

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING JANUARY 5, 1923.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

<u>DISTRICT NO. 12.</u>	<u>Capital</u>	<u>Surplus</u>	<u>Total Resources</u>
Union Trust Company, San Francisco, Calif.	\$1,200,000	\$1,975,000	\$39,903,541

CONVERTED INTO NATIONAL BANKS:

American Savings Bank, Pontiac, Michigan.
Alpine State Bank, Alpine, Texas.
Puget Sound Bank and Trust Company, Tacoma, Washington.
First State Bank, De Kalb, Texas.

CHANGE OF NAME

The Trust Company of Georgia, Atlanta, Georgia, has changed
its name to Lowry Bank and Trust Company of Atlanta.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

National Union Bank of Monticello, Monticello, New York,
Commercial National Bank of Columbus, Columbus, Ohio.
First National Bank of Ford City, Ford City, Pennsylvania.
Citizens National Bank of Vandergrift, Vandergrift, Penna.
United States National Bank of Indiana Harbor at East Chicago
Indiana Harbor, Indiana.
Forest City National Bank of Rockford, Rockford, Illinois.
Lumbermen's National Bank of Chippewa Falls, Chippewa Falls, Wis.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING JANUARY 12, 1923.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

<u>DISTRICT NO. 2.</u>	<u>Capital</u>	<u>Surplus</u>	<u>Total Resources</u>
Irving Bank of New York, New York, N. Y.	\$12,500,000	\$9,500,000	\$306,140,206

WITHDRAWAL:

The Security State Bank, Ponca City, Oklahoma.

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

Irving Bank of New York, New York, N. Y.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

The First National Bank of State College, Penna.
District National Bank of Washington, Washington, D. C.
The American National Bank of Dayton, Dayton, Ohio.

FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING JANUARY 19, 1923.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total Resources</u>
<u>DISTRICT NO. 2.</u>			
Fort Lee Trust Company, Fort Lee, N. J.	\$100,000	\$20,000	\$130,000

DISTRICT NO. 3.

Oxford Bank & Trust Company, Philadelphia, Penna.	250,000	100,000	3,826,595
(Succeeding the Oxford Bank of Frankford)			

CHANGE OF NAME:

The Dallas County State Bank, Dallas, Texas,
to the
Mercantile Bank & Trust Company, Dallas, Texas.

BANKS CLOSED:

The Evart State Bank,	Evart, Michigan.
Edgar State Bank,	Edgar, Montana.
Hardin State Bank,	Hardin, Montana.

RECHARTERED:

The Oxford Bank of Frankford, Philadelphia, Penna., a member institution, has been rechartered under the name "Oxford Bank & Trust Company", and the new organization admitted to membership.

MERGERS:

The Industrial Bank of New York, N. Y., a member bank, has merged with the Manufacturers Trust Company of Brooklyn, N. Y., also a member, under the name of the latter.

The Ocean Park Bank, Ocean Park, Santa Monica, Calif., and the Community Bank of Whittier, Calif., member banks, have merged with the Pacific Southwest Trust & Savings Bank, Los Angeles, Calif., also a member.

CONVERTED INTO NATIONAL BANKS:

The Cordell State Bank, Cordell, Okla.
The Oklahoma State Bank, Cordell, Okla.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING JANUARY 26, 1923.ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total Resources</u>
<u>DISTRICT NO. 8.</u>			
North St. Louis Trust Co., St. Louis, Mo.	\$200,000	\$40,000	\$2,795,295

VOLUNTARY LIQUIDATION:

The Bank of Southern Wisconsin, Janesville, Wis.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

The Ocean Grove National Bank, Ocean Grove, N. J.
 The Union National Bank of Wilmington, Del.
 The Hanch Chunk National Bank, Hanch Chunk, Penna.
 Alliance First National Bank, Alliance, Ohio.
 The First National Bank of Toledo, Ohio.
 The Farmers National Bank of Salem, Va.
 The First National Bank of Elberton, Ga.
 The Puget Sound National Bank of Tacoma, Wash.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING FEBRUARY 2, 1923.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

None admitted.

CHANGE OF NAME:

American-Liberty Bank & Trust Co., New Orleans, La., to
American Bank & Trust Co.
Ogden Savings Bank, Ogden, Utah, to
First Utah Savings Bank of Ogden.
Union & Mercantile Trust Co., Little Rock, Ark., to
Union Trust Company.

CONVERTED INTO NATIONAL BANK:

First Guaranty State Bank, Quanah, Texas.

VOLUNTARY LIQUIDATION:

Farmers & Merchants Bank, Hartwell, Ga.

CONSOLIDATIONS:

The Bank of Fergus County, Lewistown, Mont., has merged
into the First National Bank of Fergus County, Lewistown, Mont.
The Commercial Trust & Savings Bank, Memphis, Tenn., has
consolidated with the Bank of Commerce & Trust Co., Memphis,
Tenn., a member, under the name of the latter.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

The Commercial National Bank of Bradford, Penna.
The First National Bank of Highland, Ill.
The First National Bank of Stockton, Calif.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING FEBRUARY 9, 1923.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total Resources</u>
<u>DISTRICT NO. 10.</u>			
The Farmers Reserve State Bank, St. Marys, Kansas.	\$25,000	\$5,000	\$193,305

INSOLVENT:

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

CONVERTED INTO NATIONAL BANK:

Gillespie Trust & Savings Bank, Gillespie, Ill.

VOLUNTARY LIQUIDATION:

North American Bank, Minneapolis, Minn.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

Hackettstown National Bank,	Hackettstown, N. J.
Union Trust & National Bank of Hudson County,	Jersey City, N. J.
Third National Bank,	Ashland, Ky.
Georgetown National Bank,	Georgetown, Ky.
Citizens' National Bank,	Lebanon, Ohio.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING FEBRUARY 16, 1923.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total Resources</u>
<u>DISTRICT NO. 8.</u>			
Bremen Bank, St. Louis, Mo.	\$200,000	\$500,000	\$6,466,907

BANK CLOSED:

Citizens State Bank, Roundup, Montana.

WITHDRAWAL:

Merchants & Traders State Bank, Chicago, Ill.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

The National Freehold Banking Co., Freehold, N. J.
The National Exchange Bank of Baltimore, Md.
The First National Bank of Bicknell, Ind.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING FEBRUARY 23, 1923.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total Resources</u>
<u>DISTRICT NO. 8.</u>			
Citizens Bank of Maplewood, Maplewood, Missouri.	\$100,000	\$12,500	\$596,182
Natural Bridge Bank, St. Louis, Mo.	200,000	40,000	1,045,491

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

The Yonkers National Bank, Yonkers, N. Y.
The Central National Bank, York, Penna.
The Lincoln National Bank, Lincoln, Ill.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING MARCH 2, 1923.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total Resources</u>
<u>DISTRICT NO. 8.</u>			
Citizens Savings Bank, Cabool, Mo.	\$ 25,000	\$ 5,000	\$388,476

CONSOLIDATION:

The Irving Bank of New York and the Columbia Trust Co. of New York, both member institutions, have consolidated under the name "Irving Bank-Columbia Trust Co."

CONVERTED INTO NATIONAL BANK:

Farmers & Commercial Savings Bank, Clayton, Mo.

REORGANIZATION:

The Citizens Bank of Cabool, Cabool, Missouri, has been reorganized and rechartered under the name of the Citizens Savings Bank of Cabool, and admitted to membership.

REOPENED:

The Evart State Bank, Evart, Michigan.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

The National Bank of Commerce of Asheville, N. C.
The Kanawha National Bank of Charleston, W. Va.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING MARCH 9, 1923.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

None admitted.

CONSOLIDATION:

The Commercial Bank of San Luis Obispo, Calif., has consolidated with the Pacific Southwest Trust & Savings Bank, Los Angeles, Calif.

CONVERTED INTO NATIONAL BANK:

The First State Bank of Stigler, Oklahoma.

TAKEN OVER BY NATIONAL BANK:

The Jefferson State Bank, Menan, Idaho, has been taken over by the First National Bank of Rigby, Idaho.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

The Peoples National Bank of Lynbrook, N. Y.
The First National Bank of Owego, N. Y.
The Union National Bank of Schenectady, N. Y.
The First National Bank of Honeybrook, Pa.
The Citizens' National Bank of Meyersdale, Pa.
The First National Bank of Amboy, Ill.
The Security National Bank of Sioux City, Iowa.
The American National Bank of Benton Harbor, Mich.
The Marshall National Bank of Unionville, Mo.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING MARCH 16, 1923.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total Resources</u>
<u>DISTRICT NO. 4.</u>			
The Pearl-Market Bank, Cincinnati, Ohio.	\$400,000	\$200,000	\$7,327,501
<u>DISTRICT NO. 5.</u>			
The Hardy County Bank, Moorefield, W. Va.	50,000	1,850	146,615
<u>DISTRICT NO. 8.</u>			
Webster Groves Trust Co., Webster Groves, Mo.	100,000	25,000	1,380,010
First State Bank, Palmyra, Ill.	25,000	25,000	191,738
<u>DISTRICT NO. 11.</u>			
First State Bank, Sylvester, Texas.	50,000	800	160,213

WITHDRAWAL:

The First State Bank, Prescott, Arkansas.

CLOSED:

Walton County Bank, Social Circle, Ga.
The First State Bank, Malone, Texas.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

The Union National Bank, Souderton, Penna.
The First National Bank, Parkersburg, W. Va.
The People's National Bank, Rushville, Ind.
The Trademans National Bank, Oklahoma City, Okla.
The Colorado National Bank, Colorado, Texas.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING MARCH 23, 1923.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

<u>DISTRICT NO. 8.</u>	<u>Capital</u>	<u>Surplus</u>	<u>Total Resources</u>
Citizens Bank, Gillett, Arkansas.	25,000	2,500	27,500

WITHDRAWALS:

Bank of Independence, Independence, Kentucky.
State Bank of Wayne, Wayne, Nebraska.

CONVERTED INTO NATIONAL BANK

Federal Trust Company of Boston, Massachusetts.

CLOSED:

First Savings Bank of Sutherland, Iowa.
Eden State Bank, Eden, Idaho.

CHANGE OF NAME:

Susquehanna Trust & Safe Deposit Co., Williamsport, Pa.
to the
Susquehanna Trust Company, Williamsport, Pa.

CHANGE OF NAME AND LOCATION:

Sacramento-San Joaquin Bank, Sacramento, California
to the
United Bank & Trust Company of California, San Francisco, Cal.

PERMISSION GRANTED TO EXERCISE TRUST POWERS

The Owego National Bank, Owego, New York.
The Citizens National Bank of Caldwell, Caldwell, New Jersey.
The First National Bank of Salisbury, North Carolina.
The First National Bank of Dillon, Dillon, Montana.
The Citizens National Bank of Albuquerque, New Mexico.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING MARCH 30, 1923

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total Resources</u>
<u>DISTRICT NO. 2.</u>			
The Watsessing Bank, Bloomfield, N. J.	\$100,000	\$100,000	\$1,965,810
<u>DISTRICT NO. 3.</u>			
Peoples Trust Co., Philadelphia, Pa.	634,450	100,000	3,399,895
<u>DISTRICT NO. 6.</u>			
Bank of Commerce, Tampa, Florida.	200,000	40,000	1,376,154

CLOSED:

First State Bank of Clyde Park, Clyde Park, Mont.

CONVERTED INTO NATIONAL BANK:

The Trust Company of Orange, Orange, N. J.

WITHDRAWAL:

The Penelope State Bank, Penelope, Texas.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

The First National Bank, Somerset, Ky.
The City National Bank, Evanston, Ill.
The First National Bank, Mancos, Colo.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING APRIL 6, 1923.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total Resources</u>
<u>DISTRICT NO. 11.</u>			
First State Bank, Abernathy, Texas.	\$25,000	\$5,000	\$231,915

CONVERTED INTO NATIONAL BANK:

The Southwest State Bank, Wichita, Kansas.

TAKEN OVER BY NATIONAL BANK:

The Bank of Eufaula, Eufaula, Alabama.

WITHDRAWAL:

State Savings Bank & Trust Co., Moline, Illinois.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

The Brick Church National Bank, Orange, N. J.
The National Bank of Long Beach, Long Beach, N. Y.
The Citizens National Bank, Sycamore, Ill.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING APRIL 13, 1923

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total Resources</u>
<u>DISTRICT NO. 2.</u>			
Long Branch Banking Co., Long Branch, N. J.	\$150,000	\$100,000	\$2,418,711
<u>DISTRICT NO. 4.</u>			
Farmers State Bank, Lyons, Ohio.	25,000	2,000	203,172
<u>DISTRICT NO. 11.</u>			
First State Bank, Idalou, Texas.	25,000	-	156,669

CHANGES OF NAME:

Commercial Trust Co., Philadelphia, Pa., to Bank of North America and Trust Co.
Morton Park State Bank, Cicero, Ill., to Cicero Trust and Savings Bank.

CONSOLIDATION:

The Merchants Loan & Trust Co., Chicago, Ill., and the Illinois Trust & Savings Bank, Chicago, Ill., have consolidated under the name of Illinois Merchants Trust Co.

WITHDRAWALS:

Moline Trust & Savings Bank, Moline, Ill.
Peoples Savings Bank & Trust Co., Moline, Ill.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

The Rockville National Bank, Rockville, Conn.
The Carlstadt National Bank, Carlstadt, N. J.
The First National Bank, Middletown, N. Y.
The National Bank of North Philadelphia, Philadelphia, Penna.
The Pennsylvania National Bank, Chester, Penna.
The American National Bank, Little Falls, Minn.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING APRIL 28, 1923.

ADMITTED TO THE FEDERAL RESERVE SYSTEM

	<u>Capital</u>	<u>Surplus</u>	<u>Total Resources</u>
<u>DISTRICT NO. 2</u>			
Amherst Bank Williamsville, N. Y.	\$50,000	\$15,000	\$65,000
<u>DISTRICT NO. 11</u>			
First State Bank, Rochester, Texas	25,000	6,000	305,769

WITHDRAWAL

Polk County Trust Company, Lakeland, Florida.

REOPENED

Edgar State Bank, Edgar, Montana.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

The Clement National Bank of Rutland, Vt.
 Bergen National Bank of Jersey City, Jersey City, N. J.
 The First National Bank of Summit, Summit, N. J.
 The State of New York National Bank, Kingston, N. Y.
 The Second National Bank of Parkersburg, Parkersburg, W. Va.
 The First National Bank of Santa Ana, Santa Ana, California.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING APRIL 27, 1923

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total Resources</u>
<u>DISTRICT NO. 1.</u>			
Union Trust Co., Ellsworth, Maine.	\$100,000	\$100,000	\$2,506,858
<u>DISTRICT NO. 6.</u>			
Evangeline Bank & Trust Co., Ville Platte, La.	75,000	37,500	764,272
<u>DISTRICT NO. 8.</u>			
Grant State Bank, St. Louis, Mo.	200,000	50,000	674,413
<u>DISTRICT NO. 12.</u>			
Yakima Trust Co., Yakima, Wash.	200,000	50,000	1,692,490

CONSOLIDATION:

The Security State Bank, Dillon, Mont., and the Beaverhead State Bank, Dillon, Mont., both member institutions, have consolidated.

INSOLVENT:

The First State Bank of Malone, Malone, Texas.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

Federal National Bank, Boston, Mass.
First National Bank, Utica, N. Y.
The National Bank of Cynthiana, Cynthiana, Ky.
Knox National Bank, Mount Vernon, Ohio.
First and Peoples National Bank, Gallatin, Tenn.
The National Bank of Rising Sun, Rising Sun, Md.
Union National Bank, Houston, Texas.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING MAY 4, 1923:

ADMITTED TO THE FEDERAL RESERVE SYSTEM

	<u>Capital</u>	<u>Surplus</u>	<u>Total Resources</u>
<u>DISTRICT NO. 11.</u>			
Slaton State Bank, Slaton, Texas.	\$25,000	\$10,000	\$453,193

CONVERTED INTO NATIONAL BANK

State Bank of Lebanon, Lebanon, Illinois.

VOLUNTARY LIQUIDATION

Lewistown State Bank, Lewistown, Montana.
Consolidation with Empire Bank and Trust Company of
Lewistown, a member institution.

WITHDRAWALS:

Metropolitan Trust Company, Boston, Mass.
Habersham Bank, Clarkesville, Georgia.

CONSOLIDATION:

The Depositors Savings & Trust Company of Akron,
Ohio and the Citizens Bank of Cuyahoga Falls, Ohio, both
member institutions, have consolidated.

BANK CLOSED

The Banking Corporation of Montana, Helena, Mont.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

The First National Bank of Columbus, Columbus, Ind.
The Globe National Bank of Denver, Denver, Colo.

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

The Citizens National Bank of Boston, Mass.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING MAY 11, 1923.

ADMITTED TO THE FEDERAL RESERVE SYSTEM

<u>DISTRICT NO. 2.</u>	<u>Capital</u>	<u>Surplus</u>	<u>Total Resources</u>
Importers and Traders Bank of New York, New York, N. Y.	\$1,500,000	\$7,000,000	\$46,773,377

CHANGE OF NAME

Peoples Savings and Dime Bank, Scranton, Pa.,
to the
Peoples-Savings and Dime Bank and Trust Co.,
Scranton, Pa.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

The Old Colony National Bank of Plymouth, Mass.
The Ocean County National Bank of Point Pleasant Beach,
Point Pleasant Beach, N. J.
The First National Bank of Canonsburg, Canonsburg, Pa.
The First National Bank of Fleetwood, Fleetwood, Pa.
The First National Bank of Davenport, Davenport, Iowa.
The First National Bank of Bethlehem, Bethlehem, Pa.
The Olympia National Bank, Olympia, Washington.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING MAY 18, 1923

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total Resources</u>
<u>DISTRICT NO. 2.</u>			
The Amalgamated Bank, New York, N. Y.	\$200,000	\$ 75,000	\$275,000

DISTRICT NO. 11.

First State Bank, Taft, Texas.	25,000	6,250	31,250
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CHANGE OF NAME:

The Citizens American Bank & Trust Co., Tampa, Fla.,
to the
Citizens Bank and Trust Company, Tampa, Fla.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

The Merchants National Bank of Hampton, Va.
The Central National Bank of Attica, Ind.
The American National Bank of Wausau, Wisc.
The National Bank of Washington, D. C. (Supplemental)

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING MAY 25, 1923

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

None admitted.

CLOSED:

State Savings Bank, Logan, Iowa.

CONVERTED INTO NATIONAL BANK:

The Commonwealth Trust Co., Boston, Mass.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

The Commonwealth National Bank of Boston, Mass.
Broadway National Bank of Nashville, Tenn. (Supplemental)
The City National Bank of Tipton, Iowa.
The First National Bank of Italy, Texas.
The Crocker National Bank, San Francisco, Calif.
The Peninsula National Bank of Portland, Ore.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING JUNE 1, 1923.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

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

Bank of Smithtown,			
Smithtown Branch, N. Y.	\$50,000	\$25,000	\$882,742

CONVERTED INTO NATIONAL BANK:

First State Bank, Leonard, Texas.

CLOSED:

Capital City Bank, Santa Fe, New Mexico.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

The First National Bank of New Canaan, Conn.
The Mohawk National Bank of Schenectady, N. Y.
The Sycamore National Bank, Sycamore, Ill.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING JUNE 8, 1923.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total Resources</u>
<u>DISTRICT NO. 10.</u>			

The Sedan State Bank, Sedan, Kansas.	\$30,000	\$50,000	\$463,224
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CONVERTED INTO NATIONAL BANK:

The Merchants & Miners State Bank, Ironwood, Mich.

CHANGE OF NAME:

The Citizens Bank, Pocatello, Idaho, to Citizens Bank
and Trust Company, Pocatello, Idaho.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

The National Bank of Middlesboro, Middlesboro, Ky.
The First National Bank of Pierce City, Pierce City, Mo.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING JUNE 15, 1923.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total Resources</u>
<u>DISTRICT NO. 3.</u>			
Guardian Trust Company of York, Pa.	\$300,000	\$225,000	\$2,381,272

CONVERTED INTO NATIONAL BANK

International Trust Company, Boston, Massachusetts.

VOLUNTARY LIQUIDATION:

Farmers State Bank, Coulee City, Washington.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

The Peoples National Bank of Laconia, Laconia, N. H.
The First National Bank of Houtzdale, Houtzdale, Pa.
The Drivers and Merchants National Bank of Philadelphia, Pa.
The Fairfield National Bank of Lancaster, Lancaster, Ohio.
The First National Bank of Fayetteville, Fayetteville, Tenn.
The American National Bank of Pontiac, Pontiac, Mich.
The First National Bank of Lawrenceville, Lawrenceville, Ill.
The Farmers National Bank of Wadesville, Wadesville, Ind.
The Citizens Union National Bank of Louisville, Louisville, Ky.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING JUNE 22, 1923.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total Resources</u>
<u>DISTRICT NO. 6.</u>			
Bank of Elberton, Elberton, Ga.	\$100,000	\$25,000	\$631,962
<u>DISTRICT NO. 7.</u>			
Twenty-sixth Street State Bank, Chicago, Ill.	200,000	30,000	1,864,576

CONVERTED INTO NATIONAL BANK

The Citizens Bank of Renton, Renton, Washington.

PERMISSION GRANTED TO EXERCISE TRUST POWERS

The Second National Bank of Brownsville, Penna.
The First National Bank of Cleveland, Okla.
The Alamo National Bank of San Antonio, Texas.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING JUNE 29, 1923.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total Resources</u>
<u>DISTRICT NO. 7.</u>			
Brown City Savings Bank, Brown City, Michigan.	\$40,000	\$ 8,000	\$660,623

INSOLVENT:

The Banking Corporation of Montana, Helena, Mont.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

The National Bank of Chambersburg, Chambersburg, Pa.
The First National Bank of Crawfordsville, Ind.

FEDERAL RESERVE BOARD

WASHINGTON

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X-3603

January 2, 1923.

SUBJECT: Administration of the Clayton Act.

Dear Sir:

In the Fall of 1920, when it contemplated reviewing the Clayton Act situation, the Federal Reserve Board addressed a letter to each Federal Reserve Agent, under date of November 22, 1920, requesting him to make a general survey of the situation in his district and to report to the Board all cases where there was a possibility that the banks involved in interlocking directorates covered by existing permits had come into substantial competition since the granting of such permits.

In order to provide a uniform basis for the proposed review of the Clayton Act situation, it was deemed advisable to suggest some sort of a test by which it might be determined whether or not any two banks were in substantial competition. After a thorough study of the entire subject had been made, the Board adopted the following statement, which was incorporated in the above mentioned letter:

"In the opinion of the Board, if two banks are generally engaged in the same character of business and are so situated as to appeal to the same customers or would-be customers, they must be deemed to be in substantial competition within the meaning of the Kern Amendment, regardless of whether or not it is probable or possible that an interlocking directorate between the banks would result in injury to the public by making credit less available, and regardless of the relation of the volume of business transacted by the banks to the total volume of the banking business transacted in that community."

That statement was not intended to be a rigid and inflexible definition of the term "substantial competition", however, and has not been applied literally by the Board in cases where it would lead to absurd results. Thus, where two banks were found to be generally engaged in the same class of business and to be so situated as to appeal to the same customers or

would-be customers, they were held not to be in substantial competition where it was also found that actual competition between them had been eliminated by common ownership of stock or where it was found that as a matter of fact they served different classes of customers. In such cases they might be deemed to be in theoretical or fanciful competition, but not in actual or substantial competition.

As you know, the proposed review of the Clayton Act situation was deferred, but the above statement of what the Board conceived to be the proper meaning of substantial competition has served as a guide to Federal Reserve Agents in making investigations and reports of cases where the Board's permission for interlocking directorates has been applied for.

The Board has recently reviewed this question again and has reached the conclusion that, while the above statement of the meaning of substantial competition is essentially correct in principle, it is not sufficiently capable of easy and uniform application to the widely varying facts which are inevitably encountered in the administration of the Clayton Act. The Board has accordingly adopted the following new statement of general principles for the guidance of the Federal Reserve Agents as well as the Board itself in determining whether banks are in substantial competition within the meaning of the Kern Amendment to the Clayton Act:

"In general, two banks will be deemed to be in substantial competition if they actually compete for a considerable amount of business, i.e., if a considerable portion of the business of each is of the same character and in doing or seeking such business they actually compete for the same customers or prospective customers, regardless of whether or not it is probable or possible that an interlocking directorate between them would result in injury to the public by making credit less available. If the statements of two banks show that each has a considerable amount of the same class of deposits or loans and it appears from the evidence submitted that they are so located as to be in a position to serve the same customers conveniently, the Board will presume, in the absence of evidence to the contrary, that they are in substantial competition. This presumption may be rebutted, however, by any evidence showing that they are not actually competing for such business, e. g., that they actually serve different classes of customers, that the business in question is not actually sought by one bank but is merely incidental to its other business, or that competition has already been eliminated through common stock ownership. The existence of substantial competition, however, may be shown by evidence other than that described above."

This is not intended as a precise definition of the term "substantial competition" but merely as a broad statement of the general principles which will be observed by the Federal Reserve Board in determining whether banks are in substantial competition; and it must be remembered that, "Whether or not 'substantial competition' exists between banks controlled by the act involves investigation and consideration of matters of fact and the decision in each case must of necessity turn upon the particular facts affecting it".

As a result of its recent study of this subject, the Board has also decided to adopt a slightly different procedure in acting upon applications under the Kern Amendment. The present practice is to approve or refuse an application on the basis of the evidence originally submitted; and when an application is refused the Board notifies the applicant that his application has been refused but that it will grant him a re-hearing, if he so desires, at which he may submit additional evidence or arguments tending to show that the banks involved are not in substantial competition. This must seem to the applicant to be a rather arbitrary and harsh procedure. Furthermore, it commits the Board to a decision which it may have to reverse after considering additional arguments and evidence. It is obvious that most applicants do not realize exactly what they are trying to prove but feel that in filling out the forms they are merely complying with "governmental red tape", the result being that they frequently fail to submit very important evidence favorable to their applications. The Board recently adopted new forms of applications and statements which were designed to correct this situation to some extent; but it is believed that a slightly different procedure, by which the applicant would be advised of the deficiency in his arguments and evidence and would be given an opportunity to submit additional arguments and evidence before any final decision is made as to his application, would be helpful. The Board has decided, therefore, that whenever it appears from the evidence submitted with an application that the banks involved are in substantial competition it will, before taking final action on such application, address a letter to the applicant explaining the situation and inviting him to submit any additional facts or arguments tending to prove that the banks involved are not in substantial competition.

The Board believes, however, that much of this supplemental investigation can be avoided if Federal Reserve Agents will see to it that all applications are completely and intelligently filled out before being forwarded to the Board. You are requested, therefore, to scrutinize carefully all Clayton Act applications passing through your hands, to see that they are complete and in order, and in cases where it seems advisable, to

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acquaint the applicant with the purpose and necessity of the application so that he will fill it out intelligently and in such detail as to inform the Board of all the facts in the case.

For your further confidential information, the Board has also had under consideration the question of what policy it should adopt as to revoking Clayton Act permits heretofore granted, particularly in cases where the banks involved have come into substantial competition since the time when permission was granted to serve them. With regard to this question, the Board is advised by Counsel that it is not required by law to revoke any such permits, but that the power to revoke them is discretionary. After careful study, the Board has decided not to revoke permits in cases where the interlocking directorates have resulted in the growth of competition between the banks involved. It is true that in such cases the Board has no power to permit additional common directors between the banks involved; but the Board does not feel that the apparent discrimination resulting from this lack of power is of sufficient gravity to warrant it in penalizing directors who have permitted their banks to come into substantial competition and have thus acted in harmony with the spirit and purpose of the law. The Board, however, is ready to consider the revocation of permits in cases where existing interlocking directorates have had the effect of lessening or stifling competition between banks which, but for the common directorate, would freely compete, and you are requested to report all such cases to the Board in full detail.

By order of the Federal Reserve Board.

To all Federal Reserve Agents.

Wm. W. Hoxton,
Secretary.

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

STATEMENT FOR THE PRESS.

X-3604.

For release in afternoon papers,
Friday, January 5, 1923.

CONDITION OF THE ACCEPTANCE MARKET

NOVEMBER 15 to DECEMBER 15, 1922.

According to the reports received by the Federal Reserve Board from the Federal Reserve Banks in the various Districts, the acceptance market during the period under review, for the most part, remained steady, with the demand continuing fairly good. Rates continued relatively constant at the levels reached during the preceding period.

In District No. 2 (New York) the supply of bills was well maintained throughout the period and the demand was sufficient to absorb the offerings. Dealers' average weekly purchases amounted to 36 million as compared with 37 million during the preceding period. District No. 1 (Boston) reports a decline in offerings. Sales were particularly slow until about December 1, with country banks selling rather than buying. In the last half of the period scattered buying was again in evidence.

In District No. 3 (Philadelphia) there continued to be a fair supply of bills coming into the market and the demand from both local and out-of-town banks was fairly active. Districts No. 7 (Chicago) and No. 4 (Cleveland) report that the market has remained practically stationary during the period under review. District No. 8 (St. Louis) reports the supply of bills as scarce with a small demand, whereas District No. 10

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(Kansas City) also reports a limited supply which, however, was accompanied by a good demand. In District No. 12 (San Francisco) the demand continued brisk from all sources until about the first of December when city banks generally ceased purchasing, and after which date the market became dull. At the close of the period the demand and supply were about equal.

In District No. 2 (New York) the bulk of acceptances were based upon the following commodities, in order of their importance, coffee, cotton, grain, dollar exchange, and sugar. In addition bills were executed in other Districts against meats, hides and skins, wool, raisins, corn, silk, oils, tobacco, agricultural implements, and flour.

District No. 2 (New York) reports the best demand for short bills which moved exceedingly easy throughout the period. Preference was for 30 to 90 day maturities in all Districts. District No. 12 (San Francisco) reports an increased interest in maturities and gives the distribution of maturities as follows:

	November 15 to December 15.	October 15 to November 15.
30 - day	12 per cent	11.3 per cent
60 - day	36 " "	14.2 " "
90 - day	44 " "	63.8 " "
120-day	2 " "	6.5 " "
150-day	6 " "	4.2 " "

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

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Rates on Prime Bills

		Range during period		Close	
		Bid	Offered	Bid	Offered
District No. 1 (Boston)	30-day	4-1/8	4	4-1/8	4
	60-day	"	"	"	"
	90-day	"	"	"	"
	120-day	"	"	"	"
	150-day	"	"	"	"
	180-day	"	"	"	"
		<hr/>		<hr/>	
District No. 2 (New York)	30-day	4-1/8 - 4 1/4	4	4-1/8	4
	60-day	"	"	"	"
	90-day	"	"	"	"
	120-day	"	"	4-1/8 - 3/4	4-1/8
	150-day	"	"	"	"
	180-day	4-3/8 - 4 1/2	4 1/4	4-3/8 - 4 1/2	4-1/8 - 4 1/4
		<hr/>		<hr/>	
District No. 3 (Philadelphia)	30-day	4-1/8 - 4 1/4	4	4-1/8 - 4 1/4	4
	60-day	"	"	"	"
	90-day	"	"	"	"
	120-day	4-1/8 - 4-3/8	4-1/8	4-1/8 - 4-3/8	4-1/8
	150-day	4-3/8	4-1/4	4-3/8	4-1/4
	180-day	4-3/8 - 4-5/8	"	4-3/8 - 4-5/8	"
		<hr/>		<hr/>	
District No. 4 (Cleveland)	30-day	4-1/8	4	4-1/8	4
	60-day	"	"	"	"
	90-day	"	"	"	"
	120-day	"	"	"	"
	150-day	"	"	"	"
	180-day	"	"	"	"
		<hr/>		<hr/>	
District No. 7 (Chicago)	30-day	4-1/8 - 4 1/2	4	4-1/8	4
	60-day	"	"	"	"
	90-day	"	"	"	"
	120-day	4-1/4 - 4-3/8	4-1/8	4-1/4 - 4-3/8	4-1/8
	150-day	4-1/4 - 4 1/2	4-1/4	4-1/4 - 4 1/2	4-1/4
	180-day	4-3/8 - 4-5/8	"	4-3/8 - 4-5/8	"

FEDERAL RESERVE BOARD

WASHINGTON

X-3605

January 6, 1923.

SUBJECT: Edge Act Corporations;
Report of Condition as at the Close of Business,
December 30, 1922.

Dear Sir:

Under the provisions of the Board's Regulation K, Series of 1920, governing banking corporations authorized to do foreign banking business under the terms of Section 25 (a) of the Federal Reserve Act, you are hereby respectfully requested to furnish the Board with a report of condition, as at the close of business December 30, 1922, giving in detail all assets and liabilities of your corporation and the data asked for in the accompanying memorandum.

Kindly acknowledge receipt.

Very truly yours,

Acting Governor.

(Enclosure)

TO EDGE ACT CORPORATIONS.

X-3605a

REPORT OF CONDITION TO FEDERAL RE-
SERVE BOARD.

The following information is desired in connection with the report of condition to be made as at close of business December 30, 1922.

HEAD OFFICE AND DOMESTIC BRANCHES COMBINED

1. Detailed balance sheet showing all assets and liabilities, including contingent liabilities. It is requested that the items for which detailed schedules are requested below be shown as separate accounts on the balance sheet.
2. Amount of loans and discounts, divided: Secured - Unsecured
 - (a) Demand
 - (b) Time
 - (c) Overdrafts and other advances
 - Total
3. Detailed list of investments (including stock of affiliated institutions) showing:
 - (a) Issuing Government or corporation
 - (b) Interest rate
 - (c) Maturity
 - (d) Par value
 - (e) Book value
 - (f) Approximate market value
4. Ownership of stock of affiliated institutions:
 - (a) Per cent owned by yourselves
 - (b) Per cent owned by foreign Governments
 - (c) Per cent owned by individuals and corporations
5. List of banks, branches, etc. having balances due to your corporation with amount for each bank separately:
 - (a) Government bank
 - (b) Domestic banks
 - (c) Foreign banks
 - (d) Foreign branches, agencies and affiliated institutions
6. List of banks, branches, etc. having balances due from your corporation with amount for each bank separately:
 - (a) Domestic banks
 - (b) Foreign banks
 - (c) Foreign branches, agencies and affiliated institutions

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X-3605a

7. Bills payable: (Primary obligations of reporting corporation representing money borrowed)

- (a) Payable to:
- (b) Amount
- (c) Interest rate
- (d) Maturity
- (e) Collateral - give list

8. Rediscounts (other than acceptances sold with endorsement):

- (a) Amount
- (b) Maturity
- (c) Rate
- (d) With whom
- (e) Secured or unsecured - if secured, give detailed information regarding security.

9. Total liability for acceptances sold with endorsement:

10. Deposits in the United States:

- (a) Net demand deposits (after deducting uncollected demand items payable within United States - exchanges)
\$ _____ Reserve Required \$ _____
- (b) Time Deposits \$ _____ Reserve Required \$ _____
- (c) Total Reserve required against deposit liability \$ _____

Reserve held:

- (d) Cash on hand \$ _____
- (e) Bank balances \$ _____
- (f) Total cash reserve held \$ _____
- (g) Excess or deficit of cash reserve held over reserve required \$ _____

11. Acceptances:

- (a) Acceptances outstanding:
 - 1. Maturing in 30 days or less \$ _____
 - 2. Maturing after 30 days \$ _____
 - Total outstanding acceptances \$ _____
- (b) Subscribed capital and surplus \$ _____
Excess a over b \$ _____
- Acceptances secured \$ _____
- Acceptances unsecured \$ _____
- Amount required to be secured under agreement with Federal Reserve Board \$ _____
(Give list of security held as required above giving description and approximate amount)

- (c) List of drawers of drafts accepted, with total aggregate liability in excess of 10 per cent of subscribed capital and surplus showing:

<u>Name</u>	<u>Address</u>	<u>Business</u>	<u>Aggregate Liability</u>	<u>Security* or Guaranty</u>
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- (d) Amount of acceptances outstanding drawn for the purpose of furnishing dollar exchange.

- (e) Reserve against outstanding acceptances:

1-Required: 15% against all acceptances outstanding which mature in 30 days or less: \$ _____
 3% against all acceptances outstanding which mature in more than 30 days: \$ _____
 Total reserve required against acceptance liability \$ _____

2-Held: Cash and Bank balances (**) \$ _____
 Bankers acceptances \$ _____
 Securities approved by Federal Reserve Board (List in detail) \$ _____
 Total reserve held \$ _____

12. General limitations:

Per cent deposits and acceptances outstanding to subscribed capital and surplus _____

13. List of officers and directors.

14. List of stockholders, showing number of shares owned by each.

15. List of branches, sub-branches, agencies, offices and affiliated institutions - date of opening of each and the location.

16. Date of last examination or audit - by whom made.

(*) If security, state what the security consists of, giving quantity and approximate value; if a bank guaranty, give name and location of bank.

(**) Excess amount as shown in 10-(g) not required for reserve against deposit liability.

NOTE: Where a schedule does not refer to your corporation, please indicate this by inserting the word "None".

FEDERAL RESERVE BOARD

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WASHINGTON

X-3606

January 6, 1923.

SUBJECT: Foreign and International Banking Institutions;
Report of Condition as at the Close of Business,
December 30, 1922.

Dear Sir:

Under authority of the agreement entered into by your corporation with the Federal Reserve Board, you are hereby respectfully requested to furnish the Board with a report of condition, as at the close of business December 30, 1922, giving in detail all assets and liabilities of your corporation and the data asked for in the accompanying memorandum.

Kindly arrange to file the report of your Head Office and domestic branches combined as soon as possible. Separate reports of foreign branches and affiliated banks should be sent as soon as they are received by you. It will be appreciated if, after the reports have been received from all of your foreign branches and affiliated banks, you will have prepared a consolidated statement of your corporation to be sent to the Board.

While the Board has ruled that no specific reserve has to be carried by foreign branches or affiliated institutions of American banking corporations against deposits abroad, it, nevertheless, wishes to be advised as to the average reserve carried by all such branches and affiliated institutions of corporations which are operating under agreement with the Federal Reserve Board. You are, therefore, requested to have each of your foreign branches, agencies, offices and subsidiary banks furnish you, for transmission to the Board, a report of the average reserve carried during the month of December, 1922, against deposit liabilities in the form shown in the accompanying memorandum.

Kindly acknowledge receipt.

Very truly yours,

(Enclosure)

Acting Governor.

REPORT OF CONDITION TO FEDERAL RE-
SERVE BOARD.

The following information is desired in connection with the report of condition to be made as at close of business December 30, 1922.

HEAD OFFICE AND DOMESTIC BRANCHES COMBINED

1. Detailed balance sheet showing all assets and liabilities, including contingent liabilities. It is requested that the items for which detailed schedules are requested below be shown as separate accounts on the balance sheet.
2. Amount of loans and discounts, divided: Secured - Unsecured
 - (a) Demand
 - (b) Time
 - (c) Overdrafts and other advancesTotal
3. Detailed list of investments (including stock of affiliated institutions) showing:
 - (a) Issued by Government or corporation
 - (b) Interest rate
 - (c) Maturity
 - (d) Par value
 - (e) Book value
 - (f) Approximate market value
4. Ownership of stock of affiliated institutions:
 - (a) Per cent owned by yourselves
 - (b) Per cent owned by foreign Governments
 - (c) Per cent owned by individuals and corporations
5. List of banks, branches, etc. having balances due to your corporation with amount for each bank separately:
 - (a) Government bank
 - (b) Domestic banks
 - (c) Foreign banks
 - (d) Foreign branches, agencies and affiliated institutions
6. List of banks, branches, etc. having balances due from your corporation with amount for each bank separately:
 - (a) Domestic banks
 - (b) Foreign banks
 - (c) Foreign branches, agencies and affiliated institutions

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K-5906a

7. Bills payable: (Primary obligations of reporting corporation representing money borrowed)
- (a) Payable to:
 - (b) Amount
 - (c) Interest rate
 - (d) Maturity
 - (e) Collateral - give list
8. Rediscounts (other than acceptances sold with endorsement):
- (a) Amount
 - (b) Maturity
 - (c) Rate
 - (d) With whom
 - (e) Secured or unsecured - if secured, give detailed information regarding security.
9. Total liability for acceptances sold with endorsement:
10. Deposits in the United States:
- (a) Net demand deposits (after deducting uncollected demand items payable within United States - exchanges)
\$ _____ Reserve Required \$ _____
 - (b) Time Deposits \$ _____ Reserve Required \$ _____
 - (c) Total Reserve required against deposit liability \$ _____
- Reserve held:
- (d) Cash on hand \$ _____
 - (e) Bank balances \$ _____
 - (f) Total cash reserve held \$ _____
 - (g) Excess or deficit of cash reserve held over reserve required \$ _____
11. Acceptances:
- (a) Acceptances outstanding:
 - 1. Maturing in 30 days or less \$ _____
 - 2. Maturing after 30 days \$ _____
 - Total outstanding acceptances \$ _____
 - (b) Subscribed capital and surplus \$ _____
Excess a over b \$ _____
- Acceptances secured \$ _____
Acceptances unsecured \$ _____
Amount required to be secured under agreement with Federal Reserve Board \$ _____
(Give list of security held as required above giving description and approximate amount)

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- (c) List of drawers of drafts accepted, with total aggregate liability in excess of 10 per cent of subscribed capital and surplus showing:

<u>Name</u>	<u>Address</u>	<u>Business</u>	<u>Aggregate Liability</u>	<u>Security* or Guaranty</u>
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- (d) Amount of acceptances outstanding drawn for the purpose of furnishing dollar exchange.

- (e) Reserve against outstanding acceptances:

1-Required: 15% against all acceptances outstanding which mature in 30 days or less: \$ _____
 3% against all acceptances outstanding which mature in more than 30 days: \$ _____
 Total reserve required against acceptance liability \$ _____

2-Held: Cash and Bank balances (**) \$ _____
 Bankers acceptances \$ _____
 Securities approved by Federal Reserve Board (List in detail) \$ _____
 Total reserve held \$ _____

12. General limitations:

Per cent deposits and acceptances outstanding to subscribed capital and surplus _____

13. List of officers and directors.

14. List of stockholders, showing number of shares owned by each.

15. List of branches, sub-branches, agencies, offices and affiliated institutions - date of opening of each and the location.

16. Date of last examination or audit - by whom made.

(*) If security, state what the security consists of, giving quantity and approximate value; if a bank guaranty, give name and location of bank.

(**) Excess amount as shown in 10-(g) not required for reserve against deposit liability.

NOTE: Where a schedule does not refer to your corporation, please indicate this by inserting the word "None".

B. FOREIGN BRANCHES, AGENCIES AND SUBSIDIARY BANKS AND CORPORATIONS.

1. Balance sheet to be furnished by each, showing in detail all assets and liabilities, including contingent liabilities. It is requested that the items for which detailed schedules are requested below be shown as separate accounts on the balance sheet.
2. Amount of loans and discounts, showing: Secured - Unsecured
 - (a) Demand
 - (b) Time
 - (c) Overdrafts and other advances
3. Detailed list of investments, showing:
 - (a) Issuing Government or corporation
 - (b) Interest rate
 - (c) Maturity
 - (d) Par value
 - (e) Book value
 - (f) Approximate market value
4. List of banks having balances due to your branch with amount for each bank separately:
 - (a) Government bank
 - (b) Banks and bankers
 - (c) Head Office
 - (d) Other branches, agencies and affiliated institutions
5. List of banks having balances due from your branch with amount for each bank separately:
 - (a) Banks and bankers
 - (b) Head Office
 - (c) Other branches, agencies and affiliated institutions
6. Bills payable: (Primary obligations of reporting corporation representing borrowed money)
 - (a) Payable to
 - (b) Amount
 - (c) Interest rate
 - (d) Maturity
 - (e) Collateral (Give detailed list)
7. Rediscounts:
 - (a) Amount
 - (b) Maturity
 - (c) With whom
 - (d) Rate
 - (e) Secured or unsecured - if secured, give detailed data

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X-3600a

8. Deposits.

	Dollar Equiva- lent
(a) Government deposits (if secured give list of collateral)	
1. Demand	
2. Time	
Other deposits	
3. Demand	
4. Time _____	
Total	
(b) Deposits - how payable	
1. Local Currency	
2. Dollar	
3. Sterling	
4. Otherwise _____	
Total	

9. Special Reserve Statement - average for month of December, 1922.

(a) Net deposits:		
1. Payable in local currency.		
2. Payable in dollars		
3. Payable in sterling		
4. Payable Otherwise _____		
Total		
(b) Reserve:		
1. Amount, if any, and composition required by local laws.		
2. Amount held:	<u>Amount</u>	Per cent to <u>net deposits</u>
(a) Gold and Silver \$		%
(b) Local currency		
(c) Other cash		
(d) Balance in local ... Govt. bank		
(e) Other reserve funds _____		
Total		

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10. Date of last examination or audit - by whom made.

NOTE: 1. Where a schedule does not refer to your corporation, please indicate this by inserting the word "None".

2. Reports for foreign branches, agencies, etc., should be in terms of United States dollars, stating the rate of exchange at which they were converted.

X-3607a

(COPY)

December 21, 1922.

Honorable George P. McLean, Chairman,
Banking and Currency Committee,
United States Senate,
Washington, D. C.

My dear Mr. Chairman:

The Federal Reserve Board has received your letter of December 7th requesting its views on two bills, S. 4063 and S. 4103, introduced by Senator Capper and Senator Lenroot, respectively, to provide additional credit facilities for agriculture.

The Board has studied these bills very carefully, and desires to express its approval of the general purpose of both of them. Senator Lenroot's bill, S. 4103, appears to be a re-draft of his earlier bill, S. 3051, the enactment of which was recommended in the report of the Joint Commission of Agricultural Inquiry and which received the approval of the Federal Reserve Board in a letter addressed to you by Governor Harding on behalf of the Board, under date of January 26, 1922, a copy of which is enclosed herewith.

Senator Capper's bill, S. 4063, is similar in many respects to a bill, H. R. 11763, introduced in the House of Representatives by Representative McFadden which was commented on favorably by the Federal Reserve Board in a letter addressed to the Secretary of the Treasury under date of July 12, 1922, a copy of which is enclosed herewith. Furthermore, Senator Capper's bill contains features which the Board thought should have been incorporated in H. R. 11763 so as to provide additional credit facilities for agriculture in general as well as for the live stock industry.

The major portion of each of these bills consists of provisions creating facilities for supplying the need pointed out in the report of the Joint Commission of Agricultural Inquiry for agricultural credits of an intermediate type, running from six months to three years, to finance the production and marketing of agricultural products and the breeding, raising, fattening and marketing of live stock.

The Board will confine itself in this communication to the provisions of these bills which amend the Federal Reserve Act or otherwise directly affect the Federal Reserve System. It has studied these provisions with especial care. There are certain comments and constructive suggestions which the Board desires to call to your attention, with a view of safeguarding the elasticity and soundness of the currency issued through the

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X-3607a

Federal Reserve Banks, and also of making the proposed amendments more liberal and practicable.

Both bills would make certain classes of agricultural paper eligible for rediscount by Federal Reserve Banks with maturities up to nine months. The Board calls your attention to the fact that this would in a measure affect the elasticity of the Federal Reserve Note currency based thereon, but believes this might be done if restricted within the limits prescribed in S. 4063.

The provision of Senator Lenroot's bill designed to make nine months paper eligible for rediscount was not in his earlier bill which received the approval and support of the Federal Reserve Board as indicated above. It would amend Section 13 of the Federal Reserve Act by changing the proviso at the end of the second paragraph thereof to read, in part, as follows:

"PROVIDED, That notes, drafts and bills of exchange drawn or issued for agricultural purposes, including the preparation for marketing and the orderly marketing of farm products, by the producers of such products or their cooperative organizations, or based on live stock, and having a maturity at the time of discount of not more than nine months, exclusive of days of grace, 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."

This is a very broad provision and would not only extend the class of paper eligible for rediscount as agricultural paper to include paper drawn to finance the preparation for market and orderly marketing of farm products by cooperative marketing associations but would also make eligible for rediscount with maturities up to nine months all agricultural paper, whether drawn to finance the marketing of a crop which has already been harvested or to finance the production of a crop which has not yet been planted. The Board favors that part of this amendment which extends the class of paper eligible for rediscount as agricultural paper to include paper drawn to finance the preparation for market and orderly marketing of agricultural products by cooperative marketing associations composed exclusively of growers, and would have ruled heretofore that such paper is eligible as agricultural paper had the terms of existing law permitted. The Board is of the opinion that that part of the amendment which would extend the maturity of eligible agricultural paper to nine months, should be limited to paper secured by warehouse receipts or other such documents conveying security title to readily marketable, non-perishable, staple agricultural products, or at least that no paper with maturities in excess of six months should be accepted as collateral security for Federal Reserve notes unless so secured. There is undoubtedly an important distinction be-

tween paper drawn to finance the storage or marketing of a crop which has already been harvested and that drawn to finance the production of a crop which may not even be planted and which is subject to conditions beyond the control of the grower, such as drought, frost, hail, blight, or the ravages of the boll weevil, which may cause a complete crop failure. The former class of paper is recognized as sound, especially when secured by warehouse receipts or other such documents covering non-perishable, readily marketable, staple agricultural products which are being marketed or stored pending orderly marketing, because there is something tangible already in existence out of the sale of which the borrower can reasonably expect to obtain the funds with which to liquidate his obligation. The latter class of paper, however, is subject to such hazards as to make it undesirable as a basis for the issue of note currency, because the borrower must succeed in growing and harvesting a crop and then selling it at a fair price in order to realize the funds with which to pay off his obligation, and through no fault of his own he may have a crop failure which will deprive him of the means of meeting his obligation, thus making it necessary for the bank to carry the loan for a year longer and probably make him an additional loan to enable him to produce his next crop.

That part of Senator Capper's bill, S. 4063, which would make nine months paper eligible for rediscount is contained in a proposed new section to be inserted in the Federal Reserve Act and designated Section 13 (a), and is limited to paper drawn to finance the orderly marketing of agricultural products or the fattening of live stock for market. It also requires such paper to be secured by warehouses receipts or other negotiable documents conveying or securing title to readily marketable, non-perishable agricultural products or by chattel mortgages on live stock.

The second paragraph of Senator Capper's proposed new Section 13 (a) of the Federal Reserve Act would also make paper of cooperative marketing associations eligible for rediscount as agricultural paper whenever the proceeds (a) have been or are to be advanced by such an association to any members thereof for any agricultural purpose, or (b) have been or are to be used by such an association in making payments to any members thereof on account of agricultural products delivered by such members to the association or (c) have been or are to be used by such an association to meet expenditures incurred or to be incurred by the association in connection with the grading, processing, packing, preparation for market, or marketing of any agricultural product handled by such an association for any of its members. The Federal Reserve Board has not ruled as to the eligibility of paper of class (a); but such paper might be held to be ineligible under existing law, and the Board considers it desirable that such paper should be made eligible for rediscount as agricultural paper by an express amendment to the Act. Paper of the kinds described under (b) and (c) is now eligible for rediscount as commercial

paper with maturities not in excess of ninety days, and the Board also approves of the amendment making such paper eligible for rediscount as agricultural paper. In its letter of July 12, 1922, which is referred to above, the Board has heretofore gone on record as approving a provision of H. R. 11763 making paper of classes (a) and (c) eligible for rediscount as agricultural paper. The Board, therefore, approves of all the provisions of this paragraph. It would suggest, however, the insertion of a proviso making it absolutely clear that the enumeration of three classes of paper of co-operative marketing associations as eligible for rediscount is not intended to carry the implication that other paper of such associations is necessarily ineligible. The Board has ruled that several other kinds of paper of cooperative marketing associations are eligible, and would regret to see such paper made ineligible.

The proposed new section 13 (a) which would be added to the Federal Reserve Act by Senator Capper's bill is scientifically planned and unusually well worded, and the Board advocates its adoption in its present form except for the slight amendment just mentioned.

Senator Lenroot's bill, S. 4103, would authorize Federal Reserve banks to rediscount agricultural paper for Federal Land Banks as well as member banks (provided it does not bear the endorsement of non-member State banks or trust companies which are eligible for membership in the Federal Reserve System), and to buy and sell bonds and other such obligations issued by Federal Land Banks. The Federal Reserve Board has previously approved a bill containing these provisions but rather doubts the advisability of its enactment.

Senator Lenroot's bill also contains a provision amending Section 7 of the Federal Reserve Act so as to permit Federal Reserve Banks to pay to their member banks an extra dividend up to 3% in addition to the 6% cumulative dividend to which they are now entitled, whenever their net earnings exceed 12%. The Board approves this amendment in principle but suggests that all reference to the payment of dividends out of surplus be omitted.

Both bills contain provisions to amend Section 9 of the Federal Reserve Act so as to permit State banks in places of not more than 6,000 inhabitants to be admitted to membership in the Federal Reserve System with a minimum capital of \$30,000, if their applications are accompanied by adequate undertakings to increase their capital to \$50,000 within three years, and to permit State banks located in towns of not more than 3,000 inhabitants to be admitted to membership with a minimum capital of \$15,000 if their applications are accompanied by similar undertakings to increase their capital to \$25,000 within three years. These provisions are similar to those of a bill introduced by Senator Harris, S. 3531, which was approved by a majority of the members of the Federal Reserve Board, and which passed the Senate on July 8, 1922. The Board, therefore, approves these provisions.

Senator Capper's bill would also amend Section 13 of the Federal Reserve Act so as to permit bankers' acceptances drawn for agricultural purposes and secured at the time of acceptance by warehouse receipts or other such documents conveying or securing title covering readily marketable staples to be rediscounted with maturities up to six months, whereas, they are now eligible for rediscount only when they have maturities at the time of discount not exceeding three months. The Board approves of this provision, as it is somewhat in line with a recent amendment to its Regulation B permitting Federal Reserve Banks to purchase in the open market bankers' acceptances with maturities not in excess of six months which are drawn by growers, or by cooperative marketing associations composed exclusively of growers, of non-perishable, readily marketable staple agricultural products, to finance the orderly marketing of such products and secured at the time of acceptance by warehouse, terminal or other similar receipts conveying security title to such products.

Senator Capper's bill would also add a new paragraph at the end of Section 14 of the Federal Reserve Act to be designated Section 14 (f) which would authorize Federal Reserve Banks to purchase and sell in the open market either from or to domestic banks, firms, corporations or individuals, acceptances of agricultural credit corporations organized under Title I. Such corporations are authorized to accept drafts drawn for agricultural purposes with maturities not exceeding nine months when secured by warehouse receipts or other such documents conveying or securing title to non-perishable, readily marketable agricultural products or by chattel mortgages or other like instruments conveying a full and paramount lien on live stock which are being fattened for market. The Board approves of the purposes of this amendment, but suggests that the term "Federal Agricultural Act" appearing in the amendment as now drafted, be changed to "Rural Credits Act" to conform to other portions of the bill.

There is one amendment not covered by either of these bills which the Federal Reserve Board would like to suggest in this connection, because it believes that it would be of distinct benefit in assisting the marketing of staple agricultural products and would not inject any undesirable paper into the Federal Reserve System. It appears to be the custom of many member banks to discount during crop moving periods large volumes of sight drafts secured by bills of lading covering the shipment of agricultural products, and such drafts are not eligible for rediscount at Federal Reserve Banks because they have no definite maturity. It has been represented to the Board that these drafts constitute the most liquid kind of paper and usually are paid with great promptness. The Board believes that to permit the rediscount of such drafts would greatly assist member banks in financing the movement of crops and, therefore, recommends that the following paragraph be inserted in Section 13 of the Federal Reserve Act immediately after the second paragraph thereof:

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X-3607a

"Upon the endorsement of any of its member banks, which shall be deemed a waiver of demand, notice and protest by such bank as to its own endorsement exclusively, and subject to regulations and limitations to be prescribed by the Federal Reserve Board, any Federal Reserve Bank may discount or purchase bills of exchange payable at sight or on demand which are drawn to finance the domestic shipment of non-perishable readily marketable staple agricultural products and are secured by bills of lading or other shipping documents conveying or securing title to such staples: PROVIDED, However, that all such bills of exchange shall be forwarded promptly for collection, and demand for payment shall be made with reasonable promptness after the arrival of such staples at their destination: PROVIDED, Further, that no such bill shall in any event be held by or for the account of a Federal Reserve Bank for a period in excess of 90 days. In discounting such bills Federal Reserve Banks may compute the interest to be deducted on the basis of the estimated life of such bill, and adjust the discount after payment of such bills to conform to the actual life thereof."

If the Board can give you further information on this subject or be of any assistance in any way it will be very glad to do so.

Very truly yours,

(signed) Edmund Platt

Acting Governor.

COPY

X-3607b

July 12, 1922.

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

My dear Mr. Secretary:

Receipt is acknowledged of your letter of July 5th enclosing a copy of H. R. 11763, a bill introduced by Mr. McFadden to provide further facilities for agricultural and live stock credits, and enclosing also a copy of a memorandum prepared by the War Finance Corporation with reference to the bill.

You refer to the fact that both the Federal Reserve Board and the Treasury have given their endorsements to the so-called Anderson-Lenroot Bill (S. 3051 and H. R. 10058) to provide further credits for agriculture and live stock through farm credit departments to be established in the Federal land banks, but that no action has been taken with regard to that bill since it was recommended by the Joint Commission on Agricultural Inquiry, and that there seems to be little disposition at the present time to consider legislation for agricultural credits along the lines proposed in the Anderson-Lenroot Bill. You state also that you regard it as a matter of the first importance that legislation providing further facilities for agricultural and live stock credits be agreed upon and enacted into law sufficiently in advance of May 31, 1923, the date now fixed by law for the cessation of the activities of the War Finance Corporation, to avoid any pressure for further extensions of the life of that corporation, and you believe that it would be helpful, therefore, if the Treasury and the Federal Reserve Board and the War Finance Corporation would all agree on some workable measure between now and the opening of the fall session of Congress. You accordingly ask the Federal Reserve Board to consider the provisions of H. R. 11763 and to express its views as to the merits of that bill, particularly in the light of the discussions of the past year or more on the subject of agricultural and live stock credits.

The Federal Reserve Board agrees with you as to the desirability of cooperation with a view to the enactment of sound and constructive legislation providing for additional credit facilities for agriculture and live stock and will be

glad to render such assistance as it can to this end.

Title I of H. R. 11763 proposes certain amendments to the Federal Reserve Act. Section 2 of this title would add a section to the Federal Reserve Act to be numbered Section 13(a) and entitled "Discount of Agricultural and Live Stock Paper." The new section contains a provision similar to the one contained in the present law that "any Federal reserve bank may discount notes, drafts, and bills of exchange issued or drawn for an agricultural purpose, or based upon live stock, and having a maturity at the time of discount, exclusive of days of grace, not exceeding six months", but adds a proviso authorizing Federal reserve banks to discount nine months' paper under certain circumstances. The nine months' paper which would be made eligible by this proviso consists of (a) paper "secured by warehouse receipts or other such negotiable documents, conveying or securing title to readily marketable, non-perishable agricultural products", and (b) paper secured by chattel mortgage upon live stock which is "being fattened for market", under such conditions that it will be ready for market on or before the date of maturity" of such paper. This extension of the maximum maturity of paper which may be discounted by Federal reserve banks from six months under the present law, to nine months under the proposed bill, is the most important feature of H. R. 11763 so far as concerns the Federal Reserve System.

The second paragraph of the proposed new section 13(a) further provides that notes issued by, and drafts accepted by, a cooperative marketing association composed of producers of agricultural products, shall be deemed to have been issued or drawn for an agricultural purpose if the proceeds thereof have been or will be advanced by such association to any members thereof for an agricultural purpose, or have been or will be used by such association in connection with the grading, processing, packing, preparation, or marketing of agricultural products. Under the present rulings of the Board, growers' drafts accepted by cooperative marketing associations are eligible for discount with maturities not in excess of six months, if the proceeds are used by the growers for an agricultural purpose, and notes of cooperative marketing associations are eligible for discount with maturities up to three months, if the proceeds have been used in connection with the grading, processing, etc., of agricultural products, or if the association purchases agricultural products from its members - rather than handles such products on a consignment basis - and the proceeds of the notes are used by such association to pay its members for agricultural products delivered to it. The only substantial effect of this paragraph with regard to paper created by cooperative marketing associations would be, therefore, to extend the maturity limitation of eligible notes issued by such associations from three to six months and this extension would meet with the approval of the Federal Reserve Board.

As bearing on the question of the advisability of making nine months' paper eligible for discount, I am enclosing herewith a copy of the Board's letter of December 13, 1920, to the Chairman of the Banking & Currency Committee of the United States Senate, in which the Board expresses its disapproval of Senate Bill 4559 of the 66th Congress which proposed to make eligible for discount by Federal reserve banks agricultural and live stock paper with maturities up to twelve months, on the ground that the enactment of such legislation would materially lessen the liquidity of paper held by the Federal reserve banks and the elasticity of the Federal reserve note currency which is based upon and secured by the paper so held. The Board reiterated its disapproval of legislation of this character in its letter to the Chairman of the Banking & Currency Committee of the United States Senate, dated January 26, 1922. The same objection applies to the extension to nine months of the maturity limitations of the paper that may be discounted by Federal reserve banks although it applies in a lesser degree. Without, however, expressing itself definitely against this extension as proposed in H. R. 11763, the Board desires to say that if nine months' paper is made eligible for discount, its use by Federal reserve banks as collateral for Federal reserve notes should be prohibited, so that in any event the elasticity of the Federal reserve note currency may be protected, and to say furthermore that in its opinion a better and safer way to provide additional credit facilities for agriculture in general would be to broaden the scope of Title II of H. R. 11763, which as at present drawn offers facilities to the live stock industry exclusively.

Before describing the provisions of Title II I should mention that Section 3 of Title I of H. R. 11763 proposes to make another amendment to the Federal Reserve Act so as to make eligible for membership in the Federal Reserve System banks located in places with populations of 6,000 or less, although the banks have only 60 per cent of the amount of capital required under the terms of the present law, provided, that the application of such a bank for membership is accompanied by adequate undertaking that the capital will be increased within three years to the amount now required. A majority of the members of the Board approve of this feature of H. R. 11763 and have already expressed their approval of S. 3521 which is designed to accomplish substantially the same end. This latter bill was passed by the Senate on July 10, 1922.

Title II of H. R. 11763 provides for the division by the Federal Farm Loan Board of the continental United States into not less than five nor more than ten geographical districts to be known as "Live stock districts", in each of which is to be established a Federal Live Stock Finance Corporation to be operated under the supervision of the Federal Farm Loan Board, but independent of the Federal land banks. Any live stock Loan Company incorporated under State law and having a capital and surplus of not less than \$100,000 may become a

member of the Federal Live Stock Corporation of its district by subscribing to stock in such Live Stock Finance Corporation in an amount equal to twenty-five per centum of the capital stock of the subscribing corporation. On behalf of the United States, the Secretary of the Treasury is to subscribe to the capital stock of each Federal Live Stock Finance Corporation in a sum equal to twenty-five per centum of the aggregate subscriptions of member corporations, but in no event in excess of one million dollars for any one Federal Live Stock Finance Corporation. Member corporations may deposit with their Federal Live Stock Finance Corporation United States bonds or other obligations of the United States, and such Federal Live Stock Finance Corporations may thereupon rediscount for such member corporations eligible live stock paper in an amount not to exceed ten times the face value of the United States bonds or other obligations so deposited, or may make loans or advances to such member corporation in a like amount upon the member corporation's promissory note secured by eligible live stock paper. Eligible live stock paper is defined as "notes, drafts, bills of exchange, or other evidences of debt (hereinafter referred to as obligations) made by one or more persons, firms, corporations, or associations engaged in the United States in the business of breeding, raising, or fattening live stock, which obligations are secured by a chattel mortgage conveying a first and paramount lien upon the live stock which has a current market value at the place such live stock is located equal at least to 150 per centum of the face value of such secured obligation or obligations."

In order to provide Federal Live Stock Finance Corporations with funds, in addition to their capital, with which to rediscount for and make loans to member corporations, the bill provides that each Federal Live Stock Finance Corporation may issue and have outstanding collateral trust bonds in an aggregate amount not exceeding twenty times its paid-in and unimpaired capital stock, maturing in not less than six months nor more than three years from the respective dates of issue, and bearing interest at rates to be fixed by the directors of the corporation with the approval of the Federal Farm Loan Board. The bonds issued prior to June 30, 1925, are to be exempt from taxation other than inheritance taxes.

The title contains detailed provisions with respect to the custody of the collateral for the bonds, which collateral is to be held by a "Federal custodian" who is to be one of the directors of the Federal Live Stock Finance Corporation appointed by the Federal Farm Loan Board.

The bill is well drawn and would, no doubt, provide helpful and much needed assistance to live stock interests, but, as I have already mentioned, the benefits of Title II would not accrue to agriculture other than live stock. H. R. 11763 would afford to live stock interests an additional source of credit, ~~made~~ available

by the issuance of short term bonds by regional finance institutions the establishment of which is provided for in Title II, but offers no relief to agriculture other than live stock except through the extensions, provided for in Title I and heretofore described, of the maturity limitations applicable to cooperative marketing association paper, and paper secured by nonperishable agricultural products.

It is recognized, of course, that the conditions of the live stock industry differ from those which pertain to other classes of agriculture, in that the period during which the ranchman with a breeding herd requires financing is from two to three years; so that there is doubtless a greater need for additional credit facilities for live stock than for other kinds of agriculture. In so far, however, as other classes of agriculture require credit facilities in addition to those now available, the Board is of the opinion, as it has already suggested, that the more logical and the safer way to provide such facilities would be to enlarge the powers of the proposed regional finance corporations, so as to enable them to discount paper secured by agricultural products as well as paper secured by live stock. This would necessitate a change in the title of the regional finance corporations and probably an enlargement of the membership in such corporations, but it seems to the Board that it might be possible to work out an amendment of this kind which would not only eliminate the feature contained in Title I of H. R. 11763 as at present drawn, of extending to nine months the maturity limitations of certain kinds of paper eligible for rediscount at Federal reserve banks, but would also provide more adequate relief to all classes of agriculture.

If the Board can be of any further assistance in connection with this subject it will be very glad to do so.

Yours very truly,

(Signed) W. P. G. Harding

Governor.

C O P Y

COPY

X-3609

January 4, 1922.

My dear Mr. Peek:

Your esteemed favor of December 26 in reply to my letter of December 22 is gladly received and read with much interest. After reading and re-reading it, however, I am reluctantly forced to agree with you that since our viewpoints are at such a variance, it would seem to be an insurmountable task to harmonize them.

Before dropping the case with you, however, I want to impress upon you the fact that we have not a central banking system in this country. Our system is a decentralized banking system under the supervision of a central board. I cannot refrain from making the statement at this time that in my opinion the power possessed by the Federal Reserve Board is in the minds of the public greatly exaggerated. The Federal Reserve Act defines the duties of the Federal Reserve Board and if the Board has any power it should not have (I cannot think of any at this time) it would be a simple matter for Congress to amend the Act. It is most certain that the Federal Reserve Board cannot make any loans, and it has no control over the loans made by Federal reserve banks, the general nature of which is regulated by law as interpreted by the regulations of the Board. The Federal Reserve Board has never deemed it proper and has no legal authority to interfere in the relations between a reserve bank and its member banks. Still less can the Reserve Board control the loans of member banks to their customers. Such loans are entirely within the discretion of the banks themselves, except in so far as they are restricted by the National Banking Act and by State Banking Laws. The rates of interest charged to customers by member banks are entirely the result of local and economic conditions in so far as they are not regulated by state laws. In other words, neither the Federal Reserve Board nor the Federal reserve banks have anything whatever to do with the rates of interest charged the borrower or any control over loans made by a member bank to its customers.

It is a fact, however, that some member banks, as well as non-member banks, that did not want to grant applications for loans on account of their undesirability or because the bank was already in an overextended condition, have given as a reason for declining

the application, the statement that the Federal Reserve Board or the Federal reserve bank would not permit the bank to make any more loans. This is a species of "passing the buck" and has been the cause of much of the unfair and unjust criticism of the Federal Reserve system.

My viewpoint in making an analysis of the operation of the Federal Reserve system is that of one who has been in the banking business for a quarter of a century, in one of the best agricultural sections in the United States if you please, who also has seen service on the Federal Reserve Board for twenty months. Consequently I am looking from without as well as from within, and it occurs to me that the old saying "the proof of the pudding is in the eating" applies particularly well to the operation of the Federal Reserve system. It has been given a test of such severity as no one ever dreamed of and has weathered the storm as no other banking system in the world was able to do.

The policies of the Federal Reserve System are the result of the most careful study of the Federal Reserve Board in conjunction with the advice of an Advisory Council composed of twelve men, one from each Federal Reserve District appointed by the directors of the Federal reserve banks. In addition to the Advisory Council, the Federal Reserve Board is in constant touch with the Federal Reserve Agents and the Governors of the Federal reserve banks and through them with the Boards of Directors of the twelve Federal reserve banks and the twenty-three branches. These Boards of Directors are composed of representative bankers and business men who are thoroughly familiar with the needs and resources of their Districts. The Advisory Council is composed of men of wide experience in finance from every section of the country who meet in Washington four times each year with the Federal Reserve Board. The policies of the System are largely the result of these conferences. The Chicago District has been represented by such able and distinguished men as Messrs. James B. Forgan and John J. Mitchell. I mention this for the purpose of calling your attention to the fact that the policies of the Federal Reserve System are not the creation of any one mind or even of the Board, but are established by and with the advice of recognized and most highly respected financial intelligence.

While we cannot seem to agree as to the cause of the troubles of the past, we can certainly join in hopes for the future; that the coming year will see a Europe earnestly working for peace and well on the road to economic recovery; an America with continued good crops, better prices, increased industrial activity, and fewer misunderstandings between employer and employee, which necessarily entail hardships for all.

With best wishes for your own good health and prosperity, I am

Very truly yours,

(Signed) John R. Mitchell.

Mr. George N. Peek,
Moline, Ill.

FEDERAL RESERVE BOARD

58

WASHINGTON

January 4, 1923.
X-3610

CONFIDENTIAL

Subject: Protective Measures.

Dear Sir:

In connection with the investigation of the recent robbery at the Denver Mint, suggestion has been made that it might be desirable for the Secret Service Division of the Treasury Department to make a survey of the protective measures employed at all Federal Reserve Banks and Branches. The suggestion has met with the approval of the Federal Reserve Board and Treasury Department and the Secret Service will therefore undertake such a survey, following which a report will be rendered to the Federal Reserve Board and Treasury Department and such suggestions and recommendations as may be made with respect to your Bank and Branches, if any, will be communicated to you in due course.

Very truly yours,

Acting Governor.

To The Chairmen of All Federal Reserve Banks

January 3, 1923.

X-3611

To: The Federal Reserve Board.
From: Mr. Wyatt - General Counsel.

Subject: Reserves against so-called "Special Savings Deposits".

A formal opinion has been requested on the question whether so-called "Special Savings Deposits" of certain State Member Banks in California can properly be classified as "savings accounts" in computing the reserves which such member banks are required to maintain under the terms of Section 19 of the Federal Reserve Act.

These so-called "special savings deposits" are represented by pass books and bear interest, and the banks receiving them expressly reserve the right to require thirty days' notice before withdrawal. Under the California law, as it has been construed by the State authorities, these accounts are also required to be segregated in separate savings departments the assets of which constitute trust funds for the protection of savings depositors; they can be invested only in a restricted class of securities and loaned only in a restricted manner; and they are subject to many other special safeguards not applicable to ordinary commercial deposits. It appears, however, that they do not represent the savings of persons of small means, but interest is paid only on amounts in excess of \$500, and such deposits usually consist of surplus funds of persons of large means who wish to obtain interest upon them and at the same time enjoy the privilege of checking against them. Furthermore, they are normally subject to with-

drawal by check without the presentation of the pass books, and normally an unlimited number of checks can be drawn against them at the same time, although the bank reserves the right to require the presentation of the pass books. In practice, therefore, they are subject to check and constitute interest-bearing checking accounts.

