikely that under the influence of the decision of the lower courts in the Atlanta case it thought that the defendant Bank had the right to make collections as it did and was not advised to the contrary until the Supreme Court reversed those decisions. It was shortly after such reversal that this suit was brought. I cannot, however, make out from this delay any reason why defendant bank should be permitted to continue to make collections in this unlawful manner. The motion, therefore, is sustained. A preliminary injunction is granted restraining defendants from continuing so to make collections of checks drawn on plaintiff and the defendant Bank from advertising that it will collect such checks free of charge and from doing anything else for the purpose of coercing plaintiff to remit at par.

FEDERAL RESERVE BOARD

WASHINGTON

X-3553
November 3, 1922.

SUBJECT: Government Securities Owned by
Reporting Member Banks.

Dear Sir:

The Treasury Department is desirous of obtaining each week, if possible, from reporting member banks information as to the amounts of the different kinds of government securities held and owned by them. In a letter to me dated October 9th, Mr. Gilbert requested that the Federal Reserve Banks and the member banks in their reports to the Board itemize their holdings of such securities as follows: (1) Bonds to secure circulation; (2) Liberty bonds; (3) Treasury bonds; (4) Victory notes; (5) Treasury notes and (6) Treasury certificates of indebtedness.

In my reply to his letter, I stated in effect that the Board could arrange to furnish him once a month with the detailed information he desires with respect to the Federal Reserve Banks' holdings of government securities, but was reluctant to call upon the member banks for too detailed a weekly report of their assets and liabilities. He has replied stating that the Treasury particularly wants information with respect to the government security holdings of the reporting member banks, so as to be able to get some line upon the distribution of the new Treasury bonds among investors on a current basis. To get the information desired would require the substitution of three new items for the item "United States Bonds" now appearing on the form (St. 51) furnished to reporting member banks.

The Board would like to have you advise it whether in your opinion it would seem advisable to call upon your reporting member banks to furnish the detailed information requested by the Treasury Department.

Very truly yours,

Vice Governor.

FEDERAL RESERVE BOARD

WASHINGTON

November 6, 1922.

X-3554

SUBJECT: Federal Reserve Bulletin: Special Subscription
Rate for Examiners of State Banking Departments.

Dear Sir:

In accordance with the practice prevailing in the past, whereby the Federal Reserve Banks have undertaken to supply the Federal Reserve Bulletin to examiners of State banking departments located in their Districts, the Board believes that it would be well to continue the same policy during the year 1923, and has accordingly fixed a special rate for such subscriptions by Federal Reserve Banks at \$2.00 per annum.

In order that the subscriptions may begin with the January issue, please send us, not later than December 10th, a list of State bank examiners to whom you desire the Bulletin sent during the ensuing year.

The Board furnishes a complimentary copy to the Banking Commissioner of each State, and therefore, the names of these Commissioners should be omitted from your list.

Very truly yours,

Walter L. Eddy,
Assistant Secretary.

FEDERAL RESERVE BOARD
WASHINGTON

X-3555

November 6, 1922.

SUBJECT: Closter National Bank v. Federal
Reserve Bank of New York.

Dear Sir:

There is enclosed herewith for your information a copy of the opinion of the United States Circuit Court of Appeals for the Second Circuit rendered October 31, 1922, in the case of Closter National Bank of Closter, New Jersey, v. the Federal Reserve Bank of New York, as received from Mr. L. R. Mason, General Counsel to the Federal Reserve Bank of New York.

Very truly yours,

Vice Governor.

(Enclosure)

UNITED STATES CIRCUIT COURT OF APPEALS
FOR THE SECOND CIRCUIT.

-----x

CLOSTER NATIONAL BANK,

Plaintiff-in-
Error,

-against-

FEDERAL RESERVE BANK OF NEW YORK,

Defendant-in-
Error.

----- x

BEFORE:

ROGERS, MANTON and MAYER,

Circuit Judges.

Writ of error from the United States District Court for the Southern District of New York. Action by plaintiff against the defendant to recover the amount of a check drawn on the Treasurer of the United States.

Judgment for defendant; plaintiff appeals. Affirmed.

DAVID D. ACKERMAN, Esq.,
Attorney for Plaintiff-in-Error.

L. R. MASON, Esq.,
Attorney for Defendant-in-error.

MANTON, Circuit Judge.

On March 31, 1919, a check was drawn on the Treasurer of the United States purporting to be for Four thousand dollars. It was presented to the plaintiff-in- error by one representing himself to be

the payee therein named, and it was endorsed "Pay to the order of any bank or trust company. March 31, 1919. Endorsements Guaranteed. The Closter National Bank, Closter, N. J." This paper was sent on April 3, 1919 to the defendant-in-error for collection. The plaintiff-in-error was a member of the Second Federal Reserve District located outside of the State of New York, and elected to collect the check in question through the defendant-in-error, but did so under the terms and conditions of a circular letter known as No. 37 dated December 29, 1915, and which reads as follows:

" Member banks of this district located outside of the City of New York are notified that on and after January 1, 1916, they may include in their remittances to the Federal Reserve Bank of New York for immediate credit at par, but subject to final payment by the Treasurer of the United States, all government warrants and checks drawn on the Treasurer of the United States. Member banks situated in New York City for the present and until further notified by us are requested to collect such items through the Assistant Treasurer of the United States in New York in accordance with the present practice. When the facilities of the Federal Reserve Bank for handling government deposits have been further developed, member banks in New York City will be notified that government warrants and checks may be sent to this bank through the Clearing House subject to final payment by the Treasurer of the United States.

" The Government has for many years exercised the right of returning at any time warrants and checks, which for any cause have not been considered good; and we have been advised that this practice will be continued.

" In view of this situation the Federal Reserve Bank of New York, as a condition of receiving government warrants and checks on the Treasurer of the United States from member banks for credit, reserves the right to charge back and return to the depositor at any time and unconditionally any such item deposited with the Federal Reserve Bank of New York.

" Your attention is specially invited to the above condition."

The check was entered to the credit of the account of the plaintiff-in-error, in defendant-in-error's bank. It was thereupon forwarded to the Treasurer of the United States for payment. The check passed through in ordinary course and after bore a signature and symbol number, and then the check was perforated as follows: "Paid 4-4-19-M9". The signature of the drawer was compared and in due course and in accordance with the usual custom, it was audited by the disbursing officer who issued it, and it was examined by the Inspector General of the army. Upon this audit and examination, the Treasurer of the United States notified the defendant-in-error by letter of May 19, 1920, over a year after the deposit of the check by the plaintiff-in-error with the defendant-in-error for collection, that the check had been altered and the endorsement of the payee forged. This letter sent to the defendant-in-error, was accompanied by a photostatic copy of the check in question and a request was made that the Treasurer of the United States be credited with the amount of the item. In accordance with the practice prevailing in the bank of the defendant-in-error the Treasurer was credited with the item of Four thousand dollars and within thirty days thereafter he was paid this amount. The plaintiff-in-error was notified by the defendant-in-error of the Treasurer's statement that the check was forged and altered, and there was forwarded to the plaintiff-in-error, with its photostatic copy of the check, a notice of the charge of the amount to the plaintiff-in-error's account. Thereupon the plaintiff-in-error objected to the charge and denied liability for the forgery. It resulted in the present action.

The contract between the parties embraces the contents and obligations imposed by the circular letter No. 37. The defendant-in-error was appointed depository and fiscal agent of the United States and it offered to certain member banks of the Second Federal Reserve District, the option of presenting for payment checks and warrants on the Treasurer of the United States through it, but it made the terms as set forth in the circular above. The plaintiff-in-error was free to accept or refuse to accept the services of the defendant-in-error as it saw fit. It might have used other available means for collecting government checks and warrants if it so desired. While immediately crediting the account of the plaintiff-in-error with the defendant-in-error, it was always subjected to final payment by the Treasurer. Crediting the account, accorded an advantage to the member banks in affording means for making funds promptly available. In undertaking this service, the defendant-in-error became a collecting agent. Under the terms of the circular, defendant-in-error had the right should the United States at any time not pay to return such check for any reason which the government might consider good, and the defendant-in-error could at any time and unconditionally charge back the amount credited to the plaintiff-in-error, at the same time returning the item so charged back. The right to do so was indefinite as to time; it might be done at any time and unconditionally. It was with this understanding and agreement that the defendant-in-error gave credit and accepted the obligation to perform this service for the plaintiff-in-error.

But it is contended that the defendant-in-error's right to charge back the item is dependent upon its showing that the item was in fact a forgery and alteration as claimed by the Treasurer. By the terms of the collection agreement under which the defendant-in-error performed the service, the collection agent had the right, if it acted in good faith, to charge back the item to the plaintiff-in-error's account without the necessity of establishing a forgery or alteration of the warrant. The memorandum credit accorded by the agreement of which the circular letter is a part, was always qualified by the clause "subject to final payment." And by that clause the government has for many years exercised the right of returning at any time, warrants and checks which, for any cause, have not been considered good and the plaintiff-in-error was notified that this practice would be continued as a condition of receiving government warrants and checks on the Treasurer of the United States from member banks for credit, with "the right to charge back at any time and return to the depositor at any time and unconditionally any such item deposited with the Federal Reserve Bank." To place any other construction upon the terms of the circular would be to treat the phrase quoted as surplusage. Under the law, the Treasurer might recover if he paid the warrant because of the forgery and therefore, as a matter of law, the item was not finally paid.

In *United States vs. Exchange Natl. Bank* (214 U. S. 302) the United States was held not to be chargeable with knowledge of the signatures of persons entitled to pension checks and that it could re-

cover from a bank receiving payment from a sub-treasury on checks to which the names of payees had been forged.

In *Cooke vs. United States* (91 U.S. 389) the court laid down the rule governing the right of the Treasurer to repudiate payments of counterfeiting items and said that if presentation is made at the time when a complete examination cannot be had, such payment is tentative and does not amount to an adoption, and that further inquiry may be made and if the paper is found to be a counterfeit, it may be returned within a reasonable time and that a reasonable time is dependent upon the circumstances of each particular case; but that until a reasonable time has in fact elapsed, the law will not impute negligence on account of delay.

And in the instant case, this warrant was presented at a time when the war department was in a great rush of business owing to an accumulation incident to the conduct of the war.

In *Onondaga Bank vs. United States* (64 Fed. 703) the government was allowed to recover after two years had elapsed between payment and discovery of the forgery. We think the plaintiff-in-error may not recover under any of the terms of the contract under which the service of collection was performed, nor may it recover against the defendant-in-error by reason of any neglect or unreasonable delay on the part of the defendant-in-error.

Judgment affirmed.

FEDERAL RESERVE BOARD

WASHINGTON

X-3556

November 7, 1922.

SUBJECT: Branch Bank Directors.

Dear Sir:

During the week of December 10th, the Board will make its appointments of branch bank directors to serve during the calendar year 1923. The Federal Reserve Banks having branches are, therefore, requested to make their appointments of branch bank directors and advise the Board thereof prior to December 10th.

In making its appointments, the Board will give consideration to the names of any individuals suggested by the Boards of Directors of the several Federal Reserve Banks.

Very truly yours,

Vice Governor.

FEDERAL RESERVE BOARD

WASHINGTON

November 7, 1922.

X-3557

SUBJECT: Comment of Federal Reserve Board with reference to propositions agreed to at recent Governors' Conference.

Dear Sir:

The Federal Reserve Board has considered the stenographic report and the Secretary's Minutes of the Conference of Federal Reserve Bank Governors which was held in this city October 10th to 11th.

It appears from the records that no action was taken by the Conference which, under the law and the printed regulations, require the approval of the Federal Reserve Board, with the exception of 'Topic 1 B. This topic appears as, "Interpretation of 'Borrower' Section 13 Federal Reserve Act limiting amount which Federal Reserve Banks may rediscount for any one bank". It was voted that the Federal Reserve Board should be requested to withhold any formal ruling on this subject until the counsel of the several Federal Reserve Banks may have the opportunity to study the question and submit their views to the Federal Reserve Board. To this request the Board accedes. All other action recorded had reference exclusively to matters of procedure and routine operation and the Board desires herewith to advise the Federal Reserve Banks that it interposes no objection to their putting into execution those changes in existing practice which are contemplated by the various agreements reached at the Governors' Conference.

Very truly yours,

Federal Reserve Board

Wm. W. Hoxton,
Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

November 8, 1922.

X-3558

SUBJECT: Preparation of Federal Reserve Agents' Annual Reports.

Dear Sir:

Since 1915 the Federal Reserve Board has been publishing the Annual Reports of the Federal Reserve Agents, or Digests of them, as an appendix to its own Annual Report. It has always been the Board's policy in printing these Reports, however, to eliminate recommendations for changes in law and, to a large extent, comments upon economic questions in general. This has resulted, especially in recent years, in that portion of the text of the Agent's Report which is incorporated in the Board's Annual Report being a mere matter of fact recital of the bank's operations, and it has added very little, if any, to the value of the statistical tables incorporated in the Report.

It has been decided, therefore, not to include any part of the text of the Annual Reports of the Federal Reserve Agents in the Board's Report for the year 1922. Part II of the Board's Report will, however, contain several tables with appropriate charts, similar to those appearing in the 1921 Report, which will be prepared by the Board and submitted to your Bank for verification as soon after January 1, 1923, as possible. All tables relating to a given Federal Reserve Bank will be placed together so that a general idea may readily be obtained of Federal Reserve banking developments in a given District by reference to this section of the Report. The tables will be prefaced by a statement to the effect that copies of the Annual Reports of Federal Reserve Agents, which are devoted largely to a discussion of intra-district matters, may be obtained direct from the Federal Reserve Agents of the respective Districts.

In view of the foregoing, it is suggested that your annual report to the Federal Reserve Board, which will be printed and distributed locally, be devoted to a discussion of the bank's operations, changes in its condition, its relations with member banks, its earnings and expenses, etc., and to the commercial, industrial, agricultural, and financial conditions in your own district with perhaps a brief reference to the relationship between such developments and conditions and the situation prevailing in the country generally.

In order to expedite the completion of the annual reports of both the Board and the Federal Reserve Agents, it is requested that the text of your annual report be forwarded to the Board early in January and that the statistical tables to be published in connection therewith be forwarded as soon thereafter as completed. Both the text of the report and the statistical tables will be handled by the Board as expeditiously as possible in order that the necessary release for publication may be given to you at the earliest practicable date.

By order of the Federal Reserve Board,

Wm. W. Hoxton,
Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

X-3559

November 8, 1922.

SUBJECT: Decision of Circuit Court of Appeals
in Atlanta Par Clearance Case.

Dear Sir:

There is enclosed herewith for your information a copy of the opinion rendered November 2, 1922, by the United States Circuit Court of Appeals for the Fifth Circuit in the case of American Bank & Trust Company, et al. v. Federal Reserve Bank of Atlanta, et al., as received from Mr. Hollins N. Randolph, Counsel to the Federal Reserve Bank of Atlanta.

It will be noted that the Circuit Court of Appeals affirmed in toto the decision of the United States District Court rendered March 11, 1922, which was published on page 436 of the Federal Reserve Bulletin for April, 1922.

Very truly yours,

Vice Governor.

(Enclosure)

COPY

X-3559a

IN THE UNITED STATES CIRCUIT COURT OF APPEALS
FOR THE FIFTH CIRCUIT.

No. 3906.

AMERICAN BANK & TRUST COMPANY, ET AL.)
 Appellants,)
)
Versus)
)
FEDERAL RESERVE BANK OF ATLANTA, ET AL.)
 Appellees.)

Appeal from the District Court of the United States for the
Northern District of Georgia.

Alex W. Smith, (Alexander W. Smith, Orville A. Park,
Smith, Hammond & Smith, and Theodore H. Smith on the brief),
for Appellants.

Hollins W. Randolph, R. S. Parker, John W. Davis and
M. B. Angell for Appellees.

Before WALKER and BRYAN, Circuit Judges, and SHEPPARD,
District Judge.

WALKER, Circuit Judge:-

Except as to a feature of the
bill mentioned below, nothing has occurred to require a revision of
or departure from the conclusions stated in the opinion delivered
by this Court in this case when it was here on a former appeal.

American Bank & Trust Co., v. Federal Reserve Bank of Atlanta, 269 Fed. 4. What was held by the Supreme Court to show the existence of a right to relief under the general prayer for relief was the part of the bill containing allegations to the effect, that, in pursuance of the alleged policy of the Federal Reserve Board to bring about the collectibility by banks of bank checks at par, the appellee Reserve Bank and its officers intended to accumulate, until they reach a large amount, checks upon banks of the class to which the appellant banks belong, and then to cause them to be presented for payment in cash over the counter, or by other devices detailed to require payment in cash in such wise as to drive the drawees out of business or force them, if able, to submit to the scheme of making bank checks collectible at par. American Bank & Trust Co. v. Federal Reserve Bank, 256 U. S. 350. The conduct which the Supreme Court decided to be wrongful and subject to be enjoined was the alleged threatened accumulation of checks for the purpose of using them in the manner alleged. It was not decided or intimated that the appellee bank would be guilty of any actionable wrong by merely presenting or causing to be presented bank checks held by it to the drawees for payment in cash over the counter. The alleged accumulation of checks for the purpose charged was an essential feature of the alleged conduct which was decided to be wrongful. We are not of opinion that a bank in receipt for collection of checks on other banks is guilty of an abuse of its

right as such holder when, in due course, with reasonable promptness, without designed delay or accumulation, and in proper manner, it presents, or causes to be presented, those checks to the drawees for payment in cash. In so doing the collecting bank would be exercising its right as the holder of checks received by it for collection, and would not be guilty of an abuse of that right for an unlawful purpose. If the holder of the checks is guilty of no wrong the fact that the payee is inconvenienced by having to pay in cash would not give the latter a valid ground of complaint. Inconvenience resulting to one party from another's exercise of a right in a lawful way does not give the former a right of action. The most that the evidence relied on by the appellants tended to prove was that at and prior to the time of filing the bill the appellee bank intended or proposed to deal in the just stated manner with checks received by it for collection, when the drawees did not consent to remit at par, and that it was after this suit was brought that appellee bank manifested its willingness to allow payment of such checks to be made either in cash or in acceptable exchange. The trial judge specifically found that "the charge that the Federal Reserve Bank at Atlanta would accumulate checks upon country or non-member banks until they reach a large amount, and then cause them to be presented for payment over the counter, so as to compel the plaintiffs to maintain so much cash in their vaults as to drive them out of business, or an alternative agreement to remit at par, is not sustained by the evidence". He further found "the evidence insufficient to sustain any charge in the bill that the

Federal Reserve Bank was acting illegally or exercising any right it had so as to oppress or injure the plaintiff banks". The record before us does not warrant the setting aside of either of those findings. We do not think that the evidence adduced justified the granting of any of the prayed for relief which was denied by the decree appealed from. By that decree the appellee Bank was "enjoined and restrained from publishing, upon any par list issued by the said defendant, The Federal Reserve Bank of Atlanta, the name of any non-member bank being a plaintiff in this case unless such non-member bank consents or has consented to remit at par".

Our attention has been called to an opinion rendered, after this case was argued and submitted, upon the granting of a preliminary injunction in the case of Farmers and Merchants Bank of Cattlettsburg, Kentucky, vs. The Federal Reserve Bank of Cleveland, Ohio, and Mary D. McCall, pending in the District Court of the United States for the Eastern District of Kentucky. That opinion shows that the granting of a preliminary injunction in that case was influenced by the showing made that the defendant bank, by its authorized agents, adopted what well might be deemed to be unwarranted methods in collecting checks on the plaintiff bank. That case is plainly differentiated from the instant one by the above quoted explicit finding in the latter to the effect that the evidence did not sustain any charge in the bill as to improper conduct by the appellee bank or its agents. We do not think that that opinion shows that our above indicated conclusions in the instant case are incorrect.

In the absence of any showing that the appellee Bank consented to or approved of the use of any unlawful means of enforcing or promoting the adoption or carrying out of the policy or plan of making bank checks collectible at par, the fact that the appellee bank was in accord with other Federal Reserve Banks in adopting that policy and attempting to bring about the general acceptance and adoption of it cannot properly be given the effect of making the appellee bank responsible for unlawful acts done, in the effort to enforce that policy, by or at the instance of other Federal Reserve Banks. An express or implied agreement between the several Reserve Banks to promote the adoption of the policy mentioned does not import a common consent to the use by any party to such agreement of unlawful means to effectuate the common lawful purposes. Assent by one party to concert of action with others to accomplish a lawful purpose does not involve or amount to the former consenting to or approving the unlawful conduct of any one. There was no evidence tending to prove that the appellee bank authorized, consented to or ratified the use by or in behalf of other Reserve Banks of illegally coercive methods to bring about the general adoption of the above mentioned policy. It follows that the evidence offered to prove the use by or in behalf of other Reserve Banks of unlawful means to accomplish the alleged common purpose was properly excluded.

The court disallowed a proposed amendment of the bill having the effect of adding as parties plaintiffs thereto banks located in Federal

Reserve Districts other than the Sixth. That ruling was not erroneous. The complaints made by the bill are based upon what it alleged the appellees did or proposed to do in transactions between the appellee Federal Reserve Bank of the Sixth Federal Reserve District and the appellant banks, which are located in that District. The banks unsuccessfully sought to be added as parties plaintiff are so far strangers to the transactions mentioned as to keep the alleged conduct complained of from giving to those banks a right of action based on that conduct, with the result that those banks are not entitled to be joined as parties plaintiff in this suit.

The same interrogatories were propounded by the appellants to several of the appellees. A separate answer was made to each of those interrogatories, each person interrogated making such answer his own. The court overruled objections to such answers on the ground that answers so made to interrogatories were violative of the provision of Equity Rule 53 that "each interrogatory shall be answered separately". What the quoted provision forbids is the making of one answer a response to more than one interrogatory. It does not forbid several persons to whom an interrogatory is propounded joining in the making of one separate answer thereto. The provision does not require the duplication or multiplication of answers to an interrogatory when the parties interrogated desire to make the same answer thereto. The answers made to interrogatories were not subject to objection on the ground mentioned.

The conclusion is that the record does not show any reversible error. The decree is

AFFIRMED.
(ORIGINAL FILED NOVEMBER 2nd, 1922.)

TREASURY DEPARTMENT
Office of the Secretary
WASHINGTON

November 7, 1922.

The Governor
Federal Reserve Board.

