

FEDERAL RESERVE BOARD ANNOUNCEMENT  
FOR THE WEEK ENDING JANUARY 4, 1924.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total Resources</u>
<u>DISTRICT NO. 12.</u>			
Wells Fargo Bank & Union Trust Co., San Francisco, Cal.	\$9,000,000	\$5,000,000	\$131,823,000

CLOSED:

Iowa Savings Bank, Audubon, Iowa.  
Bank of Waynesville, Waynesville, Mo.

SUCCEEDED BY STATE MEMBER:

Union Trust Company, San Francisco, Cal., has been succeeded by the Wells-Fargo Bank & Union Trust Company, San Francisco, Cal., a member, being a merger of the Union Trust Co. and the Wells Fargo Nevada National Bank.

SUCCEEDED BY NATIONAL BANK:

Texas Bank and Trust Co., Galveston, Texas.

CONVERTED TO NATIONAL BANK:

American Exchange Bank, Milwaukee, Wisconsin.  
Bank of Hattiesburg and Trust Co., Hattiesburg, Miss.

VOLUNTARY LIQUIDATION:

First State Bank, Mount Carmel, Illinois.

WITHDRAWALS:

Farmers State Bank, Rockham, South Dakota.  
City State Bank, Ogden, Iowa.  
Foreman Trust & Savings Bank, Chicago, Ill.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

First National Bank, St. Augustine, Fla.  
Commercial National Bank, Hattiesburg, Miss.  
City National Bank, Fort Smith, Ark,

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FEDERAL RESERVE BOARD ANNOUNCEMENT  
FOR THE WEEK ENDING JANUARY 11, 1924.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total Resources</u>
<u>DISTRICT NO. 5.</u>			
Atlantic Exchange Bank & Trust Co., Baltimore, Maryland.	\$1,000,000	\$1,000,000	\$10,677,070
<u>DISTRICT NO. 7.</u>			
Citizens Savings Bank, Mount Clemens, Michigan.	150,000	50,000	2,995,331

CLOSED:

Bank of Camilla, Camilla, Georgia.  
Security State Bank, Portales, New Mexico.

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

Industrial Trust Company, Providence, R. I.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

Windham National Bank, Willimantic, Conn.  
Emerson National Bank, Warrensburgh, N. Y.  
American National Bank, Rushville, Ind.  
First National Bank, Bentonville, Ark.

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FEDERAL RESERVE BOARD ANNOUNCEMENT  
FOR THE WEEK ENDING JANUARY 18, 1924.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total resources</u>
<u>DISTRICT NO. 4.</u>			
Citizens Banking and Trust Co., Conneaut, Ohio.	\$125,000	\$32,750	\$1,261,754

REOPENED:

The Security State Bank, Portales, New Mexico.

VOLUNTARY LIQUIDATIONS:

Fort Scott State Bank, Fort Scott, Kansas.  
Conrad Trust & Savings Bank, Helena, Montana,  
(assets being taken over by other Helena banks).

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

The Atlantic Exchange Bank & Trust Co., Baltimore, Maryland.

FEDERAL RESERVE BOARD ANNOUNCEMENT  
FOR THE WEEK ENDING JANUARY 25, 1924.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

<u>DISTRICT NO. 8.</u>	<u>Capital</u>	<u>Surplus</u>	<u>Total resources</u>
Crittenden County Bank, Marion, Ark. (Succeeded Crittenden County bank & Trust Co., a member).	\$200,000	- -	\$1,725,164

CHANGE OF TITLE:

The Hub Trust Company, Boston, Mass., has changed its title to the Bank of Commerce & Trust Company.

VOLUNTARY LIQUIDATION:

Albion State Bank, Albion, Washington.

MERGED WITH NON-MEMBER:

The Surprise Valley Bank, Cedarville, California, has merged with the Bank of Fort Bidwell, Fort Bidwell, California, a non-member.

NATIONAL BANK ABSORBED BY STATE MEMBER:

The Merchants National Bank, Buffalo, N. Y., has been absorbed by the Buffalo Trust Company, Buffalo, N. Y., a member.

STATE MEMBER ABSORBED BY NATIONAL BANK:

The State Trust & Savings Bank, Albuquerque, N. Mex.

NON-MEMBERS ABSORBED BY STATE MEMBERS:

The Merchants Bank, Mobile, Ala., has absorbed the Farmers and Mechanics Bank, Mobile, Ala., a non-member.

The American Bank & Trust Co., Denver, Colo., has absorbed the Union State Bank, Denver, Colo., a non-member.

CLOSED:

Citizens Savings Bank, Decorah, Iowa.

Evart State Bank, Evart, Michigan.

Citizens State Bank, Culbertson, Montana.

Philipsburg State Bank, Philipsburg, Montana.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

Metuchen National Bank, Metuchen, N. J.

First National Bank, Toms River, N. J.

First National Bank, Delmar, Del.

Peoples National Bank, Norristown, Penna.

Second National Bank, Warren, Ohio.

South Texas Commercial National Bank, Houston, Texas.

United States National Bank, Galveston, Texas.

FEDERAL RESERVE BOARD ANNOUNCEMENT  
FOR THE WEEK ENDING FEBRUARY 1, 1924.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total resources</u>
<u>DISTRICT NO. 8.</u>			
Broadway Savings Trust Co., St. Louis, Mo.	\$200,000	\$90,000	\$2,107,984

CHANGES IN STATE BANK MEMBERSHIP:

Absorbed by National Bank.

Falfurrias State Bank, Falfurrias, Texas.

Absorbed by State Member.

Imperial Valley Bank, Brawley, California, absorbed by the  
Pacific Southwest Trust & Savings Bank, Los Angeles, California.

Closed.

Exchange Bank of Valdosta, Valdosta, Ga.  
American Bank & Trust Co., Missoula, Mont.  
First State Bank, Alamogordo, N. Mex.

Insolvent.

Pecos Valley State Bank, Pecos, Texas.

Withdrawn:

Union State Bank, Winter Park, Fla.

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

Wells Fargo Bank & Union Trust Co., San Francisco, Calif.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

Commercial National Bank, Washington, D. C.  
First National Bank, Norton, Va.  
First National Bank, Fergus Falls, Minn.

# FEDERAL RESERVE BOARD

WASHINGTON

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## FEDERAL RESERVE BOARD ANNOUNCEMENT FOR THE WEEK ENDING FEBRUARY 8, 1924.

### ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total resources</u>
<u>DISTRICT NO. 2.</u>			
Central Home Trust Co., Elizabeth, N. J.	\$200,000	\$50,000	\$259,150
<u>DISTRICT NO. 7.</u>			
Farmers Savings Bank, Palmer, Iowa	35,000	7,000	383,918

### CHANGES IN STATE BANK MEMBERSHIP:

#### Closed:

The Farmers Bank, Canon, Ga.  
Empire and State Bank, Lewistown, Mont.  
The Bank of Van Tassell, Van Tassell, Wyo.

#### Absorption:

The Buffalo Trust Company, Buffalo, N. Y., a member, has absorbed the Lafayette National Bank, Buffalo, N. Y.

#### Withdrawals:

Dayton Savings & Trust Co., Dayton, Ohio.  
Lewis Bank & Trust Co., Upper Sandusky, Ohio.

### PERMISSION GRANTED TO EXERCISE TRUST POWERS:

Montpelier National Bank, Montpelier, Vt.  
First National Bank, Danville, Penna. (Supplemental).  
Orange National Bank of McKean County, Smethport, Penna.  
Snell National Bank, Winter Haven, Fla.  
Capital National Bank, Jackson, Miss.  
West Coast National Bank, Portland, Ore.

FEDERAL RESERVE BOARD ANNOUNCEMENT  
FOR THE WEEK ENDING FEBRUARY 15, 1924.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total resources</u>
<u>DISTRICT NO. 7.</u>			
State Savings Bank, Marlette, Mich.	\$ 25,000	\$ 5,000	\$601,935

CHANGES IN STATE BANK MEMBERSHIP:

Change of Title

New Bern Banking & Trust Co., New Bern, N. C., has changed its title to Eastern Bank & Trust Co., New Bern, N. C.

Closed

Bank of Brookings, Brookings, S. Dak.  
Security Savings Bank, Rapid City, S. Dak.

Absorbed by National Bank

Clinton State Bank, Clinton, Okla., a member, has been absorbed by the Security National Bank, Clinton, Okla.

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

South Texas National Bank, Galveston, Texas.

FEDERAL RESERVE BOARD ANNOUNCEMENT  
FOR THE WEEK ENDING FEBRUARY 22, 1924.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

N O N E

CHANGES IN STATE BANK MEMBERSHIP:

Change of Title

The Ballinger State Bank & Trust Co., Ballinger, Texas,  
has changed its title to Ballinger State Bank.

Closed

Battle Creek Savings Bank, Battle Creek, Iowa.

Insolvent

Iowa Savings Bank, Audubon, Iowa.  
Citizens State Bank, Roundup, Mont.  
Security State Bank, Wolf Point, Mont.  
First State Bank, Alamogordo, N. Mex.

Absorbed by a National Bank

The Security State Bank, Decatur, Texas, has been  
absorbed by the First National Bank of Decatur, Texas.

Withdrawn

Farmers & Merchants Savings Bank, Burbank, Calif.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

Portland National Bank, Portland, Maine (Sup.).  
Louisville National Bank, Louisville, Ky.  
First National Bank, Anaheim, Calif.  
United States National Bank, McMinnville, Ore.



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FEDERAL RESERVE BOARD ANNOUNCEMENT  
FOR THE WEEK ENDING FEBRUARY 29, 1924.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total resources</u>
<u>DISTRICT NO. 4.</u>			
First American Bank & Trust Co., Lima, Ohio.	\$150,000	\$207,000	\$4,557,923
<u>DISTRICT NO. 7.</u>			
Citizens State Savings Bank, New Baltimore, Mich.	25,000	10,000	309,023

CHANGES IN STATE BANK MEMBERSHIP:

Withdrawn:

First State Bank & Trust Co., McAllen, Texas.

Absorbed by State Member:

The Pioneer Bank, Porterville, California, has been absorbed by the Pacific Southwest Trust & Savings Bank, Los Angeles, Calif.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

- Ottawa County National Bank, Miami, Okla.
- First National Bank, Greenville, Penna. (Supplemental).
- Uniontown National Bank & Trust Co., Uniontown, Penna.
- Citizens National Bank, Hammond, La.
- National City Savings Bank & Trust Co., Vicksburg, Miss.
- National Peoples Savings Bank & Trust Co., Vicksburg, Miss.
- McKeen National Bank, Terre Haute, Ind.

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FEDERAL RESERVE BOARD ANNOUNCEMENT  
FOR THE WEEK ENDING MARCH 7, 1924.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total resources</u>
<u>DISTRICT NO. 8.</u>			
Twin City Bank, North Little Rock, Ark.	\$100,000	\$20,000	\$769,471
Chippewa Trust Co., St. Louis, Mo.	200,000	50,000	1,513,515

CHANGES IN STATE BANK MEMBERSHIP:

Closed:

Magnolia Savings Bank, Magnolia, Iowa.

Voluntary Liquidation:

Citizens Savings Bank, Decorah, Iowa.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

First National Bank, Glens Falls, N. Y.  
Salt Springs National Bank, Syracuse, N. Y.  
Harlan National Bank, Harlan, Ky.  
Second National Bank, Greenville, Ohio.  
First National Bank, Menominee, Wis.

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FEDERAL RESERVE BOARD ANNOUNCEMENT  
FOR THE WEEK ENDING MARCH 14, 1924.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total resources</u>
<u>DISTRICT NO. 3.</u>			
First Bank & Trust Co., Mechanicsburg, Pa.	\$250,000	\$150,000	

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

East River National Bank, New York, N. Y.  
Miners National Bank, Pottsville, Pa.  
Merchants National Bank of W. Va., Clarksburg, W. Va.  
National Bank of Carmi, Carmi, Ill.

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FEDERAL RESERVE BOARD ANNOUNCEMENT  
FOR THE WEEK ENDING MARCH 21, 1924.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total resources</u>
<u>DISTRICT NO. 2.</u>			
Ramapo Trust Company, Spring Valley, N. Y.	\$100,000	\$35,000	\$813,166

CHANGES IN STATE BANK MEMBERSHIP:

Closed:

The Planters Bank, Carlton, Ga.

Voluntary Liquidation:

The Farmers Savings Bank, Roland, Iowa.

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

Fifth National Bank, New York, N. Y.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

The National Bank of Newport, Newport, Vt.  
The National Bank of Wareham, Wareham, Mass.  
The Lincoln National Bank, Fort Wayne, Ind.  
The Commercial National Bank, Los Angeles, Cal.

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FEDERAL RESERVE BOARD ANNOUNCEMENT  
FOR THE WEEK ENDING MARCH 28, 1924

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total resources</u>
<u>DISTRICT NO. 10.</u>			
Colorado Savings & Trust Co., La Junta, Colo.	\$ 75,000	\$ 40,000	\$616,652

CHANGES IN STATE BANK MEMBERSHIP:

Absorbed by National Bank

The Central Metropolitan Bank, St. Paul, Minn., has been absorbed by the National Exchange Bank, St. Paul, Minn.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

- Franklin National Bank, Jersey City, N. J..
- Commercial National Bank, New York, N. Y.
- Loudoun National Bank, Leesburg, Va.

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FEDERAL RESERVE BOARD ANNOUNCEMENT  
FOR THE WEEK ENDING APRIL 4, 1924.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total resources</u>
<u>DISTRICT NO. 2.</u>			
Raritan Trust Company, Perth Amboy, N. J.	\$100,000	\$ 20,000	\$1,739,753
<u>DISTRICT NO. 3.</u>			
Citizens Bank & Trust Co., Middletown, Pa.	125,000	75,000	867,407

CHANGES IN STATE BANK MEMBERSHIP:

Closed:

The Molson State Bank, Molson, Wash.  
Security State Bank, Portales, N. Mex.

Absorbed by Non-member:

The Citizens State Bank, Alice, Texas, has been taken over  
by the Security State Bank, Alice, Texas, a non-member.

Merged with State Member:

The Citizens Bank & Trust Company of Louisiana, New Orleans,  
La., has merged with the Canal-Commercial Trust & Savings Bank,  
New Orleans, La., both being members.

Converted to National Bank:

The American Bank & Trust Co., Denver, Colo.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

Atlantic Highlands National Bank, Atlantic Highlands, N. J. (Sup.)  
Bridgeton National Bank, Bridgeton, N. J.  
First National Bank, Schuylkill Haven, Pa.  
First National Bank, Linton, Ind.  
First National Bank, Anna, Ill. (Sup.)  
Twin Cities National Bank, St. Paul, Minn.  
American National Bank, Denver, Colo.

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FEDERAL RESERVE BOARD ANNOUNCEMENT  
FOR THE WEEK ENDING APRIL 11, 1924

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total resources</u>
<u>DISTRICT NO. 4.</u>			
Toledo Trust Company, Toledo, Ohio.	\$1,500,000	\$1,000,000	\$6,623,485
<u>DISTRICT NO. 11.</u>			
Guaranty State Bank, Kosse, Texas.	25,000	3,700	204,000

CHANGES IN STATE BANK MEMBERSHIP:

Change of Title:

The Lowry Bank & Trust Company of Georgia, Atlanta, Ga., has changed its title to Trust Company of Georgia.

Absorbed by State Member:

The Valley Bank of Fresno, Fresno, California, has been taken over by the Pacific Southwest Trust & Savings Bank, Los Angeles, Calif., and by the Bank of Italy, San Francisco, Calif.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

Georges National Bank, Thomaston, Maine.  
National Bank & Trust Co., Red Bank, N. J.  
First National Bank, Ann Arbor, Mich.  
National Bank of New Mexico, Raton, N. Mex.  
Skagit National Bank, Mount Vernon, Wash.

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FEDERAL RESERVE BOARD ANNOUNCEMENT  
FOR THE WEEK ENDING APRIL 18, 1924

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total resources</u>
<u>DISTRICT NO. 4.</u>			
The Newton State Bank, Newton Falls, Ohio.	\$25,000	\$5,000	\$229,331

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

Fairport National Bank, Fairport, New York.  
 First National Bank, Tamaqua, Pennsylvania.  
 Citizens and Peoples National Bank, Pensacola, Florida.



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FEDERAL RESERVE BOARD ANNOUNCEMENT  
FOR THE WEEK ENDING APRIL 25, 1924

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total resources</u>
<u>DISTRICT NO. 8.</u>			
Producers State Bank, Siloam Springs, Ark.	\$25,000	\$3,250	\$116,847
<u>DISTRICT NO. 11.</u>			
The Liberty State Bank, Soper, Okla.	15,000	-	84,563
<u>DISTRICT NO. 12.</u>			
Bank of Beaverton, Beaverton, Oreg.	25,000	7,000	492,056

CHANGES IN STATE BANK MEMBERSHIP:

Voluntary Liquidations.

Merchants & Savings Bank, Kenosha, Wisconsin.  
Security State Bank, Dillon, Montana.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

Central National Bank & Trust Co., St. Petersburg, Fla.  
First National Bank, Oelwein, Iowa.  
Enid National Bank, Enid, Oklahoma.

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FEDERAL RESERVE BOARD ANNOUNCEMENT  
FOR THE WEEK ENDING MAY 2, 1924.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total resources</u>
<u>DISTRICT NO. 3.</u>			
Merchants & Miners State Bank, Luzerne, Penna.	\$50,000	\$5,000	\$279,314
<u>DISTRICT NO. 9.</u>			
Bradley Bank, Tomahawk, Wis.	60,000	14,000	974,157
<u>DISTRICT NO. 11.</u>			
Guaranty State Bank, Emory, Texas	17,500	- -	92,423

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FEDERAL RESERVE BOARD ANNOUNCEMENT  
FOR THE WEEK ENDING MAY 9, 1924.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

N O N E

NATIONAL BANK ABSORBED BY STATE MEMBER:

The Union Trust Company of East St. Louis, Illinois, has taken over the Security National Bank of East St. Louis.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

First National Bank, Hancock, N. Y.  
Danville National Bank, Danville, Pa.  
Russell National Bank, Lewistown, Pa.  
Kensington National Bank, Philadelphia, Pa.  
First National Bank, Plymouth, Pa.  
Lowell National Bank, Lowell, Ind.

FEDERAL RESERVE BOARD ANNOUNCEMENT  
FOR THE WEEK ENDED MAY 16, 1924.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total resources</u>
<u>DISTRICT NO. 8.</u>			
Merchants and Farmers Bank, Baldwyn, Miss.	\$15,000	\$3,750	\$50,551

CHANGES IN STATE BANK MEMBERSHIP:

Change of Title.

The Central State Bank of Lakeland, Florida, has changed its title to "Central Bank & Trust Company of Lakeland".

Reopened.

The Farmers Bank, Canon, Georgia.

National Bank Absorbed By State Member.

The Mercantile Trust Company of California, San Francisco, California, has absorbed the Marin County National Bank, San Rafael, California.

Six Months Withdrawals.

The Bridgeport Trust Company, Bridgeport, Conn.  
The Yoakum State Bank, Yoakum, Texas.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

First National Bank, Millburn, N. J.  
Union National Bank, Philadelphia, Pa. (Supplemental)  
Columbia National Bank, Pittsburg, Pa.  
First National Bank, Princeton, Ky.

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FEDERAL RESERVE BOARD ANNOUNCEMENT  
FOR THE WEEK ENDED MAY 23, 1924.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total resources</u>
<u>DISTRICT NO. 2.</u>			
International Union Bank, New York, N. Y.	\$250,000	\$200,000	\$2,148,950

CHANGES IN STATE BANK MEMBERSHIP:

Six Months Withdrawal.