Before they applied for membership in the Federal Reserve System, the California State banks raised the question whether they could treat such deposits as savings accounts in computing the reserves which they would be required to maintain under the terms of the Federal Reserve Act. At that time Mr. Perrin, the Board's local representative at San Francisco, took the position that such accounts should be treated as savings accounts and urged the Federal Reserve Board to adopt the same view. Apparently without obtaining an opinion from its Counsel as to whether this could be done legally, the Board addressed a circular letter to all Federal Reserve Agents under date of December 26, 1917, requesting their views as to whether it should amend its Regulation D so as to permit such deposits to be treated as savings accounts. The great majority of the Federal Reserve Agents opposed such an amendment to Regulation D on the ground that it would lead to abuse, and the Board refused to amend its Regulation. With full knowledge of this action, the California State banks applied for, and received, admission to membership in the Federal Reserve System.

According to a statement contained in the brief of Mr. Edward Elliott, representing the Security Trust and Savings Bank of Los Angeles,

however, all the California State Banks having such accounts have always carried reserves of only three per cent against them, and the practice may was first called into question in the autumn of 1921, following an examination by Federal Reserve Bank examiners of the Los Angeles Trust and Savings Bank. * * * Apparently, it was not called to the attention of the Board, however, until the spring of 1922, when it was brought to the attention of Messrs. Miller and Mitchell of the Federal Reserve Board by the Los Angeles Trust and Savings Bank, during the visit of those gentlemen to California in March and April.

At that time the question whether such deposits could be treated as savings accounts in computing reserves was again raised in a telegram addressed to the Board under date of April 15. Governor Harding replied under date of April 19 that such deposits could not be made subject to 3% reserves without an amendment to the Board's regulations and that the Board felt that such an amendment would lead to abuse and that it could not properly make a special regulation or exception applicable only to banks in California.

Several of the State Banks then requested a hearing, which was granted on June 14 and at which Mr. Edward Elliott, formerly of the Federal Reserve Bank of San Francisco, appeared as their representative, filed an elaborate brief together with one written by Mr. William G. McAdoo, formerly Secretary of the Treasury and ex-officio chairman of the Federal Reserve Board, and strongly urged the Board to permit only 3% reserves to

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be carried against such accounts. Apparently, the Board took no action at that time but took the matter under advisement. The matter was discussed several times at Board meetings; several other informal conferences were had with Mr. Elliott; a report was requested and obtained from Mr. Perrin (in which he advocated the granting of the request of the State Banks); and finally, on December 6, the Board voted not to amend its Regulation D and that such deposits must be treated as demand deposits in computing reserves. In advising its agent, Mr. Perrin, of this action, the Board specifically advised him of its expectation that he would see that this ruling was strictly complied with.

It appears, however, that this ruling is not being complied with and that Mr. Perrin has requested a hearing at which he may appeal from the Board's ruling and again advocate the granting of the request of the California State Banks. Before deciding whether or not to grant this hearing, the Board desires a formal opinion on the question whether it can legally grant the request of the State banks and permit such deposits to be treated as savings accounts in computing reserves.

When this question was originally submitted to me I was unwilling to say dogmatically that the term "savings accounts" as used in Section 19 of the Federal Reserve Act could not be construed to include such deposits without making a thorough investigation of the subject. I did express serious doubts, however, as to the propriety of so construing the term "savings accounts". I have been giving the problem further study and deliberation for several months, and when Mr. Platt informed me that the

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X-3611

matter was again coming up for consideration I concentrated the efforts of this office on the problem and made a thorough investigation of the authorities, a careful analysis of the briefs submitted by Messrs. McAdoo and Elliott and of the report submitted by Mr. Perrin, and a painstaking study of the language, philosophy, history and underlying purpose of the law. On account of pressure of other work I was unable to render a written opinion on the subject at that time, but I advised Mr. Platt orally that such deposits could not properly be classified as "savings accounts" within the meaning of Section 19 of the Federal Reserve Act.

THE TERMS OF THE LAW.

In prescribing the amount of reserves to be maintained by member banks, Section 19 of the Federal Reserve Act makes a distinction between "time deposits" and "demand deposits"; and requires smaller reserves to be maintained against the former than against the latter. The first paragraph of that section defines "demand deposits" and "time deposits" as follows:

"Demand deposits within the meaning of this Act shall comprise all deposits payable within thirty days, and time deposits shall comprise all deposits payable after thirty days, all savings accounts and certificates of deposit which are subject to not less than thirty days' notice before payment, and all postal savings deposits".

It will be noted that the term "time deposits" comprises:

- (1) All deposits payable after thirty days.
- (2) Savings accounts which are subject to not less than thirty days' notice before payment.

- (3) Certificates of deposit which are subject to not less than thirty days' notice before payment, and
- (4) Postal savings deposits.

The deposits under consideration are not "payable after thirty days"; because they are not payable on a definite date nor a specified number of days after date, nor only after thirty days' notice which is actually required. The mere fact that they are subject to not less than thirty days' notice before payment is not sufficient to make them deposits "payable after thirty days"; because the Act clearly makes a distinction between deposits payable after thirty days and those which are merely subject to thirty days' notice before payment. Mr. McAdoo admits this in his brief. It is obvious that they are neither certificates of deposit nor postal savings deposits.

If they are to be classified as time deposits, therefore, they must be brought within the term "Savings accounts"; and this discussion will be confined to the question whether they can properly be deemed to be included in that term.

THE BOARD'S REGULATIONS.

The Board's Regulation D, Series of 1920, defines "Savings Accounts", as follows:

"The term 'Savings Accounts' shall be held to include those accounts of the bank in respect to which, by its printed regulations, accepted by the depositor at the time the account is opened -

(a) the pass book, certificate or other similar form of receipt must be presented to the bank whenever a deposit or withdrawal is made, and

(b) the depositor may at any time be required by the bank to give notice of an intended withdrawal not less than thirty days before a withdrawal is made."

The deposits in question comply with requirement (b), but they do not comply with requirement (a) because the pass books are not actually required to be presented whenever deposits or withdrawals are made. It has been argued on behalf of the California banks that requirement (a) is not essential to a proper definition of the term "savings accounts" as used in Section 19, and the Board has been urged to amend Regulation D so as to permit such deposits to be classified as "savings accounts". Even if requirement (a) could be eliminated or waived, however, it would not necessarily follow that these deposits can properly be considered "savings accounts" within the meaning of Section 19, because they differ in other respects from ordinary savings accounts.

The question to be determined, therefore, is whether, regardless of the provisions of the Board's regulations, such deposits can properly be deemed to be "savings accounts" within the meaning of the first paragraph of Section 19 of the Federal Reserve Act.

In attempting to answer this question it is necessary to observe two fundamental rules of statutory construction: (1) That the words used should be given their ordinary and commonly accepted meaning unless it appears that a different meaning was intended; and (2) that the stat-

ute should be construed in the light of its reason and purpose and in such a way as to carry out the intention of the legislature.

WHAT ARE "SAVINGS ACCOUNTS"?

The ordinary and commonly accepted meaning of any term is to be sought first of all in a general dictionary, but neither Webster's Unabridged Dictionary nor the Standard Dictionary defines the term "savings accounts". Likewise, in seeking for the meaning given by the legal authorities, it was found that neither the reported decisions nor the legal treatises contain any definition or direct discussion of the term "savings accounts".

There are many decisions dealing with the nature and operation of savings banks, however, which throw much light on this question. It is proper to assume that the savings accounts which Congress had in mind were the accounts commonly received as savings accounts by savings banks and by commercial banks and trust companies having savings departments. As such accounts originated with savings banks and were developed by them, a discussion of the nature and functions of savings banks is necessary to an understanding of the proper meaning of savings accounts.

In Corpus Juris (Vol. 7, p. 851) it is said that, "A savings bank is an institution * * * the purpose of which is to promote the prosperity of persons of small means and limited opportunities of investing them by receiving their savings in even trivial sums and lending them in larger amounts, whereby interest may be gained."

Savings banks "are banks established for the receipt of small sums deposited by the poorer class of persons for accumulations at interest." Bank for Savings v. Collector, 70 U. S. 495.

In Mercantile Bank v. N. Y., 121 U. S. 138, the Supreme Court of the United States said that savings banks "are what their name indicates, banks of deposit for the accumulation of small savings belonging to the industrious and thrifty."

In National Bank v. Boston, 125 U. S. 60, the Supreme Court said, "They are substantially institutions, under public management, in pursuance of a great and beneficial public policy, organized for the purpose of investing the savings of small depositors, and not as banking institutions in the commercial sense of that phrase."

The two cases cited are particularly valuable for the purpose of this discussion, because they contain such a forceful distinction between savings banks and commercial banks, which distinction is equally applicable between savings accounts and ordinary checking accounts in commercial banks. Both these cases were based upon an alleged discrimination in taxing national banks under Section 5219 of the Revised Statutes, one ground of the alleged discrimination in each case being that savings banks were not taxed at the same rate as national banks. The court held in each case that no discrimination could be predicated upon different rates of taxing national banks and savings banks, because of the great dissimilarity between such classes of banks. It can properly be said, therefore, that savings accounts are inherently different from commercial accounts, and it would seem

to follow that if certain accounts partake of the nature of commercial accounts, they cannot pass muster as savings accounts.

Another fact indicative of this characteristic of savings accounts is that a number of States limit by law the amount which may be received from any one savings depositor. Thus Massachusetts limits it to \$2,000, excepting deposits from religious, charitable or similar corporations. (Gen. Laws, Chap. 163, Sec. 31); Connecticut limits the amount which may be received from a single depositor in any three years to \$3,000 (Sec. 3981, Gen.Stat. of 1918); the laws of North Dakota provide that the directors may limit the amount received from any one depositor (Sec. 5196, Comp. Bk. Laws 1913); the Minnesota statute authorizes savings bank to receive "all sums of money offered for deposit in amounts * * * fixed by the by-laws, which shall in no case exceed five thousand dollars". (Gen. Stat. 1913, 6388); the Missouri statute limits the amount to \$4,000 with certain exceptions (R.S. 1909, Sec. 1154); and the Banking & Trust Co. laws of the State of Washington, (Sec. 143) limit the amount to \$3,000. These are not all of the States whose laws contain such a limitation but they are sufficient to indicate that the usual or ordinary conception of a savings account does not include surplus funds of large corporations or firms, or of wealthy individuals, temporarily deposited at interest with the bank pending investment by the owner.

Other illustrations of this well established meaning are numerous and they need not be given here. Running through all these laws

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and decisions is the basic idea that savings banks, and accounts carried by them, are essentially devoted to the small depositor, and that the primary purpose of savings banks is to receive, protect and increase the savings of persons of small means.

In 7 Corpus Juris, p. 867, it is said, "A very general rule of savings banks is that deposits will be paid only when the pass book of the depositor is presented with the order for payment", citing Mitchell v. Home Savings Bank, 38 Hun. (N.Y.) 255, and Rosenthal v. Dollar Savings Bank, 113 N. Y. S. 787.

And Morse in his work on Banks & Banking (5th Ed., Section 620 (b) says, "One of the commonest rules (of savings banks) is that the bank book must be produced in order to draw the deposit."

The laws of Georgia define a savings bank as one whose deposits are not subject to check. See Dottenheim v. Union Savings Bank, (Ga.) 40 S. E. 825.

In Whalen v. Milholland, (Md.) 43 Atl. 45, the court said that, "A savings bank book has a peculiar character. It is not a mere pass book or the statement of an account * * * * the book is the instrument by which alone the money can be obtained."

And in Jones v. Weakly, (Ala.) 12 So. 420, the court distinguished between savings pass books and commercial bank pass books and held that a commercial account could not be transferred by the transfer of the pass book, because "the money could be withdrawn from the bank, not by

production of the pass book, but on the check of the depositor." The necessary implication of this holding is that a savings account may be transferred by a transfer of the pass book, because such an account is not subject to check, and this is recognized generally by the courts.

It is believed, therefore, that the term "savings accounts" as it is commonly understood means generally accounts consisting of the savings or accumulations of small depositors which bear interest, are represented by pass books, and are not subject to check but can be withdrawn only upon the presentation of the pass book. Furthermore, it is believed that Congress had this concept in mind when it used that term in Section 19 of the Federal Reserve Act.

SUCH DEPOSITS NOT "SAVINGS ACCOUNTS."

It is understood that these so-called "special savings deposits" are received in unlimited amounts and do not consist of the accumulations or savings of persons of small means but are surplus funds of wealthy persons carried in the bank as a temporary form of investment. These accounts are popular with such people because they bear interest and are not subject to the inconvenience of ordinary savings accounts in that withdrawals may be made by check and without presentation of the pass book. It is understood also that they appeal exclusively to large depositors because no interest is paid on balances of less than \$500, which is entirely inconsistent with the idea of savings accounts but is a very common characteristic of interest-bearing checking accounts against which most

banks maintain 10% reserves without question.

It is quite clear from a consideration of these general characteristics that such accounts are not savings accounts within the commonly accepted meaning of that term but are rather specially privileged checking accounts; and the Board might well refuse to recognize them as savings accounts for this reason alone.

They are lacking in another and more important characteristic of savings accounts, however, which is believed to be an essential characteristic of "savings accounts" within the meaning of that term as used in Section 19 of the Federal Reserve Act, i.e., the bank does not require the presentation of the pass book at each withdrawal but in practice permits an unlimited number of checks to be drawn against them at any time. It has been shown above that the requirement that the pass book must be presented at each withdrawal is one of the distinguishing characteristics of savings accounts within the meaning of that term as it is commonly understood. A consideration of the reason why Congress permitted such accounts to be classified as time deposits for the purpose of computing reserves, even though they are "payable in less than thirty days", further demonstrates that this is an absolutely essential characteristic of "savings accounts" within the meaning of that term as used in Section 19.

THE REASON OF THE LAW.

When Congress enacted Section 19 of the Federal Reserve Act it was for the first time in the history of the reserve requirements of the

Federal law making a distinction between various classes of deposits and requiring less reserves to be maintained against one class than against another. This would be an unjustifiable discrimination if it did not bear some reasonable relation to the purpose of reserves.

It will be conceded that time deposits require a less reserve than demand deposits because by their very nature they are not subject to such large and frequent withdrawals, and the ~~purpose~~ purpose of reserves is to put a bank in a position to meet withdrawals by its depositors. Ordinary savings accounts clearly have this characteristic of time deposits. They are, as we have seen above, savings of small depositors, put aside in small amounts from time to time to accumulate and remain intact so far as possible for emergency uses and for future investment and, therefore, normally have a great degree of stability. This inherent stability is further enhanced by mechanical devices designed to minimize the ease of withdrawals. The commonest of such devices is the requirement that no withdrawal can be made unless the withdrawal order is accompanied by the pass book. This requirement is so common as to be recognized as an essential characteristic of savings deposits. The laws of several States, including New York, make this requirement in regard to savings accounts, and, as pointed out above, it has been frequently held that the pass book so far represents the right to withdraw a savings account that a transfer of the pass book effects a transfer of the right to the account itself.

Furthermore, it is evidenced from an analysis of the statute that Congress had this very characteristic of savings accounts in mind when it

enacted Section 19. In the first paragraph of that Section, Congress made a clear distinction between accounts payable after thirty days, and those which are merely subject to thirty days' notice before payment. All deposits of the former class are classified as time deposits, while the only deposits of the latter class which are classified as time deposits are "savings accounts" and "certificates of deposit". If a deposit is by its terms payable after thirty days the bank will not be expected to pay it before the specified date has arrived or the specified time has elapsed and is fully protected against withdrawals. Where a bank merely reserves the right to require thirty days' notice of the withdrawal of a deposit, however, it ordinarily permits withdrawals to be made without any notice and it usually is reluctant to require notice, because this displeases the depositor and may cause some unfavorable comment. Furthermore, it is probable that a bank in a "shaky" condition would not dare to exercise such right for fear of precipitating a run by its demand depositors. While the reservation of this right is probably intended to protect a bank against withdrawals, therefore, it is not always effective. In classifying only savings accounts and certificates of deposit as time deposits when they were merely subject to thirty days' notice before payment, therefore, Congress must have relied upon something inherent in the nature of such deposits to afford the bank some additional protection. One does not have to search long to find a common characteristic of these two classes of deposits which afford very effective protection against

frequent withdrawals - neither savings accounts nor certificates of deposit are ordinarily subject to check, and it is inconvenient to withdraw them because the certificate or pass book usually has to be presented at the time of each withdrawal.

It is thus seen that the requirement in the definition of savings accounts contained in the Board's Regulation D, that "the pass book, certificate, or other similar form of receipt must be presented to the bank whenever a * * * withdrawal is made", is not an arbitrary requirement, but is in entire accord with the accepted meaning of the term "savings accounts" and the considerations which led Congress to classifying such accounts as time deposits.

It is argued on behalf of the California banks that there is no magic in the presentation of the pass book whenever withdrawals are made, that this requirement is an unessential, a mere matter of procedure and has no relation to the amount of reserve which a bank should keep against such deposits. Magic does not enter into the question of what is a savings account, but clearly the requirement of presentation of the pass book has infinitely more importance than the mere name by which an account is called. The requirement that the pass book must be presented when withdrawals are made is a most effective means of preventing frequent withdrawals and thus preserving the inherently stable character of savings deposits; and because of this it does have a very real relation to proper reserve requirements. A provision that the pass book must be presented when withdrawals are made is a more important element in characterizing savings

accounts as time deposits than the provision that thirty days' notice of withdrawal may be required, because even if such notice is not required, - and as a practical matter it rarely is - the presentation of the pass book at each withdrawal protects the accounts from too frequent withdrawals and prevents it from degenerating from a savings account into a checking account.

An account which may be withdrawn without presentation of the pass book and is subject to be checked against, is not, for that very reason, properly a savings account. As we have seen, a savings account is intended as a means of gradual accumulation of savings. It is a capital account and properly is subject to withdrawal only when the occasion justifies an expenditure from capital account. An account which is subject to check, however, is intended to be a liquid fund, from which the depositor's current and ordinary expenses may be met - the checking privilege in itself makes the account essentially adapted to this purpose and is the one outstanding distinction between a savings account and an ordinary checking account. It would be as reasonable to say that a checking account may not be withdrawn except upon presentation of the pass book as to say that a savings account is subject to check. The idea of checking is utterly repugnant to the idea of a savings account, and the two cannot exist together.

While the State Banks argue at some length that these accounts are relatively inactive and say that they carefully prevent them from be-

ing used as commercial accounts, there is some testimony to the contrary. Thus, one of the replies to a circular letter which Mr. Perrin sent to a number of prominent bankers in California requesting their views with reference to these so-called "special savings deposits" contains the following statement:

"Of course, you and I know, as a matter of fact that depositors who carry these special savings accounts check on them just the same as a commercial account, and they are in fact, in many cases, business accounts where the depositor does not require lending facilities and expects to check on them freely at all times. I doubt whether many of the depositors of these accounts really understand that they are subject to a notice. It is certain that if one were required at any time it would undoubtedly create a great deal of trouble for the bank which might demand such notice."

The representatives of the State Banks argue that there is no difference between their special savings accounts and their ordinary savings accounts, except that in the case of the former, the requirement that the pass book must be presented is waived. In my opinion, that one difference is fundamental and is alone sufficient to preclude these special savings accounts from being classified as time deposits within the meaning of Section 19 of the Federal Reserve Act. I am unable to reach any conclusion in this matter except that these so-called "special savings deposits" are essentially checking accounts and should be considered as demand deposits for the purpose of computing the reserves to be maintained under Section 19 of the Federal Reserve Act.

ARGUMENTS ON BEHALF OF CALIFORNIA STATE BANKS.

Most of the arguments advanced on behalf of the California State banks may be divided into three classes:

(1) Those based purely upon considerations of policy and which are designed to show why such accounts are morally entitled to be classified as savings accounts for the purpose of computing reserves. These arguments have no direct bearing on the legal question whether or not such accounts can properly be considered "savings accounts" under existing law and they need not be answered here. It is the function of Congress rather than the Board to pass on the question of policy whether or not the law should be amended so as to permit such deposits to be classified as savings accounts.

(2) Those arguments based upon the allegation that such deposits are treated as savings deposits by the State law and by the State banking authorities. This also has no bearing on the question whether such accounts are "savings accounts" within the meaning of Section 19 of the Federal Reserve Act. Otherwise, the California Legislature could in effect amend Section 19 of the Federal Reserve Act by declaring anything it chose to be savings accounts. Thus, it could provide that ordinary commercial checking accounts should be considered savings accounts if they are invested in a certain way, are received from red-headed men, or comply with some other whim of the State Legislature.

(3) Those which are based upon the fact that savings deposits in California State banks are subject to certain safeguards which the California law throws about savings deposits, and, therefore, are safer than ordinary checking accounts. Such safeguards consist principally of restrictions on the kinds of loans and investments that may be made by savings banks and on the power of such banks to borrow money and rediscount paper. This argument has more force, because such protection is a fairly common attribute of savings deposits generally and, therefore, might be considered a proper element of a definition of the term "savings accounts". This feature, however, has no reasonable relation to the theory on which Congress made a distinction between the reserves which should be carried against time deposits and those which should be carried against demand deposits. This distinction was not based on the theory that time deposits are safer than demand deposits but on the theory that time deposits are subject to less frequent withdrawals than demand deposits. Congress did not have in mind the safe investment of time deposits but rather the ability of a bank to meet the demand of its depositors.

Furthermore, these special safeguards which are applicable to savings accounts in California state banks did not constitute one of the characteristics of the class of savings accounts that Congress had most prominently in mind when it enacted Section 19 of the

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Federal Reserve Act. This appears very clearly from a consideration of the history of the enactment of that provision. The first paragraph of that Section, which defines time and demand deposits, was contained in the Federal Reserve Act as originally enacted December 23, 1913, and has never been amended. At the time of the enactment of the Federal Reserve Act it was certain that all national banks in the continental United States would become members of the Federal Reserve System, because they were required to do so; but it was uncertain whether any State banks would become members. Furthermore, the reserve requirements of Section 19 of the Federal Reserve Act superseded the previously existing reserve requirements of the National Bank Act which were the only reserve requirements applicable to national banks; while State banks, on the other hand, were subject to reserve requirements of the State laws which were not superseded by the provisions of Section 19 but remained in full force and effect until amended by the State legislatures. It is clear, therefore, that the class of banks which Congress had most prominently in mind when it enacted Section 19 of the Federal Reserve Act and which were to be most surely and most seriously affected by the provisions of that Section were national banks. But savings deposits in national banks are not restricted as to investment in any way different from any other deposits of the national banks nor are they required to be segregated in separate departments and held as a trust fund for

savings depositors. Nor have they any of the other peculiar characteristics pertaining to savings accounts in California State banks upon which the representatives of the State banks lay such great stress. It is obvious, therefore, that such safeguards and restrictions are not the distinguishing characteristics of the kind of "savings accounts" which Congress had most prominently in mind when it enacted Section 19 of the Federal Reserve Act.

I do not deny that Congress also had in mind State banks and trust companies with savings departments, but it can hardly be doubted that it had national banks most prominently in mind and intended to use language applicable to them as well as to State institutions.

Mr. Elliott's brief contains the surprising statement that, "This discussion cannot be based upon the conditions surrounding 'savings accounts' in any other State or upon the general character of such deposits elsewhere, but must be predicated solely upon an understanding of the distinctive character of 'savings deposits' under the California Bank Act." In this Mr. Elliott is manifestly wrong. The question at issue depends, not upon any interpretation of the California Bank Act, but upon the proper interpretation of term "savings accounts" as used in the Federal Reserve Act. When it enacted the Federal Reserve Act Congress was not legislating for California alone but for the whole United States, and when it used the term "savings accounts"

it did not have in mind any unique kind of accounts in California or any other single State but a broad class of accounts which are commonly known as savings accounts all over the country. This is too obvious to require any further argument.

Much stress is laid on the fact that the California Act provides that whenever there is a call by savings depositors for repayment of a greater amount than the bank may have disposable for that purpose, the directors or other officers of the bank must not make any new loan or investment of the funds of such depositors or of the earnings thereof until such excess of call has ceased. For the reasons set forth above, it is not believed that this unique provision of the California law has any real bearing on the question at issue. Furthermore, this provision would seem quite superfluous. It is nothing more than a common-sense rule which any banker in his right mind would observe in the absence of a statute requiring him to do so. It amounts merely to saying that a savings department should not tie up any more of its available funds or investments when it is unable to pay its depositors and, therefore, is in danger of a run and consequent insolvency. There is about as much reason to put such a provision into the law as there is for putting in a provision that the bank shall not make loans to a hopelessly insolvent corporation.

It is also urged that this provision prevents a bank from being insolvent when it is unable to meet the demands of its depositors. It is not seen how such a provision has any bearing on the legal

question whether or not a bank is insolvent under such circumstances, but even if it did have this effect it would not have any important bearing on the question now under consideration.

Mr. Elliott states that in compliance with a requirement of the State Banking Department, the checks used by "special savings depositors" bear on their faces the words, "Subject to Rules Governing Special Savings Accounts". While this renders such checks technically non-negotiable, it appears that in practice they circulate freely and are handled through the clearing houses like any ordinary commercial checks.

Mr. Elliott's brief also contains the following statement:

"The use of this special form of check is permitted at the option of the bank and not at the option of the depositor and we believe that the depositors are well aware of the fact that this privilege may be withdrawn at the option of the bank and that it will be withdrawn if checking against such an account becomes active. The termination by the bank of a special savings account is usually by transfer to an ordinary commercial account."

I do not quite see what Mr. Elliott was trying to prove by this statement, but to my mind it shows very clearly that these accounts resemble commercial accounts much more than savings accounts, and that their tendency is to become commercial accounts.

It is intimated that a strict enforcement of the Board's Regulation D requiring such deposits to be treated as demand deposits in computing reserves would amount to a discrimination in favor of

national banks. This could not possibly be so, because Regulation D applies equally to all member banks, national as well as State, and if any national bank maintains such accounts it also must treat them as demand deposits for the purpose of computing reserves. But it is said that national banks have no such accounts because savings deposits in national banks are not subjected by the National Bank Act to the same safeguards as are thrown about savings deposits by the California Bank Act. This being true, it is manifest that it would be a discrimination against national banks to amend Regulation D so as to make a special exception favoring accounts which meet the peculiar requirements of the California Bank Act which cannot possibly be met by national banks.

Another argument advanced by Mr. Elliott is that these deposits should be treated as savings accounts because the State banks involved always have treated them as savings accounts in computing their reserves and have carried only 3% reserves against them. As shown above, however, this was directly contrary to the Board's ruling on the subject and constituted a violation of the Board's regulations and the terms of the Federal Reserve Act. It is manifestly absurd to argue that the Board's regulations ought to be amended because the parties desiring to see them amended have wilfully and consistently violated them. This is like a man attempting to lift himself by his own boot-straps.

One of the arguments of policy advanced by the representative of the State banks which deserves special mention is that if the same reserves must be maintained against these deposits as against demand deposits several of the largest State member banks in California may withdraw from the System rather than maintain the increased reserves.***

Under date of May 5, 1919, Mr. Perrin addressed a letter to Governor Harding which contained the following statement:

"In the campaign upon which we are entering to bring in California State banks as members, we may find it an important obstacle if 'special savings' deposits are held to be demand deposits and whether it will prove an insuperable obstacle in many cases cannot, of course, be foretold".

In reply, Governor Harding stated the Board's position, in part, as follows:

"The Board is of the opinion, therefore, that the present regulations should not be amended and that in any case where notice of withdrawal is not mandatory the pass book must be presented at the time of withdrawal if the account is to be considered a time deposit.

"The Board appreciates that this may deter some of your State banks from joining the System just as it made certain State institutions in New York hesitate about becoming member banks, but it does not feel that it can properly change its position in the matter merely on that account though it hopes that something may be done to persuade those institutions in California to join even though the special savings account as handled at the present time cannot properly be classified as time deposits."

Both Mr. Elliott and Mr. McAdoo question the Board's jurisdiction "to deny their character to deposits which comply with all the requirements of the California Bank Act for savings deposits and which have been recognized and treated as such by the State Banking Department ever since these deposits have been in existence." They quote

Section 9 of the Federal Reserve Act to the effect that, "Subject to the provisions of this Act and to the regulations of the Board made pursuant thereto, any bank becoming a member of the Federal Reserve System shall retain its full charter and statutory rights as a State Bank or trust company and may continue to exercise all corporate powers granted it by the State in which it was created, and shall be entitled to all privileges of member banks", and argue that it is open to serious question whether the Board can by regulation prescribe a definition of savings accounts which is in conflict with the State law. They say that to treat special savings deposits as commercial deposits for the purposes of computing reserves is to disregard the California Bank Act. The question at issue, however, is what are the correct reserves to be maintained under the provisions of the Federal Reserve Act? and no right derived from State law is involved. If the State banks had any right (which they have not) to treat so-called special savings deposits as savings accounts for the purpose of computing reserves, such right would be derived from the terms of Section 19 of the Federal Reserve Act and not from any provision of the State law. The Board's regulations do not purport to say that such deposits are not "savings deposits" within the meaning of the California Bank Act but merely that they are not "savings accounts" within the meaning of the Federal Reserve Act. Manifestly, the classification of such accounts as demand deposits within the meaning of the Federal Reserve Act does not deny to State banks the

right to maintain such accounts; and, even if it did, it would be excepted from the above restriction of Section 9 by the plain terms of the words underlined.

Both Mr. McAdoo and Mr. Elliott argue that the true purpose of a reserve against deposits is to insure a reasonable ability on the part of the bank to meet withdrawals, and to that extent I agree with them. Mr. Elliott argues further that the presentation of the pass book has little or nothing to do with the ability of the bank to meet withdrawals. As demonstrated above, however, the presentation of a pass book has a very vital bearing on the frequency of withdrawals, because it prevents the accounts involved from becoming mere checking accounts which everyone admits are subject to more frequent withdrawals than strictly savings accounts, and this directly affects the bank's ability to meet withdrawals.

Mr. McAdoo argues that the true distinction between a savings account and a commercial account lies in the difference in the relation which the bank holds to the deposit - a savings bank being a trustee whose power over its deposits is limited and restricted by law in special ways as compared with the powers of a commercial bank. While this may be true in one sense, this distinction has no direct relation to the amount of reserves which should be maintained against savings deposits. It has not nearly such an important bearing on the frequency of withdrawals as the question whether or not such accounts

are permitted to be checked against or whether they can be withdrawn only upon the presentation of the pass book.

Mr. McAdoo continues this line of argument as follows:

"The true test of a Savings Deposit is therefore whether or not the deposit is made in an institution which is subject to the requirements and restrictions placed by law on savings banks and which, in consequence, must reserve to itself, with respect to such deposits, the right to receive prior notice of withdrawal. It is submitted that if a commercial bank, not subject to the laws regulating savings banks, instituted a form of deposit which met both the requirements of Regulation 'D'*** which required both presentation of pass book and notice of withdrawal, such a deposit would still not be a 'Savings Deposit' because not subject to the protection and guarantees with which the law surrounds the relation between a savings bank and its depositors."

While this may be true as to the meaning of the term "savings deposits" as used in the California Bank Act, it cannot be true as to the meaning of the term "savings accounts" as used in the Federal Reserve Act, which is the statute under consideration. Otherwise national banks (which undoubtedly were the banks which Congress had most prominently in mind when it enacted Section 19 of the Federal Reserve Act) could not have any savings accounts.

Mr. McAdoo calls attention to the fact that, under the terms of Section 19 "savings accounts" are to be considered as "time deposits" where they are merely "subject to not less than thirty days notice before payment", whereas other time deposits must be "payable after thirty days". He says, "all that is required is that the savings bank should reserve to itself the right at any time to insist upon such

period of notice and to postpone payment until its expiration" and that "other accounts are to be treated as 'time deposits' only where there is a flat postponement of payment for thirty days or more." He then argues that this distinction between time deposits and savings accounts rests on the fact that the laws governing the operations of savings banks limit the power of withdrawal by depositors in such a way as to throw around funds of the savings bank, even where no notice of withdrawal is actually required, a protection which the funds of a commercial bank do not enjoy. He illustrates this by reference to a number of peculiar provisions of the California Bank Act. He sums up this argument with the statement that "It, therefore, seems to follow that the words 'Savings Accounts' as used in Section 19 of the Federal Reserve Act, mean nothing more than 'accounts in savings bank.'" This argument also is open to the objection that it is entirely inapplicable to savings accounts in national banks, and if Mr. McAdoo's view were accepted it would be impossible for national banks to maintain savings accounts within the meaning of Section 19 of the Federal Reserve Act, which right they have exercised for years without question.

Mr. McAdoo contends that Regulation D adds some additional requirements to those prescribed by Section 19 and questions the Board's right to change the meaning of Section 19 by regulation. I agree with him that the Board has no right to enact a regulation which is inconsistent with the plain terms of the Act, but I believe that the Board's Regulation D is nothing more than a reasonable interpretation of the mean-

ing of the Act, and that that part of it which defines "savings accounts" is entirely consistent with the language and philosophy of the Act and the intent of Congress in enacting it. Furthermore, I am of the opinion that any attempt on the part of the Board to amend its Regulation D so as to waive the presentation of the pass book and require only 3% reserves against these so-called "special savings deposits", which are in reality specially privileged checking accounts, would be inconsistent with the law and, therefore, would be entirely unauthorized.

The fact that the Board's present definition of savings accounts has been in force for over eight years and has not been questioned except by these few California banks and by them only as to its effect on this peculiar class of deposits would be given great weight by a court as indicating the proper construction of that term as used in the Federal Reserve Act.

"It is a rule, announced by the Supreme Court of the United States at an early day, and which has since been followed in numerous cases both in the federal and state courts, that the contemporaneous construction put upon a statute by the officers who have been called upon to carry it into effect, made the basis of their constant and uniform practice for a long period of time, and generally acquiesced in, and not questioned by any suit brought, or any public or private action instituted, to test and settle the construction in the courts, is entitled to great respect, and if the statute is doubtful or ambiguous, such practical construction ought to be accepted as in accordance with the true meaning of the law, unless there are very cogent and persuasive reasons for departing from it". (Black, Interpretation of Laws, Second Edition, p. 301.)

CONCLUSION.

In conclusion, I am of the opinion that:

1. The Federal Reserve Board did not exceed its powers when it prescribed in Regulation D that in order for a deposit to be considered a "savings account" in computing reserves it must be a deposit which is not subject to withdrawal without the presentation of a pass book, certificate, or other similar form of receipt.
2. The Federal Reserve Board would exceed its powers if it amended its Regulation D so as to permit deposits which are subject to withdrawal by check without the presentation of a pass book, certificate of deposit or similar receipt to be classified as "savings accounts" for the purpose of computing reserves.
3. The so-called "special savings deposits" of California banks cannot properly be considered "savings accounts" within the meaning of Section 19 of the Federal Reserve Act, not only because they are subject to withdrawal without the presentation of the pass book but also because they are checking accounts and differ essentially from that class of accounts which is generally known and recognized as savings accounts.
4. Such deposits must be classified as demand deposits in computing the reserves to be maintained under the terms of Section 19, because they are essentially checking accounts; and the Board would fail in the performance of its duty if it permitted only 3% reserves to be maintained against them.

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X-3611

5. The only manner in which such deposits can legally be made subject to 3% reserves without changing the terms on which they are received is by an amendment to the law.

Respectfully submitted,

(Signed) Walter Wyatt

General Counsel.

COPY

X-3613

January 9, 1923.

Mr. M. G. Wallace, Counsel,
Federal Reserve Bank of Richmond,
Richmond, Virginia.

Dear Mr. Wallace:

Please accept my thanks for your letter of December 29 containing your views with reference to the letter addressed to me under date of December 18 by Mr. E. B. Stroud, Jr., Office Counsel to the Federal Reserve Bank of Dallas.

I have read your letter with much interest, and, while I have been prevented by great pressure of work from making any investigation of the subject, I am rather inclined to agree with your suggestion that if a customer deposits a check in a bank which forwards it to another bank for collection, the right of the customer to sue the second bank depends upon the relationship between himself and the first bank, and that relationship is determined by the law of the State in which the first bank is located. It seems to me that the question whether the so-called New York rule, or the so-called Massachusetts rule, is to apply depends upon which interpretation is placed upon the contract entered into between the first bank and its depositor. It is a general principle applicable in cases involving conflicts of laws that a contract is to be construed in accordance with the *lex loci contractus*, which, in this case, would be the law of the State in which the first bank is located. As indicated above, however, this is merely my off-hand impression and is not to be taken as a definite opinion.

I am very glad that you find our practice of distributing reports on cases of general interest to the Federal Reserve System to be of some assistance.

Very truly yours,

(Signed) Walter Wyatt

General Counsel.

COPY

Federal Reserve Bank
of Richmond.

X-3613

December 29, 1922.

Mr. Walter Wyatt, General Counsel,
Federal Reserve Board,
Washington, D. C.

My dear Mr. Wyatt.

I have your letter of December 28th enclosing the interesting letter of Mr. E. B. Stroud, Jr., Office Counsel to the Federal Reserve Bank of Dallas. The point presented is certainly a striking one. The so-called Massachusetts and New York rules are always breeding trouble, and I heartily approve of the suggestion of Mr. Stroud that a uniform circular should be adopted, but I incline to think that it would be wise to defer this circular until the several cases now pending involving collections have been decided, in order that the circular may be drawn in the light of the decisions.

It seems to me that in Mr. Stroud's case the court in Dallas erred. I should say that the right of the original depositor to sue a remote agent should be determined not by the law of the state in which the remote agent is located, but by the law of the state in which the original deposit was made. The theory upon which the courts deny the right of the original depositor to sue the remote agent in those states in which the New York rule is applied is that the relation between a bank and a depositor is that of a general contractor, and that sub-contractors are not liable to the person who contracts with a general contractor. The theory upon which the courts apply the Massachusetts rule permitting the depositor to sue the remote bank is that the bank in which the check was originally deposited is a mere forwarding agent authorized to appoint sub-agents, who become the agents of and are responsible to the principal.

It seems to me that if we apply these principles it appears that if a customer deposits a check in a bank which forwards it to another bank, the right of the customer to sue the second bank depends upon the relationship between himself and the first bank, and that relationship is determined by the law of the state in which the first bank is located. If, under the law of that state, the first bank was an independent contractor, the customer could not sue. If, under the law of that state, the first bank was a for-

warding agent, the customer could sue.

It has always seemed to me that the books upon the subject lay too much stress upon the so-called New York rule and the so-called Massachusetts rule. They are not really rules of law at all, but are merely rules of construction which the courts apply to the contract between a bank and its depositor when the parties have not by express provision made clear the exact relationship which they intended to assume to each other.

In addition to the above it seems to me that in the case mentioned by Mr. Stroud an action could be brought against the Federal Reserve Bank of Dallas in the name of the member bank which sent the check for the use of its depositor.

In the case of Malloy Bros. v. Federal Reserve Bank of Richmond I am making the point that this suit could not be maintained by Malloy Bros. directly against the Federal Reserve Bank; but, as you will see from the above, I do not think my own point is a strong one, and I have little hope of getting the court to go further than to hold that the suit may be brought by Malloy Bros., but that when so brought it is open to every defense or excuse which could be urged against the member bank which sent us the check.

I thank you for sending me this letter from Mr. Stroud, and I hope that you will continue the very helpful practice of distributing to counsel for the various banks reports upon decisions affecting the operations of the Federal Reserve Banks; it is certainly a great assistance.

Very truly yours,

(Signed) M. G. Wallace,

Counsel.

TREASURY DEPARTMENT
Office of the Secretary
WASHINGTON.

January 8th 1923.

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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 December 1 to December 31, 1922, amounting to \$140,419.70, as follows:

<u>Federal Reserve Notes 1914</u>				
	<u>\$5</u>	<u>\$10</u>	<u>\$20</u>	<u>Total</u>
Boston	227,000	261,000	--	488,000
New York	225,000	290,000	175,000	690,000
Philadelphia	239,000	18,000	--	257,000
Cleveland	--	25,000	25,000	50,000
Richmond	38,000	--	--	38,000
Atlanta	200,000	71,000	38,000	309,000
St. Louis	175,000	75,000	32,000	282,000
Minneapolis	77,000	25,000	15,000	117,000
Kansas City	90,000	--	--	90,000
Dallas	125,000	13,000	38,000	176,000
San Francisco	175,000	63,000	50,000	288,000
	<u>1,571,000</u>	<u>841,000</u>	<u>373,000</u>	<u>2,785,000</u>

2,785,000 sheets at \$50.42 \$140,419.70

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	488,000	\$8,237.44	\$ 7,783.60	\$ 6,202.48	\$ 2,381.44	\$ 24,604.96
New York	690,000	11,647.20	11,005.50	8,769.90	3,367.20	34,789.80
Philadelphia . . .	257,000	4,338.16	4,099.15	3,266.47	1,254.16	12,957.94
Cleveland	50,000	844.00	797.50	635.50	244.00	2,521.00
Richmond	38,000	641.44	606.10	482.98	185.44	1,915.96
Atlanta	309,000	5,215.92	4,928.55	3,927.39	1,507.92	15,579.78
St. Louis	282,000	4,760.16	4,497.90	3,584.22	1,376.16	14,218.44
Minneapolis	117,000	1,974.96	1,866.15	1,487.07	570.96	5,899.14
Kansas City	90,000	1,519.20	1,435.50	1,143.90	439.20	4,537.80
Dallas	176,000	2,970.88	2,807.20	2,236.96	858.88	8,873.92
San Francisco . . .	288,000	4,861.44	4,593.60	3,660.48	1,405.44	14,520.96
	<u>2,785,000</u>	<u>47,010.80</u>	<u>44,420.75</u>	<u>35,397.35</u>	<u>13,590.80</u>	<u>140,419.70</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,
(Signed) W. S. Broughton,
Commissioner.

FEDERAL RESERVE BOARD

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WASHINGTON

X-3616
January 13, 1923.

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

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-3616a and X-3616b, covering in detail operations of the main line, Leased Wire System, during the month of December, 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 DECEMBER, 1922.

From	Bank Business	Per cent of Total Bank Business(*)	Treasury Dept. Business	War Finance Corp. Business	Total
Boston	34,067	2.92	14,809	-	48,876
New York	221,185	18.93	25,065	14	246,264
Philadelphia	57,254	4.90	14,305	-	71,559
Cleveland	87,023	7.45	17,735	21	104,779
Richmond	69,094	5.91	11,824	-	80,918
Atlanta	66,138	5.66	16,193	246	82,577
Chicago	162,921	13.94	18,279	-	181,200
St. Louis	90,482	7.74	17,794	-	108,276
Minneapolis	47,261	4.05	12,224	46	59,531
Kansas City	90,978	7.79	17,835	20	108,833
Dallas	83,365	7.14	10,213	90	93,668
San Francisco	<u>158,599</u>	<u>13.57</u>	<u>30,259</u>	-	<u>188,858</u>
Total F. R. Banks	1,168,367		206,535	437	1,375,339
Washington	<u>320,307</u>	<u>100.00</u>	<u>275,736</u>	<u>323</u>	<u>596,366</u>
Grand Total	1,488,674		482,271	760	1,971,705
Per cent of total	75.50%		24.46%	0.04%	
Bank Business	1,488,674 words or	75.53%			
Treasury	<u>482,271</u> " "	<u>24.47%</u>			
TOTAL	1,970,945	100.00%			

(*) These percentages used in calculating the
pro rata share of leased wire expenses as
shown on the accompanying statement (X-3616b)

FEDERAL RESERVE BOARD,
WASHINGTON, D. C.

JANUARY 13, 1923.

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

X-3616b

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	\$ 6.00	-	\$ 256.00	\$ 662.81	\$ 256.00	\$ 406.81
New York	1,292.72	39.00	-	1,331.72	4,296.94	1,331.72	2,965.22
Philadelphia	225.00	-	-	225.00	1,112.26	225.00	887.26
Cleveland	366.00	-	-	366.00	1,691.08	366.00	1,325.08
Richmond	305.00	-	-	305.00	1,341.52	305.00	1,036.52
Atlanta	240.00	-	-	240.00	1,284.77	240.00	1,044.77
Chicago (#)	4,727.35	6.00	-	4,733.35	3,164.25	4,733.35	(*)1,569.10
St. Louis	200.00	-	-	200.00	1,756.91	200.00	1,556.91
Minneapolis	275.00	-	-	275.00	919.31	275.00	644.31
Kansas City	326.94	9.33	-	336.32	1,768.26	336.32	1,431.94
Dallas	170.00	-	-	170.00	1,620.72	170.00	1,450.72
San Francisco	395.00	-	-	395.00	3,080.27	395.00	2,685.27
Fed. Res. Board			16,993.36	16,993.36			
TOTAL	\$8,773.01	\$60.33	\$16,993.36	\$25,827.25 (a) 5.123.12 \$22,699.10	\$22,699.10	\$8,833.39	\$15,434.81 (&)1,569.10 \$13,865.71

(#) Includes salaries of Washington Operators.

(&) Amount reimbursable to Chicago.

(*) Credit.

(a) Received \$3,100.00 from Treasury Dept. and \$23.15 from War Finance Corp. covering business for months of December and November, 1922, respectively.

FEDERAL RESERVE BOARD,
WASHINGTON, D. C.
JANUARY, 13, 1923.

FEDERAL RESERVE BOARD

WASHINGTON

X-3620

January 19, 1923.

SUBJECT: Services rendered by, and Salaries paid to,
Counsel of Federal Reserve Banks.

Dear Sir:

The Federal Reserve Board desires to obtain complete information with reference to the arrangement entered into by the various Federal Reserve Banks for legal services, and the salaries, fees, and other compensation paid for such services. To this end, you are requested to furnish the Board with a complete explanation of the arrangements entered into by your bank for such services, and especially as to the following details:

- (1) What counsel, assistant counsel, office counsel or law clerks are employed or retained by the bank?
- (2) What services are performed by each of them?
- (3) Do they devote all of their time to the service of the bank, or are they engaged also in general practice?
- (4) What salaries, fees or retainers are paid to each of them?
- (5) If any of such payments are not fixed, what is the basis of compensation?
- (6) Does the regular compensation paid them cover all services which they may be called upon to render, or are they paid additional fees for extraordinary services such as the trial of important cases?
- (7) Are their offices in the Federal Reserve Bank building, and, if not, does the bank pay any part of

their office expenses?

- (8) Furnish the Board with a statement of all moneys paid for legal services during the year 1922.

A prompt reply is requested.

By order of the Federal Reserve Board,

Very truly yours,

Wm. W. Hoxton,
Secretary.

TO CHAIRMEN OF ALL
FEDERAL RESERVE BANKS.

COPY

FEDERAL RESERVE BANK

OF DALLAS

X-3621

January 13, 1923.

Federal Reserve Board,
Washington, D. C.

Gentlemen: Attention Mr. Walter Wyatt, Counsel

I have your letter of January 10 enclosing copy of X letters 3613. I note that in the letter addressed to you by Mr. Wallace of date December 29, Mr. Wallace expresses the opinion that the Dallas Court erred in the case which I called to your attention, because "the right of the original depositor to sue a remote agent should be determined not by the law of the state in which the remote agent is located, but by the law of the state in which the original deposit was made." I also observe from your letter of January 9 addressed to Mr. Wallace that you are inclined to agree with this view.

This very point was raised by the opposing Counsel of the Dallas case and we argued the matter at some length. I think the proposition made by Mr. Wallace is sound, providing the law of the State in which the original deposit was made is a positive or statutory law, unless, of course, this would be effected by the terms of the Federal Reserve Act. If there is no statutory law, and it is a question of general commercial law, or the common law; that is, if the Court is free to apply either the so-called Massachusetts rule or the so-called New York rule, then I am of the opinion that each Court will hold that there is but one common law, and that its interpretation of that common law is the correct interpretation. In other words, it is my understanding that Courts will follow the Courts of sister States where those Courts are interpreting the positive of statutory law of the sister State, but when arriving at the common law each Court will assume that its interpretation of the common law is the correct interpretation, the interpretation of Courts of sister States to the contrary notwithstanding. In this connection I call your attention to the following list of authorities:

St. Nicholas Bank vs State National Bank,
13 L. R. A., 241.
Faulkner vs Hart, 82 N. Y., 413.

Swift vs Tyson, 10 Law Ed., 865
Oats vs National Bank, 25 Law Ed., 580.
Third National Bank vs National Bank of
Commerce, 139 S. W., 665.
Liverpool Steamship Co. vs Phenix Insurance
Company, 129 U. S., 397.

As I have previously advised you, we have a suit pending in the District Court of the United States at El Paso, in which we have raised this question, and I will advise you of the outcome of this case, and will also furnish you with any briefs that may be filed.

Very truly yours,

(Signed) E. B. Stroud, Jr.

Office Counsel.

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS.

X-3623.

For release in afternoon papers,
Friday, February 2, 1923.

CONDITION OF THE ACCEPTANCE MARKET

DECEMBER 15 to JANUARY 15, 1923.

According to the reports received by the Federal Reserve Board from the Federal Reserve Banks in the various Districts, the acceptance market during the period under review showed an increased activity over the period from November 15 to December 15. Year-end financing added to the volume of offerings, and the release of funds held by banks to strengthen their first of the year position helped the demand. Rates remained fairly steady, with some indications of slight declines toward the end of the present period.

In District No. 2 (New York) a lively demand was in evidence throughout the period and a trading market was developed to a large extent. As the year drew to a close dealers' purchases increased substantially beyond their sales with the result that the aggregate portfolios advanced from about \$37,000,000 on December 16 to approximately \$47,000,000 at the close of the year. However, an easing of money and a strong investment demand resulted in a decline in dealers portfolios to around \$31,000,000 on January 13. District No. 1 (Boston) reports a limited supply of bills throughout the period. The demand was light at the beginning of the period, but

by the end of the year had increased to an excellent volume from outside the District. This was followed in January by a good demand from both local investors and country banks. The portfolios of the dealers were depleted to some extent and the holdings of the Federal Reserve Bank of Boston were reduced from \$27,000,000 to \$19,000,000.

In Districts No. 3 (Philadelphia), No. 7 (Chicago), and No. 10 (Kansas City) the supply of bills was only fair but was accompanied by a good demand. District No. 4 (Cleveland) reports the market has continued practically stationary with some slight increase in the demand and a limited supply of bills, while the aggregate of domestic acceptances executed in District No. 6 (Atlanta) for the month of December was \$4,175,550 as compared with \$4,200,120 in November. District No. 11 (Dallas) reports an increase in the volume of bills executed and in District No. 12 (San Francisco) a generally strong tone has characterized the market.

The bulk of acceptances in District No. 2 (New York) were based upon the following commodities, in order of their importance - grain, cotton, silk, dollar exchange, and coffee. In addition, bills were drawn in other Districts against sugar, wool, hides and leather, raisins, meats, iron, rubber, tobacco, copper, furs, auto tires, agricultural implements, canned goods, tire fabric, paints, and varnishes.

In District No. 2 (New York) there was a continued good demand for short maturities throughout the period, but bills gen-

erally did not move very freely until after the turn of the year when a brisk demand developed. District No. 1 (Boston) reports the best demand for short bills. In District No. 12 (San Francisco) the distribution of maturities of the bills marketed for the last two periods has been as follows:

	December 15 to January 15	November 15 to December 15
30-days	10 per cent	12 per cent
60-days	29 " "	36 " "
90-days	57 " "	44 " "
120-days	3.5 " "	2 " "
150-days	.5 " "	6 " "

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

Rates on Prime Bills

	Maturity	Range during period		Close	
		Bid	Offered	Bid	Offered
District No. 1 (Boston)	30-day	4-1/8	4	4-1/8	4
	60-day	"	"	"	"
	90-day	"	"	"	"
	120-day	"	"	"	"
	150-day	"	"	"	"
	180-day	"	"	"	"
District No. 2 (New York)	30-day	4-1/8	4	4-1/8	4
	60-day	"	"	"	"
	90-day	"	"	"	"
	120-day	4-1/8 - 4-1/4	4-4-1/8	4-1/8 - 4-1/4	4 - 4-1/8
	150-day	"	"	"	"
	180-day	4-1/2 - 4-3/8	4-1/8 - 4-1/4	4-3/8 - 4-1/2	4 - 4-1/4
District No. 3 (Philadelphia)	30-day	4-1/8 - 4-1/4	4	4-1/8	4
	60-day	"	"	"	"
	90-day	"	"	"	"
	120-day	4-1/8 - 4-3/8	4-4-1/8	4-1/8 - 4-1/4	4 - 4-1/8
	150-day	4-1/4 - 4-3/8	4-4-1/4	4-1/8 - 4-3/8	4 - 4-1/4
	180-day	4-1/4 - 4-5/8	"	4-1/8 - 4-1/2	"

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X-3623

	Maturity	Range during period		Close	
		Bid	Offered	Bid	Offered
District No. 4 (Cleveland)	30-day	4-1/8	4	4-1/8	4
	60-day	"	"	"	"
	90-day	"	"	"	"
	120-day	"	"	"	"
	150-day	"	"	"	"
	180-day	"	"	"	"
District No. 7 (Chicago)	30-day	4-1/8	4	4-1/8	4
	60-day	"	"	"	"
	90-day	"	"	"	"
	120-day	4-1/8 - 4-1/4	4 - 4-1/8	4-1/8 - 4-1/4	4 - 4-1/8
	150-day	4-1/4 - 4-1/2	4 - 4-1/4	4-1/4 - 4-1/2	4 - 4-1/4
	180-day	"	4-1/8 - 4-1/4	"	4-1/8 - 4-1/4

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

STATEMENT FOR THE PRESS

X-3624

For release in Morning Papers,
Thursday, February 1, 1923.

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

Production and prices remained relatively constant in December while trade and credit showed the usual increases in the holiday season followed by declines in January.

The index of production in basic industries, after rising rapidly since last August, showed a slight recession in December, though production was maintained at a level near the peak of 1920. The output of pig iron and coal continued to increase, but the production of certain other commodities particularly of cotton textiles and flour, showed decline. In southern districts the building industry continued active and in parts of the country much new construction was projected.

Railroad traffic continued heavier than a year ago, though the seasonal decline in car loadings and the reduction in bad order cars partially relieved freight congestion.

Employment in industrial establishments made a further advance in December, accompanied by wage increases in certain industries. Some shortage of labor in the eastern districts was still reported, but in Pacific states a substantial surplus of unskilled labor was indicated.

The general level of wholesale prices remained unchanged in December. Among various groups of commodities the price tendencies of recent months were continued. The prices of farm products, cloth, chemicals and housefurnishings registered further increases, while fuel and metal prices continued to decline.

During January a number of basic commodities advanced in price, and cotton, rubber and lead rose to the highest points since 1920.

Wholesale trade in most reporting lines showed a seasonal decline in December, but was considerably larger than a year ago. Farm implement dealers, however, reported larger sales than in November, and more than doubled their December, 1921, business. Retail sales of reporting stores during December reached the largest volume in the last 4 years.

Dividend and interest payments and the disbursement of Government funds in connection with the redemption of Victory notes and War Savings Certificates, together with the usual decline in the demand for currency after the holiday season, were attended by a large increase in the volume of new security issues and by somewhat easier money conditions. Open market commercial paper rates in

financial centers which were $4\frac{1}{2}$ to $4\frac{3}{4}$ per cent in December, declined to $4\frac{1}{4}$ and $4\frac{1}{2}$ per cent, respectively, in January.

Member banks in leading cities reported an increase in demand deposits, an important factor in which ^{was} the usual seasonal flow of funds from country districts to financial centers. While the volume of loans on stocks and bonds decreased in the first two weeks in January there was a somewhat larger increase in the investments owned by the banks.

At the Federal Reserve Banks the principal change between December 20 and January 24 was a reduction of \$230,000,000 in Federal reserve note circulation caused by the seasonal decline in currency requirements. Reserves increased \$65,000,000 while earning assets declined \$171,000,000. These changes are similar to developments in the same period a year ago, although the decline in earning assets was less than last year.

FEDERAL RESERVE BOARD

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WASHINGTON

X-3625

January 27, 1923.

SUBJECT: Senate Resolution 335.

Dear Sir:

For the information of the officers of your bank, there have been sent to you today, under separate cover, ten copies of Senate Document No. 291, which is the reply made by the Federal Reserve Board to Senate Resolution No. 335, calling upon the Board to furnish the Senate with certain information with respect to those member banks in the Atlanta, St. Louis, Kansas City and Dallas Districts, whose borrowings were subject to progressive rates running up to or above 10 per cent.

Very truly yours,

Acting Governor.

TO THE GOVERNORS OF ALL
FEDERAL RESERVE BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

X-3626

January 31, 1923.

SUBJECT: Employment of Honorable John W. Davis in all Par Clearance
Litigation.

Dear Sir:

Under date of November 17, 1922, the Board addressed a circular letter (X-3566) to the Governors and Chairmen of all Federal Reserve Banks suggesting that, in order to obtain unity of policy and coordination of action in the conduct of all cases growing out of the par clearance controversy, all Federal Reserve Banks employ Honorable John W. Davis as special counsel in all such cases to direct the conduct of such litigation by local counsel and to participate actively in the trial of each case to such extent as he deems advisable, the expenses of his employment to be borne pro rata by all the Federal Reserve Banks. The Board has now received replies from all the Federal Reserve Banks approving of the employment of Mr. Davis in this capacity, and it is understood that each Federal Reserve Bank will notify Mr. Davis promptly of all developments in any such case which is now pending against it and of any similar suit which may be brought against it in the future. Of course, it is understood that the Federal Reserve Banks will not dispense with the services of their regular counsel or of any special counsel whom they have retained or desire to retain in such cases, but it is expected that they will request such counsel to consult Mr. Davis as to the conduct of all such litigation and to invite him to participate actively in the trial of each case to such extent as he deems advisable.

In compensating Mr. Davis for his services in this connection, the same practice will be followed as in connection with his employment in the Atlanta case - i.e., after approving the fee charged by Mr. Davis in each case the Board will authorize the Federal Reserve Bank which was a party to that case to pay such fee to Mr. Davis and will notify all of the other Federal Reserve Banks to remit to such bank their proportionate shares of such fee.

By order of the Federal Reserve Board.

Wm. W. Hoxton
Secretary.

Chairmen of all Federal Reserve Banks.

FEDERAL RESERVE BOARD

112

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-3628

February 1, 1923.

Dear Sir:

The Federal Reserve Board has recently caused to be printed a limited number of copies of the Transcript of Stenographic Minutes of the Conference with the Federal Reserve Board of the Federal Advisory Council and the Class A Directors of the Federal Reserve Banks, which was held at Washington on May 18, 1920.

The Board has instructed that a copy of this pamphlet be sent to all those who took part in the discussion, upon the occasion of the said Conference, and, inasmuch as your name appears as having taken part in the discussion, I take pleasure in enclosing herewith a printed copy of the transcript referred to.

Very truly yours,

Wm. W. Hoxton,
Secretary.

FEDERAL RESERVE BOARD
WASHINGTON

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February 2, 1923.
X-3629

SUBJECT: Open Market Purchases by Federal Reserve Banks.

Dear Sir:

As the open market purchases of Federal Reserve Banks are likely to be discussed at the next meeting of the Federal Advisory Council, the Board would like to have information from each Federal Reserve Bank as to its policy in making open market purchases whether of bankers acceptances or of Government securities.

Yours very truly,

Acting Governor.

To all Chairmen of Federal Reserve Banks.

OPERATIONS OF THE DETROIT BRANCH OF THE FEDERAL RESERVE BANK OF CHICAGO
AS COMPARED WITH OPERATIONS OF BRANCHES OF OTHER FEDERAL RESERVE BANKS.

X-3531

Federal Reserve Branch	Volume of Operations during 1922.				Daily average bill holdings during 1922	Member-banks reserve deposits Dec. 31, 1922	Cash holdings Dec. 31, 1922	Collateral and securities held in custody Dec. 31, 1922	Mail-number of envelopes received and dispatched, quarter ending Dec. 31, 1922	number of employees
	Checks handled		Currency receipts and shipments	Volume of bills discounted and bought						
	Number	Amount								
Detroit	10,763,000	\$2,686,428,000	\$618,062,000	\$476,753,000	\$13,395,000	\$32,738,000	\$56,043,000	56,043,000	163,274	153
Buffalo	10,235,000	2,193,517,000	321,897,000	608,768,000	10,424,000	17,471,000	22,882,000	14,857,000	127,776	125
Cincinnati	13,687,000	2,561,223,000	191,470,000	---	---	---	8,214,000	*	169,929	183
Pittsburgh	18,576,000	4,544,104,000	510,755,000	---	---	---	25,381,000	81,748,000	177,969	221
Baltimore	14,953,000	3,151,010,000	310,357,000	331,760,000	---	19,117,000	13,214,000	*	173,904	174
Birmingham	5,565,000	1,068,021,000	71,638,000	---	---	---	2,927,000	*	61,604	22
Jacksonville	3,306,000	542,707,000	61,229,000	---	---	---	2,139,000	*	60,472	27
Nashville	3,773,000	638,657,000	60,088,000	---	---	---	2,461,000	*	54,754	34
New Orleans	3,234,000	941,964,000	179,606,000	193,689,000	12,487,000	16,531,000	5,910,000	19,938,000	93,368	79
Little Rock	4,980,000	549,934,000	54,536,000	55,839,000	4,473,000	5,262,000	4,483,000	5,095,000	83,142	60
Louisville	7,108,000	1,067,780,000	181,413,000	409,613,000	4,533,000	9,418,000	6,427,000	18,624,000	108,795	83
Memphis	3,391,000	571,204,000	106,157,000	102,624,000	8,955,000	8,378,000	9,930,000	13,724,000	94,373	74
Helena	2,930,000	323,230,000	32,652,000	28,370,000	7,489,000	5,960,000	1,599,000	21,378,000	110,017	62
Denver	7,608,000	1,197,550,000	65,897,000	80,811,000	4,580,000	15,092,000	3,607,000	28,957,000	127,806	91
Oklahoma City	13,112,000	1,564,587,000	34,126,000	---	---	---	3,280,000	1,626,000	163,638	89
Omaha	9,178,000	1,195,296,000	49,236,000	94,089,000	9,559,000	14,970,000	3,135,000	20,677,000	200,550	128
El Paso	2,506,000	278,816,000	44,883,000	35,795,000	6,077,000	3,464,000	5,514,000	3,050,000	56,621	59
Houston	5,635,000	921,693,000	70,824,000	32,132,000	3,226,000	13,227,000	3,747,000	9,263,000	87,468	71
Los Angeles	23,710,000	3,164,944,000	363,777,000	77,889,000	5,052,000	43,737,000	17,629,000	44,424,000	148,548	239
Portland	4,158,000	669,427,000	66,753,000	59,173,000	3,540,000	12,296,000	5,212,000	5,589,000	95,735	80
Salt Lake City	5,812,000	723,001,000	27,662,000	279,039,000	16,307,000	9,081,000	5,287,000	17,256,000	87,284	179
Seattle	5,438,000	833,146,000	111,025,000	19,756,000	273,000	12,483,000	8,785,000	3,588,000	62,437	67
Spokane	3,259,000	430,274,000	20,696,000	55,817,000	3,872,000	6,123,000	5,221,000	4,515,000	76,819	65
TOTAL	183,017,000	31,818,513,000	3,573,741,000	2,941,917,000	114,242,000	248,348,000	189,083,000	330,352,000	2,586,283	2,365

* Data not available.

Figures as of November 29, 1922.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-3632
February 13, 1923.

SUBJECT: Expense Main Line, Leased Wire System, January, 1923.

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-3632a and X-3632b, covering in detail operations of the main line, Leased Wire System, during the month of January, 1923.

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 JANUARY, 1923.

From	Bank Business	Per cent of Total Bank Business(*)	Treasury Dept. Business	War Finance Corp. Business	Total
Boston	33,634	2.80	12,065	-	45,699
New York	222,703	18.53	21,094	-	243,797
Philadelphia	56,234	4.63	13,979	38	70,251
Cleveland	86,863	7.23	19,481	34	106,378
Richmond	69,764	5.81	10,650	-	80,414
Atlanta	72,981	6.07	13,477	-	86,458
Chicago	172,212	14.33	15,202	18	187,432
St. Louis	96,261	8.01	14,986	-	111,247
Minneapolis	46,490	3.87	10,366	-	56,856
Kansas City	94,921	7.90	14,948	-	109,869
Dallas	84,904	7.07	10,032	71	95,007
San Francisco	164,564	13.70	26,063	-	190,627
Total F. R. Banks	1,201,531		182,343	161	1,384,035
Washington	<u>313,993</u>	<u>100.00%</u>	<u>243,074</u>	<u>433</u>	<u>557,500</u>
Grand Total	1,515,524		425,417	594	1,941,535
Per cent of Total	78.06%		21.91%	.03%	
Bank Business	1,515,524 words or	78.08%			
Treasury	<u>425,417</u> " "	<u>21.92%</u>			
TOTAL	1,940,941	100.00%			

(*) These percentages used in calculating the
pro rata share of leased wire expenses as
shown on the accompanying statement (X-3632b)

FEDERAL RESERVE BOARD,
WASHINGTON, D. C.
FEBRUARY 13, 1923.

REPORT OF EXPENSE
MAIN LINE
FEDERAL RESERVE LEASED WIRE SYSTEM JANUARY, 1923.

X-3632b

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	\$ 13.00	\$ -	\$ 263.00	\$ 635.79	\$ 263.00	\$ 372.79
New York	1,309.14	12.00	-	1,321.14	4,207.58	1,321.14	2,886.44
Philadelphia	225.00	-	-	225.00	1,062.68	225.00	837.68
Cleveland	366.00	-	-	366.00	1,641.71	366.00	1,275.71
Richmond	315.00	-	-	315.00	1,319.27	315.00	1,004.27
Atlanta	240.00	-	-	240.00	1,378.31	240.00	1,138.31
Chicago (#)	4,683.86	7.00	-	4,690.86	3,253.89	4,690.86	(*) 1,436.97
St. Louis	205.00	12.23	-	217.23	1,818.82	217.23	1,601.59
Minneapolis	275.00	-	-	275.00	878.76	275.00	603.76
Kansas City	336.64	16.25	-	352.89	1,793.84	352.89	1,440.95
Dallas	170.00	.75	-	170.75	1,605.37	170.75	1,434.62
San Francisco	395.00	-	-	395.00	3,110.84	395.00	2,715.84
Fed. Res. Board			16,988.43	16,988.43			
TOTAL	\$8,770.64	\$61.23	\$16,988.43	\$25,820.30	\$22,706.86	\$8,831.87	\$15,311.96
				(a) 3,113.44			(&) 1,436.97
				\$22,706.86			\$13,874.99

(#) Includes salaries of Washington Operators.

(&) Amount reimbursable to Chicago.

(*) Credit.

(a) Received \$3,100.00 from Treasury Dept. and \$13.44 from War Finance Corp. covering business for the months of January, 1923 and December, 1922, respectively.

FEDERAL RESERVE BOARD,
WASHINGTON, D. C.
FEBRUARY 13, 1923.

FEDERAL RESERVE BOARD

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WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-3633

February 13, 1923.

SUBJECT: Economy and Efficiency.

Dear Sir:

There is being forwarded to-day a letter of instructions, together with a form of questionnaire, to your Group representatives appointed at a Conference of the Board's Committee on Economy and Efficiency with the Chairmen of the Procedure Committee of the various banks held in Chicago in December of last year. Your representatives will make a detailed study and survey of the

Accounting Function

Currency and Coin Function

Loans, Rediscounts & Investments Function

Transit and Collections Function.

The questionnaire referred to was prepared by the Chairmen of the several Groups in the different functions, at a meeting held in Washington on January 29th-30th.

The purpose of the questionnaire is to have certain information with reference to each of the functions prepared in a uniform manner and in sufficient detail to permit intelligent discussion and study when the Group meets for this purpose. We have not given you copies of the several questionnaires as it is thought that you can obtain them from your representatives.

In the letter of instructions to each of your representatives, it has been suggested that they confer freely with you in the preparation of the data requested and throughout the Group study, and the Federal Reserve Board's Committee requests on behalf of your representative your fullest co-operation, so that this work may result in the greatest possible benefit to your bank.

Very truly yours,

A. C. Miller, Chairman,
Committee on Economy and Efficiency.

FEDERAL RESERVE BOARD

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WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-3634

February 13, 1923.

SUBJECT: Economy and Efficiency.

Dear Sir:

In accordance with the action taken at a Conference of the Board's Committee on Economy and Efficiency with Group Chairmen in Washington on January 29th-30th, there is enclosed copy of the letter, together with Exhibit A and Memoranda B and C, which were to-day sent to the representatives in the Group of which you are Chairman.

You will note that the representatives are requested to take up with you direct any questions which may arise as to the questionnaire, and it has been suggested that when such questions appear to be of importance, or touch points which might not be entirely clear to others who receive this material, you forward to the Chairmen of the other two Groups studying your function, copies of such questions, together with your replies, so that all may receive the benefit of any material points which are brought out.

You will note in the letter to the representatives that they are instructed to prepare four copies of the questionnaire, together with four sets of forms, one of which is to be forwarded to you and the remaining three held pending further instructions.

Upon receipt of the one copy you will please go over it carefully to ascertain that the problem has been grasped and the questions answered so as to bring out the desired information. When you have satisfied yourself that the questionnaires are properly filled out, you will notify the Board's Committee on Economy and Efficiency that your Group is prepared to proceed further with its work. A place and time of meeting will then be arranged.

If there are any questions you care to ask, or any assistance you would like from the Committee, you will please take the matter up with Mr. A. H. Vogt of the Federal Reserve Bank of Chicago, who succeeds Mr. S. B. Cramer as Secretary of the Committee on Economy and Efficiency.

Very truly yours,

A. C. Miller, Chairman,
Committee on Economy and Efficiency.

FEDERAL RESERVE BOARD

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WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-3635

February 13, 1923.

SUBJECT: Economy and Efficiency Questionnaires.

Dear Sir:

At a conference of the Chairmen of the Procedure Committees of the several banks with the Board's Committee on Economy and Efficiency held in Chicago on December 13, it was decided to divide the banks into groups for the purpose of affording an opportunity for comparison of methods in the principal functions. Each bank then appointed a representative for each of the following functions:

Accounting
Currency and Coin
Transit and Collections
Loans, Rediscounts, and Investments.

Subsequently the Board's Committee on Economy and Efficiency selected from among the representatives of each group a Chairman. These chairmen have since met with the Board's Committee for a discussion of the problem and it has been considered advisable to have each bank furnish, through its representative, certain information regarding the organization, operation, and detailed procedure as now effective in each bank with respect to each of the four functions under review. After this material has been submitted, meetings of the group representatives will be arranged for the purpose of reaching conclusions with respect to methods, practices, etc.

As the representative of your bank for the _____ function, you are now requested to prepare and forward to _____ of the Federal Reserve Bank of _____, the Chairman of your Group, the following data with respect to:

1. THE ENTIRE FUNCTION

An organization chart of the department or departments making up the _____ Function in your bank (it is contemplated that this chart is to be confined strictly to organization, showing lines of authority

and divisions or units within the respective functions). This chart should be prepared in exact accordance with your own organization, without regard to the classification of units in the Board's Functional Expense Report, Form E. If, however, your function does not include all of the units allocated to it, in Form E, you are requested to attach a supplemental chart for each of such additional units, indicating thereon the function or departments in your bank to which they relate.

2. EACH SECTION OR UNIT

An exhibit (see Exhibit A attached) which is designed to present all of the essential facts with respect to your operation. An Exhibit A should be furnished for each separate unit of your organization which it is necessary to include under this function. These exhibits should be marked "Exhibit A-1", "Exhibit A-2", etc. It is necessary to include and to cover all the units of your organization allocated to your function in the Board's Expense Report, Form E. Your particular attention is called to items 5 and 6 of Exhibit A.