Sir:

You are advised that the Department has referred to the General Accounting Office, Treasury Department Division, for settlement, the account of the Bureau of Engraving and Printing for preparing Federal Reserve notes during the period October 1 to October 31, 1922, amounting to \$90,856.84, as follows:

Federal Reserve Notes, 1914

	<u>\$5</u>	<u>\$10</u>	<u>\$20</u>	<u>\$50</u>	<u>Total</u>
Boston.....		57,000	-	-	57,000
New York.....	252,000	144,000	108,000	7,000	511,000
Philadelphia...	52,000	-	-	-	52,000
Cleveland.....	26,000	35,000	13,000	-	74,000
Richmond.....	30,000	3,000	9,000	-	42,000
Atlanta.....	99,000	27,000	30,000	-	156,000
Chicago.....	31,000	9,000	-	-	40,000
St. Louis.....	93,000	18,000	13,000	-	124,000
Minneapolis...	80,000	20,000	13,000	-	113,000
Kansas City...	78,000	13,000	20,000	1,000	112,000
Dallas.....	142,000	-	52,000	-	194,000
San Francisco..	<u>185,000</u>	<u>75,000</u>	<u>65,000</u>	<u>2,000</u>	<u>327,000</u>
	1,068,000	401,000	323,000	10,000	1,802,000

1,802,000 sheets at \$50.42 \$90,856.84

The charges against the several Federal Reserve Banks are as follows:

	<u>Sheets</u>	<u>Compen- sation</u>	<u>Plate Printing</u>	<u>Materials</u>	<u>Inc.Com- pensation</u>	<u>Total</u>
Boston.....	57,000	962.16	909.15	724.47	278.16	2,873.94
New York.....	511,000	8,625.68	8,150.45	6,494.81	2,493.68	25,764.62
Philadclphia..	52,000	877.76	829.40	600.92	253.76	2,621.84
Cleveland.....	74,000	1,249.12	1,180.30	940.54	361.12	3,731.08
Richmond.....	42,000	708.96	669.90	533.82	204.96	2,117.64
Atlanta.....	156,000	2,633.20	2,488.20	1,982.76	761.28	7,865.52
Chicago.....	40,000	675.20	638.00	508.40	195.20	2,016.80
St. Louis.....	124,000	2,093.12	1,977.80	1,576.04	605.12	6,252.08
Minneapolis...	113,000	1,907.44	1,802.35	1,436.23	551.44	5,697.46
Kansas City...	112,000	1,890.56	1,786.40	1,423.52	546.56	5,647.04
Dallas.....	194,000	3,274.72	3,094.30	2,465.74	946.72	9,781.48
San Francisco.	<u>327,000</u>	<u>5,519.76</u>	<u>5,215.65</u>	<u>4,156.17</u>	<u>1,595.76</u>	<u>16,487.34</u>
	1,802,000	30,417.76	28,741.90	22,903.42	8,793.76	90,856.84

The Bureau appropriations will be reimbursed in the above amount from the indefinite appropriation "Preparation and issue of Federal Reserve Notes, Reimbursable", and it is requested that your Board cause such indefinite appropriation to be reimbursed in like amount.

Respectfully,
(Signed) S. R. Jacobs,
Acting Commissioner.

FEDERAL RESERVE BOARD

WASHINGTON

X-3561

Federal Reserve Bank,

Dear Sirs:

Enclosed herewith you will find statement of
the Treasury Department covering the cost of preparing
Federal Reserve notes for the month of 1922,
The duplicate C/D covering the amount charged against
your bank has been received.

Very truly yours,

Enclosure.

Fiscal Agent.

EFFICIENT COOPERATION BETWEEN
THE BUSINESS MAN AND THE FARMER

Remarks by J. R. Mitchell, Member of the Federal Reserve Board, at meetings of the Civic and Commerce Association, of Minneapolis, and the St. Paul Association, of St. Paul, November 14th and 15th, called to consider the future of agriculture in the Ninth Federal Reserve District.

These remarks followed an address by Dr. W. J. Spillman, Consulting Specialist of the Department of Agriculture, who spoke on "A Permanent Policy for Agriculture in the Northwest".

Since I have been a member of the Federal Reserve Board, now some eighteen months, I have often been asked just what the Board does, and my reply has been that no inconsiderable part of its time has been spent in answering criticisms of its policy, and in explaining the scope of its activities, what it can do and what it cannot do. But, in addition to that, notwithstanding the fact that the Federal Reserve Act was not created as a panacea for all financial and economic ills, since its work reaches to every part of the country, it is, nevertheless, the recipient of tales of trouble coming from every part of the United States.

If the boll weevil has gotten in his deadly work in the cotton belt, we are about the first to be advised of the fact - and the boll weevil has been active, with the result that there is a short crop of cotton, by reason of which the growers of the ten million bales are obtaining a good price. But the ravages of the boll weevil have not been altogether without profit, for it is that scourge which has made diversification necessary in the South and made possible a greater prosperity.

If there is a drought in the Panhandle section of Texas, or in New Mexico, we know of it, and are asked how cattle covered by chattel mortgages can be moved across the border to Mexico where there is feed. My answer has been

that if I were the banker holding those mortgages, I would be tempted to waive some of the legal technicalities, preferring to have mortgages on live cattle anywhere, even in Mexico, than mortgages on dead ones in Texas.

Again, if the prune and raisin crop in California is not in as good a condition as it should be, we know it, and if there has been an overproduction of potatoes in Aroostook County, Maine, we are told of that.

When one considers the present business situation as it affects the business men and farmers of the Northwest, the outstanding fact is that the business recovery which for several months has been under way in the industrial East has not been felt to the same extent in the agricultural West. That there has been a substantial improvement in the general trend of business can not be questioned. The recovery began over a year ago in the textile industry of New England and has extended to include building, automobiles, iron and steel, railroad equipment, and related industries. Those industries furnishing building materials have benefitted by the construction of residences throughout the country

Thus far the revival has been chiefly industrial in character, but its continuance depends upon its extension to all sections of the country, and particularly the more complete inclusion of the agricultural communities. There can be no complete national prosperity unless the buying power of the

farmer is restored. In the long run, factories can sell their output at profitable prices only when the farmers in turn are selling their crops at a profit.

How far the prices he receives are out of line with the prices he is compelled to pay is shown by the fact that, taking the purchasing power of the farmer's dollar in 1913 as 100%, at the present time it is approximately 65 ¢, only 3¢ more than in December, 1921, when it was worth but 62¢, the lowest since 1913; and a reduction in the present cost of life necessities to the farmer is at this time far from being in sight. This can only be brought about by a reduction in wages, and the tendency today is towards higher rather than towards lower wages.

There is a scarcity of labor today in the cities, and that at a time when industry is operating at considerably under normal conditions. What will be the result when the requirements of the country restore industry to its full capacity? It is

possible that the familiar slogan, "Back to the farm", will be supplanted with "Back to the city." Such a movement would have the effect of greatly reducing farm production and thereby creating higher prices.

Were this meeting in some cities, it might be necessary to dwell on the importance of agriculture; to call attention to the fact that 48.6% of the population is classed by the last census as rural population; that the value of all farm property in 1920 was almost \$78,000,000,000.; that the farmer provides a large portion of all freight traffic; that the farmer and his family purchase about one-third of all manufactures; that the value of the farm production is estimated to be in each year almost exactly equal to the value created in the factories, i.e., to the value that the factories have added to the raw materials in the process of conversion into finished articles. But in the Twin Cities it is unnecessary to argue the point. We know what the importance of agriculture is. We know that when the farmer prospers the cities prosper, that the welfare of each is closely interwoven with that of the other.

With the exception of the iron regions in the northern part of the State, and the copper districts in the upper peninsula of Michigan, and in Montana, the entire Ninth Federal Reserve District is dependent for its prosperity wholly upon the products of the farm, the dairy, and the raising of live stock.

That a condition can long continue where the farmer sells his crops for less than it costs to produce is patently impossible. Either he must receive a larger return for products, must learn new and improved methods enabling him to reduce his costs of production, or he must give way to someone who can farm more intelligently. Eventually, however, he is bound to get his proportionate share, for the world must be fed and will have to pay the price. But we, I take it, are not so much interested in that millenium when each will get his share apportioned with scientific accuracy. The problems facing us are present ones, and some measure of relief is immediately necessary.

Many have been the solutions advanced. Some would find the answer through political action. But political laws can never repeal economic laws. Politicians may place obstacles to the free play of economic forces and statesmen, remove them, but those who seek to reach the root of the farmer's difficulty through legislative action are, I fear, doomed to disappointment.

Others see in cooperative marketing associations the salvation of the farmer. The history of cooperative movements in the United States is full of the story of their failures. On the other hand, where there has been good management and sound policy there have been brilliant successes. It seems probable that the development of the cooperative movement will continue with increasing success. But, even the complete success of the cooperative marketing associations will not, I venture, be the

complete remedy.

The Capper-Tincher Bill is evidence of the fact that the farmers are not satisfied with the present marketing processes, and if there be any injustices or inefficiencies in our present system, I hope that they may be rapidly eliminated. But men in the Department of Agriculture, men who understand the plight of the farmer, and whose sympathies are with him, tell me that the farmer can gain more by diversifying his farming and standardizing his grades than he can by controlling the marketing of his product.

There are others who assert that the answer to the whole question is greater and more liberal credits. Perhaps the need is not for more credits, but for credits better adapted to the needs of the farmer. Through the local banks and the Federal Reserve Banks, his short-term credits up to six months maturity are taken care of. Through the Federal Land Banks, Joint Stock Land Banks, Farm Mortgage Banks and Bankers, and Life Insurance Companies, his long-term credits are provided; but, there is, in the opinion of some, a lack of intermediate credits adapted to his needs, a lack which the Joint Commission of Agricultural Inquiry points out in its report.

The War Finance Corporation, which has done such splendid service in this field is an emergency creation, and Mr. Meyer, its Managing Director, predicts that there will be no need to extend its activities, which by law will end this coming spring.

Hon. Sidney Anderson, Chairman of the Joint Commission of Agricultural Inquiry, has introduced a Bill/which would provide this intermediate credit by amending the Federal Farm Loan Act. Incidentally, the Federal Reserve Board has endorsed this Bill. But more credit is not the final answer to the situation. Many of the farmers themselves recognize that they have had not insufficient, but too much credit.

Undoubtedly, improvements can be effected all along these lines, and no efforts to effect these improvements should be abated, but even were the wishes of the most ardent advocates of these reforms met, still the root of the problem would remain untouched.

In the final analysis, the farmers' problem is as much of a business problem as is that of the manufacturer. To be successful each must produce articles for which there is a demand, and sell them for more than it costs to produce. Each must survey his resources and produce that for which he is best equipped, and each must plan ahead to use his plant most efficiently at all times.

As I see it, there are only three ways by which the farmer can attempt to obtain a larger income. He can try to secure for himself a larger share of the value of his crop, and as the processes of distribution become more efficient it is altogether likely that the farmer will receive more for what he sells, and the consumer pay less for what he buys.

The farmer can attempt to reap a larger harvest, but he has sometimes done so only to receive less in return than he had for a smaller crop.

Or, he can analyze his situation, survey his resources, produce that for which his farm is best suited, abandon his efforts along lines which have proved unprofitable, and so diversify his crops and activities that he may reduce his chances of failure and increase his chances of success.

To some, this proposal that the farmer adjust his production to his market may not seem revolutionary enough. We have become so accustomed to the burdens of agriculture that sometimes we think only some complete revolution can remedy matters.

This solution, to be sure, is not new or startling. The Department of Agriculture and the Agricultural Colleges have been urging it. Only recently some of your leading newspapers have been conducting a campaign for diversification. Last month your Dairy Show was a great success in demonstrating the advantages of farm dairying. Dr. Spillman has just shown you what can be done, what has been done in certain localities, to increase the farmers' return.

What is necessary is that the farmer be able to see clearly just what he ought to do in the way of diversification and to understand the limits beyond which he must not go in this direction, and when he understands these things I have

sufficient confidence in his intelligence to believe that he will act wisely.

Something must be done, as to that we are all agreed. But what to do and how to do it is the question.

Can we not consider this gathering a meeting of stockholders, all interested in making a success out of agriculture, upon which our success is solely dependent? I feel that I am a large stockholder in this basic industry, and I am just as much interested in getting the farmer back on a profitable basis as anyone.

Now, the best experts in the country point out the remedy - diversification, and proper planning of crops and efforts - a scientific survey of each farmer's resources, and the determination of what his farm is best fitted for.

How to translate that knowledge into actuality is the problem. We have the county agents, cooperatively employed by the Department of Agriculture, the Agricultural Colleges and the counties, who are doing a remarkable work; we have the agricultural colleges, which have contributed greatly to the upbuilding of our section; there is the United States Department of Agriculture, studying the problems and ever ready to help; there are the bankers and merchants in the smaller towns, whose prosperity is dependent upon that of the farmer, no less and no more than is that of the bankers and merchants in the larger cities, and the railroads which traverse the territory.

All these, with their diverse interests, have one interest in common. Is it not possible that all of them should cooperate, pooling their facilities and their abilities for the common good? It seems to me that there is only one answer, and that is that it is possible. It has occurred to me that what the Ninth Federal Reserve District needs, or what we, as stockholders need, is a Department of Agriculture of our own, which not only will be informed on what is necessary to be done in this district, but which will be in a position to see that what should be done is done, and in a position to cooperate with these other agencies - a department which could serve as a clearing house for all the information, which could coordinate all activities; which could interpret agricultural needs and conditions to the city interests, and make effective their interest in and the aid they are ready to extend the farmer; which could bring together the farmers and the business men of all classes in the study of their common interests, which would lead to a better understanding.

In the working out of such a program, you will find the country banker not only a most willing worker, but a most effective one. In touch with the whole of his community he can aid here, help there, make a suggestion to this farmer and above all, finance in an understanding manner the change into diversification.

Such a program is not theoretical - it is practical. It has been proved. In certain sections of the South, for example, the cooperation of the bankers and business men, with these agencies, and with the farmer, has been largely instrumental in bringing about the greater prosperity due to diversification and the proper balancing of efforts and activities.

What has been done elsewhere, can be done here. The various agencies are eager to cooperate. All that is lacking is leadership and I am sure that is here. Whether that leadership can be supplied or not, determines the difference, in my opinion, between a discontented rural population with its attendant disastrous results and a prosperous agriculture. It is a question which only you can answer. What shall it be?

Let me assure you, in conclusion, that the Federal Reserve Bank of Minneapolis, and the Federal Reserve Board as well, will gladly cooperate, in every way possible, in any sound constructive program decided upon to relieve the situation now confronting you. The initiative must come from you.

FEDERAL RESERVE BOARD

WASHINGTON

X-3564

November 15, 1922.

SUBJECT: Reserve Stocks, Federal Reserve Notes.

Dear Sir:

In order that provision may be made at the Bureau of Engraving and Printing for the production of a sufficient quantity of Federal reserve notes during the first six months of 1923, you are requested to advise the Federal Reserve Board before December 15th of the amounts (estimated) of each denomination of Federal reserve notes that you will requisition from Washington during that period.

As requested in the Board's letter of May 3, 1922 (X-3397) your bank advised the Board of the amounts of Federal reserve notes of each denomination it was desired to have in the reserve stock of unissued notes and the amount of each denomination it desired be held in Washington. You are requested to review the figures given by the bank and advise the Board before December 15th of any changes you may desire to make.

The Board is of the opinion that there should be carried at all times in the reserve stock of unissued Federal reserve notes at least a six-months' supply of each denomination and that one-half of the reserve stock of each denomination should be held by the Federal Reserve Agent and one-half in Washington.

Very truly yours,

Vice Governor.

FEDERAL RESERVE BOARD

WASHINGTON

X-3566

November 17, 1922.

SUBJECT: Employment of Hon. John W. Davis in all
Par Clearance Litigation.

Dear Sir:

In view of certain recent developments in the so-called par clearance litigation, the Board has decided to suggest that all of the Federal Reserve Banks employ Mr. John W. Davis, of New York, former Solicitor General of the United States, and former ambassador to Great Britain, to direct the conduct of all such litigation which may now be pending against any of them or which may arise in the near future.

As you know, the Federal Reserve Bank of Atlanta, at the suggestion of the Federal Reserve Board, employed Mr. Davis as its principal counsel to conduct the trial of the case of the American Bank and Trust Company v. Federal Reserve Bank of Atlanta, which at that time had just been remanded by the Supreme Court of the United States for trial on its merits before the United States District Court for the Northern District of Georgia. In view of the fact that the questions at issue in that case had assumed a nation-wide scope and vitally affected all of the Federal Reserve Banks, the expenses of Mr. Davis' employment in that litigation were borne at the Board's suggestion by all of the Federal Reserve Banks pro rata. While Mr. Davis has acted in an advisory capacity in the other par clearance cases, he has not participated actively in the trial of any but the Atlanta case. The Board feels that, from the standpoint of the Federal Reserve System as a whole, the Richmond, San Francisco, and Cleveland cases, as well as others which may arise, are just as important as the Atlanta case, and if it was to the interest of all of the Federal Reserve Banks to employ Mr. Davis to conduct the litigation in the Atlanta case, it is equally to the interest of all of the Federal Reserve Banks to employ him in all other cases involving similar litigation. Furthermore, it seems unjust for the Federal Reserve Banks of Cleveland, San Francisco and Richmond to be called upon to contribute to the expenses of Mr. Davis' employment in the Atlanta case and not have the benefit of his active participation in the trial of their own cases.

All cases growing out of this par clearance litigation are naturally inter-dependent, and the decision in each case necessarily has its effect on the litigation in every other case. This is well illustrated by what happened in the Richmond case. That case was handled admirably by local counsel and a decision was won by the Federal Reserve Bank of Richmond in the Supreme Court of North Carolina. Quite recently, however, that court granted a petition to re-hear the case, and it appears that this action was influenced to some extent at least by the decision in the San Francisco or Brookings case. The Board understands also that the brief filed by Mr. Smith, counsel for the State banks, on the re-hearing of the Richmond case lays much stress on the decisions in the San Francisco and Cleveland cases. It is obvious that the decision in the Cleveland case also was influenced to a large extent by the language of the opinion rendered in the San Francisco case.

It appears that all the State banks involved in these cases have retained the same chief counsel, Mr. Alexander W. Smith, a very able lawyer, and thereby have achieved a uniform policy and a coordination of tactics in the several cases. By this means they have gained also a distinct advantage in being represented in each of these cases by counsel who is thoroughly familiar with every aspect of each of the other cases.

The Board believes, therefore, that it is of first importance to the successful conduct of all of the par clearance litigation that the Federal Reserve Banks employ the same principal counsel to take charge of all such litigation, and in view of his exceptional legal ability, in addition to the experience which he has already had in the Atlanta case and his splendid success in the trial of that case, the Board strongly recommends that all of the Federal Reserve Banks employ Mr. Davis in such capacity. In making this suggestion, of course, it is not the Board's idea that the Federal Reserve Banks should dispense with the services of their regular counsel or any of the special counsel whom they have retained or desire to retain in such cases. The Board realizes that the services of local counsel will be required for much of the actual conduct of such litigation, but believes that it is to the interest of all concerned that Mr. Davis be placed in a position to direct the trial of all such cases and to participate actively in the trial of each case to such extent as he deems advisable.

The Board will be pleased to learn at your early convenience of the attitude of your directors in this matter and whether or not your bank will be willing to retain Mr. Davis, jointly with the other Federal Reserve Banks, in the capacity indicated above, the expenses of such employment to be borne pro rata by all of the Federal Reserve Banks.

By order of the Federal Reserve Board.

WM. W. HOXTON
Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

X-3568

November 23, 1922.

SUBJECT: Expense Main Line, Leased Wire System, October, 1922.

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-3568a and X-3568b, covering in detail operations of the main line, Leased Wire System, during the month of October, 1922.

Please credit the amount payable by your bank in the general account, Treasurer, U. S., on your books; and issue C/D Form 1, National Banks, for account of "Salaries and Expenses, Federal Reserve Board, Special Fund", Leased Wire System, sending duplicate C/D to Federal Reserve Board.

Very truly yours,

Fiscal Agent.

(Enclosure)

TO GOVERNORS OF ALL BANKS EXCEPT CHICAGO.

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS
TRANSMITTED OVER MAIN LINE OF THE FEDERAL RESERVE
LEASED WIRE SYSTEM FOR THE MONTH OF OCTOBER, 1922.

From	Bank Business	Per cent of Total Bank Business (*)	Treasury Dept. Business	War Finance Corp. Business	Total
Boston	35,346	3.07	11,076	-	46,422
New York	230,574	20.05	22,423	-	252,997
Philadelphia	55,258	4.81	9,724	-	64,982
Cleveland	87,323	7.59	9,860	-	97,183
Richmond	70,580	6.14	10,504	-	81,084
Atlanta	72,172	6.28	12,449	-	84,621
Chicago	136,880	11.90	12,686	-	149,566
St. Louis	91,306	7.94	11,426	-	102,732
Minneapolis	47,923	4.17	9,124	16	57,063
Kansas City	90,532	7.87	12,188	-	102,720
Dallas	88,594	7.70	7,402	986	96,982
San Francisco	143,568	12.48	15,291	-	158,859
Total F.R. Banks	1,150,056		144,153	1,002	1,295,211
Washington	309,320	100.00	248,726	755	558,801
Grand Total	1,459,376		392,879	1,757	1,854,012
Per cent of Total	78.71%		21.19%	0.10%	
Bank Business	1,459,376 words or 78.79%				
Treasury	392,879 " " 21.21%				
TOTAL	1,852,255	100.00%			

(*) These percentages used in calculating the pro rata share of leased wire expenses as shown on the accompanying statement (3568b)

FEDERAL RESERVE BOARD
WASHINGTON, D. C.
NOVEMBER 23, 1922.

1210

REPORT OF EXPENSE
MAIN LINE
FEDERAL RESERVE LEASED WIRE SYSTEM OCTOBER, 1922.