Eastern Bank & Trust Co., New Bern, N. C.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

First National Bank, Manchester, N. H.  
Franklin National Bank, Newark, Ohio.  
Citizens National Bank, Baltimore, Md.

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FEDERAL RESERVE BOARD ANNOUNCEMENT  
FOR THE WEEK ENDED MAY 30, 1924.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total resources</u>
<u>DISTRICT NO. 7.</u>			
Home State Bank for Savings, Grand Rapids, Mich.	\$250,000	\$62,500	\$2,923,882

CHANGES IN STATE BANK MEMBERSHIP:

National Bank Absorbed by State Member:

The Meridian State Bank, Meridian, Idaho, has absorbed the  
First National Bank of Meridian, Idaho.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

Rockland National Bank, Rockland, Maine.  
Farmers National Bank, Malone, N. Y.  
Citizens National Bank, Covington, Va.  
Citizens National Bank, Charleston, W. Va.  
First National Bank, Miami, Fla.  
First National Bank, Deadwood, S. Dak.

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FEDERAL RESERVE BOARD ANNOUNCEMENT  
FOR THE WEEK ENDED JUNE 6, 1924.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

N O N E.

CHANGES IN STATE BANK MEMBERSHIP:

Change of Title.

The United Banking & Savings Co., Cleveland, Ohio, has changed its title to "The United Banking and Trust Company".

Voluntary Withdrawals.

Peoples State Bank, Cabot, Arkansas.  
Farmers & Merchants State Bank, Shamrock, Texas.

Absorbed by National Bank.

State Bank of Armstrong, Armstrong, Iowa, has been absorbed by the First National Bank of Armstrong.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

First-Columbia National Bank, Columbia, Penna.  
First National Bank, Hamburg, Penna.  
First National Bank, Blackstone, Va.  
Austin National Bank, Chicago, Ill.

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FEDERAL RESERVE BOARD ANNOUNCEMENT  
FOR WEEK ENDED JUNE 13, 1924.

ADMITTED TO FEDERAL RESERVE SYSTEM:

N O N E.

CHANGES IN STATE BANK MEMBERSHIP:

Change of Title:

The Gold and Company State Bank, Big Stone City, S. Dak.,  
has changed its title to "Big Stone City State Bank".

Closed:

The Bank of Grayson, Grayson, Georgia.

Withdrawn:

The Farmers Bank, Canon, Georgia.  
First Bank of Homedale, Homedale, Idaho.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

Union National Bank, Bartlesville, Okla.  
Northern National Bank, Philadelphia, Pa.  
Planters and Merchants National Bank, South Boston, Va. (Sup.)  
Florida National Bank, Jacksonville, Fla. (Sup.)  
Second National Bank, Houston, Texas.



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FEDERAL RESERVE BOARD ANNOUNCEMENT  
FOR THE WEEK ENDED JUNE 20, 1924.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total resources</u>
<u>DISTRICT NO. 3.</u>			
Miners Trust Co., Nanticoke, Pa.	\$125,000	\$150,000	\$1,637,840
<u>DISTRICT NO. 11.</u>			
Sudan State Bank, Sudan, Texas.	17,500	1,750	104,440

CHANGES IN STATE BANK MEMBERSHIP:

Converted into National Bank

W. R. Grace & Co's. Bank, New York, N. Y.

Voluntary Withdrawal.

Steuben County State Bank, Angola, Ind.

Voluntary Liquidation.

The Canon Bank, Canon, Georgia.

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

Grace National Bank of New York, New York, N. Y.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

Grace National Bank of New York, New York, N. Y.

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FEDERAL RESERVE BOARD ANNOUNCEMENT  
FOR THE WEEK ENDED JUNE 27, 1924.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total resources</u>
<u>DISTRICT NO. 11.</u>			
The Farmers State Bank, Garvin, Oklahoma.	\$15,000	\$ 1,500	\$84,408

CHANGES IN STATE BANK MEMBERSHIP:

Converted into National Bank

The Security State Bank, Sallisaw, Oklahoma.

Voluntary Withdrawal.

The State Bank of Mosinee, Mosinee, Wisconsin.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

The United National Bank of Troy, Troy, N. Y.  
Second National Bank, Uniontown, Penna.  
First National Bank, Rochester, Minn.

IN THE UNITED STATES CIRCUIT COURT  
OF APPEALS  
FIFTH CIRCUIT.

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No. 4169.

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D. S. SOWELL,

Plaintiff in Error,

versus

FEDERAL RESERVE BANK OF DALLAS, TEXAS,

Defendent in Error.

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Error to the District Court of the United States for the  
Northern District of Texas.

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J. D. Williamson for Plaintiff in Error.

E. B. Stroud, Jr., Tom Scurry and Joseph Manson  
McCormick, (Etheridge, McCormick & Bromberg, Charles C. Huff,  
and E. B. Stroud, Jr., on the brief), for Defendant in Error.

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Before WALKER and BRYAN, Circuit Judges, and GRUBB,  
District Judge.

GRUBB, District Judge:

This is a writ of error from a  
judgment for the defendant in error (plaintiff in the District  
Court) against the plaintiff in error (defendant in that Court)  
for the amount of a promissory note and interest, executed by  
the defendant, made payable to the National Bank of Cleburne,

and by it endorsed to the plaintiff, and pledged as collateral security for an indebtedness in excess of the amount of the note. The National Bank of Cleburne became insolvent and failed to pay its indebtedness to the plaintiff, which proceeded to collect the note. Three objections to the recovery were offered in the District Court, and are here insisted upon.

(1) The defendant questioned the jurisdiction of the District Court upon the ground that the plaintiff was an assignee of the note sued on and his assignee could not have sued the maker upon it in a federal court.

(2) Because the plaintiff, as a holder of the note, negligently failed to present it at the place of payment named in it, and negligently failed to notify the maker of its dishonor.

(3) Because the District Court refused to stay the suit until it could be determined whether the other collateral, which the plaintiff held to secure the indebtedness of the National Bank of Cleburne, was sufficient to pay the indebtedness.

1. Jurisdiction of the District Court was conceded unless prevented by reason of the operation of the "assignee clause" of Section 24 of the Judicial Code. It was also conceded that the case was one arising under a law of the United States (American Trust & Bank Company vs. Federal Reserve Bank of Atlanta, 256 U. S., 350), and that the federal courts would have been without jurisdiction in a suit between the original parties to the note. Jurisdiction depended upon whether the assignee clause applied to a case in which the ground of federal jurisdiction was that the case was one arising under a law of the United States. The plaintiff contends

and the District Court held that the assignee clause only applied to cases in which federal jurisdiction was acquired by the character of the parties, and not to cases in which it depended upon the character of the subject matter. The assignee clause appeared in the Judiciary Act of 1789 and has remained in substantially like form in all subsequent acts. In the Act of 1789, federal jurisdiction was conferred only as a result of the character of the parties. The United states, aliens and citizens of different states alone could sue in the federal courts by its term. Jurisdiction was not given in cases arising under a law of the United States, except for a brief period, under the Act of February 13th, 1801; until the passage of the Act of March 3rd, 1875; until that date the assignee clause could not therefore have applied to suits arising under the laws of the United States. The courts further limited its application to cases in which aliens and citizens of different states were parties, by eliminating from its scope suits in which the United States were a party. U. S. vs. Green, 26 Fed. Cases, 33, No. 15258. Before the Act of March 3rd, 1875, jurisdiction was denied federal corporations, unless their charters expressly authorized them to sue in the federal courts. When such power was expressly conferred, the courts held the assignee clause inapplicable; the suit being one arising under the laws of the United States. Commercial National Bank vs. Simmons, 6 Fed. Cases, 226, No. 3062; Bank of U. S. vs. Planters Bank of Georgia, 9 Wheat. 904. When general jurisdiction was given the federal courts by the Act of March 3rd, 1875, over suits arising under laws of the United States, the necessity for express charter authorization to sue in the federal courts was removed, and the assignee clause became inapplicable to the general ground of jurisdiction, as it had been held to be in cases in which jurisdiction was conferred by special

charter. In the Act of 1887, as corrected by the Act of 1888, the position of the assignee clause shows the intention of congress to have been to limit its application to cases in which jurisdiction was acquired because of the character of the parties. It came immediately after them, and before the grant of jurisdiction because the case arose under a law of the United States. The change of the position of the clause in the Judicial Code is not significant of a change in meaning, in view of Section 295 of the Judicial Code. The case of *Wyman vs. Wallace*, 201 U. S. 230, is at least persuasive. In that case the assignee clause would have prevented jurisdiction from attaching because of diverse citizenship. It was sustained by the Supreme Court upon the idea that the case was one arising under a law of the United States; the Act of June 30th, 1876, conferring jurisdiction on the federal courts in cases, in which the individual liability of a stockholder of a national bank was sought to be enforced, (as was the case in that case) in addition to a recovery on a note. It is true that the Act of Congress conferred jurisdiction of such a proceeding in terms on the federal courts but if the assignee clause had been held to apply to suits arising under the laws of the United States, it would have operated to defeat the jurisdiction so acquired, for the plaintiff claimed by an assignment and his assignor could not have resorted to the federal courts. The Supreme Court, in effect, held that it did not do so, because jurisdiction was acquired, not because of diverse citizenship, but because the case was a suit arising under the laws of the United States; the assignee clause applying to the former, but not to the latter ground of jurisdiction.

2. The note sued on contained a provision that the maker waived

protest, notice thereof and diligence in collecting. This provision was in the body of the note, over the signature of the maker. Section 82 of Art. 6001a R. S., Texas, provides that "presentment for payment is dispensed with x x x x ( 3 ) by waiver of presentment, express or applied." Section III of the same Article provides that :- "A waiver of protest, whether in case of a foreign bill of exchange or other negotiable instrument, is deemed to be a waiver not only of a formal protest but also of presentment and notice of dishonor." Section 109 of the same Article provides that :- "Notice of dishonor may be waived either before the time of giving notice has arrived or after the omission to give due notice, and the waiver may be express or implied." Section 110 provides that where the waiver is embodied in the instrument itself, it binds all parties. In view of the waiver of presentment and notice of non-payment and diligence in collecting, which the defendant signed as maker of the note, we find it unnecessary to determine what, if any, duties as to presentment and notice of dishonor, rested upon the plaintiff under the Texas Negotiable Instrument Act.

3. Defendant's contention that the suit should have been stayed until defendant had exhausted its other collateral is untenable in reason and unsupported by authorities. The doctrine of marshalling assets applies only to the case of a junior lien holder, who seeks to compel a senior lien holder to exhaust security, which the senior has, and which the junior has not access to; and only in cases of a common debtor to two creditors for the protection of the junior creditor. It does not require a bona fide holder of negotiable paper, pledged as collateral to an indebtedness, to proceed first against other collateral, because of equities alleged

to exist between the original parties to the pledged paper. The obligation of the maker, as to the bona fide holder, is to pay certainly at a fixed time. Payment at the fixed time may be vital to the holder of the paper, especially when it is a bank. The rights of the obligors, on the other collateral, could be determined only in a proceeding to which they were all made parties. Such a determination would involve interminable delay and hopeless confusion. No such condition to the payment of the note at maturity entered into the obligation of the maker; and to inject it would be to greatly impair the negotiability of commercial paper, the value of which depends upon the assurance of prompt payment at maturity regardless of equities between the original parties. The authorities are opposed to such an application of the doctrine of marshalling the assets. *Haas vs. Bank of Commerce*, 60 N. W. 85; *Citizens State Bank vs. Iddings* 84 N. Y. 78; *Dallemand vs. Bank*, 54 Ill. App. 600; *Third National Bank vs. Harrison*, 10 Fed. 243.

We find no error in the record and the judgment of the District Court is

AFFIRMED.

(ORIGINAL FILED DECEMBER 6th, 1923)



## FEDERAL RESERVE BOARD

WASHINGTON

X-3933

January 2, 1924.

SUBJECT: Information regarding the bonding  
of officers and employees.

Dear Sir:

The Federal Reserve Board has received an inquiry from the United States Bureau of Efficiency with regard to the bonding of officers and employees of the Federal Reserve System. Information is asked upon the following points:

- (1) What officers or employees of the Federal Reserve Board and of the Federal reserve banks give bonds running to the Government?
- (2) What is the penalty of each of these bonds?
- (3) Please indicate present surety for each bond.
- (4) Have any payments been made by sureties on such bonds since the organization of the Federal reserve banking system?
- (5) If such payments have been made, please give cause of loss, whether payment was made as a result of suit, and reference to legal proceedings, if any.
- (6) What is the general policy followed in bonding other officers and employees of the Federal reserve banks whose bonds do not run to the Government?

You are requested to submit to the Board the information necessary to reply to these questions in so far as they affect your particular bank.

Very truly yours,

D.R. Crissinger,  
Governor.

To All Federal Reserve Agents.

## FEDERAL RESERVE BOARD

WASHINGTON

X-3936

January 7, 1924.

SUBJECT: Inter-district Movement of Funds through Gold Settlement Fund.

Dear Sir:

In reviewing the annual reports of the Federal Reserve Banks for past years we note that certain of the banks have shown tables giving the amount of money paid to and received from each other Federal Reserve Bank during the year through the Gold Settlement Fund. These figures are particularly interesting as showing the trend of business between given districts, especially when figures for several years are available. We will appreciate it therefore if you will kindly advise the Board whether or not your bank has compiled any figures showing the amount of money received from and paid to each other Federal Reserve Bank through the Gold Settlement Fund for the current or for any prior years. In case these tables have been compiled it will be appreciated if you will kindly furnish the Board with a copy of such statements, giving the figures by months if available in that form.

Very truly yours,

Walter L. Eddy,  
Secretary.

TO ALL FEDERAL RESERVE AGENTS

## FEDERAL RESERVE BOARD

WASHINGTON

X-3937

January 7, 1924.

SUBJECT: Member Bank Branches.

Dear Sir:

At a meeting of the Federal Reserve Board today, consideration was given to applications received from three state member banks located in one of the Federal Reserve districts for permission to establish from time to time during the course of the next several months a number of branches in designated cities or areas, in accordance with programs of branch bank development contemplated by the applicant banks.

The Board adopted the following resolution and directed that it be communicated to all Federal Reserve Agents, with the request that they in turn advise all member banks in their respective districts:

"WHEREAS, the Board, in Resolutions adopted November 7th, 1923, established certain principles, or policies, regarding the Board's attitude toward the extending of branch banks;

"BE IT RESOLVED, that the banks making these applications, as well as others interested in the question of branch banks, be informed that under regulations heretofore established blanket authority will not be granted to establish branches. Each application must be presented to the Board separately and in regular form and manner, subject to the approval of the State Banking Authorities and a recommendation of the Federal Reserve Bank of the district; and

"BE IT FURTHER RESOLVED, that any application to establish a branch or branches in definitely named places or locations in territory non-contiguous to the city of the home office, which is made in good faith and filed prior to February 1st, 1924, may be considered by the Board, as to detailed arrangements, after February 1st, 1924.

"BE IT FURTHER RESOLVED, that the Federal Reserve Board reserves to itself the right to pass upon each application on its merits and to act accordingly."

Very truly yours,

Governor.

TO ALL F. R. AGENTS

# FEDERAL RESERVE BOARD

36

WASHINGTON

X-3938

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

January 8, 1924.

SUBJECT: ADVICE OF CHANGES IN STATUS OF STATE MEMBER BANKS.

Dear Sir:

It appears that the Board is not in all cases receiving prompt advice of changes in the status of State member banks as required in letter X-3093 of April 9, 1921, with the result that the publication of notices of such changes is very much delayed and the records of the Board are frequently not up to date. It is therefore desired that in the future information be furnished by wire, giving effective dates wherever possible, when a State member institution has -

- (1) suspended business or when a suspended bank has reopened.
- (2) been declared insolvent.
- (3) gone into voluntary liquidation, with advice as to whether absorbed by another bank or succeeded by a new bank, giving name of bank in each instance.
- (4) absorbed or taken over another bank, member or non-member, giving capital, surplus, and total resources after absorption and also capital, surplus, and total resources of bank absorbed.
- (5) consolidated with or been absorbed by another bank, member or non-member, and
  - (a) name of other bank;
  - (b) name of consolidated bank;
  - (c) capital, surplus, and total resources of other bank and of consolidated bank.

Please also advise the Board by wire when a non-member institution has been closed.

Very truly yours,

J. C. NOELL,  
Assistant Secretary.

IN THE SUPREME COURT OF MISSOURI

EN BANC

OCTOBER TERM 1923

STATE Ex Rel. BURNS NATIONAL BANK of	)	
St. JOSEPH,	(	
	)	
	(	Petitioner.
	)	
vs.	(	No. 24208
	)	
A. B. DUNCAN, Judge of Probate Court	(	
of Buchanan County.	)	
	)	
	(	Respondent

Mandamus. The Relator filed its petition in this Court setting forth its organization as a national bank and alleging that one Mary E. Bird, a citizen of the State of Missouri and resident of the city of St. Joseph, died November 27, 1922, leaving a will which was duly admitted to probate in the Probate Court of Buchanan county, in which will she named the relator as executor; that the Federal Reserve Act, Section 9704, paragraph K, in granting certain powers to national banks, included the right to act as executors of estates; that the Federal Reserve Board, under the rules and regulations prescribed by the Federal Reserve Act, granted the petitioner the right to exercise its privileges so granted in so far as such exercise of that right was not in contravention of the state of local law; that under the Revised Statutes of Missouri for 1919, trust companies of this state are authorized to act as executors, and in fiduciary capacities; that subsequent to the probate of said will the petitioner made application to the Probate Court of Buchanan County for appointment as executor, and for the issuance of letters testamentary under the terms of the will; that January 29, 1923, the respondent, Judge of said Probate

Court, entered an order declining to appoint the petitioner on the grounds that under the laws of the State of Missouri, said petitioner was not authorized to act as executor. The proceedings of the Probate Court in that connection were set out in full, including the order declining to appoint the Burns National Bank as executor, and the appointment of Mary E. Williams, to be administratrix, with will annexed, of said estate. The petition thereupon prays this Court for an alternative writ of mandamus, directing the respondent Judge of the Probate Court to set aside said order appointing Mary E. Williams, and to appoint the petitioner as executor of said estate, or show cause why he had not done so.

Upon the filing of such petition this Court caused an alternative writ to be issued March 3, 1923.

The respondent then for return to the alternative writ, demurred on the ground that the aforesaid petition did not state facts which would authorize the issuance of a peremptory writ of mandamus. The case, then, is to be determined upon the facts stated in the petition for an alternative writ.

I. The petitioner calls attention to Section 11, R.S. Mo. 1919, providing that after the probate of a will, letters testamentary shall be granted to the persons therein appointed executors, arguing that "persons" mentioned in the section includes corporations as well as natural persons. There can be no force in this argument unless petitioner means that this and other sections of the chapter relating to Administration, authorize any and every corporation to act as executor or in other fiduciary relation

as provided for in that chapter. It is true that in many instances where the word "person" is used in a statute, it is construed to include corporations. The use of the term applies particularly to criminal statutes where a criminal act affects the property of a person. But that construction is by no means universal; it depends upon the context and the intent with which the term is employed. (30 Cyc p. 1526; See Words & Phrases, title "Person." The entire purpose and context of Article 1 on Administration excludes the idea that "person" means corporation. Section 7, relating to persons who may administer on estates; Section 6, excluding certain persons from acting as administrator or executor; Section 36, providing the form of letters issued to an executor; in fact, all the provisions of that article show that the legislature was dealing with and granting powers to natural persons.