Under item 5, certain general information with respect to volume, scope of work, etc. is desired. There is attached a memorandum (Memo B) detailing the information wanted for the function as a whole. Only such information should be given on each Exhibit A as relates to the particular unit of your organization covered by that exhibit.

Under item 6, a list of operations is desired for each unit, made up in the sequence in which those operations are performed. There is attached a memorandum (Memo C) as an illustration of the character of the information wanted. There is also attached a copy of a flow chart. A similar chart should be furnished in connection with each Memo C, so that the progress of the work through the department may be clearly visualized.

While it is intended that each functional committee will make a study of the methods with respect to all of the expense units included under its function in the Board's Functional Expense Report (Form E), each bank is requested to submit all of the information in units in accordance with its own organization. It is desired that you make up four copies of this information, together with four sets of forms, one of which is to be forwarded to reach the Chairman of

your Group on or before March 15. The Chairman of your Group will advise you later with respect to the disposition of the remaining sets.

In the preparation of the data requested and throughout your group study, it is suggested that you confer freely with the Chairman of the Procedure Committee in your bank, so that he may be fully informed at all times.

If any further information is desired or there is anything contained in the above which is not entirely clear, you will kindly make inquiry through the Chairman of your Group.

Very truly yours,

A. C. Miller, Chairman,
Committee on Economy and Efficiency.

P. S. The word "unit", except when otherwise indicated, refers to the sub-divisions of your own organization, whether known as department, division, section, or unit.

FEDERAL RESERVE BOARD

WASHINGTON

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X-3638

February 15, 1923.

SUBJECT: Governors' Conference

Dear Sir:

The Federal Reserve Board has designated Monday, March 26, 1923, as the opening date of the next meeting of the Governors of Federal Reserve Banks for conference with the Board and with each other. The meeting will convene at ten A. M. in the Board's Assembly Room in Washington.

The topics which the Board desires to discuss with the Governors will be submitted later and the topics which they may wish to discuss among themselves will be prepared by their own committee.

Very truly yours,

Acting-Governor.

TO THE GOVERNORS OF
ALL F. R. BANKS

X-3639

Statement for the press.

For release in the morning papers of February 21, 1923.

The Federal Advisory Council met on February 19th and 20th with the Federal Reserve Board for general discussion of business and financial conditions in the twelve Federal reserve districts. The meeting was a statutory one and the first meeting of the Council held during 1923.

The Council, following its usual custom, elected officers and appointed an Executive Committee to serve during the year.

Mr. L. L. Rue, of Philadelphia, was re-elected President of the Council.

Mr. Paul M. Warburg, of New York, was re-elected Vice President.

The following members of the Council were named to comprise the Executive Committee:

Messrs. L. L. Rue, P. M. Warburg, J. J. Mitchell, E. F. Swinney, A. L. Aiken and J. M. Miller, Jr.

The personnel of the Council is as follows:

Federal Reserve District	# 1	(Boston)	- Mr. Alfred L. Aiken
"	"	"	# 2 (New York) - Mr. P. M. Warburg
"	"	"	# 3 (Philadelphia) - Mr. L. L. Rue
"	"	"	# 4 (Cleveland) - Mr. C. E. Sullivan
"	"	"	# 5 (Richmond) - Mr. John M. Miller, Jr.
"	"	"	# 6 (Atlanta) - Mr. E. W. Lane
"	"	"	# 7 (Chicago) - Mr. J. J. Mitchell
"	"	"	# 8 (St. Louis) - Mr. Festus J. Wade
"	"	"	# 9 (Minneapolis) - Mr. G. H. Prince
"	"	"	# 10 (Kansas City) - Mr. E. F. Swinney
"	"	"	# 11 (Dallas) - Mr. R. L. Ball
"	"	"	# 12 (San Francisco) - Mr. D. W. Twohy

New members of the Council are Messrs. Alfred L. Aiken and John M. Miller, Jr., who were selected by the Boards of Directors of the Federal Reserve Banks of Boston and Richmond to succeed Messrs. Philip Stockton and J. G. Brown respectively.

FEDERAL RESERVE BOARD

WASHINGTON

X-3640

February 21, 1923

CONFIDENTIAL.

Subject: Notary Fees on Items Protested.

Dear Sir:

The Federal Reserve Board in its circular letter of June 4, 1919 (X-1563) has heretofore called to the attention of the Federal Reserve Banks the impropriety of an agreement between a bank and a notary public, whereby the notary in consideration of his employment by the bank assigns to the bank his notary fees. The Board stated its opinion that it would be well either to employ notaries not connected with the bank or to permit a notary who is in the employ of the bank in another capacity to retain the fees for his own use as part of his compensation for general services.

There is enclosed herewith for your further information in this connection a copy of the opinion of the court in a recent case on this subject, decided by the Supreme Court of Illinois, in which it is held that a notary's agreement with a bank to receive less than the statutory fees for protesting paper is illegal and void and that notwithstanding such an agreement the notary may subsequently recover from the bank the balance of the fees due him.

By order of the Federal Reserve Board.

Wm. W. Hoxton,
Secretary.

(Enclosure)

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS.

X-3640a

PITSCH V. CONTINENTAL & COMMERCIAL NATIONAL BANK OF CHICAGO.

137 N. E. 198.

Appeal from Appellate Court, First District, on Appeal from Circuit Court, Cook County; Jesse Holdom, Judge.

Action by Otto L. Pitsch against the Continental & Commercial National Bank of Chicago. From a judgment of the Appellate Court affirming a decree of the Circuit Court dismissing plaintiff's bill, he appeals. Judgment of the Appellate Court and decree of the circuit court reversed, and cause remanded.

John W. Ellis and Albert E. Beath, both of Chicago (John A. Bloomington and William F. Struckmann, both of Chicago, of counsel), for appellant.

Mayer, Meyer, Austrian & Platt, of Chicago (Abraham Meyer, and Davis F. Rosenthal, both of Chicago, of counsel), for appellee.

DUNN, J. The Appellate Court for the First District affirmed a decree of the circuit court of Cook County which dismissed for want of equity a bill filed by Otto L. Pitsch against the Continental & Commercial National Bank of Chicago for an accounting. The judgment of affirmance was entered on March 7, 1922, at the March term of the Appellate Court, and on March 24 the court upon petition of the appellant, certified that the cause involved questions of law of such importance on account of principal and collateral interests involved that it should be passed upon by the Supreme Court, and at the same time ordered that an appeal be allowed on condition that the appellant file an appeal bond within 10 days. An appeal bond was not filed within 10 days, but on April 17, 1922, still in the March term of the Appellate Court, but 24 days after the order allowing the appeal, a motion by the appellant for leave to file an appeal bond instanter was allowed, and an appeal bond in accordance with the order of the court was presented, approved, and filed. The appellee did not move to dismiss the appeal, but in the brief filed argued that this court had no jurisdiction of the appeal, for the reason that the appeal bond should have been filed within 20 days after the granting of the appeal, that the court was without power to approve the appeal bond on April 17, 1922, and that its order purporting to do so was a nullity. Disregarding the question whether an objection to the court's jurisdiction of the appeal can be raised in this manner when the objection does not go to jurisdiction of the subject-matter, section 92 of the Practice Act (Hurd's Rev. St. 1921, c. 110) provides that appeals shall be prayed for and allowed at the term at which the judgment, order, or decree is rendered, and that the appellant shall file a bond within such time, not less than 20 days,

as the court shall fix. The appellee contends that the time limited for the filing of the appeal bond having been fixed at 10 days, the appellant was required to file an appeal bond at farthest within the 20 days mentioned in the statute, and that an order extending the time for filing a bond could be made only before the expiration of the 20 days. The case of Hill v. City of Chicago, 218 Ill. 178, 75 N. E. 766, is cited in support of the last proposition. In that case an order allowing an appeal at the February term of the county court fixed the time for filing the bond at 30 days from the date of the order, February 28. The time expired on March 30, after the expiration of the February term. No bond was filed within the time, but on March 31 a bond was approved by the Judge and filed with the clerk, and it was held that the court was without power to extend the time, and the right of appeal was lost by failure to comply with the condition. In this case the term at which the decree was entered and at which the statute authorized an appeal to be allowed was still continuing. The court had not lost jurisdiction of the cause, and the order approving the filing of the appeal bond and permitting it to be filed was in effect an extension of the time for filing the bond, which was within the power of the court, and this court has jurisdiction of the appeal.

The appellant was a notary public, who was employed from October 1, 1911, to December 31, 1913, by the appellee in protesting commercial paper for the appellee and its correspondents, and during that period devoted his time exclusively to such services. Previous to entering the appellee's service a written contract was executed between the appellant and the appellee, by which the appellant agreed to act as a notary in the matter of protesting commercial paper whenever required by the appellee, for which services the appellee agreed to pay him 12½ per cent of all protest fees received by it on commercial paper protested at its bank, whether protested by the appellant or some other notary. During all the time from October 1, 1911, to December 31, 1913, the appellee delivered to the appellant and another notary public, who received the same compensation, all such checks, notes, drafts, and bills of exchange as required protest, and they made protest of such instruments. This work required all the time of the appellant and was done on the premises of the appellee, which furnished to the appellant desk room, records, stationery, telephone service, and everything used in his notarial work except his official seal. The appellee collected all the fees for notarial services rendered. Twice a month during the appellant's service the appellee had a settlement with the appellant, and paid to him 12½ per cent. of the fees which it had collected, retaining

87½ per cent. The bill was filed on February 10, 1919. The defendant set up the statute of limitations as a defense to all moneys received prior to February 10, 1914, and as to the residue answered that on the 29th day of July, 1913, and on the 15th day and the last business day of each succeeding month thereafter up to and including December 31, 1918, the appellant executed and delivered to the appellee a series of instruments in writing, all to the same effect and identical in words and figures except dates, whereby the appellant on such dates forever released and discharged the appellee from all claims up to the date of execution and delivery, and assigned to the appellee all sums due on the date of the execution and delivery of such instruments for fees earned as notary up to those respective dates. The following is a copy of one of such instruments:

"Received from Continental and Commercial National Bank of Chicago, on the respective dates below indicated, the sums due me in full payment and satisfaction for all services rendered by me for said bank and all claims I may have or ever had against it up to and including such dates; and in consideration of the agreement by said bank to continue me in its employ at the same compensation for the next succeeding half month, to perform like services as those heretofore performed by me, and for other good and valuable considerations, I hereby release and discharge said bank from all claims and demands of every kind or nature which I had or might have against it up to and including said dates, and I hereby assign, transfer and set over to said bank all sums of money now due or owing to me from said bank for fees earned, as a notary public in the half month preceding the respective dates set opposite my name.

	<u>1913</u>	
July	29.	O. L. Pitsch. (Seal.)
Aug.	15.	O. L. Pitsch. (Seal.)
Aug.	28.	O. L. Pitsch. (Seal.)
Sept.	15.	O. L. Pitsch. (Seal.)
Sept.	30.	O. L. Pitsch. (Seal.)
Oct.	15.	O. L. Pitsch. (Seal.)
Oct.	31.	O. L. Pitsch. (Seal.)
Nov.	15.	O. L. Pitsch. (Seal.)
Nov.	30.	O. L. Pitsch. (Seal.)
Dec.	15.	O. L. Pitsch. (Seal.)
Dec.	31. (Seal.)

A separate instrument appears for each of the years from 1914 to 1918, inclusive, each bearing 24 signatures and 24 dates,

being the 15th and last days in each month. The appellee relies upon these instruments as an accord and satisfaction between the parties on the date of each instrument for the notarial fees claimed in the bill.

The claim of the appellant is for money had and received to his use by the appellee for notarial services rendered by the appellant. It is based upon this statutory right to the fees. The defense is not payment, but an accord and satisfaction, whereby the defendant twice each month during the five-year period within the statute of limitations accepted payment of one fourth of the amount of his fees which the appellee had collected in satisfaction of the full amount. (The proportion of the fees earned is really one-fourth instead of one-eighth, because in addition to one-eighth of his own fees he also received an amount equal to one-eighth of what the other notary earned.) In connection with the receipt for the money paid each time was included a release and discharge of all claims against the appellee to the date of signing and an assignment of all sums due from the appellee for fees earned as a notary public in the half month preceding such date. The mere receipt by the appellant of a part of the money which the appellee had collected for his services and held for him was no consideration for the release of all claims against the appellee and the assignment to it of all sums due from it for fees earned as a notary public in the preceding half month. The instrument, therefore, recited as the consideration for the release and assignment the agreement by the appellee to continue the appellant in its employ at the same compensation for the next succeeding half month to perform like services as those theretofore performed and for other considerations. No other consideration appears than the appellee's agreement to continue the appellant in its employ to perform like services as theretofore performed for the same compensation; that is, 12½ per cent. of the legal fees and the conveniences and service theretofore furnished him. The answer of the appellant to this defense is that the transaction was an agreement with a public officer for the performance of official services, the compensation for which was fixed by the agreement at a rate lower than the statutory rate, which is contrary to public policy, and will not be enforced.

A notary public is a public officer recognized by the commercial law of the world, *Pierce v. Indseth*, 106 U. S. 546, 1 Sup. Ct. 418, 27 L. Ed. 254. The fees of his office are fixed by statute. *Hurd's Stat. c. 53, Sec. 28*. The appellant's employment by the appellee was for the rendering of official services, and he rendered no other services. The amount to

which he was entitled for such services was fixed by statute, and the amount collected for those services was received by the appellee. This amount belonged to the appellant, yet the appellee retained the greater part of the money for itself.

The proposition that a contract whereby a public officer whose compensation is fixed by statute agrees to accept for his official services something different from that provided by statute is contrary to public policy and void seems to be well supported by authority as well as justified in principle. *Gilman v. D. V. R. Co.*, 40 Iowa, 200; *Bodenhofer v. Hogan*, 142 Iowa, 321, 120 N. W. 659, 134 Am. St. Rep. 418, 19 Ann. Cas. 1073; *Gallaher v. City of Lincoln*, 63 Neb. 339, 88 N. W. 505; *Abbott v. Hayes County*, 78 Neb. 729, 111 N. W. 780; *Ohio Natl. Bank v. Hopkins*, 8 App. D. C. 146. The compensation of a public official for the performance of his official duties is not a matter for traffic or trade, for bargaining or for favoritism. Every person for whom such services are rendered is entitled to receive them at the same price. Official morality and public policy alike prohibit the undermining of the public service by permitting officers to make merchandise of their official services. The appellee has not contested this proposition, but insists that it is not involved in the case. It bases its defense upon the proposition that fees or salary which have been earned may be assigned, or the officer may waive his claim to them or estop himself from claiming them. The appellant admits that an officer may assign fees which have been earned, but insists that this proposition is not involved in the case. The question of first importance to be determined, therefore, is the effect of the written instruments executed semi-monthly by the appellant during the time of his employment by the bank. On their face each is a receipt and a release of the appellee from all claims and an assignment to the appellee of all sums of money due from the appellee for fees earned as notary public in the half month preceding the particular date. The consideration of the release and assignment is stated to be the agreement of the appellee to continue the appellant in its employ at the same compensation for the next succeeding half month to perform like services as those theretofore performed, and for other good and valuable considerations. There is no doubt about the compensation of the appellant. At the time each one of the instruments was signed he received one-eighth of all the protest fees received by the appellee on all commercial paper protested at the bank. That was his agreed compensation during all the time he was in the appellee's employ. The appellee regarded him only as an employee, to whom a salary fixed at a percentage of his legal fees was paid, and to whom a place

of work was assigned, supplies and telephone service were furnished, and a bonus was paid as to other employees. For the value of these things it is proper that he should account as a part of his compensation, but the whole matter of fixing his compensation for official services by private contract when it had already been fixed by law was contrary to public policy and the contract was therefore void. It may be true, as appellee's counsel state, that the appellant received the full consideration for which he contracted - all he bargained for - but the policy of the law forbids the appellant and the appellee to bargain about this subject-matter. It is not a case of several promises or a promise to do several things in which the lawful can be separated from the unlawful, but the whole contract is unlawful. The sole consideration for the release and assignment was the illegal contract to continue the appellant's employment at the same compensation, and that contract was illegal in toto and void. The appellant could not insist upon its performance, and was not bound by it.

The appellant's suit is not based upon this contract. He makes no claim under it, and it is not essential to or any part of his case. His claim is for money received by the appellee to his use. His services were rendered at the request of the appellee, which collected from its correspondents the amount of his fees, and it is for these fees he sues. The appellee claims that if the semimonthly releases and assignments were illegal the parties are in pari delicto, and the law will not aid either, but will leave them where it finds them. The doctrine does not apply to this case, for the test for determining whether or not the objection that the plaintiff and defendant were in pari delicto can be sustained is by considering whether the plaintiff can make out his case otherwise than through the medium and by the aid of the illegal transactions to which he was himself a party. Broom's Legal Maxims, 567; Ohio Natl. Bank v. Hopkins, supra.

It is argued that the appellee gave the appellant the commercial paper to protest only because of the contract; that the fees collected, after paying to the appellant his proportion, became a part of the assets of the appellee, were credited to its profit and loss account, and formed a basis for declaring dividends; that these things would not have occurred but for the contract, and that they constitute an estoppel against the appellant, whose acquiescence in the semimonthly settlements were relied and acted upon by the bank. There was no estoppel. The contract was illegal, and could not become legal by long continuance or by acquiescence or by frequent renewal. The violation of public policy did not cease to be a violation because of its frequent occurrence. Not only was the contract of the appellant illegal, but the appellee knew it was

illegal, and in spite of such knowledge renewed it twice a month for several years.

Counsel for the appellant say that the appellant assigned to the appellee the fees and salary he had earned in the prior time he had been employed by the appellee and the appellee re-employed him in reliance upon this assignment. Why was such care taken to give the appellant's employment this form - a new employment every two weeks? That is not the usual method of employment in the service of banks. The appellant was employed every two weeks at the same compensation, which was not the compensation fixed by law. The fact that he accepted every two weeks an amount which was less than the amount due him and without consideration other than another contract of employment, void because based upon the same illegal consideration, could not estop him from claiming the remainder of the amount due.

The semi-monthly settlements between the parties did not amount to a waiver by appellant or an estoppel against him, for the receipt of a part of the amount due him is not a satisfaction of the whole debt unless made and received upon a new and lawful consideration.

The judgment of the Appellate Court and the decree of the circuit court will be reversed, and the cause remanded.

Reversed and remanded.

WHAT THE FEDERAL RESERVE SYSTEM HAS DONE
SINCE THE ARMISTICE TO SUPPORT AGRICULTURE.

Released for Afternoon Papers
Wednesday, February 28.

ADDRESS OF
JOHN R. MITCHELL
MEMBER, FEDERAL RESERVE BOARD
WASHINGTON, D.C.

Before the
NORTHWEST AGRICULTURAL STABILIZATION CONFERENCE
St. Paul, Minn.
February 27-28, 1923.

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It is a pleasure and privilege to be here today to discuss with you the Federal Reserve System and its relation to agriculture. Before approaching the particular phase of that subject which has been assigned me, viz.: "What the Federal Reserve System has done to support agriculture since the armistice," I would ask your attention for a few minutes to a brief consideration of the nature of the Federal Reserve System. To many of you, undoubtedly, these facts will be familiar, but my warrant for repeating them is the amazing ignorance and misconception of the System which is evident throughout the country and is disclosed even in debates in Congress.

First, the Federal Reserve Act was never intended as a panacea for all economic ills. It was adopted solely for what it was, a banking reform which would put the commercial banking system of the country in a better position to serve the needs, especially the short term credit needs, of agriculture, commerce, and industry. As set forth in the title of the Act, it was designed as, "An Act to provide for the establishment of Federal Reserve Banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes." In no sense was it planned as a price regulating machine, nor was it considered that the System should provide capital to be loaned out for long periods.

Drafted while the memory of the panics of 1893 and 1907 was still fresh, the framers of the Act sought to prevent the recurrence of such panics, when banks were unable to realize upon their reserves, and depositors were unable to receive in currency the funds due them. To that end the old system of pyramided reserves which had failed repeatedly was abolished and the reserves of all national banks and those of such state banks as chose to enter the System were put on a more scientific basis, and were mobilized in the Federal Reserve Banks. It is these reserve deposits, amounting now to about \$1,300,000,000. - the reserves of sixty per cent of the bank deposits of the country - that the Federal Reserve Banks are called upon to protect.

Right here, let me call your attention to the fact that the interests of the depositors as well as the interests of the borrowers of a bank are entitled to the fullest protection. Were it not for the depositors, there would be no banks, as we know them, and I think this is a fact that has been too often overlooked.

That the Federal Reserve Act has provided the public with an elastic currency abundantly able to meet all requirements during the most severe crisis in the history of the country has been fully demonstrated. That elasticity is made possible by the operation of section 13 of the Act, whereby member banks in need of funds to make good their reserves may rediscount their eligible notes with the Federal Reserve Bank.

And here let me say that it was never contemplated that any bank should continually lean on the Federal Reserve Bank for support. Rather, it was the purpose that the banks should operate upon their own resources, but would find ever ready help at the Federal Reserve Banks in times of seasonal expansion of credit, such as planting or crop-moving time, or in times of emergency.

But the facts are that during the critical years just passed many banks were obliged to borrow steadily from the Federal Reserve Bank. While the amount of necessary borrowings in some instances was startling, excessive borrowings today are pretty well liquidated, showing how it is possible for agricultural and live stock districts to grow out of abnormal financial difficulties, when proper time and encouragement are extended.

In this respect I say the Federal Reserve Banks have gone the limit.

Just a word now as to the organization:

The Federal Reserve System is not a central banking system, nor is it a government bank, - for the government has never invested a cent in the capital of any of the Federal Reserve Banks, nor do government deposits form any considerable proportion of the system's resources which are composed chiefly of contributions from member banks in the form of capital and reserve deposits; nor is it a system whose operations are dictated or controlled by any set of government officials or by a bureau in Washington. There are instead twelve separate Federal Reserve Banks, each an individual unit, under government supervision, but managed by its own board of directors, composed of residents of the district. In the Federal Reserve Act careful provision is made that the directors of a Federal Reserve Bank, nine in number, be fully

representative of all interests of the district. Three of them are appointed by the government through the Federal Reserve Board, and they can have no connection with any other bank. Three others, known as Class A Directors, are elected by the member banks as their representatives, and they are practically always officers of member banks. Three others, known as Class B Directors, are also elected by the member bank stockholders, but these directors are representative of the industrial, commercial, and agricultural - the borrowing interests - and can be neither officers nor directors of any bank.

Further precaution has been taken to insure that all interests are properly represented, accordingly, the member banks are divided into three groups, according to size, the large banks in one group, those of medium size in another, and the smaller banks in a third. Each group then elects one Class A and one Class B director, thus insuring fair representation.

The Federal Reserve Board is a supervisory body and defines by regulation what classes of paper may be discounted at the Federal Reserve Bank, in accordance with the law. But, the Federal Reserve Board cannot compel a Federal Reserve Bank to make any loan which it does not care to, nor can it prohibit a Federal Reserve Bank from making any legal loan. The only control it has over the loaning policy of the Federal Reserve Banks is to authorize, and compel if necessary, one Federal Reserve Bank to come to the assistance of another.

Such authorization has been granted whenever requested, but at no time has it ever been necessary for the Federal Reserve Board to order one bank to help another, as they have always co-operated to the fullest extent. In 1920, for instance, the Federal Reserve Bank of Cleveland was lending more funds to the hard-pressed agricultural districts than it was to its own member banks.

One other point must be borne in mind:

The Federal Reserve Banks have no dealings with individuals or with private corporations. They receive deposits only from banks and from the government and make loans only to member banks.

With this sketchy explanation of the Federal Reserve System let us come to the subject at hand and review briefly the economic conditions since the armistice.

When on November 11, 1918, the armistice was signed by General Foch and by representatives of Germany, the world was emerging from the worst struggle in history. Men and treasure had been destroyed at a fearful rate for more than four years; large stretches of territory had been devastated, and the entire economic machinery of the belligerents had been diverted to the one end of producing war materials. In the United States the situation was similar, but in proportion to our population and resources, much

less acute. While four millions of our men were withdrawn from productive activity and were actually taking part in the war or training for it, and while much of our industrial machinery was engaged in satisfying war requirements, nevertheless our fundamental industries - agriculture, iron and steel, coal, textiles, etc. - were in a prosperous condition, and, though requiring some readjustment, prepared to continue operations in times of peace.

The credit mechanism, as well as the industrial plants all over the world, had been diverted from the service of the civil population to the service of the States and their military needs. In this respect also America, though affected by the same influences, had suffered less than her allies. Currency inflation everywhere was great, and in the United States prices were about double their pre-war level.

The years immediately following the armistice, 1919 and 1920, were generally speaking, characterized by continued business activity and credit expansion, which developed into a world-wide post-war boom. Prices were high and rising, production continued at a high rate, and here in the United States prosperity was general. In Europe the belligerent countries were endeavoring to reconstruct their economic foundations. Their own resources were exhausted by the long struggle, food supplies were low, raw material stocks were almost all gone, and there was urgent need of imports in order to feed the populations and to resume productive activity. While these countries had little

with which to pay for imports, they still had large unexhausted war credits with the United States Treasury, and they were permitted to utilize these credits to secure food and raw materials from the United States.

Funds supplied directly by the United States Government in 1919 paid for no less than \$3,000,000,000. of our exports to Europe. In addition European countries were able to borrow large amounts privately from our banks. As a consequence, our exports reached unprecedented heights in 1919 and 1920, the value of exports of agricultural products alone in 1919 being \$4,100,000,000. and in 1920 \$3,500,000,000.

It was not until the spring of 1920 that the period of post-war prosperity and speculation began to show signs of a possible turn. With Government credits exhausted and private credits increasingly hard to obtain, European countries were no longer able to buy our food and raw materials in such large quantities, or to pay such good prices. Prices of all commodities, as well as of agricultural commodities reached their peak about June, 1920, and then declined spectacularly. Once the turn had come, the downward movement gathered momentum as speculative booms collapsed and speculative holdings were thrown on the market. All through the rest of 1920 and the first part of 1921 prices continued to decline; only in the latter part of that year did they become relatively stabilized, and not until 1922 did a rise occur.

Prices of agricultural products, which are peculiarly sensitive to foreign demand, and, as raw materials generally more quickly responsive to economic changes, dropped lower than those of other commodities.

Keeping this situation in mind, let us now see what the Federal Reserve System did to support agriculture. This should be considered from two points:

First, to what extent did the Federal Reserve System extend credit; and second, what was the attitude of the Federal Reserve Board, expressed through its regulations and rulings, towards agricultural paper.

Accommodation extended by the Federal Reserve Banks to their member banks is measured primarily by the volume of bills discounted for member banks, the direct means by which a member bank in need of funds may obtain accommodation from its Federal Reserve Bank.

In this connection I wish to emphasize the fact, referred to before, that Federal Reserve Banks cannot create credit, nor can they make direct loans to individuals or corporations. The assistance of the Federal Reserve Banks is extended to agriculture and industry through the member banks, which must first pass upon the borrower's application for an extension of credit. The member bank is, of course, familiar with the needs of its community, with the reliability and integrity of the borrower, and the sufficiency of the security which he offers, and will not be disposed to deny credit to a customer who is entitled to it, so long as funds are available for the purpose.

It is here that the function of the Federal Reserve Bank appears in so far as the extension of credit is concerned, which is to furnish the member bank with needed funds by the discount of eligible paper.

This chart tells the story of how the Federal Reserve Banks came to the aid of agriculture much more clearly than any number of statistical tables. These three curves show the course of prices, the 1913 average price being taken in all instances as 100. The black line representing the price of all commodities shows that in November, 1913, the average price stood at 203, and then increased steadily until May, 1920, when it was almost 250, or two and a half times the average 1913 price. Then followed the sudden drop, as shown by the curve. The blue curve representing live stock prices shows that for part of 1919 they stood slightly above the general average of prices, then broke sharply, recovered slightly, and then in October, 1920, several months after the slump in other prices, declined to about the same level as crop prices, since when they have fluctuated together at a level considerably below that of the prices of other commodities.

Prices of crops are shown by the red line, which starts at November, 1913, at a level of 215, somewhat above the average price of all commodities. Then followed a rapid rise until August of 1919, when there was a sharp break, which did not, however, bring the price

down to the general average. This decline lasted but three months, following which came a rapid and continual rise until a peak of 304 was reached in June, 1920, about a month after the prices of other commodities had started to decline. Then came the almost perpendicular decline which soon carried them below the level of other commodities, where they have remained ever since.

Meanwhile, what was the Federal Reserve System doing?

Throughout the war period there had been a rapid increase in the amount of discounted paper held by the Federal Reserve Banks, and on November 15, 1918, four days after the signing of the armistice, the Federal Reserve Banks held under discount for member banks a total of \$1,800,000,000. of eligible paper, the largest amount of accommodation extended to member banks by the Federal Reserve System at any one time up to that date. But the post-armistice period saw an even greater extension of credit to member banks by the Federal Reserve System, for there was an almost continuous increase in the amount of discounted paper during the next two years, culminating on November 5, 1920, in the stupendous total of \$2,827,000,000., which marks the high point in the history of the Federal Reserve System. That declining prices should ultimately result in a lessened requirement for accommodation at the Federal Reserve Banks was only to be expected, but as the chart shows, this reduction did not begin until late in 1920, five months after the break in prices began. Thereafter it ran a practically parallel course with the price decline.

These being the facts, how can the statement be justified that the Federal Reserve System, by curtailing credit, brought about the decline in prices?

An analysis of Federal Reserve Bank discounts during this period made for the Joint Commission of Agricultural Inquiry, shows that the decline in the loans of the Federal Reserve Banks began in the industrial and financial sections of the country, and that while liquidation of loans was occurring in the East, loans in the agricultural districts were increasing in volume.

Again I say, in the face of these facts, how can the Federal Reserve System be said to be responsible for the decline in agricultural prices? Such an accusation is ridiculous.

That the rapid increase in prices which marked the year 1919 and the first half of 1920, and the consequent increase in credit requirements could not go on indefinitely is self-evident, and the fact that the break in prices which came was not confined to the United States, but was common to practically all of the civilized world, further indicates that its cause is not to be found in the credit or discount rate policy of the Federal Reserve Banks.

Inter-Federal Reserve Bank accommodation through the re-discount or sale of paper discounted for member banks or purchased in the open market, as I have said, is the means provided to enable one of the Federal Reserve Banks to obtain assistance from another in time of need. Rediscount operations were resorted to

on a small scale for the first time late in 1917 and frequently thereafter during the war. It was not until the post-war period of expansion, however, that the ever increasing demands of member banks for accommodation at the Federal Reserve Banks occasioned any misgivings as to the ability of the Federal Reserve System to meet any legitimate demand for credit, without having recourse to the provision in the Federal Reserve Act authorizing the Board to waive the minimum reserve requirements.

By the end of 1919, the reserve ratio of the Federal Reserve System - that is the ratio of its gold and lawful money reserves to its combined deposit and Federal Reserve note liabilities - had fallen to 45%. Throughout 1920 this ratio ranged between 42 and 45%. During the early post-armistice period the Federal Reserve Banks in the Middle West had an excess of lending power beyond the needs of their districts, and they were able to rediscount paper for other Federal Reserve Banks in need of assistance. Just before the prices of farm crops began their precipitous decline, the situation was reversed and the increased demands of member banks in the Middle West, not only forced the Federal Reserve Banks in the Middle West to withdraw their assistance to other Federal Reserve Banks, but compelled them to rediscount substantial amounts of their paper with other Federal Reserve Banks.

One point which I wish to stress is that the only way in which the Federal Reserve Banks can extend credit is through the

member banks, and in so far as eligible banks refrain from joining the System, just so far is the Federal Reserve System handicapped in its efforts to aid. At the present time there are about 9,900 member banks, of which over 1600 are state banks and trust companies. There are, however, approximately 9500 eligible state banks and trust companies which are not members of the Federal Reserve System. These non-member banks are, of course, chiefly the smaller banks, but it is evident that the number of eligible state banks and trust companies that have remained outside of the Federal Reserve System is nearly equal to the total number of member banks, including all national banks.

While the Act expressly provides that member banks shall not act as agents for nonmember banks in discounting their paper with the Federal Reserve banks, when need arose the Federal Reserve Board waived this provision and authorized the Federal Reserve Banks to rediscount for member banks paper which they had received from non-member banks, in this way extending the aid of the system to practically every bank in the country.

We have now arrived at the point where we can consider the attitude of the Federal Reserve Board as expressed through its regulations and rulings, towards agricultural paper.

When the Federal Reserve Act was enacted Congress discriminated in favor of agriculture by permitting the Federal Reserve Banks, to discount agricultural paper having a maturity up to six months, whereas the longest maturity of all other paper eligible for rediscount with

the Federal Reserve Banks was fixed at ninety days. The law provides that the proportion that agricultural paper may form of the entire assets of a reserve bank shall be fixed by the Federal Reserve Board; and the Board fixed this ratio at 99% and has never reduced it.

The regulations of the Federal Reserve Board defining what may be considered as agricultural paper eligible for discount with

maturities up to six months are of necessity somewhat technical in language but may be summarized as permitting Federal Reserve Banks to rediscount for six months any loans which are in the proper form and which are used to finance any one or more of the steps of planting, cultivating, harvesting, or marketing a crop or of breeding, fattening, or marketing live stock. Moreover, one of the normal phases of marketing agricultural products is carrying them for a reasonable time in order to affect their orderly marketing, rather than dumping large quantities on the market at one time, and paper which is used to finance the carrying of a crop pending its orderly marketing may be eligible as agricultural paper.

The Federal Reserve Board has also been partly responsible for a change in existing laws, which has been very helpful to the agriculture interests. You bankers are familiar with Section 5200 of the Revised Statutes, which contains the limitation on the amount which a national bank may lend to any one person. This limitation is, in general, 10% of the lending bank's capital and surplus, with certain classes of paper excluded as not being considered loans of money. The Board felt that the classes of paper excepted from this loan limitation might properly be broadened in a way that would enable the farmers and cattle raisers to obtain additional credit from national banks without contravening any principles of sound banking, and it recommended certain amendments to Section 5200 of the Revised Statutes to accomplish this purpose.

Following this recommendation, Congress amended Section 5200 by an Act approved October 22, 1919, so as to permit a national bank to lend to any one borrower in excess of 10% of its capital and surplus, but not to exceed 25%, provided that the loans over and above 10% are represented by notes, secured by shipping documents, warehouse receipts, or other similar documents covering readily marketable non-perishable staples, including live stock. At the same time, Congress also broadened the class of paper known as "bills of exchange drawn in good faith against actually existing values", which national banks may discount without limit, so as to include drafts secured by shipping documents conveying or securing title to goods shipped, demand obligations when secured by documents covering commodities in process of shipment, and bankers' acceptances of the kinds described in Section 13 of the Federal Reserve Act. These amendments, by increasing the power of national banks to extend accommodations on the security of farm products and live stock, have proven of great value to farmers and cattlemen in their financial problems.

At this point I would like to say a few words about bankers' acceptances, which have lately been coming into continually greater use as a desirable form of credit instrument. Bankers' acceptances, as you know, are drafts or bills of exchange drawn on and accepted by a bank or trust company or other banking concern, and the law authorizes Federal Reserve Banks to rediscount bankers' acceptances under certain conditions. For this purpose, such acceptances must be indorsed by a member bank, and must be drawn to finance the importation

or exportation of goods, the domestic shipment of goods, or the storage of readily marketable staples. Acceptances which grow out of the domestic shipment of goods or the storage of readily marketable staples must further be secured at the time of acceptance by shipping documents or warehouse receipts conveying or securing title to the goods or staples in question. Under existing law all bankers' acceptances, whether used to finance agricultural or commercial needs, must be limited in maturity to three months in order to be eligible for rediscount.

Bankers' acceptances have now been used very extensively in connection with the shipment of agricultural products, although the Board recently had occasion to rule that a national bank may accept a draft drawn upon it, if secured by a bill of lading covering a shipment of cattle to a cattle raiser who has purchased them with the intention of fattening and re-selling them, and that such acceptances may be eligible for rediscount. This was a very liberal ruling in permitting the acceptance credit to cover the period required to fatten the cattle and was a distinct advantage to farmers, since the Board has always ruled that acceptances drawn to finance the manufacturing or processing of industrial materials are ineligible. Bankers' acceptances, however, used to finance the storage of agricultural products pending orderly marketing have recently been coming into more general use, both by individual farmers, and more particularly by cooperative marketing associations.

Most of the rulings on agricultural credits made since the armistice have been in connection with cooperative marketing associations,

which have been of so much assistance in the orderly marketing of agricultural products and in securing for the farmers a fair return for their labor.

The Board recognizes that cooperation in marketing crops under proper management is a step in the right direction that farmers may take toward improving their credit standing and their general economic condition, and it has gone as far as existing law permits in encouraging the extension of credit to cooperative marketing organizations. A very recent evidence of the Board's desire to provide more ample credit facilities to the agricultural interests, is the amendment to its Regulation B, dated December 19, 1922, which makes eligible for purchase by Federal Reserve Banks in the open market, bankers' acceptances with maturities up to six months, drawn by farmers or by cooperative marketing associations to finance the orderly marketing of staple agricultural products, and secured by warehouse receipts covering such products. Such acceptances were formerly eligible for purchase only with maturities not in excess of three months, and their present eligibility for purchase with longer maturities should prove the means of furnishing much of the additional credit needed in such transactions.

The Board recently also issued a number of very liberal rulings designed to secure to farmers operating through cooperative marketing associations the maximum credit facilities possible under present law. These rulings were made from time to time as questions were submitted from various sections of the country. They involved farm

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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 rulings 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 borrow on his own note, using the note or its proceeds to finance the carrying of his product for such reasonable period as is necessary in order to effect orderly marketing. Such a note constitutes agricultural paper, and may be rediscounted with maturities up to six months. Or he can draw a draft on the cooperative marketing 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 rulings may rediscount it at a Federal Reserve Bank as agricultural paper with a maturity up to six months, if the grower uses the proceeds for an agricultural purpose. If the association itself wishes to borrow money directly from a bank in order to make

payments to the growers for produce delivered, its notes are eligible 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.

There was considerable discussion over the 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 point was made that the grower in all probability would use the money so obtained in paying debts previously incurred, and that unless this could be held to be an agricultural purpose, little agricultural, or six months credit could be obtained in this way. The Federal Reserve Board ruled, however, 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 association may properly be considered as drawn for an agricultural purpose, because it puts him in funds so that he can carry his crop pending its orderly marketing. As I said before, 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 and constitutes an agricultural purpose. 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.

Another very liberal ruling which has been of 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. The association arranges with some national or state bank to accept drafts secured by warehouse receipts, and, after acceptance, such drafts are eligible for rediscount by Federal Reserve Banks with three months maturity. Under the new amendment to the Board's regulation they may also be purchased in the open market with maturities up to six months.

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 marketing 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, the draft is a "bill of exchange drawn in good faith against actually existing values". By virtue of this ruling, such a draft 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.

These are probably the most important rulings made by the Federal Reserve Board on this subject, but, of course, there are other classes of eligible paper that can be used in borrowing by cooperative marketing associations. The point I wish to emphasize is the past and present willingness of the Board to assist the cooperative marketing movement in every appropriate way.

I have shown how the Board is limited by the terms of the law in ruling upon the eligibility of paper for rediscount and how it has gone as far as it could under the terms of existing law in fostering the need of agriculture for broader credit facilities. Under these circumstances, only Congress has power to provide additional credit facilities to agriculture by liberalizing the provisions of existing law, or by creating new credit machinery.

The post-war period of expansion and inflation, followed quickly by the inevitable deflation, with its particularly harmful effect on the agricultural interests, made it evident that the existing credit machinery of the country was inadequate to care for the needs of the farmers. The Federal Reserve System can properly supply only short term credits, because the assets of Federal Reserve Banks furnish the basis for a large part of the country's currency, and they must be kept liquid. The Federal Farm Loan System, on the other hand, provides long term credits, but there is an obvious need for some machinery to provide what may be called intermediate credits of from six months to three years.

Among the many bills introduced in Congress designed to extend additional credit facilities to the agricultural interests, perhaps the most important are the bills recently introduced by Senator Capper and Senator Lenroot. These bills have been passed by the Senate and are now being considered by the House, and unless something unforeseen develops, it seems probable that a bill embodying the best features of each, will become law during the present session of Congress. You are, no doubt, familiar in a general way with the provision of these bills, so that I need not discuss them at length, even if time permitted, but I wish to point out how the Federal Reserve Board has supported the agricultural interests by recommending the enactment of such a bill, and by recommending also the passage of other legislation which would provide still further credit facilities to the farmers.

As frequently happens with regard to legislation affecting banking and credits, the Board was requested to consider and comment on the so-called Capper and Lenroot bills. In response to this request, the Board on December 21, 1922, addressed a letter to the Chairman of the Senate Banking and Currency Committee, expressing its approval of the general purpose of both bills and making detailed comments on certain provisions in them. Except for expressing its general approval of the purpose, the Board refrained from commenting on those portions of the bills, which contain provisions creating new machinery to supply agricultural credits of an intermediate type, running from six months to three years, because such matters were not properly within the Board's jurisdiction. The Board confined itself rather to the

provisions of the bills which amended the Federal Reserve Act or directly affected the operations of the Federal Reserve System, and offered a few constructive suggestions designed to safeguard the elasticity and soundness of the currency issued through the Federal Reserve Banks, and also to make the proposed amendments more liberal and effective.

In that letter the Board recommended that the maturity of a certain type of farmers paper eligible for rediscount at the Federal Reserve Banks be extended from six months to nine months.

It further recommended that certain paper of cooperative marketing associations be expressly declared to be agricultural paper, and thus eligible for rediscount with maturities up to nine months. Under the present law some of this must be classed as commercial paper eligible for discount only with maturities up to three months, and some of it must be classed as finance paper and not eligible at all for discount.

The Board also recommended that bankers' acceptances, drawn for agricultural purposes and properly secured be made eligible for rediscount with maturities up to six months. Such acceptances are now eligible for rediscount only with three months maturity, but the Board endorsed this amendment to the law, as being in line with the recent amendment to its Regulation B, which I have already discussed and which makes such acceptances eligible for purchase in the open market with six months maturity.

Both the Capper and Lenroot bills proposed to amend the Federal Reserve Act by lowering the amount of capital which banks are now required to have as a condition to becoming member banks. These amendments are designed to attract more banks to membership in the Federal Reserve System, and thus make the resources of the System more widely available, and the Board expressed its approval of them.

In addition to these recommendations the Board suggested and urged that sight or demand drafts drawn to finance the domestic shipment of non-perishable, readily marketable, agricultural staples, be made eligible for rediscount or purchase by the Federal Reserve Banks, when properly secured. Under existing law such drafts are ineligible for rediscount at Federal Reserve Banks because they have no definite maturity. Such drafts are largely used in financing the movement of crops and I believe the passage of the amendment will be of much assistance to agriculture.

I wish to emphasize that in this statement of the attitude of the Federal Reserve Board towards pending rural credits legislation, I have been substantially quoting from a letter which the Board wrote to Congress in response to a request for an expression of the Board's views on this legislation. This letter, then, is an official statement of how the Board regards the pending legislation designed to improve the credit standing and economic position of the farming interests, and I think you will agree with me that the Federal Reserve Board has shown itself to be ready and willing to place the vast resources of the Federal Reserve System at the service of agriculture, so far as is consistent with the principles of sound banking, which I do not believe the farmer himself would care to see violated.

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I have outlined what the Federal Reserve System has done to support agriculture and live stock interests during recent years. What follows is my personal observation of what might be done to assist agriculture.

Before this consideration, however, I want to dwell briefly upon the great benefits that have been derived not only in the Northwestern states but throughout all agricultural and live stock sections from the operations of the War Finance Corporation. A more helpful, constructive piece of work has never been accomplished by any governmental organization. Every assistance possible was rendered by the Federal Reserve Banks in facilitating the corporation's operations.

The plight of the farmer today is not due, in my opinion, to a lack of credit facilities. The causes are more fundamental. Mention has been made of how the short term credit needs of agriculture are provided for by the commercial banks and the Federal Reserve System, and of how the pending rural credit legislation is designed to satisfy the need for intermediate credit.

In this connection it is interesting to note that the estimated borrowings at banks of the 6,448,000 farmers on personal loans, secured and unsecured, amount to approximately \$3,870,000,000, or an average borrowing per farmer of \$600.. It has been stated that one of the difficulties confronting the farmer is that he is paying too high a rate of interest. Even if true, and if a reduction of 4 percent could be made, it would mean a saving of

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only \$24. per year to the average farmer, and I submit that there is more than a \$24. difference between success and failure with the average farmer. Consequently, a lower interest rate, although particularly to be desired, would not help the farmer out of his difficulties to any appreciable degree. It can be stated that the organization of the proposed intermediate agricultural credit associations would without doubt provide the farmer with a lower rate of interest than he is now paying and be greatly beneficial in this respect. But they would not by any means be a panacea for all of his troubles.

There remains the question of how the government has provided for the long term credit needs of agriculture.

The Federal Farm Loan Act has made it possible for the farmer to borrow a liberal percentage of the value of his farm at more favorable terms and for a longer period than any other line of business enjoys. The reason for this is the fact that the income of securities issued by the Federal Farm Loan System is exempted from all taxation of every kind and description. The total amount of farm loans outstanding December 31, 1922, made under the Federal Farm Loan System, was approximately \$860,000,000. During 1922 alone total loans made by the System amounted to approximately \$363,000,000. It is estimated that the total mortgage indebtedness of the farmer is about \$7,800,000,000 so it would seem that within a few years a large pro-

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portion of the farmers mortgage indebtedness will be in the Federal Farm Loan System.

To sum up, it is my personal opinion that the credit facilities of this great country are abundantly sufficient to meet all legitimate demands of agriculture, commerce and industry, if properly used.

A great amount of stress has been laid on the importance of the organization of co-operative marketing associations for the purpose of bringing about an orderly marketing and distribution of agricultural products. The Federal Reserve Board is in full accord with this plan of co-operation among the farmers, and appreciates the benefits derived by the grower when the co-operative marketing association has been properly administered. The success of this plan, of course, depends entirely upon how the association is managed. In many cases most satisfactory results have been accomplished, while dismal failures have been experienced in others. While the extension of this movement may bring great relief to the farmer, it cannot solve all of his difficulties. There still remains the question: "What will bring about the restoration of the farmer and put him back on his feet?"

Before making any suggestion along this line I want, if possible, to clear up some mistaken ideas which the farmer has about what has happened to him, since the signing of the

armistice.

In the first place, while the farmer has had many things happen to him for which he was unprepared, his business was by no means the only business that was adversely affected. There is not a business of any kind or description that was not adversely affected just as was that of the farmer. Many bank failures have occurred, many re-organizations of industrial enterprises have been necessary, and reductions in inventories of jobbers and retailers at one time threatened to put nearly all of them out of business. But, fortunately, for the farmer, as well as for all other individuals, a recovery has been made and the country industrially and commercially is gradually getting back on its feet.

That the farmer has not recovered to the extent that it is most necessary he should, is well known and for that recovery we all here today are trying to work out a solution. It is the easiest thing in the world for silver-tongued orators to offer destructive criticism, but what we want is constructive criticism. We want to know what to do and how to do it.

The farmer has been told that the Federal Reserve System set about the deliberate inflation of the currency of 1918 and 1919, and in the spring of 1920 commenced a ruthless deflation.

I want to say something right here, and I hope you will take it back home with you, and get your own people to thinking right about the Federal Reserve System. What I want to say is this: The Federal Reserve System, including the Federal Reserve Banks and Federal Reserve Board had no more to do with the cause of the inflation of the currency or the deflation in the prices of agricultural products than you had. The reason for the inflation in the currency of the country and also in prices of all commodities and wages was that we were engaged in war. Inflation always has been and always will be the natural resultant of war.

Is it not possible for the people of this country to realize that the Federal Reserve System enabled our side in the great conflict to come out victorious? Had it not been for our monetary system, the establishment of which

borders on providentiality, I venture to say that today and for many years to come we would still be settling our reparations contracts or bills to Germany.

But to return to the situation of the farmer. When he goes to market, he finds that the purchasing power of his dollar is only about 68 per cent of what it was before the war. In other words, since 1920, there has been a gradual increase in the costs which the farmer must pay in manufacturers, wages, freight rates and taxes,

while everything the farmer produces is sold on about the same scale of prices prevailing in pre-war times, with the exception of wool, cotton, and flax. The inevitable law of supply and demand has gotten in its work. The reason for no appreciable increase in prices of agricultural products is that there has been an over-production, as compared with the amounts which Europe can purchase.

As is well known, the price at which the exportable surplus is sold fixes the price for the whole crop, and Europe makes her purchases where prices are the cheapest. If our farmers persist in raising more wheat than is consumed in this country, the only price that they can expect to receive is the Liverpool price less the charges for laying our wheat down in Liverpool. This is because the wheat grower in this country is in competition with the wheat growers in Canada, the Argentine, Australia, and India, in which countries everything

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to be considered in the operation is much lower than in this country, including price of land, labor and taxes.

How can an American farmer compete in the world markets in the growing of wheat under these conditions? He has competed in the past, but in those successful years he was able to buy his life necessities for about one-half of what he is now paying and all of his farm costs were low.

There is absolutely nothing in sight that indicates any lowering in the cost of living or lower prices for what the farmer has to buy. Every industry practically is running on a normal basis. The building trades are commanding the highest wages ever paid. When it takes more than the entire proceeds of two big acres of wheat yielding the average return in the Ninth Federal Reserve District to pay a single days wage of a plasterer in the East, something is radically wrong and should be corrected.

It is estimated that the building program for 1923 totals approximately \$5,000,000,000. Prosperity appears to be the outstanding feature in every line of business but agriculture. Is it possible to have a return of normal industrial activity without a restoration of the purchasing power of the farmer? My answer would be no, but we seem to have that return right now, in some sections of the United States, but the question is, how long will it last?

There would seem to be two ways by which the farmer can work himself into a position where it is possible for him to show a profit at the end of each year out of his operations.

First: Curtail the production of all agricultural commodities that are exported in competition with products produced in foreign countries to such an extent that our farmers would be producing slightly less than our domestic consumption. This would mean for example that the production of wheat would have to be reduced to around 600,000,000 bushels, and the price the consumer would have to pay would be the Canadian price plus the tariff and cost of transportation. This would mean that today the farmer would receive around \$1.65 for his wheat.

Such curtailment would not necessarily mean a decrease in productive activity but would entail a re-arrangement of the farmer's operations all along the line. It would mean, in other words, a better balancing and diversification of crops. It is most necessary that every farmer produce practically everything he eats and have farm products to exchange for those necessities he cannot raise.

There is no reason why the farmers should not raise

more flax than is now being raised in this country. A fair average of the annual amount of flax imported into this country from 1914 to 1922, inclusive, would be approximately 12,000,000 bushels. The farmers could well increase their production of flax -- say ten million bushels -- or employ one million acres without affecting the price they are now receiving which is the Argentine price plus the cost of transportation and the tariff. Would that the producers of wheat were in the fortunate position that the flax grower is !

Let me ask you the question: Would the United States Steel Corporation manufacture a surplus over domestic demands if the price at which the surplus had to be sold fixed a price for the entire product that was less than the cost of production? The answer is: Most certainly No. But the wheat growers of the country are in a comparable situation today.

There can be no sound argument why the farmers of this country should raise wheat and sell it at a lower price than it costs to produce the wheat. If we only grew as much wheat as our domestic consumption requires, there would not be any suffering abroad. It is claimed that Canada has potential wheat producing possibilities sufficient to supply the requirements of the world. It should be an easy matter if such is the case for Canada to increase her production 200 million bushels, if necessary. In addition to Canada's potentialities, it is certain that Russia will sooner or later again be a competitor in the raising of wheat.

The second method would be to secure a reduction

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in the prices of all commodities the farmer is obliged to purchase. But such a reduction does not seem to be in prospect, nor is it clear how any action by any agricultural group could bring it about? This can be accomplished only by a reduction in wages which can best be obtained by a liberalization of our immigration laws, and a modification of our tariff laws.

The conclusion would then seem to be forced upon us that to work out their salvation the farmers must approach their problems as a business problem and solve it along business lines, must organize to gain all the advantages that lie in co-operative marketing associations, but above all, seek to plan their production with relation to the demand.

It is just as important that the business of farming be conducted along sound, business lines as any other business. It is folly and a sheer waste of time even to try to change economic laws by legislative action. The successful man, in any kind of business, achieves his success not by opposing economic laws but by adapting his operations to them.

That the future of agriculture is bright seems to me certain. It is estimated that in ten years our population will have increased to such an extent that our present wheat production which is said to have reached practically our full producing capacity will be entirely consumed by domestic consumption. This is no sound argument for letting nature take its course. What will become of the farmer in the

meantime? If a plan can be worked out that will provide for the farmer during this interval it will, in my judgment, solve for all time to come the problem now confronting us. As for the future, it appears to me that it is only necessary for one to take his pencil and paper and do a little figuring. In all probability our population will increase at an average rate of one and one-half millions during the next ten years. The average consumption of wheat, per person, in this country, is approximately 6 bushels, which means an increased annual consumption of 9 million bushels, amounting, in 10 years, to an increase of 90 million bushels per annum. In addition to this increased consumption of wheat, there will, of course, be an increased consumption of all other agricultural products. The question naturally arises what agricultural sections will take care of this increased consumption? I do not believe any one would say that New England can expand to any extent agriculturally, neither can the Middle States. The only sections left are the South and West. The section that has the brightest future, agriculturally, is, in my judgment, this great Northwest. Its business is that of providing necessities for a rapidly increasing public which must be fed, and a public accustomed to the highest standard of living.

I am sure that agriculture will ultimately recover, but this recovery can best be accelerated by the fullest cooperation between all the forces at work, the United States Department of Agriculture, the Agricultural Colleges, such organizations as the

the Farm Bureau, the Farmer Banker Council, and all others that are working for one common end - the welfare of the farmer. Let them all pull together along sound lines and the farmer will be restored to that position he is justly entitled to, and be the Monarch of all he surveys.

FEDERAL RESERVE BOARD

WASHINGTON

X-3643

February 24, 1923.

Dear Sir:

In accordance with the arrangement which has been entered into between the Federal Reserve Board and the Treasury Department with respect to the redemption of incomplete Federal Reserve notes and Federal Reserve Bank notes up to an aggregate amount of \$20,000, as set forth in Board's letter of June 10, 1921 (X-3140), I beg to advise that the Treasurer of the United States has delivered to the Federal Reserve Board notes of this kind amounting to \$245.00, and that the Federal Reserve Board has reimbursed the Treasurer in like amount. The said notes are more particularly described as follows:-

FEDERAL RESERVE NOTES

	<u>5's</u>	<u>10's</u>	<u>20's</u>	<u>Total</u>	
Boston	\$	\$	\$20	\$ 20	
New York	25	20	40	85	
Philadelphia			20	20	
Atlanta		10		10	
Chicago	15		20	35	
San Francisco		10	60	70	
	<u>40</u>	<u>40</u>	<u>160</u>	<u>245</u>	\$240

FEDERAL RESERVE BANK NOTES

	<u>5's</u>	
Richmond	5	<u>5</u>
Total Federal Reserve notes and Federal Reserve Bank notes,		\$245

I am directed by the Board to request proportionate reimbursement from all Federal Reserve Banks based upon paid-in capital and surplus as of February 1, 1923. Under this arrangement the amount chargeable to your bank is \$ which please credit the general account, Treasurer U. S., on your books in the usual manner for account of "Salaries and Expenses Federal Reserve Board, Special Fund", redemption of incomplete notes, and send duplicate C/D to the undersigned.

In accordance with instructions contained in Board's letter of July 8, 1921 (X-3160) the amount of this assessment should be charged to profit and loss account, under Board's general instructions (June 20, 1921, amended December, 1922) covering the preparation of Reports of Earnings and Expenses of Federal Reserve banks.

Very truly yours,

Fiscal Agent.

(To Governors of all Federal Reserve Banks),

FEDERAL RESERVE BOARD
WASHINGTON

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ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

x-3644

Federal Reserve Agent,

Dear Sir:

Receipt is acknowledged of your
letter of enclosing copies of the
reports of examination of State institutions
as listed therein.

Very truly yours,

J. C. NOELL
Assistant Secretary.

FEDERAL RESERVE BOARD
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-3644a

Federal Reserve Agent,

Dear Sir:

Receipt is acknowledged of your
letter of enclosing copies of cor-
respondence pertaining to State institutions
as listed therein.

Very truly yours,

J. C. NOELL
Assistant Secretary.

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

STATEMENT FOR THE PRESS

X-3645

For release in Morning Papers,
Thursday, March 1, 1923.

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

Further increase in the volume of production in basic industries to a level higher than in 1919 or 1920, a continued advance in the prices of many basic commodities, additional borrowing from banks for commercial purposes, and somewhat higher money rates are the principal recent developments in the business situation.

Production in basic industries, as measured by the Federal Reserve Board's index, was 6 per cent higher in January than in December, and reached a volume exceeded only once in the past, in May, 1917. Production of steel ingots and of anthracite coal and mill consumption of cotton showed particularly large advances, and most other important industries increased their output. Building operations have been maintained on a large scale.

The expansion in production during January was accompanied by a substantial increase in freight shipments. Car loadings of forest products, reflecting the continued building activity, reached

the highest monthly total on record, and loadings of merchandise and miscellaneous commodities were higher than in any January of the past four years.

Industrial employment continued to increase during January, and shortages of both skilled and unskilled labor were reported by textile mills, steel mills, and anthracite coal mines. More wage increases at industrial establishments were announced than in December. There is still some unemployment in states west of the Mississippi. In industrial and commercial centers there has recently been a larger demand for office workers, although throughout the country there is much unemployment in this group.

The index number of the Bureau of Labor Statistics, computed from the wholesale prices of about 400 commodities, including finished and semi-finished products as well as raw materials, showed the same average level of prices in January as in November and December. Between December and January the prices of clothing, fuel, metals, building materials, chemicals and house furnishings advanced, but these advances were accompanied by declines in farm products and food, so that the combined index remained unchanged. During recent weeks the prices of a number of basic commodities advanced rapidly and in many cases reached the highest points since 1920 or the early part of 1921. Among commodities reaching new high levels for the current movement were corn, beef, cotton, wool, silk, hides, lumber, rubber, linseed oil, copper, lead and pig iron.

An active distribution of goods for this season of the year is indicated by reports to the reserve banks both of wholesale and retail dealers for the month of January. Sales of department stores in over 100 cities were 12 per cent larger than in January, 1922. Inventories for January show that there has been no large increase in stocks of goods held by department stores, and the rate of turnover continued rapid. In wholesale lines there were particularly large sales during January of dry goods, drugs, hardware, and farm implements.

The larger volume of commercial borrowing at member banks in recent weeks has been contrary to the usual trend of the season. Commercial loans of reporting member banks on February 14 were \$243,000,000, or 3 per cent larger than at the end of December and 7 per cent above the level at the end of July, when the general demand for credit first showed an upward turn.

This increased demand for credit at the member banks has resulted recently in an increased volume of borrowing by the member banks at the reserve banks, chiefly Boston, New York, and Philadelphia. On February 21, the loans to member banks were \$623,000,000 or \$248,000,000 higher than in mid-summer. During the same period the volume of Government securities and bankers' acceptances held by all Federal Reserve Banks declined \$160,000,000, resulting therefore in a net increase of \$47,000,000 in the loans and security holdings of the reserve banks. The volume of Federal reserve

notes in circulation which showed the usual post-holiday decline in January, began to increase on January 31, a week earlier than last year.

Money rates also showed a tendency to become firmer, especially in recent weeks. The open market rate for commercial paper, which was 4 per cent last summer, rose during February from a range of $4 \frac{1}{4}$ - $4 \frac{1}{2}$ to a range of $4 \frac{3}{4}$ - 5 per cent.

On February 23 the discount rate on all classes of paper at the Boston and New York reserve banks was advanced from 4 to $4 \frac{1}{2}$ per cent.

STATEMENT FOR THE PRESS.

X-3546

For immediate release.

Mr. Lynn P. Talley, of Dallas, Texas, has been appointed by the Federal Reserve Board as Class "C" director of the Federal Reserve Bank of Dallas, to fill the vacancy on the board of directors of that Bank which has existed since expiration of the term of Mr. E. O. Wooten, on December 31, 1922. The Federal Reserve Board has also designated Mr. Talley as Federal Reserve Agent, by virtue of which office he also becomes Chairman of the board of directors of the bank. Mr. Talley will assume his duties at an early date.

February 26, 1923.

SUGGESTIONS FOR MAKING OUT A GOVERNMENT BILL OF LADING.

X-3647

Bills of Lading are printed in quadruplicate. One is designated as ORIGINAL, one as SHIPPING ORDER and two as MEMORANDUM. It is always preferable to make out Bills of Lading on the typewriter using carbon paper to make all copies at once. The form should be filled out complete from the top down to the line reading "See instructions on reverse hereof". The sheet marked SHIPPING ORDER should then be separated from the rest and signed by the consignor. The other three copies should all be signed by the Transportation Company. The disposition of the four copies is important and should be as follows:

The SHIPPING ORDER copy is to be delivered to the Transportation Company after the company has signed the other three copies. The ORIGINAL sheet should be immediately mailed to the consignee. One MEMORANDUM copy should be retained by the shipper or consignor, and the other MEMORANDUM copy mailed at once to the Chief Clerk, Federal Reserve Board. The consignee should hold the ORIGINAL sheet until goods are received and checked, he should then fill out the "consignee's certificate of delivery" at bottom of sheet and surrender it to the Transportation Company making delivery.

Care should be taken to record on the Bill of Lading all marks appearing on the box or package shipped; the number and description of the packages, and a clear statement of the contents of each package. The column for "weights" on the Bill of Lading should be filled in if scales are available, otherwise the column should be left blank.

FEDERAL RESERVE BOARD

X-3648

For release in afternoon papers,
Friday, March 2, 1923.

CONDITION OF THE ACCEPTANCE MARKET

JANUARY 15 TO FEBRUARY 15

According to reports received by the Federal Reserve Board from the Federal Reserve Banks the acceptance market was characterized by marked activity through the third week in January, but was less active during February. The heavy year-end financing reached its seasonal peak shortly after the beginning of the year and after that time the volume of new bills coming into the market was somewhat less. Demand for acceptances from country banks was large during the early part of the period, but declined during February. Bills with 60 to 90 day maturities were in the best demand.

Rates continued relatively constant, although a tendency to lower the rates was evidenced in some markets. The rates on prime bills of 30 to 90 day maturities ranged in District No. 2 (New York) from $3\frac{7}{8}$ to 4 per cent, while rates on bills of longer maturities, 120 to 180 days, were somewhat higher, ranging from 4 to $4\frac{1}{4}$ per cent. Rates in Districts No. 1 (Boston), No. 3 (Philadelphia), No. 4 (Cleveland), and No. 7 (Chicago) were similar to those in New York.

The bulk of acceptances which came into the market were drawn principally against the exportation of grain and cotton, the importation of silk, wool, and coffee, and the storage of cotton, sugar, grains, and meats. Some bills were also drawn against hides and leather, raisins, rubber, tobacco, oil, tires, iron, paints and varnishes, glass, and canned goods.

FEDERAL RESERVE BOARD

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WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-3649

February 28, 1923.

SUBJECT: Advertisements of Member Banks.

Dear Sir:

The Federal Reserve Board has had occasion from time to time to express its views as to the propriety of various forms of advertisements adopted by member banks setting forth the advantages accruing from membership in the Federal Reserve System. A large number of individual letters with reference to this subject have been written in answer to specific inquiries; a number of informal rulings have been published in the Federal Reserve Bulletin; and a comprehensive statement of the Board's views on the subject has been issued in the form of a circular letter addressed to the Chairmen of all Federal Reserve Banks under date of April 3, 1920, (X-1882). Certain recent developments and a further study of the ethical and practical aspects of this problem in the light of experience have led the Board to alter its judgment as to the propriety of certain forms of advertisements which it had formerly approved, though it still adheres to the fundamental principles heretofore expressed. The Board deems it advisable, therefore, to issue at this time a new and comprehensive statement of its views on this subject.

There is, of course, no question that any bank, national or State, which is a member of the Federal Reserve System, may properly advertise the fact of its membership and the nature of the advantages which it actually enjoys as a result of that membership. It is manifestly improper, however, for any bank to issue any statement or to make use of any advertisement which is calculated to mislead the public or which may unintentionally have that effect, and member banks can not be too careful in choosing the language of their advertisements to avoid any statement which may mislead the public or which may appear to have been intended to mislead. Such advertisements not only are unethical, but are likely to cause unfavorable comment and criticism which may shake the confidence of the community in the integrity of the bank's management and thus cause the bank irreparable injury. Furthermore, the Board feels that statements which may mislead the public as to the practical situation are improper, even though they are theoretically or technically accurate.

One of the first rulings which the Board issued on this subject was to the effect that member banks should not advertise that they or their deposits are under "Government protection". (Federal Reserve Bulletin, November, 1915, p. 362.) Similarly, the Board has expressed its disapproval of advertisements containing the statement that member banks are "under Federal control", that their business is "carried on under personal supervision of State and national authorities", or that, "Our membership in the Federal Reserve System means your guaranteed safety."

The advertisements which have caused the Board the greatest difficulty, however, are those which contain statements with reference to the character of supervision to which State member banks are subjected by virtue of their membership in the Federal Reserve System. There is perhaps an unconscious tendency on the part of a number of State member banks to use advertisements which imply that they are under precisely the same supervision as national banks as well as under the supervision of the State banking authorities. Such advertisements are inaccurate and misleading, and the Federal Reserve Board has always opposed them. Thus, the Board has always opposed advertisements by State member banks containing statements to the effect that they are under National supervision or supervision of the National Government; and in the circular letter above referred to the Board said:

"The Board believes, therefore, that when a State member bank uses the word 'National' to describe the supervision to which it is subjected by reason of its membership in the Federal Reserve System, the plausible inference of the public is that the supervision is the same as that to which National Banks are subjected. There is no doubt that that inference must be avoided so far as possible to do so."

While it has previously expressed opinions to the contrary, the Board is now of the opinion that for the same reasons, it is also improper for State member banks to advertise that they are subject to or under Government or Federal supervision, or supervision of the Federal or United States Government. While technically, under the terms of Section 9 of the Federal Reserve Act, State banks are "subject to" examination by the Federal Reserve Board in the sense that the Board has the right to examine them, yet as an actual matter they are not actually examined or supervised by the Federal Reserve Board, and the Act expressly provides that they shall not be subject to examination by the Comptroller of the Currency. It is true that they are subject to examination by the Federal Reserve Banks, but examination by the Federal Reserve Banks does not constitute examination or supervision by the Federal Government, because the Federal Reserve Banks are not branches of the Government and are not even owned by the Government, but are private corporations the entire stock of which is owned by their member banks. Furthermore, the Federal Reserve Banks often do not examine them, but merely accept examinations made by the State authorities.

It may be argued that, because they are technically "subject to" examination by the Federal Reserve Board, which is an independent establishment of the Government, it is not improper for State member banks to advertise that they are subject to or under Federal or Governmental supervision. While such a statement may be technically accurate, however, it is misleading to the public, because the average layman reading such a statement would fail to note this fine technical distinction and would get the impression that such banks actually are supervised by the Government, which

is not in accordance with the facts. Indeed, an advertisement to the effect that a State member bank is subject to or under Federal or Governmental supervision would have little or no advertising value were it not for the fact that it conveys to the public the idea that such a bank actually is examined by the Government in the same manner as national banks.

The Federal Reserve Board has previously expressed the opinion that statements by State member banks to the effect that their membership in the Federal Reserve System gives "double security" or "double protection" are misleading. So, also, while national banks are in a sense "subject to" double supervision, that is, the supervision of the office of the Comptroller of the Currency and the supervision of the Federal Reserve Board through special examinations made by Federal Reserve Banks with the approval of the Federal Reserve Board, nevertheless, it would not be proper for a national bank to advertise that it is under double supervision or supervision which affords "double security" or "double protection" to its depositors.

The Board has heretofore ruled, and is still of the opinion, that it is entirely proper for State member banks to advertise the fact that they are members of the Federal Reserve System and that the resources of the system are available through the rediscount privilege to all member banks.

Any rulings or opinions of the Federal Reserve Board which are inconsistent with the views herein expressed shall be deemed to be superseded by this ruling.

The Federal Reserve Banks are requested to call this matter to the attention of their member banks and to explain to them the opinions of the Federal Reserve Board regarding the advertisements of member banks, with a view to the discontinuance of all advertisements which are considered to be improper or misleading.

By order of the Federal Reserve Board.

Wm. W. Hoxton,
Secretary.

To Chairman of all Federal Reserve Banks.

FEDERAL ADVISORY COUNCIL

1923

X-3653

Superseding

X-3336

Officers:

L. L. Rue, President,
P. M. Warburg, Vice President,
H. L. Hilyard, Secretary.

Executive Committees:

L. L. Rue, E. F. Swinney,
P. M. Warburg, A. L. Aiken,
J. J. Mitchell, J. M. Miller, Jr.

Corrected to March 3, 1923.

M E M B E R SDistrictRepresentative

No. 1	Alfred L. Aiken	President	Natl. Shawmut Bank, Boston, Mass.
No. 2	Paul M. Warburg		31 Pine Street, New York, N. Y.
No. 3	L. L. Rue	President	The Phila. Natl. Bank, 421 Chestnut Street, Philadelphia, Pa.
No. 4	C. E. Sullivan	President	Central Natl. Bank, Savings & Trust Co., Cleveland, Ohio.
No. 5	John M. Miller, Jr.	President	First Natl. Bank, Richmond, Va.
No. 6	E. W. Lane	President	Atlantic Natl. Bank, Jacksonville, Fla.
No. 7	J. J. Mitchell	Chrm. of the Board	Illinois Merchants Trust Company, Chicago, Illinois.
No. 8	Festus J. Wade	President	Mercantile Trust Co., St. Louis, Mo.
No. 9	G. H. Prince	Chrm. of the Board.	Merchants Natl. Bank, St. Paul, Minn.
No. 10	E. F. Swinney	President	First Natl. Bank, Kansas City, Mo.
No. 11	R. L. Ball	Chrm. of the Board	Natl. Bk. of Commerce, San Antonio, Texas.
No. 12	D. W. Twohy	Chrm. of the Board	Old National Bank, Spokane, Wash.

Address of H. L. Hilyard, Secretary, 421 Chestnut Street, Philadelphia, Pa.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-3654

March 3, 1923.

SUBJECT: Suspended Clayton Act Application.

Dear Sir:

In connection with a recent study which the Board has made of the Clayton Act situation, it was decided to reconsider at this time all applications under the Kern Amendment which have been held in suspense pending the enactment of the proposed amendment to the Clayton Act, and to pass finally upon them without waiting further for action by Congress. Before acting upon these cases, however, the Board wishes to have before it up to date information concerning the condition of the banks involved, the nature of their business, the character of the community in which they are located and of the clientele they serve, and all other facts and circumstances which may bear upon the question of the existence or non-existence of substantial competition between them.

For this purpose you are requested to obtain from all persons in your district, whose applications are being held in suspense, new applications and statements on the new forms recently adopted by the Board. In forwarding these forms to such persons you should explain the purpose of the new application, and advise the applicant of the desirability of filling out the application in great detail and of including therein all information which might be of value in determining the question of substantial competition. In forwarding such completed applications to the Board, your accompanying report should similarly go into detail, and should amplify or controvert the statements made by the applicant wherever appropriate, and in general contain all available information bearing upon the application. Your recommendation should further be made in the light of the Board's new statement of the meaning of substantial competition, as set out in its letter to you dated January 2, 1923.

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 Morning Papers,
Monday, March 5, 1923.