X03568b

Name of Bank	Operators' Salaries	Operators' Overtime	Wire Rental	Total Expense	Pro rata Share of Total Expense	Credits	Payable to Federal Reserve Board
Boston	\$ 250.00	\$	\$	\$ 250.00	\$ 537.53	\$ 250.00	\$ 287.53
New York	1,279.66	15.00	-	1,294.66	3,510.57	1,294.66	2,215.91
Philadelphia	225.00	-	-	225.00	842.19	225.00	617.19
Cleveland	366.00	11.94	-	377.94	1,328.94	377.94	951.00
Richmond	305.00	-	-	305.00	1,075.06	305.00	770.06
Atlanta	240.00	-	-	240.00	1,099.57	240.00	859.57
Chicago (#)	4,712.26	29.00	-	4,741.26	2,083.58	4,741.26	(*) 2,657.68
St. Louis	203.12	-	-	203.12	1,390.22	203.12	1,187.10
Minneapolis	275.00	6.12	-	281.12	730.13	281.12	449.01
Kansas City	326.64	18.59	-	345.23	1,377.97	345.23	1,032.74
Dallas	170.00	-	-	170.00	1,348.20	170.00	1,178.20
San Francisco	395.00	-	-	395.00	2,185.13	395.00	1,790.13
Fed. Res. Board			17,061.17	17,061.17			

TOTAL	\$ 8,747.68	\$ 80.65	\$ 17,061.17	\$ 25,889.50	\$ 17,509.09	\$ 8,828.33	\$ 11,338.44
				(a) 8,380.41			(&) 2,657.68
				\$ 17,509.09			\$ 8,680.76

(#) Includes salaries of Washington operators.

(&) Amount reimbursable to Chicago

(*) Credit

(a) Received \$8,264.65 from Treasury Dept. and \$115.76 from War Finance

Corporation covering business for months of August, September and October, 1922.

FEDERAL RESERVE BOARD
WASHINGTON, D. C.
NOVEMBER 23, 1922.

FEDERAL RESERVE BOARD

WASHINGTON

November 23, 1922.
X-3569

SUBJECT: Addressing Communications to the Federal Reserve Board.

Dear Sir:

The Federal Reserve Board has today directed that the official letterhead of the Board shall hereafter bear the legend, "Address official correspondence to the 'Federal Reserve Board'". It was further voted that all Chairmen and Governors be advised of the matter with the explanation that if it is desired that a communication shall have the attention of a particular member of the Board, a notation to that effect may be made upon the letter. This action has been taken in order to facilitate the routing of mail at this office.

By order of the Federal Reserve Board,

Very truly yours,

Wm. W. Hoxton,
Secretary.

ALL CHAIRMEN AND GOVERNORS OF ALL FEDERAL RESERVE BANKS.

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

X-3570

For release in Morning Papers,
Friday, December 1, 1922.

The following is a summary of general business and financial conditions throughout the several Federal Reserve Districts during the month of November, as contained in the forthcoming issue of the Federal Reserve Bulletin.

Substantial increases of productive activity were reported by basic industries during October. Due principally to increased activity at anthracite coal mines, mineral output was 19 per cent larger than in September. There was also a larger production of all other important minerals. Production of pig iron was greater than in any month since October 1920, and the blowing in of additional blast furnaces during November indicates a further increase of activity. Mill consumption of cotton has continued to increase and the October total is the largest in over two years, while operations of woolen and silk mills are approaching capacity. The total number of railroad cars loaded was nearly at a maximum, yet the car shortage on November 1 was the largest ever recorded. The large movement of manufactured goods is indicated by the fact that loadings of miscellaneous freight by railroads were larger in October than in any month since 1920. Live-stock receipts

continue to be exceptionally large, as drought conditions on the ranges during October necessitated unusually heavy marketing. During the first two weeks of November there was a decline in car loadings and some reduction in the estimated car shortage.

Increased production in October has been accompanied by a continued increase in the volume of employment at industrial establishments. The average pay per worker was larger in many industries, due in most cases to increases in hours of work, rather than to increases in rates of pay. Railroad repair shops and equipment factories made the largest additions to their forces. Steel mills, metal mines, and building contractors still report shortages of skilled labor. Anthracite coal mines, on the other hand, report a small surplus.

Wholesale trade showed comparatively little change during October. Sales of furniture, hardware, groceries, and drugs showed a general upward tendency. Seasonal declines occurred in sales of dry goods, shoes, and automobile supplies. Retail trade continued to be greater than a year ago and throughout the country was larger than last month. The volume of payments by checks also increased in every Federal Reserve District compared to last month. The total for 140 cities, not including New York, was 11 per cent larger in October than in September and 13 per cent larger than in October, 1921. The increase over last October is partly due to the increase in wholesale prices

during the current year.

The wholesale price index of the Bureau of Labor Statistics was 154 in October, as compared with 153 in September and 142 in October, 1921. Prices of farm products and clothing showed particularly large increases during October and reached the highest level for the year. Fuel prices continued to decline sharply and were about 17 per cent lower than in August.

The increased business activity has not been reflected in the movement of total loans of member banks in leading cities. In fact, during the period between October 18 and November 15 the loans and discounts of member banks in leading cities showed a decline of over \$70,000,000, of which about \$32,000,000 represented a contraction occurring in the last week. The contraction for the four weeks' period, however, has been much less than the expansion of \$366,000,000 occurring in the four weeks' period ending October 18. Slight loan increases were registered in the southern and western districts and also in New England, but these increases were more than offset by reductions in other districts, especially in New York and Chicago. Rates on various classes of loans have remained firm or have shown a slight upward tendency. Demand and time deposits both increased during the four weeks, though again western and southern districts recorded slight increases.

Little change occurred in the position of the Federal Reserve Banks during the period from October 25 to November 22.

Earning assets and note circulation remained at substantially the same point as a month ago. There has been, however, a change in the character of these assets, as investments fell off and bills increased by \$144,000,000.

F E D E R A L R E S E R V E B O A R D .

STATEMENT FOR THE PRESS.

X-3571

For release in afternoon papers,
Saturday, December 2, 1922.

CONDITION OF THE ACCEPTANCE MARKET

OCTOBER 15 to NOVEMBER 15, 1922.

According to the reports received by the Federal Reserve Board from the various Federal Reserve Banks the acceptance market showed little change in the larger markets over the preceding period, although improvement is noted in some of the Districts which have a smaller volume of acceptance business. The further general advance of rates, nevertheless, has tended, on the whole, to broaden the market, increase purchases of bills, and bring the return on bills to a more attractive level.

The supply of bills in District No. 2 (New York) showed a substantial increase during the early part of the period under review but subsequently fell off to such an extent that the aggregate approximated that of the preceding period. Rates were gradually advanced from $3\frac{5}{8}$ at $3\frac{7}{8}$ bid and $3\frac{1}{2}$ offered to $4\frac{1}{8}$ at $4\frac{1}{4}$ bid and $4\frac{1}{2}$ offered. This advance led to a somewhat broader demand and outside distribution increased about 25 per cent over that of the preceding month. In District No. 1

(Boston) rates were also advanced and both the supply of and demand for bills increased. In this District country banks are now buying to a limited extent. In District No. 3 (Philadelphia) rates were advanced during the first part of the period and both the supply and demand increased. Later the market became apathetic and the supply exceeded the demand.

District No. 4 (Cleveland) after increasing the rates experienced only limited improvement. In District No. 7 (Chicago) the demand is reported to be poor and the supply of bills remains small, due in some measure to the shortage of transportation facilities for grain. In District No. 12 (San Francisco) the volume of acceptances executed during October shows little change from that for September, but the gradual increase in rates has tended to widen the market and include more country banks. Districts No. 6 (Atlanta), No. 8 (St. Louis), No. 10 (Kansas City) and No. 11 (Dallas), all report an improved market. In District No. 8 (St. Louis) the betterment is accredited to the increase in rates, while in District No. 10 (Kansas City), where the rate remains unchanged, it is reported to be due to an increase in the movement of cotton, wheat and flour.

In District No. 2 (New York) the bulk of acceptances issued were based upon the following commodities, in order of their importance: cotton, grain, sugar, dollar exchange, metals and coffee.

-3-

Those against cotton and grain were in the lead by a substantial margin. In addition bills were executed in other Districts against wheat, hides and skins, wool, raisins, oil, silk, hemp, burlap and jute, exportation of agricultural implements, twine, paint and varnish, and the storage of canned goods, crude rubber and fabric.

District No. 10 (Kansas City) reports bills moved freely at offered rates, while Districts No. 2 (New York), No. 3 (Philadelphia), No. 7 (Chicago) and No. 8 (St. Louis) report the movement was not free.

Preference continues for 30 and 60 day maturities. District No. 1 (Boston) reports a shortage of 30-day bills. In District No. 8 (St. Louis), however, the best demand was for 60 to 90 day bills, and in District No. 12 (San Francisco) there was a continued interest in the longer maturities. In the latter District the distribution of maturities for the past two periods was as follows:

Maturities	October 15 to November 15.	September 15 to October 15.
30-day	11.3%	25.5%
60-day	14.2%	21.6%
90-day	63.8%	35.9%
120-day	6.5%	15.0%
150-day	4.2%	2.0%

Rates on prime bills in various Districts were as follows:

Rates on Prime Bills

Maturity		Range during period		Bid	Close	Offered
		Bid	Offered			
District No.1 (Boston)	30-day	$3\frac{3}{4} - 4-1/8$	$3-5/8 - 4$	$4-1/8$		4
	60-day	"	"	"		"
	90-day	"	"	"		"
	120-day	"	"	"		"
	150-day	"	"	"		"
	180-day	"	"	"		"
District No.2 (New York)	30-day	$3-5/8 - 4\frac{1}{4}$	$3\frac{3}{4} - 4$	$4-1/8 - 4\frac{1}{4}$		4
	60-day	"	"	"		"
	90-day	"	"	"		"
	120-day	$4 - 4-3/8$	$3-7/8 - 4$	$4\frac{1}{4} - 4-3/8$		$4 - 4-1/8$
	150-day	"	"	"		"
	180-day	$4\frac{1}{2} - 4-5/8$	$4 - 4\frac{1}{4}$	$4\frac{1}{2} - 4-5/8$		$4-1/8 - 4\frac{1}{4}$
District No.3 (Phila- delphia)	30-day	$3\frac{3}{4} - 4\frac{1}{4}$	$3\frac{3}{4} - 4$	$4-1/8 - 4\frac{1}{4}$		4
	60-day	$3-5/8 - 4\frac{1}{4}$	$3\frac{3}{4} - 4$	$4-1/8 - 4\frac{1}{4}$		"
	90-day	"	$3\frac{3}{4} - 4$	"		"
	120-day	$3-5/8 - 4-3/8$	$3-3/8 - 4-1/8$	$4-1/8 - 4-3/8$		$4-1/8$
	150-day	$3\frac{1}{2} - 4\frac{1}{4}$	$3\frac{3}{4} - 4-1/8$	$4-3/8 - 4-5/8$		"
	180-day	$3\frac{3}{4} - 4-5/8$	$3\frac{3}{4} - 4\frac{1}{4}$	"		$4\frac{1}{4}$
District No.4 (Cleveland)	30-day	$4 - 4\frac{1}{4}$	$3\frac{3}{4} - 4$	$4\frac{1}{4}$		4
	60-day	"	"	"		"
	90-day	"	"	"		"
	120-day	"	"	"		"
	150-day	"	"	"		"
	180-day	"	"	"		"
District No.7 (Chicago)	30-day	$3-5/8 - 4\frac{1}{4}$	$3\frac{3}{4} - 4$	$4-1/8 - 4\frac{1}{4}$		4
	60-day	"	"	"		"
	90-day	"	"	"		"
	120-day	$3\frac{3}{4} - 4-3/8$	"	$4-1/8 - 4-3/8$		$4 - 4-1/8$
	150-day	$3\frac{3}{4} - 4\frac{1}{4}$	"	$4-1/8 - 4\frac{1}{4}$		$4 - 4\frac{1}{4}$
	180-day	$3\frac{3}{4} - 4-5/8$	"	$4-1/8 - 4-5/8$		$4 - 4-3/8$

In the

X-3572

SUPERIOR COURT OF PENNSYLVANIA

Estate of
EDNA FRISBIE TURNER

) Nos. 232, 233, 234, October Term
(1922 Appeals of Corn Exchange National
) Bank of Philadelphia, individually
(and as Guardian of Estates of Dudley
) B. Turner, Jr., and Edna Frisbie
(Turner, minors, from decree of
) Orphans' Court of Philadelphia County.

Nos. 99 and 100
Filed Nov. 23, 1922.

Opinion by LINN, J.;

This appeal challenges the refusal to approve a national bank as a fiduciary. Approval was denied on the single ground that the federal legislation conferring fiduciary powers on national banks is "in contravention of the law and established practice of this Commonwealth."

The question arose in distributing the estate of Edna Frisbie Turner, deceased, letters testamentary having been granted in 1920. Her minor children were beneficiaries under her will. In 1921 the court below appointed the Rittenhouse Trust Company, a corporation of Pennsylvania, guardian of the estates of the minors. On May 3, 1922 the account of the executors came on for adjudication. It showed a balance for the minors. The executors' petition for distribution stated that since its appointment as guardian the Rittenhouse Trust Company was converted into a national bank, and, thereafter was consolidated into the Corn Exchange National Bank. Distribution to the bank, as guardian, was therefore asked.

In referring to the subject, the auditing judge said: "In the matter of the National Bank of Germantown, 30 District Rep. 603, it appears that this court has refused to recognize or approve national banks for appointment as fiduciaries by this court. It does not appear that the merged corporation Corn Exchange National Bank - has been approved by this court for appointment as a fiduciary. The award to the Turner minors will therefore be made subject to the merged corporation being approved, and in the event of their failing to obtain the approval of this court, the award will be payable to a succeeding guardian when duly appointed and qualified."

Accordingly the bank then filed a petition drawn pursuant to the proper rule of court, setting forth its incorporation under the national banking law, various facts concerning its management and assets, and the consolidation with the Rittenhouse National Bank, formerly the Rittenhouse Trust Company; that it was authorized by the Federal Reserve Board to transact a general fiduciary business; had complied with the law of Pennsylvania governing the transaction of such business; had accepted the provisions of the Act of May 9, 1889, P. L. 159, and also of the Act of May 20, 1921, P. L. 991, making itself subject to supervision and examination by the Banking Department of Pennsylvania the same as corporations of Pennsylvania. A number of evidential exhibits were attached to the petition, among them a stipulation under rule 21, by which the applicant "hereby stipulates and undertakes irrevocably that securities and other property received by the corporation both in a fiduciary capacity and from the person or persons for whom it is

surety shall not be taken out of the jurisdiction of the Court and shall be kept separate and apart from all money, securities and property of the said Bank so that the same can at all times be easily identified as belonging to the estate of the person or persons for whose account the same has been received, and that the trust funds received by said Bank either as fiduciary or for the person or persons for whom it is surety shall be deposited in a separate account in a Bank or Banks or Trust Company or Trust Companies other than said Corn Exchange National Bank of Philadelphia, of good standing in Philadelphia County."

On the same day the petition was refused for reasons previously given in the case of the National Bank of Germantown (supra). From that refusal this appeal, to No. 232, October Term 1922, was taken.

Three days later, the bank, as guardian of the estates of the children, filed another petition setting forth that pursuant to "the adjudication of the executors' account, its petition for approval as fiduciary under rule 21 had been filed and dismissed; that it was advised by counsel that by specified acts of Congress with the approval of the Federal Reserve Board, it was authorized to transact a fiduciary business, and having accepted the provisions of applicable state law specified, it was "fully qualified and authorized to continue to act as guardian of the estates of Dudley B. Turner, Jr., and Edna Frisbie Turner, minors, and in all other fiduciary capacities, and that the dismissal of the petition for approval under Rule 21 .. was without

legal justification or authority." Petitioner asked for an order directing the executors to pay to it as guardian of the estate of the minors, the money awarded to them by the adjudication. By supplemental adjudication, this petition was dismissed for the reasons previously given. Exceptions to these adjudications were then filed; after they were dismissed, two appeals were taken, one by the bank as guardian, the other individually (Nos. 233 and 234, October Term 1922). The appeals were argued together and shall be so disposed of.

As no particular or special objection to petitioner is made, we need consider in the light of the record the problem as thus stated by the court below: "The question is, therefore, raised as to whether this court should approve them (national banks) for appointment in fiduciary capacities and accept them as surety. We should approve them unless the federal acts are in contravention of the law and established practice of this Commonwealth": *In re National Bank of Germantown*, 30 District Reports, 603.

The Act of Congress approved December 13, 1913 enacted that "The Federal Reserve Board shall be authorized and empowered (k) to grant by special permit to national banks applying therefor when not in contravention of State or local law, the right to act as trustee, executor, administrator, or registrar of stocks and bonds under such rules and regulations as the said Board may prescribe." (c. 6, sec. 11, par. k. 33 Stats. 251; U. S. Comp. Stats. 1918, s. 9794). Later some definition of the words "In contravention of state

or local law" became desirable, and was supplied by an amendment of September 26, 1918 (40 Stats. 967, U. S. Comp. Stats. 1918 Suppl. 9497 k). It was as follows: "(k) To grant by special permit to national banks applying therefor, when not in contravention of State or local law, the right to act as trustee, executor, administrator, registrar of stocks and bonds, guardians of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State in which the national bank is located.

"Whenever the laws of such State authorize or permit the exercise of any or all of the foregoing powers by State banks, trust companies, or other corporations which compete with national banks, the granting to and the exercise of such powers by national banks shall not be deemed to be in contravention of State or local law within the meaning of this Act.

"National banks exercising any or all of the powers enumerated in this subsection shall segregate all assets held in any fiduciary capacity from the general assets of the bank and shall keep a separate set of books and records showing in proper detail all transactions engaged in under authority of this subsection. Such books and records shall be open to inspection by the State authorities to the same extent as the books and records of corporations organized under State law which exercise fiduciary powers, but nothing in this Act shall be construed as authorizing the State authorities to examine the books, records and assets of the national bank which are not held in trust under authority of this subsection.

"No national bank shall receive in its Trust Department deposits of current funds subject to check or the deposit of checks, drafts, bills of exchange or other items for collection or exchange purposes. Funds deposited or held in trust by the bank awaiting investment shall be carried in a separate account and shall not be used by the bank in the conduct of its business unless it shall first set aside in the trust department United States bonds or other securities approved by the Federal Reserve Board.

"In the event of the failure of such bank the owners of the funds held in trust for investment shall have a lien on the bonds or other securities so set apart in addition to their claim against the estate of the bank.

"Whenever the laws of a State require corporations acting in a fiduciary capacity to deposit securities with the State authorities, for the protection of private or court trusts, national banks so acting shall be required to make similar deposits and securities so deposited shall be held for the protection of private or court trusts, as provided by the State law.

"National banks in such cases shall not be required to execute the bond usually required of individuals if State corporations under similar circumstances are exempt from this requirement.

"National banks shall have the power to execute such bond when so required by the laws of the State.

"In any case in which the laws of a State require that a corporation acting as trustee, executor, administrator, or in any

capacity specified in this section, shall take an oath or make an affidavit, the president, vice-president, cashier or trust officer of such national bank may take the necessary oath or execute the necessary affidavit.

"It shall be unlawful for any national banking association to lend any officer, director or employee any funds held in trust under the powers conferred by this section. Any officer, director, or employee making such loan, or to whom such loan is made, may be fined not more than \$5,000 or imprisoned not more than five years, or may be both fined and imprisoned, in the discretion of the Court.

"In passing upon applications for permission to exercise the powers enumerated in this subsection, the Federal Reserve Board may take into consideration the amount of capital and surplus of the applying bank, whether or not such capital and surplus is sufficient under the circumstances of the case, the needs of the community to be served and any other facts and circumstances that seem to it proper, and may grant or refuse the application accordingly; Provided, that no permit shall be issued by any national banking association having a capital and surplus less than the capital and surplus required by State law of State banks, trust companies and corporations exercising such powers."

Since Congress has provided that if the state law authorize or permit the exercise of ...(guardianship) by state banks, trust companies or other corporations which compete with national banks"

the granting to and the exercise of such powers by national banks shall not be deemed to be in contravention of State or local law within the meaning of this act", the decision of these appeals must depend on whether Pennsylvania permits such competing corporations to act in that capacity; if the state law so provides, the national bank must be permitted to enjoy fiduciary powers. As familiar state laws confer that power on such corporations, the learned court below misinterpreted the acts of Congress in holding them to be in contravention of the state law.

The federal legislation is constitutional, *First National Bank v. Fellows*, 244 U. S. 416, and the congressional power is plenary. Except as Congress permits, a state cannot stand in the way of corporate activity so authorized by Congress; such authority confers immunity from state interference legislative or judicial; *N.P.R. Co. vs. North Dakota*, 250 U. S. 135 and *Telephone Co. v. South Dakota*, 250 U. S. 163; *Second Employers' Liability Cases*, 223 U. S. 1; *P. & R. Rwy. Co. v. Polk*, 256 U. S. 332, 335.

The effect of the amendment of 1918 on the act of 1913, as a mere rearrangement of the words will show, was to authorize the Federal Reserve Board to grant by special permit to national banks applying therefor, (having the required "capital and surplus" supra), the right to act in any fiduciary capacity in which state banks or other corporations which come into competition with national banks are permitted to act under the laws of the state in which the national bank is located, whenever the laws of such state authorize

or permit the exercise of any or all such powers by state banks
or other corporations competing with national banks. The con-
gressional definition or determination of what shall not be con-
sidered in contravention of state law, for the purposes of the
enactment, takes no account of the fact that details of adminis-
tration in the federal system may or may not differ from adminis-
trative matters prescribed in the state system. Congress was
the sole judge of the means appropriate to the end to be accomplish-
ed by the exercise of this additional power conferred on national
banks; Congress knew that throughout the states, widely divergent
systems of fiduciary law prevailed. The administrative differences
in which the court below found decisive conflict between state and
federal law may be important elements in the competition for busi-
ness and in the market may or may not operate in favor of the state
corporations, but these differences in themselves, are not suffi-
cient to deprive a national bank of the enjoyment of fiduciary
powers, and particularly is that so in the circumstances disclosed
by this record. See *First National Bank v. Fellows*, (supra);
People v. Russell, 283 Ill. 520 compared with the prior decision
of the same court in *People v. Brady*, 271 Ill. 100; *Woodbury's*
Appeal, 78 N. H. 50; *Hamilton v. State*, 94 Conn. 648; *Stanchfield's*
Estate, 171 Wis. 553; *In re Mollineaux*, 179 N. Y. Supp. 90; *Fidelity*,
etc. Trust Company v. Enright, 264 Fed. 236.