It must be remembered that there was no common law right to make a will or appoint an executor. It is purely a matter of statutory regulation. The statute authorizing certain persons to act as executor is an enabling statute, and it must be construed according to the intent and purpose of the legislature in enacting it. The intent of the legislature to include only natural persons in the authority granted in that article appears not only in the terms of the article, but is shown by the actual grant, in another statute, of authority to trust companies to act as executors, and in other fiduciary relations. There would have been no need of such affirmative act if this chapter on Administration had granted such authority to all corporations. Before any corporation in this state can have a right to act in a fiduciary relation in administering estates there must be express authority given that kind of a corporation and that statutory

authority must be construed in pari materia with the chapter relating to Administration. Certainly there is no warrant for a contention that any corporation which might be named as executor in the will would have authority to act as such unless the law creating and defining the powers of such corporation should authorize it to perform such duties. The petitioner cannot derive authority to act as executor from the article on Administration or the section of that article relating to executors. It must be authorized to act through some other statute, Federal or State, giving it such authority.

II. The petitioner claims authority to act as executor under the provisions of the Federal Reserve Act. A brief filed herein by several amici curiae, presumably representing national banks, has a good deal to say about the authority of the Federal government, quoting precedents to the effect that the Constitution of the United States and the acts of Congress, within the scope of authority delegated to them, are paramount, - the Supreme Law of the land, - and binding upon all the States; that when Congress has enacted a statute within its constitutional power, regulating and defining the powers of any agency created by Congress, - a State cannot by any enactment nullify or abridge the powers thus granted or defined. Of course those principles are well established, and the extent of such authority is not in issue in this case.

In accordance with its constitutional authority Congress, it was held, had power to authorize the organization of national banks and invest them with whatever functions it thought necessary to make the business of the banks successful. Thus incidental authority was founded upon necessity;



national banks could be empowered to perform any duties when "Congress was of the opinion that these faculties were necessary to enable the bank to perform the services which are exacted from it, and for which it was created." (First National Bank v. Fellows, 244 U.S., 1.c. 420). That quotation is taken from an earlier case and the principle applied to the section of the Federal Reserve Act authorizing banks to act in fiduciary capacities. That case is the only case cited, and, so far as we know, the only case decided by the United States Supreme Court construing that feature of the Federal Reserve Act under which the petitioner asserts its right. It is mentioned often in later decisions of other courts, and the argument of petitioner is largely based upon deductions drawn from it by such other courts. We think it settles a good many questions which have arisen in relation to the act,- questions which occur in this case. It is well to note what is said there regarding the authority granted by Congress to a national bank to serve in fiduciary relations, such as executor, as necessary to enable the bank to perform the services required of it. We will notice below just what is meant by those duties in the light of the provision of the Federal Reserve Act.

III. While Congress has power, unless restrained by the Federal Constitution, to absorb to itself the entire regulation of such matters as are under consideration here, it has not done so. On the contrary, while the Federal Reserve Act authorizes National Banks to act in the capacity of executors, administrators, etc., Congress appeared to have in mind the popular protest against its supposed tendency to legislate in matters of purely local and state concern, for it limited the authority of national banks in that respect to cases where such authority was "not in contravention

of the state or local law." The question at issue here is whether the exercise of the fiduciary function by National Banks authorized by that provision of the Federal Reserve Act is in contravention of the law of the State of Missouri. First, however, we must ascertain what authority is to decide that question. Is its determination peculiarly within the jurisdiction of the Federal Court? Or does this Court have authority to say whether the exercise of such functions by National Banks is in contravention of the law of this State?

It has always been held that the power to regulate the acquisition and transfer of property, descents and distributions, the devolution of estates, etc., is exclusively within the jurisdiction of the State. *Overly v. Gordon*, 177 U.S. 214; *Penoy v. Neff*, 95 U.S. 714. Trustees, executors and administrators are the instruments through which the State regulates and controls certain classes of property. This is recognized by the Federal courts in the cases just mentioned. It naturally follows that the State, by statute, has the right to say, and the state courts have the right finally to determine, what agencies may exercise such control without acting in contravention of the state law. That was expressly held by the Federal Supreme Court in the *Fellows* case. (244 U.S., l.c. 427-8), where Chief Justice White said:

"In other words, we are of opinion that as the particular functions in question by the express terms of the act of Congress were given only, 'when not in contravention of the State or local law,' the state court was, if not expressly, at least impliedly, authorized by Congress to consider and pass upon the question whether the power was or was not in contravention of the state law, and we place our conclusion on that ground. \*\*\*\*\*The nature

of the subject dealt with adds cogency to this view since that subject involves the action of state courts of probate in a universal sense, implying from its very nature the duty of such courts to pass upon the question and the power of the court below within the limits of state jurisdiction to settle, so far as the State was concerned, the question for all such courts by one suit, thus avoiding the confusion which might arise in the entire system of state probate proceedings and the very serious injury to many classes of society which also might be occasioned."

Since that decision the Federal Reserve Act has been amended. Originally it authorized the Federal Reserve Board.

"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."

Section 11 (k) of the Act was amended by Congress in September, 1918, so that the provision read as follows:

"To grant by special permit to national banks applying therefor, when not in contravention of State or local law, the right to act as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State in which the national bank is located.

"Whenever the laws of such State authorize or permit the exercise of any or all of the foregoing powers by State banks, trust

companies, or other corporations which compete with national banks, the granting to and the exercise of such powers by national banks shall not be deemed to be in contravention of State or local law within the meaning of this Act."

It cannot be contended that Congress by this amendment took away from the courts of a State the right to interpret its own statutes and to determine this particular question. The reasoning of the Supreme Court in the Fellows case negatives the existence of any such authority on the part of Congress.

The petitioner argues that this amendment enlarges the authority of national banks, giving them authority to act in such matters where before the amendment they had none. On the contrary, the first paragraph of the amendment limits the exercise of that authority. Under the original act the authority to act as executor, etc., given to national banks was only when such function was "not in contravention of the state or local law." Under the first paragraph of the amendment it is not sufficient that it is not in contravention of the state law, but there must be competition with state institutions, authorized to act in such fiduciary capacities, before a national bank has such authority.

The petitioner calls attention to the second paragraph of the amendment quoted as further limiting the right of the state to exclude national banks from acting in such capacities, by declaring that where the State gives such authority to state banks and trust companies or other corporations "which compete with national banks" the exercise of such power "shall not be deemed to be in contravention of the state or local laws." Some courts have held this to be a legislative interpretation of the authority granted and not binding upon the courts.

Appellant says that it was not necessary for Congress to make any qualification; that it had a right to authorize national banks to act in fiduciary relations without any exceptions and regardless of the state law. It is sufficient answer to say that Congress has not seen fit to do so. On the contrary, Congress has dealt very tenderly with the supposed sensitiveness of states in regard to encroachment upon their authority. It is not contended and cannot be that that provision attempts to take away from the state courts the right to determine when the exercise of such powers is in contravention of state law, except to define one particular instance where it shall not be so considered. It remains for the courts to say what is meant by the competition with national banks as mentioned in the act. That the provision relating to the contravention of state or local law is retained in the amendment shows an intent to give it some meaning, and that meaning is not taken away by the attempted definition following. If the latter paragraph should be construed to state the entire case as to when national banks should be excluded from exercising such authorities, the use of the expression "not in contravention of the state or local law" would be superfluous.

We hold, therefore, that this Court has the right and the duty to determine whether the office which the petitioner seeks to discharge is in contravention of the laws of this state.

IV. In consideration of the terms of paragraph 11 (k) of the Federal Reserve Act we must ascertain what Congress had in mind. Congress did not grant such powers to national banks because it claimed any right to provide for the custody of property which is within the constitutional control of

the State. Congress had no intention to trespass upon State preserves. National banks were vested with such functions because they were necessary to enable them to "perform the services which were exacted from them and for which they were created." It was a matter of surviving against unequal competition. That idea is apparent in the Act, and particularly in the amendment. Unless it was necessary to the proper discharge of its duties there was no reason why a national bank should act in fiduciary relations, and such function would not be necessary unless the bank came in competition with the state institutions, which would thereby have an advantage over their national competitors. This appears in the expressions where the Act speaks of other corporations, "which come in competition with national banks" \* \* \* "which compete with national banks." If state institutions of like character are denied the right to exercise such functions national banks have no right to exercise them. It is in contravention of state law; that is, in contravention of the state legislative policy. It is only because national banks, by reason of an advantage given to state institutions, could not compete and survive that this authority is conferred upon them.

When Congress in the Act speaks of competition of course it means competition on equal terms with state corporations. It cannot be that Congress intended national banks to have privileges and advantages which state institutions could not enjoy in matters relating to control of estates which are peculiarly within the state authority. The entire purpose of the Act was not to give national banks an advantage but to place them upon equal terms with competitive state banks. It was said by the Federal Supreme Court in the Fellows case, l.c. 426:

"This must be since the state may not by legislation create a condition as to a particular business which would bring about actual or potential competition with the business of national banks and at the same time deny the power of Congress to meet such created condition by legislation appropriate to avoid the injury which otherwise would be suffered by the national agency. Of course, as the general subject of regulating the class of business just referred to is peculiarly within the state administration control, state regulation for the conduct of such business, if not discriminatory or so unreasonable as to justify the conclusion that they necessarily would so operate, would be controlling upon banks chartered by Congress when they came in virtue of authority conferred upon them by Congress to exert such particular powers."

This is a distinct recognition of our interpretation of the Act. National banks have no right to exercise the fiduciary functions enumerated in the statute unless the state has discriminated against national banks in that respect and put them at a disadvantage. If national banks, without such authority can compete successfully with state institutions, then under the terms of the Act they have no right to demand the exercise of such functions.

V. In determining whether the exercise of fiduciary capacities by a national bank is in contravention of the state law it is not necessary to point to a specific statute which forbids the exercise of such functions by such banks or similar institutions of the State. If it is contrary to the policy of the State and plainly so appears from its

statutory enactments, then it is in contravention of the state law. The legislative power of the State has not given authority to state banks to act as executors, administrators, etc., but has selected trust companies as the only and peculiar corporations to be invested with such trusts. This authority is not given to trust companies as a convenient incident to the conduct of their ordinary business. The legislature was not considering the prosperity of trust companies, but was looking for the safety of certain important trust funds which are attended with the natural insecurity and danger of dissipation, making them the especial and peculiar concern of the law. The legislative purpose was not to confer a privilege upon trust companies but to seek additional sources of security for those funds. Hence the law-making body hedged about the custodians of such funds with restrictions, conditions and securities with which only a trust company could conveniently comply, - restrictions which the state courts are powerless to impose upon national banks. National banks with the regulatory provisions in the Federal Reserve Act may be just as safe as the state trust companies. With that we have no concern. The propriety and expediency of statutes are for the sole determination of the legislative body. We must declare the legislative policy as we find it.

Now let us consider for a moment what that policy is:

(a) The legislature has not given authority to act as executors and administrators to state banks, the natural inevitable competitors of national banks in the transaction of ordinary business.

(b) In giving this authority to trust companies it has provided in Section 11801 R.S. 1919, Subdivision 5, that:



"All investments made by any trust company of money received by it in any fiduciary capacity shall be at its sole risk, and for all losses of such money the capital stock and property of the company shall be absolutely liable."

except on certain unimportant conditions.

(c) Subdivision 8 of the said last mentioned section provides that the property held by a trust company in trust "shall not be mingled with the investments of the capital stock or other property belonging to such trust company or be liable for debts or obligations thereof." For the purposes of that section the trust company is required to have "a trust department in which all the business authorized by the act" shall be kept distinct and separate from its general business.

(d) Subdivision 9, of the said section, provides that, unless otherwise provided in the instrument creating the trust, on certain of the money held by the trust company in a fiduciary capacity interest shall be allowed at not less than 2% per annum, compounded annually.

(e) Section 11802, R.S. 1919, provides that the directors may set apart a trust or guaranty fund, and provides for its investment. Section 11803 provides that the guaranty fund shall be absolutely pledged for the faithful performance of the duties of the trust company under the provisions of the act.

(f) Section 11838 R.S. 1919, provides that when any company now doing business in this State, or which may hereafter be organized under the provision of this article relating to trust companies,

\* \* \* "which shall make with the bank commissioner a deposit of two hundred thousand dollars \* \* \* shall be permitted to qualify

as guardian and curator, executor, etc., without giving bond as such, and the fund so deposited is primarily liable for the obligation of the company as guardian, curator, executor, etc."

The Federal Reserve Act provides that the assets held by a national bank in a fiduciary capacity shall be segregated from the general assets of the bank and a separate set of books and records shall be kept which shall be open to inspection of the state authorities. It further provides that funds deposited or held in trust by the company "awaiting investment" shall be carried in a separate account and shall not be used by the bank in the conduct of its business unless first set aside in the trust department in United States bonds, etc., and in the event of the failure of such bank the owners of the funds held in trust for investment shall have a lien on the bonds. It further provides that when the laws of the state require corporations acting in fiduciary capacity to deposit securities with the state authorities, national banks shall be required to make similar deposits.

It cannot be contended that these regulations in any way conform to the requirements which the state law imposes upon trust companies. The extraordinary burden which trust companies carry by acting in a fiduciary relation is shown in subdivision 5, in Section 11801, which makes all the capital stock and property of the company liable for the loss of trust funds. Nothing to compare with this appears in the Federal Reserve Act. The State requirement of trust companies further provides that money so deposited shall be a special deposit. It shall not be mingled with the investments of the capital stock nor with other money belonging to the trust company or liable for its debts, and two per cent interest shall be

allowed on it. Not only must the money be kept separate and accounted for separately; it is a separate department and completely independent in its management, as if it were indeed a separate and distinct organization. When a trust company takes on the discharge of duties as executor, etc., it elects to conduct new business distinct from its trust company business, and to become peculiarly responsible for funds which have nothing to do with and cannot add to the prosperity of its ordinary business, nor make the functional discharge of its regular business any easier or more effective. The trust company might fail with complete loss to all stockholders and depositors, and yet that would not affect in the least the security of the trust funds if the statute is complied with. A trust company, by reason of taking on this additional duty and engaging in this outside business, is not competing with national banks as a trust company. It would be exactly the same as if the legislature should attach such a function to Probate Courts. Considering then that the legislative department of the State has not seen fit to give such authority to state banks, and has not given such authority to trust companies as an aid to the conduct of their ordinary business, but has selected trust companies to discharge such duties only on condition that they create a separate and distinct operative agency, there is no such competition with national banks, as is contemplated in the Federal Reserve Act. The exercise of such functions by national banks is not necessary in the performance of the service for which they were created. We cannot admit that Congress intended to give national banks an advantage in competition with state banks.

The relator hastens to assure us that state authorities have no control whatever over national banks, except as permitted by the Congressional Act. This Court has recognized that in the recent case of State

v. National Bank, 249 S.W. 619. The legislature of this State cannot, by any means, require on the part of national banks a compliance with the conditions mentioned which reflect the legislative policy of the state and national banks, restrained by the law of their organization cannot comply with them. Thus it plainly appears that the relator cannot act as executor in this case because the exercise of such function would be in contravention of the state law.

VI. The authorities support the conclusion we have reached. The most important case, of course, is the First National Bank v. Fellows, (244 U.S. 416) referred to above. That case arose in Michigan where the Attorney-General brought a quo warranto proceeding against a national bank (92 Mich.640), questioning its right to act as trustee, executor, etc. The Supreme Court of Michigan held by a majority ruling, (a) that the provision in the Federal Reserve Act 11(k) was not in contravention of the state law, neither of any express provision of the statute, nor of the legislative policy of the State, (b) but that the exercise of such function by a national bank was unconstitutional. The United States Supreme Court, where the case went on writ of error, gave special emphasis as quoted above, to the right of the State to determine the question of contravention. The Court said, (244 U.S., l.c. 425), referring to the Michigan decision: "In view of the express ruling that the enjoyment of the powers in question by the national bank cannot be in contravention of the state law," the State Court proceeded upon the erroneous assumption that because a particular function was subject to be regulated by state law, "Congress was without power to give a national bank the right to carry on such functions." The United States Court then reversed the ruling, not because the Michigan

Supreme Court erred in determining the question of contravention, but erred in holding that Congress had no constitutional right to invest national banks with such functions. The Court then further indicated a deference to the power of the State to control its own affairs, as follows: (l.c. 426-427):

"That the statute subjects the right to exert the particular functions which it confers on National Banks to the administrative authority of the reserve board, giving besides to that board power to adopt rules regulating the exercise of the functions conferred, thus affording the means of coordinating the functions when permitted to be exercised. It charged all national banks with reasonable and nondiscriminating provisions regulating their exercise as to said corporations, the whole to the end that harmony and the concordant exercise of national and state power might result."

This is a definite statement of the United States Supreme Court that the rules regulating the exercise of the functions under consideration provided by the Reserve Board must coordinate with the state regulations. No doubt the conditions in Section 11 (k), were framed to meet the usual requirements and regulations to be expected in State statutes "to the end that harmony and the concordant exercise of national and state power might result." This seems to be a plain indication that if the State has regulations and exacts conditions for the exercise of these fiduciary powers, with which a national bank cannot comply and with which the State legislature is powerless to compel compliance, then the exercise of such functions by a national bank is in contravention of the state law.

The case of the People v. Brady, 271 Ill. 100, is referred to in the cited cases and furnishes an important illustration of the subject.

That was a mandamus proceeding at the relation of a national bank, asking a peremptory writ requiring the issuance to relators of a certificate of qualification to act as trustee, executor, etc. The Supreme Court of Illinois, in a very able and lucid opinion, held that the exercise of functions prescribed in Section 11(k) were in contravention of the state law, pointing out as regulating the exercise of such functions the Illinois Statutes which could not be applied to national banks. The opinion also denies the constitutional authority of Congress to regulate and provide for the exercise of fiduciary functions because they come strictly within the state control.

That decision was rendered before the Fellows case got to the Supreme Court. After that ruling the same national bank brought another mandamus proceeding in the Illinois State Court on the theory that in the Fellows case the United States Supreme Court overruled the conclusion reached by the Illinois Court in the Brady case. That case came before the Supreme Court of Illinois. (State ex rel. v. Russell, 283 Ill. 520). The Court then refused to grant the relief prayed on the ground that the former ruling was res adjudicata and indicated (l.c. 524), that if it were not for the conclusiveness of the former judgment the court would be obliged to rule differently, conceding that the former judgment was erroneous. In that obiter statement the Illinois Court shows a misunderstanding of the point decided in the Fellows case. The only question considered in the Fellows case and the only point upon which the Michigan Supreme Court was overruled was as to the constitutionality of the provision in the Federal Act. The Illinois Court evidently failed to notice that the Federal Supreme Court did not pass upon the question of whether the Federal Act was in

contravention of the law of Michigan so as to affect that question when applied to the Illinois law. As a matter of fact, under the ruling in the Fellows case, the judgment in the Brady case was not erroneous and would have been sustained by the Federal Supreme Court if the question had got before it on the sole ground that the exercise of such powers by national banks in Illinois was in contravention of the State Law. So that the ruling in the Brady case is still the law of Illinois on that question.

The case of Aquidneck National Bank of Newport v. Jennings, 117 Atl. 743, is where the Supreme Court of Rhode Island held that the provisions of Section 11 (k) were in contravention of the state law of Rhode Island. The Court points out the statutes regulating the exercise of fiduciary relations such as are mentioned in Section 11 (k), and holds that the State cannot impose such regulations upon national banks and therefore the exercise of such functions by a national bank is in contravention of the State law. Rhode Island, like the State of Missouri, did not grant such powers to the state banks. The opinion says (l.c. 746):

"The extension by the General Assembly of this power of Trust Companies alone, of all corporations, is plainly because the provisions governing their creation and their regulation safeguard in a peculiar manner the rights of those beneficially interested in such trusts."