The following is the Review of the Month as
contained in the forthcoming issue of the
Federal Reserve Bulletin.

BUSINESS AND CREDIT

Since the opening of the year there has been continued growth in the volume of production, further increases in the prices of basic materials, and a larger demand for credit. Though the general credit trend has been somewhat obscured by seasonal influences, the differences between the developments this year and at the beginning of 1922 indicate an increase in the credit requirements of business. The reduction in loans at member banks during January was only half as large in 1923 as in 1922, and the decrease in reserve bank discounts was much smaller than a year ago. Also, the return flow of Federal reserve note currency was not so pronounced this year as last, and came to an end a week or two earlier. Borrowing for commercial purposes, which has increased steadily since midsummer of 1922, showed no seasonal decline, but continued to increase during January and February. The effect of this larger credit demand was felt early in February in a higher level of money rates in the financial centers.

In considering the present condition of industry and trade and the prospective demand for credit, it is important to give attention not merely to the financial situation, but to influences affecting the current volume of production and trade. Credit changes tend to lag behind

changes in productive output, and consequently the immediate financial developments do not adequately reflect the extent of present industrial activity. The factors of primary importance in estimating the present outlook are the volume and character of goods being produced and marketed, and the sources of demand for these goods.

It is well known that the trend of production has been upward since the middle of 1921, and that the current output is large, but the extent of recovery and the magnitude of the present volume of production compared to earlier periods of business activity are not so fully realized. During the last quarter of 1922 production was greater than at any similar period during the past five years. The Federal Reserve Board's index of production in basic industries, which measures the changes in the output of 22 commodities, shows that in September, 1922, production was equal to the monthly average for 1919, and that since that month there has been an almost continuous advance. During so short a period as the last five months there has been a 20 per cent increase in output, and in January the level of production rose above the peak of 1920. During this period industrial disturbances have been few, mining has proceeded on a larger scale, and traffic conditions have improved. The relatively mild winter and the continued demand for housing facilities have led to a continuance of building operations. Greater efficiency, both of labor and of factory equipment, has made larger output possible, and the sustained demand for basic materials at advancing prices has made production profitable.

The chief factor in the larger production during January was the increased output of iron and steel. This output during the first month

of 1923 was double that of the same month last year; the output of steel ingots was, in fact, the largest on record for any January and with the exception of March, 1920, the largest for any month since 1918. Recent estimates of the consumption of steel by important lines of industry indicate the character of present demand. Railroads used approximately 25 per cent of last year's steel production; transportation and storage of oil, gas, and water consumed 15 per cent; buildings and bridges approximately 12 per cent; the automobile industry 9 per cent, and the export demand about 8 per cent. Larger steel production during January has been accompanied by a growth in the volume of unfilled orders and by an increase in the price of steel.

A somewhat similar situation exists in the building industry and in the industries producing building materials. Since the latter part of 1922 the volume of orders placed for lumber has exceeded production, some weeks running as high as 50 per cent in excess; in December and January shipments of lumber exceeded production by about 20 per cent. Production of lumber, cement, and face brick during January, 1923, average about 45 per cent greater than a year earlier, and prices of building materials advanced 19 per cent during the same period. The advance in prices of these materials during the past year has been greater than for any other group represented in the index number of the Bureau of Labor

Statistics, but the increase in their production has been still greater. The demand for basic materials and for house furnishings resulting from the present building activity has played a large part both directly and indirectly in creating the current volume of production and trade. The construction industry and, in fact, the production of equipment goods in general are fluctuating in character, and the influence of the additional demands arising from such industries upon the volume of employment, and hence on the buying power of workers, is greatest during periods of changing business activity.

While the production of consumers' goods ordinarily fluctuates less than that of basic materials, yet their output has also responded to the recent increase in business activity, and to the larger purchasing power resulting from fuller employment. At the beginning of 1922 the production of textiles, shoes, and food declined, but during the latter part of the year the output of these goods again increased. For the year as a whole, cotton consumption at textile mills was the largest since 1918; woolen mills were particularly active during the last quarter of the year and maintained their production during January. The output of food products was greater during 1922 than in either of the two preceding years, although in general less than during 1919. It is estimated that during last year more meat was consumed in the United States than during any previous year. The domestic demand for consumers' goods is the largest market for American products and the increase in the money income of the nation during the past year has been reflected in that market.

PRODUCTION AND STOCKS: In order to determine the economic significance of the large volume of current production, it is important to know whether the output is being marketed as it is produced or is accumulating in large quantities. A comparison of the stocks of basic materials in January, 1923, with those for the corresponding month a year ago indicates, as far as information is available, that they are not accumulating. As this conclusion bears an important relation to the current business and credit situation, the evidence is presented in some detail,

The fact that stocks of many basic materials at the beginning of the year were less than a year ago indicates that increased output has been accompanied by active trading and that the goods produced have moved steadily into the channels of trade. A further indication that no large physical volume of goods has been accumulated by industrial corporations is furnished by the recently published annual statements of a considerable number of those concerns, including both those engaged in the production of raw materials and of finished goods. These statements show that inventories at the close of 1922 averaged somewhat less than in 1921, notwithstanding the fact that prices are higher than a year ago. Information concerning stocks in hands of retailers is less comprehensive, the only available data being the reports received by Federal Reserve Banks from 500 department stores in over 100 cities. The merchandise stocks held by these stores at the end of the year were relatively low and during January declined slightly.

The relation between production and stocks is ordinarily regarded as of great value in throwing light upon business and credit

conditions and tendencies. In a period of business revival, when prices are advancing, there comes a time when the expectation of further increases in prices furnishes a powerful incentive to manufacturers and merchants to enlarge the volume of their purchases of materials and merchandise, and so to accumulate stocks. Such practice, if generally pursued, may for a time be itself the cause for bringing about the expected increase. The policy of purchasing far in anticipation of demand because of expected price advances, and of ordering materials in excess of requirements because of fear of shortages, introduces an element of unhealthy speculation into production and trade. Such policies, furthermore, ordinarily lead to increased borrowing to finance the larger inventories, and borrowing for this purpose accounts in part for the enlarged demand for credit which accompanies a rise in prices. How large a volume of credit at any given time is required to maintain a healthy condition of productive industry is not always easy to determine, particularly in a country of such varied and complex economic activity as the United States. But it is well to emphasize that an economic use of credit is to facilitate the production and orderly marketing of goods, and not to finance the speculative holding of excessive stocks of materials and merchandise. So far as the available indications go, the increased demand for credit during recent months appears to have arisen from the larger financial requirements of current production and trade, and not from speculation in inventories.

Further evidence as to present marketing is furnished by the car loadings of merchandise and the volume of wholesale and retail sales.

Railroad loadings of merchandise in the last quarter of 1922 were about 10 per cent larger than those of the last quarter of 1921. During January there was a further increase of merchandise loadings, and the total for the month was 23 per cent larger than the corresponding month of last year. The volume of wholesale and retail merchandising increased in the last quarter of 1922, but the increase of wholesale trade was not unusually large for the season of the year. For 1922 as a whole, however, the volume of wholesale trade was substantially greater than in 1921. In retail trade the sales, both of department stores and mail-order houses, were considerably larger in the fall of 1922 than in 1921. During the last quarter of the year department stores increased their sales over the corresponding period of the previous year by approximately 6 per cent, while, comparing the same periods, mail-order houses reported sales 31 per cent larger. Mail-order sales, however, which reflect the merchandise demand in rural districts and which declined heavily during 1920 and 1921, were still smaller in dollar value than they were in 1919, whereas department store sales, representing city trade, were much larger. December sales of reporting department stores reached the largest monthly figure of the last four years, and in January were 12 per cent larger than in January, 1922.

INCREASED BUYING POWER. The increased buying which made possible this larger marketing of goods came chiefly from fuller employment and the larger pay rolls and from some increase in the net proceeds to the farmer from the sale of his products. Restoration of buying

power resulting from reemployment after the industrial inactivity of 1921 is one of the causes for the sustained demand that has supported the increase in that activity. During the past year the pay rolls at industrial establishments increased approximately 25 per cent. Moreover, this increased money income was not offset by corresponding increases in the cost of living. Retail prices rose very little during the year, so that the advance in wholesale prices has not yet been fully reflected in the prices of goods bought by the ultimate consumer. These conditions have enabled wage earners to make savings, as is evidenced by the growth of savings deposits throughout the country. The increase during the year in savings deposits for about 880 reporting banks distributed through the 12 Federal Reserve Districts and holding approximately one-third of the total time and savings deposits of the country was \$445,000,000. About 60 per cent of this increase took place during the last three months. The accumulation of these savings represents partly the deposit of funds arising from the redemption of Victory Notes and War Savings Certificates, but it indicates more particularly that current money income has not only been sufficient to purchase a large volume of consumers' goods, but also to contribute to the funds now being invested in houses and other capital goods. It is generally true that in years when production is large both consumption and saving are also greatest.

The curtailed buying power of European purchasers under present conditions raises the questions as to the extent of dependency

of various lines of industry upon foreign buyers and the relative importance of domestic and foreign markets.

Very wide differences exist in the relative amounts of various products shipped to foreign markets. The relatively large proportion of certain farm products marketed abroad explains the connection between the condition of world markets and the prosperity of the American farmer. The relation between the total foreign trade and total domestic production is difficult to estimate with accuracy, but both on the basis of physical units and of dollar value it is clear that no large proportion of the country's production during 1922 was marketed abroad. It should not be assumed, however, that the foreign trade of the United States is unimportant because, however measured, it is only a small part of our combined domestic and foreign trade. The cotton growers of the South and the farmers of the Middle West depend to a considerable extent upon foreign demand to insure marketing their crops at profitable prices. Moreover, even for manufacturers, the existence of a foreign market ready to absorb surplus products is an important price stabilizing factor, even though the actual volume of certain kinds of goods sold abroad may not be large.

The physical volume of exports in 1922, according to the foreign trade index of the Federal Reserve Board and other available data, was slightly less than in 1921, but the movement of goods was in general well maintained and was highest in the last three months of the year. The rise in those months was due entirely to increased exports of raw materials, chief among which was raw cotton. The

quantities of foodstuffs and manufactures, on the other hand, showed a tendency to decline in the latter part of 1922, following large movements of those classes of goods earlier in the year. The lower priced cereals, such as corn, rye, and oats, were exported in larger quantities than in the previous year, but wheat exports fell sharply on account of strong competition from Canada, which tended to discourage foreign buying. In December, however, wheat exports showed a decided recovery from the level of November and preceding months.

Manufactured goods were shipped abroad in about the same quantity during 1922 as in the preceding year, exports having increased steadily in volume from the summer of 1921 until about the middle of last year. Since then the gain in that direction has not been sustained. Export trade in textile manufactures was larger in 1922 than a year earlier, but shipments of iron and steel manufactures and machinery were smaller. The downward trend of manufactured exports during the latter half of 1922, at the same time that production in this country was expanding, indicates that American manufacturers have not depended upon foreign markets to any large extent as an outlet for the recent increase in output.

PRICES AND PRODUCTION: While production and prices have both been increasing during the past year, for many commodities the rate of increase in production has been greater than the rate of advance in price. Wholesale prices, as measured by the index of the Bureau of Labor Statistics, have advanced 13 per cent in the course of the past year, while the volume of production in basic industries has increased 40 per cent. Prices of raw materials taken as a group have advanced 20 per cent during this period, while the prices of consumers' goods have risen only a little more than 6 per cent. During the three months ended January, 1923, the diverse price movement among different groups of commodities had balanced one another, so that the combined index has shown no net change. In January it remained unchanged at 156 per cent of the 1913 average. Prices of many basic commodities, however, advanced during January and February to new high levels for the current movement, in some cases reaching the highest points since 1920. During the past year price advances have been effective in calling forth larger output, and the expansion of production has been supported by the larger use of credit. When, however, production reaches the limits imposed by the available supplies of labor, plant capacity, and transportation facilities - in fact, whenever the productive energies and resources of the country are employed at full capacity - output can not be enlarged by an increased use of credit and by further increases in prices.

With production at its present volume, prices of many basic materials advancing, and the buying power of the public apparently considerably strengthened, the question arises, what will be the trend in the demand for credit and how soon will increased loan activity at banks result in a larger demand for accommodation at the Federal Reserve Banks?

CREDIT CONDITIONS: As stated in the beginning, the credit developments during the early part of this year differ in some significant particulars from those during the corresponding period a year ago. The extent of seasonal liquidation was less this year than last, and the movements in various classes of loans indicate the difference in the character of present borrowing compared with that of a year ago. Last year liquidation was chiefly of commercial loans, while this year it was for the most part confined to loans secured by stocks and bonds, commercial loans continuing to increase. At reporting member banks between the close of the year and the middle of February, loans secured by corporate obligations declined about \$47,000,000, while other loans, largely commercial in character, increased by about \$243,000,000. The larger part of these commercial loans were made by banks in the industrial and financial East, where the increased demand for credit has been reflected in higher money rates.

The extent to which this increased demand for credit may be met by other means than borrowing at Reserve Banks is limited. Although during the period between the beginning of 1921 and midsummer of 1922 member banks in leading cities used funds arising from loan liquidation in the purchase of securities to the extent of over \$1,000,000,000, it is doubtful how far they will be able to meet the increased financial requirements of business by the sale of these securities. While a portion of these securities might be absorbed by ultimate investors out of current savings, a large volume of sales within a short period is not likely to result in any considerable increase in the total volume of funds available for current operations. The fact/^{is} that member banks have made use of all their available funds either for loans or investments, that a reduction in investments will result in increased demand for loans, and that the

growing demand for commercial credit will lead member banks to apply for additional accommodation at Federal Reserve Banks.

The increased demand for credit for commercial purposes is beginning to reflect itself in increased borrowing from certain of the reserve banks, particularly those in the larger centers where borrowings reflect most sensitively the greater industrial demands. The outstanding fact in reserve bank developments during the first eight weeks of 1923, taking the system as a whole, is that seasonal liquidation of discounts this year was negligible compared with last year, the net aggregate reduction this year being only about \$2,000,000. Member banks reduced their borrowings at eight of the reserve banks, but these reductions were offset by increases at the Philadelphia, Dallas, San Francisco, and New York reserve banks. The largest increase in discounts for the period was at the Federal Reserve Bank of New York, where member banks increased their borrowings by \$96,000,000. To better adjust its relation to the altered condition of the money market thus evidenced, the New York reserve bank has raised its discount rate from 4 to $4\frac{1}{2}\%$. Action which was also taken at the Boston and San Francisco reserve banks brought the rates of these banks to the uniform level of $4\frac{1}{2}\%$ now obtaining at all Federal Reserve banks. Expansion in the volume of reserve ^{bank} credit at a time when physical production is approaching maximum, particularly if the growth of business extends to all districts, will bring the reserve banks into a closer relationship through their rediscount operations to the movement of production, trade, and prices, than they have sustained for more than a year.

FEDERAL RESERVE BOARD

200

WASHINGTON

X-3657

March 9, 1923.

SUBJECT: Reply to Senate Resolution 351.

Dear Sir:

The enclosed letter was sent to the Senate of the United States on March 3rd in answer to Senate Resolution 351, and was published in the Congressional Record of March 4th. As it was impossible to comply with the terms of the resolution, partial list sent by your bank is returned under separate cover.

By order of the Federal Reserve Board.

Very truly yours,

Wm. W. Hoxton,
Secretary.

(Enclosure)

TO GOVERNORS OF ALL
F. R. BANKS.

COPY

X-3657a;
March 3, 1923.

201

Sir:

Senate Resolution 351 requests the Federal Reserve Board to obtain and send to the Senate certain lists of names and addresses, being the names and addresses of persons who received copies of a speech delivered by the Junior Senator from Virginia more than a year ago. It is certainly a somewhat unusual request to make of any Government body as it must be obvious that there was no object in preserving the lists used so long ago and consequently in some cases they do not exist, and in all cases are greatly changed and are not the same lists to which Senator Glass's speech was sent. If the Senate had desired the Federal Reserve Board to have these lists preserved it would seem that the request would have been made not later than the spring of 1922 as the speech of Senator Glass was delivered on the 16th and 17th of January.

It appears from the preamble which was made a part of Senate Resolution 351 by being passed with it that its purpose was to enable one Senator, whose position is stated to have been "assailed and criticised" by another Senator, to have the opportunity "of sending copies of his speech to the citizens who have received the speech which assailed and criticised him", and the inference appears to be that at least one of the objects in the circulation of Senator Glass's speech was the criticism of the other Senator. Reference to the other Senator whose position is stated to have been assailed and criticised in Senator Glass's speech was purely incidental and it is doubtful if the officers of the Federal Reserve Banks even so much as remembered that he had been mentioned in the speech of the Senator from Virginia, whose speech was delivered in January 1922. The speech of the Senator from Virginia was recognized by all authorities as the most complete and masterly explanation and exposition of the Federal Reserve System and of its operation ever delivered. Senator Glass was the Chairman of the Committee on Banking and Currency of the House of Representatives when the Federal Reserve Act was first in preparation, when it was passed in Congress and when it came into operation by the organization of the twelve Federal Reserve Banks. He was also the author of most of the amendments which were passed during the first years of its operation and later as Secretary of the Treasury became ex-officio the Chairman of the Federal Reserve Board. He was, therefore, familiar with every detail of the law and with its operation and was the one man not only in the Senate of the United States but in the United States itself in a position to make such an address with authority.

The address was circulated to convey to the member banks of the Federal Reserve System and to their clients invaluable information not otherwise obtainable and with no purpose or thought of criticising any other Senator.

If nevertheless the Senator who feels that his position was "assailed and criticised" desires after the lapse of more than a year to send out

answers to Senator Glass's great speech some information can be given from the answers of the Federal Reserve Banks to the resolution which will enable him to cover most of the persons who received Senator Glass's address. There was great difference in the methods of distribution of Senator Glass's address. Thus the Federal Reserve Bank of Minneapolis states that it was sent in that district only to member banks on written request, and the Federal Reserve Bank of Dallas replies that the address was sent to banks, chambers of commerce and to some extent to such institutions as rotary clubs. In all districts many copies were distributed in this way, no exact list of the persons who received the address having been kept, as the final distribution to "citizens", (the term used in the resolution) was made by the many commercial banks, institutions and organizations. By using the Bankers Directory, therefore, and by sending copies to chambers of commerce the other Senator may cover most of the territory.

Senator Glass's speech was in much demand by educational institutions and several hundred copies were sent to some of them on request. Reprints of it were in fact made by some educational and other institutions that were unable to obtain a sufficient number of copies of the full address to satisfy their requirements. Some of these reprints contain no reference whatever to the Senator "who spoke on the other side of the question."

Most Federal Reserve Banks maintain mailing lists built up in connection with the distribution of their monthly reports and with their business reporting service and these lists in some banks were used in the distribution of Senator Glass's speech, but the banks generally regard these lists as their personal property and several of them have protested strongly against making them public. The Board's Counsel doubts authority to compel their submission without specific Act of Congress. In any event they have greatly changed in a year and are not the same lists that were used in the early part of 1922. Furthermore they did not as used in 1922 include the names and addresses of anywhere near all the citizens who received the speech of Senator Glass.

Respectfully submitted,

(signed) Edmund Platt

Acting Governor.

The President of the Senate.

FEDERAL RESERVE BOARD

203

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-3659

SUBJECT: Ninth Annual Report of the Federal
Reserve Board.

Dear Sir:

Receipt is acknowledged of your letter requesting a copy of the Ninth Annual Report of the Federal Reserve Board. There is enclosed herewith an advance copy of the text of the Report. The complete report will not be available for distribution until about May 1st, when copy will be sent to you.

Very truly yours,

Walter L. Eddy,
Assistant Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

X-3660

March 9, 1923.

SUBJECT: Examination of Member State Banks with Branches.

Dear Sir:

This is to advise you that the Federal Reserve Board has recently given consideration to the problem of the examination of member state banks with branches, and has adopted the principle that hereafter all examinations of member state banks and trust companies shall be conducted simultaneously; both as to the parent bank and each branch.

By order of the Federal Reserve Board.

Very truly yours,

Wm. W. Hoxton,
Secretary.

TO ALL FEDERAL RESERVE AGENTS.

FEDERAL RESERVE BOARD

WASHINGTON

X-3661

March 8, 1923.

SUBJECT: Holdings of Certificates Maturing March 15, 1923.

Dear Sir:

Information recently collected by the Federal Reserve Board for the Treasury Department shows that the Federal Reserve Banks hold Treasury certificates maturing March 15th amounting to over \$63,000,000 and the Board directs me to state that it is strongly of the opinion that certificates maturing March 15th should be allowed to run off without reinvestment. This is in accordance with the agreement reached at the conference of Governors held in Washington on May 2-4, 1922, with relation to investments of the Federal Reserve Banks in short term Government securities. There seem to be clear indications that the season is approaching when increased rediscounts will more than make good this amount in the earning assets of the Federal Reserve Banks.

Yours very truly,

Acting Governor.

To Chairmen of all Federal Reserve Banks.

TREASURY DEPARTMENT
Office of the Secretary
WASHINGTON

February 7, 1923.

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 January 1 to January 31, 1923, amounting to \$136,083.58, as follows:

Federal Reserve Notes, 1914.						
	<u>\$5</u>	<u>\$10</u>	<u>\$20</u>	<u>\$50</u>	<u>\$100</u>	<u>Total</u>
Boston	190,000	146,000	65,000	—	3,000	404,000
New York	480,000	336,000	26,000	3,000	—	845,000
Philadelphia ...	239,000	127,000	48,000	6,000	—	420,000
Cleveland	115,000	73,000	71,000	6,000	—	265,000
Atlanta	174,000	60,000	34,000	3,000	—	271,000
Chicago	29,000	16,000	—	—	—	45,000
St. Louis	13,000	13,000	3,000	2,000	—	31,000
Minneapolis	35,000	8,000	13,000	—	—	56,000
Dallas	12,000	2,000	—	—	—	14,000
San Francisco...	198,000	84,000	63,000	—	3,000	348,000
	<u>1,485,000</u>	<u>865,000</u>	<u>323,000</u>	<u>20,000</u>	<u>6,000</u>	<u>2,699,000</u>

2,699,000 sheets at \$50.42 per M \$136,083.58

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	404,000	\$6,819.52	\$6,443.80	\$5,134.84	\$1,971.52	\$20,369.68
New York	845,000	14,263.60	13,477.75	10,739.95	4,123.60	42,604.90
Philadelphia.	420,000	7,089.60	6,699.00	5,338.20	2,049.60	21,176.40
Cleveland ...	265,000	4,473.20	4,226.75	3,368.15	1,293.20	13,361.30
Atlanta	271,000	4,574.48	4,322.45	3,444.41	1,322.48	13,663.82
Chicago	45,000	759.60	717.75	571.95	219.60	2,268.90
St. Louis ...	31,000	523.28	494.45	394.01	151.28	1,563.02
Minneapolis..	56,000	945.28	893.20	711.76	273.28	2,823.52
Dallas	14,000	236.32	223.30	177.94	68.32	705.88
San Francisco	348,000	5,874.24	5,550.60	4,423.08	1,698.24	17,546.16
	<u>2,699,000</u>	<u>45,559.12</u>	<u>43,049.05</u>	<u>34,304.29</u>	<u>13,171.12</u>	<u>136,083.58</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,

(Signed) S. R. Jacobs,
Deputy Commissioner.

BDH

FEDERAL RESERVE BOARD

WASHINGTON

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ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-3663

March 14, 1923.

SUBJECT: Expense Main Line, Leased Wire System, February, 1923.

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-3663a and X-3663b, covering in detail operations of the main line, Leased Wire System, during the month of February, 1923.

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 FEBRUARY, 1923.

From	Bank Business	Per cent of Total Bank Business(*)	Treasury Dept. Business	War Finance Corp. Business	Total
Boston	28,428	2.93	6,580	-	35,008
New York	186,618	19.20	15,616	31	202,265
Philadelphia	50,056	5.15	6,225	38	56,319
Cleveland	73,198	7.53	11,910	-	85,108
Richmond	58,367	6.01	7,177	-	65,544
Atlanta	61,677	6.35	8,875	-	70,552
Chicago	128,920	13.26	11,576	118	140,614
St. Louis	79,758	8.21	10,793	-	90,551
Minneapolis	38,989	4.01	5,770	-	44,759
Kansas City	80,106	8.24	8,667	-	88,773
Dallas	60,091	6.18	4,956	71	65,118
San Francisco	125,683	12.93	19,380	-	145,063
Total F. R. Banks	971,891		117,525	258	1,089,674
Washington	<u>278,452</u>	<u>100.00</u>	<u>85,945</u>	<u>549</u>	<u>364,946</u>
Grand Total	1,250,343		203,470	807	1,454,620
Per cent of total	85.96%		13.99%	.05%	
Bank Business	1,250,343 words	or 86.00%			
Treasury	<u>203,470</u> " "	<u>14.00%</u>			
TOTAL	1,453,813	100.00%			

(*) These percentages used in calculating the
pro rata share of leased wire expenses as
shown on the accompanying statement (X-3663b)

FEDERAL RESERVE BOARD,
WASHINGTON, D. C.,
MARCH 14, 1923.

REPORT OF EXPENSE
MAIN LINE
FEDERAL RESERVE LEASED WIRE SYSTEM FEBRUARY, 1923.

X-3663b

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	\$ 665.19	\$ 250.00	\$ 415.19
New York	1,309.14	-	-	1,309.14	4,358.92	1,309.14	3,049.78
Philadelphia	225.00	-	-	225.00	1,169.19	225.00	944.19
Cleveland	366.00	-	-	366.00	1,709.51	366.00	1,343.51
Richmond	315.00	-	-	315.00	1,364.43	315.00	1,049.43
Atlanta	240.00	-	-	240.00	1,441.62	240.00	1,201.62
Chicago	(#)4,661.68	-	-	4,661.68	3,010.38	4,661.68	(*)1,651.30
St. Louis	248.21	4.25	-	252.46	1,863.89	252.46	1,611.43
Minneapolis	275.00	-	-	275.00	910.38	275.00	635.38
Kansas City	336.64	-	-	336.64	1,870.70	336.64	1,534.06
Dallas	251.00	-	-	251.00	1,403.02	251.00	1,152.02
San Francisco	395.00	-	-	395.00	2,935.46	395.00	2,540.46
Fed. Res. Board			16,950.75	16,950.75			
TOTAL	\$8,872.67	\$4.25	\$16,950.75	\$25,827.67 (a)3,124.98 \$22,702.69	\$22,702.69	\$8,876.92	\$15,477.07 (&)1,651.30 \$13,825.77

(#) Includes salaries of Washington Operators.

(&) Amount reimbursable to Chicago.

(*) Credit.

(a) Received \$24.98 from War Finance Corp. and \$3,100.00 from Treasury Dept. covering business for months of Jan. and Feb.

FEDERAL RESERVE BOARD,
WASHINGTON, D. C.,
MARCH 14, 1923.

TREASURY DEPARTMENT
Office of the Secretary
WASHINGTON

X-3664

March 10, 1923.

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 February 1 to February 28, 1923, amounting to \$145,512.12, as follows:

<u>Federal Reserve Notes, 1914</u>					
	<u>\$5</u>	<u>\$10</u>	<u>\$20</u>	<u>\$50</u>	<u>Total</u>
Boston	247,000	291,000	6,000	---	544,000
New York	524,000	278,000	92,000	11,000	905,000
Philadelphia	135,000	228,000	88,000	---	451,000
Cleveland	93,000	98,000	87,000	7,000	285,000
Atlanta	145,000	80,000	23,000	---	248,000
St. Louis	---	---	---	5,000	5,000
Minneapolis	74,000	75,000	23,000	---	172,000
Dallas	12,000	2,000	11,000	---	25,000
San Francisco	136,000	69,000	46,000	---	251,000
	<u>1,366,000</u>	<u>1,121,000</u>	<u>376,000</u>	<u>23,000</u>	<u>2,886,000</u>

2,886,000 sheets at \$50.42 per M \$145,512.12

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	544,000	\$ 9,182.72	\$ 8,676.80	\$ 6,914.24	\$ 2,654.72	\$ 27,428.48
New York	905,000	15,276.40	14,434.75	11,502.55	4,416.40	45,630.10
Philadelphia	451,000	7,612.88	7,193.45	5,732.21	2,200.88	22,739.42
Cleveland	285,000	4,810.80	4,545.75	3,622.35	1,390.80	14,369.70
Atlanta	248,000	4,186.24	3,955.60	3,152.08	1,210.24	12,504.16
St. Louis	5,000	84.40	79.75	63.55	24.40	252.10
Minneapolis	172,000	2,903.36	2,743.40	2,186.12	839.36	8,672.24
Dallas	25,000	422.00	398.75	317.75	122.00	1,260.50
San Francisco	251,000	4,236.88	4,003.45	3,190.21	1,224.88	12,655.42
	<u>2,886,000</u>	<u>\$48,715.68</u>	<u>\$46,031.70</u>	<u>\$36,681.06</u>	<u>\$14,083.68</u>	<u>\$145,512.12</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,
(SIGNED) S. R. JACOBS,
Deputy Commissioner.

FEDERAL RESERVE BOARD
WASHINGTON

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STATEMENT FOR THE PRESS

X-3666

For immediate release.

The Federal Reserve Board last Friday, March 16th, by a majority vote, disapproved the acceptance by the Federal Reserve Bank of St. Louis of certain bids for the construction of a building for its Little Rock, Arkansas, Branch, and a special committee was appointed to submit to the Board today, March 19th, a resolution expressing the views of the Board with reference to the Federal Reserve Banks proceeding with the construction of branch bank buildings at this time. Pending report of the special committee, advice of the Board's action with respect to the Little Rock Branch was ordered postponed until today when, in accordance with the action aforesaid, the Federal Reserve Board voted as follows:

"It is the sense of the Federal Reserve Board that until the present congestion in the building activities of the country is materially relieved and costs of building are lowered, Federal Reserve Banks should not add to the existing difficulties of the situation by carrying on any branch building operations other than those now in progress or for which contracts have already been entered into."

March 19, 1923.

X-3667

OPEN MARKET INVESTMENT POLICY

Whereas the Federal Reserve Board, under the powers given it in Sections 13 and 14 of the Federal Reserve Act, has authority to limit and otherwise determine the securities and investments purchased by Federal reserve banks;

Whereas the Federal Reserve Board has never prescribed any limitation upon open market purchases by Federal reserve banks;

Whereas the amount, time, character, and manner of such purchases may exercise an important influence upon the money market;

Whereas an open market investment policy for the twelve banks composing the Federal reserve system is necessary in the interest of the maintenance of a good relationship between the discount and purchase operations of the Federal reserve banks and the general money market;

Whereas no such System policy has been laid down by the Federal Reserve Board nor developed by the Federal reserve banks;

Whereas it appears that during the year 1922 the Federal reserve banks have made large purchases of investments in the open market mainly for the purpose of assuring the earning of their expenses and dividends, without much regard to the bearing of such purchases upon the money market and general credit requirements of the country;

Whereas the total earning assets of the twelve Federal reserve banks for the year 1922 have approximated 1200 millions, while aggregate earning assets for the twelve banks of approximately 800 millions would have sufficed to have enabled the banks to have earned their expenses and dividends;

Whereas approximately 400 millions of money has been put into

the money market by the action of the Federal reserve banks and maintained there in excess of their earnings requirements into a time when the general credit situation needed restraining influence rather than stimulus;

Whereas such open market purchases have consisted very largely of United States Government securities; and

Whereas heavy investments in United States securities, particularly short-dated certificate issues, have occasioned embarrassment to the Treasury in ascertaining the true condition of the money and investment markets from time to time,

THEREFORE, Be it Resolved, That the Federal Reserve Board, in the exercise of its powers under the Federal Reserve Act, lay down and adopt the following principles with respect to open market investment operations of the Federal reserve banks, to-wit:

(1) That the time, manner, character, and volume of open market investments purchased by Federal reserve banks be governed with primary regard to the effect of such purchases or sales on the general credit situation.

(2) That in making the selection of open market purchases, careful regard be always given to the bearing of purchases of United States Government securities, especially the short-dated issues, upon the market for such securities, and that open market purchases be mainly commercial investments, except that Treasury certificates be dealt in, as at present, under so-called "repurchase" agreement.

(3) That in order to enable Federal reserve banks to earn their dividends with a minimum volume of open market purchases at times when there is no active rediscount demand made on Federal Reserve banks, open market purchases made by reserve banks shall be pro-rated among them in accordance with their respective requirements.

Be It Further Resolved, That on and after April 1, 1923, the present Committee of Governors on Centralized Execution of Purchases and Sales of Government Securities be discontinued, and be superseded by a new committee known as the Open Market Investment Committee for the Federal Reserve System, said Committee to consist of five representatives from the reserve banks and to be under the ex-officio chairmanship of the Federal Reserve Board; and that it be the duty of this Committee to arrange for the purchase and sale and distribution of the open market purchases of the Federal reserve banks in accordance with the above principles.

A. C. M. March 21, 1923.

X-3669

NEW PLAN FOR STATING THE RESERVE POSITION OF FEDERAL RESERVE BANKS.

Section 16 of the Federal Reserve Act contains the following provision on the subject of the reserves required to be maintained by Federal reserve banks:

"Every Federal reserve bank shall maintain reserves in gold or lawful money of not less than thirty-five per centum against its deposits and reserves in gold of not less than forty per centum against its Federal reserve notes in actual circulation."

and

"That when the Federal reserve agent holds gold or gold certificates as collateral for Federal reserve notes issued to the bank such gold or gold certificates shall be counted as part of the gold reserve which such bank is required to maintain against its Federal reserve notes in actual circulation."

It seems clear from this that the law contemplates that there shall be maintained a separate reserve of not less than 35% against deposits, and a separate reserve of not less than 40% against Federal reserve notes in actual circulation, in each Federal reserve bank.

Section 11 of the Federal Reserve Act provides:

"The said board shall publish once each week a statement showing the condition of each Federal reserve bank and a consolidated statement for all Federal reserve banks. Such statements shall show in detail the assets and liabilities of the Federal reserve banks, single and combined, and shall furnish full information regarding the character of the money held as reserve and the amount, nature and maturities of the paper and other investments owned or held by Federal reserve banks."

It would seem that the provision of the Act requiring that the condition statement of the Federal reserve banks "furnish full information with regard to the character of the money held as reserve", read in conjunction with the preceding provision regarding reserves quoted from

Section 16, should be construed as requiring that the Federal Reserve Board should publish in its weekly statement the state of the reserves held respectively and separately against deposit liabilities and Federal reserve notes.

This the Board is not doing. It has been the practice since January, 1918, (when the present practice was adopted as a war-time expedient) to state the reserve position of the Federal reserve banks by computing the ratio of their holdings of reserve moneys against their deposit liabilities and note issues combined, although there appears to be no warrant in the Act for this method, unless it be purely for purposes of theoretical comparison.

The Federal Reserve Board has plenary power, under the terms of Section 16 of the Federal Reserve Act, with respect to the issue of Federal reserve notes and the character of the security against which notes will be issued by it to reserve banks:

"The board shall have the right, acting through the Federal reserve agent, to grant in whole or in part, or to reject entirely the application of any Federal reserve bank for Federal reserve notes."

"The said Federal Reserve Board may at any time call upon a Federal reserve bank for additional security to protect the Federal reserve notes issued to it."

It appears to be clearly within the discretion of the Federal Reserve Board, therefore, to determine from time to time against what security it will authorize the issue of Federal reserve notes, and thus, in its discretion, when conditions seem to the Board to require it, to issue such notes only against gold collateral.

In other words, it is within the power of the Federal Reserve Board to determine the amount of the gold reserve that shall be carried against Federal reserve notes.

The extraordinary accumulation of gold by the Federal reserve system during the past two years and more, amounting to approximately 1200 millions, to my mind makes more urgent than ever the inauguration of a procedure which is not only in conformity with the requirements of the law, but in harmony with a good and effective regulation of the currency and a good administration of credit by the Federal reserve system. The initiative should be taken by the Federal Reserve Board.

I propose, therefore, that beginning say April 1 or such other date as the Board may determine upon, the weekly statements of the Federal reserve banks, both the separate and the consolidated, show the reserves actually carried against deposits and the reserves actually carried against notes.

(Note: If it is thought desirable, purely for purposes of theoretical comparison, the weekly statement might carry in a footnote the ratio of the reserve moneys of the Federal reserve banks against combined note and deposit liabilities.)

An examination of the records of the Board shows that the actual allocation of reserve moneys as of March 7, 1923, between the banking department of the Federal reserve banks and the Federal reserve agent's department, or, otherwise stated, between the deposit reserve and the note

reserve, was as follows:

	<u>TABLE I</u> <u>Reserve ratio</u> <u>against deposits</u>	<u>Reserve ratio</u> <u>against notes</u>
Boston	53.6%	88.6%
New York	60.4	111.5
Philadelphia	54.5	84.8
Cleveland	61.3	90.0
Richmond	70.8	77.3
Atlanta	48.5	89.4
Chicago	49.8	94.0
St. Louis	40.0	95.5
Minneapolis	67.2	84.4
Kansas City	46.1	86.6
Dallas	49.2	49.7
San Francisco	44.8	88.0
System	55.3	94.3

This statement shows the actual allocation of reserve moneys, It is, however, never published, and is not known even to many persons within the Federal reserve system.

This statement, it is highly interesting to note, shows that the reserve banks, under the necessities of the extraordinary situation occasioned by the heavy influx of gold during the past two years and the liquidation of loans and discounts at Federal reserve banks, have pretty generally tendered gold to Federal reserve agents as the principal security for Federal reserve notes issued to the banks.

In publishing a weekly statement showing the deposit reserve and the note reserve separately, we might start with the actual existing allocation of reserve moneys, or we might consider some slight departure from the existing allocation more in accordance with what the Board might believe to be an ideal apportionment. I offer therefore the following plan for the

consideration of the Board:

TABLE II

Table based on the weekly statement for March 7, 1923, showing the deposit and note reserve ratios for each of the banks and for the twelve banks combined if the reserve moneys were so allocated between the deposit reserve and the note reserve as to make the minimum deposit reserve ratio shown for any reserve bank 50%.

(In millions)	<u>Deposit reserves</u>	<u>Deposit reserve</u> <u>ratio</u>	<u>Note reserves</u>	<u>Note reserve</u> <u>ratio</u>
Boston	63	50.0	184	90.6
New York	491	69.6	570	100.0
Philadelphia	59	50.0	175	87.1
Cleveland	79.5	50.0	227.5	93.1
Richmond	32	50.0	30	92.0
Atlanta	29.5	50.0	109.5	88.3
Chicago	143	50.0	371	94.0
St. Louis	39	50.0	75	86.2
Minneapolis	29	51.8	56	100.0
Kansas City	43	50.0	53	81.6
Dallas	28.5	50.0	15.5	50.0
San Francisco	74.5	50.0	173.5	84.6
System	1111.0	57.2	2090.0	92.7

Under the above allocation, no bank would have a reserve of less than 50.0%, which is the lowest reserve shown under the Board's present form of statement for any of the banks, namely, in the case of the Federal Reserve Bank of Dallas. The highest deposit reserve ratio would be shown by New York, to-wit, 69.6%, and two banks, to-wit, New York and Minneapolis, would show 100% note reserves.

In the event that it should be felt that this form of statement showed too great a disparity between the deposit reserve ratio of the New York bank and the other banks, the deposit reserve of the New York bank could be brought down by New York's purchasing open market investments from other

reserve banks to an amount sufficient to bring down the New York deposit reserve ratio to the average for the system, to-wit, 57.2%. The way in which this operation would work out is shown in the following table:

TABLE III

Calculation of adjustment of open market holdings of Federal reserve banks through transfer of sufficient holdings to New York to bring the New York deposit reserve ratio down to the system average (57.2%). Based on the weekly statement for March 7, 1923.

(In millions)	<u>Actual</u> <u>holdings</u> <u>of open</u> <u>market</u> <u>purchases</u>	<u>Change in</u> <u>holdings</u> <u>to bring</u> <u>down N.Y.</u> <u>ratio to</u> <u>57.2%</u>	<u>Adjusted</u> <u>holdings</u> <u>after</u> <u>change</u>	<u>Deposit</u> <u>reserves</u> <u>before</u> <u>adjust-</u> <u>ment</u>	<u>Deposit</u> <u>reserves</u> <u>after</u> <u>adjust-</u> <u>ment</u>	<u>Deposit</u> <u>reserve</u> <u>ratio</u> <u>before</u> <u>adjust-</u> <u>ment</u>	<u>Deposit</u> <u>reserve</u> <u>ratio</u> <u>after</u> <u>adjust-</u> <u>ment</u>
Boston	40	-8	32	63	71	50.0%	56.3%
New York	55	+88	143	491	403	69.6	57.2
Philadelphia	53	-2	50	59	57	50.0	55.8
Cleveland	76	-8	68	80	82	50.0	55.5
Richmond	2	0	2	32	32	50.0	50.0
Atlanta	25	-3	22	29	32	50.0	54.2
Chicago	103	-20	83	143	153	50.0	56.9
St. Louis	39	-8	31	39	47	50.0	60.3
Minneapolis	17	-3	14	29	32	51.8	57.1
Kansas City	47	-8	39	43	51	50.0	59.0
Dallas	34	-3	31	28	31	50.0	54.8
San Francisco	67	-19	48	74	93	50.0	62.5
System	563	---	563	1110	1110	57.2	57.2

It is to be noted that in such a redistribution of the earning assets of the twelve banks, each bank would retain a sufficient volume of earning assets to make its expenses and dividends.

The allocation of reserve moneys thus proposed would show an average for the System of 57.2% for the deposit reserve ratio, and 92.7% for the note reserve ratio.

The greatest variations from the average for the system for the de-

posit reserve ratio would be shown in the case of San Francisco (52.5%), and Richmond (50.0%).

For the note reserve ratio, the greatest variation from the average for the system, as shown in Table II, p. 5, would be in the case of Dallas (50.0%), New York (100.0%), and Minneapolis (100.0%).

Under the allocation of reserve moneys outlined above, and with a deposit ratio for the twelve banks combined of 57.2%, the twelve Federal reserve banks would be able to expand their loans to an amount of approximately \$50 millions before the deposit reserve fell to 40%. Otherwise stated, for each drop of 1% in the deposit reserve ratio, the twelve banks combined would have an added lending power of approximately \$50,000,000.

A. C. M. March 22, 1923.

PROGRAM
GOVERNORS' CONFERENCE
MARCH 26, 1923
WASHINGTON

TOPICS SUGGESTED BY FEDERAL RESERVE BOARD

(1) RESERVES AGAINST SO-CALLED "SPECIAL SAVINGS" DEPOSITS ON WHICH A LIMITED AMOUNT OF CHECKING IS ALLOWED.

This is a question which has been very much discussed with the San Francisco Reserve bank with reference to the special savings accounts of California state banks. Similar savings accounts have been found in other districts on which some checking is allowed.

(2) NEW REGULATIONS.

Due to the amendments to the Federal Reserve Act contained in the Agricultural Credits Act of 1923, recently signed by the President, it appears that it will be necessary for the Board to revise its Regulations so as to be consistent with the amended provisions of the Act, and possibly to issue a new regulation with reference to the rediscount of agricultural paper. The Board will attempt to have at least a tentative draft of proposed new Regulations ready before the Governors' conference so that it may serve as a basis for discussion.

(3) LIMITATION ON AGGREGATE AMOUNT OF AGRICULTURAL PAPER WHICH MAY BE REDISCOUNTED BY FEDERAL RESERVE BANKS.

Section 13 (a) of the Federal Reserve Act as amended by the Agricultural Credits Act makes certain classes of nine months' agricultural paper eligible for rediscount and provides that -

"The Federal Reserve Board may, by regulation, limit to a percentage of the assets of a Federal reserve bank the amount of notes, drafts, acceptances, or bills having a maturity in excess of three months, but not exceeding six months, exclusive of days of grace, which may be discounted by such bank, and the amount of notes, drafts, bills, or acceptances having a maturity in excess of six months, but not exceeding nine months, which may be discounted by such bank."

So far as six months paper is concerned the Board long ago fixed the limit of 99 per cent, which is in effect not a limit at all and it would seem advisable for the Governors' conference to discuss the question whether any change in this limit as to six months paper is advisable, and also whether it is advisable to fix a limit with regard to nine months paper. It may be noted in this connection that Governor Wellborn on December 27, 1922, formally requested the Federal Reserve Board to fix the amount of agricultural rediscounts which the Federal Reserve Bank of Atlanta might grant at a certain percentage of its assets. There appeared, however, to be no particular occasion for changing the limit at that time.

TOPICS SUGGESTED BY FEDERAL RESERVE
BANKS

I. CREDIT TRANSACTIONS AND POLICIES

- A. Report of Committee on Centralized Execution of Purchases and Sales of Government Securities for account of Federal Reserve Banks.
Governor Strong, New York, Chairman.
- B. Report of Standing Committee on Open Market Conditions and Operations.
Governor Fancher, Cleveland, Chairman.

C. Rates of Discount.

- 1. Automatic Adjustment of -
Is it possible or expedient? (discussion) Boston
- 2. Uniform rates. (discussion) Atlanta
- 3. Open Market rates. (discussion) Atlanta

D. Rebates of Discount. (action) Richmond

Recommended:

That the policy of granting rebates should be uniform among Federal Reserve Banks; that it should not be the regular practice of Federal Reserve Banks to grant rebates; that if and when rebates are granted, there should be some good reason for such action and the benefits should accrue to the customer of the member bank; that rebates should not be made on member bank obligations (except on obligations secured by Government bonds when the bonds are sold prior to maturity of the obligations); that rebates on rediscounted paper should be granted only in cases where such paper is anticipated by member bank customers, necessitating repayment of the paper in advance of maturity by member banks, and where the member banks make rebates to such customers; that when Federal Reserve Banks grant rebates in such cases, the rebates should be at the rate at which the paper was rediscounted, provided that rate was not higher than the rate prevailing at the time the paper is paid, in which case rebates should be made at the rate then prevailing.

E. Repurchase Agreements in Connection with Rediscounted paper. (action) Richmond

Recommended:

That Federal Reserve Banks should not take bills receivable in bulk from member banks, giving a

- fictitious maturity for the purpose of making short-time advances to member banks; or take a collateral agreement to repurchase paper so offered upon a fixed date; or a standing agreement to repay sums loaned or advanced in such manner on or against such paper from time to time.
- F. Interpretation of word "Borrower" in Section 13 of the Federal Reserve Act. Discussion of Board's opinion (if rendered) based on interpretations submitted by each bank following October, 1922, Governors' Conference. (discussion)
San Francisco
 - G. Desirability of making eligible for discount sight drafts with bills of lading attached. (Committee appointed at October, 1922, Joint Conference reported to Federal Reserve Board)
 - H. Liability of Federal Reserve Banks for securities accepted for safekeeping where knowledge exists that they are property of someone other than member bank from whom accepted. (discussion) Dallas
 - I. Importance of New York call loan market. Its operation. (discussion) New York
 - J. Credit statements of holding corporations. Should statements of subsidiary companies be required by Federal Reserve Banks? (discussion) Richmond

II. COLLECTIONS AND CLEARINGS

- A. Report of Standing Committee on Collections. Mr. Strater, Cleveland, Chairman.

Special consideration of "advice of no returns" (see pages 14, 15 and 16 collection committee report)

(action) Dallas

Recommended:

That an advice describing the item should be forwarded by a Federal Reserve Bank of branch to the sending bank, specifically advising final fate of a check, covering which an advice of "no returns" has previously been forwarded, deposited by another Federal Reserve Bank, branch or direct sending member bank.

- B. Uniform indorsement by Federal Reserve Banks on cash and collection items received from member banks and other Federal Reserve Banks.

(discussion)
Kansas City

- C. Inter-district deferred time schedules. (discussion) Richmond
- D. Large volume of checks lost in transit after deposit in Federal Reserve Bank or by direct sending. (action) New York
 Recommended:
 That the conference consider this question in a broad way; assemble data showing the amount involved in 1922; and then take the matter up with the Postmaster General with a view to bringing about a reduction in the number of lost items.
- E. Par Collections.
 Establishment of uniform policy to be pursued when final decision in Atlanta case is handed down. (discussion) San Francisco
- F. Desirability of uniform policy in matter of balances required of nonmember banks making use of collection facilities. (discussion) St. Louis
- G. Policy with respect to handling coupon collections and other non-cash collections. (discussion prior to reference to committee) New York
- H. Direct sendings of country checks by member banks in one district to points in other districts. (discussion prior to reference to committee) New York

III. COIN, CURRENCY AND CIRCULATION

- A. Standardization of circulating fitness of Federal Reserve Notes. (action) San Francisco
 Recommended:
 That the Treasury Department be requested to lodge with each Federal Reserve Bank packages of Federal Reserve Notes representing two or more standards of fitness which the Federal Reserve Banks may use as a guide for the sorting of circulated currency.
- B. Deposit of till money at close of business by member banks in Reserve Bank Cities. (discussion) Richmond
- C. Advantages to Federal Reserve Banks of substituting tax on circulation for Government participation in profits.

- 5 -

X-3670

Possibility of legislation.

(discussion) Philadelphia

Figures requested -

Franchise tax last year.

Tax if 2% on outstanding currency
not covered by gold.Possible reduction of tax below
actual franchise payment by more
close allocation of gold; keeping
larger amount in Agent's hands, etc.IV. OPERATION

A. Report of Insurance Committee.

Mr. Cramer, Chicago, Chairman.

(Now resigned; new appointment.)

B. Employees' Insurance.

Is each bank justified in carrying
its own insurance risk.

(discussion) Chicago

Figures requested -

Amount of premiums paid.

Amount of death losses settled.

C. Report of Pension Committee,

Mr. Kenzel, New York, Chairman.

D. Report of Leased Wire Committee.

Governor McDougal, Chicago, Chairman.

E. Committee on Economy and Efficiency.

Desirability of having operating repre-
sentative on Federal Reserve Board's
Committee.

(discussion) San Francisco

F. Payment for Reports of Examination of
national banks.Report filed by committee appointed at
October, 1922, Conference.G. Principles which should control fixing
of salaries of junior officers in
Federal Reserve Banks.

(discussion) Philadelphia

V. FISCAL AGENCY OPERATIONSA. Desirability of checking shipments of re-
deemed securities against advices of
shipments forwarded by separate regis-
tered mail.

(discussion) Cleveland

- B. Undesirability of accepting matured Government securities on account of allotments of original issues of Treasury certificates of indebtedness or Treasury notes. (discussion) Cleveland

VI. ACCOUNTING AND AUDITING.

- A. Committee on Standardization of Accounting Forms.
Mr. Vogt, Chicago, Acting Chairman.
Is continuance desirable, and, if so, two vacancies to be filled.
- B. Reimbursement for expenses incurred account War Finance Corporation transactions. (discussion) Kansas City
- C. Reimbursement for Federal Land Bank transactions. (discussion) Kansas City
- D. Should reserve accounts of country member banks receive adjustment for currency in transit. (discussion) New York

VII. LEGISLATION.

- A. Recent Amendments to Federal Reserve Act. (discussion) Boston
- B. Senate Resolution 444 - causes for nonmembership of state banks and trust companies (discussion) Philadelphia
What action, if any, should Federal Reserve Banks take; effects of bill.

X-3671

TENTATIVE DRAFT OF AMENDMENTS TO REGULATIONS.

The attached draft of amendments to the Federal Reserve Board's Regulations is merely tentative and is intended primarily to serve as a basis for discussion. It has not been submitted to, or approved even tentatively by, the Federal Reserve Board. Constructive criticisms and suggestions are invited.

The changes in the existing regulations are noted in red ink.

(To be inserted in Regulation A at the
place indicated)

(Insert #1)

and (2) certain bills of exchange payable at sight or on demand are eligible even though they have no fixed maturity (See Section VII, below).

(Insert #2)

that which could be borrowed lawfully from such State bank or trust company under the terms of Section 5200 of the United States Revised Statutes, were it a national banking association.

(Insert #3)

(b) It must not be a note, draft, or bill of exchange the proceeds of which have been or are to be advanced or loaned to some other borrower, except as to paper described below under Sections VI(b) and VIII.

(Insert #4)

or drawn, or the proceeds thereof have been or are to be used, for such a purpose as to render them eligible for rediscount under the terms of this regulation.

(Insert #5)

(a) Definition. Agricultural paper within the meaning of this regulation is defined as a negotiable note, draft or bill of exchange issued or drawn, or the proceeds of which have been or are to be used, for agricultural purposes, including the production of agricultural products, the carrying or marketing of agricultural products by the growers thereof, and the breeding, raising, fattening or marketing of live stock, and which has a maturity at the time of rediscount of not more than nine months, exclusive of days of grace.

(b) Paper of Cooperative Marketing Associations. Under the express terms of Section 13(a), notes, drafts, bills of exchange, or acceptances issued or drawn by cooperative marketing associations composed of producers of agricultural products are deemed to have been issued or drawn for an agricultural purpose, and therefore constitute agricultural paper, if the proceeds thereof have been or

are to be:

- (1) Advanced by such association to any members thereof for an agricultural purpose, or
- (2) Used by such association in making payments to any members thereof on account of agricultural products delivered by such members to the association, or
- (3) Used by such association to meet expenditures incurred or to be incurred by the association in connection with the grading, processing, packing, preparation for market or marketing of any agricultural product handled by such association for any of its members.

These are not only the classes of paper of such associations which are eligible for rediscount, however, and any other paper of such associations which complies with the pertinent requirements of this regulation may be rediscounted on the same terms and conditions as the paper of any other person or corporation.

(Insert #6)

SECTION VII. SIGHT DRAFTS SECURED BY BILLS OF LADING.

A Federal Reserve Bank may rediscount for any of its member banks bills of exchange payable at sight or on demand which:

- (a) Are drawn to finance the domestic shipment of nonperishable, readily marketable staple agricultural products, and
- (b) Are secured by bills of lading or other shipping documents conveying or securing title to such staples.

All such bills of exchange shall be forwarded promptly for collection, and demand for payment shall be made with reasonable promptness after the arrival of such staples at their destination. In no event shall any such bill be held by or for the account of a Federal Reserve Bank for a period in excess of 90 days.

In discounting such bills Federal Reserve Banks may compute the interest to be deducted on the basis of the estimated life of each bill and adjust the amount thus deducted after payment of such bills to conform to the actual life thereof.

SECTION VIII. FACTORS' PAPER.

"Notes, drafts, and bills of exchange of factors issued as such making advances exclusively to producers of staple agricultural products in their raw state" are eligible for rediscount with maturities not in excess of 90 days, exclusive of days of grace, irrespective of the requirements of Sections II(a) and II(b).

(Insert #7)

SECTION XI. MATURITIES.

(a) Legal Requirements. No such acceptance is eligible for rediscount which has a maturity at the time of rediscount in excess of 90 days' sight, exclusive of days of grace, except that acceptances drawn for agricultural purposes and secured at the time of acceptance by warehouse receipts or other such documents conveying or securing title covering readily marketable staples may be rediscounted with maturities at the time of rediscount of not more than six months' sight, exclusive of days of grace.

(To be inserted in Regulation E.)

(Insert #1)

SECTION II. DEFINITIONS.

Within the meaning of this regulation:

The term "warrant" shall be construed to mean "bills, notes, revenue bonds, and warrants with a maturity from date of purchase of not exceeding six months."

The term "municipality" shall be construed to mean "State, county, district, political subdivision, or municipality in the continental United States, including irrigation, drainage, and reclamation districts."

The term "net funded indebtedness" shall be construed to mean the legal gross indebtedness of the municipality (including the amount of any school district or other bonds which depend for their redemption upon taxes levied upon property within the municipality) less the aggregate of the following items:

- (1) The amount of outstanding bonds or other debt obligations made payable from current revenues;
- (2) The amount of outstanding bonds issued for the purpose of providing the inhabitants of a municipality with public utilities, such as waterworks, docks, electric plants, transportation facilities, etc: Provided, That evidence is submitted showing that the income from such utilities is sufficient for maintenance, for payment of interest on

such bonds, and for the accumulation of a sinking fund for their redemption;

- (3) The amount of outstanding improvement bonds, issued under laws which provide for the levying of special assessments against abutting property in amounts sufficient to insure the payment of interest on the bonds and the redemption thereof: Provided, That such bonds are direct obligations of the municipality and included in the gross indebtedness of the municipality;
- (4) The total of all sinking funds accumulated for the redemption of the gross indebtedness of the municipality, except sinking funds applicable to bonds just described in (1), (2), and (3) above.

(Insert #2)

Warrants will be construed to comply with that part of Section III(c) ~~relative~~ to term of existence and nondefault, under the following conditions:

- (1) Warrants issued by or in behalf of any municipality which was, subsequent to the issuance of such warrants, consolidated with or merged into an existing political division which meets the requirements of these regulations, will be deemed to be the warrants of such political division: Provided, That such warrants were assumed by such political division under statutes and appropriate proceedings the effect of which is to make such warrants general obligations of such assuming political division and payable, either directly or ultimately, without limitation

to a special fund from the proceeds of taxes levied upon all the taxable real and personal property within its territorial limits.

(2) Warrants issued by or in behalf of any municipality which was, subsequent to the issuance of such warrants, wholly succeeded by a newly organized political division whose term of existence, added to that of such original political division or of any other political division so succeeded, is equal to a period of 10 years will be deemed to be warrants of such succeeding political division: Provided, That during such period none of such political divisions shall have defaulted for a period exceeding 15 days in the payment of any part of either principal or interest of any funded debt authorized to be contracted by it: And provided further, That such warrants were assumed by such new political division under statutes and appropriate proceedings the effect of which is to make such warrants general obligations of such assuming political division and payable, either directly or ultimately, without limitation to a special fund from the proceeds of taxes levied upon all the taxable real and personal property within its territorial limits.

(3) Warrants issued by or in behalf of any municipality which, prior to such issuance, became the successor of one or more, or was formed by the consolidation or merger of two or more, preexisting political divisions, the term of existence of one or more of which, added to that of such succeeding or consolidated political division, is equal to a period of 10 years, will be deemed to be warrants of a political division which has been in existence for a period of 10 years: Provided, That during

such period none of such original, succeeding, or consolidated political divisions shall have defaulted for a period exceeding 15 days in the payment of any part of either principal or interest of any funded debt authorized to be contracted by it.

(To be inserted in Regulation H.)

(INSERT #1)

SECTION II. BANKS ELIGIBLE FOR MEMBERSHIP.

1. Incorporation. In order to be eligible for membership in a Federal reserve bank, a State bank or trust company must have been incorporated under a special or general law of the State or district in which it is located.

2. Capital Stock. Under the terms of Section 9 of the Federal Reserve Act as amended, no applying bank can be admitted to membership in a Federal reserve bank unless:

(a) It possesses a paid-up, unimpaired capital sufficient to entitle it to become a national banking association in the place where it is situated, under the provisions of the National Bank Act, or

(b) It possesses a paid-up, unimpaired capital of at least 60 per centum of such amount, and, under penalty of loss of membership, complies with the rules and regulations herein prescribed by the Federal Reserve Board fixing the time within which and the method by which the unimpaired capital of such bank shall be increased out of net income to equal the capital required under (a)

In order to become a member of the Federal Reserve System, therefore, any State bank or trust company must have a minimum paid-up capital stock at the time it becomes a member as follows:

If located in a city or town with a population of	Minimum capital if admitted under clause (a)	Minimum capital if admitted under clause (b)
:	:	:

Not exceeding 3,000 inhabitants.	:	\$25,000	:	\$15,000
----------------------------------	---	----------	---	----------

Exceeding 3,000 but not ex-			
ceeding 6,000 inhabitants :	\$50,000	:	\$30,000

Exceeding 6,000, but not ex-			
ceeding 50,000 inhabitants. :	\$100,000	:	\$60,000

Exceeding 50,000 inhabitants:	\$200,000	:	\$120,000

Any bank admitted to membership under clause (b) must also, as a condition of membership, the violation of which will subject it to expulsion from the Federal Reserve System, increase its capital within five years after the approval of its application by the Federal Reserve Board to the amount required under (a). For the purpose of providing for such increase, every such bank shall set aside each year in a special fund not less than 50 per cent of its net earnings for the preceding year, and if such net earnings exceed 12 per cent of the paid-up capital of such bank, then all net earnings in excess of 6 per cent of the paid-up capital shall be carried to such fund, until such fund is large enough to provide for the necessary increase in capital. Whenever it amounts to \$5,000, or at such other time as the Federal Reserve Board may require, such fund shall be used to increase the capital of such bank, except that any odd sums of less than \$100 need not be so applied and may remain in such fund until the next increase of capital.

(INSERT #2)

, If such bank applies for membership under Section II, 2, (b), it shall also file with its application an agreement on Federal Reserve Board Form _____, signed by the holders of not less than two-thirds of its capital stock, in which such stockholders shall undertake to do all in their power to bring about compliance with the requirements of that section and to vote for and do everything else necessary to authorize and consummate the increases of capital therein required.

(INSERT #3)

(4) Shall not, except upon prior application to and approval of the Federal Reserve Board, reduce its capital stock or cause or permit any change in the general character of its assets or broadening of the functions exercised by it such as will tend to affect materially the standard maintained at the time of its admission and required as a condition of membership;

(5) Shall exercise all of its powers with due regard to the safety of its customers;

(6) Shall not, except upon prior application to and approval of the Federal Reserve Board, establish any branch or agency; consolidate with or absorb any other bank; either directly or indirectly, through affiliated corporations or otherwise, acquire an interest in another bank in excess of 20 per cent of the capital stock of such other bank; directly or indirectly promote the establishment of any new bank for the purpose of acquiring such an interest in it; nor make any engagement to acquire such an interest.

(7) Shall reduce to the limits prescribed by the laws of the State of its incorporation any loan which may be in excess of such limits and thereafter shall keep its loans within such limits;

(8) Shall reduce to 10% of its capital and surplus all balances in excess thereof, if any, which are carried with banks or trust companies not members of the Federal Reserve System;

(9) May accept drafts and bills of any character permitted by the laws of the State of its incorporation; but the aggregate amount of all

acceptances outstanding at any one time shall not exceed the limitations imposed by Section 13 of the Federal Reserve Act, that is, 50% of its capital and surplus for acceptances drawn for the purpose of furnishing dollar exchange in countries specified by the Federal Reserve Board, and 50% of its capital and surplus for all other acceptances, whether domestic or foreign, except that the Federal Reserve Board may increase this limit from 50% to 100% upon the application of such member bank; provided, however, that in no event shall the aggregate amount of domestic acceptances outstanding at any one time exceed 50% of its capital and surplus; and

(10) Shall comply at all times with any and all special conditions of membership prescribed by the Federal Reserve Board at the time of the admission of such member bank to the Federal Reserve System or subsequently agreed upon by the Federal Reserve Board and such member bank.

(To be inserted in Regulation I)

(INSERT #1)

1. New national banks.— Each newly organized bank (including any nonmember State bank which shall have converted into a national bank¹) shall file with the Federal Reserve Bank of its district an application to the Federal Reserve Board on F. R. B. Form 30, made a part of this regulation, for an amount of capital stock of the Federal Reserve Bank of its district equal to 6 per cent of the paid-up capital stock and surplus of such national bank. Such application shall be forwarded promptly to the Federal Reserve Board, and if it is found to be in proper form the Federal Reserve Board will either disapprove it or approve it effective if and when the Comptroller of the Currency issues to such bank his certificate of authority to commence business. If its application is approved, the applying bank shall thereupon make a payment to the Federal Reserve Bank of its district of one-half of the amount of its subscription, i. e., 3 per cent of the amount of its paid-up capital and surplus; and upon receipt of this payment the Federal Reserve Bank will issue a receipt therefor, place the amount in a suspense account, and notify the Federal Reserve Board that it has been received. When the Comptroller of the Currency issues to such applying bank his certificate of authority to commence business; the Federal Reserve Bank shall issue a stock certificate to the applying bank, and the capital stock of the Federal Reserve Bank represented by such certificate shall be considered as issued as of the date upon which the Comptroller of the Currency issues his certificate of authority to commence business. The remaining half of the subscription

of the applying bank shall be subject to call when deemed necessary by the Federal Reserve Board.

(INSERT #2)

If the receiver shall fail to make such application within the time specified, the Federal Reserve Agent shall report the facts to the Federal Reserve Board with a recommendation as to the action to be taken, whereupon the Federal Reserve Board will either issue an order to cancel such stock or, if the circumstances warrant it, grant the receiver additional time in which to file such an application.

FEDERAL RESERVE BOARD

WASHINGTON

212

X-3672
March 24, 1923.

Dear Sir:

Under arrangements outlined in the Board's letter X-857 dated April 1, 1918, the Federal Reserve Bank of New York has been paying all Federal farm loan bond coupons received by Federal Reserve Banks. The coupons have been cashed by the Federal Reserve Bank in which deposited and have been sent to the Federal Reserve Bank of New York, which in turn has been sending them to the respective Federal Land Banks issuing the bonds.

It is now proposed through a new and simplified arrangement to go into effect when the coupons maturing May 1 are presented, to have Federal Reserve Banks send coupons cashed by them direct to the Federal Land Banks instead of sending them to the Federal Reserve Bank of New York. The deposit accounts of the Federal Land Banks will continue to be kept with the Federal Reserve Bank of New York, and other Federal Reserve Banks cashing Federal farm loan bond coupons will receive payment therefor from the Federal Reserve Bank of New York through the Gold Settlement Fund.

This procedure will save a good deal of unnecessary handling as the records of the New York Federal Reserve Bank show that last year there was a duplication in the handling of over 307,000 coupons. It will also save something in postage and insurance on shipments from other Federal Reserve Banks to New York.

Forms for forwarding Federal farm loan bond coupons cashed by your bank to the respective Federal Land Banks and for advising the Federal Reserve Bank of New York of the amount of coupons cashed, in order that appropriate credit may be obtained through the Gold Settlement Fund, etc., will be forwarded in due time by the Federal Reserve Bank of New York.

Very truly yours,

Acting Governor.

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

X-3673

For release in Morning Papers,
Wednesday, March 28, 1923.

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

Continued active business is indicated by the maintenance of a high rate of industrial production, increases in freight traffic and employment, and a large volume of retail and wholesale trade.

Production - The Federal Reserve Board's index of production in basic industries for February was at the same high level as in January. The index number for these industries is now approximately equal to the highest point reached in the past. Since the low point in July, 1921, there has been an increase of 61 per cent. The volume of new building projected in February was exceptionally large for the season, particularly in western districts. Railroad freight shipments have been increasing and the car shortage, which was somewhat relieved in December and January, became more marked in recent weeks.

A continued increase in industrial employment has been accompanied by further advances in wage rates in a number of industries. Many New England woolen mills announced a wage increase of 12 1/2 per cent effective April 30. A shortage of women workers has been reported in the textile, rubber, and garment industries, and there is a shortage of unskilled labor in many industrial centers.

Trade - Wholesale and retail distribution of goods continued at a high level during February. Sales of both wholesale and retail concerns reporting to the Federal Reserve Banks were well above those of a year ago, but the increase was relatively more pronounced in wholesale trade.

Mail order and chain store business was almost as large in February as in January despite the shorter month, and sales of 5 and 10 cent stores were actually larger than in January.

Wholesale Prices - The Bureau of Labor Statistics index of wholesale prices advanced slightly during February. Prices of metals, building materials, and clothing increased, while prices of fuels and farm products declined. Building materials and metals during the past year have advanced more than any other groups of commodities and are now about 25 per cent higher than in March, 1922.

Bank Credit - Recent increases in industrial and commercial activity have been reflected in a larger volume of loans by member banks for commercial purposes, especially in the New York, Chicago and San Francisco Districts. Loans of this character by reporting member banks are now approximately 500 million dollars larger than at the end of December. This increase has been accompanied by a reduction in holdings of investments; so that there has been only a moderate net increase in total loans and investments.

The larger demand for funds has not led to any increase during the past month in the total volume of credit extended by the Reserve Banks. Total earning assets and loans to member banks on March 21 were approximately the same as four weeks earlier. Borrowings by member

banks in the interior increased, particularly in the Chicago District, but borrowings by member banks in the New York District decreased. Since the end of February, there has been a small decline in the volume of Federal reserve note circulation which is now at approximately the same level as six months ago. Other forms of currency in circulation, however, have recently increased.

The market rates on commercial paper advanced further to a range of 5 to 5 1/4 per cent and the rate on bankers' acceptances remained steady at about 4 per cent. There has been a slight increase in the yield of short term Treasury certificates as well as of Government and other high grade bonds.

FEDERAL RESERVE BOARD

X-3674

STATEMENT FOR THE PRESS.

For immediate release.

The Federal Reserve Board today has received numerous telegrams referring to rumors as to its contemplated actions.

In reply, the Board has said, "Should be greatly obliged if you and others who have telegraphed would supply the Board with the source of your information. The Federal Reserve Board wishes to say with all possible emphasis that so far as it is concerned there is no basis for any rumors with respect to its intentions or actions. When the Board has anything to say with respect to the credit conditions or policies of the Federal Reserve System it will itself make the announcement, and no one else is authorized to speak for it. Board cannot undertake to deny all idle rumors nor should it be charged with them."

March 27, 1923.

RESOLUTION RECENTLY ADOPTED BY THE FEDERAL RESERVE BOARD.

"Whereas the Federal Reserve Board, under the powers given it in Sections 13 and 14 of the Federal Reserve Act, has authority to limit and otherwise determine the securities and investments purchased by Federal reserve banks:

Whereas the Federal Reserve Board has never prescribed any limitation upon open market purchases by Federal reserve banks;

Whereas the amount, time, character, and manner of such purchases may exercise an important influence upon the money market;

Whereas an open market investment policy for the twelve banks composing the Federal reserve system is necessary in the interest of the maintenance of a good relationship between the discount and purchase operations of the Federal reserve banks and the general money market;

Whereas heavy investments in United States securities, particularly short-dated certificate issues, have occasioned embarrassment to the Treasury in ascertaining the true condition of the money and investment markets from time to time,

THEREFORE, Be It Resolved, That the Federal Reserve Board, in the exercise of its powers under the Federal Reserve Act, lay down and adopt the following principles with respect to open market investment operations of the Federal reserve banks, to-wit:

(1) That the time, manner, character, and volume of open market investments purchased by Federal reserve banks be governed

with primary regard to the accommodation of commerce and business and to the effect of such purchases or sales on the general credit situation.

(2) That in making the selection of open market purchases, careful regard be always given to the bearing of purchases of United States Government securities, especially the short-dated issues, upon the market for such securities, and that open market purchases be primarily commercial investments, except that Treasury certificates be dealt in, as at present, under so-called "repurchase" agreement.

Be It Further Resolved, That on and after April 1, 1923, the present Committee of Governors on Centralized Execution of Purchases and Sales of Government Securities be discontinued, and be superseded by a new committee known as the Open Market Investment Committee for the Federal Reserve System, said Committee to consist of five representatives from the reserve banks and to be under the general supervision of the Federal Reserve Board; and that it be the duty of this Committee to devise and recommend plans for the purchase, sale and distribution of the open market purchases of the Federal reserve banks in accordance with the above principles and such regulations as may from time to time be laid down by the Federal Reserve Board."

Note: The Board has determined that Government securities of short maturities should be liquidated first, and wishes the opinion of the Conference of Governors as to how this may best be done without disturbance to the market.

X-3676

MEMORANDUM FOR GOVERNORS' CONFERENCE.

The Federal Reserve Board is of the opinion that certain voluntary services assumed by the Federal Reserve Banks for their member banks should be discontinued. The following list indicates the items referred to and the annual cost to the Federal Reserve System involved in each item except in item "1", for which the figures are not available:

(BASED ON JANUARY 1923 REPORTS)

1. Shipping charges on currency and coin to member and nonmember banks	Figures (not available)
2. Securities held for safekeeping	\$193,932
3. Currency - receiving and sorting	1,508,532
NOTE: Part of this expense could perhaps be eliminated by requiring member and nonmember banks to make more detailed sorts of currency deposited.	
4. Non-cash collections - total	1,260,552
(a) Administration	\$ 55,596
(b) Non-cash city collections	240,480
(c) Non-cash country collections	545,976
(d) Coupon collections (except Gov't)	196,884
(e) Government coupons	221,616
5. Transfers of funds	397,860
<hr/>	
Total -	\$3,360,876

March 28, 1923.