The first reason given to support its conclusion that the
federal statute was in contravention of the state law, was based on

comparison of provisions of the two systems concerning the deposit of trust funds. The federal provision has been quoted. For the state, the Acts of May 9, 1839, P. L. 159 and June 27, 1895 P. L. 402, provide that such "companies shall keep all trust funds and investments separate and apart from the assets of the companies and all investments made by the said companies as fiduciaries shall be so designated as that the trust to which such investments shall belong shall be clearly known." In addition, we are advised, the state banking department requires trust funds to be deposited in a separate bank. The Acts of Congress and the state laws are not alike but a difference in permitted corporate management does not establish that the federal statute is in contravention of the state law, in the light of the explicit congressional definition of those words, and the difference is further unimportant in the decision of this case, because the record shows, that petitioner has agreed to comply with the state law on the subject. The petition also contains a stipulation whereby petitioner irrevocably covenants with the court below pursuant to rule 21, that it will not remove securities or other property by it held in a fiduciary capacity out of the jurisdiction of the court and that it will deposit trust funds in a separate account with another bank or trust company.

The second point of alleged conflict the court found by comparing the part of section 11 k, (supra) authorizing examination by state examiners of the affairs of a national bank, with the state

law of May 21, 1919, P. L. 209, providing in section 14 (a) for examination by state examiners; but the record shows that petitioner has stipulated both with the court and with the state banking department that the state banking department shall make like examination of all its property and assets as is made in the case of state banks. The record also shows that petitioner has filed a stipulation with the banking department to be and remain subject to supervision by that department to the same extent as state corporations pursuant to the Act of May 20, 1921, P. L. 391, entitled "Restricting the appointment of corporate fiduciaries by testators or by any court or register of wills to corporations fully subject to supervision and examination by the banking department."

The learned court below found its third conflict "in the case of insolvency or suspension of a national bank". The federal law provides that in such cases the Comptroller of the Currency appoint a receiver who, under the direction of the Comptroller shall take possession, administer, etc. pursuant to appropriate judicial action. The practice has long prevailed and is well understood. The court remarks that such receiver will not be under the control of the state courts. But, as to the court below, it would seem that the federal court supervising a receivership under the national banking law, is neither more nor less foreign than a state court supervising a receiver appointed by the banking commissioner administering the affairs of a state bank pursuant to state law.

It was for Congress to determine whether the details of

corporate management prescribed by it were better adapted for the exercise of the plenary federal power it desired exerted, than other methods of corporate administration effective in the states, but its provisions for the conduct of business or the administration in insolvency, though different from the state system, cannot be regarded as in contravention of state law within the terms of the amendment of 1918.

The orders appealed from are reversed and the record remitted with instructions to enter an order consistent with this opinion.

Porter, J. dissents.

Gawthrop J., did not hear the argument and did not participate in the decision.

FEDERAL RESERVE BOARD

WASHINGTON

X-3573

December 1, 1922.

SUBJECT: Payment of Gold Coin.

Dear Sir:

The Federal Reserve Board desires to ascertain what policy the Federal Reserve Banks are following this year with reference to payment of gold coins for holiday purposes. A letter received from the Undersecretary of the Treasury states that in so far as the Treasury is concerned, there is no objection whatever to such payments and expresses the opinion that it would be the best policy to make such payments freely without question. The Undersecretary further states that the Treasurer of the United States has been given instructions to this effect, and that the Treasury Department feels that it is highly desirable that the policy in this respect be uniform. The Board concurs in the views of the Undersecretary of the Treasury as outlined above.

By order of the Federal Reserve Board.

Very truly yours,

Wm. W. Hoxton,
Secretary.

To all Governors of Federal Reserve Banks.

FEDERAL RESERVE BOARD

WASHINGTON

December 7, 1922.
X-3577.

SUBJECT: Bank Debits - Inclusion of Debits by Banks in
Non-clearing House Centers in Board's Published
Statement.

Dear Sir:

The Federal Reserve Board has given consideration to the replies received in response to its letter X-3550 of November 2 on the above subject, and has concluded that the situation for the country as a whole should be carefully studied before any material changes are made in the present list of reporting centers. Accordingly a careful survey will be made of this statement with the object of determining which sections of the country should be more adequately represented and which cities in those sections are the most important from an industrial or agricultural standpoint, and as soon as it is completed you will be advised of the conclusions reached by the Board.

In the meantime, in case you have any information in your possession, in addition to that given in your reply to the Board's letter X-3550, which would be of assistance in determining what additional cities, if any, should be added to the list in order to make it representative of conditions in your district, we shall be very glad to hear from you.

Very truly yours,

Walter L. Eddy,
Assistant Secretary.

Letter to be sent to
All Federal Reserve Agents.

FEDERAL RESERVE BOARD

WASHINGTON

December 8, 1922.

X-3578.

SUBJECT: "Reserve Ratio Questionnaire" from the New York University.

Dear Sir:

The Federal Reserve Board has received from one of the Federal Reserve Banks a copy of a letter from the Bureau of Business Research of the New York University enclosing a "Reserve Ratio Questionnaire". This letter appears to be a circular letter and presumably sent to all Federal Reserve Banks. In case you have received or shall receive this letter and questionnaire asking for an expression of opinion with reference to reserve ratios I am directed by the Board to advise you that the Board deems that a discussion for publication of the kind indicated by the questionnaire, on the part of officers of the Federal Reserve Banks, is inadvisable.

This is written without any assumption, of course, that you, or anyone in your bank, would undertake to answer the questions propounded by the New York University in the form in which they appear.

By order of the Federal Reserve Board.

Very truly yours,

WM. W. HOXTON,
Secretary.

TO ALL FEDERAL RESERVE AGENTS OF ALL FEDERAL RESERVE BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

December 8, 1922.

X-3579.

SUBJECT: Penalties for Deficiencies in Reserves of Member Banks.

Dear Sir:

An examination of the files of the Federal Reserve Board indicates that there is lack of uniformity in the manner in which penalties are assessed on deficiencies in reserves of member banks by the eight Federal Reserve Banks which have adopted progressive penalty rates. With a view of bringing about uniformity of practice in the application of penalty rates, the Board has approved the rules indicated below, which will become effective as of January 1, 1923.

While the Federal Reserve Board is not disposed to rule that progressive penalty rates shall be applied in all districts, preferring, for the time being at least, to leave the matter to the judgment of the board of directors of each bank, it believes that unless it can be shown that the application of a flat penalty rate of 2% above the discount rate on ninety-day commercial paper is as effective as would be the application of progressive penalty rates, the progressive penalty rate plan should be adopted.

RULES GOVERNING APPLICATION OF PENALTY RATES

1. Deficiencies in reserve balances of member banks in central reserve and reserve cities will be computed on the basis of average daily net deposit balances covering a weekly period of 7 days. Deficiencies in reserve balances of country banks will be computed on the basis of average daily net deposit balances covering a semi-monthly period.

2. Penalties for deficiencies in reserves will be assessed monthly on the basis of average daily deficiencies during each of the reserve computation periods ending in the preceding month.

3. A basic rate of 2 per cent per annum above the Federal

Reserve Bank discount rate on 90-day commercial paper will be assessed as a penalty on deficiencies in reserves of member banks.

4. When a member bank in a central reserve or reserve city has had an average deficiency in reserves for six consecutive weekly periods, a progressive penalty, increasing at the rate of $1/4$ of 1 per cent for each week thereafter during which the average reserve balance is deficient, will be assessed on weekly deficiencies until the required reserve has been restored and maintained for four consecutive weekly periods, provided that the maximum penalty charged will not exceed 10 per cent.

5. When a member bank outside of a central reserve or reserve city has had an average deficiency in reserves for three consecutive semi-monthly periods, a progressive penalty, increasing at the rate of $1/2$ of 1 per cent for each half-month thereafter during which the average reserve balance is deficient, will be assessed on semi-monthly deficiencies until the required reserve has been restored and maintained for two consecutive semi-monthly periods, provided that the maximum penalty charged will not exceed 10 per cent.

Member banks in central reserve or reserve cities which have been deficient in reserves for six consecutive weeks, and member banks outside of central reserve or reserve cities which have been deficient in reserves for three consecutive semi-monthly periods, should be promptly advised that their reserves have been continuously below requirements for an undue period. Federal Reserve Banks which apply progressive penalty rates should also call the attention of such banks to the fact that unless reserves are restored and maintained as required by law progressive penalty rates will be assessed.

The Board's letter St. 3057 of September 26, 1922, authorized the discontinuance of detailed reports called for in its letter X-3040 of February 4, 1921. In order, however, that the Board may be advised in regard to any member bank that persistently fails to maintain its legally required reserve, it is requested that a quarterly report be submitted by each Federal Reserve Bank covering only those banks against which the maximum progressive rate of 10 per cent has been assessed or would be assessed

under the above rules if progressive penalty rates were in force. The reports submitted to the Comptroller of the Currency and the Chief National Bank Examiner should relate only to National Banks, while the report to the Federal Reserve Board should cover all member banks. A copy of that part of the report relating to State banks and trust companies should be submitted to the appropriate State Banking Department calling attention to the fact that the State banks and trust companies in question have been persistently deficient in their legally required reserves.

By order of the Federal Reserve Board.

Very truly yours,

WM. W. HOXTON,
Secretary.

Letter to be sent to
Chairman at each Federal Reserve Bank.

FEDERAL RESERVE BOARD
STATEMENT FOR THE PRESS.

December 11, 1922.
X-3580.

For Immediate Release.

The following named gentlemen have been appointed by the Federal Reserve Board to serve as Class "C" Directors, for a term of three years each, beginning January 1, 1923, on the Board of Directors of the Federal Reserve Banks indicated:

Jesse H. Metcalf, Providence, R. I.,
Federal Reserve Bank of Boston.

Pierre Jay, New York City,
Federal Reserve Bank of New York.

H. B. Thompson, Wilmington, Delaware,
Federal Reserve Bank of Philadelphia.

L. B. Williams, Cleveland, Ohio,
Federal Reserve Bank of Cleveland.

W. H. Kettig, Birmingham, Alabama,
Federal Reserve Bank of Atlanta.

F. C. Ball, Muncie, Indiana,
Federal Reserve Bank of Chicago.

C. P. J. Mooney, Memphis, Tenn.,
Federal Reserve Bank of St. Louis.

George W. McCormick, Menominee, Mich.,
Federal Reserve Bank of Minneapolis.

Fred O. Roof, Denver, Colorado,
Federal Reserve Bank of Kansas City.

William Sproule, San Francisco, Calif.,
Federal Reserve Bank of San Francisco.

At a later date the Board will announce the name of its appointee to serve for a three year term as Class "C" Director on the Board of Directors of the Federal Reserve Bank of Dallas, Texas. The unexpired

term of the late W. F. Ramsey as Class "C" Director of the Federal Reserve Bank of Dallas has been filled by appointment of Mr. Clarence E. Linz, of Dallas. Mr. Linz' term expires December 31, 1923.

The Board, at a later date, will also announce the name of its appointee to serve for a term of three years as Class "C" Director of the Federal Reserve Bank of Richmond.

The Federal Reserve Board has designated the following named Class "C" Directors to succeed themselves for a term of one year as Federal Reserve Agent and Chairman of the Board of Directors of the Federal Reserve Banks indicated:

F. H. Curtiss,	Federal Reserve Bank of Boston
Pierre Jay,	" " " New York
R. L. Austin,	" " " Philadelphia
D. C. Wills,	" " " Cleveland
Caldwell Hardy,	" " " Richmond
J. A. McCord,	" " " Atlanta
Wm. A. Heath,	" " " Chicago
Wm. McC. Martin,	" " " St. Louis
John H. Rich,	" " " Minneapolis
Asa E. Ramsay,	" " " Kansas City
John Perrin,	" " " San Francisco

The Federal Reserve Board will, at a later date, announce the name of the Class "C" Director designated as Federal Reserve Agent and Chairman of the Board of Directors of the Federal Reserve Bank of Dallas, Texas.

FEDERAL RESERVE BOARD

WASHINGTON

X-3581
December 12, 1922.

SUBJECT: Schedule of Federal Reserve Bank Personnel for 1922
Annual Report.

Dear Sir:

For use in the forthcoming 1922 annual report of the Federal Reserve Board, it is requested that as soon after January 1, 1923 as practicable you furnish the Board with a statement relating to the personnel of your bank (including branches, if any), corresponding in form to the tables printed on pages 334 - 336 of the Board's report for 1921, showing figures as at close of business on December 31, 1921 and December 30, 1922. The statement should not take account of changes in either the number or salaries of officers or employees that are to be made on January 1, 1923. In determining whether or not a given individual should be listed as an officer or as an employee the Board's letter X-3532 of October 5, 1922 should be used as a guide.

It is assumed that the figures for December 30, 1922, will amount practically to a recapitulation of the statement as of December 1, 1922, which will be prepared in response to the Board's letter X-3532, except in so far as changes in personnel may be made between December 1 and December 30.

In this connection it is requested that after the statement has been compiled the figures for 1921 be compared with those printed on pages 334 - 336 of the Board's annual report for 1921 in order that differences, if any, may be reconciled before the statement is forwarded to the Board.

Very truly yours,

Walter L. Eddy,
Assistant Secretary.

Letter to all Chairmen.

FEDERAL RESERVE BOARD

WASHINGTON

X-3582
December 12, 1922.

SUBJECT: Economy and Efficiency in Federal Reserve Banks.

Dear Sir:

The Board's Committee on Economy and Efficiency has forwarded to you, as Chairman of the Board of Directors of your Bank, regularly each month since July last a copy of the exhibit (based on Schedule E) showing costs of operating each function and expense unit at each Federal Reserve Bank and branch, together with the number of officers and employees in each expense unit and the number of units handled wherever it has been found practicable to measure the volume of work. It has also kept the Banks informed, by letter and otherwise, of the general progress and program of the Committee's work. In pursuance of this practice, this letter is being sent to inform the officers of your Bank of the present status of the Committee's work and of the Committee's further plans for promoting the development of economical and efficient methods of operating the Federal Reserve Banks.

I.

Schedule E was set up as a preliminary fact finding survey of costs of operation in the different Federal Reserve Banks, and as the surest method of providing a secure foundation for such further and detailed studies of operating efficiency as the Committee, in the pursuit of this work, might have to make. It was also the belief of the Committee that Schedule E would supply the best starting-point for the gradual working out of improved methods of Federal Reserve Bank organization and operation.

It is realized by the Committee that Schedule E does not yet present figures for the various banks on an absolutely comparable basis. This is mainly due to some misunderstandings of the Manual of Instructions which are in process of being cleared up. It is the Committee's belief that when the Manual of Instructions is revised in accordance with what has been learned in the last five months of the operating organization and practices of the Reserve Banks, Schedule E will be so nearly accurate that the figures thenceforth given by the various banks will be fairly comparable when considered in connection with modifying local factors, and will be of the greatest value in assisting the work of the Committee.

The Board's Committee understands ^{that} the Procedure Committees in the several Federal Reserve Banks have been giving careful thought to the operating methods of each of the departments of the Banks, and judging from reports received from them, the Banks have been greatly aided in their work by the exhibits showing comparative costs; and it appears that considerable economies already have been effected in costs of operation in some of the Banks.

The figures already assembled under Schedule E indicate differences in the unit cost (these differences being considerable in some cases) with which the same function is being performed in the different Banks. The figures do not, however, disclose to what these differences may be due; - whether to (1) different degrees of operating efficiency, or (2) to differences in the amount and character of services rendered, or (3) to peculiar local conditions. To this aspect of the work the Committee now proposes to direct systematic attention.

II.

With a view to further improving the comparability of the reports now being received, so that each Bank shall be enabled to make more conclusive comparisons between operating costs in its Bank and corresponding costs in other Reserve Banks, and also for the purpose of otherwise carrying forward the work of economy and efficiency in the Federal Reserve System, the Committee has called a conference of representatives from the Reserve Banks to be held at the Federal Reserve Bank of Chicago on December 13th and the following days.

It is expected that the representatives of the Banks at this conference will come prepared to give detailed statements with regard to the work performed in each expense unit of their respective Banks, and that with such data before it, the conference will be in a position to perfect the system of reporting under Schedule E so that in the future the expenses reported in any expense unit in a given Bank will represent the cost of performing the same character of work that like costs represent in other Banks.

The Committee has, however, never expected that Schedule E, even in its perfected form, would of itself accomplish all that was aimed at in promoting operating organization and economy in the Banks. Schedule E represents only the first step in the Committee's program. It is therefore intended at the forthcoming Chicago conference, without waiting until the work of perfecting Schedule E is completed and perfected data have become available, to proceed to the development of plans for the detailed and intensive study of the more important functions in the operation of the Banks, with a view of finding the best methods of performing those functions. It is the belief of the Committee that there is probably no one method of performing any one of the major functions of the Banks which could in a practicable sense be regarded as "best" for all of the twelve Banks. The preliminary surveys already made show that operating organization and methods must be modified in accordance with the volume

and character of the business, the area and transportation conditions in each District, the number of member and non-member Banks, and other factors.

With these considerations in mind, the Committee proposes that the Banks shall be grouped and that in each group shall be placed those which are most nearly comparable with respect to each of the major functions performed by the Banks. In order to expedite the solution of this problem of grouping, the Committee has made a tentative plan of grouping the Banks, copy of which is herewith enclosed. The criticisms and suggestions of yourself and of the Governor of your Bank as to this matter of grouping are invited, and it is hoped that they may be expressed through the representative of your Bank at the forthcoming Chicago conference.

III.

When the grouping is completed, it is proposed that each group of Banks shall have a committee on each of the four major functions of the Banks, and that each Bank shall be represented on its respective functional group committees. The Committee therefore requests that the representative of your Bank at the Chicago conference shall be instructed or authorized by the Governor to name the representative of your Bank on each one of these functional group committees.

From the membership of each of the committees thus constituted, the Board's Committee will name a chairman, with whom it will advise and to whom it will look for the prompt and thorough performance of the work of his committee. In order that such detailed investigation as will be necessary for these committees to make may be made promptly and go forward without delay, it is requested that the Chairman of the Procedure or Economy Committee in each Bank keep in close touch with the work of the representative of his Bank on each committee.

The method of proceeding with the work of economy and efficiency thus outlined has been adopted only after very full consideration and in the belief that everything considered, it will prove a satisfactory method and produce results with a minimum of friction and suspicion. The Committee gladly acknowledges its indebtedness to the officers of the Banks for the cooperation which has been extended, and is glad that a point has been reached where the tedious process of assembling figures will soon be translated into important results.

Very truly yours,

Chairman, Committee on
Economy and Efficiency.

(Enclosure)

To Chairmen of all Federal Reserve Banks.
Copies to Governors.

SUGGESTED GROUPINGS OF BANKS FOR DETAILED STUDY
OF FUNCTIONAL OPERATIONS WITH A VIEW TO DETERMINING
BEST METHODS OF CONDUCTING SAME.

- - - - -

1. ACCOUNTING FUNCTION.

1. New York, Philadelphia, Cleveland.
2. Boston, Richmond, Atlanta, St. Louis, Dallas.
3. Chicago, Minneapolis, Kansas City, San Francisco.

The basis for this grouping is primarily the number of member banks.

2. CURRENCY AND COIN.

1. Boston, New York, Philadelphia, Chicago.
2. Cleveland, Richmond, St. Louis, Minneapolis.
3. Atlanta, Kansas City, Dallas, San Francisco.

The basis on which these banks are grouped is volume of bills received or deposited.

3. LOANS, REDISCOUNTS AND INVESTMENTS.

1. Boston, New York, Philadelphia, Cleveland.
2. Richmond, Atlanta, Dallas, St. Louis.
3. Chicago, Minneapolis, Kansas City, San Francisco.

The basis on which these banks are grouped is character and kind of business within district.

4. TRANSIT AND COLLECTIONS

1. Boston, New York, Philadelphia, Cleveland.
2. Chicago, St. Louis, Minneapolis, Kansas City.
3. Richmond, Atlanta, Dallas, San Francisco.

This grouping is based upon the similarity of conditions and the total number of banks in district.

TREASURY DEPARTMENT
Office of the Secretary.
WASHINGTON

December 9, 1922,

The Governor

Federal Reserve Board.

Sir:

You are hereby advised that the Department has referred to the General Accounting Office, Treasury Department Division, for settlement, the account of the Bureau of Engraving and Printing for preparing Federal Reserve notes during the period November 1 to November 30, 1922, amounting to \$95,798.00, as follows:

Federal Reserve Notes, 1914

	<u>\$5</u>	<u>\$10</u>	<u>\$20</u>	<u>Total</u>
Boston	173,000	146,000	--	319,000
New York	248,000	188,000	20,000	456,000
Philadelphia	71,000	7,000	--	78,000
Cleveland	26,000	25,000	25,000	76,000
Richmond	55,000	4,000	--	59,000
Atlanta	138,000	42,000	24,000	204,000
Chicago	13,000	--	--	13,000
St. Louis	107,000	13,000	19,000	139,000
Minneapolis	90,000	18,000	13,000	121,000
Kansas City	50,000	5,000	13,000	68,000
Dallas	95,000	8,000	19,000	122,000
San Francisco	<u>153,000</u>	<u>56,000</u>	<u>36,000</u>	<u>245,000</u>
	1,219,000	512,000	169,000	1,900,000
	1,900,000 sheets at \$50.42 per M			\$95,798.00

The charges against the several Federal Reserve Banks are as follows:

	<u>Sheets</u>	<u>Compen- sation</u>	<u>Plate Printing</u>	<u>Materials</u>	<u>Inc.Com- pensation</u>	<u>Total</u>
Boston	319,000	\$5,384.72	\$5,088.05	\$4,054.49	\$1,556.72	\$16,083.98
New York	456,000	7,697.28	7,273.20	5,795.76	2,225.28	22,991.52
Philadelphia	78,000	1,316.64	1,244.10	991.38	380.64	3,932.76
Cleveland	76,000	1,282.88	1,212.20	965.96	370.88	3,831.92
Richmond	59,000	995.92	941.05	749.89	287.92	2,974.78
Atlanta	204,000	3,443.52	3,253.80	2,592.84	995.52	10,285.68
Chicago	13,000	219.44	207.35	165.23	63.44	655.46
St. Louis	139,000	2,346.32	2,217.05	1,766.69	678.32	7,008.38
Minneapolis	121,000	2,042.48	1,929.95	1,537.91	590.48	6,100.82
Kansas City	68,000	1,147.84	1,084.60	864.28	331.84	3,428.56
Dallas	122,000	2,059.36	1,945.90	1,550.62	595.36	6,151.24
San Francisco	245,000	4,135.60	3,907.75	3,113.95	1,195.60	12,352.90
	1,900,000	\$32,072.00	\$ 30,305.00	\$24,149.00	\$9,272.00	\$95,798.00

The Bureau appropriations will be reimbursed in the above amount from the indefinite appropriation "Preparation and Issue of Federal Reserve Notes, Reimbursable", and it is requested that your Board cause such indefinite appropriation to be reimbursed in like amount.