The same may be said of the Missouri Statutes in relation to that matter; the selection of trust companies alone and the peculiar manner of managing trust funds required, show that it is the legislative policy of the State that general banking institutions shall not be endowed with such functions. The brief of amici curiae, calls attention to recent

statutes of this State giving Trust Companies certain additional powers which make them competitors of banks in respects where they were not such competitors before. This does not alter the attitude of the State towards such institutions. Trust Companies are selected as fiduciary agents doubtless because the legislature deemed them best fitted to meet the rigid exactions which the statute imposes upon the exercise of such trusts.

In the Appeal of Henry W. Woodbury, 78 N.H. p.50, the question came before the Supreme Court of New Hampshire. In that case there was an express statute forbidding the appointment of banking companies and trust companies as administrators and executors. The court held that the exercise of the fiduciary functions mentioned in 11 (k) of the Federal Reserve Act were in contravention of the State Law. Of course there is no express denial in the Missouri statute, but the denial to banks of such functions is clearly implied and as emphatic as if there had been express denial.

No cases have been cited by petitioners in support of their position, when regulations and restrictions such as are imposed by the Missouri legislature are present, where it has been held that the provisions of the Federal Reserve Act are not in contravention of the state law.

The Supreme Court of Pennsylvania, in case of *In Re Turner Estate*, 120 Atl. 701, held that the provisions of the Federal Act were not in contravention of the law of Pennsylvania, on the ground that the regulation of such fiduciary functions was in harmony with the state regulations. There were no such stringent regulations as are provided in our statute. (*Hamilton v. State*, 94 Conn. 648). *In Re Estate of Stanchfield*, 171 Wis. 553; *In re Mullinax*, 179 N. Y. Supp. 90; are cited). In each case the exercise of such powers was expressly granted to state institutions which



act in direct and general competition with national banks in the exercise of their ordinary functions.

In the regulation of trust funds the Federal Act is in direct conflict with the Missouri statute, above pointed out. Necessarily there would be a want of that "harmony and concordant exercise of national and state powers" which Chief Justice White, in the Fellows case held was necessary in such cases.

We think that both reason and authority support the view that the exercise of fiduciary functions mentioned in Federal Reserve Act, 11 (k), are in contravention of the law of Missouri, the legislative policy, and the express statutes.

The peremptory writ is therefore denied.

All concur.

J. T. White

Judge

## FEDERAL RESERVE BOARD

WASHINGTON

X-3940  
January 9, 1924.

**SUBJECT:** Code words to be used by Federal Reserve Bank of New York, in advising other Federal Reserve Banks of their participation in purchases and sales of Government Securities and Bankers' Acceptances, by the Open Market Investment Committee.

Dear Sir:

In connection with the participation plan recently adopted by the Federal Reserve Banks and approved by the Board, with respect to the purchases and sales of Government Securities and Bankers' Acceptances for the System by the Open Market Investment Committee, it has been suggested to the Board by this Committee that additional code words, supplied from the Federal Reserve Telegraphic Code, be designated to cover such telegrams as may be transmitted by the Federal Reserve Bank of New York to the remaining banks, which have reference to such purchases, sales and other incidental advices, and which will have the effect of reducing the phraseology of present telegrams and of aiding in the relief of leased wire congestion.

This suggestion has the Board's approval, and you are advised that commencing with January 15th, code words as indicated below will be used by the Federal Reserve Bank of New York in transmitting telegrams to the remaining banks, covering advices of purchases, sales and other relative transactions which are herewith submitted with the accompanying code words:

**NOTABLY:** Purchased today System investment total \$ \_\_\_\_\_  
We charge you certificates \$ \_\_\_\_\_ Treasury notes  
\$ \_\_\_\_\_ Total \$ \_\_\_\_\_ your apportionment.  
Please credit us.

**NOTARY:** We credit today \$ \_\_\_\_\_ your pro rata share  
net earnings (date) on \$ \_\_\_\_\_ special investment U. S.  
securities.

**NOTCH:** Sold today System investment total \$ \_\_\_\_\_ We  
credit you certificates \$ \_\_\_\_\_ Treasury notes  
\$ \_\_\_\_\_ Total \$ \_\_\_\_\_ your apportionment.  
Please charge us.

NOTEBOOK: Referring distribution bills purchased by System total acquired by your bank \$ \_\_\_\_\_ during week ending (date) Your participation of total purchased by participating banks amounted to \$ \_\_\_\_\_ In order to correct New York will adjust its allotment to you during coming week \$ \_\_\_\_\_ Your ratio for coming week is \_\_\_\_\_%.

It is requested that the code words "Notably", "Notary", "Notch" and "Notebook" indicated in this letter be added to the bottom of page 164 of the Federal Reserve Telegraphic Code, to follow the code word "Nostrum".

Yours very truly,

J. C. Noell,  
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS

## FEDERAL RESERVE BOARD

WASHINGTON

X-3942  
January 12th, 1924.**SUBJECT: EXPENSE MAIN LINE, Leased Wire System, December, 1923.**

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-3942-a and X-3942-b, covering in detail operations of the main line, Leased Wire System, during the month of December, 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

X-3942-a

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINE OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF DECEMBER, 1923.

From	Fed. Res. Bank Business	Percent of Total Bank Business (*)	Treasury War Dept. Business	Finance Corp. Business	Total
Boston	41,753	3.34	7,707		49,460
New York	254,758	20.39	17,841		272,599
Philadelphia	65,010	5.20	7,113		72,123
Cleveland	93,374	7.47	6,406	155	99,935
Richmond	75,846	6.07	5,940	13	81,799
Atlanta	91,843	7.35	7,512		99,355
Chicago	149,904	12.00	11,305		161,209
St. Louis	93,763	7.50	8,190	35	101,993
Minneapolis	61,534	4.92	5,498		67,032
Kansas City	97,386	7.79	7,818		105,204
Dallas	81,866	6.55	4,426	114	86,406
San Francisco	142,764	11.42	12,540		155,304
<b>TOTAL</b>	<b>1,249,806</b>		<b>102,296</b>	<b>317</b>	<b>1,352,419</b>
Board	287,257	100.00	115,127	577	402,961
<b>Total</b>	<b>1,537,063</b>		<b>217,423</b>	<b>894</b>	<b>1,755,380</b>
Percent of Total	87.56%		12.39%	.05%	
Bank Business	1,537,063	words or 87.61%			
Treasury Dept.	217,423	" " 12.39%			
<b>TOTAL</b>	<b>1,754,486</b>	<b>100.00%</b>			

(\*) These percentages used in calculating the pro rata share of leased wire expenses as shown on the accompanying statement (X-3942-b)

FEDERAL RESERVE BOARD,  
Washington, D. C.,  
January 12, 1924

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

X-3942-b

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	\$ 763.02	\$ 250.00	\$ 513.02
New York	1,280.82	457.56	-	1,738.38	4,658.10	1,738.38	2,919.72
Philadelphia	190.83	-	-	190.83	1,187.94	190.83	997.11
Cleveland	388.00	-	-	388.00	1,706.52	388.00	1,318.52
Richmond	315.00	-	-	315.00	1,386.69	315.00	1,071.69
Atlanta	240.00	-	-	240.00	1,679.11	240.00	1,439.11
Chicago (#)	4,841.38	3.00	-	4,844.38	2,741.40	4,844.38	(*) 2,102.98
St. Louis	250.00	-	-	250.00	1,713.38	250.00	1,463.38
Minneapolis	275.00	-	-	275.00	1,123.97	275.00	848.97
Kansas City	346.64	-	-	346.64	1,779.63	346.64	1,432.99
Dallas	251.00	-	-	251.00	1,496.35	251.00	1,245.35
San Francisco	1,360.00	-	-	1,360.00	2,608.90	1,360.00	1,248.90
Fed. Res. Board		\$17,115.65		17,115.65			

TOTAL	\$9,988.67	\$460.56	\$17,115.65	\$27,564.88	\$22,845.01	\$10,449.23	\$14,498.76
				(a) 4,719.87			(&) 2,102.98
				\$22,845.01			\$12,395.78

(#) Includes salaries of Washington operators.

(&) Amount reimbursable to Chicago.

(\*) Credit.

(a) Received \$19.87 from War Finance Corporation and \$4,700.00 from Treasury Dept. covering business for month of December, 1923.

FEDERAL RESERVE BOARD,  
Washington, D. C.  
January 12, 1924.

X-3943

TREASURY DEPARTMENT  
Office of the Secretary  
WASHINGTON

January 8, 1924.

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 December 1 to December 31, 1923, amounting to \$102,212.50, as follows:

<u>Federal Reserve Notes, 1914.</u>						
	<u>\$5</u>	<u>\$10</u>	<u>\$20</u>	<u>\$50</u>	<u>\$100</u>	<u>Total</u>
Boston	258,000	147,000	74,000	---	---	479,000
New York	258,000	---	---	---	---	258,000
Philadelphia	208,000	147,000	49,000	5,000	---	409,000
Cleveland	257,000	98,000	62,000	5,000	---	422,000
Richmond	122,000	49,000	49,000	---	---	220,000
Chicago	245,000	98,000	62,000	5,000	---	410,000
St. Louis	49,000	---	---	---	---	49,000
Kansas City	49,000	---	---	6,000	4,000	59,000
San Francisco	49,000	25,000	25,000	---	---	99,000
	<u>1,495,000</u>	<u>564,000</u>	<u>321,000</u>	<u>21,000</u>	<u>4,000</u>	<u>2,405,000</u>

2,405,000 sheets at \$42.50 per M . . . . . \$102,212.50..

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 . . . . .	479,000	\$6,466.50	\$6,586.25	\$5,628.25	\$1,676.50	\$20,357.50
New York . . . . .	258,000	3,483.00	3,547.50	3,031.50	903.00	10,965.00
Philadelphia . . . . .	409,000	5,521.50	5,623.75	4,805.75	1,431.50	17,382.50
Cleveland . . . . .	422,000	5,697.00	5,802.50	4,958.50	1,477.00	17,935.00
Richmond . . . . .	220,000	2,970.00	3,025.00	2,585.00	770.00	9,350.00
Chicago . . . . .	410,000	5,535.00	5,637.50	4,817.50	1,435.00	17,425.00
St. Louis . . . . .	49,000	661.50	673.75	575.75	171.50	2,082.50
Kansas City . . . . .	59,000	796.50	811.25	693.25	206.50	2,507.50
San Francisco . . . . .	99,000	1,336.50	1,361.25	1,163.25	346.50	4,207.50
	<u>2,405,000</u>	<u>32,467.50</u>	<u>33,068.75</u>	<u>28,258.75</u>	<u>8,417.50</u>	<u>102,212.50</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 appropriations to be reimbursed in like amount.

Respectfully,  
(signed) S. R. Jacobs,  
Deputy Commissioner.

## FEDERAL RESERVE BOARD

WASHINGTON

X-3946  
January 21, 1924.

SUBJECT: Debentures of Federal Intermediate Credit Banks.

Dear Sir:

It appears to have been the sense of the recent Governors' Conference that Federal Intermediate Credit Banks should, if possible, float their debentures through the investment market, rather than by direct sale to Federal Reserve Banks under re-purchase agreements. It seems to have been agreed by the Conference, however, that in view of the important purpose for which the Federal Intermediate Credit Banks were created, that the Federal Reserve Banks should consider each case on its merits and afford all possible help whenever the temporary need of a Federal Intermediate Credit Bank would require it.

The purpose of this letter is to advise you that the Federal Reserve Board concurs in the views of the Conference.

By direction of the Federal Reserve Board.

Yours very truly,

Walter L. Eddy  
Secretary.

TO CHAIRMEN OF ALL F. R. BANKS  
(COPY TO GOVERNOR OF EACH F. R. BANK)



## FEDERAL RESERVE BOARD

WASHINGTON

X-3947  
January 21, 1924.

SUBJECT: Cost of Shipping Currency to Government  
Officers.

Dear Sir:

I am directed to advise you that the Federal Reserve Board approves of the action of the recent Governors' Conference in voting "that the costs of shipping currency to member banks for the account of Government officers be absorbed by Federal Reserve Banks, but that the costs of shipping currency to Government officers direct be not absorbed". (See Pages 164 - 165 of the Stenographic Report of the Governors' Conference).

Yours very truly,

Walter L. Eddy,  
Secretary.

TO CHAIRMEN OF ALL F. R. BANKS

## FEDERAL RESERVE BOARD

WASHINGTON

X-3948  
January 21, 1924.

SUBJECT: Discount of Sight and Demand Drafts  
under Section 13, as Amended March  
4, 1923.

Dear Sir:

For your information there is enclosed herewith, copy of a letter addressed by the Federal Reserve Board to one of the Federal Reserve Banks with regard to the discount of sight and demand bill of lading drafts under the provisions of the amendment of March 4, 1923, to section 13 of the Federal Reserve Act.

Yours very truly,

Walter L. Eddy,  
Secretary.

(Enclosure)

TO ALL CHAIRMEN

January 16, 1924.

Dear Sir:

Receipt is acknowledged of your letter of October 22 raising certain questions concerning the proper construction of the amendment of March 4, 1923, to Section 13 of the Federal Reserve Act which authorizes Federal reserve banks to discount sight or demand drafts under certain circumstances. You state that in the opinion of the Federal Reserve Bank of [redacted] this amendment was passed for the purpose of moving raw agricultural products to market and that, since a commodity must be deemed to have reached a market when anything is done to it in the way of manufacture, the amendment covers only nonperishable, readily marketable, staple agricultural products moving in their raw state. You ask to be advised whether the Federal Reserve Bank of [redacted] has taken a correct position in this regard.

The proper construction of the term "nonperishable, readily marketable staple agricultural products" presents a difficult question. In its Regulation A, the Board has adopted a definition of the term "readily marketable staple", as used in Section 13 in connection with bankers' acceptances, and it has held that the question of perishability is fundamentally a question of fact which cannot properly be answered by the application of any general rule, but should be determined by a consideration of the facts and circumstances surrounding each particular case. The further question as to whether or not, or under what circumstances, a readily marketable, nonperishable staple should properly be considered an agricultural product, will, in many cases, be an extremely debatable question and it is doubtful if any rule can be laid down which will satisfactorily dispose of all cases.

In view of the complex and equivocal considerations involved, the Board is not prepared at this time to formulate a comprehensive definition of the broad term "nonperishable, readily marketable staple agricultural products", but deems it advisable for the present to rule upon questions involving the proper classification of particular commodities as they may be presented. After the Federal reserve banks have had a reasonable amount of practical experience in handling transactions arising in this connection, it may prove feasible to formulate a comprehensive ruling or statement of policy on this question which will properly interpret the law and be satisfactory from a practical standpoint.

The Board does not believe, however, that the term "nonperishable, readily marketable staple agricultural products" as used in the sight draft amendment under discussion, must be construed as limited to agricultural products in their raw state. While it seems probable that the primary intention of Congress in thus amending Section 13 was to facilitate the marketing of crops, it does not necessarily follow that Congress intended to legislate with reference solely to the movement of crops in their raw state. The language used contains no such limitation, but relates generally

to the shipment of agricultural products, and it is significant that the amendment passed at the same time which authorizes the discount of factors' paper expressly refers to "staple agricultural products in their raw state". A consideration of these two amendments which form part of the same legislative act is very persuasive that Congress did not intend to limit the application of the sight draft amendment to raw agricultural products. The Board feels, moreover, that a strict construction of this amendment would be out of harmony with the liberal purpose and intent of the Agricultural Credits Act as a whole.

The Board is of the opinion, therefore, that Federal reserve banks should not refuse to discount sight or demand bill of lading drafts merely because the agricultural products covered thereby are no longer in a technically raw state, but have passed through the initial stages of refinement or processing subsequent to their actual harvest. As you indicate in your letter, it is, of course, necessary that the line be drawn somewhere, but for the reasons stated above, the Board does not consider it proper to draw an arbitrary line which would include only commodities in their raw state within the scope of the provision authorizing the discount of sight and demand drafts. Pending the issuance of a comprehensive ruling or statement of policy on this subject, Federal reserve banks should use their discretion in passing upon the eligibility of bill of lading<sup>drafts</sup>/offered for discount under this amendment, and the exercise of this discretion should be predicated upon a fair and reasonable distinction between agricultural and non-agricultural products and not necessarily upon the initial stages of refinement which an agricultural product may have reached in the course of its progress through the normal channels of distribution:

Yours very truly,

D. R. Crissinger  
Governor.

## FEDERAL RESERVE BOARD

WASHINGTON

X-3949

January 22, 1924.

**SUBJECT: Discount of Non-member Bank Paper.****Dear Sir:**

For your information there is enclosed herewith copy of the letter addressed to one of the Federal Reserve Banks in answer to an inquiry as to whether the Federal Reserve Board's circular letter of July 18, 1923, rescinding certain rulings theretofore made in connection with the discount of non-member bank paper, affects in any way the ruling of the Federal Reserve Board, published on page 743 of the August 1918 Bulletin, with relation to the eligibility for rediscount of a note of a non-member bank used in trading in government obligations.

Very truly yours,

Walter L. Eddy,  
Secretary.

(Enclosure)

**TO GOVERNORS OF ALL FEDERAL RESERVE BANKS.**

( C o p y )

X-3949-a.

January 18, 1924.

Dear Sir:

Receipt is acknowledged of your letter of December 29, in which you inquire whether the Federal Reserve Board's circular letter of July 13, 1923, rescinding certain rulings theretofore made in connection with the discount of non-member bank paper affects in any way the ruling of the Federal Reserve Board published on page 743 of the August 1918 Bulletin.

The ruling published on page 743 of the August 1918 Bulletin refers solely to the question whether notes of non-member banks issued for the purpose of carrying or trading in Government obligations are eligible for rediscount under the terms of Section 13 of the Federal Reserve Act, and therefore, was not mentioned specifically by the Board's circular letter of July 13, 1923. The Board has always been of the opinion, however, that while such notes are eligible for rediscount under the terms of Section 13, Federal reserve banks are forbidden to rediscount them without permission of the Federal Reserve Board by that provision of Section 19, which prohibits any member bank to act as a medium or agent of non-member banks in obtaining rediscounts at Federal reserve banks except with the permission of the Federal Reserve Board.

In order to encourage the sale of Liberty bonds and Treasury certificates during the war, the Board granted general permission for Federal reserve banks to rediscount for member banks notes of non-member banks secured by Liberty bonds and Treasury certificates; but the Board's circular letter of July 13, 1923, was intended to revoke this permission. You will note that the first paragraph of that letter states that, "all previous rulings on this subject were rescinded"; and the third paragraph of that letter (which is numbered "2") states that, "Except with the Board's permission, no Federal reserve bank shall discount any paper acquired by a member bank from a non-member bank or bearing the signature or endorsement of a non-member bank \* \* ". Inasmuch as notes of non-member banks secured by Liberty bonds necessarily bear the signatures of such banks they clearly come within the terms of this prohibition.

Very truly yours,

D. R. Crissinger,  
Governor.

## FEDERAL RESERVE BOARD

WASHINGTON

X-3950  
January 22, 1924.

SUBJECT: Revocation by State Member Banks of notice of intention to withdraw.

Dear Sir:

The directors of a State member bank which had filed with the Federal Reserve Bank of its district the required six months' notice of intention to withdraw from the Federal Reserve System, passed a resolution prior to the expiration of the six months' notice revoking same. The last examination of the State member bank showed it to be in an unsatisfactory condition and the Federal Reserve Bank recommended to the Board that the State bank's membership be terminated as of the date of the expiration of the six months' notice, and that the bank be required to again apply for membership at that time in the regular manner.