250

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

x-3677

For release in Morning Papers,
Friday, March 30, 1923.

CONDITION OF ACCEPTANCE MARKET

FEBRUARY 15 TO MARCH 15, 1923.

Reports received by the Federal Reserve Board from the Federal Reserve Banks indicate conflicting tendencies in the acceptance market during the period from February 15 to March 15. The first week of the period was characterized by reduced offerings and lower rates, whereas the supply of bills offered increased considerably during the three following weeks. Purchases of acceptances in New York during the week ending March 3 reached the largest weekly total since November, 1921. This increase in the supply of bills may be partly ascribed to month-end financing.

Rates have remained fairly steady in spite of the increased supply of bills, and are at about the same level in all Federal Reserve Districts. The quotations for prime bills of 30 to 90 day maturity during the month ending March 15 were $4 \frac{1}{8}$ - $4 \frac{1}{4}$ bid and $3 \frac{7}{8}$ - 4 offered, while rates on bills of 120 day maturity ranged from $4 \frac{1}{8}$ - $4 \frac{3}{8}$ bid to 4 - $4 \frac{1}{8}$ offered, and bills of 150 to 180 day maturities ranged from $4 \frac{1}{4}$ - $\frac{1}{2}$ bid to $4 \frac{1}{8}$ - $\frac{1}{4}$ offered. Bills of 60 to 90 day maturity were in the best demand.

The principal commodities against which bills were drawn were cotton, grain, sugar, silk, wool, tobacco, meats, and provisions. In addition, some bills were drawn against dollar exchange, coffee, oils, hides, and leather.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-3678

March 28, 1923.

SUBJECT: Economy and Efficiency.

Dear Sir:

In accordance with the Committee's letters of February 13, X-3634 and X-3635, it is understood that you, as chairman of your group representing the _____ function, have now received in satisfactory shape the questionnaire and other data from the banks in your group with respect to this function. You are now requested to communicate directly with the representatives of the other banks in your group and to arrange with them for the holding of a group conference which should be held at the most centrally located bank in your group, and if possible prior to April 15.

It is requested that at this conference the representatives of the banks make a careful study and comparison of the methods of all of the banks in the group. Each group is asked to submit through its chairman a report indicating briefly the principal differences in the methods being followed by the several banks, and in the case of methods showing a marked difference in expense, either more or less than the average, to state briefly the reason for the variations. While it is appreciated that the methods of the several banks will differ materially, it is believed that a study and comparison of these methods will prove of substantial practical value. It is expected that as a result of these conferences, the methods of the banks will approach greater uniformity. It should, however, at the same time be understood that primary responsibility for determining its operating methods rests with each bank, and it is not intended that any bank shall adopt operating methods not suited to its conditions, merely for the sake of securing greater uniformity of operation in the reserve system.

Following the conferences of the several groups, a conference of the chairmen of the groups will be called, at which time the chairmen will be expected to present the questionnaires and report with respect to all of the banks in each group, and it is hoped that at that time each chairman will be sufficiently informed with respect to the methods of all the banks in his group, as to make possible a discussion of the detailed methods of all banks in the system.

Will you kindly advise as soon as possible the date selected for your group conference, addressing Mr. L. R. Rounds of the Federal Re-

serve Bank of New York, who I have pleasure in announcing has, with the approval of the Federal Reserve Board, been selected as Secretary of the Committee on Economy and Efficiency to fill the vacancy created by the resignation of Mr. A. H. Vogt from the Federal Reserve Bank of Chicago.

Very truly yours,

A. C. Miller
Chairman, Committee on
Economy and Efficiency

To all Bank Representatives.

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FEDERAL RESERVE BOARD
WASHINGTON

X-3679

March 30, 1923.

SUBJECT: Stenographic Minutes of Conference
of May 18, 1920.

Dear Sir:

I am sending you under separate cover today fifteen copies of Senate Document #310, 67th Congress, 4th Session, being stenographic transcript of "Minutes of Conference with the Federal Reserve Board of the Federal Advisory Council and Class A Directors of the Federal Reserve Banks, at Washington, D. C., May 18, 1920". Additional copies of this pamphlet may be had upon application to the Government Printing Office, Superintendent of Documents, at five cents per copy.

By order of the Federal Reserve Board.

Very truly yours,

Wm. W. Hoxton,
Secretary.

TO CHAIRMEN OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

X-3680

STATEMENT FOR THE PRESS

For release in Morning
Papers, Friday, March 30, 1923.

During the semi-annual Conference of Governors, which closed today, the Federal Reserve Board, as usual, discussed with the Governors many matters of operation, including the amendments to the Federal Reserve Act contained in the Agricultural Credits Act, changes in the Board's regulations made necessary by these amendments, the open market operations of the System, and many matters of a routine nature. The Board also discussed with the Governors general economic and financial conditions, the conditions of the reserves, open market rates for various classes of paper, the demand for credit and the volume of credit in use, and gold movements, present and prospective.

FEDERAL RESERVE BOARD
WASHINGTON

255

X-3681

March 31, 1923.

SUBJECT: Economy and Efficiency.

Dear Sir:

I am writing to advise you that Mr. L. R. Rounds, of the Federal Reserve Bank of New York, has, with the approval of the Federal Reserve Board, been appointed Secretary to the Board's Committee on Economy and Efficiency to fill the vacancy caused by the resignation of Mr. A.H. Vogt from the Federal Reserve Bank of Chicago.

Very truly yours,

Chairman, Committee on
Economy and Efficiency.

TO ALL GOVERNORS AND
CHAIRMEN.

256

FEDERAL RESERVE BOARD
WASHINGTON

X-3683
April 4, 1923.

SUBJECT: Reporting violations of criminal statutes by employees
of Federal Reserve Banks.

Dear Sir:

It appears that the Federal Reserve Banks have in some cases failed to report promptly violations of the criminal provisions of Section 22 of the Federal Reserve Act, and Sections 5208 and 5209 of the Revised Statutes.

As this is a matter within the jurisdiction of the Department of Justice, the Federal Reserve Board feels that neither it nor the Federal Reserve Banks should undertake to decide whether or not such offenders should be prosecuted but that every violation should be reported to the Department of Justice for such action as it may deem advisable.

You are requested, therefore, to report the facts in all cases of violations of Section 22 of the Federal Reserve Act or Sections 5208 or 5209 of the Revised Statutes coming to your notice to the local United States District Attorney and also to send a full report of the matter to the Federal Reserve Board. This report to the Board should be made in duplicate in order that the Board may transmit a copy of the report to the Department of Justice which may then take such action as it considers advisable in each case. In making such reports it would not be improper to recommend clemency for the offenders in those cases where you feel that the circumstances justify such a recommendation.

By order of the Federal Reserve Board.

Wm. W. Hoxton,
Secretary.

To all Federal Reserve Agents.

257

FEDERAL RESERVE BOARD

WASHINGTON

X-3684

April 6, 1923.

SUBJECT: Shipments New Federal Reserve Notes.

Dear Sir:

In compliance with a joint suggestion of the Post Office authorities and the Secret Service and as an additional safeguard and precaution against loss in the shipment of Federal Reserve notes the Board requests that in the future all requisitions for Federal Reserve notes in denominations of five hundred dollars and upwards shall include a request for a small amount of lower denominations, preferably fives or tens, in order to avoid so far as possible, shipments of large amounts in partially filled pouches. The postal authorities and the Secret Service are of the opinion that the danger of loss is greater from a registered pouch which is only partially filled than one filled to its capacity because of the facility with which it might be removed from a shipment and the suggestion is made that such shipments contain a sufficient number of packages to fill a pouch.

Very truly yours,

Walter L. Eddy,
Assistant Secretary.

To all Federal Reserve Agents.

FEDERAL RESERVE BOARD

WASHINGTON

X-3687

April 7, 1923.

SUBJECT: Discontinuance Weekly Report, Form St. 1752.

Dear Sir:

In view of the fact that the Treasury Department has arranged with the Federal Reserve Banks and Branches to report to it direct as of the close of business on Friday of each week their holdings of U. S. silver and minor coin, you are advised that there is no longer any need of the banks continuing to advise the Federal Reserve Board of their coin holdings each week on Form St. 1752.

Very truly yours,

Walter L. Eddy,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

259

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-3688

April 7, 1923.

SUBJECT: Rules governing examinations of State member banks.

Dear Sir:

It appears that some of the Federal Reserve Banks are making examinations of State member banks without assessing the costs thereof against the banks examined as required by the terms of Sections 9 and 21 of the Federal Reserve Act, and the Federal Reserve Board feels that this practice should be discontinued. After careful consideration of the questions of policy and law involved, and the varying practices of the different Federal Reserve Banks, the Board has adopted the following rules to govern the examination of State member banks by all Federal Reserve Banks, effective on and after May 1, 1923:

1. Whenever the directors of a Federal Reserve Bank shall approve the examinations made by the State authorities, such examinations and the reports thereof may be accepted by the Federal Reserve Bank in lieu of their own examinations; and in such cases no costs may be assessed against the member bank by the Federal Reserve Bank.

2. Federal Reserve Banks may make their own examinations of State member banks whenever they consider it necessary to do so, and the expenses of all such examinations must be assessed against the banks examined.

3. Whenever it is necessary, a Federal Reserve Bank may, if convenient, on request of the State banking authorities, furnish examiners and assistants to assist them in the conduct of their examination of a member State bank and shall require reimbursement by the State authorities for the services and expenses of all examiners and assistants so furnished.

4. There are certain kinds of independent investigations or inquiries which a Federal Reserve Bank may usefully and properly make of member banks which would not constitute examinations within the meaning of the Federal Reserve Act and the costs of which, therefore, need not be assessed against the bank examined; to-wit: investigations of member banks with branches for the purpose of finding out the nature of the organization and the extent of coordination between the head office and branches, and inquiries with respect to "discounts, advancements and accommodations" which have been extended

to or applied for by any member bank.

5. On the other hand, any general investigation of a member bank by a Federal Reserve Bank for the purpose of determining: (1) the solvency of the member bank, or (2) the general lines of credit which are being extended by it, should be deemed to constitute an examination within the meaning of the Federal Reserve Act and the costs thereof must be assessed against the member bank.

The Board will expect the Federal Reserve Agents to see that these rules are strictly complied with by their respective Federal Reserve Banks, both in letter and in spirit.

By order of the Federal Reserve Board.

Very truly yours,

Wm. W. Hoxton,
Secretary.

TO ALL FEDERAL RESERVE AGENTS.

FEDERAL RESERVE BOARD

WASHINGTON

X-3689

April 7, 1923.

SUBJECT: Policy Governing Open Market Purchases by Federal Reserve Banks and the Administration thereof.

Dear Sir:

This is to advise you formally of the action of the Federal Reserve Board taken at its meeting of March 22nd, with respect to open market purchases by Federal Reserve Banks, and which was discussed at the recent conference between the Federal Reserve Board and the Governors of the Federal Reserve Banks.

The Board has adopted the following principles with respect to open market investment operations of the Federal Reserve Banks:

(1) That the time, manner, character and volume of open market investments purchased by Federal Reserve Banks be governed with primary regard to the accommodation of commerce and business, and to the effect of such purchases or sales on the general credit situation.

(2) That in making the selection of open market purchases, careful regard be always given to the bearing of purchases of United States Government securities, especially the short-dated issues, upon the market for such securities, and that open market purchases be primarily commercial investments, except that Treasury certificates be dealt in, as at present, under so-called "Repurchase" agreement.

In order to provide for the proper administration of the policy defined above, the Board rules that on and after April 1, 1923, the present Committee of Governors on Centralized Execution of Purchases and Sales of Government securities be discontinued, and be superseded by a new committee known as the Open Market Investment Committee for the Federal Reserve System, said committee to consist of five representatives from the Federal Reserve Banks and to be under the general supervision of the Federal Reserve Board; and that it be the duty of this committee to devise and recommend plans for the purchase, sale and distribution of the open market purchases of the Federal Reserve Banks in accordance with the above principles and such regulations as may from time to time be laid down by the Federal Reserve Board.

In accordance with the informal agreement made at the time of the last Governors' Conference, the membership of the Open Market Investment Committee for the Federal Reserve System, will be identical with the membership of the old Committee, as follows: .

Federal Reserve Bank of Boston
Federal Reserve Bank of New York
Federal Reserve Bank of Philadelphia
Federal Reserve Bank of Cleveland
Federal Reserve Bank of Chicago

By order of the Federal Reserve Board.

Wm. W. Hoxton,
Secretary.

To Governors of Federal Reserve Banks.
Copies to Agents.

X-3690

TREASURY DEPARTMENT
OFFICE OF THE SECRETARY
WASHINGTON

April 7, 1923.

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 March 1 to March 31, 1923, amounting to \$156,554.10, as follows:

Federal Reserve Notes, 1914

	<u>\$5</u>	<u>\$10</u>	<u>\$20</u>	<u>\$50</u>	<u>Total</u>
Boston	27,000	306,000	81,000	---	414,000
New York	634,000	404,000	108,000	27,000	1,173,000
Philadelphia	270,000	51,000	138,000	---	459,000
Cleveland	108,000	162,000	131,000	13,000	414,000
Atlanta	46,000	81,000	13,000	---	140,000
Minneapolis	59,000	9,000	4,000	---	72,000
Dallas	1,000	---	---	---	1,000
San Francisco	324,000	81,000	27,000	---	432,000
	<u>1,469,000</u>	<u>1,094,000</u>	<u>502,000</u>	<u>40,000</u>	<u>3,105,000</u>

3,105,000 sheets at \$50.42 per M \$156,554.10

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	414,000	\$6,988.32	\$6,603.30	\$5,261.94	\$2,020.32	\$20,873.88
New York	1,173,000	19,800.24	18,709.35	14,908.83	5,724.24	59,142.66
Philadelphia...	459,000	7,747.92	7,321.05	5,833.89	2,239.92	23,142.78
Cleveland	414,000	6,988.32	6,603.30	5,261.94	2,020.32	20,873.88
Atlanta	140,000	2,363.20	2,233.00	1,779.40	683.20	7,058.80
Minneapolis ...	72,000	1,215.36	1,148.40	915.12	351.36	3,630.24
Dallas	1,000	16.88	15.95	12.71	4.88	50.42
San Francisco..	432,000	7,292.16	6,890.40	5,490.72	2,108.16	21,781.44
	<u>3,105,000</u>	<u>52,412.40</u>	<u>49,524.75</u>	<u>39,464.55</u>	<u>15,152.40</u>	<u>156,554.10</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,
S. R. JACOBS,
Deputy Commissioner.

FEDERAL RESERVE BOARD

WASHINGTON

X-3691

April 10, 1923.

SUBJECT: Exercise of Fiduciary Powers by National Banks
in Pennsylvania.

Dear Sir:

There is enclosed herewith for your information
a copy of a decision handed down April 9 by the Supreme
Court of Pennsylvania upholding the right of National Banks
in Pennsylvania to exercise fiduciary powers under permits
granted by the Federal Reserve Board.

Yours very truly,

Wm. W. Hoxton,
Secretary.

To Governors of all Federal Reserve Banks.

IN THE SUPREME COURT OF PENNSYLVANIA

EASTERN DISTRICT

In the matter of the Petition : Nos. 273 and 274 January Term,
of : 1923

EDNA FRISBIE TURNER, Deceased : Appeal from the decision of
the Superior Court of Pennsylvania,
Appeals of Commonwealth of : reversing Decree of the Orphans'
Court of Philadelphia County.
Pennsylvania :

OPINION

FRAZER, J.

These two appeals involve the same question, namely, whether a national bank has the right to act as a fiduciary under the laws of the Commonwealth of Pennsylvania; they were argued together and will be decided in a single opinion.

In settling the account of executors of the Estate of Edna Frisbie Turner, a fund was awarded to minor children, beneficiaries under the will of decedent. The court appointed The Rittenhouse Trust Company, of the City of Philadelphia, guardian of their estate and before the account was called for audit that company was converted into a national bank and consolidated with the Corn Exchange National Bank, with power granted by the Federal Reserve Board to transact a fiduciary business. The latter applied for and secured a certificate from the State Banking Department authorizing it to do fiduciary's business in Pennsylvania and presented a petition asking that funds belonging to the minors be paid to it. This the court refused to do until the bank secured the approval of the Orphans' Court of Philadelphia County, under Rule 21 of that court relating to approval of fiduciaries. Accordingly, a petition was presented for that purpose setting forth the fact

of petitioner's incorporation under the National banking laws and its subsequent consolidation with The Rittenhouse National Bank, formerly The Rittenhouse Trust Company, stating it was authorized by the Federal Reserve Board to transact a fiduciary business and had complied with the law of Pennsylvania governing the transaction of such business; had conformed to the Acts of May 9th, 1889, P. L. 159, and May 20, 1921, P. L. 991, agreeing to be subject to supervision and examination by the Banking Department of Pennsylvania in the same manner as corporations of Pennsylvania; and stipulated, pursuant to requirements of the before mentioned rule of court, 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 moneys, 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 for whose account the same has been received, and that trust funds received by said bank, whether as fiduciary or for the person or persons for whom it is surety shall be deposited in a separate account" in another bank or trust company of good standing. This application was refused by the Orphans' Court, whereupon the bank filed a petition, as guardian of the minors, asking that, notwithstanding the refusal to approve its application to act as fiduciary, the funds in question be awarded to it as guardian. This petition was also dismissed and an appeal taken to the Superior Court which reversed the court below and from that decree we have the present appeals.

The Act of Congress, approved December 23, 1913, (38 Stat.251), gave the Federal Reserve Board power, inter alia, "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." It was thus left to the courts to ascertain whether, in any given case, the exercise of the powers granted would be in contravention of State or local law. Difficulties arose in the construction of the Act, resulting in its amendment in 1918 (Act September 26, 1918, 40 Stat. 867) by permitting National Banks to act as executor, administrator, trustee, guardian, etc., in all cases where 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", and also providing that "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 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 Statute contained a further provision that banks exercising fiduciary powers should "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 section but nothing in this Act shall be construed as authorizing the State authorities to examine the books, records and accounts of the National Bank which are not held in trust under authority of this sub-section." It also required that "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 its trust department, United

States bonds or other securities approved by the Federal Reserve Board."

Numerous other administrative provisions are found in the Federal Act that need not be referred to here.

The contention of the Commonwealth is that, to permit a Federal bank to act in a fiduciary capacity in this State, under the statutory provisions referred to, would amount to a violation of our laws. The Act of May 21, 1919, P. L. 209 provides, inter alia, that the Banking Department shall have supervision of all corporations or persons receiving money on deposit for safe keeping, including banks incorporated under the laws of the United States, which shall, pursuant to Federal law or regulations, be permitted to act in any fiduciary capacity and makes all such corporations subject to inspection and examination by the Banking Commissioner. By Act of May 20, 1921, P. L. 991, it was provided that no person should have the right to appoint, in a fiduciary capacity, any corporation other than a corporation organized and doing business under the laws of Pennsylvania and subject to the supervision and examination of the Banking Department of the State, or a corporation organized under the laws of the United States and doing business in Pennsylvania by resolution of its Board of Directors agreeing to place itself under and subject to the supervision and examination of the State Banking Department "in the same manner and to the same extent as corporations organized and existing under the laws of this State."

A comparison of the foregoing Federal and State acts shows the main points of difference are that the Federal statute allows inspection of the books and records of only that part of the assets of National Banks as are received in a fiduciary capacity and requires them to segregate all assets held in a fiduciary capacity and prohibits commingling them with other assets

in its business, unless it shall first set aside in the trust department United States bonds or other securities approved by the Federal Reserve Board, while on the other hand, the State acts authorize supervision by the Banking Department of all assets of the corporation and forbid substitution of securities for the funds but require the companies, in all cases, to keep trust funds separate from their other assets and to indicate all investments made as fiduciaries, so that the trust to which the investment belongs shall be clearly known. It is argued this difference in the two provisions produces a conflict, making the Federal Reserve Act in direct violation of State law by permitting uninvested funds to be mingled with the general assets and removing such funds from the inspection and supervision of State authorities. The Corn Exchange National Bank has complied with every provision of the State rules, regulations and laws, by consenting to the examination of all its assets by the State Bank Examiners and agreeing to keep trust securities on deposit in a separate bank. This voluntary compliance with State rules would, in itself, seem to render unnecessary a further discussion of the questions raised. Appellant contends, however, that the National Bank cannot, validly, agree to be bound by State law or by local rule of court, which is contrary or inconsistent with the Federal law and that, consequently, the question still remains whether it was not beyond the power of the bank to agree to comply with the State regulations where they are in conflict with Federal practice.

The answer to this contention is that insofar as the State law is inconsistent with the Federal act, the former must yield to the latter, even though the result may be to place upon Federal Banks a benefit or burden not received or assumed by the State banks and trust companies.

The definition given in the Federal act as to what constitutes a violation of the State law takes no cognizance of the fact that certain administrative details in the regulations of Federal Banks were different from those governing State institutions. The existence of these differences, however, is not sufficient to deprive a National Bank of the enjoyment of its powers under the Federal law. The establishment of the Federal Reserve Bank was a matter within the scope of Federal power and a State cannot, in any way, interfere with the powers of such banks, except insofar as Congress has permitted it to do so. When the Federal act was passed Congress had knowledge of the fact that various States had adopted different laws and systems governing persons or corporations acting in a fiduciary capacity. Having this knowledge, they gave to the Federal Reserve Board power to prescribe regulations for the government of Federal Banks. Regulations thus established are paramount to State rules and the latter must yield whenever a conflict arises. It was with knowledge of this situation and the existing difference between rules governing State and Federal Banks that Congress undertook to define, by the Act of 1918, what would be construed "in contravention of State law." It will be observed the definition refers to "powers" only and not the rules governing the exercise of such powers. It is the right itself, not the rules governing the exercise of the right, to which reference is made. Concede the existence of the right in the State banks and trust companies and we have the same right bestowed upon National Banks. Had Congress intended the latter to be governed by State laws in the exercise of the right given, surely expression of that intention would be found in the statute. In the absence of such utterance, we must assume Congress was satisfied with the rules already prescribed by the Federal Reserve

Board. If these rules happen to conflict with State regulations on the subject, the latter must yield to the former because the right being conceded the power to regulate the exercise of the right would follow as a necessary incident. We believe this view is fully supported by the opinion in First National Bank v. Union Trust Company, 244 U. S. 416, and cases therein cited.

The decree of the Superior Court is affirmed.

April 9, 1923.

FEDERAL RESERVE BOARD

252

WASHINGTON

X-3693

April 11, 1923.

Subject: Currency Shipments, Preparation and Mailing.

Dear Sir:

On April 6th I received from the Third Assistant Postmaster General a letter, enclosing copy of report rendered by Post Office Inspector William Pearson dated March 3rd, and copy of letter from the Chief Inspector, Post Office Department dated March 24th in which "it is recommended, in the interest of safety of valuable matter sent by banks in the registered mails, that a more systematic and stringent method of preparing and mailing remittances be followed not only by the Federal Reserve Banks and Branches but by other banks, many of which are members of the Federal Reserve System". Inspector Pearson's report has reference particularly to a shipment by the First National Bank of Fargo, North Dakota, on August 4, 1922, of \$20,000 in currency to the First National Bank of St. Paul and the Second National Bank of Minot, North Dakota. Both registers were received by the addressees in good condition with lead seals intact but short in sums of \$300 and \$500 respectively. The report says:

"Investigation at the mailing bank disclosed that currency shipments are prepared at that bank in the following manner: The money is counted by a teller who places several rubber bands around it, no wrapper or twine being used, and in this condition encloses it in a canvas coin sack which is handed to a bank messenger for sealing and mailing. Lead seals alone are used in the sealing, and as seals and sealing device are left in the custody of the messenger or messengers, who are frequently left alone in the bank, and in sole possession of the money, after all other employees have gone off duty for the night, the opportunity for rifling is great."

and concludes as follows:

"It was learned that it is the practice of banks throughout the country, including Federal Reserve Banks, to enclose currency loose, or with rubber bands around it, in canvas

coin sacks. It is obvious that this is a bad practice, and it is recommended that the Department issue to postmasters such instructions as will bring about a correction of this unsatisfactory condition".

The Chief Inspector in commenting upon the report of Inspector Pearson's says:

"It will be observed that the money is not properly prepared for mailing and the lead sealed sacks, together with the sealing devices, are left in the custody of the bank messenger or messengers, who are frequently left alone in the bank and have the opportunity for stealing the currency."

If this report correctly describes the method of mailing currency in your bank and in banks throughout the country it would seem clear that a safer method ought at once to be adopted.

Yours very truly,

Acting Governor.

TO THE GOVERNORS OF ALL F. R. BANKS

FEDERAL RESERVE BOARD

WASHINGTON

274

X-3694

April 13, 1923.

SUBJECT: Expense Main Line, Leased Wire System, March, 1923.

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-3694a and X-3694b, covering in detail operations of the main line, Leased Wire System, during the month of March, 1923.

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)

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS
TRANSMITTED OVER MAIN LINE OF THE FEDERAL RESERVE
LEASED WIRE SYSTEM FOR THE MONTH OF MARCH, 1923.

From	Bank Business	Per cent of Total Bank Business (*)	Treasury Dept. Business	War Finance Corp. Business	Total
Boston	38,296	3.20	8,998	-	47,294
New York	237,306	19.85	23,515	-	260,821
Philadelphia	60,181	5.03	10,844	-	71,025
Cleveland	90,494	7.57	13,624	32	104,150
Richmond	68,921	5.76	10,718	-	79,639
Atlanta	78,284	6.55	13,731	-	92,015
Chicago	148,666	12.44	19,572	67	168,305
St. Louis	106,089	8.87	14,906	-	120,995
Minneapolis	44,708	3.75	8,340	66	53,214
Kansas City	93,334	7.81	13,262	-	106,596
Dallas	71,721	6.00	8,065	92	79,878
San Francisco	157,449	13.17	28,559	-	186,008
Total F. R. Banks	1,195,549		174,134	257	1,369,940
Washington	<u>346,092</u>	<u>100.00</u>	<u>169,184</u>	<u>214</u>	<u>515,490</u>
Grand Total	1,541,641		343,318	471	1,885,430
Per cent of Total	81.77%		18.21%	0.02%	
Bank Business	1,541,641 words	or 81.79%			
Treasury	<u>343,318</u>	" " <u>18.21</u>			
TOTAL	1,884,959	100.00%			

(*) These percentages used in calculating the
pro rata share of leased wire expenses as
shown on accompanying statement (X-3694b)

FEDERAL RESERVE BOARD
WASHINGTON, D. C.,
APRIL 13, 1923.

REPORT OF EXPENSE
MAIN LINE
FEDERAL RESERVE LEASED WIRE SYSTEM MARCH, 1923.

X-3694b

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	\$ 719.30	\$ 250.00	\$ 469.30
New York	1,314.14	5.00	-	1,319.14	4,461.89	1,319.14	3,142.75
Philadelphia	225.00	-	-	225.00	1,130.65	225.00	905.65
Cleveland	366.00	-	-	366.00	1,701.59	366.00	1,335.59
Richmond	315.00	-	-	315.00	1,294.74	315.00	979.74
Atlanta	240.00	-	-	240.00	1,472.31	240.00	1,232.31
Chicago	(#)4,609.24	10.00	-	4,619.24	2,796.27	4,619.24 (*)	1,822.97
St. Louis	208.33	.75	-	209.08	1,993.80	209.08	1,784.72
Minneapolis	275.00	-	-	275.00	842.93	275.00	567.93
Kansas City	336.64	1.57	-	338.21	1,755.54	338.21	1,417.33
Dallas	251.00	-	-	251.00	1,348.63	251.00	1,097.63
San Francisco	395.00	-	-	395.00	2,960.36	395.00	2,565.36
Fed. Res. Board			16,783.07	16,783.07			
TOTAL	\$8,735.35	\$ 17.32	\$16,783.07	\$25,585.74 (a) 3,107.68 \$22,478.06	\$22,478.06	\$8,802.67	\$15,498.36 (&) 1,822.97 \$13,675.39

(#) Includes salaries of Washington Operators

(&) Amount reimbursable to Chicago.

(*) Credit

(a) Received \$7.68 from War Finance Corp. and \$3100 from Treasury Dept. covering business for month of March, 1923.

FEDERAL RESERVE BOARD,
WASHINGTON, D. C.,
April 13, 1923.

207
X-3696

It is the sense of the Federal Reserve Board that Federal reserve banks which are carrying in portfolio a considerable volume of open market investments should not increase their discount rate under present conditions until they have substantially effected the liquidation of their open market investments.

(1) by selling to the market, through the Central Committee, their holdings of short-dated Government securities;

(2) by selling to the market as rapidly as conditions warrant their holdings of United States Government notes; and

(3) by selling, or else allowing to run off, their holdings of acceptances, and by advancing their buying rates on acceptances.

It is further the sense of the Federal Reserve Board that until the degree of dependence of the existing credit structure upon Federal Reserve bank accommodation can be determined by the course outlined above, the basis of a well-informed discount policy will be lacking, and that the effect of an advance of discount rate will be psychological.

It is furthermore the opinion of the Federal Reserve Board that there is nothing in the immediate business and credit situation that requires the advance of discount rates for merely psychological reasons.

A. C. M. April 7, 1923.

FEDERAL RESERVE BOARD

278

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-3698

SUBJECT: ACTION ON APPLICATION FOR FIDUCIARY POWERS.

Dear Sir:

Please advise the above named bank that on the Federal Reserve Board approved its application to act, when not in contravention of state or local law, as

the exercise of such rights to be subject to the provisions of the Federal Reserve Act and the regulations of the Federal Reserve Board.

Very truly yours,

219

FEDERAL RESERVE BOARD

WASHINGTON

X-3699

April 19, 1923.

SUBJECT: Special Committee to Consider Non-Cash Collections.

Dear Sir:

At the last Conference of Federal Reserve Bank Governors, the Conference considered the Board's memorandum X-3676, dated March 28, 1923, having reference to the elimination of certain voluntary services assumed by the Federal Reserve Banks for their member banks. It was -

"Voted to be the sense of the Conference that the services enumerated in the Board's memorandum should not be discontinued at this time, except that with reference to the item of Non-Cash Collections, it was felt that the subject should be referred for consideration and report to a Special Committee of Governors to be selected by the Federal Reserve Board".

In accordance with the above action, the Federal Reserve Board has appointed a special committee consisting of the Governors of the Federal Reserve Banks of Boston, New York, Chicago, Cleveland, and Dallas.

The Board has further directed Mr. J. F. Herson, Chief Examiner, to attend the meetings of the above committee for the purpose of representing the Board during the discussion of the matter referred to.

By direction of the Federal Reserve Board.

Wm. W. Hoxton,
Secretary.

TO GOVS. OF ALL F. R. BANKS EXCEPT BOSTON, NEW YORK, CHICAGO, CLEVELAND AND DALLAS.

X-3700

Address of

A. C. MILLER

Member of the Federal Reserve Board

before the

Annual Convention of the Maryland Bankers Association

Atlantic City, New Jersey

May 28, 1921.

Mr. President and gentlemen of the Maryland Bankers Association, I am very happy to have an opportunity to meet you and discuss with you some of our common problems and troubles and perplexities.

I believe that you gentlemen constitute the State Section of your Association. Let me say, in order to relieve you of any doubt as to why I am here, that I am here neither to solicit membership of you in the Federal Reserve Bank of Richmond, nor to complain of such of you as are not members for not being members. The present, to my mind, is a time that invites us, whether as practical bankers or as men concerned with the administration of the nation's banking and financial affairs in a governmental way, to look a little beyond our own immediate precincts and try to take a broader and deeper view of the situation that is confronting the country at the present time. Whether you are National bankers or State bankers makes no difference; - whether merely business men or farmers, or even, for that matter, people who belong to the salaried or professional classes, or to the great body of consumers. The difficulties and perplexities surrounding the banker and the business man at the present time make no discrimination between national bankers and their customers and State bankers and their customers in the many different sections of the country, or in our many different classes of industry. If we have ever been confronted with an economic problem that concerns

all of us and from which there is no escape for any of us, except as it is an escape for all of us, it is the present situation.

I want to take occasion, therefore, this afternoon, in the time allotted to me, to draw attention to some of the outstanding factors that are involved in the existing economic and financial situation, whether you happen to be a banker in Maryland or in California; in Maine or in Texas. I mean to talk mainly about what we have come to describe by the term "postwar economic readjustment". But first I want to say a word by way of caution and correction.

A few months ago it was more common to describe what is in process as "deflation". Fortunately - fortunately for the truth, and fortunately for the truth that helps us toward a comprehension and a solution of our problem - we are latterly coming to talk less about deflation and more about readjustment. Many who did not see it last autumn now understand that it is not "deflation" from which we are suffering; that deflation, so-called, is merely a symptom of the regenerative or restorative process through which nature is putting us. What we are going through is, in fact, a readjustment or realignment of the distorted structure of industry and commerce throughout the length and breadth of our country to a normal basis. The readjustment, indeed, reaches beyond our own shores into world-commerce and into world-markets. We are not suffering alone, nor even most. We are suffering along with the rest of the world. There is no country, no matter how important nor how little important, in a commercial or financial way, that is not going through the throes of this terrible crisis of affairs from which we have been suffering. On the whole we have come through

most easily and safely. Much as we complain of our condition and much as we lament our individual sufferings and losses, we really have reason to be thankful that thus far we have come through so well and on the whole with so little damage to our economic and business morale.

Why do we call this mysterious movement or process through which we are passing "readjustment" rather than "deflation"? Foremost, and briefly, to my mind, for this reason: Deflation -- God protect the man who ever invented the word or ever undertook to naturalize it on American soil and apply it as a description of American conditions -- deflation to my mind always implies that somebody has got his hand on something and is trying to squeeze something out of it. It implies the intervention of a wilful and definite purpose on somebody's part to accomplish a result by means of forced pressure. More specifically it means forced liquidation and falling prices by restriction of credit and contraction of currency. In that sense there has been no deflation. The liquidation that swept over this country, in common with the rest of the world, in the year 1920 was not of anybody's making - least of all, of the Federal Reserve Board's. It came of itself. It was not the consequence of any policy of deflation. It was the result of an inevitable reaction in the course of economic affairs. So far as deflation has had anything at all to do with what has been going on in the last year, it has been a deflation of expectations: - a deflation of exaggerated expectations on the part of people generally throughout our country, north and south, east and west, and not only throughout the United States and the Western Hemisphere, but pretty generally throughout the world.

We went on a joy-ride soon after the Armistice. The sudden termination of the war in November, 1918, brought an immense relief to all of us. We had been tense, we had been nerved up to a terrific endeavor, the most heroic that people had ever been called upon to make in the public behalf. Suddenly, in the midst of this, came relief. All we had been told to do in the way of saving and self-denial suddenly seemed to have lost its meaning. Our pent-up emotions suddenly begot an orgy of recklessness and extravagance. People began to buy left and right, out of proportion to their means, in an endeavor to keep up with those who had become, by reason of the fortunes of war, the recipients of more than their ordinary incomes. Business, it seemed, had never been so "good". In a word, there followed close upon the Armistice a state of inflated expectation as to the future of business. Prices were rising. Speculation flourished. Everything looked good.

But in 1920 people began to doubt whether things could continue this way; they began to hesitate. In brief, their expectations began to deflate. It was they who deflated themselves in the process of getting themselves into a saner and more normal attitude as to the future of business in the country and the course of our foreign trade. So far as the Federal Reserve System was concerned, deflation never formed any part of its purpose. It went on expanding credit and currency throughout the larger part of the year 1920. It was not until crops were harvested, or until after the middle of October, that the volume of loans and discounts carried by Federal Reserve Banks showed any diminution. The great diminution has come with the year 1921 and has been a natural result of the economic reaction, intensified by reason of the fact that there

was a general let down of industry and commerce throughout the whole world as well as throughout our whole country.

Reserve bank rates have had nothing to do with producing this reaction. In the winter of 1919-1920, and later when the further advance of rate was made in June, 1920, it did something to check the expansion which had been going on. It helped to retard the process and to prevent the eventual reaction from degenerating into a violent collapse. By moderating and steadying the reaction it helped to make the inevitable readjustment orderly by comparison with what it otherwise might, and probably would, have been.

What does readjustment mean? It means that when values and prices and volumes of production have gotten out of their natural relationships they have somehow or other got to be brought back before there can be a safe and stable basis for business activity. Ordinarily in the past when we have had a violent alteration of the course of industry the thing has culminated in a terrific panic and a short, sudden, and universal collapse. There are people who argue that on the whole the universal sudden collapse that comes with panic is preferable to the slow and moderated processes we have had during the last eight or ten months under the influence of the Federal Reserve System. They believe it is better to have a short and abrupt descent and be over with it and have everybody on the same level about the same time. What we have had in fact under the slow and relatively orderly readjustment during the last eight or ten months has been in the nature of a staggered process. The readjustment and liquidation have been uneven in their incidence, as between different lines of industry and as between different sections of the country.

Prices have gone down universally, but they have not gone down uniformly. The farmer has suffered the most, and even as amongst the farmers some have suffered more than others, depending on the conditions affecting the markets for their particular staples. The cotton planter has been worse hit than any other comparable group. He is most dependent on the foreign market. The live stock man has been in a very bad situation because his products also must find a considerable market overseas. The result is that there has been extreme inequality in the readjustment process. For the most part the South, especially the Gulf cotton states, felt the heavy blow of the readjustment first, and on the whole most severely.

Ordinarily in a healthy state of industry when things are in balance there is a parallelism between the prices of finished goods as they go into use and the basic cost prices of the raw materials that go into the manufacture of those goods. There is a close correspondence between the prices of muslin and calico and of raw cotton. There is a correspondence between variations of the price of boots and shoes and variations of the cost of hides and leather. There is a parallelism between the selling prices of all these goods and labor cost and fuel cost and transportation cost. That parallelism, however, does not exist at the present time. We have raw materials, particularly such raw materials as grow on the top of the soil, as distinguished from those taken from under the soil, down pretty near to bed rock. We have some a little below the 1913 level. But in many sections of the country there has been little reflection of the fall of raw material in the finished product prices. To illustrate the point, I offer an instance

though I do not offer it as typical. We know too little as a whole of the relationship between retail prices and prices of basic raw materials in the United States at the present time to make precise generalization possible. But the instance I give you will serve as a suggestion of one of the things bothering us at the present time. Wheat has fallen from the peak, 53 per cent; flour has fallen 47 per cent. Bread has fallen 10 per cent. This indicates a striking lack of correspondence between the movement of wholesale prices and retail prices.

Now, I am well aware that it takes more than wheat or more than flour to make bread. Bread is a product of a pretty highly organized manufacturing process. The manufacturer has his plant as well as his raw material. He has his fuel as well as his raw material bill. Beyond that he has his pay roll, concerning which he could doubtless tell some very disturbing things. He also has to market his product. But when allowance is made for all these factors I do not think anyone can doubt that the disparity between selling price and cost is abnormal. A drop of 53 per cent in wheat and a drop of 40 per cent in flour, as compared with 10 per cent in the case of the loaf of bread, indicates that something is out of joint. Before we can have anything like a normal economic situation the relationship between the prices of raw material and finished product must be reestablished.

We cannot expect extensive downward revisions in wages until we get considerable extensive downward revisions in the retail selling prices of those things that make up the bulk of the ordinary workman's family consumption.

We have got to get the parallelism more completely restored between the selling prices of basic raw materials and the finished consumable commodities before we can feel that we are reasonably through with the readjustment process and that industry and business in this country will again move on a reasonably steady keel. Until that is accomplished, we shall not be through with our economic difficulties. But we have a better understanding of the nature of those difficulties, and we have a better understanding of what we have got to do to hasten the solution or elimination of some of those difficulties.

If I were to venture a statement as to what is the most important immediate point upon which to concentrate attention in the process of furthering and hastening the readjustment process I should say it was the retail price situation.

The advice that Mr. Hoover gave before the United States Chamber of Commerce a few weeks ago, when he advised people who were purchasers at retail to shop around, was good advice. We need the retail price situation to be brought into closer touch with the wholesale price situation, with the manufacturing situation and with basic industry conditions before we can feel that we have got readjustment to a satisfactory point. Everybody must share the common lot. There must be no escape for any from the common lot in times like the present. Just exactly as war makes no discrimination in the life it takes, values one man's life no more than another's; just as each man gives his life freely to the common cause, so in a time like this we must all be prepared to share the common lot if we expect a solution of our common difficulties. Peace no less than war has its trials and victories, and

if we would show one-half of the concern for our common interests in peace that we show in war, show one-half of the patriotic resolve to manfully accept whatever the present situation may require in order that it shall be corrected, we would expedite this business of post-war readjustment very materially. But unfortunately the forces of individual cupidity are apt to get the better of our generous impulses in time of peace just as in time of war there is a sort of forgetfulness of self that makes one almost court danger and welcome sacrifice, in order to justify our faith in ourselves and prove our devotion to country.

The papers this morning report that the United States Railroad Wage Board is about to hand down on the first of June its wage adjustment decision. That is a matter of great moment in helping improvement of the existing situation. It indicates the determination of this responsible agency to reduce wages as the cost of living is reduced. We may expect that they will go on with this work of wage adjustment, as the selling prices of clothing and fuel and food fall further, and particularly a reduction of house rents follow upon increased building operations. We may expect that the cost of operating the railroads so far as the wages bill is concerned will be reduced, and that in due course the Interstate Commerce Commission or the railroads of their own motion will reduce freight rates, thus eliminating another of the obstructive elements. The railroad wage situation is intimately interlocked with the whole problem of post-war readjustment.

The increase in railroad rates allowed last year, necessary as it

was in order to protect the investment status of the railroads and in order that the roads might have some hope of attracting the capital necessary to sustain them, was nevertheless so considerable as to work a very injurious interruption of the natural flow of commodities. We have great distances to cover between markets in the United States; the rates on certain traffic must necessarily be very low if goods are to move. Present high rates, if persisted in, would bring to pass some very disastrous results, and here and there some violently unfair results in breaking up established markets and industrial alignments.

I was talking with a manufacturer from the far West a few weeks ago. I asked him "What is the railroad situation doing to you?" He replied that it was one of the greatest things that had ever happened to his section. It was like a great wall of protection to local industry, he said. He went on to say that in his particular line of business there had never been as much activity - it was higher than in 1920. The eastern manufacturer could not get into his markets because of high freight rates. While that happened to be a satisfactory situation for this particular manufacturer, thus protected by railway rates, it was not a comforting condition for the manufacturer in Chicago or St. Louis or Kansas City who was thus excluded from access to a customary market. It does not make for a healthy economic situation, either, considering the country as a whole.

I would not leave you, however, with the impression that the completion of the readjustment process in this country is merely a domestic matter. Even if we get the retail price situation more

completely reconstructed, and wages adjusted on parallel lines, even if we get railroad rates satisfactorily revised downward, and even if the reserve rates of discount should be greatly lowered, we should still not be out of the woods. The foreign trade situation would be left as the fly in the ointment.

In 1920 ten commodities, mostly products of the soil, cotton leading the list with wheat following second, constituted 44 per cent of the export values from the United States. When we have ten commodities constituting close to one half of the goods we send overseas, and most of them the products of the farm, it is obvious that a shrinkage in the demand for those products must have a very serious effect upon the position of everybody in the agricultural sections and also upon manufacturing industries in non-agricultural sections which depend for a large part of their domestic market upon the buying power of the farmer. That sort of derangement works back, and this is what actually has been taking place in the last six or eight months. Europe is poor. Europe is not able to eat and dress and live as usual. Europe has not the buying power and cannot borrow. People there are consequently not eating as they ought for their own good, as well as for the good of the American farmer who has grown live stock to be eaten in Europe or who has grown cotton to be worn after it is manufactured, in Europe.

It is a curious phenomenon, but it is a fact that has been demonstrated over and over again, that even where a commodity is consumed perhaps as much as 90 per cent at home, and only ten per cent abroad, if the market for that ten per cent is destroyed or seriously curtailed it will break the price for the 90 per cent that is consumed at home. When

you have a commodity like cotton, that must find its principal market abroad, you can readily understand that the cessation of European buying or the serious diminution of European buying is sure to work havoc not only as regards the cotton planter but as regards everybody anywhere else who is dependent on the cotton planter as his customer.

We have had a shrinkage of 53 per cent in our exports in the course of the last year. The amazing thing to me is that such a shrinkage has not worked an even more violent effect upon our domestic situation. That shrinkage, it should be added, is of course a shrinkage in value, not a shrinkage in volume. Prices have gone down, so that the same bale of cotton as would have taken a higher value a year ago, or the same bushel of wheat, now takes a lower value. The percentage figure of shrinkage by value, therefore, in a certain sense gives an exaggerated impression of what has happened. Estimates of what the shrinkage of physical volume has been since the reaction set in a year ago indicate that it is about 30 per cent. That is to say, we are sending about 30 per cent less goods out of the country in point of physical volume,--measured by cargo capacity, etc.,--than a year ago. In other words, we are just about back where we were in 1913. We are shipping about the same volume of commodities to foreign markets as we did in 1913, if anything a little bit less, with the tendency still downward according to the latest indications. And this is making a very troublesome factor in our economic situation.

Since 1913 this country has grown a good deal. The census tells us that we have grown in population to about 106,000,000. But we have also grown in our productive power, in our ability to ship more wheat, more corn, more copper, iron and steel and bacon and cotton and so on. Yet Europe is

not now in a position to take as much of these as in 1913. It is evident, therefore, why the markets for certain commodities are glutted in this country. Under the strain something has got to give way. Something would have to give way even under more normal conditions. Where conditions are as abnormal as now, and where everybody is in a more or less apprehensive frame of mind, the effect of accumulated supplies of basic staples in breaking prices is of course much greater. The result is that certain of our industries have been so thoroughly readjusted that their prices are really below normal. Their prices are below what prices were in 1913 before the war broke upon the world. Until these prices, by coming up, meet certain other prices which have still to come down, the parallelism of prices will not have been reestablished and we shall not have a good condition. It is my opinion that we shall not have a good condition until Europe is once more able to come into the American market as a fairly normal buyer. We have a domestic economic situation in which the foreign factor cannot be neglected for a moment by anyone who wants to get a line on what we ought to do if we are to find a correction of it.

In this connection, I want to call your attention to a phenomenon that has been very striking and to my mind of alarming significance since the first of the year. I have in mind the tremendous flood of gold that has come to our shores from Europe.

When this movement first set in last autumn, there was a disposition on the part of some of the financial journals to take satisfaction and pride in it. They called attention to the fact that we were the great creditor nation of the world, that we were on a gold basis, and that gold was coming here for these reasons. It is true that gold is coming here

because we are the great creditor nation of the world. But it is well not to overlook that wherever there is a creditor there is also a debtor, and that on the average the prosperity of the creditor depends a good deal upon the prosperity of the debtor. A poor and distressed debtor is not a very good asset for a creditor who wants to be prosperous in the long run.

This great influx of gold that has been coming to us is evidence not of the riches of Europe but of the necessity of the situation in which Europe finds itself. The gold which the countries of Europe are sending us, - England, France, Sweden and the others - is a measure of their need. It is the measure of their need, first, and second the measure of their determination to show their good faith by going the limit in seeking to establish or maintain their credit in the American market. They are sending gold here partly in settlement of obligations already contracted and partly in order to create exchange to take care of their current purchases of things which are absolutely necessary to the functioning of their industries, and finally to keep their foreign exchanges from getting further demoralized. This gold movement, in brief, shows a disposition on their part to do their part as debtors and as business men who are long visioned and have great respect for the upbuilding of their credit to a high level in the American market.

We do not want this gold, we do not need it. We have got more gold now than we need. So has Argentina, so has Japan. Russia is practically stripped of her gold. A considerable part of the gold we are getting is undoubtedly of Russian origin. If not itself Russian gold, it is gold from European countries such as France or Sweden which replace the gold they send us with Russian gold. The rest is mainly the new gold that comes to the

London market from the South African mines and is bought in London for American account because the dollar is constantly at a premium. There is no better use that the man who has South African gold in London can put it to than to sell it to New York for dollars.

Practically all of this gold has accumulated in the hands of the Federal Reserve Banks. The Federal Reserve System has added in the course of the last twelve months about \$425,000,000 to its gold reserve. Since the first of this year when the flood-tide of the movement set in, we have added to our reserve holdings about \$340,000,000. These huge accessions have naturally had a pronounced effect in raising the reserve ratio of the Federal Reserve Banks, particularly as liquidation was going on at a rapid pace at the same time. A year ago our reserve was 42 per cent; today it is 56 per cent. This is a rise at the rate of 33 per cent in the course of a year. The reserve ratio has risen to the extent of at least one-half because of the great influx of gold into the Federal Reserve Banks. The rest of the rise is due to liquidation. We have reduced our note circulation in the past year something like \$275,000,000. We have reduced our loans and discounts by an amount something like \$850,000,000. So we have had two major influences that explain the change in the ratio of the reserve system: (1) increase in the gold reserves and (2) diminution in note liabilities. The diminution of the note liabilities is largely the result of the extinction of obligations owed by member banks to Federal Reserve Banks, and is reflected in the marked decline of the loans and discounts of the Federal Reserve Banks. But it is the foreign gold that has made much of this reduction possible.

When a customer country is so situated that it can buy only as it

pays in gold it is reasonably certain to expect that that country is going to buy just as little as possible and that its buying is going to diminish until conditions change. So far from its being a condition in which we should take satisfaction,-- this great stream of gold that is flowing to us from Europe,-- rather should it give us occasion to take pretty serious thought of what is implied in it. We cannot expect to sell much to Europe if we are going to sell only for cash, for gold. Nor will it be of very much use to us to get more gold unless we know how to use it. We have more gold than we need now. Too much gold is almost as serious an evil as too little gold. We may find that as our Federal Reserve ratio keeps rising with additions of new gold, the rise may set in operation before we see the end of it some very undesirable movements. A high gold reserve does not necessarily make for economic health. It does, however, make it possible for us, if we know how to go about it and if we have the vision and purpose, to develop a system of foreign trade financing in aid of Europe, through the agency of our banks with the assistance of the Federal Reserve Banks.

The last few months have made it so clear that there is no doubting that our economic recovery is dependent upon the economic restoration of Europe. We might as well give up as an idle day dream the thought that we can get out, altogether and safely out, of our present economic difficulties, except as Europe works back toward a more healthy and normal condition. Either we have got to reconstruct our whole internal economic organization,-- we have got to grow less cotton, we have got to grow less corn and wheat, we have got to grow less livestock, etc., and find other uses for the resources and people now employed in agriculture--

(these things are easily said but they are done with extreme difficulty and it takes a long time to do them!)-- or else we have got to help to restore the buying power, and that means restore the producing power, of the crippled peoples of Europe. That means, as the first step, that we have got to devise ways and means of financing the export of our surplus farm products and some of our surplus mineral products to Europe on credit.

Under the auspices of the Federal Reserve Board, Congress enacted a law known as the Edge Act because it was fathered by a member of the Senate who is vitally interested in what can be done by Federal legislation to open a way to cooperative banking effort in this country to finance exports. Something has been accomplished under that, but thus far too little. Considering our vaunted spirit of enterprise, our vaunted spirit of adventure, there has been, I think, a singular apathy in the last year and a half with respect to the need of finding or developing ways and means by which we can safely hook up with Europe in a commercial way. The gap or rift that exists in the international economic structure involving Europe and the United States must be bridged through the medium of adequate and protected credits. That is an urgent problem of concern to every section of the country. It can be solved, but it still awaits solution and national economic recovery waits on that solution.

I am not here to present any specific projects. I do not regard this as an appropriate occasion for that purpose. I am here to try to induce in you, and to get you to induce in others with whom you come in contact, an attitude of mind that will be hospitable toward the development and promotion of well-considered projects for the financing of our

export trade to Europe and other countries,-- but to Europe primarily,-- as they may be presented.

Let me tell you, simply as an example of the interest of the Federal Reserve Board in this matter of helping the financing of our export trade, that the Board recently issued a ruling authorizing the Federal Reserve Banks in their open market operations to buy bankers' acceptances of a maturity of six months. This step would not have been taken except under the pressure of a pretty real situation. In normal times reserve banks should restrict themselves to short maturities - not exceeding 90 days. That is a good principle for normal times. But these are not normal times. There are some things that are now more important than protecting the technical liquidity of the Federal Reserve Banks. We recognize that our first responsibility is to help business carry on and revive, to help business in every way as wisely as we know how. One thing I can say in this connection is to pledge that the Federal Reserve Board, as long as it is of its present frame of mind, will always test credit by what credit is doing to help the production and distribution of goods, to help the movement of goods from the farm to the factory and from the mine to the foundry and from factory and foundry into the markets of consumption, whether those markets be here or abroad. Recognizing that at the present it is the foreign market that particularly needs the assistance of new financial machinery, we have recently taken this step by which the exporter in this country is free to go to arrange an acceptance credit, and have six months bills drawn with the knowledge that they can be taken to a Federal Reserve Bank and that the Federal Reserve Bank is authorized to purchase them. More than this, the Federal Reserve Banks have the resources to make

investments in such bills to large amounts.

This may not appear to be a very striking contribution to our export financing problem. I think it a very important step, and one bound to yield results if exporters and bankers know how to avail themselves of it. At any rate, it represents all that the Federal Reserve Board under the statute can do. We have shown our disposition to go to the limit permitted by the law.

In conclusion, let me express my individual belief that gloomy as the situation of the world looks at the moment, it is far better than it looks. Things are mending. That ought to give us spirit and confidence for the future. The one thing I would urge at this time is that every business man should maintain belief in his country and its future and belief in himself; but also, beyond that, belief in the world. Do not imagine for a moment that the bottom has dropped out of civilization. Do not imagine for a moment that the people of France or Germany or Italy or England are essentially different from us. If we have common sense let us also credit them with common sense. If we have faith in our own integrity, let us have faith in their integrity. If we have faith in our determination and ability to meet our problems, let us have faith in their determination and ability to meet their problems. It is only as we distrust each other as nations that we have reason to be apprehensive of the future.

When I reflect upon what has taken place in the last seven years the amazing thing to me is that the world is going forward as rapidly as it is. When the whole structure of civilization has gotten such a jolt as it got by the war it takes some time to get things into working order. But every day that passes is a day further away from this condition of things

and a day nearer the attainment of a working basis. What we want at this time is to have an attitude and to help cultivate an attitude of confidence in ourselves, confidence in our future and confidence in the ability of the nations of Europe gradually to resume their normal relationship with us and the rest of the world. Civilization is going on. It is merely a question of whether with our aid the recovery will be rapid or whether without it it will have to be slow. With faith we can do all. Faith is the foundation of credit. Credit is the foundation of business, and just at this juncture it is particularly what is needed to give a fillip to our foreign trade, without whose recovery things are going to linger and drag.

FEDERAL RESERVE BOARD.

STATEMENT FOR THE PRESS.

X-3703

For release in Afternoon Papers,
Friday, April 27, 1923.

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

Further increases in the production of basic commodities, in wholesale prices, employment, wage rates, and wholesale and retail trade, took place in March.

Production. - Production in basic industries, according to the Federal Reserve Board's index, increased 4 per cent in March to a level 8 per cent higher than at the 1920 peak and 67 per cent above the low point of 1921. The output of pig iron, steel ingots, automobiles, and crude petroleum, and the mill consumption of cotton exceeded all previously reported monthly totals. Building operations showed a further large expansion and the value of contracts let for residences in March was the highest on record. Railroad freight shipments have been larger every week this year than in the corresponding weeks of the past four years. Car shortage has been reduced to the lowest point since September, chiefly as the result of the addition of new equipment, a decrease in the number of bad order locomotives and cars, and a concerted effort to increase the average loadings.

Employment in the building trades and in many lines of manufacturing continued to increase in the eastern States. The surplus of unskilled labor in the West reported in earlier months is being gradually absorbed by the seasonal increase in farm work. A number of leading textile mills, steel mills and packing plants announced general wage advances ranging between 11 and 12-1/2 per cent, and numerous wage advances in other industries also were reported.

Trade. - March sales by department stores reporting to Federal Reserve Banks were 22 per cent above those of March a year ago, partly because Easter purchases were made in March this year, whereas last year such purchases were largely deferred until April. Stocks of goods held by department stores were 6 per cent larger than those held a year ago but this increase was not as large as the increase in sales and hence the rate of stock turnover has been somewhat more rapid. Sales by mail order houses were larger than for any month since November 1920, and 35 per cent larger than in March 1922. Wholesale trade in all reporting lines was larger than in March a year ago.

Wholesale prices. - Wholesale prices as measured by the Bureau of Labor Statistics index advanced 1.2 per cent during March, and were 15 per cent above the low point of January 1922. As in recent months the prices of metals and building materials showed the greatest increases, while fuel prices showed a further decline from recent high levels. Compared with a year ago, metals were 37 per cent and

building materials 23 per cent higher. The cost of living increased slightly more than 1 per cent during March to a level of 3 per cent higher than a year ago.

Bank Credit. - During the month prior to April 11 a more moderate growth in the demand for credit from member banks in leading cities resulted in an increase of about \$48,000,000 in their loans made largely for commercial purposes, as compared with an increase of \$235,000,000 in the preceding month. Through withdrawal of funds from investments and a further inflow of gold, member banks have been able to meet demands of their customers for increased credit and currency independently of the Reserve Banks.

Consequently, the total volume of Federal Reserve Bank credit, measured by total earning assets has remained relatively constant during the past month, and in fact since the seasonal liquidation at the turn of the year. The volume of Federal Reserve notes in circulation has also changed but little as the larger demand for hand-to-hand money has been met chiefly by an increase in other forms of money in circulation.

There has been little change in money rates from those prevailing in March.

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

X-3705

For release in Afternoon Papers,
Monday, April 30, 1923.

CONDITION OF ACCEPTANCE MARKET

MARCH 15 TO APRIL 15, 1923.

The acceptance market during the period March 15 to April 15 was generally dull and inactive. A slight increase in the supply of bills characterized the early weeks of the period under review, but this was followed by a falling off in the volume of new bills in early April. The demand for bills was slow during March, but an improvement was noted in April that was sufficient to absorb the offerings. Bills of short maturities, 30 to 90 days, were generally preferred and were absorbed readily, while others moved more slowly. Banks were the principal buyers of acceptances, but individual as well as foreign investors were in the market.

Rates during March were fairly steady, but the increased supply of bills toward the end of March resulted in a slight advance in rates from $4 \frac{1}{8}$ to $4 \frac{1}{4}$ per cent. After the beginning of April, however, a slight easing of money resulted in dealers returning to a bid rate of $4 \frac{1}{8}$ per cent.

The principal commodities against which bills were drawn were sugar, cotton, grain, and dollar exchange in the eastern districts, but bills drawn against canned fruit, agricultural implements, meats and provisions, and oils were evident in some western districts.

FEDERAL RESERVE BOARD

X-3706 805

STATEMENT FOR THE PRESS

For release in Morning Papers,
Monday, April 30, 1933.

The following is the Review of the Month as
contained in the forthcoming issue of the
Federal Reserve Bulletin.

BUSINESS EXPANSION AND THE RESERVE BANKS. Credit developments during the past month have further emphasized the fact that current business expansion is being financed independently of reserve bank credit. In these circumstances, the weekly statement of the reserve banks is not indicative of changes in credit conditions. Changes in reserves, in earning assets, and in Federal Reserve note circulation have been relatively slight since last summer and have not reflected the considerable growth in bank credit. The reserve ratio, as was pointed out last month in a discussion of the effect of gold imports on our credit situation, has at present little value as an indicator of credit movements. It was these gold imports that enabled member banks to meet the increased credit and currency demands of their customers without obtaining a corresponding amount of accommodation at the reserve banks. Thus, under immediately prevailing conditions, it is the changes in member bank loans and investments rather than any item in the reserve bank statement that roughly measure the rate of increase in the use of bank credit. This rate of growth in bank credit, compared with the rate of expansion in production and trade, affords, in the absence of such a test as the reserve ratio which is dependent upon free gold movement, an important indicator of changes in credit conditions. . The fact that the recent growth of credit has been accompanied by a further increase in the physical volume of production is favorable evidence of the economic effectiveness of the credit in use.

Comparative stability in the volume of reserve bank credit while member bank

credit increased has characterized credit developments during the past 15 months. Since the middle of 1922, when renewed demand for credit was first reflected in larger commercial loans, total loans and investments of member banks in leading cities have increased by \$1,300,000,000, while earning assets of the Reserve Banks have increased by less than \$100,000,000. At the present time the total of member bank credit is nearly as large as in 1920 and the volume of goods being produced and marketed exceeds the peak reached in that year, yet the volume of reserve bank credit is \$2,200,000,000 less.

PRESENT CURRENCY REQUIREMENTS. During the past two months Federal Reserve note circulation has declined slightly and the growing demand for currency has been met by an increase in other forms of money in circulation. In fact, the total money in circulation is now \$242,000,000 larger than a year ago, while Federal Reserve notes during this period have increased by only \$52,000,000 and Federal Reserve Bank notes have declined by \$58,000,000. Gold and gold certificates in circulation have increased by \$127,000,000, silver and silver certificates by \$100,000,000, National Bank notes by \$11,000,000, and United States notes by \$10,000,000. More than three-fifths of the year's increase in circulation occurred between February 1 and April 1 of this year. A part of this additional currency has been supplied out of the cash reserves of the Reserve Banks, which declined slightly during the past two months. But, like the additional demand for credit, the recent demand for additional currency has been met without substantial increase in the use of Reserve Bank credit.

While increases in other forms of money in circulation have largely supplied the recent demand for more currency, the fact is that the present volume of currency is much less than in 1920, even though production, trade, employment, and member-bank credit are now at or near 1920 levels. On April 1, 1923, the

total volume of money in circulation was nearly \$1,000,000,000 less than at its peak in November, 1920, and over \$600,000,000 less than on the corresponding date of 1920. Changes in the demand for hand-to-hand currency arise chiefly from the pocket-money and till-money requirements of retail trade, from pay-roll needs, and from the habit of accumulating and holding currency as savings. The volume of retail trade, taking the country as a whole, is approximately the same now as at this season in 1920, though retail prices are lower. In certain agricultural sections, however, where hand-to-hand currency is largely used and where business recovery has been slow and incomplete, the volume of business is still much below the 1920 level, and it is probable that in those sections there is a smaller demand for currency. There is also at present a much reduced amount of currency held as savings. The extent of such holdings depends less upon the current volume of employment than upon the duration of the period of full employment; in 1920 such holdings were doubtless at a record figure, since full-time employment and high wages had continued for several years. During the subsequent period of slack employment much of the currency held as savings was spent, and the present period of fuller employment has not yet continued long enough to result in similar accumulation.

Of the various fluctuating demands for currency the pay-roll requirement is probably the most important because it includes the seasonal demand at harvest time and because it influences other currency demands arising from retail trade and from savings. During recent years the range of fluctuation in pay roll and Federal Reserve note circulation has been similar, though the changes in the volume of currency have lagged behind the changes in pay roll. While the pay roll increased since the beginning of 1922, it is still much lower than at the peak in 1920. This, taken together with the lower level of retail prices, is probably

the most important single fact in accounting for the smaller volume of currency now in circulation. This lesser demand for currency, together with the gold imports which have supplied member banks with a basis for loans without additional borrowings from the Reserve Banks, accounts for the present reduced volume of Reserve Bank credit compared with 1920.

If the relation between pay roll and Federal Reserve notes which held during previous years continues, the rapid increase in the pay roll since the middle of 1922 will soon result in a substantial increase in demand for currency, and in order to secure the additional currency member banks will seek accommodation at the Reserve Banks.

PRODUCTION AND CREDIT. The increased use of credit, which is reflected in the larger loans and investments of member banks, but not in the earning assets of Federal Reserve Banks, has been primarily in response to the increased volume of production. Thus far business expansion has been characterized by a rapid increase in the output of basic commodities. In fact, the growth in the physical volume of production since the middle of 1921 indicates a rate of industrial recovery almost without parallel in American business. Within a year and a half after recovery began the monthly output of 21 basic commodities, as measured by the Federal Reserve Board's index of production, increased over 67 per cent. The volume of goods produced and consumed during the first quarter of 1923 probably exceeds that of any similar period in the history of the country. Fuller employment of equipment and of labor has produced the additional income from which profits and wages were realized. In fact, profits in many lines of industry have been dependent upon quantity production, the lower production cost per unit more than offsetting the increased cost of materials. It is partly in consequence of larger output

that the prices of manufactured goods have not more fully reflected the increases in prices of raw materials. Larger pay rolls also until quite recently have resulted chiefly from increased employment rather than from advances in wage rates. These increases in production and employment have thus far economically justified the increases in the total volume of bank credit. For credit extension does not result in overexpansion so long as the additional credit yields proportionate results in the larger production and marketing of goods.

CREDIT CONDITIONS, 1923 AND 1920. The current volume of wholesale and retail trade indicates that the goods now being produced are moving satisfactorily into the channels of distribution. About 700 firms engaged in various lines of wholesale trade and representing practically all sections of the country are now reporting their monthly sales to the Federal Reserve Banks. Since the opening of the year the total volume of sales by these concerns has been about 18 per cent larger than during the corresponding period a year ago. In retail trade the sales of 306 department stores located in 100 cities throughout the country have also exceeded the sales of last year by 15 per cent. In March, 1923, sales of these stores were above the level of March, 1920, in spite of the lower retail prices now prevailing. Department-store sales are at present relatively higher in the industrial districts of the East than in the agricultural sections of the South and West. The volume of merchandise buying in rural districts is further indicated by the sales of mail-order houses, which during recent months have been approximately 37 per cent above the sales of a year ago, though the present dollar volume of their buying is still much below the level of 1920.

The extent to which various sections of the country have shared in the

current growth of business and credit may be shown in a general way by the changes in the volume of check payments and of member bank credit. For this purpose a comparison is made of the total volume of bank debits during the first quarter of 1923 with the corresponding period in 1920, and a comparison of the total loans and investments of member banks at the end of the year 1922 with similar figures for November, 1920. This comparison in the form of percentages, with 1920 figures taken as 100, is shown below by Federal Reserve Districts.

Federal Reserve District	Check pay-ments.	Mem-ber bank credit	Federal Reserve District	Check pay-ments.	Mem-ber bank credit.
	Per cent.	Per cent.		Per cent.	Per cent.
Boston.....	105.5	105.0	St. Louis.....	96.9	105.0
New York.....	99.6	99.2	Minneapolis.....	88.2	90.5
Philadelphia...	100.6	101.4	Kansas City.....	81.6	87.5
Cleveland.....	97.8	105.4	Dallas.....	87.8	84.6
Richmond.....	85.6	96.4	San Francisco...	101.9	104.0
Atlanta.....	80.9	90.7			
Chicago.....	94.6	95.9	System...	97.5	98.6

Both in volume of business and in bank credit the more recent figures, taking the country as a whole, show but a slight reduction compared with 1920. When considered by reserve districts there is a close correspondence in the changes since 1920 in credit and in business volume. With but few exceptions, business activity in the industrial East and on the Pacific coast either approximates or exceeds that of 1920 and has been accompanied by corresponding increases in credit. In marked contrast are conditions in the South and Middle West, where both business volume and bank credit are considerably below the 1920 level.

This regional comparison emphasizes the fact that, while the total volume

of business and bank credit is nearly as large as in 1920, there are important differences between the situation at that time and now. In 1920 credit expansion was more pronounced in agricultural than in industrial communities, while at the present time it is in the large cities that the volume of credit is relatively larger. Thus the Reserve Banks in the South and West in meeting the demands of their member banks in 1920 were obliged to rediscount large amounts with the banks in the industrial sections, while at present there are no interbank rediscounts and no Federal Reserve Bank approaches the limit of its lending capacity.

The lesser dependence of the member banks upon the Reserve Banks is reflected in the much smaller total volume of Reserve Bank earning assets and in the smaller proportion which paper discounted for member banks constitutes of that total. On October 15, 1920, of the total earning assets held by Reserve Banks, discounts for member banks constituted 81 per cent, while on April 11, 1923, the percentage was 55, and in the middle of 1922, when discounts were at low ebb, the percentage was as low as 35 per cent.

OPEN-MARKET POLICY

Total earning assets of the 12 Federal

Reserve Banks combined measure the volume of reserve bank credit made available and are continuously in process of adjustment to the demand for such credit. It is this total rather than any single class of assets which indicates at a given time the extent to which reserve bank credit is being utilized as a basis of member bank credit and as a source of currency. The relationship between the open-market operations of the Federal Reserve Banks and the demand for discount accommodation on the part of the members has been brought out clearly by the experience of 1922 and the first quarter of 1923.

Since the middle of January, 1923, the increase in discounts at reserve banks has been accompanied by a decline in holdings of open-market purchases, with a consequent stability in the total volume of earning assets. This is in contrast to the situation in the early part of 1922, when member banks were rapidly liquidating their indebtedness at the reserve banks. At that time, also, the volume of earning assets remained relatively constant, because the decline in discounts was accompanied by a corresponding increase in the holdings of Government securities. Thus, for a period of more than a year the total of reserve bank credit has fluctuated around \$1,200,000,000 and has remained within a range of \$1,000,000,000 to \$1,350,000,000. During that period discounts have fluctuated between \$1,000,000,000 and less than \$400,000,000, and Government security holdings between \$600,000,000

and \$225,000,000. Acceptances have shown an upward trend beginning with June, 1922, and recently have exceeded the Government security holdings. Thus, during 1922 and the first quarter of 1923 fluctuations in the volume of discounts and in the holdings of open-market purchases have offset each other and consequently have not resulted in corresponding changes in the total volume of reserve bank credit in use.

The relation between open-market purchases and discounts has not held true for reserve banks considered individually. There have been large purchases of Government securities by reserve banks in the interior without a corresponding decline in the discounts for their member banks. But the fact that for the 12 banks combined earning assets have remained comparatively constant indicates that a corresponding liquidation has taken place at other reserve banks.

A recognition of the desirability of coordinating more closely the open-market operations of the several reserve banks led to a discussion of open-market policy at the recent conference of the Federal Reserve Board with the governors of the reserve banks. The Federal Reserve Board's position in the matter is indicated by the adoption of the following principle with respect to open-market investment operations of the Federal Reserve Banks:

"That the time, manner, character, and volume of open-market investments purchased by Federal Reserve Banks be governed with primary regard to the accommodation of commerce and business and to the effect of such purchases or sales on the general credit situation."

By providing that open-market investment operations are to be governed "with primary regard to the accommodation of commerce and business," the principle rests upon the same general considerations as those provided in the Federal Reserve Act for the determination of discount rates. Since in open-market operations the initiative can be taken by the reserve banks rather than by member banks, these operations may be used as a gauge of the degree of adjustment between the requirements for reserve-bank credit and the volume of it in actual use. The sale of an investment by a reserve bank is a means of testing the demand for credit by placing the initiative for and the cost of such credit directly upon borrowing member banks.

ADMINISTRATION OF CREDIT. To what extent the member banks will be able to finance a further growth of business without additional accommodation from the reserve banks depends mainly upon the size of gold imports in the immediate future and the further possibilities of shifting from investments and loans on securities to loans for commercial and industrial purposes. Gold imports have recently been small, the net imports for February being \$7,000,000 and for March, \$5,500,000, compared with a monthly average of \$20,000,000 for 1922 and of \$55,000,000 in 1921. If the gold movement continues at the present reduced scale, the imported gold will not be sufficient to form a basis for any considerable increase in credit extension by member banks and also to meet a growth in the demand for currency. Furthermore, while member banks since the opening of the year have been able in part to increase their loans for commercial purposes

by the use of funds withdrawn from investments and from loans on securities, the extent of such transfer is limited by the fact that the sale of securities in excess of current savings indirectly leads to a demand for bank credit. Since the opening of the year the monthly rate of growth in commercial loans at member banks in leading cities has been nearly 2 per cent. A continuance of this credit trend must soon result in increased borrowings by member banks at the reserve banks.