Respectfully,

(Signed) S. R. Jacobs,

Deputy Commissioner.

FEDERAL RESERVE BOARD

WASHINGTON

December 13, 1922.

X-3584

SUBJECT: Annual Budgets

Dear Sir:

By order of the Federal Reserve Board, I am directed to advise you that, beginning with the year 1923, all Federal Reserve Agents will be required to submit to the Federal Reserve Board an annual budget covering all the estimated expenses of those departments in the Federal Reserve Banks which are under the jurisdiction of the Federal Reserve Agents. You are requested to accompany this budget with full information as to the basis upon which the estimates are made.

Very truly yours,

Wm. W. Hoxton,
Secretary.

Letter to all Agents.

FEDERAL RESERVE BOARD

WASHINGTON

X-3585
December 14, 1922.

SUBJECT: Expense Main Line, Leased Wire System, November, 1922.

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-3585a and X-3585b, covering in detail operations of the main line, Leased Wire System, during the month of November, 1922.

Please credit the amount payable by your bank in the general account, Treasurer, U. S., on your books, and issue C/D Form 1, National Banks, for account of "Salaries and Expenses, Federal Reserve Board, Special Fund", Leased Wire System, sending duplicate C/D to Federal Reserve Board.

Very truly yours,

Fiscal Agent.

(Enclosure)

TO GOVERNORS OF ALL BANKS EXCEPT CHICAGO.

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS
TRANSMITTED OVER MAIN LINE OF THE FEDERAL RESERVE
LEASED WIRE SYSTEM FOR THE MONTH OF NOVEMBER, 1922.

From	Bank Business	Per cent of Total Bank Business (*)	Treasury Dept. Business	War Finance Corp. Business	Total
Boston	32,647	3.08	10,167	170	42,984
New York	203,554	19.21	16,545	356	220,455
Philadelphia	50,640	4.78	7,437	-	58,077
Cleveland	81,187	7.66	11,696	-	92,883
Richmond	68,237	6.44	9,118	34	77,389
Atlanta	55,491	5.24	8,818	103	64,412
Chicago	143,408	13.54	10,894	120	154,422
St. Louis	84,400	7.97	10,238	-	94,638
Minneapolis	46,313	4.37	7,553	-	53,866
Kansas City	79,695	7.52	11,190	-	90,885
Dallas	77,766	7.34	6,595	304	84,665
San Francisco	136,186	12.85	18,254	-	154,440
Total F. R. Banks	1,059,524		128,505	1,087	1,189,116
Washington	289,493	100.00	165,051	609	455,153
Grand Total	1,349,017		293,556	1,696	1,644,269
Percent of Total	82.05%		17.85%	0.10%	
Bank Business	1,349,017 words or 82.13%				
Treasury	293,556 " " 17.87%				
TOTAL	1,642,573	100.00%			

(*) These percentages used in calculating the pro rata share of leased wire expenses as shown on the accompanying statement (X-3585b)

FEDERAL RESERVE BOARD,
WASHINGTON, D. C.
NOVEMBER 14, 1922.

REPORT OF EXPENSE
 MAIN LINE
 FEDERAL RESERVE LEASED WIRE SYSTEM NOVEMBER, 1922.

X-3585b

Name of Bank	Operators' Salaries	Operators' Overtime	Wire Rental	Total Expense	Pro rata Share of Total Expense	Credits	Payable to Federal Reserve Board
Boston	\$ 250.00	\$ 20.00	\$ -	\$ 270.00	\$ 695.15	\$ 270.00	\$ 425.15
New York	1,292.48	111.00	-	1,403.48	4,335.66	1,403.48	2,932.18
Philadelphia	225.00	-	-	225.00	1,078.84	225.00	853.84
Cleveland	366.00	-	-	366.00	1,728.85	366.00	1,362.85
Richmond	305.00	-	-	305.00	1,453.50	305.00	1,148.50
Atlanta	240.00	-	-	240.00	1,182.66	240.00	942.66
Chicago	(#)4,688.87	2.00	-	4,690.87	3,055.95	4,690.87	(*)1,634.92
St. Louis	202.90	-	-	202.90	1,798.82	202.90	1,595.92
Minneapolis	275.00	-	-	275.00	986.30	275.00	711.30
Kansas City	326.64	-	-	326.64	1,697.25	326.64	1,370.61
Dallas	170.00	-	-	170.00	1,656.63	170.00	1,486.63
San Francisco	395.00	-	-	395.00	2,900.22	395.00	2,505.22
Fed. Res. Board			16,841.53	16,841.53			
TOTAL	\$8,736.89	\$133.00	\$16,841.53	\$25,711.42 (a)3,141.59 <u>\$22,569.83</u>	\$22,569.83	\$8,869.89	\$15,334.86 (&)1,634.92 <u>\$13,699.94</u>

(#) Includes salaries of Wash. Operators.

(&) Amount reimbursable to Chicago.

(*) Credit.

(a) Received \$41.59 from War Finance Corp. and \$3,100.00 from Treasury Dept. covering business for months of October and November, 1922, respectively.

FEDERAL RESERVE BOARD,
 WASHINGTON, D. C.
 DECEMBER 14, 1922.

FEDERAL RESERVE BOARD

WASHINGTON

X-3586
December 14, 1922.

SUBJECT: Amendment to Regulation B.

Dear Sir:

The Board has voted to amend Regulation B by adding at the end of Part II of said Regulation a new paragraph reading as follows:

"(c) A bankers' acceptance drawn by a grower, or by a cooperative marketing association composed exclusively of growers, of non-perishable, readily marketable, staple agricultural products, to finance the orderly marketing of such products grown by such grower or growers and secured at the time of acceptance by a warehouse, terminal, or other similar receipt, issued by a party independent of the borrower and conveying security title to such products, may be purchased if it has a maturity at the time of purchase not in excess of six months, exclusive of days of grace; provided, that the acceptor remains secured throughout the life of the acceptance, and that the acceptance conforms in other respects to the relevant requirements of Regulation A".

It is believed that this amendment is self-explanatory, but its purpose and effect will be further explained in a letter of transmittal to be issued along with the printed copies of Regulation B as amended, a supply of which will be sent to all Federal Reserve Banks as soon as it can be printed.

By order of the Federal Reserve Board.

Very truly yours,

Wm. W. Hoxton,
Secretary.

To Governors and Chairmen of all
Federal Reserve Banks.

FEDERAL RESERVE BOARD

WASHINGTON

X-3537
December 14, 1922.

SUBJECT: Co-operation with State Banking Departments.

Dear Sir:

The Federal Reserve Board desires a report from Federal Reserve Agents as to the extent and manner of their co-operation with State banking departments in the examination of State member banks.

The Board desires to know specifically whether the Federal Reserve Bank ever furnishes for examinations under the supervision of the State authorities a larger number of men than is furnished by the State banking department at any examination?

If you furnish men for co-operation with the State banking department in examinations of State member banks, what is the usual proportion of State examiners to Federal Reserve examiners, (a) in large banks and (b) in small banks?

Could you definitely say whether any fixed proportion of Federal Reserve examiners is necessary in a State examination for purposes of furnishing the Federal Reserve Bank with such credit information as it desires or with such information as it may need with regard to the sufficiency of the State examination? For instance, would it be possible to say that 25 per cent, or one man in four, should be furnished by the Federal Reserve Bank for the purpose of obtaining the credit information which it requires for its own use.

Do you ever examine banks without the presence of State examiners, the State accepting as its own, the examination made by the Federal Reserve examiners?

By order of the Federal Reserve Board.

Yours very truly,

Wm. W. Hoxton,
Secretary.

Letter to all Federal Reserve Agents.

FEDERAL RESERVE BOARD

WASHINGTON

X-3589
December 15, 1922.

SUBJECT: Decision of Supreme Court of North Carolina
on rehearing of Richmond Par Clearance Case.

Dear Sir:

The Federal Reserve Board has just been advised by Counsel to the Federal Reserve Bank of Richmond that the Supreme Court of North Carolina has dismissed the petition of the plaintiffs to rehear the case of Farmers & Merchants Bank, et al. v. Federal Reserve Bank of Richmond, 112 S.E. 252, and has re-affirmed its former decision dismissing the injunction issued by the lower court against the Federal Reserve Bank of Richmond, and declaring unconstitutional the act of the Legislature of North Carolina ratified February 5, 1921, which sought to authorize State banks to impose exchange charges on, and remit by exchange drafts for, checks forwarded through Federal Reserve Banks.

The Board is advised that the court dismissed the petition by a mere memorandum decision and did not modify or supplement its former opinion which was published in the Federal Reserve Bulletin for June, 1922 (page 175 of the short edition and page 701 of the final edition).

Very truly yours,

Vice Governor.

Chairmen of all
Federal Reserve Banks.

MEMORANDUM
of the
PRINCIPAL RULINGS OF THE FEDERAL RESERVE BOARD
showing what kinds of paper of
COOPERATIVE MARKETING ASSOCIATIONS
are eligible for rediscount or purchase by
FEDERAL RESERVE BANKS

Submitted at the Fourth General Session, December 15,
1922, of the National Council of Farmers Cooperative
Marketing Associations at Washington, D. C., in con-
nection with the remarks of Mr. A. C. Miller on the
topic "How the Federal Reserve System Can Help Cooperation."

In connection with the rapid development of the cooperative marketing movement during the past eighteen months, the Federal Reserve Board has been called upon from time to time to rule as to the eligibility for rediscount or purchase by Federal Reserve Banks of certain classes of paper growing out of the operations of such associations. Each such ruling was based upon a particular state of facts submitted to the Board for a ruling, and a ruling to the effect that a particular kind of paper is eligible does not mean that any other kind of paper is ineligible. There are many kinds of paper which have never been submitted to the Board for a ruling, and, therefore, the Board's rulings on this subject do not cover every kind of paper of cooperative marketing associations which may be purchased or rediscounted by Federal Reserve Banks. For the information of those interested, however, there is given below a brief non-technical summary indicating in a general way the classes of paper which the Federal Reserve Board has already ruled may be rediscounted or purchased by Federal Reserve Banks.

CLASSES OF ASSOCIATIONS UNDER CONSIDERATION.

In each case passed on by the Board the cooperative marketing association involved was organized without capital and its members consisted exclusively of growers of the particular crop which the association was organized to market. The growers agreed to sell and deliver their entire crops to the association, title passing at the time of delivery, and the association assuming absolute control over the commodities and their re-sale. Generally speaking, the commodities were pooled accord-

ing to grades and after all of a particular pool had been sold the proceeds were distributed pro rata among the growers who had contributed to that pool. These rulings, therefore, would not necessarily apply to the paper of associations which operate on any plan substantially different from that just described.

FUNCTION OF SUCH ASSOCIATIONS.

The proper function of such associations is to assist in the orderly marketing of agricultural products; and if such an association should engage in the speculative holding of a crop for higher prices, much of its paper which normally would be eligible for purchase or rediscount by Federal Reserve Banks would become ineligible; because Federal Reserve Banks cannot purchase or rediscount paper drawn to finance speculation.

GROWERS' NOTES TO FINANCE CARRYING OF CROPS
PENDING ORDERLY MARKETING.

Inasmuch as agricultural products should not be dumped upon the market as soon as harvested, but should be marketed gradually, the carrying of agricultural products by the growers thereof for such periods as are reasonably necessary in order to assist the orderly marketing thereof is a proper step in the process of distribution, and a farmer's own note which is drawn, or the proceeds of which are used, to finance the carrying of the farmer's products for such reasonable period is a note which has been issued or drawn for an agricultural purpose and which may, therefore, be rediscounted by Federal Reserve banks with a maturity up to six months.

GROWERS' DRAFTS ACCEPTED BY ASSOCIATIONS.

Where, at the time growers deliver their crops to a cooperative marketing association, the association accepts drafts drawn upon it by the growers,

such drafts when discounted by the growers at their local banks with their own indorsements, are eligible for rediscount by Federal Reserve Banks as agricultural paper with maturities up to six months provided the proceeds are used by the growers for agricultural purposes.

The following is an example of what may be considered an agricultural purpose: When a grower delivers his crop to a cooperative marketing association which is actually engaged in orderly marketing, and the grower is obliged to borrow money for ordinary general purposes, such as the payment of obligations previously incurred in growing or harvesting the same crop, a draft drawn by the grower on the association for a part of the market value of the crop may properly be considered to be drawn for an agricultural purpose, because such a borrowing enables the grower to meet his obligations without selling his crop immediately and thus "carry" the crop, which is one of the steps in the process of distribution.

NOTES OF ASSOCIATIONS FOR FUNDS TO FINANCE PACKING AND MARKETING.

Notes of an association the proceeds of which are used to pay the current expenses of such association, such as the payment of wages and the purchase of supplies in connection with its business of packing and marketing agricultural products grown by others, are eligible for rediscount as commercial paper with maturities not in excess of 90 days.

NOTES OF ASSOCIATIONS FOR FUNDS TO PAY FOR COMMODITIES PURCHASED.

Likewise, the notes of associations representing direct borrowings by such associations, the proceeds of which have been or are to be used to make payments to the growers for commodities delivered to the association

are eligible for rediscount by Federal Reserve Banks if they have maturities not in excess of 90 days, because the proceeds are used for the commercial purpose of buying the commodities from the growers.

BANKERS' ACCEPTANCES DRAWN BY SUCH ASSOCIATIONS.

Bankers' acceptances drawn by such associations to finance the domestic storage of commodities pending orderly marketing are eligible both for rediscount by Federal Reserve Banks and for purchase by Federal Reserve Banks in the open market. In creating such acceptances the association arranges for a credit with some national or State bank which accepts its drafts to the amount arranged for, the drafts being secured by warehouse receipts covering non-perishable, staple agricultural products stored in independent warehouses, and after acceptance such drafts are eligible for rediscount or for purchase in open market by Federal Reserve Banks. Under existing law, they are eligible for rediscount only when they have not more than three months to run. Heretofore, they have been eligible for purchase by Federal Reserve Banks only when their maturities at the time of purchase did not exceed three months; but a recent amendment to the Board's regulations permits them to be purchased with maturities up to six months. Bankers' acceptances are recognized as the most desirable form of credit, as they sell on the credit of the accepting bank as well as on their backing of staple commodities, and they usually take the lowest rates of interest, if properly drawn and safeguarded.

GROWER'S DRAFT ON ASSOCIATION EXCEPTED FROM LIMITATIONS.

One of the most recent, and also one of the most liberal, rulings

of the Board on this subject was to the effect that where a member of a cooperative association delivers his crop to the association and at substantially the same time draws a draft on the association which is accepted by it and discounted by the drawer at his own bank, such a draft is a "bill of exchange drawn in good faith against actually existing values" and, therefore, is excepted from the 10% limitation prescribed in the Federal Reserve Act on the aggregate amount of paper of any one borrower which a Federal Reserve Bank may rediscount for any one member bank. This should be very beneficial to the farmers and their cooperative marketing association, because it permits the rediscount of such paper in unlimited amounts.

OTHER CLASSES OF ELIGIBLE PAPER.

The above are not all of the rulings made by the Federal Reserve Board on this subject, and, of course, there are other classes of eligible paper that can be used in borrowing by cooperative marketing associations, but these are probably the most important rulings which have been issued so far. It should be understood also that the above statements are not intended as precise technical statements. All of the Board's various rulings on this subject except the one last mentioned were brought together and summarized in the Federal Reserve Bulletin for September, 1922 (page 1044 of the final edition and page 269 of the first edition) to which reference should be made by managers of associations, bankers and others interested in exact statements and in the legal points involved.

STATEMENT FOR THE PRESS

For release in Morning Papers,
Wednesday, December 20, 1922.

Eligibility of Paper of Cooperative Marketing Associations for purchase or rediscount by Federal Reserve Banks.

The Federal Reserve Board announced today an amendment to its Regulation B which makes eligible for purchase by Federal Reserve Banks on the open market bankers' acceptances with maturities up to six months which are drawn by growers or by cooperative marketing associations to finance the orderly marketing of non-perishable, readily marketable, staple agricultural products when secured by warehouse receipts covering such products.

This amendment to the Board's Regulation should be of material assistance to cooperative marketing associations in financing the orderly marketing of such agricultural products, and it is in line with the Board's policy of being as liberal as possible under the terms of existing law and in ruling on the eligibility of the paper of cooperative marketing associations for purchase or rediscount by Federal Reserve Banks.

That the Federal Reserve Board is greatly interested in the cooperative marketing movement and has sought every opportunity to assist the organizers and managers of such associations

to work out the best means of arranging their financing so that it should not only be sound but should also enable them to obtain the lowest interest rates for necessary credit is indicated by the number of very liberal rulings on this subject which the Board has issued during the past eighteen months.

These rulings, having reference to what is called the "eligibility" of notes and drafts for rediscount, were made from time to time as questions were submitted from various sections of the country. They involved farm produce differing as widely as fruit from California, wheat from the middle west and tobacco and cotton from the South, but the same principles of sound financing were involved in all, and in each case the cooperative association was a non-stock, non-profit corporation, the members of which consisted exclusively of growers of the particular crop which the association was organized to market. The growers agreed to sell and deliver their entire crops to the association, title passing at the time of delivery, and the association assuming absolute control over the commodities and their re-sale. Generally speaking, the commodities were pooled according to grades and after all of a particular pool had been sold the proceeds were distributed pro rata. It should be understood that the Board's ruling on this subject would not necessarily apply to associations operating on a materially different plan.

Several kinds of borrowings are involved. If the grower desires to do the borrowing himself he can draw a draft

on the cooperative association at the time he delivers his crop, the association accepting it. He then discounts the draft at his local bank, which under the Board's ruling may rediscount it at a Federal Reserve Bank as agricultural paper with a maturity up to six months. If the association itself wishes to borrow directly from a bank in order to make payments to the growers who are its members, its notes are eligible for for rediscount but the Board has held that under existing law such notes are commercial notes the maturity of which must not exceed ninety days, because the proceeds of such notes are used for the commercial purpose of buying the commodities from the growers. A bill now pending in Congress would make such notes eligible as agricultural paper with maturities up to nine months.

There was considerable discussion over the first mentioned case, where the grower draws his own draft on the association, as to whether the draft should be considered agricultural and have a six months' maturity. The law says the proceeds must be used for an agricultural purpose, and the point was made that the grower in all probability would use the money so obtained in paying debts previously incurred. It was suggested that unless this could be held to be an agricultural purpose, little agricultural, or six months, credit could be obtained in this way. In replying to this suggestion, the Federal Reserve Board ruled that when a farmer or grower delivers his crop to

a cooperative marketing association actually engaged in orderly marketing and when he is obliged to borrow money for ordinary general purposes, such as the payment of obligations previously incurred in growing or harvesting the same crop, a draft drawn by him on the marketing association for a part of the market value of the crop may properly be considered as drawn for an agricultural purpose.

This ruling has rightly been regarded as a very liberal one, and will greatly facilitate the operations of cooperative associations - in fact has already done so. It is based upon the principle, long recognized by the Board, that the carrying of agricultural products for such periods as are reasonably necessary in order to accomplish orderly marketing is a legitimate and necessary step incident to normal distribution. The Board pointed out, however, that there is a distinction between carrying products for such periods as are reasonably necessary and mere speculative withholding from the market in the hope of obtaining higher prices. Under the Federal Reserve Act paper drawn to finance speculation is ineligible for rediscount. The Federal Reserve Board also pointed out that in determining whether or not an association is engaged in orderly marketing, rather than speculative holding, it is not improper to take into consideration the fact that each crop must ordinarily support the market until the next crop is harvested.

A further and material aid to cooperative marketing associations is the ruling that bankers' acceptances drawn to finance the domestic storage of commodities pending orderly marketing by such associations are eligible for rediscount. In creating such acceptances the association arranges for a credit with some national or State bank which accepts its drafts to the amount arranged for when covered by warehouse receipts, and after acceptance such drafts are eligible for rediscount or for purchase in open market by Federal Reserve Banks. Under existing law, they are eligible for rediscount only when they have not more than three months to run. Heretofore, they have been eligible for purchase by Federal Reserve Banks only when their maturities at the time of purchase did not exceed three months; but the new amendment to the Board's regulation permits them to be purchased with maturities up to six months. Bankers' acceptances are recognized as the most desirable form of credit, as they sell on the credit of the accepting bank as well as on their backing of staple collateral and they usually take the lowest rate of interest, if properly drawn and safeguarded.

One of the most recent, and also one of the most liberal, rulings of the Board on this subject was to the effect that where a member of a cooperative association delivers his crop to the association and at substantially the same time draws a draft on the association which is accepted by it and discounted by the drawer at his own bank, such a draft is a "bill of exchange

drawn in good faith against actually existing values" and, therefore, is not subject to the 10% limitation prescribed in the Federal Reserve Act on the aggregate amount of paper of any one borrower which a Federal Reserve Bank may rediscount for any one member bank. This should be very beneficial to the farmers and their associations because it permits the rediscount of such paper in unlimited amounts.

The above are not all of the rulings made by the Federal Reserve Board on this subject, and, of course, there are other classes of eligible paper that can be used in borrowing by cooperative marketing associations, but they are probably the most important rulings. It should be understood also that the above statements are not intended as precise technical statements. All of the Board's various rulings on this subject except the one last mentioned were brought together and summarized in the Federal Reserve Bulletin for September, 1922 (page 1044 of the large edition and page 269 of the first edition) to which reference should be made by managers of associations, bankers and others interested in exact statements and in the legal points involved.

EXTRACT FROM MONTHLY REVIEW OF STANDARD BANK OF SOUTH AFRICA.OCTOBER 31, 1922.THE AGRICULTURAL POSITION

While a considerable improvement in the agricultural prospects of the country generally has taken place during recent months, it would be idle to deny that the position of many members of the farming community in the Union and Rhodesia is still extremely difficult, and, indeed, in some cases critical. And the cause of this is not far to seek, for probably no section of the industrial community has suffered more severely from the unstable conditions that have obtained during the last two or three years than the farming interest.