The Federal Reserve Bank was advised by the Board as follows:

"You are advised that the \_\_\_\_\_ State Bank is still a member of the Federal Reserve Bank of \_\_\_\_\_ with all the incidents ordinarily attending such membership and the Board cannot legally cancel its membership on February 10 as you suggest. The notice of intention to withdraw from the Federal Reserve System which is required by Section 9 of the Federal Reserve Act is a prerequisite of withdrawal, but cannot be considered to be any part of the actual withdrawal itself. A State member bank which has given such notice but has not acted pursuant thereto continues to retain all the ordinary rights and privileges of membership in the System. The \_\_\_\_\_ State Bank, therefore, has all the rights and privileges of membership which it had before giving notice of intention to withdraw from the System, and the Federal Reserve Board consequently has no power to cancel the membership of this bank, except by acting under the terms of the seventh paragraph of Section 9 of the Federal Reserve Act which outlines the procedure for the expulsion of a bank from membership under certain conditions."

The Board also held that the State member bank "having

revoked the notice of intention to withdraw, could not, of course, now voluntarily withdraw from the System except by giving to the Board a new six months' notice of intention so to do."

Very truly yours,

Walter L. Eddy,  
Secretary.

TO ALL F. R. AGENTS



## FEDERAL RESERVE BOARD

WASHINGTON

X-3951  
January 23, 1924SUBJECT: Preparation of Registered Mail.

Dear Sir:

The Third Assistant Postmaster General has advised the Board that there has been reported to the Post Office Department an instance in which one of the Federal reserve banks failed to properly attach the required tag to a sack of registered mail dispatched by it. In other words, "the tag was not attached to the sack in the manner directed in Article 39, published on page 96 of the July 1923 Postal Guide."

In his letter, the Third Assistant Postmaster General states that while a representative from the Post Office Department has taken the matter up direct with the Federal reserve bank concerned, the Department would like to have the matter brought to the attention of all Federal reserve banks, as it may be other banks and branches are improperly attaching the tags.

There is enclosed herewith a copy of "Article 39" above referred to, and your attention is directed particularly to Paragraph "e" thereof.

By direction of the Federal Reserve Board.

Very truly yours,

Walter L. Eddy,  
Secretary.

Enc.

TO THE GOVERNORS OF ALL FEDERAL RESERVE BANKS.

X-3951-a

( C o p y )

PREPAREDNESS FOR MAILING. - Mail for registration must:

(a) Bear the name and address of sender and be legibly addressed. Mail for members of military organizations should show the official designation of the unit and organization to which the addressee belongs.

(b) Have postage and fee fully prepaid at time of registrations. (See Secs. 406, 496 and 378, Postal Laws and Regulations.

(c) Be securely sealed if sent as first-class matter.

(d) Be inclosed in envelopes or wrappers of sufficient strength to withstand customary treatment in transmission. The "extra quality" 2 cent stamped envelope is especially recommended as a cover for registered mail, particularly for coin, currency, or similar objects. Postmasters must decline to accept articles for registration when inclosed in flimsy envelopes, or not wrapped so that they will carry safely with ordinary handling. They will bring to the attention of banks and financial institutions at their offices the necessity of adequately and effectively preparing and wrapping money packages, suggesting that it would be advisable to inclose paper money in canvas sacks closed with lead seals or tied and placed within an outer wrapper, strong enough to protect the inclosure and to withstand handling itself, or that it be inclosed in cloth or linen lined envelopes. Sheets of currency should be made into a compact package. The contents of a package must not be so bulky or ill-fitting that the outer cover will be broken through or cracked by protruding corners or edge. Letters or parcels not prepared in this way must have a piece of cardboard or the like placed on top and underneath of each package of money before being placed in the outside cover; these packages must be wrapped at least three times with a heavy grade of paper, and securely sealed with mucilage or glue in addition to wax which, if used, is frequently knocked off or broken in handling.

(e) In some instances the tags attached to lead-seal sacks containing coin or currency are simply tied to the sack after it has been lead sealed, in such a manner as to permit the string to become untied and the tag lost off. To avoid this, the senders of registered sacks containing coin or currency should be requested to securely attach the lead seal to the neck of the sack in such a way that the tag bearing the name and address of the addressee will be securely attached between the neck and the lead seal, immediately under the lead seal. This can be accomplished by passing the cord through the eyelet of the tag, the cord being drawn taut and the seal compressed with the tag in this position; or, if the lead seal is equipped with steel pin, the pin should be passed through the eyelet of the tag, before the cord is drawn taut, while the tag rests flat on the neck of the sack, between the sack and the head of the seal. The sealing of the ends of the cord with wax is not alone a sufficient safeguard, as the wax is liable to become broken. When lead seals equipped with steel pin are used, the pin should not be so long or the neck of the sack gathered together in such a manner as to permit the pin to protrude through the folds of the sack to such an extent that a sharp point will be exposed, resulting possibly in injury to postal employees.

(f) Be addressed with ink if for foreign countries. The address on matter for Mexico must include the Mexican State or Territory, and that for Canada the province, country, or district of the office of address.

## FEDERAL RESERVE BOARD

WASHINGTON

X-3953  
January 25, 1924.

SUBJECT: Currency In Transit to and from Federal Reserve Banks.

Dear Sir:

There is quoted below, for your information, a resolution adopted by the Federal Reserve Board at its meeting on January 18, 1924:

"WHEREAS, it is the purpose and desire of the Federal Reserve Board to equalize the services of the System to the member banks whenever possible; and

"WHEREAS, in securing currency from and depositing currency with the Federal Reserve Banks, member banks located outside of the Reserve Bank and Branch Bank cities are at a considerable disadvantage; and

"WHEREAS, all expenses connected with shipments of currency between the Reserve Banks and member banks are borne by the Reserve Banks; and

"WHEREAS, all insurance is carried and all possible losses in transit are reimbursable to the Federal Reserve Banks; and

"WHEREAS, the legal title to the Currency in transit between Federal Reserve Banks and member banks is vested in the Federal Reserve Banks;

"THEREFORE, BE IT RESOLVED, that the Board sees no objection to the Federal Reserve Banks giving full consideration to currency in transit, in computing the reserve requirements and penalties for deficiencies in reserves of member banks; and

"BE IT FURTHER RESOLVED, that a copy of these resolutions be furnished each of the Federal Reserve Banks."

In acknowledging receipt of this letter, please advise the Board of the manner in which your bank will treat shipments of currency in transit to and from your member banks when determining penalties to be assessed against such member banks on account of reserve deficiencies.

By direction of the Federal Reserve Board.

Walter L. Eddy,  
Secretary.

TO CHAIRMEN OF ALL FEDERAL RESERVE BANKS.

## FEDERAL RESERVE BOARD

WASHINGTON

X-3954  
January 24, 1924.

SUBJECT: Examination of State Member Banks.

Dear Sir:

I am directed to advise you that the Federal Reserve Board concurs in the following resolution adopted at the recent conference of Federal Reserve Agents:

"We believe it to be essential that the closest cooperation exist between the executive departments of Federal Reserve Banks and the State Banking Commissioners. We also believe that as a matter of good faith with our State member banks and in order to be prepared to extend credit intelligently, credit investigations of State member banks should be regularly conducted. We believe, too, that these credit investigations, whenever possible, should be made at the same time that State examiner is examining the bank; first, because of the desirability of cooperation; second, because more information can be obtained at less cost; third, because the bank should not needlessly be subjected to additional visits of examiners. We believe also that where special examinations other than credit investigations are made of member State banks the charge for such examination made by the Federal Reserve Bank should not exceed the fee that would be charged by the Comptroller of the Currency if the institution were a National Bank."

With regard to that portion of the resolution which refers to the charge which should be made against State member banks for examinations, your attention is directed to the Board's letter of December 22, 1923, X-3924.

Very truly yours,

Walter L. Eddy,  
Secretary.

TO CHAIRMEN OF ALL FEDERAL RESERVE BANKS.

FEDERAL RESERVE BOARD  
WASHINGTON

X-3955  
January 24, 1924.

SUBJECT: Distribution of One Dollar Bills.

Dear Sir:

At the recent Governors' Conference, consideration was given to the plan proposed by the Treasury Department in a letter dated September 27, 1923, addressed to the Governor of the Federal Reserve Board, providing a new method of distributing "new" and "fit" one dollar bills among the Federal Reserve Banks and Branches. The Conference voted to urge the Federal Reserve Board to approve the plan suggested by the Treasury Department and to request the Board to determine how the expense of inter-bank shipments of "fit" one dollar bills shall be provided for. (See pages 158 to 164 of the Stenographic Record of the Governors' Conference, and also the enclosed copy of the Treasury Department's letter to the Board above referred to.)

The Board approves of the Treasury's proposed plan and rules that the expense of shipping "fit" one dollar bills between Federal Reserve Banks and Branches shall be borne by the receiving banks.

The Treasury Department will advise you direct of the date upon which the proposed plan will become effective.

By direction of the Federal Reserve Board.

Yours very truly,

Walter L. Eddy,  
Secretary.

(Enclosure)

TO THE CHAIRMEN OF ALL F. R. BANKS

TREASURY DEPARTMENT  
Washington

September 27, 1923.

My dear Governor:

The question of supply and distribution of \$1 notes has received the Department's consideration as a result of representations made by yourself and several of the Federal Reserve Banks. It appears that there are two sources of complaint, first, that in some districts a sufficient number of notes is not available to meet requirements or the balance is so low as to be embarrassing, and, second, that the ratio of payment between fit and new bills differs among the several districts.

As regards supply, the Department is now printing 1,700,000 \$1 notes daily; this rate approximates 42,500,000 each month; a total of approximately 510,000,000 for the year. The Bureau of Engraving and Printing is operating to approximate capacity and at a rate that will incur a considerable deficiency, which later must be presented to the new Congress. From all the evidence at hand it appears that this rate of production will be sufficient to provide the new 1's required and at the same time to establish in the course of a year a reserve stock ample to meet seasonal demands.

Different ratios of payments in fit and new notes, as shown among several of the Federal Reserve Banks, is accounted for almost entirely through the disparity in the proportion of fit and unfit notes paid into the banks; for example, during the fiscal year 1923 the payments into the Cleveland bank were 24 per cent fit and 76 per cent unfit, while during the same period similar figures for Boston were 48 per cent fit and 52 per cent unfit. To provide the Cleveland district with sufficient notes

to meet its payment requirements the Treasury has heretofore sent new notes to Cleveland. Boston, on the other hand, having a larger supply of fit notes available, has received a relatively small number of new notes from the Treasury. As a result, on the face of these figures, Cleveland has been able to supply its customers with four new bills to one fit, while Boston has been obliged to issue one fit bill for each new bill. It is not possible to equalize the situation as between the various districts solely by the shipment from the Treasury of new bills since, for example, if the Boston ratio were established at Cleveland, Cleveland would not have enough fit notes to meet its requirements. The situation could have been equalized, however, if Boston were to ship to Cleveland some of its fit notes, the Treasury supplying Boston with a larger percentage of new bills, reducing shipments to Cleveland in a like amount. During the fiscal year 1923, stocks of notes available in all the banks for payment purposes approximated 60 per cent new and 40 per cent fit. Aggregated payments by all the banks throughout the year show that 61.4 per cent new and 38.6 per cent fit notes were paid out. It appears, however, that at the close of the fiscal year the balance of notes on hand shows the presence of an undue proportion of fit as compared to new notes. This would not have occurred had the percentage of payment of new notes been slightly reduced and the fit notes increased.

To meet the complaints in the matter of currency distribution and to provide that the distribution of new notes and fit notes throughout the country shall be as equitable as possible and that the currency shall be maintained in a fair condition, the following plan is suggested:

1. For the present, adopt a ratio of payment at each Federal Reserve Bank of 60 new to 40 fit.
2. Where, as a result of the adoption of this ratio of payment, a bank's supply of bills, both fit and new, is excessive or short, that there should be transfers as between banks to equalize the supply of fits, the cost of transportation to be at the expense of the banks.
3. The Treasury will apportion its supply of available new bills among the Federal Reserve Banks so that each bank will have an available stock in the ratio of 60 new to 40 fit (after transfers of other fits have been made).

The Treasury, of course, will be free to withdraw from this plan or to change the ratio at any time.

I shall be glad to have your Board consider these suggestions and advise me as to its attitude.

Very truly yours,

(signed) GARRARD B. WINSTON,  
Assistant Secretary  
of the Treasury.

Honorable D. R. Crissinger,  
Governor, Federal Reserve Board.



# FEDERAL RESERVE BOARD

81

WASHINGTON

X-3956  
January 25, 1924.

SUBJECT: Directors of Branch Federal Reserve Banks.

Dear Sir:

By direction of the Federal Reserve Board, I have to advise you that the Board has adopted the following rules and regulations, to become effective as of January 1, 1925, with respect to the appointment of directors of branch Federal Reserve Banks:

1st. The Boards of Directors of Federal Reserve Branch Banks shall consist of seven members, four of whom shall be appointed by the Federal Reserve Banks and three by the Federal Reserve Board.

2nd. The Directors appointed by the Banks shall be chosen from the ranks of men well qualified and experienced in banking and the Directors appointed by the Federal Reserve Board shall be chosen from the ranks of men of high character and standing, who are engaged in agriculture, industry or commerce, insofar as may be possible or practicable.

3rd. All Directors shall be citizens of the District and shall reside within the territory served by the branch, but at least one of the Directors appointed by the Bank and one appointed by the Board shall reside outside of the city in which the branch is located.

4th. One of the Directors appointed by the Reserve Bank shall be the active manager of the branch bank and shall have the title Managing Director.

5th. The term of office for the Director chosen by the Reserve Bank to act as Managing Director of the branch shall be for one year, subject to reappointment from year to year, if such action be desirable.

6th. Six other Directors shall be appointed - effective January 1st, 1925 - for terms as follows:

One Director appointed by Bank for term of one year.
" " " " Board " " " one year.
" " " " Bank " " " two years.
" " " " Board " " " two years.
" " " " Bank " " " three years.
" " " " Board " " " three years.

Thereafter the term of office for each member shall be for three years, appointments being made each year, one by the Bank and one by the Federal Reserve Board.

7th. The Board of Directors of Federal Reserve Branch Banks shall annually elect as Chairman of the Board the member appointed by the Federal Reserve Board, whose term of office expires with the current year.

8th. In the event of a vacancy occurring in the Board of Directors of a Branch Federal Reserve Bank, appointments filling such vacancy shall be made by the body making the original appointment and such appointment shall be for the unexpired term.

9th. The Federal Reserve Board shall have the right to remove, for cause, any member of the Board of Directors of a Branch Federal Reserve Bank.

10th. These Rules and Regulations to become effective, as to appointments for service as Directors, on and after January 1st, 1925.

Very truly yours,

Walter L. Eddy,  
Secretary.

TO CHAIRMEN OF ALL FEDERAL RESERVE BANKS.

## FEDERAL RESERVE BOARD

X-3957

## STATEMENT FOR THE PRESS

For Release in Morning Papers  
Monday, January 23, 1924.

The following is a summary of general business and financial conditions throughout the several Federal Reserve Districts, based upon statistics for the months of December and January, as contained in the forthcoming issue of the Federal Reserve Bulletin.

Production of basic commodities showed further decline in December and wholesale prices receded slightly. Christmas trade was somewhat larger than a year ago. Changes in the banking situation in January reflected chiefly an unusually large return flow of currency after the holiday season.

PRODUCTION:

The index of production in basic industries declined 4 per cent in December to the low point of the year. The decrease for the month reflected principally a large reduction in consumption of cotton, but also reduced operations in the woolen, petroleum, sugar, and lumber industries. Production of pig iron and anthracite increased. The Federal Reserve Board's index of factory employment decreased 1 per cent, and was 4 per cent lower than in the spring. The largest decreases were at plants manufacturing food products and railroad equipment. Building contract awards in December were smaller than in November, but almost 25 per cent larger than a year ago.

TRADE:

Railroad shipments continued to decrease during December and were slightly less than in December, 1922. Loadings of coal and grain were smaller than a year ago, while loadings of miscellaneous merchan-

dise and live stock were in larger volume. The volume of wholesale trade showed more than the usual seasonal decrease and was at about the same level as a year ago. Sales of meat, hardware, and drugs were larger than in December, 1922, while sales of dry goods and shoes were smaller. Retail trade, though larger in December, 1923, than in any other month on record, did not show as large an increase over November as is usual at the Christmas season.

PRICES:

Wholesale prices, according to the index of the Bureau of Labor Statistics, decreased less than one per cent during December. The chief reductions occurred in prices of fuel and building materials, while prices of clothing and metals increased, and prices of farm products remained unchanged. During the first two weeks of January prices of corn, wheat, pig iron, petroleum, and lumber advanced, while quotations on cotton, sugar, and copper were lower.

BANK CREDIT:

The volume of credit extended by the Federal reserve banks showed the usual sharp increase during the latter part of December in response to holiday requirements for credit and currency and financial settlements falling due on the first of January. With the passing of the seasonal demands there was an unusually rapid return flow of currency to the reserve banks, reflected both in an increase of reserves and a decrease of Federal reserve note circulation. Member banks used the currency returned from circulation to reduce their borrowings, with the consequence that the earning assets of the Federal reserve banks declined by \$360,000,000 during the four weeks following Christmas, or approximately \$150,000,000 more than during the corresponding period of 1923.

At the middle of January the volume of reserve bank credit outstanding was below \$1,000,000,000 for the first time since early in 1918.

Loans made largely for commercial purposes by member banks in principal cities declined between December 12 and January 16 to a point \$264,000,000 lower than at the peak in October and to about the level of July, 1923. This decrease in loans, which was general throughout the country, was accompanied by a movement of funds to the financial centers and an increase in loans on securities, principally in New York.

Easier money conditions in January were reflected in a further slight decline in the rate on prime commercial paper to  $4\frac{3}{4}$  per cent, compared with  $4\frac{3}{4}$  to 5 per cent in December, and in increased activity in the investment markets.

## FEDERAL RESERVE BOARD

WASHINGTON

X-3958

January 25, 1924.

SUBJECT: Cost of producing Federal reserve notes.

Dear Sir:

For your information, I would state that on January 1, 1924, the cost of producing 1,000 sheets of Federal reserve notes (4,000 notes) at the Bureau of Engraving and Printing, was lowered from \$42.50 to \$39.00.

Very truly yours,

Walter L. Eddy,  
Secretary.TO ALL FEDERAL RESERVE AGENTS.  
COPY TO THE GOVERNORS.

## FEDERAL RESERVE BOARD

X-3959

## Statement for the Press

For Immediate Release

CONDITION OF ACCEPTANCE MARKET

December 13 to January 9.

During the four week period ending January 9 the acceptance market was less active than during the preceding three months when acceptances were drawn to finance the marketing of agricultural commodities. In the latter part of December there was a decreasing supply of bills but in January the volume of new bills increased somewhat and the demand became more active, due to requests for bills from commercial firms and banks in the interior. The demand for bills was fairly good except during the last week of December, but it was less than the supply, and as a consequence dealers' aggregate portfolios showed moderate increases at the end of the period. Rates remained generally firm and unchanged at  $4 \frac{1}{8}$  bid and 4 offered for 30-day bills and  $4 \frac{1}{4}$  bid and  $4 \frac{1}{8}$  offered for 60 and 90-day bills. Rates on longer maturities ranged from  $4 \frac{1}{4}$  to  $4 \frac{5}{8}$  bid and  $4 \frac{1}{8}$  to  $4 \frac{3}{8}$  offered. Bills were drawn principally against cotton, silk, sugar, grain, wool, agricultural implements, provisions, and to provide dollar exchange.

## FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

X-3960  
January 30th, 1924.