The relation between the expansion of bank credit and the expansion of business, as well as the responsibility of the banking community for the economic use of credit, is clearly set forth in a recent report of a committee on unemployment and business cycles, appointed by Secretary Herbert Hoover, as chairman of the President's Conference on Unemployment held in September, 1921. The report states: "Expansion of bank credit is a necessary condition of expansion of business operations. *** But an overexpansion of credit may so increase the purchasing power of business men that it will merely result in enabling them to bid against one another for limited supplies of goods and materials so as to force prices above what consumers are willing and able to pay. Bank credit often expands so rapidly that it lifts the buying or investment power of business men out of line with the general buying power of the community. Because of their strategic position the banks have an unusual duty and an exceptional opportunity to give sound information and counsel to business men. *** While the relationship between the volume of credit

X-3706

and the volume of business and the movement of prices is not always simple to interpret, it appears to be sufficiently close to make it a matter of first importance that the volume and the flow of credit should at all times be tested by the contribution which additions to the volume of credit make to the total economic production. Additions to credit which can not be economically validated by a commensurate effect in actual production are speculative, and as such should be subjected to control, so that business and industry can be maintained in a healthy state".

The present lending capacity of the country's banking system, in view of the great growth of the reserves at the reserve banks, is now far in excess of the credit needs of the country's productive capacity. In such a situation it is the available supplies of labor and equipment and not the potential supply of credit that in the end must fix the limit which may be attained by aggregate national production. As these limits are approached credit policy must be increasingly influenced by careful consideration of the continued effectiveness of further additions to the total volume of credit in contributing to increased productivity.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-5707

Dear Sir:

In compliance with your recent request,
there is enclosed a copy of the Ninth Annual Re-
port of the Federal Reserve Board, covering
operations during the calendar year 1922.

Very truly yours,

Walter L. Eddy,
Assistant Secretary.

(Enclosure)

FEDERAL RESERVE BOARD

WASHINGTON

818

X-3708

May 2, 1923.

SUBJECT: Duplication of Contracts for Building
Materials.

Dear Sir:

Honorable Herbert Hoover, Secretary of Commerce,
has transmitted to the Federal Reserve Board a letter addressed to him under date of April 9th by certain cement manufacturers. A copy of the letter referred to is attached and is transmitted to you with the thought that the contents thereof should be communicated to your member banks as indicating a point at which the banks can be of distinct service.

By order of the Federal Reserve Board:

Wm. W. Hoxton,
Secretary.

(Enclosure)

To Governors of Federal Reserve Banks

(C O P Y)

819
X-3708a

New York, April 9, 1923

Hon. Herbert Hoover,
Secretary of Commerce,
Washington, D. C.

Dear Sir:

In the desire to provide the cement necessary to meet the requirements of this year's unprecedented demand, we call to your attention a condition of uncertainty in the industry due to heavily over-estimated or duplicated contracts for future delivery. If some means of relief can be made effective, the amount of cement available for construction purposes will be materially increased.

In order that an architect, a contractor or an engineer, may be able to know the exact cost of the cement required for a particular enterprise, - it is a trade practice to enter into a contract technically known as a "specific job contract", under the terms of which, the manufacturer agrees to deliver the cement required during the entire construction period of the project at an agreed price. This practice involves the manufacturer in a hazard as to manufacturing cost, because during the life of the contract, the factors entering into cost, may materially advance. The terms of these contracts confine deliveries to the requirements of the job and are so made in order to minimize speculation in cement to the detriment of the public.

It is a common practice for purchasers - either through excessive caution or desire to speculate at the manufacturer's expense - to make padded contracts naming amounts much in excess of the requirements of the job and even to place duplicate contracts for the requirements of the same job with several different manufacturers. This is the serious problem. It introduces an element of uncertainty into the manufacturer's knowledge of his exact position. Basing his judgment on specific job contracts booked, he figures the amount of his production which is still available for sale. But if the contract for cement has been placed with several companies, only one may be called upon for delivery which means that the other companies have withdrawn from the market the amount of cement for that job, which, if the duplication of contract had not occurred, would be available for sale.

In the year 1920, an investigation was conducted for the purpose of determining so far as possible, the average amount of cement over-contracted for on specific jobs. Capable engineers were employed to make the estimates. The investigation showed that 40% of the cement so contracted for, was not required for the jobs.

Demand for building materials this year has aggravated the conditions herewith described, and there is no doubt of an outstanding duplication or padding of contracts running into many millions of barrels that will not be called for delivery, which are now necessarily withheld from the market because of these fictitious contracts. If

Hon. Herbert Hoover,
Washington, D. C.

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X-3708a

it was possible to eliminate them, this additional amount of cement would be available for sale, and would be a material influence in making the cement market easier.

Another factor of importance is the peak load condition which occurs during the months when outdoor construction is most active and the demand for cement heaviest. If consumers would realize that spreading their purchases over the months of normally low demand not only would assure an ample supply but also better delivery, it would be a great help to all concerned. Otherwise the manufacturers are called upon to deliver in the peak months of July, August, September and October more cement than is currently produced or can be currently delivered.

Realizing that this year would require cement exceeding in amount that of any previous year, cement manufacturers have increased their output beyond that of any in their history, notwithstanding the fact that last year production and shipments exceeded all previous records. For the months of January and February, 1923, the output was 16,789,000 barrels against 8,569,000 for the same months of the previous year, an increase of 8,220,000 barrels, or 95%. At the same time, stocks on hand increased, 2,122,000 barrels having been added in February. Stocks at the end of that month were 14,142,000 barrels. Also stocks of clinker at mills increased over 500,000 barrels.

Conservative estimates indicate that production this year may reach 120,000,000 or 125,000,000 barrels. However, the estimated capacity of the mills of the country, leaves a large margin of excess, and there is no valid reason for assuming that there will be an actual shortage of cement in 1923 if transportation facilities permit of prompt deliveries.

The peak price for cement was reached in 1920 when the average U. S. price at the mills for the entire year was \$2.02. (Figures from U. S. Geological Survey.) In 1921 the price declined to \$1.89, and for the year 1922, there was a still further decline in the average price for all mills of the United States, to \$1.76, or a total decline of 26¢ per barrel.

In presenting this situation, we are mindful of your great interest in aiding to prevent a cessation of construction and in bringing about a realization on the part of all of those engaged in construction work - whether public or private - that wasteful or selfish methods must be abandoned if the building industry expects to carry to completion all contemplated projects.

It is our feeling that this brief explanation of our situation and an appreciation by you of its seriousness will suggest the advisability of an appeal to buyers of cement to avoid duplicating

Hon. Herbert Hoover,
Washington, D. C.

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X-3708a

contracts and to limit their estimates to their actual needs, and to consumers generally, to spread their buying over the months of light demand.

We believe that such action would have real weight among those concerned and be of effective benefit to the public generally.

We remain, dear sir,

Very truly yours,

Atlas Portland Cement Co.,
By Lowell R. Burch, Vice Pres.

Dexter Portland Cement Co.,
By Joseph Brobston, Vice Pres.

Hercules Cement Corporation,
By Morris Kind, Pres.

Lehigh Portland Cement Co.,
By E. M. Young, Vice Pres.

Penn Allen Cement Co.,
By W. E. Erdell, Pres.

Alpha Portland Cement Co.,
By G. S. Brown, Pres.

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FEDERAL RESERVE BOARD
STATEMENT FOR THE PRESS.

X-3710

FOR IMMEDIATE
RELEASE.

The Federal Reserve Board today sent the following telegram to the Chairman of the Board of Directors of the Federal Reserve Bank, Atlanta.

"Board has received a number of telegrams asking postponement of the hearing on proposed Cuban agency scheduled for Monday next. You are advised that the Board sees no occasion for postponement of hearing. This hearing was called by the Board at the request of certain commercial banks for the purpose of getting further and fuller information with respect to certain questions in connection with proposed agency, more particularly for the purpose of determining whether such an agency might result in unfair competition with member banks dealing in Cuban exchange and, in the event that an agency should be authorized, what should be the precise scope of its operations in purchasing, collecting and selling exchange. Several telegrams have been received by me from your district, from which it appears the signers are suffering from a misapprehension as to the purpose of the hearing and from the fear that your bank may be deprived of the benefits which have accrued to it from supplying a large volume of Federal Reserve notes for circulation in Cuba. I can assure you that whatever is done the Board will recognize the equity your bank now has in the situation because of the substantial volume of notes it has supplied to Cuba. This is also recognized by Governor Harding in his amended plan for an agency and full provision will be made in case any agency is authorized to insure that your bank shall be given facilities the same as those existing for the redemption of its unfit notes in Cuba and the placing into circulation of new and fit notes, as may be required. I trust that this information will allay any misgivings as to the purpose and outcome of the hearing to be held next Monday."

May 4, 1923.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-3711
May 5, 1923.

Dear Sir:

There has been forwarded to you
today under separate cover a bound copy of
the Annual Report of the Federal Reserve
Board covering operations during the calendar
year 1922.

Very truly yours,

Chief Clerk.

To Governors and F. R. Agents of F. R. Banks and
Managers of Branch Banks.

TREASURY DEPARTMENT
OFFICE OF THE SECRETARY
WASHINGTON

May 7, 1923

The Governor
Federal Reserve Board

Sir:

You are hereby advised that the Department has referred to the General Accounting Office, Civil Division, for settlement, the account of the Bureau of Engraving and Printing for preparing Federal Reserve notes during the period April 1 to April 30, 1923, amounting to \$155,747.38, as follows:

Federal Reserve Notes, 1914				
	\$5	\$10	\$20	\$50
				Total
Boston.....	200,000	250,000	150,000	---
New York	650,000	375,000	105,000	13,000
Philadelphia.....	150,000	150,000	125,000	---
Cleveland.....	150,000	75,000	125,000	---
Atlanta.....	100,000	113,000	25,000	---
St. Louis.....	---	---	---	12,000
Minneapolis.....	50,000	25,000	38,000	---
Dallas.....	25,000	---	8,000	---
San Francisco.....	100,000	50,000	25,000	---
	1,425,000	1,038,000	601,000	25,000
				3,089,000

3,089,000 sheets at \$.50.42 per M\$155,747.38

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

	Compen- sation	Plate Printing	Materials	Inc. Com- pensation	Total
<u>Sheets</u>					
Boston.....	600,000	\$10,128.00	\$9,570.00	\$7,626.00	\$2,928.00
New York.....	1,143,000	19,293.84	18,230.85	14,527.53	5,577.84
Philadel.....	425,000	7,174.00	6,778.75	5,401.75	2,074.00
Cleveland.....	350,000	5,908.00	5,582.50	4,448.50	1,708.00
Atlanta....	238,000	4,017.44	3,796.10	3,024.98	1,161.44
St. Louis.....	12,000	202.56	191.40	152.52	58.56
Minneapolis.....	113,000	1,907.44	1,802.35	1,436.23	551.44
Dallas.....	33,000	557.04	526.35	419.43	161.04
San. Fran.....	175,000	2,954.00	2,791.25	2,224.25	854.00
	3,089,000	\$52,142.32	\$49,269.55	\$39,261.19	\$15,074.32
					\$155,747.38

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,

Deputy Commissioner.

FEDERAL RESERVE BOARD

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WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-3714
May 10, 1923.

SUBJECT: Committee on Economy and Efficiency
Currency and Coin Functions - Questionnaire.

Dear Sir:

In connection with the study and comparison of the methods of the Currency and Coin Functions in the several banks by the Board's Committee on Economy and Efficiency it is considered advisable to secure certain additional information, and you are therefore requested to submit for your bank the answers to the following questions:

1. How do you determine the proportion of new money paid out? Explain whether it is a proportion of the amount ordered or whether you have some other method of determining; also, to what extent the proportion varies throughout the year.
2. To what extent do you sort fit bills of your own issue received from other Federal Reserve Banks?
3. Do you count fit money when received from your Agent? If so, to what extent?
4. Do you have a merit plan or some other method of rating the efficiency of money counters for the purpose of determining compensation? If so, explain plan briefly, particularly with respect to its effect on compensation.

It is also desired to make a comparison of the cost of the principal supplies used in connection with the operation of this function. There is enclosed herewith a schedule on which are listed the items concerning which information is desired. The figures to be reported should include supplies used at all branches as well as the main bank.

Will you kindly forward all of the information called for in this letter together with the samples requested to Mr. L. R. Rounds, Secretary, Federal Reserve Bank of New York, N. Y.

Very truly yours,

To Bank Representative,
Currency and Coin Function.

A.C. Miller, Chairman,
Board's Committee on Economy
and Efficiency.

Copy to all Governors.

" " Procedure Committee Chairmen,

REPORT ON COST OF SUPPLIES
CURRENCY AND COIN FUNCTION
FEDERAL RESERVE BANK OF

(Where more than one size or kind is used report on separate line for each)

ARTICLE	Size	Quantity used per annum	Price	Unit	Approx. Annual Cost	Quantity ordered at one time.
Currency Bags						
Coin Bags						
Bill Straps						
Coin Bag Tags						
Shipping Tags						
Lead Seals						
Rubber Bands						

Submit one sample of each article; in case of bags sample of one size is sufficient.

If space provided above for any article is not sufficient, recopy form using as many sheets as necessary, listing items in same order as above.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-3715

May 12, 1923.

SUBJECT: Functional Expense Report,
First Quarter 1923.

Dear Sir:

There is being sent to your bank today under separate cover a summary of the functional expense reports for the first quarter of 1923. Your particular attention is invited to figures shown on pages 25 and 26 of this report, which relate to the currency and coin function.

You will note that under "Currency Receiving and Sorting" unit there is a variation in the unit cost ranging from .071 to .124 in the figures reported for the main banks, and from .044 to .32 in the case of the branches. A comparison of the methods of all banks for the handling of this work does not indicate any variations in the practice which would account for such a wide spread in the cost. It seems probable, therefore, that the methods used by the banks are not uniform, either with respect to the figures reported for "Number of bills received and counted", or in making the allocation of expenses for this unit.

The figures reported for "Coin" result in an even greater variation, the unit cost ranging from .01 to .059 for the main banks from .015 to .562 for the branches.

The recent comparison of methods indicates that all banks are not reporting the volume figures on the same basis; there is, therefore, enclosed a memorandum which, it is hoped, will make clear exactly how the volume figures to be reported for this function should be determined. It is requested that all figures, hereafter reported, beginning with the month of April, be arrived at by this method.

It also seems probable that some of the banks have not been particular about making a distribution of the salary cost. In cases where help is borrowed from other departments to assist in the counting of money, or when money counters are loaned for other work an allocation of expense should be made. If this is not done the expense figures reported will be of little value.

Will you kindly advise whether or not the volume figures already reported by your bank for the first quarter of 1923 conform to the enclosed memorandum, and also whether or not the expense figures as reported are substantially correct. In case either of these figures is incorrect, will you, if figures are available, submit corrected figures for this particular function and period. Please reply to Mr. L. R. Rounds, Secretary, care Federal Reserve Bank of New York.

Very truly yours,

A. C. Miller, Chairman,
Board's Committee on Economy
and Efficiency.

(Enclosure)

TO Bank Representative,
Currency & Coin Function.

Copy to all Governors.
" " Procedure Committee Chairmen.

METHOD TO BE USED IN REPORTING VOLUME OF CURRENCY AND COIN
HANDLED IN CONNECTION WITH FORM E.

CURRENCY

Number of Pieces Actually Received and Counted.

The figure reported under this heading should be the number of bills handled and should include all bills received in the bank from every source, which are counted, each bill to appear in the count but once. This would include the following:

- (a) Deposits received over the counter.
- (b) Shipments received from member and non-member banks.
- (c) Shipments of fit notes from other Reserve banks.

It should not include:

- (a) Shipments of new money from Washington.
- (e) Money received from the Agent, either new or fit.
- (f) Money received from branches or head office.

The figure reported, as above, should correspond with the number of bills counted and sorted within the month, and should not include any bills received and stored for subsequent handling. Any such bills should be taken up in the later report for the month in which they are actually sorted and counted.

If, in making up the above figures, it is the practice of your bank to base this count on the aggregate of the whole number of pieces of currency handled in your currency sorting department, it will then probably be necessary for you to subtract from such aggregate the number of pieces which have been sorted or handled a second time. This would include such items as the following:

- (g) Notes of other Reserve banks, both fit and unfit, not put up on original sort in proper form for shipment.
- (h) Odds which have been included in one day's aggregate and carried overnight to be included in a subsequent aggregate.

It is important that the figure reported shall not include a duplicate count of any bills regardless of the reason for the recount.

In addition to and supplementing the above figure, you are also requested to report as a separate item the number of bills rehandled, that is, not put up on original sort in proper form for final disposition. This might include classes "g" and "h" above referred to. It should not include the recount or verification count of any bills. This

figure may be reported against the caption "Number of pieces rehandled" which should be written in on the blank line under "Currency" on page 35 of Form E.

COIN

Number of Coins Received and Counted.

In determining the number to be reported under this heading, the same principle should be followed as in determining the count of bills. Coin handled a second time in connection with wrapping or re-bagging to smaller units should not be included in this count. Coin received from the Mint or other Federal Reserve Banks or Branches may be included in this count once, provided it is actually counted, but not otherwise.

FEDERAL RESERVE BOARD

WASHINGTON

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ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-3716
May 10, 1923.

SUBJECT: Expense Main Line, Leased Wire System, April, 1923.

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-3716a and X-3716b, covering in detail operations of the main line, Leased Wire System, during the month of April, 1923.

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)

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS
TRANSMITTED OVER MAIN LINE OF THE FEDERAL RESERVE
LEASED WIRE SYSTEM FOR THE MONTH OF APRIL, 1923.

From	Bank Business	Percent of Total Bank Business(*)	Treasury Dept. Business	War Finance Corp. Business	Total
Boston	32,761	2.98	6,945	-	39,706
New York	219,611	20.00	16,679	-	236,290
Philadelphia	58,713	5.35	7,676	-	66,389
Cleveland	83,814	7.63	8,784	-	92,598
Richmond	63,397	5.77	6,731	-	70,128
Atlanta	72,116	6.57	9,240	142	81,498
Chicago	138,939	12.65	12,277	42	151,258
St. Louis	88,874	8.09	9,819	-	98,693
Minneapolis	40,535	3.69	6,234	110	46,879
Kansas City	91,524	8.33	8,265	-	99,789
Dallas	64,799	5.90	5,267	-	70,066
San Francisco	143,198	13.04	18,353	-	161,551
Total					
F. R. Banks	1,098,281		116,270	294	1,214,845
Washington	<u>287,787</u>	<u>100.00</u>	<u>86,169</u>	<u>95</u>	<u>374,051</u>
Grand Total	1,386,068		202,439	389	1,588,896
Percent of Total	87.24%		12.74%	.02%	
Bank Business	1,386,068 words	or 87.26%			
Treasury	<u>202,439</u> "	" 12.74%			
TOTAL	1,588,507	100.00%			

(*) These percentages used in calculating the
pro rata share of leased wire expenses as
shown on the accompanying statement (X-3716b)

FEDERAL RESERVE BOARD,
WASHINGTON, D. C.,
MAY 10, 1923.

REPORT OF EXPENSE
MAIN LINE
FEDERAL RESERVE LEASED WIRE SYSTEM APRIL, 1923.

X-3716b

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	\$5.00	\$ -	\$ 255.00	\$ 678.86	\$ 255.00	\$ 423.86
New York	1,309.14	-	-	1,309.14	4,556.10	1,309.14	3,246.96
Philadelphia	225.00	-	-	225.00	1,218.76	225.00	993.76
Cleveland	366.00	-	-	366.00	1,738.15	366.00	1,372.15
Richmond	315.00	-	-	315.00	1,314.43	315.00	999.43
Atlanta	240.00	-	-	240.00	1,496.68	240.00	1,256.68
Chicago	(#)4,735.16	2.00	-	4,737.16	2,881.73	4,737.16	(*)1,855.43
St. Louis	223.85	.75	-	224.60	1,842.94	224.60	1,618.34
Minneapolis	275.00	-	-	275.00	840.60	275.00	565.60
Kansas City	336.64	-	-	336.64	1,897.61	336.64	1,560.97
Dallas	251.00	-	-	251.00	1,344.05	251.00	1,093.05
San Francisco	395.00	-	-	395.00	2,970.58	395.00	2,575.58
Fed. Res. Board			16,956.51	16,956.51			
TOTAL	\$8,921.79	\$7.75	\$16,956.51	\$25,886.05 (a)3,105.56 \$22,780.49	\$22,780.49	\$8,929.54	\$15,706.38 (&)1,855.43 \$13,850.95

(#) Includes salaries of Washington Operators.

(&) Amount reimbursable to Chicago.

(*) Credit.

(a) Received \$5.56 from War Finance Corp. and \$3,100.00 from Treasury Dept. covering business for month of April, 1923.

FEDERAL RESERVE BOARD,
WASHINGTON, D. C.,
MAY 10, 1923.

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

STATEMENT FOR THE PRESS

X-3713

For immediate release.

A regular statutory meeting of the Federal Advisory Council was held on May 21st and 22nd, at which general business conditions of the country were reviewed and reports from all quarters were satisfactory and indicated that business is progressing conservatively and on a sound basis.

The Advisory Council discussed the matter of discount rates and was of the opinion that there appeared to be no reason why Federal Reserve Bank rates should be increased at this time.

May 22, 1923.

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

S T A T E M E N T F O R T H E P R E S S

X-3720

For release in Morning Papers,
Monday, May 28, 1923.

The following is a summary of general business and financial conditions throughout the several Federal Reserve Districts, based upon statistics for the months of April and May, as contained in the forthcoming issue of the Federal Reserve Bulletin.

Production and trade continued in large volume during April. There was some slackening of business activity in the latter part of the month and during the early weeks of May, partly on account of seasonal influences.

PRODUCTION:

The Federal Reserve Board's index of production in basic industries declined about 1 per cent in April. Production of lumber, anthracite coal, and mill consumption of cotton decreased, while there were increases in the output of pig iron and petroleum. There was a further increase in the value of building contracts awarded in April but the value of building permits issued in 168 cities was 16 per cent less than the record figures of March. The decrease was due chiefly to a curtailment of new projects in New York, as the aggregate value of permits at other reporting cities showed an increase of 12 per cent. Car loadings continued to be much larger than in the corresponding weeks of previous years, owing chiefly to heavy shipments of

manufactured goods. In spite of present heavy traffic, the shortage of freight cars has largely disappeared.

Employment at industrial establishments continued to increase during April, although plants in eastern states reported some reductions in their forces and there was an increase in those states in the number of concerns working part time. Increases in wage rates were announced by many concerns, and average weekly earnings of factory workers increased about 1 per cent.

TRADE:

Wholesale and retail trade were somewhat smaller in April than in March, which is the customary trend at this season of the year. Both were well above the level of a year ago. Decreased sales by department stores in April as compared with March were in part due to the fact that Easter purchases were made in March and to unseasonable cold weather in many localities. Mail order sales during April were 10 per cent less than in March, but 32 per cent larger than a year ago.

WHOLESALE PRICES:

Prices of certain basic commodities declined during April and the early part of May. The general index of wholesale prices of the Bureau of Labor Statistics, it is to be noted, showed no change between March and April. Prices of building materials, metals, cloths, and clothing were higher in April than in March, these advances being offset by declines in prices of fuel, and of farm products, especially live stock and dairy products.

BANK CREDIT:

Since the middle of April the volume of bank credit in use has remained relatively constant. Between April 11 and May 9 loans of member banks in leading cities showed an increase of nearly \$100,000,000, a large part of which occurred in the Chicago district. These increases in loans were accompanied by a somewhat larger liquidation of investments, which was general throughout the country. Partly through the sale of these investments reporting member banks have met the demand for additional loans without obtaining increased accommodation at the reserve banks. The volume of Federal Reserve Bank credit has, consequently, continued to remain fairly steady at the level which has prevailed since the middle of January, and the volume of Federal reserve notes in circulation has remained practically unchanged.

Somewhat easier money conditions are indicated by slightly lower rates on commercial paper and lower yields on outstanding Treasury certificates. The Treasury offering of approximately \$400,000,000 $4\frac{3}{4}$ per cent notes, maturing March, 1927, was heavily oversubscribed, and the issue was subsequently quoted at a slight premium in the open market.

REMARKS OF D. R. CRISSINGER, GOVERNOR, FEDERAL RESERVE
BOARD, BEFORE THE DISTRICT OF COLUMBIA BANKERS' ASSO-
CIATION, MAY 24, 1923.

- - - - -

In the past two years it has been my fortune to be the recipient of so much courtesy and consideration, of helpful cooperation and generous assistance from the banking community of Washington, that it is not altogether easy to formulate on this occasion a fitting expression of my appreciation for these added testimonies of support and loyalty which come to me this evening. I feel that my debt to the banking fraternity of the District is one of those obligations which have no date of maturity, but which go on accumulating at compounded interest. Fortunately, having ceased to be Comptroller, I am not under the professional obligation to take so harsh a view of those irregularities which are involved in carrying overdue items for an unreasonable time. If the good will account which the bankers of Washington have been carrying for me should be pressed for instant liquidation, I am afraid, that, with all the good intentions and amiable sentiments in the world, I should have to take the bankruptcy route. So I hope you will go on letting me make an occasional curtail as I am trying to do tonight, just as a sort of acknowledgment of the obligation and assurance that at least I don't intend to permit it to be outlawed.

When your President extended the invitation to me to come here this evening he conveyed the incidental assurance that I would not be expected to make a speech. Inasmuch as I subsequently discovered that I had been put down for an address on a highly formidable subject, I wish him to know here and now that he didn't fool me for a moment. I knew all the time that I would have to make a speech, and the best testimony I can give of my appre-

ciation of the honor you have done me, consists in the fact that I am here, even at the price of having to make a speech. But I can't refrain from saying that sometimes I have wondered if we wouldn't get on faster with taking the government out of business, and putting business into government, if you men of affairs could be induced to readjust the social amenities so that occasionally a well-intentioned citizen might hold a public office without incurring the suspicion that he really does it because it is his only chance to get a full-Nelson hold on an occasional audience and compel it to listen, whether it wants to do so or not.

I find myself set down for some observations about the desirability of the fullest possible exchange of credit information. That means of course the fullest measure of cooperation to assure the soundness of the business and banking structure. Now, we bankers have long taken pride in the claim that ours is the greatest cooperative, the most highly socialized business in the world. The man who first conceived the idea of mobilizing the credits, the liquid resources and working assets of a community, through the functioning of a bank, took the longest step toward developing a working philosophy and procedure in socialism, that has ever been taken. All the philosophies of Karl Marx and Proudhon are as a drop in the bucket compared with the tremendous social fact that was accomplished when the first bank of deposit, issue and discount, was set up. There is a fact; a big, fundamental fact to which I wish it were possible to divert some of the attention of those pale pink radicals who nowadays propose to accomplish an economic revolution in the interest of the public, by such mild and moderate proposals as hanging the bankers and sending the "money trust" to perdition,

A proper exchange of credit information, it has always seemed to me, is a logical and inevitable development in line with that progressive socialization which has been going on in the realm of business and finance from the time when the first bank of deposit and discount was set up. The whole structure necessarily rests upon good faith, upon mutual confidence, and upon certain rules derived from business experience which justifies us in expecting that most debtors will pay, and that the great majority of depositors will not all want to withdraw their accounts at the same time. It is reasonably safe to assume that there are not many among you experienced gentlemen who are in this room, who seriously believe in the guarantee of bank deposits. Yet there is a large class of people in the community who are convinced that such a system could be made to work, and that it ought to be and would be but for the unreasoning hostility of the bankers. Now, it seems to me that the nearest possible and practical approach to an effective and safe guarantee of bank deposits, would be found in a system that would come nearest to eliminating the danger of bad loans. If all borrowers were good, all the assets of the banks would be good, all the depositors would be fully secured, bank failures wouldn't happen, the curve of inflation and deflation would be very much flattened out, and in short, the life of the business man and the banker would become one long, sweet dream.

Quite obviously, the way to accomplish all this is, so nearly as possible, to insure that the banker will not make unfortunate loans. If that could be effected the dishonest man would get no loans, the reckless man would be compelled to have a care about his affairs, the speculator would be kept measurably under control. On the other side of the sheet,

this conservation of credit resources would make it possible for the honest man, the man of character, and probity, and industry, and sincere good intentions, to get the fair show and fair share to which he is entitled. There will always be enough of competition among banks, enough variation in the psychology, the points of view, the habits of mind, of individual bankers, to prevent the creation of anything like a trust in moneys and credits. The proper organization and interchange of credit information is, in short, simply one step in the evolution of the fundamental idea of the bank, toward a more nearly perfect establishment in its social and economic relations to the community.

The creation of clearing houses and their development has marked a long progress toward the realization of this ideal in banking. The clearing house examiner system, which is now established in a considerable number of cities, was a natural development, pointing in the direction of that mobilization of credit information which, once perfected and in practical operation, would be wellnigh the final guarantee of banking security and therefore of business stability.

It is inevitable that, just as there will always be some people who insist upon such false remedies as the guarantee of deposits, so there will also be people to object most strenuously to the application of some good and efficient measures of control. There are many among the older bankers who can yet remember when the right of the state to enter, examine, and publish the reports of condition of banks, was bitterly contested. But who, in the interest of either the borrower or the lender, the bank or its customer, would today propose that examination and pub-

lished reports be done away with?

In line with the growth of these instrumentalities, has been the development of credit associations. The credit man has come into his own. He is recognized as one of the most important factors in every business. Indeed, the credit man is the first line of safety, behind which all accommodations can reasonably be marshalled with safety. In his local, regional and national associations, he has contributed enormously to the establishment of reliable methods of business and of credit extension. To articulate his work with such a fabric of credit information as has been suggested, would further strengthen the entire business and banking structure.

We must always keep in mind, and in the discussion of such topics as this we can not too persistently remind the public, that the banker does his business chiefly with other people's money. Whatever is good for the banker, as a measure of assurance and security and soundness, is good for the public which deposits with him. It is good also for that overwhelming preponderance of the public which, whether borrower or depositor or both, is actuated by good, sound, honest intentions. It is altogether to the interest of the banks that business shall be kept sound and safe. It is equally to the interest of business, legitimate and deserving business, that the banks shall be sound, reliable, and shall enjoy the confidence of the community. These things can only be possible if the banker possesses the fullest and most reliable information concerning the status of his customers. In the long run, the customers will be the greatest beneficiary, for such a system as this, applied in moderation

and through wise cooperations, would go very far to insure the even tenor and stability of all business.

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FEDERAL RESERVE BOARD

WASHINGTON

May 26, 1923.

X-3722

Subject: Fiscal Agency Expenses. - Reimbursable.

My dear Governor:

I am handing you a copy of a letter from Hon. S. P. Gilbert, Jr., Under Secretary of the Treasury, which is self-explanatory. You will note, however, that he is requesting that each of the Federal Reserve Banks submit as soon as possible, but not later than June 30th, an estimate of reimbursable fiscal agency expenses that will be incurred during the fiscal year beginning July 1, 1923 and ending June 30, 1924.

You will also note that the Treasury proposes to reimburse Federal Reserve Banks for actual and necessary expenses incurred in connection with the issue of public debt securities for the fiscal year ending June 30, 1924.

Kindly give this your prompt attention.

Very truly yours,

Governor.

(Enclosure)

TO GOVERNORS OF ALL F. R. BANKS.

COPY

TREASURY DEPARTMENT

X-3722a

WASHINGTON

May 25, 1923.

My dear Governor:

On July 5, 1922, I advised the Board with respect to fiscal agency expenses that, at least until the close of the calendar year 1922, the Department would proceed on the basis followed during the fiscal year ended June 30, 1922, and that upon the submission of claims therefor Federal Reserve Banks would be reimbursed necessary and actual expenses incurred in connection with new issues of public debt securities. Receipt of my letter of July 5th was acknowledged by the Governor of the Federal Reserve Board on July 6, 1922, with advice that a copy of my letter was being sent each Federal Reserve Bank.

This is to advise you that during the fiscal year beginning July 1, 1923 and ending June 30, 1924, the same basis will be continued and the principle of reimbursing Federal Reserve Banks for actual necessary expenses incurred in connection with new issues of public debt securities will be observed as heretofore.

Your courtesy will be appreciated if you will request each Federal Reserve Bank to submit as soon as possible, and not later than June 30th, an estimate of reimbursable fiscal agency expenses that will be incurred during the fiscal year beginning July 1, 1923 and ending June 30, 1924. This information is necessary for inclusion in the budget figures. The expenses in this connection should show a very important reduction for the year in question. The Department

contemplates no large refunding or other extraordinary operations.
So far as can be foreseen, new issues will consist of periodic issues
of Treasury certificates, and possibly Treasury notes, and con-
tinuing issues of Treasury savings certificates.

Very truly yours,

(Signed) S. P. Gilbert, Jr.

Under Secretary.

Honorable D. R. Crissinger,

Governor, Federal Reserve Board.

COPY

X-3723

FEDERAL RESERVE BANK
OF SAN FRANCISCO

May 21, 1923.

In re: Promissory Notes Secured by
Mortgages - California -
Recent Legislation.

Walter Wyatt, Esq.,
General Counsel
Federal Reserve Board,
Washington, D. C.

Dear Mr. Wyatt:

Reference is made to "Memorandum of Authorities in re Negotiability of Promissory Notes secured by Mortgages" prepared by me under date January 20, 1922. Copies of this memorandum were forwarded by this bank to the Federal Reserve Board. I understand that mimeograph copies were prepared by the Board and distributed to all of the Federal Reserve Banks.

In the memorandum referred to (pages 12 - 19) attention is called to the fact that the courts of California had adopted the extreme position of holding that when a note is secured by a contemporaneous mortgage, whether on real or personal property, both instruments having been executed as part of one transaction and having come into the possession of one with knowledge of the mortgage security, such promissory note, whether negotiable in form or not, is non-negotiable in fact. This rule has been adhered to in California in relation to promissory notes since the early case of Meyer vs. Weber, 133 Cal. 681.

Realizing the serious disadvantages arising by reason of this situation, I was requested by the officers of this bank to attempt to obtain some remedial legislation at the session of the California Legislature just adjourned. After conferring with the legislative committee of the California Bankers Association, and with the support of that association, I caused to be introduced at the recent session of our Legislature a bill amending section 3265 of the Civil Code of this State. The amendment is underscored on the copy of the bill transmitted herewith. I am glad to say that this bill was passed by both houses of the Legislature and was signed by the Governor on May 3, 1923. It becomes effective August 18, 1923.

It of course remains to be seen what effect the courts of this State will give to the added provision. Section 726, C. C. P. which provides that only one action may be brought to enforce an indebtedness secured by mortgage and that such action must be by way of foreclosure, was not changed. The holder of a promissory note secured by a mortgage cannot, in this State, disregard the mortgage security and bring action upon the note as though it were unsecured unless the mortgaged property has, without fault on the part of the mortgagee, become entirely valueless. It is possible, therefore, that the courts will hold that since the holder of the mortgage note must come into a court of equity and foreclose under the mortgage, he is bound by such terms of the mortgage as secure equities between himself and the mortgagor. In view of the clear intention of the Legislature, as expressed in the recently enacted statute, however, I do not see how this conclusion can reasonably be reached.

Not long ago, we had some correspondence with the Federal Reserve Bank of Boston relative to the refusal of that bank to purchase certain paper originating in California and secured by mortgages executed in this state on cattle. The Federal Reserve Bank of Boston stated that their reason for refusing to take the paper was that under the memorandum prepared by me and in their possession, it clearly appeared that such paper was non-negotiable and therefore ineligible. In order that the banks may be advised of this recent change in the California law, I suggest that copies of the bill be forwarded to the various Federal reserve banks with such comments as you may deem appropriate.

Yours very truly,

(Signed) Albert C. Agnew

Counsel.

COPY

X-3723-a

AMENDED IN ASSEMBLY MARCH 27, 1923.

ASSEMBLY BILL

NO. 288

INTRODUCED BY MR. SPENCE,

January 25, 1923.

Referred to Committee on Judiciary.

An act to (amend section three thousand two hundred sixty-five of the Civil Code, relating to negotiable instruments.)

The people of the State of California do enact as follows:

(Section 1. Section three thousand two hundred sixty-five of the Civil Code is hereby amended to read as follows:

3265. A negotiable promissory note within the meaning of this title is an unconditional promise in writing made by one person to another, signed by the maker, engaging to pay on demand, or at a fixed or determinable future time, a sum certain in money to order or to bearer but the negotiability of a promissory note otherwise negotiable in form, secured by a mortgage or deed of trust upon real or personal property shall not be affected or abridged by reason of a statement therein that it is so secured, nor by reason of the fact that said instrument is so secured nor by any conditions contained in the mortgage or deed of trust securing the same. Where a note is drawn to the maker's own order it is not complete until indorsed by him.)

Passed by both houses of the Assembly and signed by the Governor May 3, 1923. Effective August 18, 1923.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-3724

May 29, 1923.

SUBJECT: Functional Expenses,
First Quarter, 1923.

Dear Sir:

The Board's Committee on Economy and Efficiency has studied the comparative exhibit of functional expenses for the first quarter of 1923, copies of which were sent to your bank on May 12. This study indicates to the Committee, as it has no doubt also indicated to you, that the wide variations in expenses shown by this exhibit cannot be accounted for by differences in the actual costs of the several banks, nor by degrees of efficiency in performing the work. As an illustration, reference is made to the figures reported for the "Country Checks" unit which show a range in unit costs from .298 to .557. The banks at the two extremes in this particular unit are handling practically the same total volume of work, and it is at once apparent that such a variation cannot reflect the exact results obtained in the two banks.

In order to determine the cause of these variations and at the same time to secure information which it is hoped will result in bringing the unit costs within a closer range, the Committee has decided to bring to the particular attention of each bank a few of the instances where its figures are considerably higher than the average for the system, or in the case of expenses for which unit costs are not available, instances where the expense appears to be otherwise out of line. The items thus called to your attention are referred to on a separate sheet enclosed herewith.

The Committee realizes fully that because of differences in the organization of the banks and in the allocation of various operations within the bank, local conditions and other factors, it will not be possible to secure absolutely comparable figures as to the cost of the operation of each unit provided for in Schedule E. It does believe, nevertheless, that with the instructions which have been prepared for the preparation of this schedule, it should be possible for all banks to report figures substantially correct and that when such figures are received a comparison of the costs of the several banks will be of real value to the system.

You are asked, therefore, to carefully investigate the

items referred to with a view to determining the cause for the wide variation in the figures, and to advise the Committee fully, as promptly as possible, with reference thereto.

Very truly yours,

A. C. Miller, Chairman,
Committee on Economy and Efficiency.

(Enclosure)

TO ALL GOVERNORS, COPIES TO CHAIRMEN OF PROCEDURE COMMITTEES.

052

FEDERAL RESERVE BOARD
WASHINGTON

X-3726
May 29, 1923.

SUBJECT: Committee on Economy and Efficiency.

Dear Sir:

In pursuance of its plan of keeping the Reserve Banks in touch with the work of the Board's Committee on Economy and Efficiency, there has been forwarded to you as Chairman of the Board of Directors of your bank, each month, an exhibit showing in comparative form the costs of operating each function and expense unit of the several Federal Reserve Banks and Branches for the month. There have also been sent you from time to time letters informing you of the general progress of the Committee's work. This letter is being sent to inform you and the officers of your bank of recent developments and the present status of the Committee's work, also of certain changes it is desired to make in the compilation of the expense reports.

In a letter dated December 12, 1922, X-3582, there was outlined a plan for a study of the four major functions of the banks. Such a study has since been made of the following functions:

Currency and Coin
Transit and Collections
Accounting
Loans, Rediscounts and Investments.

During April the representatives of the banks met in twelve different groups, three for each of the four functions under review. At these meetings there was a discussion and comparison of the methods of the four banks in each group, following which the chairman of each group prepared a report setting forth in comparative form the methods of the banks, and wherever possible a comparison of the unit costs.

The group chairmen have since met with the Board's Committee for a study and discussion of the results accomplished from this survey. Much information has been collected which it is believed will be of value to the banks. The Board's Committee is of the opinion that better results will follow from the passing on to the banks of comments and suggestions respecting specific operations, than would result from an attempt to make a complete report of the entire survey, much of which report would be of comparatively little interest. This policy will, therefore, be pursued and as the study of the material now in hand progresses, the banks will be fully informed of anything which will be of interest to them. The group chairmen have reported that the bank representatives were practically

unanimous in stating that much benefit had already resulted from the study and comparison of methods, and from these reports it is apparent that nearly all of the banks have profited as a result of this interchange of information and ideas.

At the meeting of bank representatives held in Chicago on December 13, 1922, it was recommended that as soon as practicable, Form E would be discontinued as a monthly report. It has now been decided to take this step and the banks are, therefore, advised that this report need no longer be sent monthly to the Board's Committee on Economy and Efficiency, but that it should be submitted quarterly, the next report to be for the quarter ending June 30, 1923.

As a result of the recent survey it seems advisable to make a few changes in this report and in the detailed instructions relating to it. It is requested that these changes be reflected in the report for the full quarter ending June 30 next. These changes are as follows:

1. The "Receiving and Proving Checks" unit of the Check Collection Function included on page 18 of the report is to be eliminated. The survey indicates that the majority of the banks do not have their organizations divided in such a way as to make it possible to obtain accurate costs for this unit, and that the convenience of the majority will be better suited and more accurate figures obtained by including the cost of this operation as a part of the cost of handling the several classes of checks included in this function under their respective headings. You are, therefore, requested to cancel entirely the upper half of page B-39 in the manual of instructions for the distribution of expenses, which will result in the complete elimination of the "Receiving and Proving Checks" unit. The five operations formerly set up under the "Receiving and Proving Checks" unit, namely -

Receiving
Fixing liability date
Endorsing
Sorting (first sort)
Listing (proof of incoming cash letter)

or as many of them as are applicable, should then be added to each of the five other units making up the Check Collection Function, namely -

City checks (clearings)
City checks (other than clearings)
Government checks
Country checks
Return Items.

2. "Member Banks' Accounts" unit and "Reserve Deficiencies" unit appearing on page 22 of the report are to be combined, hereafter reporting the entire expense under the unit "Member Banks' Accounts". Similarly pages B-49 and B-50 of the manual of instructions for the distribution of expenses should be changed by adding to the operations listed under "Member Banks' Accounts" on page B-49, all operations now listed under "Reserve Deficiencies" on page B-50. This change is considered desirable for the reason that in most of the banks all or a considerable portion of the work formerly allocated to "Reserve Deficiencies" is performed by the same clerks who perform the operations allocated to "Member Banks' Accounts".
3. There is also to be a change in the measurement of the volume of work performed in "Recording Loans and Rediscounts" unit of the Loans, Rediscounts and Investments Function. To accomplish this result it is requested that there be added on page 33 of the report, to appear as the last item under "Recording Loans and Rediscounts" unit, the following -

Number of notes rebated.

It is then requested that the figure appearing as the total on the third line under this unit be the total of the following:

Number of notes rediscounted
 Number of collateral notes discounted
 Number of notes received as collateral to
 bills payable
 Number of notes received as additional
 collateral to general line
 Number of notes rebated.

In this way the total reported as "Volume" will include all notes actually handled. This change is made for the reason that there is very nearly as much work connected with notes rebated and notes received as collateral as in the case of notes actually discounted. A corresponding change should be made on page D-2 of the manual of instructions.

In the course of the recent survey it appeared that several of the bank representatives were unfamiliar with the functional expense exhibit now being prepared and distributed by the Board's Committee, and in some cases had had no previous opportunity of studying the comparisons

of the expense of the several banks for their particular functions. The Board's Committee is now furnishing to each bank two copies of this exhibit and will be glad to furnish more upon request. It is suggested that one copy of this report be split up and distributed so that each officer will receive that portion of the report in which he is particularly interested.

The Board's Committee wishes to express its appreciation of the work done by the officers of the several banks who were designated to represent their respective institutions in the conducting of the recent study of the four functions. With such cooperations between the banks as was manifested at these conferences it should be possible to accomplish much in the way of economy and efficiency of operation of the Reserve Banks.

Very truly yours,

A. C. Miller, Chairman
Committee on Economy and Efficiency

To Chairmen of all Federal Reserve Banks,
Copies to the Governors & Chairmen of Procedure Committees.

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

For release in Afternoon Papers,
Thursday, May 31, 1923.

X-3727

CONDITION OF ACCEPTANCE MARKET

APRIL 15 TO MAY 15, 1923.

During the early part of the period, April 15 to May 15, the supply of acceptances was fairly large and the demand generally limited. Following an advance from a range of $4 \frac{1}{8}$ to $4 \frac{1}{4}$, to a range of $4 \frac{1}{4}$ to $4 \frac{3}{8}$ per cent in offering rates by dealers shortly after the beginning of the period, an increase in the demand for bills and a decrease in the supply was noted and bills, especially of short maturities, moved freely. This gradually led to a decline of rates to their earlier level and the market remained comparatively quiet until the end of the period. In the early weeks the best demand was for bills of 30 to 60 day maturities, but during the latter weeks bills of longer maturities were in demand. City banks were the principal buyers of acceptances, although some demands from country banks were evident.

Rates for 30 to 90 day bills during the period ranged from $4 \frac{1}{8}$ to $4 \frac{3}{8}$ offered, and 4 to $4 \frac{1}{4}$ bid.

New bills which came into the market during the period were drawn in the eastern markets principally against sugar, cotton, silk, grain, wool, leather, and tobacco, while in the interior bills were drawn against meats, provisions, grains, coal, raisins, rubber, and agricultural implements.

FEDERAL RESERVE BOARD

WASHINGTON

X-3728

May 31, 1923.

SUBJECT: Rules Governing Examination of State
Member Banks.

Dear Sir:

The correspondence received by the Board since the dispatch of a telegram supplementing its letter X-3683, on "Rules governing examination of State member banks", indicates an inclination to give too liberal interpretation to the principles laid down by the Board.

When the Board authorized the banks to make purely credit investigations of member banks, without assessing the costs, it was done in the interest of good credit administration and it was not intended that this authority should be used as a basis for conducting examinations without assessing the costs.

A credit investigation such as the Board intended to authorize should be confined to an inspection and appraisal of such of the assets of a member bank as are represented by loans to its customers and any further activity by the examiners of a reserve bank to determine the condition (solvency) of a member bank is to be considered an examination within the meaning of the Federal Reserve Act and the costs thereof must be assessed.

By order of the Federal Reserve Board,

Very truly yours,

Wm. W. Hoxton,
Secretary.

To all Federal Reserve Agents.

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FEDERAL RESERVE BOARD

WASHINGTON

X-3731
June 1, 1923.

SUBJECT: Shipments of Currency to Foreign Countries.

Dear Sir:

It has been reported to the Board that there have been several recent instances of the physical shipment of currency to Europe in relatively large amounts. There is, of course, at all times a considerable flow abroad of American currency in small sums and at times also the flow to Caribbean countries has been large. But in view of these recent shipments to Europe it seems desirable to ascertain, if possible, to what extent such transactions are now being carried on.

This letter is being addressed to all Federal Reserve Agents and the Board would appreciate your addressing a number of your more important member banks asking them to submit monthly figures reporting, for a limited period, shipments abroad and receipts from abroad. If, after a number of months, there prove to be very few or no such shipments or receipts, the reports may well be discontinued. In any case, shipments and receipts in amounts smaller than \$10,000 may be disregarded.

A suggested form of a letter to the member banks is attached for your consideration and use if you desire.

By order of the Federal Reserve Board.

Very truly yours,

Wm. W. Hoxton,
Secretary.

(Enclosures)

FORM A.

X-3731a

X Y Z Bank,

X Y Z City.

Gentlemen:

While there is at all times a considerable flow abroad of American currency in small amounts and at times the flow to Caribbean countries has been large, it is reported that recently there have been instances of the physical shipment of American currency to Europe in relatively large amounts. In conjunction with several other Federal Reserve Banks and at the request of the Federal Reserve Board, we are hoping to ascertain whether any considerable shipments are now going forward from this district or will go forward from time to time in the near future; also whether such shipments are being offset to any extent by receipts of currency. It is hoped, in view of the interest attaching to this matter and of the evident bearing it has upon the currency, and gold position of the Federal Reserve System, that we may learn from you each month whether you have made any such shipments, or have had any such receipts.

This letter is going to a small number of the larger banks in this district which might be expected to have any such transactions. All replies will be kept in strictest confidence and only total figures will be reported. If you are prepared to cooperate with us we would appreciate it if the first report should cover transactions for the calendar month of May. Please include only those transactions involving the physical shipment or receipt of currency to or from foreign countries by you either for your own account or for the account of customers or correspondent banks; no transactions carried out for you by other banks should be included. Shipments or receipts of less than \$10,000 may be disregarded.

A set of forms on which the report may be made month by month is enclosed. They are self-explanatory.

Very truly yours,

Federal Reserve Agent.

FORM B.

X-3731b

C O N F I D E N T I A L

NAME OF BANK _____

ADDRESS _____

(Date) _____

To the Federal Reserve Agent,
Federal Reserve Bank of _____

The following is a report of physical shipments of American currency to foreign countries and receipts of American currency from foreign countries during the month of _____.

SHIPMENTS

RECEIPTS

<u>Name of country</u>	<u>Amount</u>	<u>Name of country</u>	<u>Amount</u>
------------------------	---------------	------------------------	---------------

NOTE: Please include as shipments only the following:

- (1) Amounts of \$10,000 or over physically shipped abroad by you for your own account or for the account of customers or correspondent banks; and
- (2) Amounts of \$10,000 or over withdrawn in currency from you, and known to be for shipment abroad.

Please include as receipts only the following:

- (1) Amounts of \$10,000 or over actually received in American currency from abroad by you for your own account or for the account of customers or correspondent banks; and
- (2) Amounts of \$10,000 or over deposited with you in American currency and known to have been received from abroad.

Amounts shipped or received for you by other banks are not to be included.

FEDERAL RESERVE BOARD

WASHINGTON

601

X-3732

SUBJECT: Cuban Agency, Federal Reserve Bank.

Dear Sir:

In behalf of the Federal Reserve Board, I
acknowledge receipt of your letter of
with reference to the establishment of a Federal Reserve
Bank Agency in Cuba.

Very truly yours,

Wm. W. Hoxton,
Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

X-3733
June 8, 1923.

SUBJECT: Warehouse Receipts of Cotton.

Dear Sir:

Please find enclosed a copy of a letter dated May 29th, addressed to Mr. George R. James, Member of the Federal Reserve Board, by Mr. H. S. Yohe in Charge of the Administration of the United States Warehouse Act. There is also enclosed a copy of each of the documents referred to in Mr. Yohe's letter. The system of inspection of warehouses in cotton producing territory under the United States Warehouse Act appears clearly to be superior to the inspection under state laws in some states, and the form of receipt calling for a description of the cotton bales, so that they can be identified and so that substitutions of inferior grades can not be made in the security for loans by banks, seems far superior to the indefinite receipts used by many warehouses not licensed under the United States Act. The Board desires a report from you as to whether the conditions described in Mr. Yohe's letter obtain in states in your district, with any suggestions which may occur to you for improving present practices. Is it true that bankers, in making loans on cotton, pay little attention to the warehouse receipts, and give no preference to the loans based on cotton in warehouses licensed under the United States Warehouse Act? If so, what explanation is given?

In giving consideration to this matter, your attention is called to the regulations of the Farm Loan Board according preference to the receipts of Federal Warehouses as security. The Board would like to receive an expression of your opinion as to whether it would be practicable for Federal Reserve Banks to express such a preference for the receipts of Federal Warehouses.

By order of the Federal Reserve Board.

Very truly yours,

Wm. W. Hoxton,
Secretary.

(COPY)

UNITED STATES DEPARTMENT OF AGRICULTURE
BUREAU OF AGRICULTURAL ECONOMICS
WASHINGTON

X-3733a
May 29, 1923.

Mr. George R. James,
Federal Reserve Board,
Treasury Department,
Washington, D. C.

Dear Mr. James:

In line with the suggestion made yesterday at our conference, and inasmuch as the subject of this letter was taken up first informally with you, I am addressing my communication to you.

In the interests of orderly marketing of agricultural products and of bankers who loan on such products when in storage, I take this opportunity to call to your attention the United States warehouse Act. The purpose of this law is to encourage orderly marketing and to give to bankers a form of warehouse receipt, definite in its terms, conveying such specific information as is essential to the bankers to form a fair estimate of the value of the particular commodities on which he is asked to loan.

In order that each member of the Federal Reserve Board and each of your twelve Federal Reserve Banks may consider this subject thoroughly, there are enclosed with this communication the following:

- 18 copies of the United States warehouse Act.
- 18 copies of forms of receipts issued under this Act.
- 18 copies of Service and Regulatory Announcements No. 71.
- 18 copies of three letters dated, respectively, May 29, June 5 and June 12, and addressed "To Bankers in Cotton Producing States."

In Service and Regulatory Announcements No. 71 you will find on page 3 a table showing the progress made under this Act to May 1, 1922. To bring this information to date, I would state that on May 19, 1923, we had warehouse space licensed sufficient to accommodate commodities in the amounts indicated:

Cotton	2,879,409 bales.
Grain	19,914,547 bushels.
Wool	32,526,250 pounds.
Tobacco	226,055,000 pounds.

In the copy of the Act enclosed we should like, particularly for you to note section 30. This section was amended at the last session

of Congress. It increased not only the scope of the offences punishable under the Act but the severity of the penalties which might be imposed.

From the figures I have given you showing the progress made under the Act, it is apparent that we have been progressing substantially in the past two years. In the Mississippi Valley recently, through the action of certain cotton trade interests, some of the larger cotton warehousemen have advised that they intend to permit their licenses to expire with their expiration dates. As far as the warehousemen are concerned, it seems it makes little difference to them whether they operate under the Act. What they wish to try to do is to give their patrons what they desire. Now it seems that some of the large cotton merchants and patrons of these warehouses have come to the conclusion that the banks make no distinction between a Federal warehouse receipt and a receipt such as was issued by these warehousemen prior to becoming licensed under the statute.

There has just come to me a letter which expresses rather clearly the sentiment in this connection. In part it reads as follows:

"When money was tight the cotton merchants had to get it anyway that the banks would let them have it. **** The banks as a whole in this state have put their stamp of approval on the bonded warehouse system, but nine out of every ten banks in this same state will not make it compulsory for a cotton merchant to have bonded receipts before they will extend him a line of credit. The cotton men seeing that they can handle their business without the bonded warehouse receipts have asked for the standard form."

Now, what is this standard form of receipt? It is not a receipt such as is approved by the Uniform Warehouse Receipts Act; neither is it a form in harmony with that issued under the United States warehouse Act. That you may know what is likely to be the standard form which will be used, I am quoting, using fictitious names and addresses, the wording which appears on three receipts issued by warehousemen in different parts of the country prior to their becoming licensed by this Department. The first one reads as follows:

"Cambria, S. C., _____
Received from _____
Bales Cotton,
quality, weight and condition unknown, marked as in the margin,
which we hereby agree to deliver to _____,
or order, only upon surrender of this receipt, and payment of
all charges.

CAMBRIA WAREHOUSE CORPORATION."

"FARMERS COMPRESS COMPANY

Uniontown, Miss. _____ 19__.

Received of _____

One bale of cotton as per marks and number given below:

Marks	:	Number	:	Weight:	:	Remarks
	:		:		:	
	:		:		:	
	:		:		:	

This Compress Company is not liable or responsible for accidents, concealed damage, waterpacks, acts of Providence, acts of the public enemy, or for damages or losses by fire even when caused by its negligence.

This bale of cotton to be delivered only upon return of this receipt and payment of all charges."

FARMERS COMPRESS COMPANY

DELAWARE CITY COTTON COMPRESS CO.

Received for
Storage or Concentration

And Deliverable To _____ Or order

One Bale of Cotton in apparent good order, unless otherwise noted, of the above tag number and following marks

This bale will be delivered upon return of this receipt properly endorsed and payment of all warehouse charges.

Mark	:	No.
	:	
	:	
	:	

Charges

RISK OF FIRE EXCEPTED.

And subject to all conditions appearing on back hereof."

DELAWARE CITY COTTON COMPRESS CO.

Now as to the terms or conditions appearing on the back of the last mentioned receipt, one of them is that the cotton is subjected to a charge for compression whether compressed or not at the time it is withdrawn. Another one reads as follows:

"This company assumes no liability and is not responsible for loss or damage to cotton by fire, or resulting therefrom, (even though caused by the negligence of this company, or its servants), or by flood, tornado or any cause beyond its control."

Please compare these forms of receipts with the form of cotton receipt which I have enclosed. Note, particularly, the difference between the contractual relation established between the warehouseman and the depositor, and then note further the detailed information called for on the Federal receipt as compared with that called for on the other forms. Of course, it is apparent that the information called for on the Federal receipt is needed to give the banker a fair estimate of the value of the cotton.

Particularly is the banker interested in the weight, grade and condition of the cotton. Under the Federal law the grade must be stated on every warehouse receipt unless the depositor requests that it shall not be stated. Such a request is valid only in the case of products the identity of which is at all times maintained, while the product is in the warehouse. In the case of a product which is handled in bulk, such as grain, the identity of which is lost, the grade must always be stated on a Federal receipt. Mention is made of this point because the producer of cotton really does not know his rights under the law and the warehouseman invariably will not grade unless he is requested to do so, and this even despite the fact that the law places a positive duty upon it. We check this closely to see that the warehouseman has valid requests to omit the grade. Country bankers, too, do not seem to understand that the grade must appear on the Federal receipt. All the country banker needs do when a Federal receipt is offered to him as collateral, if he notes that grade does not appear thereon, is to tell his client to take the receipt back to the warehouseman, if it has been issued by a licensed warehouseman, and request the grade to be stated on the receipt. If the warehouseman refuses to do it and the matter is reported to this Department, the warehouseman's license will be revoked at once or he will be obliged to conduct his warehouse in accordance with the Act.

Now with respect to the weight. It is a general practice in some sections of the country, if the producer happens to be hauling his cotton to the warehouse and is caught in a shower, for the warehouseman to make an arbitrary deduction from the weight of the cotton. We take the stand that the receipt should show in such instances the gross weight of the cotton, the amount that has been deducted for excess moisture, and under the heading "Condition" some explanation made for the deduction. It is immaterial to us, as a matter of fact, whether the gross weight and amount of deduction are shown or whether the net weight and the amount deducted are shown, but what we want is that the depositor should be informed of deductions which are made and the reason therefor. We require an explanation under the heading "Condition" if there are any other circumstances which might affect the value of the cotton from a collateral standpoint.

There are certain practices indulged in with reference to storing cotton in certain sections which are not tolerated by, and which, as a matter of fact, are penal offenses under the Federal warehouse Act. For instance, in some sections, when the warehouse becomes filled, instead of the warehouseman declaring an embargo and refusing to accept the cotton, he will take the cotton, place it outside the warehouse, perhaps on the open ground without dunnage underneath, and issue for such cotton the same kind of receipt as is issued on the cotton in the warehouse, at the same time charging the depositor the usual storage rates. Of course, as bankers, it is easy to appreciate the undesirability of a warehouse receipt covering such cotton.

Another practice which is indulged in is for the warehouseman, who is prevailed upon by a customer who wishes to make a shipment of cotton in a hurry, to deliver the cotton without the receipts. We have known this to happen even in cases where the receipts were in the hands of bankers as collateral for loans.

Now if you will refer again to the forms of receipts which I have quoted, you will notice that they merely acknowledge receipt of a bale or bales of cotton. That might mean that the cotton represented by the receipt might be a bale of bollies or might be middling cotton or middling fair cotton, it might be short staple or inch and a half cotton and, of course, it is apparent that the loan values in such instances are far apart.

There is no reason to believe that the so-called standard form of receipt which will be issued by warehousemen who have been operating under the Act, but who will permit their licenses to expire, will be any different from the forms which I have above quoted. On the other hand, we have fairly accurate indications that the receipts will be entirely in line with those before mentioned.

Referring again to the quotation from the letter, before mentioned, it seems to me that if the banks were right in requiring Federally licensed warehouse receipts when money was tight, the requirement should be just as right when money is easy. In other words, if the Federal warehouse receipt is a good thing when the money market breaks, it ought to be a good thing to prevent the money market from breaking.

There is another phase of what seems to be injustice toward warehousemen who are trying to give to the bankers the very best form of warehouse collateral, if the bankers as a whole are failing to discriminate between a Federally licensed warehouse receipt, or one that can measure up to it, and receipts which are inferior to it. The warehouseman who is licensed under the Federal statute must comply with the law and the regulations. This means that patrons of these warehouses can not do business in a loose fashion. The result is that

those who want to follow unsound methods or methods which may promote their own interests to the detriment of others, will place their cotton in warehouses where the warehousemen are not restricted by the Federal law and regulations. In other words, the action of the banks, it seems to me, sets up unfair competition. It seems to me that bankers, and especially members of the Federal Reserve Banking System, should cooperate with warehousemen who are trying to give them a high type of warehouse collateral. Any other course does not seem fair.

In administering the Federal warehouse Act, we do not depend upon the penalties provided in the law to keep warehousemen from going wrong. Just as the National Banks are subjected to irregular examination by national bank examiners, so are the warehouses and the warehousemen operating under the Federal warehouse Act subjected to inspection and examination by a corps of inspectors operating under this Department. No law, regardless of the severity of the penalties, necessarily keeps men from going wrong. The Inspection Service of this Department does have a restraining influence and, in addition, it certainly is more likely to catch wrong acts on the part of warehousemen in their incipency than any system which does not have an inspection service.

As you know, the War Finance Corporation loaned a great many millions of dollars on agricultural products in the past two years. In the large majority of cases the various cooperative associations which obtained advances from the War Finance Corporation gave as security Federally licensed warehouse receipts. In the applications which these various associations filed for loans the Finance Corporation had stipulated that it would accept Federally licensed receipts without further question. The Federal Farm Loan Board, which is now administering the intermediary farm credits Act, has made a ruling as to warehouse collateral which is in complete harmony with the War Finance Corporation. It has, however, added to its ruling that as for warehouse receipts issued under State laws, it would accept such receipts only after having satisfied itself as to the acceptability of the law and the regulations promulgated thereunder and, further, that it was satisfied with the method of administration of the law and regulations. To this ruling it has added a further ruling that receipts issued by warehouses other than those licensed under the United States warehouse Act would be accepted only after investigations had been made of each individual warehouse and its operations.

These rulings on the part of both the War Finance Corporation and the Federal Farm Loan Board were made only after a thorough investigation of the Federal warehouse Act, the regulations, and the method of administration. It seems desirable that the various branches of the Government which have to do with financing agricultural products through the use of warehouse receipts should be in complete harmony.

It would appear from the quotation from the letter previously referred to that if the Federal Reserve Banks and their member banks merely indicated that they preferred the Federal warehouse receipt that

they would receive it. The warehouseman, as a general rule, wants to accommodate his patrons. On general principles he is not opposed to the Federal warehouse Act. He realizes that he is obliged to do business in a different way and must keep certain records which he would not keep if he were not operating as a Federal licensee, but no warehouseman has ever filed a complaint that the keeping of these records was burdensome.

I shall be very glad to have you present this matter to the Reserve Board and, of course, if I can serve you and the Board in giving more specific information, it will be a pleasure to do so. I shall be pleased to have a copy of any letter which the Board may see fit to send to the Federal Reserve Banks.

In closing, let me thank you, Mr. Hamlin and Mr. Platt for the very courteous audience given me yesterday.

Very truly yours,

(signed) H. S. Yohe

In Charge, Administration
United States Warehouse Act.

FEDERAL RESERVE BOARD

WASHINGTON

X-3736

June 7, 1923.

SUBJECT: Additional Copies of Federal Reserve Act.

Gentlemen:

On May 25th there were forwarded to you the copies of the revised print of the Federal Reserve Act ordered in your reply to the Board's telegram of March 23, 1923. On page 120 of the pamphlet appears a notice that "Additional copies of this publication may be procured from the Superintendent of Documents, Government Printing Office, Washington, D. C. at 15 cents per copy." In this connection you are advised that the Board, as has been its custom, is prepared to furnish your bank with such additional copies of the Act as you may desire.

Very truly yours,

Chief Clerk.

(COPY)

X-3737 011

FIRST FEDERAL FOREIGN BANKING ASSOCIATION

40 WALL STREET

New York
June 6th, 1923.

Honorable D. R. Crissinger,
Governor, Federal Reserve Board,
Washington, D. C.

Sir:

On behalf of the First Federal Foreign Banking Association we beg to submit for the consideration of the Federal Reserve Board changes in Articles 11, 12 and 13 of the rules propounded by the Board on March 23, 1920, for the government and regulation of banking associations organized under the "Edge Bill". It is appropriate to point out the reasons for the changes requested.

The First Federal Foreign Banking Association was the first bank organized under the "Edge Bill". At the time of its inception the organizers discussed with the Federal Reserve Board the possible development of banking institutions under the "Edge Act". It was pointed out that the "Edge Bill" contemplated organizations with a scope sufficiently broad to enable them to effectively compete with similar foreign institutions. The author of the bill unquestionably had in mind the great development of the English investment trust and its important part in the building up of English foreign trade through foreign investments and the facilities furnished for the extension of credits a little longer than the ordinary commercial credits.

We think it unfortunate that the rules of the Board as at first promulgated assumed the view that the "Edge Bill" provided for two classes of corporations, one, an acceptance bank, and the other, an institution of the nature of the investment trust. In following out this view the Board definitely forbade "Edge Bill" banks from exercising the acceptance power if at the time it had outstanding bonds, notes, or other obligations. In other words, the Board added to the "Edge Bill" under the authority given it by that bill to make rules and regulations, a provision that was not contained in the bill and which in our judgment is absolutely prohibitive of any broad development of "Edge Bill" banking.

The organizers of the First Federal Foreign Banking Association accepted the rules of the Board and proceeded with the organization of the bank following the only line which was then open to it, namely, that of developing a conventional acceptance institution. At the time of the organization of the bank and during the period of its operations

up to the present time, it has been unwise and unsound because of the instability of foreign currencies to extend long term credits to Europe. Opportunities have had to be forgone for the doing of such business in South America and other parts of the world due to restrictions in the rules.

We believe that the examinations as conducted by the examiners of the Federal Reserve Board will demonstrate to the members of the Board that the First Federal Foreign Banking Association has been conducted along sound conservative banking lines and that its officers and directors have exercised every effort to build up a successful institution. At a recent meeting of the Board of Directors, called for the purpose of determining the future of the bank, the whole matter was carefully discussed, and it was felt that "Edge Bill" banks operating merely as acceptance institutions provide facilities which are a mere duplication of those already enjoyed by national and state banks, and that because of the restriction against taking deposits it is impossible to build up a paying institution operating under the present regulations of the Board.

The officers of the bank have given careful thought and study to the general world situation, and are convinced that the time is fast approaching when long term commercial credits from one to five years will be in demand and will be of great value to the development of our foreign trade. This kind of business can not be done under present rulings unless the bank were to give up its acceptance business entirely, and if it did so it is probable that it could not make expenses while endeavoring to build up the long term credit and debenture business.

We have come to the conclusion that unless the Federal Reserve Board is willing to amend its rules and regulations to provide for the development of "Edge Bill" banks along broader lines it is useless to expect to build up a profitable business and to furnish facilities in aid of our foreign commerce in accordance with the thought of those who fathered the legislation. If, on the other hand, the Board will amend the rules permitting these banks to carry on an acceptance business and at the same time to handle longer term credits, either through the issuance of notes or debentures, at the same time retaining to the Federal Reserve Board all necessary powers of supervision in the operation of the banks, it is possible to develop through the medium of this law powerful agencies in the aid of the extension of American commerce.

Specifically we urge the Board to re-draft the sections mentioned to provide for the following points:

- (1) "Edge Bill" banks shall be permitted to accept drafts and bills of exchange involving the exportation and importation of goods or the assembling and storage of goods destined for foreign export for periods ranging from three months to one year without having to obtain special authority for acceptances beyond the six months period.

- (2) Such banking institutions may extend credits or make loans

upon proper security or bank guarantee to foreign institutions for periods of one to five years, and may issue debentures, collateral trust notes or bonds against such credits or loans or may endorse or guarantee and sell such credits or loans with this endorsement or guarantee provided, however, that if such banking institution shall at the same time be conducting a general acceptance business the total amount of its acceptances, debentures, notes and all other outstanding obligations of any kind or nature shall not exceed eight times the amount of its paid in capital stock, surplus or undivided profits.

In suggesting the above changes we have in mind that the Board will continue close supervision over the operations of "Edge Bill" banks through the medium of all necessary reports and examinations, and that the present restriction be continued, that no series of notes or debentures may be issued except with the approval of the Federal Reserve Board, as already required in Paragraph 1, Section 11, of the present regulations.

We have in mind further, the thought that the proper development of these banks will necessitate the doing of both a short-term acceptance business and a longer term credit business. The two kinds of credits might very easily run together. For instance, a piece of business requiring the shipment abroad of American products could very well be initiated on the acceptance basis providing for the assembly and exportation of the goods, and later be switched into a credit based on the issuance of notes or debentures to cover the required time allowed for final payment. Operations of this character would be distinctly along the lines on which these banks should operate and are directly in aid of the development of American foreign trade.

We respectfully bring to the attention of the Board the fact that recent legislation has provided for the development of financial agencies in aid of the great agricultural interests of the country. The proper development of "Edge Bill" banks along the line of providing proper facilities for financing the exports from this country is of great necessity in the general broadening of our foreign markets, and will supplement the activities of the agricultural financing agencies. If the development of these banks is obstructed by regulations which will not permit them to function it will be to the detriment of any farseeing policies that may be undertaken in the general development of our international trade and the strengthening of our economic position at home.

Respectfully yours,

FIRST FEDERAL FOREIGN BANKING ASSOCIATION,

(signed) W. S. Kies
Chairman of the Board.

(signed) A. H. Titus
President.

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FEDERAL RESERVE BOARD

WASHINGTON

X-3738
June 9, 1923.

SUBJECT: Bound Copies of Federal Reserve Act.

Dear Sir:

There were sent you under separate cover today (in packages addressed to the Federal Reserve Bank) the copies of the Federal Reserve Act, bound in buckram, ordered in response to Board's telegram Trans. 324 of May 14th. Statement of the cost of binding will be forwarded to you in due course.

Very truly yours,

Chief Clerk.

To all Federal Reserve Banks

(COPY)

575
X-3739

FEDERAL RESERVE BANK
OF DALLAS

May 31, 1923

Federal Reserve Board
Washington, D. C.

Gentlemen: Attention Mr. Walter Wyatt.

I wish to call your attention to the case of Federal Reserve Bank of Dallas vs Webster, reported in the May 24 Advance Sheet of the Federal Reporter, same being 287 Fed., 579.

This is an opinion by Judge Grubb sustaining the jurisdiction of the Federal courts in suits brought by Federal reserve banks upon promissory notes or other choses in action which the said Federal reserve banks hold by assignment.

For your information I might say that we had several cases pending at the time this matter was argued. One case-- the Federal Reserve Bank of Dallas vs City of Cleburne-- was a suit on certain warrants which had been assigned to this Bank, and the other cases, including the Federal Reserve Bank of Dallas vs Webster case, were suits on promissory notes. The same attorneys represented the various Defendants in all of these suits and consequently only one argument was made on the jurisdictional question. In the opinion referred to the style of the case is given as Federal Reserve Bank of Dallas vs Webster although the body of the opinion refers to the case of Federal Reserve Bank of Dallas vs City of Cleburne. There are certain other typographical errors in the opinion.