When considering the position today, however, it is necessary to bear in mind the fact that this industry was the first to profit by the new economic situation called into being as a result of the outbreak of war in 1914, for, owing to the withdrawal for war service of large numbers from the work of production, raw materials of almost every description very soon appreciated in value, the effect of which was in due course reflected in increased wages of those engaged in other industries, and a consequent general advance in the cost of living. After the conclusion of the Armistice and the subsequent arrangement of terms of peace, there came about, as the result of many causes--chief of which were the curtailment of Government expenditure and the restriction of credit--a marked diminution

in the purchasing power of the world, one effect of which is seen in the return of most raw materials to approximate pre-war values. While wages in other industries continue today, if not at the highest war-time rates, at least at levels which exhibit considerable inflation when compared with the pre-war basis, it follows that the farmer is at present laboring under a considerable disadvantage, inasmuch as he is compelled to pay, for necessary goods and materials, prices inflated by high wages paid for their manufacture, whereas he is receiving a return for his own produce on a basis of pre-war value.

The problem is not peculiar to South Africa, but is of world-wide application at the present day. A recent press cable states that in Great Britain farmers of all classes and in all districts are in serious financial straits, and that failing means of adjusting outlay to revenue, large numbers will be driven out of business. In the United States of America, also, the matter has been under investigation by a Government Commission. It appears to be generally recognized, however, that the situation is not one calling for Government intervention, unless, indeed, some alleviation may be afforded by way of further reduction of railway rates for the transportation of agricultural produce, or in some other similar manner. Adjustment will ultimately come about through the regular operation of economic forces, which are not at present functioning in a normal manner owing to the continued world-wide financial disorganization. In due course the prices of raw materials, as representing the value of agricultural services, will assume their proper relationship in

the markets of the world to the value of industrial services, and abnormalities such as now exist will disappear. Any attempts to hasten such adjustment by legislative measures will, it is thought, probably have the opposite effect to that desired.

FEDERAL RESERVE BOARD

WASHINGTON

X-3594

December 21, 1922.

SUBJECT: Senate Resolution 351.

Dear Sir:

Below follows a copy of Senate Resolution 351 requesting the Federal Reserve Board to obtain from Federal Reserve Bank officials the list of names, with post office addresses, of the citizens to whom the speech referred to was sent.

"S. Res. 351

IN THE SENATE OF THE UNITED STATES,

December 12, 1922.

WHEREAS, the officials of the twelve Federal Reserve banks have admitted that they had printed and circulated, out of the funds of the banks, thousands of copies of a speech made in the Senate, touching a controverted subject, and in which the position of one Senator is assailed and criticized by another Senator; and

WHEREAS, the Senate feels that the Senator who spoke on the other side of the subject involved in the Senator's speech which was printed and circulated by said Federal Reserve bank officials is entitled, in fair play and justice, to have the opportunity of sending copies of his speech to the citizens who have received the speech which assailed and criticized him; and

WHEREAS, the Senate, by resolution, requested and received from officials of the Federal Reserve Bank of Atlanta, a certain list of citizens to whom they have sent the speech in question; and

WHEREAS, the Senate feels that the officials of the other eleven Federal Reserve banks should furnish to the Senate a list of the names and post-office addresses of citizens to whom they sent copies of said speech; Therefore be it

RESOLVED That the Federal Reserve Board be, and it is hereby, requested to obtain from said Federal Reserve bank officials, and have sent to the Senate, the list of

names with post office addresses of the citizens to whom said speech was sent.

Attest:

(Signed) George A. Sanderson
Secretary."

One of the Federal Reserve Banks has suggested that the purpose of the resolution as expressed in the preamble could be carried out by offering to mail to the same list of names, Senator Heflin's answer to Senator Glass's speech, if furnished to the banks.

By Order of the Federal Reserve Board:

Very truly yours,

Wm. W. Hoxton,
Secretary.

TO ALL F. R. CHAIRMEN.

F E D E R A L R E S E R V E B O A R D

STATEMENT FOR THE PRESS

X-3597

For release in Afternoon Papers,
Friday, December 29, 1922.

The following is a summary of general business and financial conditions throughout the several Federal Reserve Districts during the month of December, as contained in the forthcoming issue of the Federal Reserve Bulletin.

Production, employment and trade continued to show an upward trend in November and prices registered a further advance.

Production:

Contrary to the usual trend at this season of the year, production in basic industries is still increasing. Since July, 1921, when production was lower than at any time in recent years, there has been an almost uninterrupted rise month by month. The index, in which allowance has been made for seasonal changes, shows that production in basic industries during November was 52 per cent higher than in July, 1921, and 7 per cent higher than in October, 1922. The chief advances from October to November were in mill consumption of cotton which reached a monthly total exceeded only once since 1917, and in the production of pig iron which was larger than at any time in the past two years. Construction operations were maintained on a large scale despite the approach of winter, due to a substantial expansion in residential building.

The total farm value of crops grown in 1922, based on prices paid to farmers on December 1, was estimated to be 25 per cent more than in 1921, but was still 17 per cent less than in 1920. The value of all important crops, except potatoes, was larger this year than last year, and the farm value of the cotton crop was much greater than in 1921 or in 1920.

Increased production was accompanied by continued heavy freight movement. The total number of railroad cars loaded during November was only 5 per cent less than in October, and was substantially larger than in the corresponding month of previous years. The decline in the demand for cars and a further decrease in the proportion of cars out of repair have resulted in a considerable reduction in the freight car shortage.

Demand for labor continued to increase, as shown by the volume of employment at industrial establishments. Local shortages of labor were reported by steel mills, textile mills, and building contractors in eastern districts, but there was a small surplus of common labor in the agricultural districts.

Wholesale Prices:

Wholesale prices advanced during November and reached the highest level since March, 1921. The rise of two points in the Bureau of Labor Statistics index to 150 was due chiefly to advances in the prices of farm products, foods and clothing, which rose to the highest points of the year. These advances more than offset the declines in the prices of fuels and metals.

Volume of Trade:

The volume of payments by check, ordinarily a measure of business turnover, decreased slightly in every Federal Reserve District except Atlanta. The total for 140 cities, not including New York, was 7 per cent smaller in November than in October, but was 10 per cent larger than in November, 1921.

Wholesale trade was smaller in November in almost all lines and all sections, but the trend is usually downward at this season of the year. Sales were substantially larger than in last November, for all reporting lines except shoes. Retail trade showed a small improvement in November, and the Christmas business is reported to have been larger than in any previous year.

Bank Credit:

Larger demand for bank credit in the interior during recent weeks was accompanied by liquidation of both loans and investments in New York and Boston. The demand for bank funds was most pronounced in the Cleveland, Richmond, St. Louis, and San Francisco Districts. In the aggregate, member banks in leading cities show for the period between November 15 and December 13 an increase of \$25,000,000 in loans and a reduction of \$9,000,000 in investments.

During the period between November 22 and December 20 Federal Reserve Banks have been called upon to supply the extra currency needs of holiday trade, and this demand is reflected in an increase of \$157,000,000 in Federal Reserve note circulation,

bringing the total to the highest point for the year. A decline of \$43,000,000 in gold reserve was also largely due to increased use of gold for currency purposes. The total earning assets of the Federal Reserve Banks rose during the period \$145,000,000 partly in response to the demand for currency, and partly in consequence of the heavy government operations on December 15.

In the four weeks prior to December 13, the loans and investments of member banks in leading cities were little changed, though in the latter part of the period a renewed demand was manifested for commercial loans, offset to some extent by a decline in investments.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-3600

December 28, 1922.

SUBJECT: ASSESSMENT FOR GENERAL EXPENSES OF THE FEDERAL
RESERVE BOARD, JANUARY 1 TO JUNE 30, 1923.

Dear Sir:

Confirming telegraphic advice of this date there is enclosed herewith copy of a resolution adopted by the Federal Reserve Board at a meeting held on December 28, 1922, levying an assessment upon the several Federal Reserve Banks of an amount equal to one-tenth of one per cent (.001) of the total paid-in capital stock and surplus of such banks to defray the estimated general expenses of the Federal Reserve Board from January 1 to June 30, 1923.

There is also enclosed a statement showing the basis upon which the assessment is levied.

Kindly send duplicate C/D to the Federal Reserve Board.

Very truly yours,

Enclosures.

Fiscal Agent.

(Sent to Chairman of each Federal Reserve Bank)

ESTIMATE FOR JANUARY 1923 ASSESSMENT

Average monthly encumbrance for period
July 1, 1922, to December 31, 1922:

Personal services	\$ 45,118.22	
Non-personal services	<u>12,454.78</u>	\$ 57,573.00

Estimated monthly requirements,
January to June, 1923:

Personal services	50,000.00	
Non-personal services	<u>14,500.00</u>	64,500.00

Estimated monthly increase		6,427.00
--------------------------------------	--	----------

Total estimated requirements,

January 1, 1923, to June 30, 1923, inclusive	387,000.00
Estimated unencumbered balance, Dec. 31, 1922	<u>62,000.00</u>

Amount to be raised by assessment, . . .	325,000.00
--	------------

Estimated paid-in capital and surplus of

Federal Reserve Banks as of December 31, 1922,	325,000,000.00
--	----------------

An assessment of one-tenth of one per cent (.001)
will produce,

	325,000.00
--	------------

RESOLUTION LEVYING ASSESSMENT

Whereas, under Section 10 of the act approved December 23, 1913, and known as the Federal Reserve Act, the Federal Reserve Board is empowered to levy semi-annually upon the Federal Reserve Banks in proportion to their capital stock and surplus an assessment sufficient to pay its estimated expenses, including the salaries of its members, assistants, attorneys, experts and employees for the half-year succeeding the levying of such assessment, together with any deficit carried forward from the preceding half-year; and

Whereas, it appears from estimates submitted and considered that it is necessary that a fund equal to one-tenth of one per cent of the total paid-in capital stock and surplus of the Federal Reserve Banks be created for the purpose here-inbefore described, exclusive of the cost of engraving and printing of Federal Reserve notes; Now, therefore,

Be it resolved, That pursuant to the authority vested in it by law, the Federal Reserve Board hereby levies an assessment upon the several Federal Reserve Banks of an amount equal to one-tenth of one per cent of the total paid-in capital and surplus of such banks as of December 31, 1922, and the Fiscal Agent of the Board is hereby authorized to collect from said banks such assessment and execute, in the name of the Board, receipts for payments made. Such assessments will be collected in two installments of one-half each; the first installment to be paid on January 1, 1923, and the second half on March 1, 1923.

FEDERAL RESERVE BOARD

WASHINGTON

X-3601

December 29, 1922.

SUBJECT: Addressing Communications to the Federal Reserve Board.

Dear Sir:

Under date of November 23, 1922, the Board sent a circular letter (X-3569) to all Chairmen and Governors, requesting that official communications to the Federal Reserve Board be addressed to the Federal Reserve Board and marked, if so desired, for the attention of any particular member or officer.

All Federal Reserve Banks are not complying with this request, nor is the Board's request complied with by all officers and employees at any Federal Reserve Bank. It is, therefore, requested that the Board's letter, X-3569, be again brought to the attention of all officers and department heads of your bank.

By order of the Federal Reserve Board.

Very truly yours,

Wm. W. Hoxton,
Secretary.

TO THE CHAIRMEN AND GOVERNORS OF
THE FEDERAL RESERVE BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

X-3602

December 29, 1922.

SUBJECT: Economy and Efficiency - Groupings of Banks for
Detailed Study of Functional Operations.

Dear Sir:

There is enclosed herewith a list, approved by the recent conference on economy and efficiency held in Chicago, showing the grouping of the several Federal Reserve Banks under the four main functions of the banks for the purpose of a detailed study of the operations of these functions with a view to determining the best methods of conducting the same.

The list also shows the names of the representatives chosen in each group under each of the four functions. One representative in each of the twelve groups has been designated Chairman of his group by the Board's Committee on Economy and Efficiency.

Very truly yours,

(Enclosure)

Chairman, Committee on
Economy and Efficiency.

GROUPINGS OF BANKS FOR DETAILED STUDY OF
FUNCTIONAL OPERATIONS WITH A VIEW TO DE-
TERMINING BEST METHODS OF CONDUCTING SAME.

1. ACCOUNTING FUNCTION

- | | |
|----------------|-------------------------|
| 1. New York | L. R. Rounds, Chairman |
| Philadelphia | F. W. LaBold |
| Cleveland | H. G. Davis |
| Boston | E. M. Leavitt |
| 2. St. Louis | F. W. Hall, Chairman |
| Richmond | E. G. Grady |
| Atlanta | W. B. Roper |
| Dallas | R. T. Freeman |
| 3. Kansas City | A. A. McAdams, Chairman |
| Chicago | A. H. Vogt |
| Minneapolis | F. C. Dunlop |
| San Francisco | J. L. Reed |

2. CURRENCY AND COIN

- | | |
|---------------|------------------------|
| 1. Boston | F. W. Chase, Chairman |
| New York | A. W. Gilbert |
| Philadelphia | S. R. Earl |
| Chicago | O. J. Netterstrom |
| 2. Richmond | G. H. Keesee, Chairman |
| Cleveland | C. L. Bickford |
| St. Louis | A. H. Haill |
| Minneapolis | B. V. Moore |
| 3. Atlanta | R. A. Sims, Chairman |
| Kansas City | M. W. E. Park |
| Dallas | W. O. Ford |
| San Francisco | W. N. Ambrose |

3. LOANS, REDISCOUNTS AND INVESTMENTS

- | | |
|---------------|---------------------------|
| 1. Cleveland | F. J. Zurlinden, Chairman |
| Boston | W. W. Paddock |
| New York | G. E. Chapin |
| Philadelphia | C. A. McIlhenny |
| 2. Dallas | Fred Harris, Chairman |
| Richmond | G. S. Sloan |
| Atlanta | V. K. Bowman |
| St. Louis | W. H. Glasgow |
| 3. Chicago | R. H. Buss, Chairman |
| Minneapolis | W. B. Geery |
| Kansas City | G. H. Pipkin |
| San Francisco | W. M. Hale |

4. TRANSIT AND COLLECTIONS

- | | |
|------------------|-------------------------|
| 1. Cleveland | E. F. Strater, Chairman |
| Boston | E. H. Hult |
| New York | C. H. Coe |
| Philadelphia | J. M. Toy |
| 2. Kansas City | E. P. Tyner, Chairman |
| Chicago | W. C. Bachman |
| St. Louis | S. F. Gilmore |
| Minneapolis | Gray Warren |
| 3. San Francisco | W. N. Ambrose, Chairman |
| Richmond | Edward Waller, Jr. |
| Atlanta | W. R. Patterson |
| Dallas | R. B. Coleman |

FEDERAL RESERVE BOARD

WASHINGTON

July 1, 1922.
St.2876.

SUBJECT: Statistics relating to State
Banks and Trust Companies
eligible for membership in
Federal Reserve System.

Dear Sir:

With a view to bringing up to date data in the Board's files regarding the number, capital, surplus and total resources of non-member banks eligible for membership, may we ask that you kindly furnish the Board at your convenience with a statement showing the number, capital, surplus, and total resources of State banks and Trust companies in your district having capital stock sufficient to meet capital requirements for membership in the Federal Reserve System as of June 30, 1922, or the nearest date thereto for which data are available.

The statement should be compiled in the manner indicated in the Board's letter St. 1299, dated July 20, 1920, requesting similar data as of June 30, 1920, a copy of which is enclosed herewith.

Very truly yours,

Walter L. Eddy,
Assistant Secretary.

Enclosure.

Letter sent to each Federal Reserve Agent.

July 20, 1920.
St. 1299

Subject: Statistics relating to State banks and Trust companies eligible for membership in F.R. System.

Dear Sir:

With the view of enabling the Board to continue the preparation of tables similar to those appearing on pages 29 and 30 of the 1919 annual report, it is requested that you have the following data regarding State banks and Trust companies in your district compiled from the latest available reports, and forwarded to the Board at your earliest convenience:

State Banks and Trust Companies with Capital Stock sufficient to meet capital requirements for membership in Federal Reserve System.
(In thousands of dollars, i.e., 000 omitted.)

Members of F. R. System on June 30, 1920.				Non-members of F. R. System on June 30, 1920.					
Num-ber	Capital	of undivided profits	re-sources	Date	of con-di-tion	Num-ber	Capital	of undivided profits	re-sources
		Surplus	exclusive	Total			Surplus	exclusive	Total

State of _____
Banks with a combined capital and surplus of-
Less than
\$1,000,000 - - - -
Over \$1,000,000
but less than
\$5,000,000 - - - -
\$5,000,000 and over - - - -

In addition to furnishing separate data for each State, it will be appreciated if you will give the name and location of each non-member State Bank and Trust

company in your district which has a combined capital and surplus of \$1,000,000 or over, with separate figures of capital, surplus and total resources.

While it is recognized that figures as of June 30, 1920, will not be available for all banks and that consequently the latest available data will have to be utilized, it is desired that banks be classified as members and non-members on the basis of their status on June 30 in order that reports for all districts may be on a uniform basis. It will be appreciated if you will give the necessary instructions that care be exercised to exclude all institutions which, on the basis of capital requirements, are not eligible for membership in the Federal Reserve System.

Yours very truly,

Secretary.

Copy of this letter sent to Chairman of each F. R. Bank.

FEDERAL RESERVE BOARD

WASHINGTON

July 27, 1922.
St. 2923.

SUBJECT: Monthly Report of Fiscal Agency
Expenses absorbed by F. R. Banks,
Form 96-a.

Dear Sir:

The telegram quoted below, which was sent to you on July 26, authorizing the discontinuance as of June 30 of reports on form 96-a showing Fiscal Agency expenses absorbed by Federal reserve banks, is hereby confirmed:

"TRANS 220. Inasmuch as functional expense reports to be submitted beginning with July will show total cost of operating Fiscal Agency functions, submission of reports on form 96-a, Fiscal Agency expenses absorbed by Federal reserve banks, may be discontinued as of June 30."

Very truly yours,

G o v e r n o r

LETTER SENT TO EACH F. R. Agent.

FEDERAL RESERVE BOARD

WASHINGTON

September 22, 1922.
St. 3049.

SUBJECT: Abstract of Condition Reports
of State Bank and Trust Company
Members and of all Member Banks
as of June 30, 1922.

Dear Sir:

We are forwarding to you under separate cover
copies of the Board's Abstract No. 18 showing the
condition of State Bank and Trust Company members and of
all member banks as at close of business on June 30,
1922. Consolidated figures for all member banks, both
National and State, are shown on pages 1 and 12.

Please forward one copy of the abstract to each
State Bank and Trust Company member in your district that
has expressed a desire to receive copies of abstracts as
issued.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Letter to all F. R. Agents.

FEDERAL RESERVE BOARD

WASHINGTON

September 26, 1922.
St. 3057.

SUBJECT: Discontinuance or modification of reports.

Dear Sir:

With a view to reducing wherever practicable the work of the Federal reserve banks in connection with reports submitted to the Federal Reserve Board, the Auxiliary Committee on Economy and Efficiency has recommended that certain reports be discontinued and others modified so as to eliminate all data, the current value of which is not sufficient to warrant continued submission. The Board has given careful consideration to these recommendations, and you are authorized to discontinue the submission of the following reports as of the dates indicated:

1. Working sheet showing principal assets and liabilities for each member bank submitting weekly reports to your bank, the consolidated figures of which are reported on form St. 51 and included in the Board's weekly press statement showing "Principal resource and liability items of reporting member banks in leading cities" to be discontinued immediately.
2. Forms 172 and 172a, Interdistrict movement of Federal reserve notes, to be discontinued as of December 31, 1922.
3. Detailed lists prepared monthly in accordance with Board's letter X-3040 dated February 4, 1921, showing each member bank penalized on account of deficient reserves. To be discontinued as of December 31, 1922 (including lists prepared for Comptroller of the Currency and the Chief National Bank Examiner.)
4. Form X-1252a, Currency and Coin received from and paid to member and non-member banks, to be discontinued as of December 31, 1922.
5. Form X-1053, Gold Receipts and Payments, to be discontinued immediately.

6. Detailed reports now being furnished in accordance with Board's letter St.1949 dated April 30, 1921, covering each member bank borrowing in excess of its basic line may be discontinued as of September 30, and in lieu thereof reports should be submitted covering only those member banks whose average borrowings are equal to or in excess of 3 times the basic line.
7. Detailed reports now furnished on Form A may be discontinued as of September 30, 1922 and in lieu thereof only **total** figures as provided on the attached revised Form A need be furnished.

In order to avoid so far as practicable any duplication of work between the Federal Reserve Board and the Federal reserve banks, the Committee also recommended that the detailed compilations relating to character of paper discounted or purchased by the Federal reserve banks be made by the Federal Reserve Board.

At the present time the Board is compiling statistics corresponding to those shown in tables 39 - 66 appearing on pages 180 - 220 of its 1921 Annual Report, all of which with the exception of data shown in tables 43, 44, 45, 63, and 64 are published monthly in the Bulletin. The Board also compiles each month tables showing the amount of paper discounted for member banks in large, medium size, and small cities and towns in each state, a copy of which table for the month of June is enclosed herewith. Copies of these tables will be furnished to the Federal reserve banks each month upon request. A statement showing the character of data now being compiled by the Board is enclosed herewith.

The Board uses mechanical tabulators for the purpose of compiling data regarding discount and open market operations, and as these machines can be so adjusted to obtain a variety of classifications without any material addition to the volume of work required, it will be practicable to rearrange or enlarge somewhat the tables referred to above. It will be appreciated, therefore, if you will kindly advise us at your early convenience of any changes you may have to suggest in the enclosed schedule, or of any additional data which you think should be compiled regularly by the Board.

In order to obviate the necessity of showing any unnecessary data on schedules covering bills discounted and bought, and U.S. securities, and Municipal warrants purchased, there is given below a statement of the minimum information which the Board desires to

have shown on these schedules. It should be understood of course that there is no objection to any Federal reserve bank's showing such additional information on the schedules as will be of value to it in its work:

SCHEDULE OF BILLS DISCOUNTED FOR MEMBER BANKS - BD-4

1. Schedule number and date.
2. Name and location of rediscounting member bank.
3. Item number.
4. Symbol indicating class of paper, i.e., whether commercial, agricultural, etc.
5. Maturity date or number of days for which discount is charged.
6. Amount.
7. Federal reserve bank discount rate.
8. Member bank rate.
9. Unearned discount.

(NOTE: If taken under repurchase agreement, the schedule should show the maturity date of the agreement)

SCHEDULE OF BILLS BOUGHT IN OPEN MARKET - BD-7

1. Schedule number and date.
2. Item number.
3. Name and location of acceptor.
4. Character of acceptance, i.e., whether based on imports or exports, or domestic transactions, and dollar exchange.
5. Maturity date or number of days for which discount is charged.
6. Amount.
7. Federal reserve bank rate.
8. Unearned discount.
9. From whom purchased.