SUBJECT: Organization Charts of Federal Reserve Banks  
and Branches.

Dear Sir:

Will you be good enough to prepare and send to the Board at your earliest convenience an organization chart for your bank, and for each of its branches, if any, showing the name and title of each officer and department head, together with the number of employees in each department or function supervised by such officer or department head. The chart should be prepared in accordance with the present organization of your bank without reference to the functional expense classification, but should, of course, be made out so as to include the entire personnel of the bank or branch. The Board would also like to have the chart accompanied by a statement showing in detail the work of each separate operating unit included in each department or function mentioned in the chart.

Very truly yours,

Walter L. Eddy,  
Secretary.

CIRCULAR LETTER TO ALL FEDERAL RESERVE AGENTS.



## FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARDX-3963  
February 7, 1924.

SUBJECT: Increase of capital by State member bank  
intending to withdraw.

Dear Sir:

One of the Federal reserve banks has requested the Federal Reserve Board to rule on the question of whether a State member bank should be required to apply for additional Federal Reserve Bank stock, under the following circumstances: The member bank filed notice of intention to withdraw from the Federal Reserve System and within the six months' period subsequent to the date of filing the notice of intention to withdraw, the member bank increased its capital stock.

The Board ruled as follows: "Inasmuch as the notice of intention to withdraw from the System required by Section 9 of the Federal Reserve Act is merely a prerequisite to withdrawal and cannot be considered any part of the actual withdrawal itself, a State member bank which has given such notice but has not yet acted pursuant thereto remains subject to all the provisions of the Federal Reserve Act which are applicable to other State member banks, and would, therefore, be subject to the provision of Section 5 of the Federal Reserve Act requiring an application for additional Federal Reserve bank stock upon an increase in the capital of the member bank. The mere fact that it has given notice of its intention to withdraw cannot be said to affect in any way the requirement that it subscribe for additional stock in such case.

"Under the terms of the law, therefore, the (name of member bank) must subscribe for an additional amount of capital stock in the Federal reserve bank, equal to 6 per cent of any increase in the amount of its own capital stock made prior to the time it actually withdraws from the Federal Reserve System."

Very truly yours,

Walter L. Eddy,  
Secretary.

TO ALL FEDERAL RESERVE AGENTS.

1. MEMORANDUM on article proposed by Dr. Miller for insertion in the Annual Report as to the regulation of Federal Reserve note issues by the Federal Reserve Board.
2. MEMORANDUM as to the proposal of Dr. Miller for insertion in the Annual Report of the reasons for setting up separate reserve ratios for deposits and notes.

1.

After a careful re-reading of Dr. Miller's article favoring a new policy of direct control by the Federal Reserve Board of Federal Reserve note issues, I am unable to accept its conclusions and believe it would be unwise to insert it in our Annual Report.

I appreciate that the part of this article which it was agreed at our last meeting should be stricken out makes the article less objectionable, but I feel that the portion of the article which was left in is merely the reasoning intended to justify the conclusions in the article which we agreed should be stricken out,- namely, that the Federal Reserve banks are, and were created for the purpose of being primarily note issuing banks, and, further, that the Board is charged with the duty of directly limiting future note issues instead of leaving such issues to the discretion of the Federal Reserve banks.

I believe it would be better to omit the entire article from our Report.

The article in question is based upon three propositions:-

1. That the Federal Reserve Act places upon the Federal Reserve Board direct responsibility for the issue of Federal Reserve notes through the respective Federal Reserve banks.

2. That the Federal Reserve banks were created for the primary purpose of issuing Federal Reserve notes to member banks against credits established by them. (article p. 6)
3. That member banks rediscount commercial paper with the Federal Reserve banks mainly for the purpose of obtaining Federal Reserve notes with which to meet the demand of their customers. (article, p. 6)

Based upon these premises, the article in question takes the position that the Board should change its present and past policy with relation to the issue of Federal Reserve notes, should immediately place restrictions upon future issues of such notes, and, further, that the Board should take certain not clearly defined action with regard to such notes as are now in actual circulation.

With neither (2) or (3) of the above propositions, nor with the conclusion derived from them, am I in accord. While they give a fairly accurate statement of the intent of the Aldrich Central Bank Bill, under which the note issues, available for reserves, were the principal function, they do not represent the principles underlying the Federal Reserve Act.

An examination of the debates and the committee reports prior to the passage of the Federal Reserve Act, and, as well, the preamble of the Act as passed, shows that the purpose of Congress in creating the Federal Reserve banks was not only to furnish an elastic currency but, as well, and primarily, to furnish a means of rediscounting commercial paper. That the discounting function was the primary function will clearly be seen, when it is remembered that, under the Act as originally enacted, every Federal Reserve note issued was tied to, and arose out of the rediscount of commercial paper, that is, arose out of an antecedent credit granted by the

Federal Reserve bank to the member bank.

The Federal Reserve Board, on the other hand, has the ultimate power to control the antecedent credit by fixing the discount rate, and the further power to control the issue of Federal Reserve notes through the imposition of an interest charge on any issues not covered, dollar for dollar, by gold. The power also given to grant or to refuse altogether the application of any Federal Reserve bank for Federal Reserve notes, in my opinion, was intended to be used only in case the imposition of an interest charge failed to be effective.

On analysis, it will, I believe, be realized that the privilege of issuing notes, from the point of view of the Federal Reserve banks, is merely the privilege of protecting their cash reserves by issuing such notes, which notes are received by the public, when paid out by the member banks, as the equivalent of cash.

The question of the regulation of Federal Reserve note issues, therefore, has to do more with the internal administration of the Federal Reserve banks than with the public, for what the public desires is merely circulating medium, and it can always obtain the circulating medium it desires, in the form of cash, if not of notes, as long as the member banks and the Federal Reserve banks are solvent.

The real problem which confronts the Federal Reserve Board is, therefore, whether at any given time it should forbid a Federal Reserve bank to protect itself against demands for cash by member banks by issuing Federal Reserve notes; that is to say, whether the Federal Reserve Board, by limitation of note issues, should insist that such demands for cash by member banks be met by Federal Reserve banks by drawing down their cash reserves rather than by issuing Federal Reserve notes.

The whole matter, however, was wisely left by Congress to the discretion of the Federal Reserve Board and it is the necessity for the exercise of such discretion which is now before us for consideration.

In considering the desirability of a change in the policy of the Board as to the issue of Federal Reserve notes, as advocated by the article in question, we should first consider what the policy of the Board has been in the past in this matter.

We have heard it frequently stated in Board meetings that the Board never has had a policy in the past but that, ignoring its plain responsibility under the law, it has thrown down the reins and left to the unbridled discretion of the Federal Reserve banks, the privilege of deluging the country with issues of paper money, thus directly aiding the extraordinary speculative activity which was at one time rampant, and causing, as well, the serious inflation of prices from which the country is even now suffering.

With some confidence I assert that just the contrary is the fact.

There never has been a question before our Board which has been so carefully and thoroughly considered as the question of the policy of the Board as to Federal Reserve note issues. The whole question was argued and debated, covering a period of some years, at the very time when the inflation of prices was going on. The conclusion finally reached by the Board was communicated to the Senate on August 8, 1919, when it was pointed out that existing inflation was caused by the excess of deposit credits over production and distribution needs, and the conclusion was stated that the issue of Federal Reserve notes merely represented the needs of the community for small change in handling retail trade transactions, payrolls,

and for pocket money, and similar services; that the increasing issues of Federal Reserve notes were not the cause of inflated prices but were merely the result of inflated prices which were really caused by excessive deposit credits. (15 Federal Reserve Bulletin, p. 699)

The conclusion of the Board was supported by a study of the ebb and flow of Federal Reserve notes, which brought out the fact that the moment the amount of such notes in circulation became in excess of the needs of the community they were immediately presented for redemption and cancellation. This fact is borne out graphically by the figures of Federal Reserve notes in circulation at the present time. Since December 23, 1920, when the peak was reached, -3,404.9 millions, the circulation has declined to 2,017.4 millions on February 8, 1924, a decline of over 1,387 millions of dollars, or 40%,- and this decline took place without any limitation or interference with such issues on the part of the Federal Reserve Board.

The Board, as above stated, reached the conclusion that it was safe to leave to the discretion of the respective Federal Reserve banks the right to determine how far they should respond to demands for cash by member banks by paying out gold, or in the alternative by issuing Federal Reserve notes.

In my opinion,- whatever criticism may be made of the Board's use of its power to fix discount rates upon the underlying credits given by the Federal Reserve banks during the war and post-war period,- the exercise of its discretion in refusing to place a tax upon or to limit the issue of Federal Reserve notes during such periods has been amply justified by experience.

Another important point to be borne in mind is that the conclusion

of the Board, as above stated, was a unanimous conclusion and was so expressed in its answer to the Senate sent on August 8, 1919.

On September 25, 1919, Dr. Miller, in an address delivered to the American Association of the Baking Industry, at Chicago, among other things said as follows:

and

"The form that credit demand (expansion) has taken in the United States has been banking credit in the shape of bank deposits. Expansion of the currency has played a very subordinate role. It is no exaggeration to say that expansion of the currency has been a consequence, rather than a cause of our high prices.

"So far as expansion of the purchasing medium of the country is responsible for our great rise in prices it has been and is purchasing medium in the form of bank deposit credit and not in the form of Federal Reserve notes."

At the time this address was delivered inflation was in full swing. While it is true that Federal Reserve note issues continued to increase for some four months after this address was delivered, the relative increase was much smaller than that which had taken place during the war period, which was prior to the date of this address.

Later, however, Dr. Miller changed his opinion. In an article in the American Economic Review for June, 1921, he quoted approvingly the letter of the Board to the Senate Committee of August 8, 1919, to the effect that "the expansion of currency is a consequence of the expansion of credit and increase of prices and is not a causal factor in price movement," but he qualified this approval by stating that it "applies to normal conditions"

The conclusion of the Board, however, expressed in said letter of August 3, 1919, was expressly stated by the Board to apply to the then existing conditions which, so far from being "normal", were chaotically abnormal at that time. Dr. Miller, however, as shown by his address on September 25, 1919, above referred to, concurred in the conclusion of the Board as contained in said letter of August 3, 1919. The same conclusion was expressed by the Board in October 1919, in its Review of the Month. (See 5 Federal Reserve Bulletin, page 913.)

I do not, of course, question the right of any member to change his opinion. I merely cite Dr. Miller's address to show that the opinion given by the Board in said letter represented his opinion as well as the unanimous and carefully thought out conclusion of the Board.

The article now before us asks us in effect to change the policy expressed in said Board letter of August 3, 1919, to the effect that inflated prices were not caused by the issue of Federal Reserve notes, and to lay down the new theory that excessive issues of Federal Reserve notes are responsible for past and present price inflation, that in the future such issues must be regulated by our Board, and further that the original conception of Federal Reserve banks, as above set forth by me, is erroneous and that such banks are and were created to be primarily note issuing banks.

When one considers that the Federal Reserve banks have today outstanding about two billions of Federal Reserve notes in circulation and hold reserve deposits of member banks of nearly the



same amount, and are sustaining credits granted by member banks to their customers, based on these reserve deposits, in excess of 18 billions of dollars it would seem somewhat difficult to draw the conclusion that the Federal Reserve banks are primarily note issuing banks.

When further it is realized that today the Federal Reserve banks, taken together, could pay off dollar for dollar in gold every Federal Reserve note in circulation and yet have left in their possession gold and cash equivalent to a ratio of 68% of their deposits, it would certainly seem surprising to call these banks primarily note issuing banks.

Every Federal Reserve note in circulation, other than those issued dollar for dollar for gold, grows out of some antecedent credit granted to the member bank by the Federal Reserve bank, and if the Federal Reserve banks and the Federal Reserve Board have properly regulated this antecedent credit through the discount rate and open market operations, I believe that experience has shown that there will be no necessity for direct limitation of the issue of Federal Reserve notes.

If, however, a majority of the Federal Reserve Board believes that the time has come to change the present policy of the Board as to Federal Reserve note issues, a policy which I have shown was adopted after most careful consideration and which has been in force since the Federal Reserve System was established, the Board should frankly state in the Annual Report that the past policy of the Board was erroneous and that a new policy is to be

-9-

adopted, leaving to the minority the right to record themselves to the contrary or to send to Congress a minority report.

2.

The publication of separate reserve ratios against deposits and Federal Reserve notes.

I cannot see any weighty objection to the publication by the Federal Reserve Board each week of the reserves actually carried by the Federal Reserve banks as a whole against deposits and against Federal Reserve notes respectively, assuming for the purpose of such publication, that the gold held by the Federal Reserve banks in the Gold Settlement Fund is allocated to the reserve against deposits.

I feel strongly, however, that the reasons given in the proposed article for such publication should not be published in the annual report. My reason for this feeling is that Dr. Miller's article, to my mind, necessarily implies that the Board has in its mind some ulterior object other than merely giving a photograph of reserve conditions as they actually exist from week to week.

I feel very confident that if the reasons contained in this article were published in the Annual Report they would at once bring to mind the article published by Dr. Miller in The American Economic Review for June 1921, in which he not only favors stating the reserves separately, but also favors allocating a certain amount of gold to the Federal Reserve Agent as a gold reserve

against notes, such amount to be determined by the Federal Reserve Board, and to remain a fixed quantity not to be reduced by the Federal Reserve banks unless the Federal Reserve Board determines that conditions justify a change. In other words, as I understand the article, the gold held by the Federal Reserve agents as reserve for the notes is to be "pegged" so as to bring about a certain pre-determined reserve ratio, at the cost of the deposit reserve, which is to be permitted to fluctuate at whatsoever ratio will remain after the reserve fixed by the Board for notes has been kept intact by gold taken from the deposit reserve; that is to say the deposit reserve is, as it were, made a surety for the gold reserve, so that the note reserve ratio will always be constant and the deposit reserve ratio will constantly fluctuate.

While I agree that the Federal Reserve banks, without any order or direction from the Federal Reserve Board, will in all likelihood continue to do as they are doing now in the way of allocating a larger portion of their gold to Federal Reserve notes than to deposits in order to keep the note ratio higher than the deposit ratio, I confess I can now see no legal method by which the Board could order the banks to do this. I cannot see how the Board, for example, could order the note reserve to be maintained at 100% when the Federal Reserve Act simply

prescribes that the minimum shall be 40%. While the Board has authority to lower the reserve requirements, it certainly has no authority to increase them. Furthermore, even admitting for the sake of the argument, that the Board has the power to fix a reserve fund of 100% against Federal Reserve notes, I fear that if in the future this 100% reserve should have to be reduced, because of demands for gold for export or for other causes, it might cause serious apprehension on the part of the public similar to that caused in 1893 by the enforced reduction of the one hundred million gold reserve held for the redemption of the so-called greenbacks.

I venture to hope, therefore, that the Board will content itself by merely publishing the separate reserve ratios as they exist from week to week and will decide to leave out of the Annual Report arguments contained in this article which, to my mind, clearly point to further requirements of at least doubtful legality.

C. S. HAMLIN  
Feb. 12, 1924.

TREASURY DEPARTMENT  
Office of the Secretary  
WASHINGTON

February 7, 1924.

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 January 1 1924 to January 31, 1924, amounting to \$102,180, as follows:

Federal Reserve Notes, 1914

	<u>\$5</u>	<u>\$10</u>	<u>\$20</u>	<u>\$50</u>	<u>Total</u>
Boston	190,000	94,000	63,000	- -	347,000
New York	190,000	- -	- -	- -	190,000
Philadelphia	190,000	97,000	78,000	10,000	375,000
Cleveland	190,000	63,000	78,000	10,000	341,000
Richmond	125,000	63,000	78,000	- -	266,000
Chicago	316,000	125,000	114,000	20,000	575,000
St. Louis	94,000	- -	- -	- -	94,000
Minneapolis	- -	- -	24,000	- -	24,000
Kansas City	47,000	- -	25,000	- -	72,000
Dallas	- -	- -	20,000	- -	20,000
San Francisco	190,000	63,000	63,000	- -	316,000
	<u>1,532,000</u>	<u>505,000</u>	<u>543,000</u>	<u>40,000</u>	<u>2,620,000</u>

2,620,000 sheets at \$39.00 per M . . . \$102,180.00

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

	<u>Sheets</u>	<u>Compen- sation</u>	<u>Plate Printing</u>	<u>Materials</u>	<u>Inc. Com- pensation</u>	<u>Total</u>
Boston	347,000	\$4,684.50	\$3,556.75	\$4,077.25	\$1,214.50	\$13,533.00
New York	190,000	2,565.00	1,947.50	2,232.50	665.00	7,410.00
Philadelphia	375,000	5,062.00	3,843.75	4,406.25	1,312.50	14,625.00
Cleveland	341,000	4,603.50	3,495.25	4,006.75	1,193.50	13,299.00
Richmond	266,000	3,591.00	2,726.50	3,125.50	931.00	10,374.00
Chicago	575,000	7,762.50	5,893.75	6,756.25	2,012.50	22,425.00
St. Louis	94,000	1,269.00	963.50	1,104.50	329.00	3,666.00
Minneapolis	24,000	324.00	246.00	282.00	84.00	936.00
Kansas City	72,000	972.00	738.00	846.00	252.00	2,808.00
Dallas	20,000	270.00	205.00	235.00	70.00	780.00
San Francisco	316,000	4,266.00	3,239.00	3,713.00	1,106.00	12,324.00
	<u>2,620,000</u>	<u>35,370.00</u>	<u>26,855.00</u>	<u>30,785.00</u>	<u>9,170.00</u>	<u>102,180.00</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

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

X-3968  
February 12, 1924.

SUBJECT: Treatment of Bonds and Coupons in Process  
of Collection in Computing Reserves.

Dear Sir:

There is enclosed herewith for your information copy of a letter addressed by the Federal Reserve Board to one of the Federal Reserve Banks in reply to an inquiry as to whether bonds and coupons, which have been cashed by a bank for its customers and forwarded to a bank correspondent for collection, can be considered an amount due from banks and accordingly deducted from the amount due to banks, in accordance with the provisions of Section 19, regarding the computation of reserves.

Very truly yours,

Walter L. Eddy,  
Secretary.

TO ALL FEDERAL RESERVE AGENTS.

( C o p y )

X-3968a.

February 11th, 1924

Dear Sir:

Receipt is acknowledged of your letter of December 28th with further reference to the question whether bonds and coupons, which have been cashed by a bank for its customers and forwarded to a bank correspondent for collection, can be considered an amount due from banks and accordingly deducted from the amount due to banks, in accordance with the provisions of Section 19 regarding the computation of reserves.

The Board has considered this question and is of the opinion that such bonds and coupons, including those issued by national or State governments or by municipalities, may not properly be considered as constituting an amount due from other banks. Such bonds and coupons are not to be paid by banks but by firms, corporations or governments and they are, therefore, amounts due from such firms, corporations or governments rather than amounts due from banks. This is true even though these items have been forwarded to a correspondent bank for collection, because even in this case the correspondent bank is not the party primarily liable but acts merely as an agent in the transaction. Again in the case where Federal reserve banks act as fiscal agents of the United States in cashing bonds or coupons issued by the United States, the party primarily liable is the United States and the Federal reserve banks act only as agents. In the opinion of the Board, the words "amounts due \* \* \* from other banks" refer to items drawn against or payable out of balances held by such other banks and not to any items drawn upon firms, corporations or governments for which other banks act merely as collecting agents. Bonds and coupons forwarded for collection, therefore, should not be deducted from due to bank balances in computing reserves of member banks.

Where, however, such bonds and coupons have actually been collected and the proceeds have been credited to the account of the forwarding bank the amount thereof may be counted as part of the balance due from the collecting bank to the forwarding bank, and may be deducted from due to bank balances in computing the reserves of the forwarding bank.