This case might be of value to some of the other Federal reserve banks should this question arise in their litigation.

Very truly yours,

(signed) E. B. Stroud, Jr.

EBS-cc

Office Counsel

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-3741
June 12, 1923.

SUBJECT: EXPENSE MAIN LINE, LEASED WIRE SYSTEM, MAY, 1923.

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-3741a and X-3741b, covering in detail operations of the main line, Leased Wire System, during the month of May, 1923.

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-3741a

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS
TRANSMITTED OVER MAIN LINE OF THE FEDERAL RESERVE
LEASED WIRE SYSTEM FOR THE MONTH OF MAY, 1923.

From	Bank Business	Percent of Total Bank Business(*)	Treasury Dept. Business	War Finance Corp. Business	Total
Boston	40,975	3.53	8,816	-	49,791
New York	210,182	18.11	16,502	-	226,684
Philadelphia	65,058	5.61	9,149	-	74,207
Cleveland	98,677	8.50	10,213	-	108,890
Richmond	70,363	6.06	7,765	-	78,128
Atlanta	77,480	6.68	11,238	-	88,718
Chicago	152,466	13.14	14,067	57	166,590
St. Louis	97,086	8.36	12,567	-	109,653
Minneapolis	43,959	3.79	6,958	-	50,917
Kansas City	89,467	7.71	9,644	-	99,111
Dallas	68,195	5.88	6,738	52	74,985
San Francisco	146,594	12.63	20,587	56	167,237
Total					
F. R. Banks	1,160,502		134,244	165	1,294,911
Washington	<u>296,010</u>	<u>100.00%</u>	<u>283,107</u>	<u>637</u>	<u>579,754</u>
Grand Total	1,456,512		417,351	802	1,874,665
Percent of Total	77.70%		22.26%	.04%	
Bank Business	1,456,512 words or	77.73%			
Treasury	<u>417,351</u> " "	<u>22.27%</u>			
TOTAL	1,873,863	100.00%			

(*) These percentages used in calculating the
pro rata share of leased wire expenses as
shown on the accompanying statement (X-3741b)

FEDERAL RESERVE BOARD,
WASHINGTON, D. C.,
JUNE 12, 1923.

REPORT OF EXPENSE
MAIN LINE
FEDERAL RESERVE LEASED WIRE SYSTEM MAY, 1923.

X-3741b

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	\$ 1.00	\$ -	\$ 251.00	\$ 813.27	\$ 251.00	\$ 562.27
New York	1,331.14	3.00	-	1,334.14	4,172.31	1,334.14	2,838.17
Philadelphia	207.91	-	-	207.91	1,292.47	207.91	1,084.56
Cleveland	366.00	-	-	366.00	1,958.29	366.00	1,592.29
Richmond	315.00	-	-	315.00	1,396.14	315.00	1,081.14
Atlanta	240.00	-	-	240.00	1,538.98	240.00	1,298.98
Chicago (#)	4,879.68	7.50	-	4,887.18	3,027.28	4,887.18	(*)1,859.90
St. Louis	300.00	.75	-	300.75	1,926.04	300.75	1,625.29
Minneapolis	275.00	-	-	275.00	873.17	275.00	598.17
Kansas City	336.64	5.16	-	341.80	1,776.28	341.80	1,434.48
Dallas	251.00	-	-	251.00	1,354.68	251.00	1,103.68
San Francisco	395.00	-	-	395.00	2,909.79	395.00	2,514.79
Fed. Res. Board			16,990.14	16,990.14			
TOTAL	\$9,147.37	\$17.41	\$16,990.14	\$26,154.92 (a) 3,116.22 \$23,038.70	\$23,038.70	\$9,164.78	\$15,733.82 (&) 1,859.90 \$13,873.92

(#) Includes salaries of Washington Operators.

(&) Amount reimbursable to Chicago.

(*) Credit.

(a) Received \$16.22 from War Finance Corporation and \$3,100.00 from Treasury Dept. covering business for month of May, 1923.

FEDERAL RESERVE BOARD,
WASHINGTON, D. C.,
JUNE 12, 1923.

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FEDERAL RESERVE BOARD

WASHINGTON

X-3743

June 13, 1923.

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

SUBJECT: Federal Reserve Banks Held Not Suable in
District other than that in which head
office is located.

Dear Sir:

For your information as Counsel to the Federal Reserve Bank of I am enclosing herewith a copy of an opinion rendered recently by the United States District Court for the Eastern District of Washington, in the case of Mrs. George T. Bacon v. Federal Reserve Bank of San Francisco, et al., in which it was held that the District Court for the Eastern District of Washington had no jurisdiction of a suit against the Federal Reserve Bank of San Francisco; because that bank is not an "inhabitant" of the State of Washington and Section 51 of the Judicial Code provides that "no civil suit shall be brought in any district court against any person * * * in any other district than that whereof he is an inhabitant," unless the jurisdiction is founded only on the fact that the action is between citizens of different states.

In view of the fact that the Supreme Court of the United States has ruled that every suit against a Federal Reserve Bank is a suit involving a Federal question (American Bank and Trust Company v. Federal Reserve Bank of Atlanta, 256 U. S. 350), it would seem that under this decision Federal Reserve Banks cannot be sued in any district court except that of the district in which its head office is located. Of course this is an extremely important decision from the standpoint of the Federal Reserve Banks.

This opinion was sent to me by Mr. Agnew, Counsel for the Federal Reserve Bank of San Francisco.

Very truly yours,

Walter Wyatt,
General Counsel

(Enclosure)

To Counsel for all F.R. Banks (except San Francisco and Cleveland)

IN THE DISTRICT COURT OF THE UNITED STATES

FOR THE EASTERN DISTRICT OF WASHINGTON

Northern Division

GEORGE T. BACON,

Plaintiff

No. L-4205

FEDERAL RESERVE BANK OF SAN) DECISION

FRANCISCO, a corporation;)

THE FARMERS NATIONAL BANK OF)

POMEROY, a corporation; FIRST)

NATIONAL BANK OF CLARKSTON, a)

corporation; and GEORGE H.)

WATERMAN,)

Defendants.)

The plaintiff, a resident of the State of Idaho, seeks to recover from the Federal Reserve Bank of San Francisco, California; the Farmers National Bank of Pomeroy, Washington; the First National Bank of Clarkston, Washington (each of said National Banks being organized under the laws of the United States); and George H. Waterman, President of the Farmers National Bank of Pomeroy and Vice President of the First National Bank of Clarkston, damages alleged to have been sustained in excess of \$3000.00.

The Complaint was served on an employee of the Spokane Branch of the Federal Reserve Bank on December 14, 1922. The following stipulation was signed by the attorneys for the plaintiff and the attorney for the Federal Reserve Bank of San Francisco, was approved by the Judge of

this court, and filed in the office of the clerk of this court on
December 30, 1922;

"STIPULATION EXTENDING TIME TO PLEAD.

IT IS HEREBY STIPULATED by and between counsel for the plaintiff in the above entitled action and counsel for the Federal Reserve Bank of San Francisco, one of the defendants above named, that said defendant Federal Reserve Bank of San Francisco may take and have to and including the third day of February, 1923, within which to answer the complaint on file in said action or to file such other pleading or pleadings or make such other motion or motions in respect thereto and in respect to the cause of action set forth in said complaint as said Federal Reserve Bank of San Francisco may, by its counsel, be advised, including objections which may be raised by such motions to the jurisdiction of the court in which said action is brought."

On February 1, 1923, special appearance was filed by the attorney for the Federal Reserve Bank of San Francisco as follows:

"You will please enter my special appearance as attorney for Federal Reserve Bank of San Francisco, one of the defendants above, in the above entitled cause, and service of all subsequent papers except writs of process may be made upon said Federal Reserve Bank of San Francisco by leaving same with W. L. Partner, Manager Spokane Branch Federal Reserve Bank of San Francisco. Post Office Address: Spokane, Washington.

Albert C. Agnew,
Attorney for Defendant Federal
Reserve Bank of San Francisco.

This appearance is special and is made only for the purpose of urging a motion to dismiss the above entitled action as to this defendant."

The Federal Reserve Bank, appearing solely for the purposes of the motion, says to the Court that the Federal Reserve Bank of San Francisco is created by an Act of Congress known as the Federal Reserve Act; that it has its existence by virtue of said Act of Congress and Acts amendatory thereof; that its principal office and place of business is in the City and County of San Francisco, California; that it holds the meetings of its stockholders, directors and executive officers, maintains its records, keeps its seal, transacts its principal business, in said City and County and State;

that it is an inhabitant of the said State and of the Judicial District of the Northern Division of California, and is not an inhabitant of the State of Washington nor of the Eastern District of Washington. Proofs and affidavits are filed tending to show:

That pursuant to the provisions of the Federal Reserve Act the Board of Directors of said Reserve Bank established a branch of said Reserve Bank at Spokane; that the powers and duties and functions of said Spokane Branch are defined and limited by its by-laws; and the functions, duties and operations of said Spokane Branch are subject to the rules, regulations, supervision and final approval of the Head Office of said Reserve Bank; that the directors of the Branch Bank have power to rediscount from member banks of the Branch District paper under the provisions of the Federal Reserve Act and regulations of the Federal Reserve Board, within limitations prescribed; that said Branch Bank may clear and collect checks for the accounts of those drawn upon member and non-member banks located within the territory assigned to it on the same plan followed by the Head Office.

The Branch Bank may not engage for its own account in open market transactions, bankers' acceptances, trade acceptances, warrants or Government bonds, except to the order and for the account of the Head Office. The compensation of the officers, clerks and employees of the Branch Bank are fixed by the Head Office, subject to the approval of the Federal Reserve Board. All expenditures of the Branch Bank are subject to the approval of the Head Office. Minutes are to be kept by the Discount Committee and transmitted to the Head Office upon approval, and the Discount Committee is

vested with special powers prescribed by the Board of Directors of the Head Office.

The Directors of the Spokane Branch consist of five members, the Manager of which is ex officio Chairman of the Board, and who is appointed annually by and holds office at the pleasure of the Board of Directors of the Reserve Bank; two members of the Board are appointed annually by the Board of Directors of the Reserve Bank and hold office at the pleasure of the Reserve Board; two members are appointed annually by and hold office at the pleasure of the Federal Reserve Board at Washington, D. C.; that said Board acts in an advisory capacity only and has no power to determine policies or make final decisions. That said Spokane Branch is only a business agency of said Reserve Bank and is so placed, operated and conducted for the convenience of member banks situated at a distance so remote from the Head Office that the business of said member banks with the Reserve Bank may be transacted without a great loss of time.

The defendant contends that it has not made a general appearance; that the action should be dismissed because the Federal Reserve Bank of San Francisco is not an inhabitant of this District; that the provisions of the Federal Reserve Act do not enlarge the jurisdiction of this Court as to the Reserve Bank; while the plaintiff contends that the defendant bank has made a general appearance by the stipulation which was filed with the approval of the Judge, and that it is an inhabitant of this Judicial District.

Davis, Heil & Davis, Attorneys for the Plaintiff.

Albert C. Agnew, Attorney for Defendant, Federal Reserve Bank of San Francisco.

NETERER, District Judge.

Appearances are of two kinds:

Special, for the purpose of testing the sufficiency of service or the juris-

diction of the court; and general, where the defendant waives defects of service and submits to the jurisdiction. Emphasis is placed upon Rule 22 of this Circuit, which provides in substance that the special appearances must embody a statement that if not sustained the defendant will enter a general appearance, and unless this agreement is included the special appearance will be considered a general appearance in the cause. The purpose of Rule 22 is for the protection of the parties to the cause and the Court. Here the parties have established a status with the Court's approval. The purpose of the rule is satisfied by the stipulation and the order. However, the contention of the plaintiff as to Rule 22 is of no avail, since the Supreme Court in Davidson Bros. v. United States ex. rel. Gibson, 213 U. S. 10, says that it was beyond the power of the court to make and enforce a rule with such conditions as would transform an objection to the jurisdiction into a waiver of the objection itself.

The stipulation must be taken as a whole. The intent and purpose of the context as a whole must control and so taken, the intent not to appear generally is apparent. The status of the defendant in this case is differentiated from that of the defendant in Everett Railway, Light & Power Co. v. United States, 236 Fed. 806, emphasized by the defendant. In that case the defendant appeared in open court and on oral motion obtained an enlargement of time in which to file "its appearance, motion or answer." The appearance was not special nor was there a reservation that the motion might be directed to the court's jurisdiction but presumably to be directed against the complaint on the merits in shaping the issues. In the instant case the question of jurisdiction is specifically reserved. The state statute (Section 241, Comp. Stat. Wash.) to which the Court's attention is directed is not, under the Conformity Act involving the jurisdiction of

the Federal Courts, controlling.

Salmon Falls Mfg. Co. v. Midland Tire Co.
235 Fed. 214 (C.C.)

But the determination of such question is for the Federal Court alone.

Western Loan Co. v. Butte Mining Co.,
210 U. S. 368
Davidson Bros. v. U. S. ex rel. Gibson,
213 U. S. 10,
S. P. Co. v. Denton, 146 U. S. 202.
Galveston R. R. Co. v. Gonzales,
151 U. S. 496.
Budris v. Coal Co., 251 Fed. 673.
Dahlgren v. Pierce, 263 Fed. 841.
Harkness v. Hyde, 96 U. S. 476.

Section 51 of the Judicial Code (Comp. Stat. 1033) so far as here material provides:

"* * * * no civil suit shall be brought in any district court against any person by any original process or proceeding in any other district than that whereof he is an inhabitant; but where the jurisdiction is founded only on the fact that the action is between citizens of different States, suit shall be brought only in the district of the residence of either the plaintiff or the defendant."

Section 54 of the Judicial Code provides:

"The district courts shall have original jurisdiction *** of all suits of a civil nature, at common law or in equity * * * * where the matter in controversy exceeds, exclusive of interest and costs, the sum or value of three thousand dollars, and (a) arises under the Constitution or laws of the United States, or treaties made, or which shall be made, under their authority; or (b) is between citizens of different States; * * * * *".

The first inquiry, is the action one arising under (a) the laws of the United States insofar as it affects the Federal Reserve Bank, must be answered in the affirmative.

American Bank & Trust Co. v. Federal

Reserve Bank of Atlanta, 256 U. S. 350.

The conclusion follows *Osborn v. Bank of United States*, 9 Wheat.

738. The American Bank & Trust Company case, supra, also definitely decides that subd. 16, Section 24, of the Judicial Code does not reach forward and include the Federal Reserve Banks within the phrase "national banking associations."

The next inquiry is, is the defendant Reserve Bank an inhabitant of the State of California. The principal place of business of the defendant Reserve Bank is in San Francisco, all of the business is directed from that office except such as is reviewed by the Federal Reserve Board, and the officers reside there. The contention of the plaintiff is that the Reserve Bank, being organized under the laws and Constitution of the United States, is not a local but a domestic corporation, and the purpose of operating within a given district makes the term "inhabitant" co-extensive with the district and not of one particular place within such zone or territory.

Many cases are cited, all of which are predicated upon the citizenship or habitat of a corporation of a particular state.

McCormick Harvesting Co. v. Wathers
(1890), 134 U. S. 41.
Ex parte Shaw (1892), 145 U. S. 444;
12 Sup. Ct. 935.
In re Keasby & Mattison Co., 160 U. S.
222; 40 L. Ed. 402; 16 Sup. Ct. 273.
Macon Grocery Co. v. Atlantic C.L.R. Co.
(1909), 215 U. S. 501; 30 Sup. Ct. 184;
General Investment Co. v. L.M.S. Ry. Co.
(1922), 43 Sup. Ct. Rep. 106.
Wilson v. Western Union Tel. Co. (1888),
34 Fed. 561.
Halstead v. Manning (1888), 34 Fed. 565,
Gormully & Jeffery Mfg. Co. v. Pope Mfg. Co.
(1888), 34 Fed. 818; affirmed in
Preston v. Fire Extinguisher Co. (1888),
36 Fed. 721.
Anderson v. Germain et al. (1891), 48 Fed. 295.
Sunderland Bros. v. C. R. I. & P. Co. Ry.
(1908), 158 Fed. 878.
Memphis Cotton Oil Co. v. I. C. Ry. Co.
(1908), 164 Fed. 290.
Imperial Colliery Co. v. C. & O. Ry. Co.
(1909), 171 Fed. 589.
Cound v. A. T. & S. F. Ry. Co. (1909),
173 Fed. 527.
Smith v. Detroit & T. S. L. R. Co. (1909),
175 Fed. 506.
Whittaker v. I. C. Ry. Co. (1910),
176 Fed. 130.
Newell v. B. & O. Ry. Co. (1910), 181 Fed. 698,
S. P. Co. v. Arlington Heights Fruit Co.
(1911), 191 Fed. 191.
Trapp v. B. & O. Ry. Co. (1922), 283 Fed. 655.

It is primer law that a local corporation is a citizen of the state of its creation, and the general rule is that the domicile of a local corporation is in that county, city or town in which it has its general or principal office and conducts its business.

First National Bank of Everett v.
Wilcox, 72 Wash. 473.

Chief Justice Waite, in Ex Parte Schollenberger, 96 U. S. 369,

said that a corporation can have its legal home only at the place where it is placed under the authority of its charter, but may have its agents transact business anywhere, unless prohibited by its charter or excluded by local laws.

"Inhabitant is legally equivalent to one who has established a domicile." Standard Dictionary.

"Inhabitant -- One who has his domicile in a place." Bouvier Law Dictionary.

"One may be designated an inhabitant of that place which constitutes the principal seat of his residence, of his business, pursuits and connections." Phillips v. Boston, 183 Mass. 314; 67 N. E. 250.

"A corporation is regarded as an inhabitant of the district where its principal office is situated." People, et. v. Marens, 116 N. Y. Supp. 189, 192.

The Supreme Court in Galveston R. R. Co. v. Gonzales, 151 U.S. 496, said:

"In the case of a corporation the question of inhabitancy must be determined, not by the residence of any particular officer but by the principal offices of the corporation, where its books are kept and its corporate business is transacted, even though it may transact its most important business in another place. It is but a corollary of the proposition laid down in the three cases above referred to, that if the corporation be created by the laws of the state in which there are two judicial districts, it should be considered an inhabitant of that district in which its general offices are situated and in which its general business, as distinguished from its local business, is done."

The Supreme Court in Shaw v. Quincy Mining Co., 145 U.S. 444, said:

"The word 'inhabitant' * * * was * * * used, not in any larger meaning than citizen, but to avoid the incongruity of speaking of a citizen of anything less than a state when the intention was to cover not only a district which included a whole state, but also two districts in one state. * * *

"As to natural person, therefore, it cannot be denied that the

effect of this act * * * is that the phrase 'district of the residence of' a person is equivalent to 'district whereof he is an inhabitant' ***. In the case of a corporation the reasons are, to say the least, quite as strong for holding that it can sue and be sued only in the state and district in which it has been incorporated, or in the state of which the other party is a citizen."

The defendant Federal Reserve Bank is not a citizen of California, it being incorporated under an Act of Congress; its activities are not confined to a single state or locality, but are carried on in different states. The Supreme Court in Bankers' Trust Co. v. Texas & Pac. Ry., supra, at page 309, said:

"Of course it is a citizen of the United States in the sense that a corporation organized under the laws of one of the states is a citizen of that state, but it is not within the clause of the Fourteenth Amendment, which declares that native born and naturalized citizens of the United States shall be citizens of the state wherein they reside, nor has Congress said that it shall be regarded as possessing state citizenship for jurisdictional purposes, as is one in respect of national banks by section 24, par. 16, of the Judicial Code * * * ."

Under the Federal Reserve Bank Act (38 Stat. L. 251), the Secretary of the Treasury, Secretary of Agriculture, and the Comptroller of the Currency, acting as "The Reserve Bank Organization Committee", shall designate not less than eight nor more than twelve cities to be known as Federal Reserve Cities, and shall divide the continental United States, including Alaska, into districts, each to contain only one of such reserve cities. The committee shall supervise the organization in each of the cities designated of a Federal Reserve Bank, which shall include in its title the name of the city in which it is situated. (Section 2.)

Each Federal Reserve Bank shall establish branch banks within the Federal Reserve District in which it is located. Such branch banks shall be operated by a Board of Directors under rules and regulations approved by the Federal Reserve Board, four of said directors to be selected

by the Reserve Bank and three by the Federal Reserve Board, and to hold office during the pleasure respectively of the parent bank and the Federal Reserve Board. The Reserve Bank shall designate one of the directors as manager. (Section 3.)

When the Federal Reserve Districts have been established by the organization committee a certificate is filed with the Comptroller of the Currency showing the geographical limits of such districts and the Federal Reserve city designated in each of such districts. The Federal Reserve Board consists of the Secretary of the Treasury and the Comptroller of the Currency as ex officio members, and five members appointed by the President. The Reserve Board is empowered at its discretion to examine the accounts, books and affairs of every Federal Reserve Bank and every member bank, and shall publish weekly a statement showing the condition of each Federal Reserve Bank, and a consolidated statement of all Federal Reserve Banks. The powers of Federal Reserve Banks are prescribed and limited by the Federal Reserve Board with relation to dealings in commercial paper, gold transactions, bonds and notes, commercial exchange, discount rates, foreign accounts and agencies, and all relations pertaining to the business for which they are organized. (Section 14.)

The Federal Reserve Bank derives all of its rights from the laws of Congress, and a suit against it on account of its conduct arises under the laws of the United States, (Osborn v. Bank of United States, 9 Wheat. 828.) It has the right to sue and be sued in all courts of law or equity within the United States. (Section 4.) There is not a suggestion that intimates anything other than Federal relation. The defendant Federal Bank bears the same relation to the United States, or at least to the Federal Reserve District, as a corporation does to the state of its creation. It

is a creature of the Congress. It is a citizen, if it may be so termed, of the United States. It is transacting business under and by virtue of national authority. The habitat of the bank is fixed by the certificate of organization, and established throughout the record, as San Francisco.

Section 51, supra, has general application to all non-resident defendants, including corporations that seek advantage of its provisions, except national banks (Act of July 12, 1885) and railway corporations organized under federal law (Act of June 28, 1915, 38 Stat. L. 583.) The pertinent clause of this section forbids any suit to be brought in any district other than that whereof the defendant is an inhabitant unless founded only on diversity of citizenship, then in the district of the residence of the plaintiff or the residence of the defendant. "Only" means (Webster) "exclusive," "nothing more," so in any event the jurisdiction here must be determined by the habitat of the defendant Reserve Bank.

Keasley etc. v. U. S., 160 U. S. 221,
City of Memphis v. Board of Directors,
228 Fed. 802.

Van Dresser v. O. R. & N. Ry. Co., 48 Fed. 202, must have been determined upon the jurisdiction of the court as fixed prior to the Act of August 13, 1888 (25 Stat. L. 433), which prior Act included the phrase "or in which he may be found." Judge Hanford, on page 203, said:

"I hold that it is liable to be sued in the national courts in any district wherein it may be found doing business and having an agent or representative upon whom service of process can be made."

It is fundamental that the court has jurisdiction only as fixed and limited by the Congress, and its duty is plain. Chief Justice Marshall in Bank v. DeVeaux, 9 U. S. 61 (Cranch) said:

"The duties of the court to exercise jurisdiction where it is

conferred, and not to usurp it where it is not conferred, are of equal obligation."

There are doubtless reasons why the Federal Reserve Bank should be considered an inhabitant of every district in which a branch is established, but that is a matter of Legislation by the Congress. The law contemplates that every corporation or organization shall have but one habitat, and that shall be in the district where its general offices are located and where the certificate of organization fixes it and the general business done.

The Supreme Court in the matter of Dunn, 212 U. S. 374, in which it was contended that the defendant in the pending suit concerning the controversy was a resident of the Southern District of New York, the Court, at page 338, held that the record disclosed that the company maintained an office in Dallas County, Texas, and that the Senior Vice President lived in Dallas, and that for many years the company had designated Dallas as its general office, that all of the acts of the Board of Directors taken in New York City were subsequently affirmed by the meeting of the Board in Dallas before they were considered effective, and held that the corporation could be sued in the Eastern District of Texas.

My attention is called to Farmer's & Merchant's Bank v. Federal Reserve Bank, 286 Fed. 566. The issue before the court was stated by Judge Cochran at the opening of his decision as follows:

"This cause is before the court on the defendant bank's motion to quash the service of process upon it on the ground that it is a national corporation and was not at the time of such service doing business in this state as required in order to subject it to suit therein."

On page 567 Judge Says:

"It is conceded as it must be that at the time this suit was

brought the individual defendant was acting for the defendant bank as its agent and had been so acting for it for over a year and a half before the suit was brought. The defendant bank's position is that the doing of business in this state of a particular character at the time suit was brought was essential to jurisdiction and that such action on its behalf would not constitute business of that character. As to whether this position is sound is the question before me." (*Italics Mine*)

The issue is dissimilar from the issue presented here. The habitancy of the bank in that district appears to have been waived, and the sole issue was the motion to quash the service of the summons, as not authorized, because not served upon a person authorized to be served,^{as} the business required of the particular character was not done. In the instant case there is no question as to the sufficiency of the service if the defendant is suable in this district, it not having waived the right to exemption from suit. Aside from the foregoing quotations as to the issue there presented the thread of the thought is carried throughout the decision. The "synthesis" yielded by the cases examined and analyzed by Judge Cochran is illustrated at page 578, where it is said:

"The plaintiff's *sie volo* is not sufficient of itself to confer jurisdiction. The corporation must be suable there. (*Italics Mine*). There is therefore a dualism; -a real dualism- in all such cases. But it is not the dualism heretofore considered. It is this: The corporation must be suable in the foreign jurisdiction; i.e., it must be reasonable and not arbitrary for it to be sued therein and process must have been served therein on an authorized agent."

At page 581 the Court said:

"This brings me to the 11 decisions in the cases in which jurisdiction was upheld. In upholding jurisdiction, it must be taken that the court decided not only that the requirements as to service of process was met but that the defendant was suable in the jurisdiction in which suit was brought. ***"

On page 589 the thought is repeated as follows:

"But in order to the existence of jurisdiction, it is not sufficient that service of process on the corporation's representative therein be had. The corporation must be suable in the foreign jurisdiction."

(Italics Mine.), and in order to this it must be reasonable that defendant should be subject to suit therein."

Service of process in the instant case was made upon an authorized agent, but the defendant Federal Reserve Bank was not suable in this district by statutory limitations under Sec. 51, Jud. Code, and by the bank under a special appearance invoking the provisions of Sec. 51, the court is concluded.

(signed) Jeremiah Neterer

U. S. District Judge.

TREASURY DEPARTMENT
OFFICE OF THE SECRETARY
WASHINGTON

X-3744

June 7, 1923

The Governor
Federal Reserve Board

Sir:

You are hereby advised that the Department has referred to the General Accounting Office, Civil Division, for settlement, the account of the Bureau of Engraving and Printing for preparing Federal Reserve notes during the period May 1, 1923, to May 31, 1923, amounting to \$162,503.66, as follows:-

Federal Reserve Notes, 1914

	<u>\$5</u>	<u>\$10</u>	<u>\$20</u>	<u>\$50</u>	<u>\$100</u>	<u>Total</u>
Boston.....	312,000	312,000	104,000	---	---	728,000
New York.....	624,000	416,000	52,000	---	---	1,092,000
Philadelphia..	208,000	104,000	78,000	13,000	---	403,000
Cleveland.....	---	---	104,000	31,000	---	135,000
Atlanta.....	104,000	104,000	104,000	2,000	2,000	316,000
Minneapolis...	104,000	52,000	26,000	---	---	182,000
San Francisco	<u>208,000</u>	<u>104,000</u>	<u>52,000</u>	<u>---</u>	<u>3,000</u>	<u>367,000</u>
	1,560,000	1,092,000	520,000	46,000	5,000	3,223,000

3,223,000 sheets at \$.50.42 per M.....\$162,503.66

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.....	728,000	\$12,288.64	\$11,611.60	\$ 9,252.88	\$ 3,552.64	\$ 36,705.76
New York....	1,092,000	18,432.96	17,417.40	13,879.32	5,328.96	55,058.64
Philadelphia	403,000	6,802.64	6,427.85	5,122.13	1,966.64	20,319.26
Cleveland...	135,000	2,278.80	2,153.25	1,715.85	658.80	6,806.70
Atlanta.....	316,000	5,334.08	5,040.20	4,016.36	1,542.08	15,932.72
Minneapolis.	182,000	3,072.16	2,902.90	2,313.22	888.16	9,176.44
San Francisco	<u>367,000</u>	<u>6,194.96</u>	<u>5,853.65</u>	<u>4,664.57</u>	<u>1,790.96</u>	<u>18,504.14</u>
	3,223,000	\$54,404.24	\$51,406.85	\$40,964.33	\$15,728.24	\$162,503.66

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,

Deputy Commissioner

TREASURY DEPARTMENT
OFFICE OF THE SECRETARY
WASHINGTON

X-3744

June 7, 1923

The Governor

Federal Reserve Board.

Sir:

You are hereby advised that the Department has referred to the General Accounting Office, Civil Division, for settlement, the account of the Bureau of Engraving and Printing for preparing Federal Reserve notes during the period May 1 to May 31, 1923, amounting to \$131.09, as follows,-

FEDERAL RESERVE NOTES, 1918

\$1000

Atlanta	2,000
San Francisco	600
	<u>2,600</u>

2,600 sheets at \$50.42 per M \$131.09

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	2,000	\$33.76	\$31.90	\$25.42	\$9.76	\$100.84
S. F'cisco	600	10.13	9.57	7.63	2.92	30.25
	<u>2,600</u>	<u>\$43.89</u>	<u>\$41.47</u>	<u>\$33.05</u>	<u>\$12.68</u>	<u>\$131.09</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,
S. R. JACOBS,
Deputy Commissioner.

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF KENTUCKY

Farmers & Merchants Bank
of Catlettsburg, Kentucky,

Plaintiff,

v.

BILL OF COMPLAINT.

Federal Reserve Bank
of Cleveland, Ohio,

Defendant.

Now comes the plaintiff Farmers & Merchants Bank of Catlettsburg, Kentucky, and for its cause of action against the defendant Federal Reserve Bank of Cleveland, Ohio, says:

That the plaintiff Farmers & Merchants Bank of Catlettsburg, Kentucky, is a banking corporation, duly created, organized and existing under and by virtue of the laws of the State of Kentucky, with its principal place of business and its banking house located in the said City of Catlettsburg, in Boyd County, Kentucky, with power to sue and be sued, and to conduct and carry on a general banking business subject to the laws, regulations and supervision of the State of Kentucky,

That the defendant Federal Reserve Bank of Cleveland, Ohio, is a banking corporation created, organized and existing under and by virtue of the laws of the United States of America and being the Fourth of the twelve regional banks provided for by an Act of Congress known as the Federal Reserve Act, with its principal office and place of business in the City of Cleveland, Ohio, and with power to sue and be sued and to carry on a banking business pursuant to the provisions of the said Federal Reserve Act, and particularly to carry on business in the

states of Ohio, Pennsylvania, West Virginia and Kentucky, and composed of member banks in said states.

The plaintiff says that the defendant has unlawfully, wrongfully, intentionally, wilfully and maliciously interfered with, intermeddled in, and injured the plaintiff in its manner, method and established custom of conducting its banking business which it was doing under, by virtue of, and in accordance with, the laws of the Commonwealth of Kentucky, in that, it annoyed, embarrassed, coerced, attempted to coerce, interfered with, intermeddled in, and injured the banking business of the plaintiff by certain wrongful and unlawful acts and conduct, including that hereinafter set forth in detail.

The plaintiff says that on September 12th, 1916, when its said banking business was incorporated, that it was the purpose of its said incorporators in creating and organizing under the state laws of the Commonwealth of Kentucky, to avoid the rules, compliances, requirements restrictions and laws regulating and governing the banks created and existing under the Acts of Congress known as the Federal Reserve Act; and to organize and comply with the acts and statutes of the Commonwealth of Kentucky so as to render itself amenable only to the jurisdiction of the laws of said Commonwealth of Kentucky.

That at all times herein mentioned, and long since, it has been the policy and custom of the Commonwealth of Kentucky to promote and encourage the growth and development of the business of banking in said State and particularly to promote and encourage the establishment and conduct of banks in small towns and rural communities so as to furnish

the citizens of Kentucky residing in such small towns and rural communities with a safe depository for their money, to keep the capital and earnings of such communities within themselves, where it would be available to such communities so creating and earning said capital as loans to be used in the growth and development of these communities' industries; that the town of Catlettsburg, Boyd County, Kentucky, is a small town, having a population of about 4500 people; that it is a farming town, or one located in a farming community; that there is but one industry or manufacturing plant, to-wit, a flouring mill of small capacity in the said town; that the banking business of the plaintiff is largely local and relatively small, in comparison to the business of the defendant; that the plaintiff bank is what may be, and is hereinafter, termed, a "country bank"; that its depositors are mostly farmers, small merchants and residents of the town of Catlettsburg and of the County of Boyd; that the character of funds so deposited with it by its said depositors is mostly checks and drafts; that of such deposits so made with it by its said depositors only a small percentage is cash or currency; that about five (5) per cent of its average daily deposits so made with it by its said depositors is in currency or cash; that about ninety five per cent (95%) of said deposit is checks and drafts, or evidences of credit other than currency; that at all times herein mentioned the plaintiff has accepted from its depositors on deposit with it said checks, drafts and other deposits, as well as currency; that one of the important functions performed by the plaintiff is the use of checks payable on demand drawn by depositors against deposits in said bank which are used

in commercial transactions in lieu of the actual money, and that said check is the instrument by which the depositor ordinarily seeks to withdraw funds, or a part thereof, which have theretofore been deposited by him with the plaintiff bank.

Plaintiff says that it has always been the custom in country banking circles and particularly in the community in and near Catlettsburg, Boyd County, Kentucky, to honor checks drawn by its depositors on funds on deposit with a country bank and particularly on deposit with this plaintiff by paying the same over the counter in cash, when circulated and negotiated locally, and that by reason of such custom so established the plaintiff bank, by the long experience it has had in banking business in this community, based upon the law of averages, know approximately just what sums of money would daily be demanded of it by the public in payment of checks over the counter in cash.

That it was also an old and established custom in banking circles in said community, and particularly with this plaintiff, for the depositors of such small country banks to give their checks drawn against funds on deposit with such country bank to wholesale and retail merchants and other persons residing in large cities and business centers at a distance from said rural community and from the town of Catlettsburg, Boyd County, Kentucky, in settlement of commercial transactions had with such non-resident persons; that the volume of checks so given to such non-resident persons in settlements of commercial transactions so had with them was large in comparison with the volume and sum total of checks given by depositors and negotiated and circulated locally; that it has long been the established custom and practice of

country banks, and particularly of this plaintiff, to handle checks given to such non-resident persons by depositors and drawn on funds on deposit with this plaintiff, daily, through the mails by correspondence, and that when such checks are thus sent through the mails to this plaintiff, service is demanded of the country bank upon which they are drawn, and of which this plaintiff is one, in the following manner:

Record must be made showing from whom the check was received; the amount thereof entered upon such record; the party transmitting such check being a non-resident of the community in which said country bank is located, expects, and must have, a remittance of the proceeds of said checks in funds available at the place of the sender's residence, or else in New York Exchange, which by natural banking customs has grown to be current throughout this community, and it thus becomes incumbent upon the country bank to maintain in New York, Cincinnati, or elsewhere, funds to be drawn upon to cover remittances necessary to take care of the proceeds of checks thus sent to it through the mails. These funds are maintained by the plaintiff, likewise by all the country banks, through the medium of deposits to its credit in banking institutions located at such financial centers and which deposit accounts must be maintained in amounts adequate at all times to meet the average necessities of the drawee bank and to cover the total sum in transit against said drawee bank; the maintenance of such deposit funds or correspondent reserve funds is necessarily an expense in as much as it is usual and customary for such correspondent banks to pay in interest only 2-1/4 per cent. interest on the daily balance in such funds to the credit of such country bank and there are numerous other duties and expenses in connection

therewith. When such checks are received through the mails, a draft is drawn by the plaintiff or country bank against the fund on deposit with its city correspondent bank to cover the amount of such check; this draft must be and is written up by a competent and experienced person and duly recorded in the records of the plaintiff or other country bank and properly charged to the account of the correspondent bank, a letter of remittance must be prepared and written and the draft enclosed therewith, and postage paid for the return of the letter and remittance through the mails; the completed transaction must be recorded in the drawee bank, and it must see to it that its correspondent reserve fund is always ample to meet all checks or drafts so given against its correspondent bank and, if necessary, it must send either currency or other credit to said correspondent bank to meet said checks or drafts, so clearing the non-resident person's checks.

The plaintiff at all times herein mentioned kept and maintained such correspondent reserve funds with the Fifth-Third National Bank of Cincinnati, and Hanover National Bank of New York City, for the express purpose of clearing and handling such checks as its depositors gave to persons non-resident to the community of Catlettsburg. The mailing of checks and the expressing of currency to such correspondent bank took some few days' time and the mailing of such checks of such non-resident persons to the plaintiff took time; the checks were charged to the plaintiff bank by its correspondent as soon as received by it so as to render the credit at once available to the non-resident person. In such manner the plaintiff lost some interest and use of its money. All of

this service of so clearing checks for such non-resident persons was an expense to the plaintiff and is likewise expensive to all like country banks, and by reason of such expense and the risk incident to loss of any item by reason of theft or robbery of the mails, made it reasonable and necessary, and it was long an established custom, for such country banks to make a charge of one-tenth of one per cent. on the amount of all such checks so cleared by it for such non-resident persons through its correspondent banks by mail, which was deducted from the proceeds of such checks, and which charge is commonly known in all banking circles as "Exchange", and will hereafter be so referred to. The continuation of the old and established right of such country banks to charge such exchange is essentially important to such banks and particularly to this plaintiff, and any interference with such right to so charge exchange necessarily injures, damages and embarrasses the plaintiff.

The plaintiff says that the services thus required of it to handle and clear checks drawn upon funds on deposit with it by depositors and sent through the mails for collection by non-resident persons, as above described, necessarily increases its expense of doing business; that this service directly inures to the benefit of the payee or original recipient of said check and the subsequent holders thereof by endorsement in the regular course of business, and is the primary means through which checks have come to be so large an element in the media of exchange in lieu of actual currency; that in order to compensate for this service, it has long been the universal custom of banks generally, and particularly

of this plaintiff, to make a charge of one-tenth (1/10) of one per cent of such checks so cleared which is deducted from the proceeds of the amount named therein and is commonly called "Exchange"; that such a charge is customary and long established in banking circles in this community, and is entirely proper to cover the expense of the plaintiff in handling such checks cleared through the mails and correspondent banks, and constitutes one of the most important sources of revenue and income to the plaintiff in its said banking business; that the custom, practice and right of the plaintiff to make such an "exchange" charge for so clearing checks by correspondence is a property right belonging to the plaintiff, and is essentially important to its success and prosperity in the performance of its functions and the carrying on of its banking business under its charter and under the statutes of the Commonwealth of Kentucky;

That when a bank foregoes any such "exchange" charge for the collection and remittance of checks and gives such service free to the non-resident persons holding such checks as heretofore described, and forwards draft to cover the amount of such checks through the mails, without making any deduction for service, that the banking term then employed in such case is called "remitting at par", and is hereinafter referred to as such.

The plaintiff says that the prosperity, success, and, in fact, the very life of its banking business depended absolutely upon the degree of confidence, trust and good will reposed in its officers, agents and in its good name by the citizens and residents of the town of Catlettsburg, Kentucky, and the banking community around said town, with which the plaintiff was offering to do business, and from which it was

securing its depositors, in order to hold old depositors accounts and secure new ones; that the officers and agents of the plaintiff had been, prior to the incorporation of this plaintiff, engaged in the banking business in the town of Catlettsburg for a great many years and were held in high regard by the public in the said town and in the banking community around it; that from the date of its incorporation up until the times of the acts of the defendant hereinafter complained of as herein set out in part, in detail, the plaintiff banking institution had rightly and deservedly held and enjoyed the confidence, trust, faith and good will of the public in the said town of Catlettsburg, and in the banking community around said town by reason of its fair dealing, established custom and manner of conducting its business in strict and faithful compliance with, and observance of the laws of the Commonwealth of Kentucky; that said confidence, faith, trust and good will were a good and valuable asset and property right well and deservedly earned by the plaintiff and of great and real value to it; that it had a large number of depositors and that the account of each depositor was a real value to plaintiff in its said banking business;

That the Federal Reserve Act was passed and enacted by the Congress of the United States of America in the year 1913, for the purpose and design of affording and furnishing a more elastic currency and more practical means of rediscounting commercial paper, establishing a more effective supervision of banking in the United States, and providing for the establishment of Federal Reserve Banks; that under this Act, the territory of the United States was divided into twelve districts

and provision was made for the creation of a Federal Reserve Bank for each of said districts, the defendant bank herein being created under said Act for the Fourth District therein set off under said Act; that the said Fourth District takes in and includes that part of the State of Kentucky in which is located the town of Catlettsburg, in Boyd County, Kentucky, and in fact, includes in its jurisdiction the territory of all of Eastern Kentucky as the same is designated in the Judiciary Act creating the District Court of the United States for the Eastern District of Kentucky; that the defendant bank as a body corporate is composed of member banks resident in its said district, and particularly of member banks resident in the State of Kentucky, which member banks are subscribers to and owners of the capital stock of such reserve bank, the stock of each member bank being apportioned to it in accordance with its individual capital and surplus; that all National Banks are required by said Act to become members of the Federal Reserve Bank in the district in which said national bank is located; that no state bank is required to become a member of such Federal Reserve Bank by said Act, and that said Federal Reserve Banks are by said Act given no power, authority, regulation or supervision over such state banks; that said Act does make provision for the voluntary acquisition of membership in said Federal Reserve Bank by banks incorporated under legislative enactment of the States, such, for instance, as the plaintiff in this case; provided, however, that such state bank shall have the minimum capital stock required of national banks, shall subscribe and purchase the pro-rate of capital stock in said Federal Reserve Bank apportioned to it, and otherwise comply with the said Act.

Plaintiff says that at no time and in no manner has it done anything to signify its consent to be regulated, supervision or controlled by the defendant, nor has it ever brought itself under the power, authority or control of the defendant.

The plaintiff says that since its incorporation the defendant Reserve Bank has been a powerful factor in the banking business of the said Fourth District as the same is designated under said Act of Congress, and particularly in the State of Kentucky, and in the town of Catlettsburg, and in the banking community around said town; that it has handled and controlled billions of dollars of credit and money, and has exercised and exerted an enormous power and influence upon the banks and banking business and the whole scheme of finance in said territory, district state and community; that by reason of its immense power, control and authority over practically all the large banks in said district, its least intimation becomes law to such banks and its slightest desire is sought to be satisfied and composed by such banks in its said district; that in accordance with a plan and policy adopted by the Federal Reserve Board, the defendant bank has adopted, inaugurated and enforced, since about January 1st, 1920, a policy and plan for the par clearance of checks by all banks within its said district and particularly by the plaintiff herein; that on or about the 23rd day of December, 1919, the defendant advised the plaintiff by circular letter that from and after the 1st day of January, 1920, it would require of the plaintiff that the plaintiff clear checks at par; that the plaintiff should forego its right to charge exchange for clearing checks; that the service incident to remitting the proceeds of such checks should be furnished

by the plaintiff without any compensation whatever; and to this end the defendant Reserve Bank soonthereafter sent its agents and representatives, and particularly it sent its duly authorized agent, one M. C. Magee, to the town of Catlettsburg to call upon the plaintiff and importune and persuade it to change its old and established manner and method of conducting its said banking business and to adopt the new plan of par clearance of checks desired to be universally adopted and enforced by the defendant in its said Fourth District.

The plaintiff did not desire to change its old and established manner and method of carrying on and conducting its said banking business, and so advised at all times the various agents and representatives sent to it by the defendant. These various agents and representatives of the defendant attempted to obtain from the plaintiff its signature to a written agreement agreeing to remit at par and to waive its right to charge exchange on all such checks as were presented by the defendant by correspondence for clearance through the mails as aforesaid. But the plaintiff has at all times refused to sign such agreement, and has always insisted and still insists on its right to charge exchange on such checks as it remits by mail as aforesaid.

The plaintiff says that thereupon the defendant schemed, planned and determined to, and did, unlawfully, wrongfully, maliciously, and wilfully, exert and exercise its said immense power, influence, resources and authority to, and did, annoy, embarrass, coerce, interfere with, intermeddle in, and injure the banking business of the plaintiff

for the purpose of forcing the plaintiff to agreeing to remit at par, and of performing the services incident to the clearance of checks by mail without any compensation, and of changing its old and established manner and method of conducting its banking business to suit the will and desire of the defendant.

And if such unlawful acts should fail to force and coerce the plaintiff into doing the will of the defendant, then it was the purpose and intention of the defendant to completely destroy the banking business of the plaintiff; that pursuant to such plan, scheme and determination the defendant Reserve Bank advertised to all the banks in the United States that it would undertake to collect free of cost all checks drawn upon the plaintiff by the depositors of the plaintiff and which had been mailed out of the town of Catlettsburg. This was accomplished by the defendant putting the name of the plaintiff bank upon the "par list" as the same was then prepared, printed and published to the various banking houses in the United States, on or about the 1st day of January, 1920, which advertisement had the immediate effect and result of, and did, withdraw from the old and customary banking channels established by the plaintiff with its correspondent banks, a very large part, in fact practically all, of the said checks drawn on the plaintiff by its depositors and sent out of the town of Catlettsburg, and gathered and assembled said checks into the hands of the defendant for the purpose of having them cleared without cost to the owners or holders thereof;

That after the defendant had obtained the possession of said checks as aforesaid, it again sent its agents and duly authorized representatives to call upon the plaintiff for the purpose of, and they

did attempt to persuade the plaintiff to enter into an agreement in writing to remit for said checks at par. Failing in this, said representative attempted to intimidate the plaintiff by threats of injury to, and interference with its business as it was then conducting the same, and failing through threats to obtain such agreement to remit at par, the defendant then presented each day all the said checks so coming into its hands for collection at the counter of the plaintiff and demanded the payment of said checks in cash over the counter; that some time during the month of January, 1920, the defendant first began the collection of all such checks in cash over the counter of the plaintiff by use of the American Railway Express Company; that the defendant collected all such checks drawn on the plaintiff by its depositors and so going out of the town of Catlettsburg by means of the aforesaid advertisement into its branch at Cincinnati, Ohio, and there delivered said checks to said Express Company with instructions to said Express Company to present said checks at the counter of the plaintiff bank and demand cash in payment thereof, and with further instructions to accept payment in no other form or evidence of credit than cash.

Plaintiff says that it offered said Express Company a draft drawn on the Fifth-Third National Bank of Cincinnati against funds it there had on deposit to its credit in payment of said checks so presented to it by said Express Company, but such draft was refused and payment demanded in cash, or the Express Company stated that said check or checks would be protested for non-payment;

That the said Express Company so continued to make such collections in such manner on behalf of the defendant for some four or five

weeks, at which time the defendant employed a local personal agent in the town of Catlettsburg and instructed said agent to, and said agent did, daily, receive from its said Cincinnati Branch, by mail, such checks as were sent out of town by its depositors and drawn on funds on deposit with the plaintiff and which came into the hands of the defendant by reason of said advertisement of the defendant undertaking to so collect and clear said checks free of cost to the owners and holders thereof, and did daily present said checks at the counter of the plaintiff and demand payment thereof in cash; that the plaintiff would daily offer to said agent in payment of said checks a draft drawn on the Fifth-Third National Bank of Cincinnati, against funds on deposit with said bank in the name and to the credit of the plaintiff bank, which was always refused and cash demanded, and the threat made by such agents that if payment were not made in cash the said checks would be protested by said agents for non-payment; that the defendant continued to so make collections of said checks in cash over the counter of the plaintiff for about eighteen months and until enjoined from so doing by temporary restraining order directed from the District Court of the United States for the Eastern District of Kentucky; that such collections so made by said agents in cash over the counter of the plaintiff were continued and inaugurated by the defendant for the purpose of coercing, forcing and compelling the plaintiff to sign a written agreement with the defendant agreeing to remit for such checks at par and without cost or charge to the owners of said checks.

Plaintiff says that such collections so made by defendant in cash over the counter of all such checks going out of the town of

Catlettsburg, so drawn on it by its said depositors against funds on deposit with it was, and is a manner and method of clearing foreign items heretofore unheard of in banking circles, and so interfered with and destroyed the established manner, custom and practice of the plaintiff in conducting and carrying on its said banking business, as to greatly injure and damage it; that such collection in cash over the counter destroyed the law of averages then existing in the town of Catlettsburg in the practice and experience of clearing checks over the counter as the same had existed at all times prior to such unlawful interference by the defendant with said law of averages, and such collection of said checks in cash over the counter so broke down and destroyed the economic laws relating to the business of banking in the town of Catlettsburg as the same related to and affected the plaintiff's banking business, as to destroy and greatly injure the plaintiff's said business; that said practice of so collecting said checks in cash over the plaintiff's counter drained the vaults of the plaintiff of all cash and currency left on deposit with it by its said depositors and created an unusual and unreasonable demand upon the plaintiff for cash and currency much in excess of all the cash left on deposit with it by its said depositors and caused it to go out into the banking community in and about the town of Catlettsburg, and borrow and secure cash to meet the payment of the checks so sent out of the town of Catlettsburg and so procured by the defendant and presented at the counter of the plaintiff for payment in cash; that such manner and practice of so collecting said checks in cash over the counter left the plaintiff with no available cash to lend its patrons or any other person and entirely took away from the plaintiff the power and

right to earn money by its old and established custom of making loans at legal rates of interest; and embarrassed, annoyed, harrassed, injured and damaged the business of the plaintiff by exciting and raising a suspicion in the public mind of the citizens of Catlettsburg and of the depositors of the plaintiff as to the solvency of the plaintiff's said banking institution and caused the plaintiff to thereby lose old and established accounts of depositors as well as future and prospective accounts of new depositors.

That the defendant's said agents and duly authorized representatives conducted themselves in and about the plaintiff's said banking house while presenting and collecting said checks in cash over the plaintiff's counter in a loud, boisterous and quarrelsome manner so as to, and did, attract the attention of the public and of the plaintiff's depositors to the fact that something very unusual was going on in said banking house, and with the purpose of, and did create a suspicion in the minds of the depositors and of the public generally about said town that the plaintiff's banking business was being improperly and unlawfully managed and conducted; that said agents and representatives took occasion to create scenes and disturbances at times when there would be many customers of the plaintiff in the lobby of the plaintiff's bank so as to further impress the minds of said depositors with the suggestion that the plaintiff's banking business was being improperly conducted by the plaintiff;

That said agents and duly authorized representatives went about in the said town of Catlettsburg so conducting themselves as to

create and direct suspicion against the plaintiff, and called upon various old and new depositors of the plaintiff and by persuasion and suggestion, and positive assertion, undertook to have them withdraw their accounts from the plaintiff's banking house and do their banking business elsewhere; and that said agents and duly authorized representatives called upon merchants and professional men in said town for the purpose of ascertaining the sources of supply of plaintiff's cash deposits, with intent to cut off said supply of cash from plaintiff, and for the purpose of creating suspicion against the plaintiff and having said depositors withdraw their accounts from the plaintiff's bank; that by reason thereof, a larger number of plaintiff's depositors did withdraw from the plaintiff's banking institution their accounts, some of which were of great, and all of which are of real, value to the plaintiff.

The plaintiff says that in order to protect itself against the practice of the defendant in collecting into its hands all of the checks so drawn on the plaintiff by its depositors and sent outside of the town of Catlettsburg, and then presenting these checks in a body at the counter of the plaintiff and demanding payment in cash thereof, the plaintiff adopted the plan of stamping all of its blank checks which it furnished to its depositors with this endorsement: "Payable in cash or exchange draft at the option of the Farmers & Merchants Bank, of Catlettsburg"; that when such checks bearing such endorsement came into the hands of the defendant during the aforesaid eighteen months the defendant was collecting said checks in cash over the counter and otherwise bringing its enormous influence and power to bear heavily upon the

plaintiff for the purpose of coercing it into signing an agreement to remit at par, that the defendant, knowing the plaintiff would exercise its privilege of payment of checks so endorsed by exchange draft, would and did return said checks to the holders or owners thereof, or to the payee named in the check, together with a form letter, or with a "slip" or "rider" attached thereto with a statement thereon conveying the idea or suggestion that said check was not negotiable, or that the plaintiff's bank was closed, or that the plaintiff's bank funds were attached or tied up in some court proceeding, or was insolvent, or that the maker of said check was without funds to meet said check, and otherwise by action or statement advise, intimate, suggest, infer or state to the said holder owner or payee of said check, that the plaintiff bank was not meeting its lawful obligations and duties, or that the maker of said check was not meeting his lawful obligations, for the purpose of, and did cause the owner, holder or payee of said check to complain to the maker thereof, who was a depositor of the plaintiff, in order that the said depositor might be, and he did become dissatisfied, suspicious and distrustful of the plaintiff and withdraw his account from the plaintiff's bank.

The plaintiff says that the number of such "follow-up letters" slips or "riders" so sent out through the mails by the defendant so as to and did reach the plaintiff's depositors was very large; that the effect and result of such action and each letter, slip or rider so sent was intended to and did injure the credit and reputation of such depositors with the commercial world extending credit to and doing business with its said depositors, and likewise so injured and damaged the credit and reputation of the plaintiff as a banking institution, and

further injured and damaged the plaintiff by the withdrawal by depositors of their accounts for the plaintiff's bank.

The plaintiff says that as an additional measure of torture the defendant maliciously, wrongfully and intentionally further sought to, and did damage and injure the good name and reputation of the plaintiff by advising certain banks with whom the plaintiff had by long practice and custom established good credit and done a large volume of its banking business, that no checks, draft or commercial banking paper bearing the endorsement or name of the plaintiff bank would be accepted or handled by the defendant, thereby suggesting, intimating and naming to said banks that the business reputation, credit and name of the plaintiff bank was so rotten that no paper bearing its endorsement, no matter who the maker, or how good the paper otherwise might be, would be accepted by the defendant.

The plaintiff says that it has always been its practice and custom to clear at par all items called "Government Items", and being checks and drafts given to the United States Government by depositors in payment of some obligation due it and drawn on the plaintiff by reason of its clearing such items; that such has always been the universal practice among all banks in the United States at all times; that this fact was well known to the defendant and also it was well known to the defendant, that the plaintiff had a large number of depositors who monthly, yearly, or quarterly paid an income tax, or some other form of revenue tax to the Collector of Internal Revenue; that as a final method of torture, one that would reach every good depositor the plaintiff bank held, after much skilled and capable legal advice and with great study

and deliberation, the defendant maliciously, mischievously, and intentionally enlisted and procured the assistance of the Department of Internal Revenue, and of the Collector thereof, at and in the City of Louisville in its campaign of coercion, annoyance, embarrassment and torture against the plaintiff so that for the last two years past said Collector has, at the instigation, request, instance and action of the defendant, refused to accept from any and all depositors of this plaintiff any check drawn upon funds on deposit with the plaintiff in payment of any obligation due the United States Government; that personal checks drawn against state banks are customarily and generally accepted by said Collector in payment of income tax and were customarily and generally so accepted by said Collector when drawn against funds on deposit with the plaintiff by its depositors until the interference and intermeddling of the defendant; that the plaintiff has advised the said collector that it has never demanded, and does not now demand any exchange upon the clearance of checks given to him in payment of Government obligations, but notwithstanding such advice, said Collector has upon the instance and connivance of the defendant continued to refuse to accept any check drawn on the plaintiff bank in payment of said obligation, even without any presentation to or effort to collect said checks; that as a result of such intermeddling and interference the depositors of the plaintiff have been greatly inconvenienced and the business of the plaintiff greatly damaged.

The plaintiff says that the agents and representatives, directors and advisers of the defendant have at all times herein mentioned been selected from the most able and learned, experienced and

capable bankers and lawyers of the United States, and well and fully know the full extent of their every act herein complained of by the plaintiff; that all of the said acts hereinbefore set forth were mischievously, maliciously, willfully, intentionally and wantonly done by the defendant with the intent on the part of the defendant to injure the business of the plaintiff, and with the further intent on the part of the defendant of completely destroying the business of the plaintiff if the plaintiff would not accede to the illegal demand of the defendant whereby the defendant demanded that the plaintiff perform for the defendant services hereinbefore set forth without compensation;

That by reason of the acts and conduct of the defendant aforesaid; the plaintiff has been damaged and injured, in that it has been forced to procure unnecessarily and unusually large quantities of currency and money at a large expense; it has been required to keep a larger amount of reserve in cash in its vaults for a period of more than eighteen months and also larger amounts of money with its correspondent banks than it would otherwise have been required to keep; that it has lost the earning power of a great deal of money; has lost many old and good accounts of depositors; has been unable to develop new business; has suffered much annoyance, embarrassment, worry and expense in the conduct of its business and affairs; has lost many thousands of dollars of deposits from new and old depositors that would otherwise have been deposited with it; has failed to continue with the growth of its business; has greatly suffered and been damaged in its reputation and financial standing in the community in which it does business, and throughout the United States generally has been grossly and permanently injured, and the reputation and financial

standing of the plaintiff bank, generally, has been lost to it, and that many depositors have withdrawn their accounts from the custody and business control of the plaintiff; that new depositors have refrained from opening accounts and depositing their money with the plaintiff; and that the growth and prosperity of the plaintiff's banking business has been permanently injured by reason of the acts aforesaid so committed by the defendant and its agents and duly authorized representatives, in the sum of Fifty Thousand Dollars (\$50,000.00).

The plaintiff further says that all of the acts and conduct hereinbefore complained of and so committed by the defendant, its agents and duly authorized representatives, were committed as hereinbefore alleged with malice, knowledge and intent on the part of the defendant, and with the intent and desire to oppress, hinder, embarrass, annoy, injure and coerce the plaintiff; that the defendant bank was created under said Reserve Act with resources of many millions of dollars for the purpose of "Affording and furnishing a more elastic currency and more practical means of rediscounting commercial paper;" that the defendant has wilfully and intentionally perverted its functions as a Federal Reserve Banking institution; has violated the trust and confidence of the people of the United States, and has used and exerted its enormous power, resources and influence which the people of the United States have entrusted and invested with it for the malicious and wilful intent of injuring and destroying the banking business of the plaintiff, and with the malicious and oppressive intent of destroying the plaintiff's said banking business; that the defendant should be punished by reason of

the malicious, wilful, intentional and wanton character of the acts and conduct aforesaid, all of which were and are prompted by the bad motive as hereinbefore set forth, and in complete and utter disregard of its social and legal obligations, and likewise in disregard of the legal and lawful rights of the plaintiff; and that by reason thereof the plaintiff is entitled to exemplary damages against the defendant in the further sum of One Hundred Thousand Dollars (\$100,000.00).

WHEREFORE, the plaintiff, Farmers & Merchants Bank of Catlettsburg, Kentucky, prays for a judgment against the defedant Federal Reserve Bank of Cleveland in the sum of One Hundred and Fifty Thousand Dollars (\$150,000.00), for its costs herein expended, and for any and all other relief to which it may appear to be entitled, either at law or in equity, as well as its costs herein expended.

John L. Smith

George B. Martin

Attorneys for the Plaintiff.

UNITED STATES DISTRICT COURT,
NORTHERN DISTRICT OF OHIO,
EASTERN DIVISION.

Chase Stewart,

PLAINTIFF,

-VS-

The Federal Reserve Bank of
Cleveland, Fourth District of the
United States, a corporate body,
and John A. Best as Receiver of
The Springfield National Bank of
Springfield, Ohio.

DEFENDANTS.

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B I L L
O F
C O M P L A I N T.

The plaintiff above named files this his Bill of Complaint
herein, and for his cause of action respectfully shows to your Honor;

This is a suit of a civil nature in equity, in which the
matter in controversy, exclusive of interest and costs, exceeds \$3000,
and arises under the laws of the United States; and is for winding up
the affairs of a National Banking Association.

FIRST.

That the plaintiff, Chase Stewart, was at the time of the
commencement of this action and still is a resident and citizen of the
City of Springfield and State of Ohio.

That the defendant, the Federal Reserve Bank, is a body corporate created and duly organized under the Federal Reserve Act of the United States, and was at all times mentioned herein and still is doing business in its said corporate capacity, with its principal place of business in the City of Cleveland in said District. The Springfield National Bank is a National banking corporation organized and existing under the National Banking Laws of the United States and has its principal office and place of business in the City of Springfield, Clark County, Ohio, and is a member bank of said Federal Reserve Bank.

SECOND.

Plaintiff avers that on March 6, 1923, said Springfield National Bank, by order of the Federal authorities, closed its doors and since that date has carried on no business, and the defendant John A. Best has been appointed Receiver of said bank by the Comptroller of the Currency, and is now duly qualified to act and act as such and is in control of said bank and its property and is proceeding to liquidate and wind up its business affairs.

Shortly prior to the closing of said Springfield National Bank, for value, it executed its certain promissory note for forty thousand dollars (\$40,000.00) in favor of the defendant, the Federal Reserve Bank of Cleveland, and U. S. Liberty Bonds in the sum of forty thousand dollars (\$40,000.00) accompanied said note as collateral for its payment, said note and bonds being sent to said Federal Reserve Bank by A. H. Penfield as Cashier of said Springfield National Bank, There was included in said collateral the following Liberty Bonds at the par value of \$14,000.00, all of which belong to the plaintiff,

to-witt:

G.	1435024	\$1,000.00	
G.	1435025	1,000.00	
G.	1435026	1,000.00	5th Victory
G.	1435027	1,000.00	
G.	74518	5,000.00	
L.	2421543	1,000.00	
	747555	1,000.00	
	747554	1,000.00	3d 4½
	1387038	1,000.00	
	1220706	1,000.00	
TOTAL..		\$14,000.00	

Plaintiff avers that said bonds had been deposited by him in said Springfield National Bank for safe keeping prior to the closing of said bank and were wrongfully taken from the vault of said bank by its said Cashier and wrongfully appropriated by him as such Cashier and forwarded to said defendant, the Federal Reserve Bank, together with additional bonds as collateral, in the manner aforesaid, and all without the knowledge or consent of the plaintiff. At the time of the closing of said Springfield National Bank said bonds belonging to the plaintiff were in the possession of the defendant, the Federal Reserve Bank, and were retained by it until on or about March 8, 1923, when, as the plaintiff is informed and believes, said Federal Reserve Bank sold said bonds and applied the proceeds arising from such sale, to wit, more than \$14,000.00, in payment of said \$40,000.00 note. At the time of the sale of said bonds and since, said Springfield National Bank had and has a balance to its credit in said Federal Reserve Bank greatly in excess of the proceeds derived from the sale of plaintiff's said bonds.

Shortly after the closing of said Springfield National Bank and immediately upon learning of the wrongful misappropriation of his bonds and the shipment of the same to said defendant, the Federal Reserve

Bank in the manner aforesaid, plaintiff notified said defendant of his ownership of said bonds and demanded their return to him. Upon being advised by said defendant that said bonds had been sold and the proceeds applied in the manner aforesaid, plaintiff without delay notified said Federal Reserve Bank that if his said bonds were beyond its control and could not be recalled he would and did make claim for the proceeds arising from said sale; but neither said bonds nor the proceeds thereof have hitherto been returned to him. Plaintiff avers that the effect of the application by said defendant, the Federal Reserve Bank, of the proceeds arising from the sale of plaintiff's said bonds to the payment and satisfaction of said note of the said Springfield National Bank has been and is to cause the assets and property of said Springfield National Bank in the hands of said defendant, the Federal Reserve Bank, and subject to distribution to the creditors of the Springfield National Bank by the defendant John A. Best, Receiver, to be increased in an amount equal to the proceeds of said bonds, to which amount neither said Springfield National Bank nor its Receiver was at any time entitled; and he avers that said Federal Reserve Bank had the right in law and equity upon being advised of the wrongful taking and misappropriation of plaintiff's bonds in the manner aforesaid and since, to charge said Springfield National Bank account with the amount of the proceeds arising from the sale of plaintiff's said bonds in the manner aforesaid, and said Federal Reserve Bank is in law and equity under obligation so to do.

Plaintiff says that by reason of the premises he is entitled to be subrogated to all the rights of said Federal Reserve Bank in and

as against the balance that stood to the credit of the said Springfield National Bank in said Federal Reserve Bank at the time of the closing of said Springfield National Bank and thereafter, in an amount equalling the proceeds from the sale of plaintiff's bonds by the Federal Reserve Bank in the manner aforesaid.

Plaintiff has no adequate remedy at law and unless prevented by the order of this Court the property of the plaintiff will be turned over to said Receiver by the Federal Reserve Bank, and will be distributed by him to the general creditors of said Springfield National Bank on final distribution.

WHEREFORE, plaintiff prays that defendants be required to answer but not under oath, answer under oath being waived and for a decree that he succeed to or be permitted to avail himself of all the rights of the Federal Reserve Bank that it had at any time to the bonds of plaintiff, or to the proceeds derived therefrom, and that said Federal Reserve Bank be ordered to pay the plaintiff, if said bonds are beyond its control and cannot be recalled and delivered to plaintiff, the proceeds derived from the sale of said bonds, and that said account of the Springfield National Bank be charged with the amount so to be paid plaintiff as aforesaid, or in the event that the amount representing the proceeds derived from the sale of plaintiff's bonds applied on the indebtedness of the Springfield National Bank in the manner aforesaid is turned over to the defendant the Receiver of The Springfield National Bank, that said Receiver be ordered to pay to plaintiff the amount of his said claim therefrom, and for all proper relief.

S. H. WEST

JAMES G. JOHNSON

JOHN M. COLE

Solicitors for Plaintiff.

UNITED STATES DISTRICT COURT,
NORTHERN DISTRICT OF OHIO,
EASTERN DIVISION.

Chase Stewart, PLAINTIFF

vs.

The Federal Reserve Bank,
Fourth District of the United
States, a corporate body, and
John A. Best, Receiver of The
Springfield National Bank of
Springfield, Ohio, a banking
corporation,

DEFENDANT,

P R E C I P E.

The Clerk of said Court will issue separate writs of subpoenas to said defendants, one of which for The Federal Reserve Bank to be directed to the Marshal for the Northern District of Ohio, Eastern Division, and the other in duplicate subpoena for the defendant John A. Best, Receiver of The Springfield National Bank to be directed to the Marshal of the United States District Court for the Southern District of Ohio, Western Division, returnable according to law.

S. H. WEST
JAMES G. JOHNSON
JOHN M. COLE,
Solicitors for Plaintiff.

IN THE DISTRICT COURT OF THE UNITED STATES
FOR THE NORTHERN DISTRICT OF OHIO
EASTERN DIVISION.

In Equity No. 887.

Chase Stewart,)	
	:	
Plaintiff,)	
	:	
vs.)	
	:	
The Federal Reserve Bank of)	
Cleveland, Fourth District	:	ANSWER OF THE FEDERAL RESERVE
of the United States, a cor-)	BANK OF CLEVELAND.
porate body, and John A. Best	:	
as Receiver of The Spring-)	
field National Bank of Spring-	:	
field, Ohio.)	
	:	
Defendants.)	

The defendant, The Federal Reserve Bank of Cleveland, for answer to the bill of complaint filed herein says:

1. It admits that this is a suit of a civil nature in equity of which this Court has jurisdiction; That the plaintiff, Chase Stewart, was at the time of the commencement of this action, and still is, a resident and citizen of the City of Springfield, Ohio; that the defendant, The Federal Reserve Bank of Cleveland, Ohio, is a body corporate created and duly organized under the Federal Reserve Act, and was at all the times mentioned herein, and still is, doing business in the City of Cleveland, Ohio; that the Springfield National Bank is a national banking corporation organized and existing under the national banking laws of the United States, with its principal office and place of business in the City of Springfield, Clark County, Ohio, and was and

is at the times mentioned in said bill of complaint a member bank of defendant, The Federal Reserve Bank of Cleveland.

2. The defendant admits that said Springfield National Bank on March 6th, 1923, closed its doors by order of the federal authorities, and that since said date has carried on no business, and that the defendant, John A. Best, has been appointed Receiver of said bank by the Comptroller of the Currency, and is now duly qualified to act, and is acting, as such in the control of said bank and its property, and is proceeding to liquidate and wind up its affairs.

3. The defendant admits on February 26th, 1923, the said Springfield National Bank for value received executed its certain promissory note for \$40,000 in favor of this defendant, and deposited with this defendant United States Liberty Bonds in the sum of \$40,000, as collateral for its payment, said note being in letters and figures as follows, to-wit:

"February 26, 1923.

Ten days after date, for value received, the undersigned bank promises to pay to the order of

FEDERAL RESERVE BANK OF CLEVELAND,
AT ITS OFFICE IN CLEVELAND, OHIO,

Forty thousand - - - - - Dollars,
with interest at the rate of six per cent per annum, from and after the maturity hereof, if the indebtedness evidenced hereby is not then fully paid; having deposited with and pledged to said Federal Reserve Bank, as collateral security for the payment of this or any other liability or liabilities, whether direct or contingent, of the undersigned bank to said Federal Reserve Bank, due or to become due or that may be hereafter contracted, notes, drafts, bills of exchange, or bankers' acceptances, which are

hereby certified to be eligible for re-discount or for purchase by Federal Reserve Banks under the provisions of the Federal Reserve Act, or by the deposit and pledge of bonds or notes of the United States, as described in schedule of collateral hereto attached and made part hereof, marked for identification "Schedule of Collateral", and bearing the same date as this note.

Said Federal Reserve Bank is also given a lien, for the payment of this note and any other of said liabilities, on all the collateral deposited or pledged with said Federal Reserve Bank as security; and it is hereby agreed by the undersigned bank that the said Federal Reserve Bank has the right to call for such additional security as it may deem proper, and, on failure to respond forthwith to such call, or on the non-payment of this note, or on the non-payment of any other liability or liabilities of the undersigned bank as above provided, the said Federal Reserve Bank, or any holder hereof, is hereby given full authority to sell, assign and deliver, or collect, the whole or any part of the above named collaterals as per schedule, or any substitute therefor, or any addition thereto, at any public or private sale or on any brokers' board or stock exchange, at any time or times hereafter, without demand, advertisement or notice; and, upon such sale, the Federal Reserve Bank or the holder hereof may become the purchaser of the whole or any part of such collaterals, discharged from any right of redemption, and, after deducting all legal or other costs and expenses for collection, sale and delivery, may apply the residue of the proceeds of such collections, sale or sales to the payment of any, either or all of said liabilities, as said Federal Reserve Bank, or its assigns, shall deem proper, returning the over-plus to the undersigned bank.

SPRINGFIELD NAT'L BANK
Springfield, Ohio
By A. H. Penfield, Cashier."

4. Defendant admits that there was included in said collateral Liberty Bonds of the par value of \$14,000 as listed in said bill

of complaint, but this defendant has no knowledge, except by the allegations of said bill, that plaintiff was the owner thereof and, therefore, denies said ownership and asks proof thereof.

5. The defendant admits that at the time of the closing of said Springfield National Bank the entire \$40,000 of Liberty Bonds so deposited as collateral security to said note of the Springfield National Bank were in the possession of the defendant, as the bona fide holders thereof, it having acquired the same for valuable consideration in the ordinary course of business, and were retained by it until Saturday, March 24th, at 11:30 A. M., when instructions were given by the defendant Federal Reserve Bank to brokers in the City of Cleveland to sell said bonds, and that in accordance with said instructions said bonds were sold by the said brokers on Monday morning, March 26th. That after said bonds were sold, but prior to the delivery of the proceeds to this defendant, a letter was received from the plaintiff addressed to the defendant dated March 24th, advising that he was the owner of the Liberty Bonds listed in said bill of complaint, which were included in said \$40,000 of collateral.