(NOTE: If taken under repurchase agreement, the schedule should show the maturity date of the agreement)

SCHEDULE OF U. S. SECURITIES PURCHASED - S-2

1. Schedule number and date.
2. Description of securities, including maturity date.
3. Interest or coupon rate.
4. Par value (amount charged investments)
5. Accrued interest.
6. Premium or discount.

SCHEDULE OF U. S. SECURITIES PURCHASED - S-2 (Cont'd)

7. Total cost.
8. Name and address of institution or person from whom purchased.

SCHEDULE OF MUNICIPAL WARRANTS PURCHASED

1. Schedule number and date.
2. Description of warrants, including maturity date.
3. Maturity value (amount charged investments)
4. Rate at which purchased by Federal reserve bank.
5. Unearned discount.
6. Name and address of institution or person from whom purchased.

Very truly yours,

3 Enclosures.

Vice Governor.

LETTER SENT TO CHAIRMAN AT
EACH FEDERAL RESERVE BANK.

STATEMENT SHOWING CHARACTER OF DATA REGARDING DISCOUNT AND OPEN
MARKET OPERATIONS COMPILED MONTHLY BY THE FEDERAL RESERVE
BOARD FOR EACH FEDERAL RESERVE DISTRICT.

BILLS DISCOUNTED FOR MEMBER BANKS:

1. Distribution by classes of paper -
 - a - Member banks' collateral notes:
 - (1) Secured by U. S. Government obligations - - - - - _____
 - (2) Otherwise secured - - - - - _____
 - b - Agricultural and livestock paper - - - - - _____
 - c - Bankers' acceptances:
 - (1) Domestic trade - - - - - _____
 - (2) Foreign trade - - - - - _____
 - (3) Dollar exchange - - - - - _____
 - d - Trade acceptances:
 - (1) Domestic - - - - - _____
 - (2) Foreign - - - - - _____
 - e - Rediscounted paper, n.e.s.:
 - (1) Secured by U. S. Government obligations - - - - - _____
 - (2) Otherwise secured and unsecured - - - - - _____
 - f - Total - - - - - _____

2. Distribution by maturities -
 - a - From 1 to 15 days - - - - - _____
 - b - From 16 to 30 days - - - - - _____
 - c - From 31 to 60 days - - - - - _____
 - d - From 61 to 90 days - - - - - _____
 - e - From 91 days to 6 months - - - - - _____
 - f - Average maturity - - - - - _____

3. Distribution by rates - Total amount discounted at each
rate, also average rate charged - - - - - _____

4. Distribution by classes of member banks -
 - a - National banks - - - - - _____
 - b - State bank and trust company members - - - - - _____

5. Distribution by states and cities -
 - a - Total amount discounted,
 - b - Total amount reduced to a common maturity basis*,
 - c - Average maturity of bills discounted,
 For member banks in
 - (1) Large cities (100,000 population or over) - - - - - _____
 - (2) Medium size cities (15,000 to 99,999 population)- _____
 - (3) Small cities and towns (less than 15,000
population) - - - - - _____

6. Number of member banks accommodated in each district - - _____

*Amount discounted for all member banks in each district, state or city, multiplied by the average maturity of bills discounted for such banks, and divided by the average maturity for the System..

BILLS BOUGHT IN OPEN MARKET:

- 1. Distribution by classes -
 - a - Banker's' acceptances:
 - (1) Foreign trade - - - - - _____
 - (2) Domestic trade - - - - - _____
 - (3) Dollar exchange - - - - - _____
 - b - Trade acceptances:
 - (1) Foreign - - - - - _____
 - (2) Domestic - - - - - _____
 - c - Total - - - - - _____

- 2. Distribution by maturities -
 - a - From 1 to 15 days - - - - - _____
 - b - From 16 to 30 days - - - - - _____
 - c - From 31 to 60 days - - - - - _____
 - d - From 61 to 90 days - - - - - _____
 - e - From 91 to 180 days - - - - - _____
 - f - Average maturity - - - - - _____

- 3. Distribution by rates - total amount purchased at
each rate, also average rate charged - - - - - _____

- 4. Distribution by classes of institutions from which
purchased:
 - a - National banks - - - - - _____
 - b - State bank and trust company members - - - - - _____
 - c - Non-member banks, etc. - - - - - _____

(St. 3057a)

DISCOUNT AND OPEN MARKET OPERATIONS DURING THE MONTH OF _____ 19
FEDERAL RESERVE BANK OF _____

1. Bills discounted for member banks - - - - -	\$ _____
2. Discounted paper acquired from other Federal Reserve Banks - - -	_____
3. Acceptances bought in open market - - - - -	_____
4. Acceptances bought from other Federal Reserve Banks - - - - -	_____
5. U. S. bonds, notes, and certificates bought - - - - -	_____
6. Municipal warrants bought - - - - -	_____
7. Total discount and open market operations - - - - -	=====

MEMORANDA

8. Number of member banks accommodated through the discount of
paper during month - - - - - _____

Federal Reserve Agent.

To be mailed to the Federal Reserve Board (Division of Bank Operations) not later
than the 7th of each month.

(St. 321)

VOLUME OF BILLS DISCOUNTED DURING JUNE 1922, DISTRIBUTED BY STATES AND AVERAGE MATURITIES,
AND ACCORDING TO THE SIZE OF THE CITIES IN WHICH THE DISCOUNTING BANKS ARE LOCATED.

Summary by Federal Reserve Districts

St. 2989.

Federal Reserve Bank	Amount discounted for banks in				Average maturity of paper discounted for banks in				Amounts discounted adjusted to average maturity for System			
	Entire district	Large cities	Medium size cities	Small cities and towns	Entire district	Large cities	Medium size cities	Small cities and towns	Banks in			
									Entire district	Large cities	Medium size cities	Small cities and towns
					Days	Days	Days	Days				
Boston	\$82,738,512	\$62,826,531	\$11,827,066	\$8,084,915	11.96	9.85	17.57	20.17	\$63,397,823	\$39,643,217	\$13,310,247	\$10,444,359
New York	345,164,080	299,531,293	21,938,803	23,693,984	7.58	6.17	17.83	15.95	167,652,073	118,394,342	25,051,970	24,205,761
Philadelphia	186,639,246	138,177,689	17,110,267	31,351,290	8.89	6.34	16.62	15.93	106,270,285	56,067,651	18,209,839	31,992,795
Cleveland	121,959,918	92,291,892	11,992,909	17,675,117	11.85	8.90	16.55	19.28	92,559,279	52,598,150	18,132,698	21,828,431
Richmond	71,671,628	34,488,703	14,766,000	22,416,925	17.66	7.50	21.75	30.60	81,058,354	16,561,861	20,570,808	43,925,685
Atlanta	21,845,215	4,329,431	6,079,759	11,436,025	49.27	32.62	36.00	62.64	68,936,346	9,044,911	14,016,199	45,875,236
Chicago	93,238,347	53,444,282	15,300,306	24,493,759	31.81	24.57	28.31	49.79	189,941,009	84,097,197	27,742,538	78,101,274
St. Louis	90,922,695	77,986,207	4,102,813	8,833,675	9.74	48.07	18.73	49.15	56,733,350	24,009,404	4,920,631	27,803,315
Minneapolis	21,288,029	10,190,752	1,289,232	9,808,045	51.44	16.17	65.88	85.57	70,134,762	10,946,942	5,439,575	53,748,245
Kansas City	14,393,268	5,327,646	152,746	8,912,876	53.73	36.37	55.68	84.07	49,526,554	12,407,936	544,659	36,573,959
Dallas	16,825,424	2,737,351	3,105,322	10,982,751	70.66	29.05	62.30	83.39	76,137,698	5,093,612	12,389,236	58,654,850
San Francisco	92,632,354	53,312,383	8,667,199	30,652,772	23.09	10.05	37.91	31.68	136,971,183	53,731,882	21,045,338	62,193,963
TOTAL	1,159,318,716	834,644,160	116,332,422	208,342,134	15.61	9.03	24.34	37.12	1,159,318,716	482,597,105	181,373,738	495,347,873
Percentage distribution												
June	100	72.0	10.0	18.0					100	41.6	15.7	42.7
May	100	67.5	11.8	20.7					100	39.0	16.0	45.0
April	100	70.5	11.3	18.2					100	42.0	16.6	41.4

C O N F I D E N T I A L
 For use of Federal Reserve
 Board only

VOLUME OF BILLS DISCOUNTED DURING JUNE 1922, DISTRIBUTED BY STATES AND AVERAGE MATURITIES,
 AND ACCORDING TO THE SIZE OF THE CITIES IN WHICH THE DISCOUNTING BANKS ARE LOCATED

Detailed figures by states and classes of cities.

St. 2989a

State	Amount discounted for banks in				Average maturity of paper discounted for banks in				Amounts discounted adjusted to average maturity for System			
	Entire state	Large cities	Medium size cities	Small cities and towns	Entire state	Large cities	Medium size cities	Small cities and towns	Banks in			
									Entire state	Large cities	Medium size cities	Small cities and towns
					Days	Days	Days	Days				
Alabama	\$4,690,371	\$300,000	\$2,102,830	\$2,287,541	44.41	6.00	25.15	67.16	\$13,341,406	\$115,313	\$3,387,170	\$9,838,923
Arizona	1,473,496	-	855,398	618,098	41.37	-	44.25	37.38	3,903,779	-	2,424,083	1,479,696
Arkansas	3,831,273	-	956,760	2,874,513	56.20	-	29.53	65.08	13,789,453	-	1,809,296	11,980,157
California	57,099,216	47,540,937	4,081,279	5,477,000	22.51	16.17	53.27	54.63	82,313,615	49,227,343	13,922,696	19,163,576
Colorado	3,310,240	1,091,683	-	2,218,557	43.83	24.14	-	53.52	9,291,927	1,687,741	-	7,604,186
Connecticut	6,507,634	3,063,000	2,190,944	1,253,690	19.55	21.19	20.41	14.03	8,146,507	4,156,238	2,863,550	1,126,719
Delaware	1,174,853	156,000	-	1,018,853	19.65	15.03	-	20.36	1,478,386	150,120	-	1,328,266
Dist. of Col.	20,473,930	20,473,930	-	-	4.84	4.84	-	-	6,351,237	6,351,237	-	-
Florida	1,310,039	-	656,148	653,891	35.29	-	17.91	52.75	2,961,729	-	752,705	2,209,024
Georgia	7,949,661	831,000	2,286,296	4,832,365	52.45	25.25	51.77	57.45	26,704,647	1,344,115	7,580,810	17,779,722
Idaho	19,376,757	-	2,463,275	16,913,482	20.53	-	21.23	20.43	25,482,087	-	3,349,769	22,132,318
Illinois	44,652,465	33,024,017	6,039,786	5,588,662	28.50	27.72	19.66	42.69	81,504,809	58,622,124	7,604,186	15,278,499
Indiana	8,695,371	1,860,450	2,331,870	4,503,051	26.47	14.54	28.00	30.60	14,738,514	1,732,155	4,181,951	8,824,408
Iowa	11,421,359	575,000	2,124,681	8,721,678	67.20	16.25	44.48	76.10	49,157,215	598,423	6,052,025	42,506,767
Kansas	1,837,929	365,000	87,386	1,385,543	41.72	15.00	71.01	46.92	4,911,280	350,639	397,390	4,163,251
Kentucky	66,256,049	62,237,985	1,608,304	2,409,760	3.19	2.10	20.58	19.58	13,520,631	8,377,929	2,120,196	3,022,506
Louisiana	4,758,631	2,910,931	-	1,847,700	61.20	38.24	-	97.39	18,653,982	7,129,655	-	11,524,327
Maine	3,177,301	-	1,675,000	1,502,301	20.65	-	15.64	26.33	4,202,990	-	1,678,391	2,524,599
Maryland	5,361,375	1,973,112	276,139	3,112,124	18.87	12.42	19.69	16.55	6,479,804	2,833,161	348,301	3,298,342
Massachusetts	67,118,588	59,199,621	6,215,231	1,703,736	10.03	9.02	17.41	18.23	43,116,877	34,196,628	6,930,959	1,989,290
Michigan	27,241,772	14,144,515	6,405,858	6,691,399	20.26	16.25	23.16	25.95	35,342,048	14,719,815	9,499,972	11,122,261
Minnesota	12,622,212	10,190,752	491,594	1,939,866	27.98	16.77	45.37	82.43	22,616,200	10,946,942	1,428,269	10,240,989
Mississippi	1,229,033	-	214,485	1,014,548	73.00	-	27.57	82.60	5,745,800	-	378,690	5,367,110
Missouri	16,717,252	15,062,816	54,200	1,600,236	14.58	11.74	14.82	41.33	15,608,099	11,320,956	51,427	4,235,716
Montana	3,207,177	-	271,465	2,935,712	106.57	-	122.09	105.13	21,889,208	-	2,122,533	19,766,675
Nebraska	3,906,900	2,361,500	-	1,545,400	52.57	40.99	-	70.26	13,153,628	6,199,293	-	6,954,335
Nevada	-	-	-	-	-	-	-	-	-	-	-	-
New Hampshire	3,337,053	-	1,459,300	1,877,753	18.33	-	15.56	20.49	3,917,804	-	1,453,982	2,463,822
New Jersey	35,804,536	13,564,562	8,842,613	13,397,361	13.92	13.24	13.95	14.59	31,915,139	11,498,613	7,901,060	12,515,466

VOLUME OF BILLS DISCOUNTED DURING JUNE 1922, DISTRIBUTED BY STATES AND AVERAGE MATURITIES,
AND ACCORDING TO THE SIZE OF THE CITIES IN WHICH THE DISCOUNTING BANKS ARE LOCATED

Detailed figures by states and classes of cities. (Cont'd)

St. 2989b.

State	Amount discounted for banks in				Average maturity of paper discounted for banks in				Amounts discounted adjusted to average maturity for System			
	Entire state	Large cities	Medium size cities	Small cities and towns	Entire state	Large cities	Medium size cities	Small cities and towns	Banks in			
									Entire state	Large cities	Medium size cities	Small cities and towns
					Days	Days	Days	Days				
New Mexico	\$1,181,184	-	\$5,100	\$1,176,084	88.44	-	28.63	88.70	\$6,690,187	-	\$9,350	\$6,680,837
New York	320,816,199	\$289,344,341	14,903,190	16,568,668	7.21	5.99	19.75	17.11	148,042,017	\$111,030,928	18,859,690	18,151,399
North Carolina	8,236,871	-	4,029,558	4,207,313	35.10	-	22.42	47.25	18,518,401	-	5,785,539	12,732,862
North Dakota	1,789,117	-	126,563	1,662,554	84.28	-	86.52	84.11	9,656,592	-	701,278	8,955,314
Ohio	44,951,655	34,582,443	3,518,833	6,850,379	18.70	16.38	34.32	22.38	53,834,736	36,279,422	7,735,091	9,820,223
Oklahoma	3,224,960	-	65,360	3,159,600	92.72	-	35.18	93.91	19,149,551	-	147,268	19,002,283
Oregon	3,762,196	600,000	20,000	3,142,196	36.78	7.36	14.60	42.54	8,861,811	282,849	18,701	8,560,261
Pennsylvania	246,654,120	191,953,528	21,659,039	33,041,553	8.02	5.52	17.74	16.15	126,674,091	67,900,025	24,600,814	34,173,252
Rhode Island	1,350,501	963,910	386,591	-	21.89	24.16	16.24	-	1,893,449	1,491,383	402,066	-
South Carolina	6,458,471	-	2,693,555	3,764,916	33.29	-	20.75	42.27	13,770,753	-	3,578,853	10,191,900
South Dakota	2,118,051	-	100,000	2,018,051	91.39	-	14.96	95.17	12,396,248	-	95,841	12,300,407
Tennessee	5,298,580	2,482,369	866,000	1,950,211	47.91	56.21	35.24	42.97	16,257,950	8,936,613	1,954,227	5,367,110
Texas	14,418,411	2,737,351	2,786,141	8,894,919	64.62	29.05	61.47	76.55	59,667,027	5,093,612	10,967,980	43,605,435
Utah	5,071,397	2,395,446	462,278	2,213,673	31.64	18.79	29.37	46.02	10,276,052	2,882,250	869,584	6,524,218
Vermont	1,772,435	-	-	1,772,435	20.82	-	-	20.82	2,363,305	-	-	2,363,305
Virginia	22,558,037	12,041,661	3,669,086	6,847,290	18.35	9.57	29.98	27.55	26,505,975	7,377,463	7,045,501	12,083,011
Washington	6,297,650	2,776,000	1,099,050	2,422,600	20.47	7.53	26.60	32.51	8,256,374	1,339,440	1,872,411	5,044,523
West Virginia	9,518,944	-	4,637,662	4,881,282	16.71	-	14.18	19.11	10,187,224	-	4,212,340	5,974,884
Wisconsin	8,533,112	3,840,300	1,613,574	3,079,238	38.78	34.25	41.40	43.04	21,190,268	8,424,680	4,277,793	8,487,795
Wyoming	764,352	-	-	764,352	99.85	-	-	99.85	4,887,904	-	-	4,887,904
TOTAL: June	1,159,318,716	834,644,160	116,332,422	208,342,134	15.61	9.03	24.34	37.12	1,159,318,716	482,597,105	181,373,738	495,347,873
May	1,113,931,285	751,545,059	131,812,268	230,573,958	17.44	10.07	23.57	37.93	1,113,931,285	434,154,337	178,216,730	501,560,218
April	1,308,055,478	921,650,086	148,239,212	238,166,180	15.66	9.46	23.22	36.01	1,308,055,478	549,785,921	217,633,467	540,636,090

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS
AUGUST 25, 1922.

Classification of cities:
Large cities - Population 100,000 and over.
Medium size cities - Population 15,000 to 100,000.
Small cities and towns - Population under 15,000.

FEDERAL RESERVE BOARD

WASHINGTON

October 16, 1922.
St. 3105.

SUBJECT: Revised Form A, Monthly
Report of Discount and
Open Market Operations.

Dear Sir:

In accordance with the Board's letter
St. 3057, dated September 26, there is enclosed
herewith a supply of Form A, to be used in sub-
mitting the monthly report of discount and open
market operations beginning with October 1922.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Enclosure

(Letter to all F. R. Agents)

FEDERAL RESERVE BOARD

WASHINGTON

November 6, 1922.
St. 3146.SUBJECT: Closing of Books on
December 31, 1922.

Dear Sir:

On June 29, 1922, the Board advised you in its letter X-3462 of an opinion of Counsel wherein it was held that the practice of the Federal reserve banks of setting up two surplus accounts was not authorized by the Federal Reserve Act, and that when the total surplus of a bank equals or exceeds its subscribed capital, 90 per cent of net earnings, after the payment of dividends, must be paid to the United States as a franchise tax. In accordance with this opinion, you were advised in the Board's letter X-3492 of August 1, 1922, a copy of which is enclosed herewith, that those banks which transferred amounts to super-surplus account on December 31, 1920, should recalculate the amount of franchise taxes payable to the Government and the amount transferrable to surplus account. In this same letter the Board also stated the general principles by which it would be governed in the future in authorizing depreciation charges on bank premises.

In order that the Board may have ample time to pass upon all proposed charges against current earnings in connection with depreciation allowances or reserves to take care of probable losses, it is requested that the dividend resolution of your Board of Directors, together with your request for authority to close the books on December 31, 1922, and to make certain charges against current earnings on account of depreciation and for other extraordinary purposes, be mailed in time to reach the Board's offices not later than December 1, 1922.

The dividend resolution should be accompanied with statements showing the following information:

1. Estimated gross and net earnings for the calendar year 1922.
2. Unpaid indebtedness of closed banks to Federal reserve bank, giving the names of banks, indebtedness of each, character of security, if any, and estimated losses.
3. Indebtedness to Federal reserve bank of member banks which are considered to be in an unsafe condition, giving the names of the banks, indebtedness of each, character of security, if any, and probable losses.

The following rules have been approved by the Federal Reserve Board for the guidance of the Federal reserve banks in submitting requests for permission to make special charges against current net earnings and in closing their books on December 31, 1922:

1. Land, buildings (including vaults and vault equipment), and fixed machinery and equipment. Requests for permission to charge current earnings with depreciation allowances on land or buildings (including vaults and vault equipment) should be submitted in the form outlined in the Board's letter X-3492 of August 1, 1922, and should be accompanied with a complete statement of the facts and conditions considered by the Board of Directors in arriving at its recommendations. With regard to fixed machinery and equipment, it is requested that each class of machinery and equipment be listed separately, and that the rate of depreciation and the amount of reserve which the bank proposes to set up be shown separately for each class.

2. Furniture and equipment. The balance remaining in this account on December 31st should be charged to profit and loss.

3. Apparent depreciation on United States securities. Full provision should be made for apparent depreciation (based on market value) on United States securities before any amount is transferred to surplus account. In case the present reserve for apparent depreciation is in excess of the actual depreciation as determined by market quotations as of December 29, which the Board will telegraph to your bank on the morning of December 30, such excess should be credited to profit and loss.

4. Surplus and franchise taxes. After the surplus account has been charged with franchise taxes payable to the Government for prior years, in accordance with the Board's letter X-3492 of August 1, 1922, and after all current expenses, dividends, depreciation allowances and other extraordinary charge-offs authorized by the Federal Reserve Board have been provided for out of earnings the remaining net earnings shall be distributed as follows:

(a) Transfer to surplus account all available net earnings providing the total surplus will not as a result exceed the bank's subscribed capital, in which case only such amount should be transferred as is necessary to increase the surplus account to an amount equal to the bank's subscribed capital.

(b) Of the balance of net earnings, if any, 10 per cent should be transferred to surplus account, and 90 per cent paid to the U. S. Government as a franchise tax.

Further instructions as to the time and method of payment of the franchise tax due for former years, which will be charged to surplus account, and for the current year will be issued at a later date.

Very truly yours,

Vice Governor.

Enclosure.

(Letter to all Chairmen)

L

FEDERAL RESERVE BOARD

WASHINGTON

August 1, 1922.
X-3492

SUBJECT: Franchise Taxes, Surplus funds, and depreciation charges.