Very truly yours,

Edmund Platt,  
Vice Governor.

## FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

X-3969  
February 14, 1924.

SUBJECT: EXPENSE MAIN LINE, Leased Wire System,  
January, 1924.

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-3969-a and X-3969-b, covering in detail operations of the main line, Leased Wire System, during the month of January, 1924.

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

Very truly yours,

Fiscal Agent.

(Enclosures)

TO GOVERNORS OF ALL BANKS



X-3969-a

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS  
TRANSMITTED OVER MAIN LINE OF THE FEDERAL RESERVE  
LEASED WIRE SYSTEM FOR THE MONTH OF JANUARY, 1924.

From	Fed. Res. Bank Business	Percent of Total Bank Business (*)	Treasury Dept. Business	War Finance Corp. Business	Total
Boston	40,904	3.12	5,622		46,526
New York	282,232	21.53	15,641		297,873
Philadelphia	66,741	5.09	6,079		72,820
Cleveland	96,028	7.33	4,964		100,992
Richmond	80,771	6.15	4,374		85,145
Atlanta	91,726	7.00	5,151		96,877
Chicago	149,442	11.40	8,953		158,395
St. Louis	99,449	7.59	5,306		104,755
Minneapolis	69,451	5.30	4,507	23	73,981
Kansas City	101,519	7.74	5,902		107,421
Dallas	84,878	6.47	3,279	40	88,197
San Francisco	147,704	11.27	10,785		158,489
TOTAL	1,310,845	100.00	80,563	63	1,391,471
Board	285,354		69,429	926	355,709
Total	1,596,199		149,992	989	1,747,180
Percent of Total	91.36%		8.58%	.06%	
Bank Business	1,596,199 words or 91.41%				
Treasury Dept.	149,992 " " 8.59%				
TOTAL	1,746,191	100.00%			

(\*) These percentages used in calculating the pro rata share of leased wire expenses as shown on the accompanying statement (X-3969-b)

FEDERAL RESERVE BOARD,  
Washington, D. C.  
February 14, 1924.

REPORT OF EXPENSE  
MAIN LINE  
FEDERAL RESERVE LEASED WIRE SYSTEM JANUARY, 1924.

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	\$ 640.19	\$ 251.00	\$ 389.19
New York	1,300.02	-	-	1,300.02	4,417.70	1,300.02	3,117.68
Philadelphia	200.00	-	-	200.00	1,044.41	200.00	844.41
Cleveland	388.00	-	-	388.00	1,504.03	388.00	1,116.03
Richmond	315.00	-	-	315.00	1,263.96	315.00	948.96
Atlanta	240.00	-	-	240.00	1,436.32	240.00	1,196.32
Chicago (#)	5,020.15	-	-	5,020.15	2,339.15	5,020.15	(*)2,681.00
St. Louis	250.00	-	-	250.00	1,557.38	250.00	1,307.38
Minneapolis	283.33	-	-	283.33	1,087.50	283.33	804.17
Kansas City	346.64	-	-	346.64	1,588.16	346.64	1,241.52
Dallas	251.00	.75	-	251.75	1,327.57	251.75	1,075.82
San Francisco	380.00	-	-	380.00	(1)3,312.47	380.00	2,932.47
Fed. Res. Board			17,019.74	17,019.74			
<b>TOTAL</b>	<b>\$9,224.14</b>	<b>\$ 1.75</b>	<b>\$17,019.74</b>	<b>\$26,245.63</b>	<b>\$21,518.84</b>	<b>\$9,225.89</b>	<b>\$14,973.95</b>
				(a)4,724.79			(&)2,681.00
				\$21,520.84			\$12,292.95
				(2) 2.00			
				\$21,518.84			

(#) Includes salaries of Washington operators.

(&) Amount reimbursable to Chicago.

(\*) Credit.

(a) Received \$24.79 from War Finance Corporation and \$4,700.00 from Treasury Department covering business for month of January, 1924.

(1) Excess credit of \$1,000.00 allowed operators' salaries, San Francisco, December, 1923.

(2) Overpayment by banks 1922-1923.

X-3971

STATEMENT FOR THE PRESS:

At the organization meeting for 1924 of the Federal Advisory Council held today, Mr. Paul M. Warburg of New York City was elected President, Mr. L. L. Rue of Philadelphia, after having served as President for three years, having declined reelection to this office. Mr. A. L. Aiken of Boston was elected Vice President of the Council.

An Executive Committee was elected, consisting of Messrs. Warburg and Aiken, ex officio, together with Messrs. Rue, J. M. Miller, Jr., of Richmond; J. J. Mitchell, of Chicago; and E. F. Swinney, of Kansas City.

FOR IMMEDIATE RELEASE

February 18, 1924.

## FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

February 21, 1924.

X-3972

Subject: Discount of Paper Secured by Bonds  
of War Finance Corporation.

Dear Sir:

One of the Federal Reserve banks has raised a question as to the eligibility for rediscount at Federal Reserve banks of paper secured by bonds of the War Finance Corporation, stating that the provisions of the Board's Regulation A, Series of 1923, seem to preclude the discount of such paper, inasmuch as provision is therein made for the discount of only such investment paper as is drawn to finance dealings in United States Government securities.

For your information and guidance, a copy of the Board's reply is enclosed herewith.

Very truly yours,

Walter L. Eddy,  
Secretary.

TO GOVERNORS OF ALL F.R.BANKS

C O P Y

February 20, 1924.

X-3972-a

Dear Governor

Receipt is acknowledged of your letter of February 3 inquiring whether the Federal Reserve Bank of ----- may discount for member banks paper secured by bonds of the War Finance Corporation. You state that the provisions of the Board's Regulation A, Series of 1923, seem to preclude the discount of such paper, inasmuch as provision is therein made for the discount of only such investment paper as is drawn to finance dealings in United States Government securities.

Section 13 of the War Finance Corporation Act, as originally enacted, authorized Federal reserve banks, subject to the maturity limitations of the Federal Reserve Act and to regulations of the Federal Reserve Board, to discount the direct obligations of member banks secured by bonds of the War Finance Corporation. As you state in your letter, this statutory provision is incorporated in the third paragraph of Section I, Article A, of Regulation A. Section 13 of the War Finance Corporation Act, in its original form, also authorized Federal reserve banks "to rediscount eligible paper secured by such bonds and endorsed by a member bank". This provision, however, apparently did not enlarge the discount powers of Federal reserve banks, inasmuch as they were already authorized by Section 13 of the Federal Reserve Act to discount eligible paper, irrespective of the existence or character of security. Consequently, it was unnecessary to embody this provision of the War Finance Corporation Act in Regulation A.

Section 13 of the War Finance Corporation Act was amended by an Act approved August 24, 1921. As amended, this section authorized the discount by Federal reserve banks of direct obligations of member banks secured by bonds or notes of the War Finance Corporation, and also authorized Federal reserve banks "to rediscount notes or other negotiable instruments secured by such notes or bonds and endorsed by a member bank." This legislation apparently did enlarge the discount powers of Federal reserve banks, inasmuch as it purported to make eligible for discount paper which might not otherwise be basically eligible if it were secured by bonds or notes of the War Finance Corporation. It was apparently through an oversight that this provision of law was not taken care

of in Regulation A.

It thus appears that notes and other negotiable instruments secured by bonds or notes of the War Finance Corporation are made eligible for discount, subject to regulations of the Federal Reserve Board, and that the Board has made no appropriate regulations covering the discount of this class of paper. The Board is of the opinion, however, that Federal reserve banks should be authorized to discount negotiable paper secured by bonds or notes of the War Finance Corporation and endorsed by a member bank to the same extent and under the same conditions as Federal reserve banks are now authorized to discount negotiable paper secured by bonds or notes of the United States. The Board accordingly rules that Federal reserve banks may discount negotiable paper secured by bonds or notes of the War Finance Corporation and endorsed by a member bank when such paper is issued or drawn, or the proceeds have been used or are to be used in the first instance, for the purpose of carrying or trading in such bonds or notes of the War Finance Corporation, provided, such paper complies in other respects with the relevant provisions of law and of the Board's regulations.

Yours very truly,

(Signed) D. R. Crissinger,  
Governor.

FEDERAL ADVISORY COUNCIL  
1924

X-3973-  
Superseding X-3653

Officers:

P. M. Warburg, President.  
E. F. Swinney, Vice President.  
C. B. Georgen, Secretary.

Executive Committees.

L. L. Rue  
P. M. Warburg  
J. J. Mitchell

E. F. Swinney  
C. A. Morss (1)  
J. M. Miller, Jr.

Corrected to May 12, 1924.

M E M B E R S

<u>District</u>			<u>Representative</u>
No. 1	Charles A. Morss	Vice-Pres.,	Simplex Wire & Cable Co., Boston, Mass.
No. 2	Paul M. Warburg		31 Pine Street, New York, N. Y.
No. 3	L. L. Rue	President,	The Phila. Nat'l. Bank, 421 Chestnut Street, Philadelphia, Pa.
No. 4	C. E. Sullivan	President,	Central National Bank, Savings & Trust Company, Cleveland, Ohio.
No. 5	John M. Miller, Jr.	President,	First National Bank, Richmond, Va.
No. 6	Oscar Wells	President,	First National Bank, Birmingham, Ala.
No. 7	J. J. Mitchell	Chrm. of the Board	Illinois Merchants Trust Company, Chicago, Ill.
No. 8	Festus J. Wade	President,	Mercantile Trust Co., St. Louis, Mo.
No. 9	G. H. Prince	Chrm. of the Board	Merchants National Bank, St. Paul, Minn.
No. 10	E. F. Swinney	President,	First National Bank, Kansas City, Mo.
No. 11	W. M. McGregor	President,	First National Bank, Wichita Falls, Texas.
No. 12	D. W. Twohy	Chrm. of the Board.	Old National Bank, Spokane, Washington.

Address of Mr. Georgen, Federal Reserve Bank, New York, N. Y.  
(1) Vice Chairman.

## FEDERAL RESERVE BOARD

WASHINGTON

February 23, 1924.

X-3975

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

Subject: Examinations of State Member Banks.

Dear Sir:

For your information, I would state that the Federal Reserve Board has recently ruled as follows on the question of whether or not the Federal reserve banks may conduct examinations of state member banks with examiners other than those selected or approved by the Federal Reserve Board.

"The following provision of Section 21 of the Federal Reserve Act was contained in the Act as originally enacted:

'In addition to the examinations made and conducted by the Comptroller of the Currency, every Federal reserve bank may, with the approval of the Federal reserve agent or the Federal Reserve Board, provide for special examinations of member banks within its district.'

The following provision, which is now contained in the Federal Reserve Act, was added to Section 9 by the amendment of June 21, 1917:

'As a condition of membership such banks shall likewise be subject to examinations made by direction of the Federal Reserve Board or of the Federal reserve bank by examiners selected or approved by the Federal Reserve Board.'

Although the provision of Section 9 above quoted does not expressly supersede that of Section 21 on this subject, it seems to be controlling with respect to the examiners who shall make examinations of State member banks. Section 21 of the Act contains no reference to the selection or qualification of such examiners, but the later enactment in Section 9 requires that they be 'selected or approved by the Federal Reserve Board'. Since the original statute is silent on the subject, and the later provision contains an express requirement, it is the opinion of the Federal Reserve Board that Section 9 of the Act is controlling on the point. You are advised, therefore, that examinations of State member banks conducted by Federal reserve banks should not be made by examiners other than those selected or approved by the Federal Reserve Board in accordance with the provisions of Section 9 of the Federal Reserve Act."

Very truly yours,

Walter L. Eddy,  
Secretary.

TO ALL FEDERAL RESERVE AGENTS.



## FEDERAL RESERVE BOARD

X-3976

## STATEMENT FOR THE PRESS

For Release in Morning Papers

Thursday, February 28, 1924.

The following is a summary of general business and financial conditions throughout the several Federal Reserve Districts, based upon statistics for the months of January and February, as contained in the forthcoming issue of the Federal Reserve Bulletin.

Production of basic commodities increased sharply in January, the volume of distribution continued larger than a year ago, and the wholesale price level remained unchanged. In February there was an increase in the demand for credit for commercial purposes.

PRODUCTION:

The Federal Reserve Board's index of production in basic industries increased 8 per cent in January and was at approximately the same level as a year ago. This increase followed a downward movement which had been under way since May, 1923. The increases over December, which occurred in most of the industries, were particularly large in the production of steel ingots, lumber, and bituminous coal and in mill consumption of cotton. A small but general reduction of working forces at industrial establishments resulted in a slight decline in the index of factory employment. The largest decrease occurred at plants manufacturing food products and tobacco. Contract awards for new buildings in January were slightly higher in value than in December and were 26 per cent above a year ago.

TRADE:

Railroad shipments, particularly of miscellaneous merchandise, increased during January and total car loadings were somewhat above the high

level of January, 1923. The index of wholesale trade increased 11 per cent during January and was slightly higher than a year ago. Sales of groceries, meat, and drugs were larger than in January, 1923, while sales of dry goods and shoes were smaller. Retail trade in January showed the usual seasonal decline. Compared with a year ago department store sales were 7 per cent larger and stocks of merchandise at these stores, after declining in January, were 6 per cent above last year's level. Sales of mail order houses in January exceeded those of a year ago by 11 per cent.

PRICES:

The wholesale price index of the Bureau of Labor Statistics remained unchanged during January and was at a level 3 per cent lower than a year ago. Prices of fuels and building materials which had been declining since early in 1923 increased in January, while prices of farm products, foods, and clothing declined. During the first two weeks of February prices of hogs, sugar, hides, lumber, and metals advanced, while prices of cotton, wheat, and silk declined.

BANK CREDIT:

The volume of borrowing for commercial purposes at member banks in leading cities, after an almost continuous decline for more than three months, increased considerably during the latter part of January and the first two weeks in February. This increase was accompanied by a decline in loans secured by stocks and bonds. Total loans and investments of the reporting banks are now slightly larger than a year ago, commercial loans

and loans on stocks and bonds are larger, but investments are smaller.

At the Federal reserve banks the total volume of earning assets fluctuated within narrow limits during February. The large return flow of currency and the repayment of discounts, which characterized the early weeks of the year, did not continue after January. Since the first week in February the volume of discounts for member banks has been about \$500,000,000 and the holdings of securities purchased in the open market about \$400,000,000.

The easier money conditions of January were followed in February by slightly firmer rates on acceptances and on short term Government securities. Commercial paper rates in the New York market remained unchanged at 4 3/4 per cent.

# FEDERAL RESERVE BOARD

119

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

X-3977

February 26, 1924.

Subject: Applications for Reduction in Reserve  
Requirements.

Dear Sir:-

During the past few months the Federal Reserve Board has received several applications from member banks, located in outlying districts of reserve cities, for reductions in their reserve requirements, under Section 19 of the Federal Reserve Act, from 10% of demand deposits and 3% of time deposits to 7% of demand deposits and 3% of time deposits. Certain of these applications have been filed by banks which were newly organized or in operation for but a short length of time, or by long-established banks which have been members of the System for only a few months.

For your information, the Board has ruled that it shall be a condition precedent to the filing of an application for a reduction in reserves that the applicant bank shall have been a member of the Federal Reserve System and in operation as such for a period of at least one year prior to the date of such application.

Very truly yours,

J. C. Noell  
Assistant Secretary.

TO ALL FEDERAL RESERVE AGENTS.

FEDERAL RESERVE BOARD

120

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

X-3978  
February 27, 1924.

SUBJECT: Corrections in Inter-District Time Schedule.

Dear Sir:-

By agreement between the Federal Reserve Bank of  
Kansas City and the Federal Reserve Bank of Dallas, the  
following changes should be made in the inter-district time  
schedule:

Denver to El Paso - 2 days  
El Paso to Denver - 2 days

Very truly yours,

J. C. Noell  
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS

## FEDERAL RESERVE BOARD

X-3979

## Statement for the Press

For Immediate Release

CONDITION OF ACCEPTANCE MARKET

January 10 to February 13.

The acceptance market during the four weeks ending February 13 was more active than for any period since early in the autumn. As a result of large takings by New York and Boston banks as well as those in the interior, the demand for acceptances increased rapidly in the early part of the period and the volume of bills distributed was larger than for any month in 1923 except April. The supply of new bills which came into the market increased during the first two weeks but declined somewhat in the remaining weeks. The total supply of new bills exceeded any month in 1923 with the exception of April and November. In fact, the supply increased more than the demand, and dealers' aggregate portfolios at the end of the period showed considerable increases and were at the highest point in over two years. Commodities against which bills were drawn were cotton, silk, grain, sugar, coffee, copper, wool, and packing house products. Cotton bills were in particularly large volume and the supply of bills drawn to finance the importation of sugar and coffee and the exportation of copper was also large.

Easier money conditions early in January resulted in lowering of dealers' offering rates to 4 per cent on all maturities up to and including four-month bills. The consequence, however, was to

cause the demand for bills to slacken and by the end of the period offering rates had been raised to  $4 \frac{1}{8}$  per cent on all maturities except 30-day bills which continued at 4 per cent. Rates on maturities of more than four months remained unchanged at  $4 \frac{3}{8}$  to  $4 \frac{1}{2}$  bid and  $4 \frac{1}{8}$  to  $4 \frac{3}{8}$  offered.

X-3981

## FEDERAL RESERVE BOARD

## STATEMENT FOR THE PRESS

For Release in Morning Papers,  
Monday, March 3, 1924.

The March, 1924 issue of the Federal Reserve Bulletin will carry the following review of the recent course of trade and industry.

Increased industrial and trade activity and a larger volume of borrowing for commercial purposes have characterized the business situation since the opening of the year. In January the increase in the output of basic commodities was unusually large and brought the volume of production from the low point of 1923, reached in the preceding month, to the level prevailing at the beginning of that year. During the last half of 1923 production declined and even after the sharp recovery in the first month of 1924 the index was 5 per cent below the high point of last May. The distribution of commodities at wholesale and the shipments of merchandise also increased in January and were in greater volume than a year ago. The level of wholesale prices, which had declined since the spring of 1923, remained unchanged between the middle of December and the middle of January, and the prices of many commodities, particularly raw materials, advanced during the early weeks of February. These changes in industry, trade, and prices reflect the extent and character of the recent business readjustments.

The course of industry and trade, because of the growth in current information concerning business, can now be followed more closely and accurately than ever before. In recent years much progress has been made in the collection of such information by governmental and private agencies.



The Federal Reserve Board and the Federal reserve banks, in addition to their reports on banking conditions, gather data on changes from month to month in the industrial and business situation and make them available through their publications to member banks and to the public. This information has an important bearing on changes in the demand for credit and it is presented in detail each month in the Federal Reserve Bulletin, which is sent to all member banks. The brief edition of the Bulletin, formerly sent to the banks, which did not contain trade and industrial information in the same detail, was discontinued at the beginning of this year. In view of the wider circulation of the Bulletin in its present form and of the variety and comprehensiveness of the information which it contains, it is opportune, in connection with a discussion of current business developments, to indicate the type and uses of economic data available and the method of its presentation.