6. Defendant avers that the amount realized from the sale of said bonds was \$39,715.95, which sum, together with \$85 which was realized from past due coupons dated March 15th, 1923, cut from \$4,000 Third Liberty Loan bonds which were among the bonds claimed by the plaintiff, were applied by the defendant in the payment of said note, which, with interest to said date, amounted to \$40,086.77, leaving a balance due on said note to the defendant of \$267.82, which said balance was on the 26th day of March, 1923, charged against the balance

of the Springfield National Bank, with the defendant, thereby liquidating said note of the Springfield National Bank to this defendant of \$40,000 and interest.

7. The defendant avers that the reserve of said Springfield National Bank required to be on deposit with the defendant under the Federal Reserve Act on March 1st, and subsequent thereto, was \$91,800, computed upon certain percentages of the average demand and time deposits of said Springfield National Bank for the two week period immediately prior to said March 1st. On the 6th day of March, when the doors of said Springfield National Bank were closed by the Comptroller of the Currency, said bank had on deposit with this defendant only the sum of \$28,350.45, and that on the 26th day of March, when said collateral was sold, it had only \$31,586.45 from which amount was deducted the balance due on said note, after applying the proceeds from the sale of said bonds and coupons, the sum of \$287.82, leaving a balance now on deposit with the defendant of \$31,298.63.

8. Defendant avers that in view of the character of the deposit required to be made by the Springfield National Bank with the defendant, thereby creating a fund for the protection of creditors of said Springfield Bank, it was not at liberty or required to apply said deposit to the payment of said \$40,000 note until it had first exhausted the collateral deposited as security for the payment of said note.

Further answering said bill of complaint, this defendant denies each and every other allegation thereof not herein specifically admitted or denied.

WHEREFORE, having fully answered said bill of complaint,
the defendant, The Federal Reserve Bank of Cleveland, asks to go
hence with its costs.

Attorneys for The Federal
Reserve Bank of Cleveland.

FEDERAL RESERVE BOARD

483

WASHINGTON

**ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD**

X-3747

June 14, 1923.

**SUBJECT: Opinions of Supreme Court
in Par Clearance Cases.**

Dear Sir:

There are enclosed herewith for your information, copies of the opinions rendered June 11 by the Supreme Court of the United States in the Atlanta and Richmond Par Clearance Cases. (American Bank & Trust Company v. Federal Reserve Bank of Atlanta and Farmers & Merchants Bank of Monroe v. Federal Reserve Bank of Richmond.)

The Board will advise you later of any change which may be made necessary in the check clearing system as at present operated.

Very truly yours,

Wm. W. Hoxton,
Secretary.

(Enclosure)

TO GOVERNORS OF ALL F. R. BANKS.

(PRINTED ENCLOSURE)

604

FEDERAL RESERVE BOARD
WASHINGTON

X-3749
June 16, 1923

SUBJECT: Foreign Bank Transactions. Discontin-
uance of Participation by F.R. Bank, Boston.

Dear Sir:-

You are being handed herewith copy of a letter directed to Deputy Governor J. H. Case, of the Federal Reserve Bank of New York, which grows out of Boston's discontinuing its participation in the transactions with foreign banks carried on with the Federal Reserve Bank of New York.

I am also handing you a copy of Governor Harding's letter advising of discontinuance of their participation.

Kindly let the Board have the views of your Bank promptly so that they will be available before the Open Market Investment Committee meets on June 26.

Very truly yours,

Governor

(Enclosure)

To all Governors of Federal Reserve Banks
except New York.

635

COPY

FEDERAL RESERVE BOARD.

X-3749a
June 16, 1923.

My dear Sir:

This will acknowledge your letter of June 14th advising of the action of the Federal Reserve Bank of Boston discontinuing its participation in the transactions with foreign banks. The letter of Governor Harding and your letter to him were presented to the Board for consideration. The Board is of the opinion that Governor Harding's letter raises very important questions which challenge the transactions as matters of doubtful public interest.

The Board is of the opinion that the questions raised by Governor Harding's letter and your letter are of such importance as to require thorough consideration. You are therefore advised that the Board is of the opinion that the question should be given consideration at the next meeting of the Open Market Investment Committee which will be held on June 26th.

A copy of this letter is being sent to the Governor's of all the Federal Reserve Banks for consideration.

The Board would like to be advised, and is requesting each of the Federal Reserve Banks to give their views pertaining to the subject matter raised by Governor Harding's letter.

For the information of the Board it is desired that you prepare a statement showing the total amount of free balances growing out of these operations for foreign banks; also the total amount of investments; the kind of investments, and the yield upon such investments, and such other information as will put the Board in possession of all the facts incident to and necessary for a thorough consideration and understanding of the questions involved.

It would be interesting also to have the view of your Bank of the importance of carrying on these transactions for foreign banks, and whether it should be continued or discontinued.

Yours truly,

(Signed) D. R. Crissinger

Governor.

Mr. J. H. Case,
Deputy Governor,
Federal Reserve Bank,
New York, N. Y.

COPY

FEDERAL RESERVE BANK OF NEW YORK.

X-3749b

June 15, 1923.

W. P. G. Harding, Esq.,
Governor, Federal Reserve Bank of Boston,
Boston, Mass.

Dear Governor Harding:

I have your letter of June 14 in reply to mine of the 6th and 12th regarding your participation in the accounts of the Bank of Japan and the Bankovni Urad Ministerstva Financi, and note that it is the sense of your board that there is no occasion in the present circumstances for your further participation in our transactions with foreign banks. As you point out, your participation in our foreign accounts is entirely voluntary; and we have never had the remotest desire to force upon any of the Federal reserve banks a participation which they did not wish. Our sole reason for offering participations has been to follow out a general policy outlined by the governors several years ago to have the Federal reserve banks act as a single unit in their foreign relations so far as practicable. As I have in the past written both Governor Morss and yourself quite fully on this subject, I am sure that you and your directors are aware of our views and that it is unnecessary for me to say anything further at this time.

In view of the fact that your bank desires to withdraw from your participation in our foreign bank arrangements, I believe it would be more satisfactory to terminate your entire participation at one time, rather than continue it as to transactions in process, and we will be glad to take over your participations to-day for our own account. We have accordingly arranged with your office to credit us to-day \$103,241.06, being your share of the free balances, and also to wipe out your contingent liability on bills purchased for foreign correspondents amounting to \$2,195,894.90. We have simultaneously charged your account for the free balance and increased our contingent liability in the appropriate amount.

As to your share of the commissions earned on the foreign accounts in which you have participated since January 1, we will calculate the amount due you and transfer it to your bank in a day or two with appropriate advice.

Very truly yours,

(Signed) J. H. Case

Deputy Governor.

COPY

FEDERAL RESERVE BANK OF BOSTON

X-3749c

June 14, 1923.

Mr. J. H. Case, Deputy Governor,
Federal Reserve Bank of New York,
New York.

Dear Mr. Case:

Your letter of June 6 regarding the participation of this bank in your account with the Bank of Japan, and of June 12 relating to the account you have opened for the provisional bank of issue in Czechoslovakia, were duly considered by the board of directors of this bank at the regular session held this morning.

It is the sense of our board that there is no occasion in the present circumstances for further participation by this bank in your transactions with foreign banks. There is nothing in the Federal Reserve Act which requires such participation, although it is provided that with the consent and approval of the Federal Reserve Board, any Federal Reserve Bank may carry on or conduct through the Federal Reserve Bank opening an account with a foreign bank, any transactions authorized by Section 14 of the Federal Reserve Act.

The records of this bank show that its participation in transactions of the Federal Reserve Bank of New York for the account of foreign banks began on June 16, 1920, with the purchase of bills for account of the Bank of Japan, in which this bank's contingent liability was \$1,168,000. and its share of the free balance was \$292,000. There was no change in these figures during the remainder of the year 1920 but during the years 1921 and 1922, your operations were extended to include other foreign banks, and the transactions embraced the ear-marking of gold and the purchase of Treasury certificates as well as bills. This bank's ratio of participation was 7.3% of the total amount from June 16, 1920, to December 31, 1922, but since January 1 of this year, it has been 7.5%. The following summary shows this bank's annual averages of the free balance deposits, contingent liabilities, and total commissions paid:

	<u>Average Free Balance</u>	<u>Average Cont. Liab'ty</u>	<u>Income</u>
1920	\$292,000.	\$1,168,000.	0
1921	529,589.	2,330,721.	\$3,742.40 (inc.1920)
1922	326,038.	2,314,406.	3,755.74
1923	92,215.	2,343,496.	

Income to date. . . . \$7,498.14

It is conceded, of course, that the possibility of any substantial loss in these transactions is very remote, but it seems that the income accruing

to this bank as a result of its participations is small and not in proportion to the amounts involved. A participation in a purchase or loan returns a proportionate share of the discount or interest paid, but our participations in your foreign accounts, while carrying all the risk involved in a purchase, give us only a share in a small commission.

The directors of this bank feel, that looking at the matter purely from the standpoint of income, it is not good business to permit it to have these contingent liabilities. Their approval of these participations in the past has been actuated by a desire to cooperate with the other Federal Reserve Banks in transactions which were represented as being in the public interest, and which in the circumstances then existing seemed likely to involve contingent liabilities which had better be distributed among all Federal Reserve Banks rather than assumed by one bank alone. There do not at the present time, however, appear to be any considerations of a public character requiring this bank to continue to participate in accounts opened by the Federal Reserve Bank of New York in its own name and upon its own initiative with various foreign banks. The conduct of these accounts is necessarily under the sole management and control of the officers of the Federal Reserve Bank of New York. Your institution is the sole beneficiary of any collateral advantages which may accrue from these banking connections abroad and bears the overhead expense of transacting the business. There is at present no strain upon the Federal Reserve System and the directors of this bank see no reason until conditions change why it should share in the profits or bear any part of the losses which may grow out of your transactions with your foreign correspondents.

In any large transactions impressed with a distinct public interest such as the ear-marking of gold with the Bank of England in June, 1917; the deposits you held for the account of the Bank of the Nation of Buenos Aires, which involved their payment in gold within a certain time after the end of the war; the ear-marking of German gold with the Bank of England in June, 1919; and the ear-marking of gold with the Bank of France in September, 1920, the directors of this bank have cheerfully agreed to a participation, and it is their intention to participate in any similar transactions which may be engaged in hereafter.

In view of the foregoing, the directors have instructed me to advise you that this bank does not care to participate in your arrangement with the Czechoslovakian bank, and with respect to your accounts with the Bank of Japan, Bank of England, Bank of France, de Nederlandsche Bank, Swiss National Bank, and de Javasche Bank, in which this bank has been a participant, to give notice of cancellation of participation agreements hitherto made by this bank except as to transactions in process.

With assurances of our appreciation of the courtesy you have accorded us in all these matters, I am,

Very truly yours,

(Signed) W. P. G. Harding,

Governor.

FEDERAL RESERVE BOARD

WASHINGTON

489

X-3750

June 20, 1923.

SUBJECT: Permission granted to member banks to
apply for discounts of eligible paper acquired
from non-member banks.

Dear Sir:

Attached hereto is a copy of circular letter
X-3176, dated July 27, 1921, subject "Permission granted
to member banks to apply for discounts of eligible paper
acquired from non-member banks".

The Board is now considering the advisability of
rescinding this circular in toto, or of so modifying it as
to make the privilege it accords applicable only in the case
of those non-member banks which are not eligible for member-
ship in the Federal Reserve System

Before finally determining this question, the Board
should like to be advised by each Federal Reserve Bank of its
views with respect to the matter.

By order of the Federal Reserve Board.

Very truly yours,

Wm. W. Hoxton,
Secretary.

(Enclosure)

To all Governors and
Federal Reserve Agents.

July 27, 1921.
X-3176

SUBJECT: Permission granted to member banks to apply for discounts of eligible paper acquired from non-member banks.

Dear Sir:

As you know, Section 19 of the Federal Reserve Act provides in part that -

"No member bank shall act as the medium or agent of a nonmember bank in applying for or receiving discounts from a Federal Reserve Bank under the provisions of this Act, except by permission of the Federal Reserve Board".

This letter is to advise you that the Federal Reserve Board has given general authority to member banks to apply to their respective Federal Reserve Banks for discounts of eligible paper acquired by such member banks from nonmember banks, such authority to be effective until withdrawn by the Federal Reserve Board. The extent to which the respective Federal Reserve Banks will entertain such applications is, of course, a matter of policy for the determination of the officers of each bank.

Very truly yours,

G o v e r n o r .

TO GOVERNORS AND FEDERAL RESERVE AGENTS.

FEDERAL RESERVE BOARD

441

WASHINGTON

X-3753

June 22, 1923.

SUBJECT: Discount or Purchase of Sight or Demand Drafts
Pending Issuance of Regulations.

Dear Sir:

The question has been raised whether under the authority contained in the third paragraph of Section 13 of the Federal Reserve Act as amended by the Agricultural Credits Act of March 4, 1923, Federal Reserve Banks may discount or purchase demand or sight drafts and bills of exchange secured by bills of lading or other shipping documents conveying or securing title covering non-perishable, readily marketable, staple agricultural products, pending the issuance of regulations on the subject by the Federal Reserve Board.

While the power to discount or purchase such drafts or bills of exchange is expressly made subject to regulation by the Federal Reserve Board, the Board is of the opinion that the exercise of this power is not conditioned on the issuance of such regulations, and that there is no reason why Federal Reserve Banks should not discount or purchase such drafts and bills of exchange within the limits prescribed by the Act pending the issuance of regulations on the subject.

Furthermore, the Board feels that most, if not all of the necessary safeguards on the exercise of this power are contained in the Act itself and it probably will not be necessary to add much, if anything, by way of regulation.

By order of the Federal Reserve Board.

Very truly yours,

Wm. W. Hoxton,
Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

X-3754

June 22, 1923.

SUBJECT: ASSESSMENT FOR GENERAL EXPENSES OF THE FEDERAL RESERVE BOARD, JULY 1 TO DECEMBER 31, 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 June 21, 1923, levying an assessment upon the several Federal Reserve Banks of an amount equal to one hundred fifteen thousandths of one per cent (.00115) of the total paid in capital stock and surplus of such banks to defray the estimated general expenses of the Federal Reserve Board from July 1 to December 31, 1923.

There is also enclosed a statement showing the basis upon which the assessment is levied.

Kindly deposit one-half of the amount of your assessment in the General Account, Treasurer, U. S., on your books July 1, 1923, and one-half September 1, 1923, in each instance issuing a C/D for credit of "Salaries and Expenses, Federal Reserve Board, Special Fund", assessment for general expenses, and sending duplicate C/D to the Federal Reserve Board. Also please furnish a statement of your capital and surplus used as a basis for the assessment.

Very truly yours,

Enclosures.

Fiscal Agent.

(Sent to Chairman of each Federal Reserve Bank).

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 hundred fifteen thousandths of one per cent of the total paid-in capital stock and surplus of the Federal Reserve Banks be created for the purpose hereinbefore 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 hundred fifteen thousandths of one per cent of the total paid-in capital and surplus of such banks as of June 30, 1923, 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 July 1, 1923, and the second half on September 1, 1923.

ESTIMATE FOR JULY 1923 ASSESSMENT

Average monthly encumbrance for period
January 1, 1923, to June 30, 1923:

Personal services:	\$ 45,277.60	
(Estimate for June, \$46,582.33)		
Non-personal services,	16,222.66	
	<hr/>	\$ 61,500.26

Estimated monthly requirements,
July to December, 1923:

Personal services,	49,850.00	
Non-personal services,	16,900.00	
	<hr/>	66,750.00

Estimated monthly increase,	5,250.00
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Total estimated requirements, July 1, 1923, to December 31, 1923, inclusive, .	400,500.00
Estimated unencumbered balance, June 30, 1923, . .	25,000.00
	<hr/>

Amount to be raised by assessment,	375,500.00
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Estimated paid-in capital and surplus of Federal Reserve Banks as of June 30, 1923, . . .	327,750,000.00
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An assessment of one hundred fifteen thousandths of one per cent (.00115) will produce,	376,912.00
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BY-LAWS OF THE FEDERAL RESERVE BOARD.

June 27, 1923.

Article I.

The Chairman.

The Secretary of the Treasury, as Chairman of the Board, shall preside at all meetings when present. In the absence of the Chairman, the Governor shall act as presiding officer. In the absence of both the Chairman and the Governor, the Vice-Governor shall preside, and in the absence of all three such officers, the remaining member of the Executive Committee shall preside.

Article II.

The Governor.

Sec. 1. The Governor of the Federal Reserve Board shall be the active executive officer thereof; subject, however, to the supervision of the Board and to such rules and regulations as may be incorporated herein or may from time to time, by resolution, be established.

Sec. 2. The Governor shall have general charge of the executive and routine business of the Board not specifically assigned under the by-laws or by resolution of the Board to any individual member or committee thereof, and shall have supervision of the Board's staff.

Sec. 3. It shall be the duty of the Governor to oversee and control the submission of statements to the press expressive of the Board's policy or descriptive of its action.

Sec. 4. The Governor shall be an ex-officio member of all Standing Committees of the Board.

Article III.

The Vice-Governor.

Sec. 1. In the absence or disability of the Governor, his powers shall be exercised and his duties discharged by the Vice Governor, and in the absence or disability of both of these officers, such powers shall be exercised and such duties discharged by the remaining member of the Executive Committee; in the absence or disability of all members of the Executive Committee the powers and duties of the Governor shall be exercised by the senior member of the Board present.

Sec. 2. It shall be the duty of the Vice Governor to cooperate with the Governor in the administration of the executive business of the Board.

Article IV.

The Executive Committee.

Sec. 1. There shall be an Executive Committee of the Board consisting of three members, which shall include the Governor and Vice-Governor and one other. The third member shall be nominated and elected at a regular meeting of the Board. Members of the Board shall serve as far as practicable in rotation and for periods to be fixed by the Governor from time to time. Two members shall constitute a quorum for the transaction of business.

Sec. 2. It shall be the duty of the Executive Committee of the Board to transact all business of an executive nature which can be transacted in accordance with principles or policies already established by the Board, and such as may be delegated to it from time to time; to review and approve important correspondence involving the expression of opinions or decisions of the Board, and to prepare and make recommendations governing the conduct of the Board's business.

Sec. 3. The Executive Committee shall also have charge of all matters appertaining to the internal organization of the Board, and shall make recommendations from time to time on this matter. It shall also prepare annually a budget of proposed expenditures.

The Secretary of the Board shall serve as Secretary of the Executive Committee.

Article V.

Standing Committee.

In addition to the Executive Committee there shall be the following Standing Committees:

Sec. 1. Law.

To the Law Committee shall be referred for study and report all questions of a legal nature. To this Committee shall also be assigned the preparation or revision of the Board's regulations, contemplated amendments to the Federal Reserve Act, applications under the Kern amendment to the Clayton Act, and applications for the exercise by national banks of trust powers.

The General Counsel shall serve as Secretary of the Committee.

Sec. 2 Examination.

To this Committee shall be referred all questions relating to the examination of Federal Reserve or member banks including admission of state banks and permission to establish and operate branches.

The Chief Examiner shall serve as Secretary of this Committee.

Sec. 3. Clearings.

To this Committee shall be referred all questions relating to the Federal Reserve par clearance system.

The Secretary of the Board shall serve as Secretary of this Committee.

Sec. 4. Discount and Open Market Policy.

It shall be the duty of this Committee to study and advise the Board from time to time of the trend of business and credit and to make recommendations with regard to the credit policy and operations of the Federal Reserve Banks including changes of discount rates and the purchase or sale of open market investments.

The Director of the Division of Research and Statistics shall serve as Secretary of this Committee.

Sec. 5. Agricultural Credit Conditions.

It shall be the duty of this Committee to keep the Board informed of the condition of agriculture and its credit needs in different Federal Reserve Districts in order to bring about a better adaptation of the credit operations of the Federal Reserve Banks to the meeting of these needs.

A member of the Division of Research and Statistics shall be designated to serve as Secretary of this Committee.

Sec. 6. Research and Statistics.

This Committee shall have charge of all investigations of an economic and statistical character authorized by the Board and shall supervise the work of the Division of Research and Statistics and the preparation and publication of the Federal Reserve Bulletin. This Committee shall also have supervision of the statistical and publication work of the Federal Reserve Banks.

The Director of the Division of Research and Statistics shall serve as Secretary of this Committee.

Sec. 7. Salaries and Expenditures of Federal Reserve Banks.

To this Committee shall be assigned all recommendations from Federal Reserve Banks for changes of salaries and other expenditures. This Committee shall also make reports with respect to charge-offs and franchise tax of Federal Reserve Banks.

The Assistant Secretary of the Board shall serve as Secretary of this Committee.

Sec. 8. District Committees.

To each Federal Reserve Bank and District shall be assigned a Committee of not less than two members of the Federal Reserve Board. It shall be the duty of each Committee to keep itself informed by correspondence and visit of the affairs of the Bank and the condition of the District, and make investigation and report on all questions appertaining to the operation of any Federal Reserve Bank or the condition of any Federal Reserve District that may be referred to it by the Board. These Committees shall also aid the Committee on Salaries and Expenditures of Federal Reserve Banks

with information regarding personnel of the respective Federal Reserve Banks of which they have charge. These Committees shall also make recommendations to the Board for the appointment of Directors at Federal Reserve Banks and Branches.

Sec. 9. NOMINATIONS. It shall be the duty of this Committee to investigate and report on the qualifications of all recommendations for the appointment of Class C Directors and other vacancies to be filled by the Board at Federal Reserve Banks or their branches.

Article VI

The Secretary and Assistant Secretaries

Sec. 1. The Board shall appoint a Secretary and one or more Assistant Secretaries.

Sec. 2. The Secretary shall attend each meeting of the Board and shall keep an accurate record of its proceedings, and shall conduct such correspondence as may be assigned to him by the Board or the Governor. He shall perform such other duties as may be assigned to him by the Governor.

Sec. 3. The Secretary shall have custody of the seal, and, acting under the authority of the Board, shall have power to affix the same to all instruments requiring it. Such instruments shall be attested by the Secretary.

Sec. 4. The Assistant Secretary designated by the Board or by the Secretary shall exercise the powers and discharge the duties of the Secretary in his absence or disability. The Assistant Secretaries shall perform such other duties as may be assigned to them from time to time by the Board or by the Secretary of the Board.

Article VII.

Assistant to the Governor.

Sec. 1. The Board may appoint an Assistant to the Governor.

Sec. 2. The Assistant to the Governor shall perform such duties as shall be assigned to him by the Governor.

Sec. 3. The Assistant to the Governor shall have power to sign checks of the Federal Reserve Board withdrawing funds from the Gold Settlement Fund as described in Article IX of these by-laws, and requisitions upon the Comptroller of the Currency for the delivery of Federal Reserve notes to the respective Federal Reserve Agents or to their order and Federal Reserve Bank notes to the respective Federal Reserve Banks or to their order as described in Article X of these by-laws, such checks and requisitions to be countersigned by the Governor or acting executive officer of the Board.

Article VIII.

The Fiscal Agent and Deputy Fiscal Agent.

Sec. 1. The Board shall appoint a Fiscal Agent and a Deputy Fiscal Agent. The duty of the Fiscal Agent shall be to collect and deposit all moneys receivable by the Board with the Treasurer of the United States, to be placed in a special fund established on the books of the Treasurer for the Federal Reserve Board. The Deputy Fiscal Agent shall perform the duties of the Fiscal Agent during his absence or disability.

Sec. 2. The Fiscal Agent and Deputy Fiscal Agent shall each execute a separate bond with surety satisfactory to the Board.

Sec. 3. Payments of expenses and other disbursements of the Board shall be made by the Fiscal Agent upon proper vouchers out of moneys advanced to him by requisition and warrant out of the special fund and placed to his official credit with the Treasurer of the United States as provided by section 5 of this Article. In the absence of the Fiscal Agent payment of expenses and other disbursements shall be made by the Deputy Fiscal Agent upon proper vouchers out of moneys advanced to the Fiscal Agent by requisition and warrant out of the special fund and placed to his official credit with the Treasurer of the United States as provided by Sections 5 and 6 of this article.

Sec. 4. The Fiscal Agent shall prepare a quarterly account in such form as shall be approved by the Comptroller General of the United States and, after approval by the Governor, such quarterly account shall be submitted to the General Accounting Office. Such account shall cover payments of expenses and other disbursements made by both the Fiscal Agent and the Deputy Fiscal Agent.

Sec. 5. The Governor shall, when necessary, make requisition on the Treasurer of the United States for the advance of such sums to the Fiscal Agent as may be necessary from the Federal Reserve Board fund.

Sec. 6. The Deputy Fiscal Agent in making disbursements of the Board upon proper vouchers out of the moneys advanced to the Fiscal Agent shall sign against funds to the official credit of the Fiscal Agent with the Treasurer of the United States in the name of the Fiscal Agent by himself as Deputy Fiscal Agent.

Article IX.

Gold Settlement Fund
and
Federal Reserve Agents' Fund

All funds deposited by or for account of the respective Federal Reserve Agents in the Federal Reserve Agents' fund of the Federal Reserve Board and all funds deposited by or for account of the respective Federal Reserve Banks in the Gold Settlement Fund of the Federal Reserve Board shall be held on deposit with the Treasurer of the United States and shall be subject to withdrawal only by check of the Federal Reserve Board signed by the Secretary or an Assistant Secretary or the Assistant to the Governor and countersigned by the Governor or acting executive officer of the Board.

Article X.

Requisition for Delivery
of
Federal Reserve Notes

Requisitions upon the Comptroller of the Currency for the delivery of Federal Reserve notes to the respective Federal Reserve Agents shall be signed by the Secretary or an Assistant Secretary or the Assistant to the Governor and countersigned by the Governor or acting executive officer of the Board.

Article XI.

The Seal.

The following is an impression of the seal adopted by the Board.

SEAL

Article XII.

Counsel

Sec. 1. The Board shall appoint a General Counsel whose duty it shall be to advise with the Board, or any member thereof, as to such legal questions as may arise in the conduct of its business; to prepare, at the Board's request opinions, regulations, rulings, forms and other legal papers and to perform generally such legal services as he may be called upon by the Board to perform.

Sec. 2. Subject to the direction of the Governor, the General Counsel shall have authority to correspond directly with the Counsel of the various Federal Reserve Banks and to request their opinions as to the interpretation of the local laws of the States included in their respective Federal Reserve Districts. Copies of all such correspondence to be furnished to the Board for its information.

Sec. 3. Whenever it may be deemed advisable, the Board may appoint one or more Associate or Assistant Counsel, or one or more Assistants to Counsel. The duty of such Associate or Assistant Counsel shall be to assist the General Counsel in the performance of his duties and to perform the duty of the General Counsel in his absence. The duty of such Assistant to Counsel or Assistants to Counsel shall be to assist the General Counsel in the performance of his duties.

Sec. 4. The Board may appoint from time to time Consulting Counsel, who may be attorneys at law engaged in outside practice.

Article XIII.

Meetings.

Sec. 1. Stated meetings of the Board shall be held on such days of the week at such hours as the Board by majority vote may adopt from time to time. Special meetings of the Board shall be called by the Chairman or the Governor or upon the written request of three members of the Board.

Sec. 2. Four members of the Board shall constitute a quorum for the transaction of business, except as otherwise required by the Federal Reserve Act.

Sec. 3. At all meetings of the Board the following shall be the order of business:

- (1) Reading or inspection of the Minutes of the last regular meeting and Minutes of meetings of the Executive Committee.
- (2) Report of the Governor.
- (3) Report of the Secretary.
- (4) Reports of the committees or members on assigned business.
- (5) * Unfinished business.

Article XIV.

Information and Publication.

Sec. 1. All persons employed by the Board shall keep inviolate its business, affairs, and concerns, and shall not disclose or divulge the same to any unauthorized person whomsoever, and any employee who shall give information contrary to this by-law shall be liable to immediate dismissal.

Except upon vote of the Board, no one other than a Member of the Board, or the Secretary, Assistant Secretary, Assistant to the Governor, and Counsel, shall be permitted to inspect any of the Board's minutes.

Sec. 2. While each member of the Board must determine for himself the propriety or necessity of expressing publicly his individual opinion on any question, members shall not quote publicly the opinion of other members on matters which have not formally been passed upon by the Board.

Sec. 3. There shall be published monthly, under the supervision of a committee of the Board, a bulletin to be known as "The Federal Reserve Bulletin", which shall be the official periodical organ or publication of the Federal Reserve Board.

Sec. 4. No resolutions of a personal character, except upon the death of a member of the Federal Reserve Board while serving as such, shall appear in any publication of the Federal Reserve Board.

Article XV.

Audit

The executive committee, acting as a committee of Audit, shall audit the accounts of the Board for each six months' period.

Article XVI.

Amendments.

These by-laws may be amended at any regular meeting of the Board by a majority vote of the entire Board, provided that a copy of such amendments shall have been delivered to each member at least seven days prior to such meeting.

X-3756

TREASURY DEPARTMENT
Office of the Secretary
WASHINGTON

June 20, 1923.

The Governor
Federal Reserve Board,

Sir:

You are hereby advised that the Department has referred to the Disbursing Clerk, Treasury Department, for payment, the account of the Bureau of Engraving and Printing for preparing Federal Reserve notes during the period June 1 to June 20, 1923, amounting to \$97,814.80, as follows:

Federal Reserve Notes, 1914.

	<u>\$5</u>	<u>\$10</u>	<u>\$20</u>	<u>\$50</u>	<u>Total</u>
Boston	20,000	10,000	--	--	30,000
New York	489,000	380,000	--	--	869,000
Philadelphia	195,000	126,000	14,000	8,000	343,000
Cleveland	97,000	473,000	52,000	7,000	203,000
Atlanta	97,000	49,000	25,000	--	171,000
Chicago	--	145,000	11,000	--	156,000
Minneapolis	50,000	14,000	--	--	64,000
San Francisco	49,000	30,000	25,000	--	104,000
	<u>997,000</u>	<u>801,000</u>	<u>127,000</u>	<u>15,000</u>	<u>1,940,000</u>

1,940,000 sheets at \$50.42 per M \$97,814.80

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	\$ 506.40	\$ 478.50	\$ 381.30	\$ 146.40	\$1,512.60
New York	869,000	14,668.72	13,860.55	11,044.99	4,240.72	43,814.98
Philadelphia	343,000	5,789.84	5,470.85	4,359.53	1,673.84	17,294.06
Cleveland	203,000	3,426.64	3,237.85	2,580.13	990.64	10,235.26
Atlanta	171,000	2,886.48	2,727.45	2,173.41	834.48	8,621.82
Chicago	156,000	2,633.28	2,488.20	1,982.76	761.28	7,865.52
Minneapolis	64,000	1,080.32	1,020.80	813.44	312.32	3,226.88
San Francisco	104,000	1,755.52	1,658.80	1,321.84	507.52	5,243.68
	<u>1,940,000</u>	<u>32,747.20</u>	<u>30,943.00</u>	<u>24,657.40</u>	<u>9,467.20</u>	<u>97,814.80</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,

S. R. Jacobs,
Deputy Commissioner.

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS.

X-3757

For release in Afternoon Papers,
Wednesday, June 27, 1923.

The following is a summary of general business and financial conditions throughout the several Federal Reserve Districts, based upon statistics for the months of May and June, as contained in the forthcoming issue of the Federal Reserve Bulletin.

Production and shipment of goods continued in heavy volume during May; the volume of employment was sustained and many wage advances were reported. Wholesale commodity prices declined during May and the early weeks of June.

PRODUCTION:

Production of iron and steel, cement, and petroleum was larger in May than in any previous month, and mill consumption of cotton was close to maximum. The high level of production in these industries, together with increases in practically all other reporting lines, is reflected in an advance of 2 per cent in May in the Federal Reserve Board's index of production in basic industries. In the building industry there was a further decline in principal cities in the value of permits granted which represent prospective building operations. Contract awards, however, which represent actual current undertakings, continued to increase, though declines are reported in the New York and Chicago districts.

This industrial activity has been accompanied by a slight increase of employment at industrial establishments. The demand for labor was also reflected in a larger number of wage advances during the 30-day period ending May 15 than in any earlier month this year and average weekly earnings in all reporting industries increased by 3.8 per cent. The advances were most general in the cotton, steel, meat packing, and sugar refining industries.

In agriculture the condition of both winter and spring wheat is reported less favorable than a year ago, while the condition of the cotton crop is slightly better than last year, owing entirely to more favorable growing conditions in Texas. A shortage of farm labor is reported from most sections of the country.

TRADE:

Active distribution of commodities is indicated by heavy movement of merchandise and miscellaneous freight, and car loadings continued to exceed all previous records for this season. In certain lines of trade a decline in the volume of manufacturers' orders for future delivery is reported. The volume of both wholesale and retail trade was larger in May than in April. Among the wholesale lines sales of meat, hardware, and shoes showed particularly large increases, while sales of clothing and dry goods decreased. The Federal Reserve Board's index of wholesale trade, which makes no allowance for seasonal changes, was 5 per cent higher than in April and 14 per cent higher than a year ago. Sales of department stores increased about 9 per cent in May, and all reporting lines of chain

store business reported increases. Mail order sales were 6 per cent less than in April, but were larger than in any previous May.

WHOLESALE PRICES.

Price declines were reported during May and the first three weeks of June for a large number of commodities. All of the nine groups in the Bureau of Labor Statistics index, except food and house-furnishings, show decreases for May and the average for all commodities declined by 2 per cent.

BANK CREDIT:

Loans of reporting member banks in principal cities, which had been increasing since the early part of the year, declined by \$115,000,000 between May 16 and June 13. Bank holdings of Government securities, which increased by over \$100,000,000 in connection with the Treasury transactions of May 15, later declined as the securities were distributed by the banks.

These decreases in loans of member banks and the receipt during May of \$45,000,000 of gold from abroad were accompanied by a decrease in the earning assets of Federal Reserve Banks of \$120,000,000, for the four weeks ending June 21. At that time the volume of Federal Reserve Bank credit in use reached the lowest point since the opening of the year and approached the low point reached in August, 1922. Reserve bank holdings of bankers' acceptances and Government obligations are now lower than at any time since early in 1922.

The total volume of money in circulation increased by \$38,000,000 between May 1 and June 1, the increase being chiefly in

gold and silver certificates, rather than in Federal reserve notes.

Money rates continued to show a slightly easier tendency.

The June 15 issue of \$150,000,000 6-months Treasury certificates carried a rate of interest of 4 per cent, compared with $4\frac{1}{4}$ per cent on a similar issue sold in March.

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X-3758

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

For Immediate Release

The Federal Reserve Board announces that the general privilege given to member banks during the emergency of 1921 to act as agents in rediscounting for non-member banks is now withdrawn and the Board further announces that hereafter this privilege shall be allowed only upon application of the non-member bank concerned and the approval thereof by the Federal Reserve Board.

D. R. Crissinger,
Governor.

June 26, 1923.

(Tentative Draft Only)

REGULATION J.
Series of 1923.
(Superseding Regulation J of 1920.)

CHECK CLEARING AND COLLECTION.

SECTION I. STATUTORY PROVISIONS.

Section 16 of the Federal Reserve Act authorizes the Federal Reserve Board to require each Federal Reserve Bank to exercise the functions of a clearing house for its member banks, and section 13 of the Federal Reserve Act, as amended by the act approved June 21, 1917, authorizes each Federal Reserve Bank to receive from any non-member bank or trust company, solely for the purposes of exchange or of collection, deposits of current funds in lawful money, national-bank notes, Federal Reserve notes, checks and drafts payable upon presentation, or maturing notes and bills, provided such non-member bank or trust company maintains with its Federal Reserve Bank a balance sufficient to offset the items in transit held for its account by the Federal Reserve Bank.

SECTION II. GENERAL REQUIREMENTS.

In pursuance of the authority vested in it under these provisions of law, the Federal Reserve Board, desiring to afford both to the public and to the various banks of the country a direct, expeditious, and economical system of check collection and settlement of balances, has arranged to have each Federal Reserve Bank exercise the functions of a clearing house for such of its member banks as desire to avail themselves of its privileges and for such non-member State banks and trust companies as may maintain with the Federal Reserve Bank balances sufficient to qualify them under

the provisions of section 13 to send items to Federal Reserve Banks for purposes of exchange or of collection. Such non-member State banks and trust companies will hereinafter be referred to as non-member clearing banks.

Each Federal Reserve Bank shall exercise the functions of a clearing house under the general terms and conditions hereinafter set forth.

SECTION III. CHECKS RECEIVED FOR COLLECTION.

(1) Each Federal Reserve Bank will receive at par from its member banks and from non-member clearing banks in its district, checks¹ drawn on all member and non-member clearing banks and on all other non-member banks which agree to remit at par in acceptable funds through the Federal Reserve Bank of their district.

(2) Each Federal Reserve Bank will receive at par from other Federal Reserve Banks, and from all member and non-member clearing banks in other Federal Reserve Districts, for the credit of their accounts with their respective Federal Reserve Banks, checks drawn upon all member and non-member clearing banks of its district and upon all other non-member banks of its district which agree to remit at par in acceptable funds.

(3) Under this plan each Federal Reserve Bank will receive at par from its member and non-member clearing banks checks on all member and non-member clearing banks and on all other non-member banks which agree to remit at par in acceptable funds. Member and non-member clearing banks will

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¹ A check is generally defined as a draft or order upon a bank or banking house, purporting to be drawn upon a deposit of funds, for the payment at all events of a certain sum of money to a certain person therein named, or to him or his order, or to bearer, and payable on demand.

be required to provide funds to cover at par all checks received from or for the account of their Federal Reserve Banks.

(4) No Federal Reserve Bank shall receive on deposit or for collection any check drawn on any non-member bank which refuses to remit at par in acceptable funds.

(5) Whenever a Federal Reserve Bank receives on deposit or for collection a check drawn by, endorsed by, or emanating from, any nonmember bank which refuses to remit at par in acceptable funds, it shall charge for the service of collecting such check a collection charge equal to the exchange charged by such nonmember bank for remitting for checks drawn on it.

SECTION IV. TIME SCHEDULE AND AVAILABILITY OF CREDITS.

Each Federal Reserve Bank will publish a time schedule showing the time at which any item sent to it will be counted as part of the sending bank's reserve and become available to meet checks drawn by such bank. For all checks received, the sending bank will be given immediate credit, or deferred credit, in accordance with such published time schedule, and as provided below.

For all checks as to which the sending bank is entitled to immediate credit, such credit in the reserve account or clearing account upon day of receipt, subject to final payment, will be given upon the books of the Federal Reserve Bank at full face value, and the proceeds will at once be counted as part of the minimum reserve and be available to meet checks drawn.

For all checks as to which the sending bank is entitled to deferred credit, such credit, subject to final payment, will be given upon the books of the Federal Reserve Bank at full face value, and the proceeds will not

be counted as part of the minimum reserve nor become available to meet checks drawn until such time as may be specified in the appropriate/^{time} schedule referred to herein, at which time credit will be transferred from the deferred account to the reserve account or clearing account and will then be counted as part of the minimum reserve and be available to meet checks drawn.

SECTION V. MANNER OF COLLECTION.

Checks received by a Federal Reserve Bank on its member or nonmember clearing banks will be forwarded direct to such banks, and such banks will be required to remit therefor in funds acceptable to the Federal Reserve Bank or to authorize the Federal Reserve Bank to charge their reserve accounts or clearing accounts; provided, however, that in case such remittance or authorization is not received by the Federal Reserve Bank from any such bank, the Federal Reserve Bank reserves the right to charge such items to the reserve account or clearing account of such bank at the expiration of the agreed transit time between the Federal Reserve Bank and such bank.

In handling items for member and nonmember clearing banks, a Federal Reserve Bank will act as agent only. The Federal Reserve Board hereby authorizes, and each member and nonmember clearing bank shall authorize, the Federal Reserve Bank to send checks received for collection to the banks on which such checks are drawn or at which they are payable, or to any other suitably selected sub-agent, and to receive from drawee banks acceptable exchange drafts in settlement for any collection. The Federal Reserve Bank shall assume no liability except for its own negligence and its guaranty of prior endorsements.

SECTION VI. PENALTIES FOR DEFICIENCIES IN RESERVES.

1. Statutory Provisions. Section 19 of the Federal Reserve Act provides that -

"The required balance carried by a member bank with a Federal Reserve Bank may, under the regulations and subject to such penalties as may be prescribed by the Federal Reserve Board, be checked against and withdrawn by such member banks for the purpose of meeting existing liabilities: Provided, however, That no bank shall at any time make new loans or shall pay any dividends unless and until the total balance required by law is fully restored."

2. Computation of Reserves. Items can not be counted as part of the minimum reserve balance to be carried by a member bank with its Federal Reserve Bank until such time as may be specified in the appropriate time schedule referred to in Section IV. Therefore, should a member bank draw against items before such time, the draft would be charged against its reserve balance if such balance were sufficient in amount to pay it; but any resulting impairment of reserve balances would be subject to all the penalties provided by the Act.

Each Federal Reserve Bank will determine by analysis the amounts of uncollected funds appearing on its books to the credit of each member bank. Such analysis will show the true status of the reserve held by the Federal Reserve Bank for each member bank and will enable it to apply the penalty for impairment of reserve.

3. Basic Penalty. Inasmuch as it is essential that the law in

respect to the maintenance by member banks of the required minimum reserve balance shall be strictly complied with, the Federal Reserve Board, under authority vested in it by Section 19 of the Federal Reserve Act, hereby prescribes a basic penalty for deficiencies in reserves, according to the following rules:

(a) 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 other member banks will be computed on the basis of average daily net deposit balances covering a semi-monthly period.

(b) 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.

(c) 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. Progressive Penalty. The Federal Reserve Board will also prescribe for any Federal Reserve District, upon the application of the Federal Reserve Bank of that district, an additional progressive penalty for continued deficiencies in reserves, in accordance with the following rules:

(a) 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 shall not exceed 10 per cent.

(b) When a member bank not located in 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.

SECTION VII. OTHER RULES AND REGULATIONS.

Any further requirements that the Board may deem necessary will be set forth by the Federal Reserve Banks in their letters of instruction to their member and nonmember clearing banks. Each Federal Reserve Bank will also promulgate rules and regulations governing the details of its operations as a clearing house, such rules and regulations to be binding upon all member and nonmember banks which are clearing through the Federal Reserve Bank.

JUNE 27, 1923.

FEDERAL RESERVE BOARD.

STATEMENT FOR THE PRESS

X-3761

For release in Morning Papers,
Thursday, June 28, 1933.

For some time the Federal Reserve Board has been considering the matter of the use of Federal Reserve and other currency of the United States in Cuba. Our relations with Cuba are unique, because of the provisions of the Platt amendment, and also because the currency of the United States has been made legal tender by act of the Cuban government, but no adequate machinery has ever been set up by which unfit ^{paper} currency could be sent back to the United States for redemption and replacement.

The Board has finally decided to approve a plan agreed upon by the Federal Reserve Banks of Atlanta and Boston by which they are to open agencies in Havana working cooperatively along certain definite lines. It happens that a considerable part of the paper currency in Cuba consists of notes issued by the Federal Reserve Bank of Atlanta and the plan is expected to continue these notes in circulation. It is expected that currency will be presented to the agencies for the purchase of cable transfers and that the currency so received will be at once sorted so that the unfit bills can be sent back to this country for replacement by new currency. The new money will then be put into circulation through the purchase by the Reserve agencies of bills of exchange from the banks operating in Cuba.

This, it is expected, will result not only in replacing unfit paper money with new currency, but will have a tendency to stabilize banking conditions. Banks operating in Cuba will be enabled to carry on their business without the necessity of holding abnormal reserves, and will be able at any time to obtain currency by selling prime bills of exchange originating in import or export transactions. The Board's regulations have undertaken in some detail to safeguard these transactions.

It was on the application of the Boston Reserve Bank that the matter first came definitely before the Board, and it was through agreement between the Atlanta Reserve Bank and the Boston Bank that it was worked out in detail. Some changes in detail may become necessary when the agencies get into operation, as the establishment of such an agency is an entirely new thing, and the Board has reserved the right to terminate the agencies at any time, if it deems such action advisable.

JUNE 27, 1923.

FEDERAL RESERVE BOARD

WASHINGTON

X-3762

June 29, 1923.

SUBJECT: Amendments to Regulation J, Series of 1920.

Dear Sir:

Effective August 15, 1923 the Federal Reserve Board has amended Regulation J, which governs the par clearance system of the Federal Reserve Banks, by inserting these new conditions:

- (6) No Federal Reserve Bank shall receive on deposit or for collection any check drawn on a non-member bank which refuses to remit at par in acceptable funds.
- (7) Whenever a Federal Reserve Bank receives on deposit or for collection a check drawn by, endorsed by or emanating from any non-member bank which refuses to remit at par in acceptable funds, it shall make a charge, for the service of collecting such check, not to exceed one tenth of one per cent.

The Board has made public its reasons for this action as follows:

"The provisions of the Federal Reserve Act which authorize the establishment of a Federal reserve collection system were designed wholly for the benefit of the banking and commercial interests of the country. The system is now in operation between banks which in number are about 92 per cent of all banking institutions and which have approximately 98 per cent of the total banking resources of the country. The Federal reserve collection system has become a necessary instrumentality in effecting the country's domestic exchanges, its operation, including final payments through the Gold Settlement Fund, has been of inestimable value and has resulted in enormous saving to those actively engaged in carrying on the commerce of the country and there are no other facilities for operating a collection system which could approximate it in economy of operation. It has eliminated a very large portion of the time formerly consumed in the collection of checks and has cut down the cost of making the country's exchanges to the minimum. Even though an involuntary collection system may not be imposed upon the Federal Reserve Banks by the Federal Reserve Act, as interpreted by the Supreme Court of the United

States in its recent decision, the system has fully justified its operation and is of such value to the banking and commercial interests of the country that its continuance as a voluntary system is of vital importance. Certain changes in the basis of the par clearance system are advisable in view of the recent decision of the Supreme Court.

"The Board believes that participation in the par clearance system should be based upon the principle of reciprocity and that hereafter Federal Reserve Banks should not receive for collection checks on any non-member bank which will not agree to remit in acceptable funds without deduction. The recent opinion of the Supreme Court makes it certain that the Federal Reserve Banks are not permitted by law to pay exchange. It must be clear that the more inclusive a collection system is the more efficient it will be and the greater will be the service it can render alike to the business and banking community. Therefore, since it is the object of the Federal Reserve Board to maintain an efficient system of par collection, which must at the same time be a voluntary system as far as non-member banks are concerned, the concessions involved and the resulting benefits should be made and received by all participating banks. It is clear that those non-member banks which are unwilling to remit without deduction for checks drawn on themselves have no right to share in the advantages of the par collection system.

"The Federal Reserve Board, therefore, in the exercise of its legal authority, has amended Regulation J, Series of 1920, in such a way as to prohibit any Federal Reserve Bank from receiving on deposit or for collection any check drawn on any non-member bank which refuses to remit at par in acceptable funds and to require Federal Reserve Banks to make a collection charge for their services in collecting checks which bear the endorsement of, or are drawn by or emanate from any non-member bank which refuses to remit at par in acceptable funds, such collection charge to be at a rate not to exceed one tenth of one per cent."

By order of the Federal Reserve Board.

Very truly yours,

Wm. W. Hoxton,
Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

For release in Morning Papers,
Saturday, June 30, 1923.

The provisions of the Federal Reserve Act which authorize the establishment of a Federal Reserve collection system were designed wholly for the benefit of the banking and commercial interests of the country. The system is now in operation between banks which in number are about 92 per cent of all banking institutions and which have approximately 98 per cent of the total banking resources of the country. The Federal Reserve collection system has become a necessary instrumentality in effecting the country's domestic exchanges, its operation, including final payments through the Gold Settlement Fund, has been of inestimable value and has resulted in enormous saving to those actively engaged in carrying on the commerce of the country and there are no other facilities for operating a collection system which could approximate it in economy of operation. It has eliminated a very large portion of the time formerly consumed in the collection of checks and has cut down the cost of making the country's exchanges to the minimum. Even though an involuntary collection system may not be imposed upon the Federal Reserve Banks by the Federal Reserve Act, as interpreted by the Supreme Court of the United States in its recent decision, the system has fully justified its operation and is of such value to the banking and commercial interests of the country that its continuance as a voluntary system is of vital importance. Certain changes in the basis of the par clearance system are advisable in view of the recent decision of the Supreme Court.

The Board believes that participation in the par clearance system should be based upon the principle of reciprocity and that hereafter Federal Reserve Banks should not receive for collection checks on any non-member bank which will not agree to remit in acceptable funds without deduction. The recent opinion of the Supreme Court makes it certain that the Federal Reserve Banks are not permitted by law to pay exchange. It must be clear that the more inclusive a collection system is the more efficient it will be and the greater will be the service it can render alike to the business and banking community. Therefore, since it is the object of the Federal Reserve Board to maintain an efficient system of par collection

which must at the same time be a voluntary system as far as non-member banks are concerned, the concessions involved and the resulting benefits should be made and received by all participating banks. It is clear that those nonmember banks which are unwilling to remit without deduction for checks drawn on themselves have no right to share in the advantages of the par collection system.

The Federal Reserve Board, therefore, in the exercise of its legal authority, has amended Regulation J, Series of 1920, in such a way as to prohibit any Federal Reserve Bank from receiving on deposit or for collection any check drawn on any non-member bank which refuses to remit at par in acceptable funds and to require Federal Reserve Banks to make a collection charge for their services in collecting checks which bear the endorsement of, or are drawn by or emanate from any non-member bank which refuses to remit at par in acceptable funds, such collection charge to be at a rate not to exceed one tenth of one per cent.

X-3765
June 28, 1923.

STANDING COMMITTEES

FEDERAL RESERVE BOARD

Executive Committee:

The Governor
The Vice Governor
Mr. James (to September 30, 1923)
Secretary - Mr. Hoxton

Law Committee:

Mr. Hamlin
Mr. Platt
Secretary - Mr. Wyatt

Examination Committee:

Mr. Dawes
Mr. James
Mr. Platt
Secretary - Mr. Herson

Clearing Committee:

Mr. Platt
Mr. Hamlin
Mr. Cunningham
Secretary - Mr. Hoxton

Committee on Discounts and
Open Market Policies:

Mr. Miller
Mr. Platt
Mr. Cunningham
Secretary - Mr. Stewart

Committee on Agricultural Credit
Conditions:

Mr. Cunningham
Mr. Miller
Mr. James
Secretary to be designated from
Division of Research and Statistics

Committee on Research and Statistics:

Mr. Miller
Mr. Platt
Mr. Dawes
Secretary - Mr. Stewart

Committee on Salaries and Expenditures
of Federal Reserve Banks.

Mr. James
Mr. Miller
Mr. Dawes
Secretary - Mr. Eddy

Committee on Nominations

Mr. Hamlin
Mr. Dawes

DISTRICT COMMITTEES

Boston:

Mr. Hamlin
Mr. Platt

New York:

Mr. Platt
Mr. Miller

Philadelphia:

Mr. Cunningham
Mr. Hamlin

Cleveland:

Gov. Crissinger
Mr. Platt

Richmond:

Mr. James
Mr. Hamlin

Atlanta:

Mr. Hamlin
Mr. James

Chicago:

Mr. Dawes
Mr. Cunningham

St. Louis:

Mr. James
Mr. Hamlin

Minneapolis:

Mr. Miller
Mr. Cunningham

Kansas City:

Mr. Cunningham
Mr. Miller

Dallas:

Mr. Platt
Mr. James

San Francisco:

Mr. Miller
Mr. James

X-3766

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

For release in Morning Papers,
Saturday, June 30, 1923.

CONDITION OF ACCEPTANCE MARKET

May 15 to June 15, 1923.

The acceptance market was generally dull and inactive during the thirty-day period ending June 15. In the latter part of May the supply of bills in dealers' portfolios increased substantially, as the demand was light with a preference for short maturities. Portfolios were reduced during June by a considerable volume of foreign purchasing. Savings banks also were purchasers of bills of short maturities in some districts. Rates remained unchanged at $4\frac{1}{8}$ to $4\frac{1}{4}$ bid and 4 to $4\frac{1}{8}$ offered, the lower rates applying to bills of thirty-day maturity.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 6, 1923.
St. 3277.

SUBJECT: Certification of Franchise
Taxes paid on December
31, 1922.

Dear Sir:

In accordance with the procedure outlined in the Board's letter X-3291 dated January 4, 1922, a copy of which is attached hereto, the Board requests that you have the Auditor of your bank prepare and forward to the Under Secretary of the Treasury, Washington, D. C., a statement showing the manner in which the amount paid to the United States on December 31, 1922 on account of franchise tax was determined. This statement, as well as the Auditor's certificate on the reverse side thereof, should relate to the franchise tax paid out of earnings during 1922, also to deferred franchise tax payments for prior years, if any, paid as a result of counsel's opinion and the Board's ruling (see letters X-3462 of June 29, 1922 and X-3492 of August 1, 1922) that super-surplus accounts formerly established were not authorized by the Federal Reserve Act.

By order of the Federal Reserve Board.

Very truly yours,

Wm. W. Hoxton,
Secretary.

Enclosure.

LETTER TO BE SENT TO CHAIRMAN OF
ALL FEDERAL RESERVE BANKS EXCEPT DALLAS.

X-3291

January 4, 1922.

SUBJECT: Certification of Payment of Franchise Tax to
Treasury Department.

Dear Sir:

In accordance with the procedure previously adopted by the Treasury Department, in connection with the certification as to payment by Federal Reserve Banks to the Treasurer of the United States of amounts on account of franchise tax, the Federal Reserve Board, at the request of the Treasury Department, asks that your auditor prepare a statement of income and expenses covering the calendar year 1921, showing the manner in which the amount due the United States on account of franchise tax was determined. It is requested that when the statement has been prepared the following form of certification be typed on its back, executed by your auditor and countersigned by a senior executive officer. The statement should then be forwarded to the Secretary of the Treasury, Division of Public Moneys, Washington.

"I hereby certify that I have examined this statement of profit and loss account of the Federal Reserve Bank of _____ for the calendar year 1921; that the items in such account are correct as shown by the records of such Federal Reserve Bank; that such profit and loss statement shows all items of gain during the period; that all deductions made from gross and net earnings in such statement appear to be fair, just and reasonable in all respects, and that the amount due the United States as shown thereon is correct in accordance with the provisions of Section 7 of the Federal Reserve Act approved December 23, 1913, as amended by the act of March 3, 1919."

Auditor, Federal Reserve
Bank of _____

COUNTERSIGNED:

The Treasury Department advises the Board that it is the usual custom of administrative officers of the Government having charge of the collection of revenue to make such verifications of collections as will insure the Government's receipt of the correct amount due, and that it desires the certified copy of your statement requested in order to make such verifications therefrom.

Very truly yours,

W. W. Hoxton,
Secretary.

TO THE GOVERNORS OF ALL FEDERAL RESERVE BANKS, EXCEPT DALLAS.

FEDERAL RESERVE BOARD

WASHINGTON

January 8, 1923.
St. 3279.

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

SUBJECT: Earnings and expense reports of
Federal Reserve Banks.

Dear Sir:

There are being forwarded to you today under separate cover the following number of copies of revised forms 95, 96, 97, and 97-a, Monthly earnings and expense reports of Federal reserve banks, and of the revised general instructions governing the preparation of such reports:

Form 95 -	copies	Form 97-a -	copies
Form 96 -	copies	General	
Form 97 -	copies	instructions -	copies.

It will be noted from the revised instructions that the method of handling income and expense connected with real estate owned by the Federal reserve banks, as provided in the report of the Real Estate Subcommittee of the Auditors' Conference which was approved in the Board's letter St. 1593 of November 22, 1920, has been modified so that beginning with January 1, 1923, income (rent) from property owned and occupied in part by the Federal reserve bank and in part by tenants is to be credited to miscellaneous earnings on form 95, while all expense connected with the operation of such property is to be charged to current expense on form 96. Therefore, income and expense as reported on form 97 will hereafter relate to only such property as is owned but not occupied at all by the Federal reserve bank. Taxes on land on which a new building is being constructed will continue to be reported on form 97.

On balance sheets form 34 all property owned and occupied in whole or in part by the Federal reserve bank will be reported against item "Banking houses (including land)"; the cost of buildings under construction will continue to be reported against "New building account"; and all other property, in other words, property not occupied at all by the Federal reserve bank and the land on which new buildings are being constructed, will be classed as "Other real estate."

Yours very truly,

E. L. Smead, Chief,
Division of Bank Operations.

Letter sent to Governor of all F. R. Banks.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 9, 1923.
St. 3285.

SUBJECT: Weekly COND telegram showing
condition of F. R. Banks.

Dear Sir:

Beginning with the weekly press statement showing the condition of the Federal Reserve Banks as of January 17, 1923, a new code word "CORN" will be substituted in lieu of the present code word CORD, to designate "All other liabilities" in the so-called weekly COND telegram showing the condition of the twelve Federal Reserve Banks combined, which is transmitted to the Federal reserve banks each Thursday.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Letter to all Federal Reserve Agents.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 23, 1923.
St. 3314.

SUBJECT: Revision of Form 38.

Dear Sir:

There are being forwarded to you today under separate cover copies of form 38 - "Classification of discounted and purchased bills held by the Federal Reserve Bank." It will be noted that the form is identical with the one in use during 1922 except that the classification of purchased bills according to endorsement has been eliminated.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

DRAFT OF LETTER TO BE SENT TO
THE GOVERNOR OF EACH F. R. BANK.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 24, 1923.
St. 3319.

SUBJECT: Monthly Report of Clear-
ing Operations, Form 170.

Dear Sir:

There are being forwarded to you today under separate cover copies of Form 170 - "Report of Clearing Operations." It is requested that the revised forms be used beginning with the reports submitted for the present month. As provision has been made on the reverse side of the revised form for reporting the number of member banks, of non-member banks on the par list, and of non-member banks not on the par list, Form 170-a has been discontinued.

Inquiries received by the Board indicate that there has been some doubt as to whether or not return items, postal money orders, etc., should be included with clearing figures as reported on this form. There is therefore given below a general statement of the items which should be included and of those which should not be included in the preparation of the reports.

Items which should be included. All cash items actually handled by the Federal reserve bank or branch such as: Government warrants; checks and drafts, including checks and drafts drawn against member banks' reserve balances or against clearing balances of non-member banks; officers' and certified checks of the Federal reserve banks; Federal reserve exchange and transfer drafts; Postal money orders.

Where the Federal reserve bank handles so-called package clearings, i. e., packages containing a number of items already sorted and which are passed through the clearing without being opened by the Federal reserve bank, each of such packages should be counted as one item and a footnote appended to the appropriate item on the form reading as follows:

"Includes _____ packages containing
checks aggregating \$ _____."

Items which should not be included. Government and other coupons; non-cash items received for collection; return items; items forwarded by member banks direct to other Federal reserve banks and branches or to other member banks for credit on the books of the Federal reserve bank (items not handled by the reporting Federal reserve bank). Where member banks have special

clearing arrangements whereby debit or credit entries are made on the books of the Federal reserve bank or branch to cover the result of the local clearing of items not handled by the Federal reserve bank or branch, neither the number nor the amount of such items should be included in reports on Form 170.

By following this procedure the total of items 1 to 7, when combined for all Federal reserve banks and branches, will represent the number and amount of different items actually handled by the System as a whole, without duplications on account of items having been handled by more than one Federal reserve bank or branch. The extent to which duplications arise through the handling of items by more than one Federal reserve bank or branch will be obtainable from figures shown against items 8, 9, and 10.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

LETTER TO BE SENT TO
EACH FEDERAL RESERVE AGENT.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 24, 1923.
St. 3320.

SUBJECT: By-laws of Federal Reserve
banks and branches.

Dear Sir:

It will be appreciated if you will kindly furnish the Board with six copies of the by-laws of your bank now in effect, at your earliest convenience. It will also be appreciated if you will furnish us with six copies of the by-laws of each of the branches, if any.

Very truly yours,

Walter L. Eddy,
Assistant Secretary.

Letter sent to all F. R. Agents.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

February 13, 1923.
St. 3357.

Gentlemen:

The Federal Reserve Board will be under obligation, if you will kindly furnish its Statistical office with two copies of abstract of reports of condition of banks and trust companies in your State as of or about the close of the calendar year 1922. In case your department has not issued any end-of-December call, will you kindly send us the abstract for either the November, 1922 or January, 1923 calls? We are very desirous of securing figures for the whole of the United States and would ask you to favor us with copies of the abstract, even though you may not have printed it for general distribution.

Enclosed please find franked and self-addressed envelope for transmitting the pamphlets in question.

Very truly yours,

Walter L. Eddy,
Assistant Secretary.

State Banking Department.

Enclosure.

FEDERAL RESERVE BOARD

WASHINGTON

March 3, 1923.
St. 3388

SUBJECT: Charts showing movement of
assets and liabilities of
Federal Reserve Banks, etc.

Dear Sir:

There are being forwarded to you today under separate cover two copies each of the following charts:

1. Movement of earning assets of all Federal Reserve Banks, 1922 and 1923.
2. Debits to Individual Accounts at Banks in Reporting Clearing House Centers, 1922 and 1923.
3. Deposits, Federal Reserve note circulation, Cash Reserves and Reserve Ratio of all Federal Reserve Banks, 1922 and 1923.
4. Movement of Loans and Investments, Deposits and Federal Reserve Bank Accommodation of all Reporting Member Banks, 1922 and 1923.
5. Federal Reserve Banking Developments, 1917-1923.

One of the sets is intended for your use and the other for the use of the Governor. One set, containing the five charts, will be mailed to the Manager of each Federal Reserve Branch Bank.

All the information required to continue the several curves for the remainder of the present calendar year will be obtainable from the Board's regular weekly published statements.

Very truly yours,

Walter L. Eddy,
Assistant Secretary.

(Letter sent to each F. R. Agent)

FEDERAL RESERVE BOARD

WASHINGTON

March 24, 1923.
St. 3424.

SUBJECT: Condition Reports of State
Bank and Trust Company
Members, Form 105.

Dear Sir:

There are being forwarded to you today under separate cover copies of Form 105 revised as of February 15, 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.

Inasmuch as it is found that a number of condition reports are received at each call which do not show all of the data called for on the reverse side of the form nor the segregation of amounts reported against certain items, such as demand deposits item 25, on the face of the form, it will be appreciated if special care is taken to see that reports forwarded to the Board are complete in these respects.

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 is requested that the reports be forwarded to the Board as soon as practicable after they are received by the Federal reserve bank. Special effort should be made to see that all the reports reach the Board within 20 days after date of call.

Yours very truly,

Walter L. Eddy,
Assistant Secretary.

To all F. R. Agents.

FEDERAL RESERVE BOARD

WASHINGTON

March 28, 1923.
St. 3434.

SUBJECT: Abstract of Condition Reports
of State Bank and Trust Company
Members and of all Member banks
as of December 29, 1922.

Dear Sir:

We are forwarding to you under separate cover
copies of the Board's Abstract No. 19 showing the
condition of State Bank and Trust Company members and of
all member banks as at close of business on December 29,
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

May 2, 1923.
O. S. 4.

Gentlemen:

Your courtesy will be greatly appreciated if you will furnish the Federal Reserve Board, for use of its Statistical Office, as soon as available, with two copies of abstract of reports of condition of State banks and Trust companies in your State on April 3, or nearest date, in continuation of similar abstracts of condition of these banks on or about the last of December, 1922.

Will it be possible for your office to eliminate, or at least segregate, the figures for the mutual savings banks, in case the state totals, as shown in the abstract, are inclusive of figures for this class of banks? In case the abstract fails to show the number of state banks and trust companies reporting, will you be good enough to state this number in your letter of transmittal? We are very desirous of publishing comparative figures by states and geographic sections for the country as a whole at the earliest practicable date, and would ask you, therefore, to favor us with advance or proof copies of the tables and not to defer mailing the data until final revision. It goes without saying that we shall be glad to make changes or corrections in your State figures at any time before final proof is sent to the printer.

The April number of the Federal Reserve Bulletin (pages 445-460) contains a summary statement of the abstracts of reports of condition at about the end of 1922 of State banks and Trust companies of forty-six states and of the District of Columbia, to which we desire to call your attention. We shall be glad to send you additional copies of the April Bulletin as long as our supply of that number lasts.

Enclosed please find franked and self-addressed envelope, requiring no postage, for the transmission of the data.

Very truly yours,

Walter L. Eddy,
Assistant Secretary.

State Banking Department,

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

May 11, 1923.
St. 3502.

SUBJECT: Report of deposits of member
banks, ~~form~~ St. 3501.

Dear Sir:

For a number of years the Board has received and published each week reports showing the principal asset and liability items of reporting member banks in about 100 selected cities, but as is well known these figures represent the condition of member banks in the larger cities only, and therefore are not an entirely satisfactory indicator of changing banking conditions in general. While the Board does not consider it practicable to have banks in the smaller cities furnish current weekly reports, it desires to make use of any figures already available which throw light on banking developments in the smaller cities and rural towns.

In order to enable them to determine whether member banks are maintaining reserves in the amount required by law, all Federal reserve banks are now receiving weekly reports from member banks in reserve cities and semi-monthly reports from banks located outside of reserve cities, which show daily figures of net demand deposits and of time deposits, and it is believed that if these figures were tabulated and grouped according to the size of the cities in which the banks are located, they would throw considerable light on country bank developments. It will be appreciated, therefore, if you will kindly furnish the Board with a report on the attached form St. 3501, a supply of which is being forwarded to you under separate cover, showing the amount of net demand deposits and of time deposits for member banks located in each of the four classes of cities indicated on this form as of the Wednesday preceding the last Friday in each month. As indicated on the form separate figures are to be shown for each state in the district.

St. 3502.

- 2 -

It is requested that the first report be prepared as of Wednesday, April 25. The district totals of net demand deposits and of time deposits for banks in each class of cities should be telegraphed to the Board as soon as available against the code words provided on the form, and a complete report showing figures for each state mailed as soon thereafter as practicable.

In the compilation of these data it is requested that cities and towns in your district be grouped in accordance with the attached list which is based on the latest available census figures and shows all cities and towns in the district with a population of 5,000 or over.

By order of the Federal Reserve Board.

Yours very truly,

Wm. W. Hoxton,
Secretary.

LETTER TO EACH FEDERAL RESERVE AGENT.

Enclosure.

(April 1923)

DEPOSITS OF MEMBER BANKS IN EACH STATE IN THE _____ FEDERAL RESERVE DISTRICT.

AS AT CLOSE OF BUSINESS ON WEDNESDAY, _____ 192_.

(Amounts in thousands of dollars)

State	Banks located in cities or towns with less than 5,000 population			Banks located in cities with population of 5,000 to 14,999			Banks located in cities with population of 15,000 to 99,999			Banks located in cities with population of 100,000 and over		
	Num-ber	Net demand deposits	Time deposits	Num-ber	Net demand deposits	Time deposits	Num-ber	Net demand deposits	Time deposits	Num-ber	Net demand deposits	Time deposits
TOTAL	ACID	ADAM	AVON	BANN	BIDE	BUNT	CAST	CORK	COOP	DART	DOVE	DUPE

NOTE: Reports should be made as of the Wednesday preceding the last Friday of each month and mailed to the Federal Reserve Board at the earliest practicable date. In addition, the total figures for which code words have been provided should be telegraphed, as soon as available after the report date.

FEDERAL RESERVE BOARD

WASHINGTON

May 15, 1923.
St. 3515.

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

SUBJECT: Contingent liability on
bills purchased for for-
eign correspondents.

Dear Sir:

With reference to the Board's telegram TRANS 315 of April 25, 1923, stating that a new item "Contingent liability on bills purchased for foreign correspondents," would be added to the weekly press statement showing the condition of Federal reserve banks, we find that it has been necessary to make some changes in the total amount of this item as shown on the liability sheet of weekly press statements issued during the past year. When publishing comparative figures for last year the Board will of course show the revised figures, and in order that there may be no difference between the Board's press statements and those issued at your bank, the necessary revisions are given below:

<u>Date</u>	<u>Original figures</u>	<u>Revised figures</u>
1922 - May 31	34,395	34,349
August 2	29,567	29,860
9	28,963	29,863
23	29,976	29,876
October 11	30,488	31,832
18	33,921	35,265
December 6	31,050	31,007
27	34,014	33,981
1923 - January 3	33,898	33,912
10	33,950	33,913
24	33,922	33,928
March 7	28,848	28,844
14	34,581	34,577

Any changes made in the amount of this item as published in future weekly statements will be telegraphed to you, as is now done in the case of all other items.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

LETTER TO F. R. AGENT AT ALL BANKS EXCEPT RICHMOND.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 12, 1923.
St. 3557.

SUBJECT: Payment of Dividends
on June 30, 1923.

Dear Sir:

In accordance with the policy adopted in the Board's letter X-3415 of May 24, 1922, it is requested that the books of the Federal reserve banks be not closed on June 30, 1923. In view of the fact that the books will not be closed, it will be necessary to modify somewhat the form of dividend resolution accompanying the Board's letter X-3136 of June 8, 1921, and accordingly we are enclosing herewith a suggested form for future use.

Your request for authority to pay the semi-annual dividend should be accompanied by the following statements:

1. 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.
2. 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.

It will be appreciated if you will present this letter to your Board of Directors at any early date so that their resolution covering the payment of dividends on June 30 may reach the Board not later than June 28.

By order of the Federal Reserve Board.

Very truly yours,

Wm. W. Hoxton,
Secretary.

LETTER TO CHAIRMAN
OF EACH FEDERAL RESERVE BANK

C

St. 3557a.

DIVIDEND RESOLUTION

WHEREAS, It appears from estimates based on the bank's daily balance sheet, form 34, for the _____ day of _____ that the amount of accrued dividends which will be due to stockholders on the _____ day of _____ will amount to approximately \$ _____; and

WHEREAS, It is estimated that the excess of earnings over current expenses, depreciation in the assets of the bank, and probable losses will be sufficient on _____ to fully warrant the payment of the regular semi-annual dividend;

NOW, THEREFORE, BE IT RESOLVED, That a dividend for the six-months' period ending _____ at the rate of six per centum per annum on the paid-in capital stock, payable on the _____ day of _____, be and is hereby declared to all stockholders of this bank as shown by the books of the bank on that date.

C.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 18, 1923.
St. 3562.

SUBJECT: Earnings and Dividends reports
of State Bank and Trust Company
members as of June 30, 1923.

Dear Sir:

There are being forwarded to you today under separate cover by 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 June 30, 1923, 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,

Wm. W. Hoxton,
Secretary.

Letter to each Federal Reserve Bank.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 21, 1923.
St. 3569.

SUBJECT: Condition Reports of State Bank and
Trust Company Members, Form 105.

Dear Sir:

There are being forwarded to you today under separate cover copies of Form 105 revised as of May 22, 1923. 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.

Upon receipt of notice from the Board of the call for condition reports the banks should be advised thereof by mail, if located within two days' time from the Federal reserve bank or by telegram if not within two days' time by mail.

Inasmuch as it is found that a number of condition reports are received at each call which do not show all of the data called for on the reverse side of the form nor the segregation of amounts reported against certain items, such as demand deposits item 25, on the face of the form, it will be appreciated if special care is taken to see that reports forwarded to the Board are complete in these respects.

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 is requested that the reports be forwarded to the Board as soon as practicable after they are received by the Federal reserve bank. Special effort should be made to see that all the reports reach the Board within 20 days after date of call.

Kindly acknowledge receipt.

Yours very truly,

Wm. W. Hoxton,
Secretary.

Letter to each Federal Reserve Agent.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 21, 1923.
St. 3570

SUBJECT: Abstract of Condition Reports of
State Bank and Trust Company Members
and of all Member banks as of
April 3, 1923.

Dear Sir:

We are forwarding to you under separate cover
copies of the Board's Abstract No. 20 showing the
condition of State Bank and Trust Company members and of
all member banks as at close of business on April 3, 1923.
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,

Wm. W. Hoxton,
Secretary.

Letter to each Federal Reserve Agent.