Dear Sir:

With reference to the Board's letter X-3462 of June 29, 1922, enclosing a copy of Counsel's opinion dated June 5, 1922, regarding the proper method of building up surplus funds by Federal Reserve Banks and of determining the amount of franchise taxes payable to the U. S. Government, you are advised that in accordance therewith, those banks which transferred amounts to supersurplus account on December 31, 1920 should recalculate the amount of franchise taxes payable to the Government and the amount transferable to surplus account.

In view of the ruling that the supersurplus account is a bookkeeping entry only and that the law contemplates only one surplus fund, all charges heretofore made against supersurplus account to cover depreciation on bank premises or for reserves for undetermined liabilities, should be reversed. No charges against the normal surplus or supersurplus will be authorized in the future to cover depreciation on bank premises or for the purpose of setting up special reserves, as such charges if made might affect amounts subsequently payable to the Government as franchise taxes.

For your information there is enclosed herewith a statement which shows the necessary adjustments to be made by each Federal Reserve Bank in order that the correct amount may be paid to the Government as a franchise tax and proper credit made to surplus account. It will be appreciated if you will kindly have the figures checked so far as they relate to your Bank, and advise the Board at your early convenience as to whether or not you find them correct. The amounts payable to the Government on account of franchise taxes due for former years should be charged to surplus account on December 31, 1922 before closing of books, and paid to the U. S. Government in accordance with instructions to be issued at a later date.

In view of the fact that no depreciation charges will be made against supersurplus, the Board will review before the end of this year the policy which has been pursued heretofore with reference to depreciation charges on bank premises. It is accordingly desired that your requests for authority to charge off depreciation on bank premises, or to set up a reserve for depreciation, be accompanied with a statement in a form similar to that indicated below, showing separately for the head office and each branch, the cost, estimated market value, and book value (less reserves) of land owned, and the cost to date, estimated replacement cost, and book value (less reserves) of new buildings, either completed or in course of construction, or of remodeled buildings.

LAND

Cost	\$ _____
Estimated market value	_____
Book value (net)	_____

	<u>TOTAL</u>	<u>BUILDINGS IN- CLUDING VAULTS</u>	<u>FIXED MACHINERY AND EQUIPMENT</u>
<u>BANKING HOUSE</u>			
Cost to date	\$ _____	\$ _____	\$ _____
Estimated replacement cost	_____	_____	_____
Book value (net)	_____	_____	_____

In passing upon requests to set up depreciation reserves or to charge off depreciation allowances, the Board will in general permit a charge against current net earnings of not exceeding 2 per cent of the estimated replacement cost of bank buildings, including vaults but excluding fixed machinery and equipment. In case, however, the estimated replacement cost is considerably below the book value, the Board will consider requests from Federal Reserve Banks for permission to write off a depreciation charge in excess of 2 per cent.

The estimated replacement cost, less residual value, of fixed machinery and equipment, such as boilers, engines, dynamos, motors, power pumps, elevators, heating, plumbing, lighting and ventilating systems, pneumatic tubes, refrigeration plants, automatic fire sprinkler equipment, and vacuum cleaners, should be determined and a reserve set aside each year out of current net earnings to cover replacements. Annual additions to this reserve should be based on the estimated life of the machinery and equipment, with a view to the ultimate replacement of the machinery and equipment, but shall in no case exceed 10 per cent of the cost thereof.

No charges against current net earnings will be authorized by the Federal Reserve Board to cover depreciation on land where the estimated market value of the land is equal to or in excess of its net book value.

The estimate of the market value of land and of the replacement cost of buildings either completed or in course of construction and of fixed machinery and equipment, should be obtained from the best available authorities and a copy of the estimates thus obtained enclosed with your request for authority to charge current net earnings with depreciation on bank premises. The estimated replacement cost of buildings including vaults, but excluding fixed machinery and equipment, may be arrived at by determining the mean of two amounts, namely; (1) the total actual cost of construction, and (2) the estimated cost of construction based on the lowest prices that have existed during the last fifteen years.

Where properties have been purchased with the intention of razing existing buildings and of erecting new banking quarters the Board will consider requests for permission to deduct from current net earnings an amount equal to the difference between the cost of the property and the market value of the building site exclusive of improvements.

Advance approval of the Federal Reserve Board shall be obtained for all depreciation and other charges against current net earnings whether in connection with bank premises as outlined above or for other purposes.

Very truly yours,

G o v e r n o r .

LETTER TO ALLCHAIRMEN.

ADJUSTMENTS TO BE MADE IN SURPLUS ACCOUNTS AT END OF 1922 AND ADDITIONAL AMOUNTS
PAYABLE TO UNITED STATES GOVERNMENT AS FRANCHISE TAXES FOR FORMER YEARS.

Federal Reserve Bank	Amounts previously charged to supersurplus to be credited to surplus fund and debited to account originally credited as follows -				Amount to be charged to surplus fund and paid to U. S. Government as franchise tax for former years	Total surplus fund (revised) on Dec. 31, 1922 before closing of books
	Total	Bank premises account	Depreciation reserve on bank premises	Reserve for undetermined liabilities		
Boston	\$ -	\$ -	\$ -	\$ -	\$ 247,349.91	\$ 16,235,807.79
New York	1,000,000	-	-	1,000,000	1,604,549.37	59,592,577.77
Philadelphia	-	-	-	-	36,366.25	17,908,779.79
Cleveland	125,000	125,000	-	-	-	22,634,279.19
Richmond	225,276.50	225,276.50	-	-	20,459.01 ^{8.51}	11,234,665.60
Atlanta	-	-	-	-	213,628.77	8,899,942.22
Chicago	2,030,000	-	2,030,000	-	710,189.99	30,345,275.43
St. Louis	-	-	-	-	-	9,388,223.25
Minneapolis	-	-	-	-	52,423.36	7,416,054.44
Kansas City	-	-	-	-	208,169.99	9,437,561.82
Dallas	-	-	-	-	-	7,394,097.30
San Francisco	250,000	-	250,000	-	306,925.46	15,142,126.72
TOTAL	\$ 3,630,276.50	\$ 350,276.50	\$ 2,280,000	\$ 1,000,000	\$ 3,400,062.11^{1.61}	\$ 215,629,391.32

FEDERAL RESERVE BOARD

WASHINGTON

November 17, 1922.
St. 3170.

SUBJECT: Revision of Federal Reserve
Bank Balance Sheet, Form 34.

Dear Sir:

There is enclosed herewith an unruled proof copy of the daily balance sheet Form 34 to be used by the Federal reserve banks during 1923. The year's supply of the form requested in your recent telegram will be mailed to you as soon as received from the printer, which should be about the middle of December.

From an examination of the enclosed proof copy you will note that a number of changes have been made in the form now in use, all of which it is thought are self-explanatory. The following changes will be made in the Board's weekly press statements beginning with January 3, 1923, and the same procedure should be followed by the Federal reserve banks in preparing statements for release to the local press:

1. The caption "Legal tender notes, silver, etc." will be changed to "Reserves other than gold."

2. A new item "Non-reserve cash" will appear immediately following "Total reserves" and the amount of the item will be wired to the Federal reserve banks in the weekly COND telegram against code TUBA. No comparative figures for dates prior to 1923 will be shown opposite this caption in weekly press statements, but in lieu thereof an asterisk (*) will appear in the appropriate column referring to the following footnote:

(*) Not shown separately prior to January 1923.

3. Published statements will show "Bank premises," net, i.e., as reported against code TOUR on Form 34. The same code word will also be used to indicate consolidated figures of bank premises in the Board's weekly COND telegram.

In showing figures for comparative dates in 1922 against the captions "Reserves other than gold," "Uncollected items,"

and "Bank premises," no changes will be made in the figures originally published in the weekly press statements. It may also be stated that reserves for probable losses, self insurance, etc., will continue to be included among "All other liabilities" as is the present practice.

Very truly yours,

Vice Governor.

Enclosure.

(Letter to Governors of all F. R. Banks)

FEDERAL RESERVE BOARD

WASHINGTON

November 21, 1922.

St. 3178.

SUBJECT: 1923 Edition of F.R. Agent's
Daily Statement, Form F.R.A. 5.

Dear Sir:

There are being forwarded to you today under
separate cover copies of Federal Reserve Agent's
daily statement Form F.R.A. 5 for use during 1923.
The new edition of the form is the same as that now
in use.

Kindly acknowledge receipt of the forms.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Letter to be sent to
all Federal Reserve Agents.

FEDERAL RESERVE BOARD

WASHINGTON

Nov. 28, 1922.

St. 3191.

SUBJECT: Revision of Weekly Condition
Reports from Member Banks,
Form St. 51.

Dear Sir:

With reference to the Board's letter X-3553 of November 3, 1922, I beg to advise that it has been decided to ask reporting member banks to subdivide their holdings of U. S. securities into the following classifications in their weekly reports on Form St. 51a:

1. U. S. pre-war bonds
2. U. S. Liberty bonds
3. U. S. Treasury bonds
4. U. S. Victory notes and Treasury notes
5. U. S. Treasury certificates of indebtedness.

In view of the fact that the Comptroller of the Currency now requires National banks to report their loans and discounts, gross, in condition reports submitted to his office, and as the Board requires State bank and trust company members to report their loans and discounts gross on Form 105, it has also been decided to modify Form St. 51 so as to have member banks report their loans and discounts gross in weekly statements on Form St. 51. This will make the method of reporting loans and discounts uniform in all statements submitted either to the Comptroller or to the Board.

The figures which will be reported by member banks will, of course, include all rediscounts, whether with the Federal reserve bank or with other banks, and to the extent that reporting member banks have rediscounts other than with the Federal reserve banks, the figures will not be comparable with those published in the recent past. It is not thought, however, that the volume of such rediscounts is sufficient to affect in any material way the comparability of the figures. As in the past, it is expected that the Reserve bank will continue to report the amounts of Reserve balances with F. R. Bank, Government deposits, and Bills payable and rediscounts with the F. R. Bank. There does not seem to be any good reason, however, for continuing to segregate bills payable from rediscounts in published statements, and accordingly, the two items have been combined on the attached Form St. 51.

Enclosed herewith is a supply of Form St.51 for your use in submitting reports to the Board beginning with January 1923, and a sample form showing the captions of the items as they will appear in the press statements issued by the Board beginning with the statement for January 3, 1923, which will be released for publication on Friday, January 12, 1923.

It is requested that Form St.51a, which is supplied by your bank to reporting member banks, be revised in accordance with the attached sample, in so far as the captions and their definition are concerned, and that the reporting banks be instructed to submit their figures on the new forms beginning with January 3, 1923.

By order of the Federal Reserve Board.

Very truly yours,

Wm. W. Hoxton,
Secretary.

Enclosures.

(Letter to all Agents)

L

FEDERAL RESERVE BANK OF _____

WEEKLY REPORT OF MEMBER BANKS IN SELECTED CITIES TO BE SUBMITTED TO THE FEDERAL
RESERVE BANK AS AT CLOSE OF BUSINESS EACH WEDNESDAY.

(City)

(State)

Wednesday, _____, 192

-
1. Loans and discounts gross, including rediscounts, and acceptances of other banks and foreign bills of exchange or drafts sold with indorsement of this bank -
 - (a) Secured by U. S. Government obligations _____
 - (b) Secured by stocks and bonds other than U.S. securities _____
 - (c) All other loans and discounts _____
 - (d) Total loans and discounts (sum of items a,b, and c) _____

 2. U.S. Government securities actually owned, including bonds deposited with the U. S. Treasurer to secure circulation, and securities pledged as collateral, but excluding securities borrowed -
 - (a) U. S. pre-war bonds _____
 - (b) U. S. Liberty bonds _____
 - (c) U. S. Treasury bonds _____
 - (d) U. S. Victory notes and Treasury notes _____
 - (e) U. S. Certificates of Indebtedness _____

 3. Other bonds, stocks, and securities _____
 All stocks, bonds (other than U.S.Bonds), and mortgages actually owned by the bank whether pledged or unpledged (exclusive of Federal Reserve Bank stock).

 4. Total loans and discounts, and investments (Sum of items 1to3) _____
 Total loans and discounts, and investments, exclusive of real estate, banking house, furniture and fixtures and Federal Reserve bank stock.

 5. Cash in vault _____
 Total of gold, silver, and paper currency on hand and in vault.

6. Net demand deposits on which reserve is computed

Individual deposits subject to check, certificates of deposit due in less than 30 days, dividends unpaid, State and municipal deposits, and other deposits subject to notice of less than 30 days.

PLUS. Excess of total of -

- (a) Balances due to all banks other than Federal Reserve Bank.
- (b) Amount due to Federal Reserve Bank - deferred credits.
- (c) Cashier's, secretary's, or Treasurer's checks on own bank outstanding.
- (d) Certified checks outstanding.

Over the total of -

- (e) Balances due from banks other than Federal Reserve Bank and foreign banks.
- (f) Items with Federal Reserve Bank in process of collection.
- (g) Exchanges for clearing house.
- (h) Checks on other banks in same place.

NOTE: In case the sum of items (e) to (h) inclusive is in excess of the sum of items (a) to (d), disregard items (a) to (h) in making up total net demand deposits.

7. Time deposits

All deposits payable after 30 days, all savings deposit accounts and certificates of deposit subject to not less than 30 days notice, and all postal savings deposits.

_____, Cashier,
_____, Bank.

Note: This report should be mailed to the Federal Reserve Bank on Thursday morning of each week.

FEDERAL RESERVE BOARD

WASHINGTON

December 4, 1922.
St.3193-k

SUBJECT: Preparation of Federal Reserve
Agents Annual Reports.

Dear Sir:

There is attached hereto a copy of the Board's letter St.3193 dated December 4, 1922, on the above subject.

With the exception of Schedule 8 - Principal Assets and Liabilities of Reporting Member Banks in Leading Cities as of the Last Report Date in the Month - the Board will prepare schedules for your district in the same form as those attached to the above mentioned letter. Schedule 8 will be modified, so far as your district is concerned, so as to show separate figures of Loans and Discounts secured by stocks and bonds, in addition to the other items; also separate figures, by months, for reporting member banks in the Federal reserve bank city, in addition to the figures for the district as a whole.

Kindly advise the Board whether or not you desire a plate of the chart referred to in the last paragraph of the attached letter.

Very truly yours,

Wm. W. Hoxton,
Secretary.

Enclosure

Letter to F. R. Agents at New York and Chicago.

FEDERAL RESERVE BOARD

WASHINGTON

December 4, 1922.
St. 3193.

SUBJECT: Preparation of Federal Reserve
Agents Annual Reports.

Dear Sir:

With reference to the Board's letter X-3558 dated November 8, 1922 on the above subject, there are enclosed herewith outlines of nine schedules which are to be published for each district in Part II of the forthcoming 1922 annual report of the Federal Reserve Board. Copies of these schedules will be forwarded to your bank as soon after January 1, 1923, as practicable, for comparison with similar data that may have been compiled by your bank.

Only one chart for each district will be printed in this section of the report. This chart will be in substantially the same form as those printed in the 1921 annual report and will reflect changes from week to week during 1920, 1921 and 1922 in the following items:

- (a) Bills discounted for own member banks.
- (b) Purchased bills.
- (c) United States securities.
- (d) F. R. note circulation.

Heretofore it has been the Board's policy to have two plates made of each chart, one for its own use and one for the use of the Reserve Bank. It will be appreciated, therefore, if you will kindly advise us at your early convenience whether you desire the Board to have an additional plate made for use in this year's annual report of your bank.

By order of the Federal Reserve Board,

Yours very truly,

Wm. W. Hoxton,
Secretary.

Enclosure.

Letter to be sent to all Federal Reserve Agents
except New York and Chicago.

FEDERAL RESERVE BOARD

WASHINGTON

December 11, 1922.
St. 3216.

SUBJECT: Reports of Earnings, Expenses,
Dividends, and Franchise Tax
Payments for 1922.

Dear Sir:

In order that the Board may have information regarding the financial results of operations of Federal reserve banks during the present calendar year as soon as practicable after January 1, it is requested that a statement be telegraphed the Board on Tuesday morning, January 2, 1923, showing the following information:

<u>(Code)</u>			
EACH	- Gross earnings	\$	_____
EADS	- Current expenses		_____
EARN	- Current net earnings.....	\$	_____
ELBA	- Additions to Current Net Earnings....		_____
ENID	- Deductions from Current Net earnings. _____		
	Net additions to or deductions		
	from current net earnings.....		_____
EAST	- Net earnings available for dividends, franchise tax, and surplus		=====
EYRE	- Dividends paid		_____
EMET	- Paid to Government as a franchise tax (for 1922 only).....		_____
EVEN	- Transferred to surplus account		_____
	Total (to agree with item EAST).....		=====
CAPE	- Subscribed capital January 1, 1923.....		_____
CEDE	- Surplus January 1, 1923.....		_____

The cost of Furniture and equipment during 1922 should be included with deductions from current earnings (code ENID) in accordance with the general instructions governing the preparation of earnings and expense reports issued by the Federal Reserve Board under date of June 20, 1921, instead of being charged to current expenses as has been the custom in prior years.

It is also requested that the regular monthly reports of earnings and expenses on forms 95, 96, 97, and 97-a be accompanied with an itemized statement showing in detail all additions to and deductions from current net earnings (Profit and Loss account) during the year, and that in addition to the regular balance sheet form 34 for the last day of the year representing the condition of the bank after final closing of the books, a form 34 be submitted showing the condition of the bank at close of business but prior to the making of any profit and loss account entries.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

LETTER TO BE SENT TO THE GOVERNOR
AT EACH FEDERAL RESERVE BANK.

FEDERAL RESERVE BOARD

WASHINGTON

December 15, 1922.
St.3232.

SUBJECT: Condition Reports of State Bank
and Trust Company Members, Form 105.

Dear Sir:

There are being forwarded to you today under separate cover by registered mail copies of Form 105 revised as of December 5, 1922. Please mail three copies of the form to each state bank and trust company member in your district with instructions to hold the blank forms pending receipt of a call for condition reports, when they should be promptly filled out and two copies mailed to you - in no case later than 10 days after receipt of the call.

It will be noted that the revised form shows a new schedule on the reverse side calling for rates of interest paid or credited on deposits. The schedule of U. S. securities has been revised to show three classes of U. S. bonds, viz., pre-war bonds, Liberty bonds, and Treasury bonds.

In order that the compilation of the Board's abstract showing the condition of all state bank and trust company members combined as of the date of the next call may not be unduly delayed, it will be appreciated if the reports are forwarded to the Board as soon as practicable after they are received by the F. R. bank. Special effort should be made to see that all the reports reach the Board within 20 days after date of call.

Very truly yours,

Walter L. Eddy,
Assistant Secretary.

To all F. R. Agents.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

December 20, 1922.
St. 3241.

SUBJECT: Revised Forms 44-a and St. 92-a
for use during 1923.

Dear Sir:

There are enclosed herewith 50 copies of Form 44-a - "Classification of money held by the Federal reserve bank....," and 50 copies of revised Form St. 92-a - "Condensed statement of condition of the Federal reserve bank," which have been revised in order to conform to the 1923 edition of Federal reserve bank balance sheet Form 34.

It is requested that the first report on revised Form 44-a be submitted as of January 31, 1923, and that the first TEND telegram in the form outlined on revised form St. 92-a be dispatched as at close of business on January 2, 1923.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Enclosure.

Letter to Governors at all F. R. Banks.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

December 21, 1922.
St. 3242.

SUBJECT: Earnings and Dividends reports
of State Bank and Trust Company
members as of December 31, 1922.

Dear Sir:

There are being forwarded to you today under separate cover by registered mail copies of form 107 for use of State bank and Trust company members in submitting their semi-annual reports of earnings and dividends.

Please advise the banks that the report is to cover the six-month period ending December 31, 1922, irrespective of whether or not they may have closed their books on that date, or whether any dividends that may have been declared cover that particular period.

The report should be submitted to you in duplicate within ten days after receipt of the blank forms by reporting banks.

Kindly acknowledge receipt.

Very truly yours,

Walter L. Eddy,
Assistant Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

December 23, 1922.
St. 3249.

SUBJECT: Volume of Work handled by
Federal Reserve Banks.

Dear Sir:

There seems to be a more or less general impression that the amount of work handled by the Federal reserve banks is measured to a large extent by the volume of bills discounted for member banks and by the amount of Fiscal Agency work handled for the U. S. Treasury. As there has been a decided drop in the amount of bills discounted for member banks, and as the work of the Fiscal Agency Departments has also fallen off somewhat, it has been assumed that the operating expenses of the banks should have shown a very material decrease.

With the view of presenting in the forthcoming annual report a clear picture of the growth in the work connected with the services performed for member banks not only in the discount departments but also in the other principal departments of the bank, and of showing the volume of U. S. securities handled in the Fiscal Agency departments, may we request that you furnish the Board with a statement at the earliest practicable date after January 1 showing the following information for the calendar years 1920, 1921, and 1922:

- | | Number of | <u>pieces</u> | <u>Amount</u> |
|--|-----------|---------------|---------------|
| 1. Discounted and Purchased Bills: | | | |
| (a) Notes discounted or redis- | | | |
| counted for member banks..... | | | |
| (b) Bills bought in open market... | | | |
| 2. Currency and Coin: | | | |
| (a) Bills received and counted.... | | | |
| (b) Coin received and counted..... | | | |
| 3. Checks handled | | | |
| 4. Collection items handled | | | |
| 5. Transfers of funds including trans- | | | |
| fers for account 5 per cent fund | | | |
| of National banks | | | |
| 6. U. S. Government coupons paid | | | |

Number of
pieces Amount

7. Fiscal Agency:

- (a) U. S. securities issued, re-
deemed, canceled or exchanged..
- (b) U. S. securities received from
U. S. Treasury
- (c) U. S. securities returned to
U. S. Treasury

In the preparation of the report, it is requested that the manual of instructions governing the preparation of functional expense reports be followed in determining the number of pieces or units handled.

Very truly yours,

Walter L. Eddy,
Assistant Secretary.

LETTER TO BE SENT TO ALL CHAIRMEN.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

December 26, 1922.
St. 3250.

SUBJECT: Data for 1922 Annual Report
of the Federal Reserve Board.

Dear Sir:

For use in the forthcoming annual report of the Federal Reserve Board, it is requested that you kindly furnish the Board as soon after January 1, 1923 as practicable with the following data:

1. Detailed statement relating to U. S. securities held by your bank as at close of business December 30, 1922, showing character of securities, interest rate, maturity date, and par value.
2. Statement showing the number of member banks in each State (or part of State in the district) accommodated through the discount of paper during the calendar year 1922.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Letter to Governor
at each Federal Reserve Bank.