Indexes of trade and industry. - In order to facilitate comparisons of industrial and trade movements in different lines, many of the figures have been converted into percentages on a common base year and are in the form of so-called index numbers. All the Federal Reserve Board indexes of production, employment, and trade take the monthly average for 1919 as 100, and express the figures for each month as percentages of this average. For example, the production index in January, 1924, was 120, which means that the total output in January of the commodities included in that index was 20 per cent larger than for the average month in 1919. Since the purpose of this index is to compare the production during the current month with that of earlier months and not with what might be regarded as "normal," the base se-

lected as 100 per cent is the actual production in 1919 and not an assumed or computed "normal." It is, therefore, the fluctuations in the indexes rather than their position with reference to the base period that is significant. Since in some lines of industry and trade definite and more or less regular seasonal fluctuations occur, certain of the index numbers are presented both with and without allowance for seasonal influences. In retail trade, for example, there are pronounced seasonal peaks in the spring and especially during Christmas buying, and it is desirable to have an indication of the course of retail trade after allowance has been made for these seasonal movements. These index numbers of industry and trade are so constructed that in addition to indicating the general movements of these basic factors and making them comparable with each other, they also show the changes in the individual major industries and the extent of trade activity in different sections of the country. The movement of the component group indexes, therefore, reflects the changes in the position of the various lines of industry and trade in relation to the general business movement. Tables presenting the index numbers in detail and much of the information on which they are based, appear currently in each issue of the Bulletin, in connection with a discussion of the business and industrial situation during the month. The most important general index numbers are shown in the table below:

INDEXES OF INDUSTRY AND TRADE

(1919 average = 100)

* Year and Month	Production in basic Industries	Factory employ- ment	Whole- sale trade	Department Stores			
				Sales *			Stocks *
1919	100	100	100	100	100	100	100
1920	105	104	112	120	120	136	136
1921	80	83	73	110	110	115	115
1922	98	90	74	111	111	116	116
1923	120	101	82	124	124	129	129
<u>1923:</u>							
Jan.	121	99	77	101	114	107	120
Feb.	120	101	74	90	116	118	126
Mar.	125	103	85	124	124	128	127
Apr.	124	103	73	119	115	132	129
May	127	103	80	128	125	130	130
June	122	103	84	126	127	122	128
July	121	101	79	89	120	119	127
Aug.	120	101	88	100	129	129	129
Sept.	114	101	91	112	123	139	129
Oct.	118	101	96	148	132	146	131
Nov.	116	100	84	142	126	149	133
Dec.	111	99	71	203	125	123	133
<u>1924:</u>							
Jan.	120	98	78	109	124	115	128

The production index is seasonally corrected; department store sales and stocks with seasonal corrections are shown by star (\*).

The production index shows the changes in the output, measured in physical units of 22 basic industries. Among the commodities included in the index are iron and steel, copper, cotton, wool, coal, lumber, cement, petroleum, and various food products, the production of which in terms of tons, yards, etc., is reported monthly. The index, therefore, measures the changes in the physical volume of output rather than the dollar volume of business. Production in these basic industries ordinarily fluctuates to a greater degree than the total for all industries, but changes in this index, which is available at an earlier date than the more complete information, indicate the direction of industrial activity. More comprehensive index numbers showing the production of manufactured commodities, the output of minerals, and the movement to primary markets of agricultural commodities are also published regularly.

The index of factory employment measures changes in the volume of employment at industrial establishments in 33 lines of manufacture throughout the country. This index reflects the degree of current productive activity and also when considered in connection with changes in payroll indicates the extent of the buying power of industrial workers.

The volume of purchases at retail and the rate at which goods are moving through the intermediate channels of distribution and into consumption is indicated by the indexes of retail and wholesale trade. Figures on sales by mail order houses furnish some indication of the extent of buying in rural communities. Any interruption in the movement of goods from producer to consumer results in an accumulation of stocks. Information on stocks serves to indicate whether the goods produced are moving currently

and regularly through the channels of trade or are being accumulated. Changes in the volume of stocks held by department stores are available monthly and are based on reports from about 300 stores located in various cities in the different Federal reserve districts. Railroad shipments of merchandise also furnish an indication of the volume of distribution.

Production and employment. - In January the increased industrial activity is reflected in the index of production of basic commodities which increased from the low point reached in December after a seven-month decline to a level 8 per cent above the previous month and approximately the same as in the opening months of 1923. The steel industry showed a particularly large increase in activity during January; the output of steel increased 27 per cent and brought production in that industry to the highest point since the middle of 1923. Unfilled orders for steel, after declining for nine months, turned upward in December and again increased in January. The demand for steel to meet railroad requirements, including equipment, continued large, and the manufacture of automobiles and building construction were other sources of the increased demand. An unusually large production for this season of the year of other building materials, such as lumber, brick, and cement also reflects the undiminished volume of building. Indeed, the increase in production for the month has been general in nearly all of the basic industries. The employment index, on the other hand, which is based on figures for the middle of the month, showed a slight decline in January. In general, the employment index because it represents a larger number of industries and because an increase in industrial activity may result in less part time employment rather than in an addition to the number on the payroll,

fluctuates over a considerably narrower range than the production index.

Wholesale and retail trade. - Wholesale trade in January increased 11 per cent and was in somewhat larger volume than a year ago. The extent of business activity is also indicated by the volume of check payments, which since the opening of 1924 have been at about last year's level. The fact that wholesale trade and check payments, both of which are expressed in dollars, are as large as in January, 1923, while wholesale prices are 3 per cent lower, indicates that the physical volume of trade is larger than a year ago. Retail trade, as shown both by sales at department stores and mail order houses, is also in larger volume than at the beginning of 1923. In fact, the sustained demand for goods at retail, even throughout the recent recession in productive activity, has been an important factor in the business readjustment.

In the process of production and distribution it is the buying power of consumers that finally determines the level at which industry and trade can be maintained. The upward trend of the seasonally corrected index of department store sales, which during 1923 reached the highest level on record, indicates the extent of the consumers' demand for goods. Stocks of merchandise at department stores also increased during the year but their increase was not out of proportion to the increase in the volume of sales. In January, 1924 sales at department stores, when allowance is made for seasonal influences, were smaller than in December, and stocks were also somewhat reduced.

Stocks of basic materials. - In considering the present position of industry and trade the extent to which the large production of basic materials in 1923 was used in manufacture and building rather than accu-

culated in stocks is indicated in the volume of stocks held at the opening of the year compared with previous years. The following table presents the available information:

STOCKS OF BASIC MATERIALS:

	<u>Jan. 1</u> <u>1924</u>	<u>Jan. 1</u> <u>1923</u>	<u>Jan. 1</u> <u>1922</u>
Bituminous coal, tons	62,000,000	36,000,000	48,000,000
Anthracite coal, long tons	1,063,277	412,232	1,418,732
Crude petroleum, bbls.	336,556,000	264,578,000	185,623,000
Gasoline, gal.	1,074,899,650	883,793,000	586,087,132
Iron ore, Lake Superior, long tons	38,635,000	39,866,000	35,896,000
Copper, lbs.	256,000,000	216,000,000	459,000,000
Zinc, lbs.	81,394,000	36,504,000	133,216,000
Cement, bbls.	10,581,000	9,267,000	11,938,000
Pine lumber, m. ft.	2,160,520	2,113,054	2,178,402
Oak flooring " "	41,140	21,230	21,763
Maple flooring " "	24,239	25,156	30,865
Brick, clay fire, number	183,009,000	155,011,000	145,406,000
Newsprint, short tons	23,669	19,208	23,934
Cattle, hides, number	5,086,286	6,345,676	5,819,219
Calf skins, number	2,175,404	3,298,299	2,965,000
Goat and kid skins, number	9,926,128	8,730,219	10,379,703
Sheep and lamb skins, "	7,400,296	9,151,484	12,661,438
Sole leather, backs, bends & sides	10,048,085	9,763,765	11,303,303
Upper leather, cattle, sides	6,970,651	7,082,693	7,509,110
Cotton, bales	5,149,617	5,986,701	6,944,801
Wool, lbs.	415,681,316	515,543,585	479,151,184*
Silk, bales	40,959	49,174	24,804
Flour, bbls.	7,100,000	7,700,000	7,776,000
Beef, lbs.	105,655,000	116,255,000	84,808,000
Pork products, lbs.	756,818,000	619,319,000	415,096,000
Lamb and mutton, lbs.	2,508,000	4,523,000	6,444,000
Sugar, long tons	57,929	44,828	62,419
Pneumatic rubber tires, number	4,329,300	4,599,208	3,696,519
Inner tubes	6,318,446	5,732,125	4,731,021

\*June 30, 1922



Stocks of certain commodities in January, 1924, were larger than a year ago, the increases being particularly large in coal, the stocks of which a year ago were exceptionally low owing to interrupted production incident to the strike, and in petroleum and gasoline because of the unusually heavy production in 1923. In stocks of gasoline, however, as of a number of other commodities where stocks are in excess of last year, there has been a decline from the higher levels of last summer. Stocks of all textile materials are considerably less than in January, 1923. In comparing the position of stocks now and a year ago it should be taken into consideration that prior to the opening of 1923 production in basic industries had been increasing rapidly for a year and a half, while for the seven months preceding the opening of 1924 production had been declining. In general the figures indicate that the large volume of production in 1923 in most lines of industry moved through the channels of distribution and did not give rise to an unusual accumulation of stocks. On the other hand, in commodities which had an unusually low volume of stocks a year ago, stocks are now larger and indicate a better adjustment between available supplies of these commodities and the current demand.

Price readjustments. - Changes in the relationship between prices of different groups of commodities have accompanied the industrial and trade readjustment of recent months. The regrouping by the Federal Reserve Board of the 404 commodities included in the Bureau of Labor Statistics index of wholesale prices makes possible comparisons between prices of commodities at different stages of manufacture. Prices of raw materials in January were 8 per cent lower than a year ago, while prices of producers' goods, which represent largely semi-finished products bought by manufacturers, and

consumers' goods remained practically unchanged. The general level of prices in January, 1924, was 3 per cent lower than in January, 1923, and 5 per cent below the high point reached in April, 1923. The following table shows prices by commodity groups for three dates:

Wholesale Prices.

(1913 = 100)

	: January, : 1923	: April, : 1923	: January, : 1924
All commodities	156	159	151
Consumers' goods	155	157	156
Producers' goods	136	150	136
Raw materials	168	166	155
Crops	164	172	180
Animal products	125	123	115
Forest products	215	232	194
Mineral products	213	198	170

Fluctuations during the year in the prices of consumers' goods were relatively small. Producers' goods, on the other hand, advanced rapidly during the early part of the year, when the volume of production was approaching its peak, and declined during the subsequent recession in business activity. Since September these prices also have remained fairly stable. The considerable decline in the raw materials group shown for the year occurred during the first six months, and these prices have changed relatively little since midsummer. At the beginning of the year raw materials were much above the general level of prices and their decline has brought them closer to the index for all commodities. Price adjustment has taken place also among the several classes of commodities included in the raw materials group. Prices of forest products and mineral products, which at the begin-

ning of the year were considerably above the average, showed the largest declines during the year. Prices of animal products in January were lower than a year ago, while prices of crops, after considerable fluctuation, advanced rapidly from August to December. Between December and January the index for all commodities remained unchanged, the advance in the prices of raw materials being offset by a decline in the prices of consumers' goods. As a result of the year's price changes, the prices of commodities in different stages of manufacture are in closer adjustment to the general average than they were a year ago.

Bank credit. Increase in the volume of production and trade since the opening of the year has been accompanied by a growth of loans for commercial purposes at member banks in leading cities. The volume of these loans, which had declined continuously since early in October, increased in the latter part of January and during the first two weeks of February. In the middle of February these loans were about \$372,000,000, or 5 per cent above the level of a year ago. The increase in this class of loans accounts for the large part of the increase of credit extended by these member banks. The year's growth in loans has been largely offset by a decline in investment holdings, with the consequence that the total loans and investments of these banks are only about \$127,000,000 larger than a year ago.

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For all member banks, total loans and investments increased by nearly \$1,000,000,000 during 1923 and at the close of the year were the highest on record, \$3,300,000,000 above the low point of March, 1922. The growth in the total volume of member bank credit during the last nine months of 1922 was due largely to the increase of their investment holdings, while in 1923 it was due to the larger volume of loans as investments remained practically constant. Time deposits continued to increase during the year and were the chief source of funds for additional lending.

At the Federal reserve banks the seasonal return flow of currency, which was the factor responsible for the decline in discounts during the early weeks of the year, ceased to be an influence in February. The low point in discounts was reached on February 6 when they were slightly below \$500,000,000 and total earning assets below \$900,000,000. For the following three weeks an increase of over \$55,000,000 in earning assets occurred. During February there was an increased demand for currency which, however, was not reflected in an increase in the outstanding volume of Federal reserve notes, as it was met largely by the payment of gold certificates into circulation. Net gold imports in January totaled \$46,000,000, the largest imports, with a single exception, for any month in the past two years.

Changes in the volume of bank credit from month to month are in response to a wide variety of influences, and minor changes in the course of industry and trade may not be immediately reflected in the credit situation. Since changes in the demand for credit, however, arise out of changes in the volume of business, there is a close relationship and a somewhat

definite sequence between the major movements in business and in banking. The business community, including both the bankers and the borrowing public, are now in a better position through the use of current economic data to shape their policies with reference to the broader trade and industrial movements, and there is evidence that this practice is resulting not only in a better understanding of business and credit trends, but also is contributing to the maintenance of sound credit conditions.

## FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

X-3982  
March 1, 1924

SUBJECT: Governors' Conference.

Dear Sir:

The Federal Reserve Board has designated Monday, May 5, 1924, 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,

G o v e r n o r .

To all Governors of Federal reserve banks.

## FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARDMarch 3, 1924.  
X-3983

Subject: Collection of notes containing  
provision for payment of Attorneys'  
fees.

Dear Sir:-

The Federal Reserve Board has recently considered the question whether or not a Federal reserve bank in collecting an overdue note, is justified in retaining an amount received under a provision in the note for the payment of attorneys' fees, in addition to the principal and interest of the note. The question arose out of the practice of one of the Federal reserve banks in receiving and retaining such amounts; in the case of this bank the counsel is employed on an annual retainer basis and he, of course, handles the collection of notes and other items which the bank is unable to collect through the regular channels.

The law on this question is not definitely settled but there are many cases which indicate very strongly that the courts would not permit the holder of a note containing such a provision to recover and retain any sum greater than that sufficient to cover principal and interest and to indemnify the holder for reasonable attorneys' fees expended. The provision is intended to save the holder from loss, but he is not entitled to make any profit by reason of the stipulation. Even if the practice can be considered legal it would seem to be an unwise policy for Federal reserve banks to exact attorney's fees under such circumstances unless there has been an expenditure in the particular case for the employment of attorneys.

In view of the doubt as to the legality of the practice and the considerations of policy involved, the Board recommends the following principles for the guidance of Federal reserve banks hereafter in such cases:

- (1) In a case where special counsel are employed in connection with the collection of a certain note, containing a stipulation for the payment of attorneys' fees by the maker in case of default, judgment should be obtained for the full amount due including all attorneys' fees recoverable according to the terms of the note, but a refund should be made to the debtor for any amount not actually paid or contracted to be paid to the attorney for his services.

- (2) Where the collection is made through the regular Federal reserve bank counsel employed on an annual salary or retainer, judgment should be obtained for the full amount due, including the stipulated attorneys' fees (if possible), but the Federal reserve bank should refund to the debtor the entire amount of attorneys' fees recovered.

By direction of the Federal Reserve Board.

Yours very truly,

Walter L. Eddy  
Secretary.

TO ALL FEDERAL RESERVE AGENTS.



( C o p y )

X-3984

68th CONGRESS,  
1st Session.

H. R. 3206

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IN THE HOUSE OF REPRESENTATIVES.

December 13, 1923.

Mr. Fulmer introduced the following bill; which was referred to the Committee on Banking and Currency and ordered to be printed.

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## A BILL

Obligating Federal reserve banks to pay interest upon all realized balances, whether reserve or otherwise, maintained by all member banks.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Federal Reserve Act, approved December 23, 1913, as amended, be, and the same is hereby, amended by adding to section 19 subdivision (d), after subdivision (c), to read as follows:

"(d) The Federal reserve banks are hereby obligated and required to pay every bank, banking association, or trust company which is or which becomes a member of any Federal reserve bank, interest at the rate of 2 per centum per annum on all realized balances, whether reserve or otherwise, so that section 19 shall read as follows:

"BANK RESERVES.

"Sec. 19. 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.

"Every bank, banking association, or trust company which is or which becomes a member of any Federal reserve bank shall establish and maintain reserve balances with its Federal reserve bank as follows :

"(a) If not in a reserve or central reserve city, as now or hereafter defined, it shall hold and maintain with the Federal reserve bank of its district an actual net balance equal to not less than 7 per centum of the aggregate amount of its demand deposits and 3 per centum of its time deposits.

"(b) If in a reserve city, as now or hereafter defined, it shall hold and maintain with the Federal reserve bank of its district an actual net balance equal to not less than 10 per centum of the aggregate amount of its demand deposits and 3 per centum of its time deposits:

Provided, however, That if located in the outlying districts of a reserve city or in territory added to such a city by the extension of its corporate charter, it may, upon the affirmative vote of five members of the Federal Reserve Board, hold and maintain the reserve balances specified in paragraph (a) hereof.

"(c) If in a central reserve city, as now or hereafter defined, it shall hold and maintain with the Federal reserve bank of its district an actual net balance equal to not less than 13 per centum of the aggregate amount of its demand deposits and 3 per centum of its time deposits: Provided, however, That if located in the outlying districts of a central reserve city or in territory added to such city by the extension of its corporate charter, it may, upon the affirmative vote of five members of the Federal Reserve Board, hold and maintain the reserve balances specified in paragraphs (a) or (b) thereof.

"(d) The Federal reserve banks are hereby obligated and required to pay every member bank, banking association, or trust company which is, or which becomes, a member of any Federal reserve bank interest at the rate of 2 per centum per annum on all realized balances, whether reserve or otherwise.

"No member bank shall keep on deposit with any State bank or trust company which is not a member bank a sum in excess of 10 per centum of its own paid-up capital and surplus. 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.

"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 bank 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.

"In estimating the balances required by this Act, the net difference of amounts due to and from other banks shall be taken as a basis for ascertaining the deposits against which required balances with Federal reserve banks shall be determined.

"National banks, or banks organized under local laws, located in Alaska or in a dependency or insular possession or any part of the United States outside the continental United States may remain nonmember banks, and shall in that event maintain reserves and comply with all the conditions now provided by law regulating them; or said banks may, with the consent of the Reserve Board, become member banks of any one of the reserve districts, and shall in that event take stock, maintain reserves, and be subject to all the provisions of this Act."

(C o p y)

X-3985

February 13, 1924

My dear Mr. Congressman:

Pursuant to our telephonic conversation, I am enclosing for your information a copy of statements showing the net earnings of the Federal reserve banks for 1921, 1922 and 1923, and what would happen if 2% interest were paid by the banks on realized balances to member banks.

You will note in 1923 the Federal reserve banks of the whole system would have lost, to be exact, \$24,738,854, and in addition they could have paid no dividend, could have set apart no surplus, nor pay any franchise tax; whereas, in 1922, the twelve Federal reserve banks would have lost \$19,124,764, and only one bank in the system could have paid any part of its dividend; that was the bank at Philadelphia, which could have paid \$120,976 on its dividend. You will note that none of the banks would have been able to have paid dividend, surplus or franchise tax. In 1921, the banks could have paid 2% interest, amounting to \$33,457,380; but this was one of the unusual years that came about by financing the war and when the banks were imposing a 6% and 7% rediscount rate, which, as you know, was not very popular.

In my opinion, an attempt to pay 2% interest on deposits is wrong in principle and should not be imposed upon the banks. If it should be imposed the Federal reserve banks will have to buy paper in the open market in competition with member banks and non-member banks in order to make its dividend, interest and expenses. I think you will agree that such practice would be detrimental to the individual banks.

It must be borne in mind well that at the time the banks were making these big profits it was while they were financing the war, and it should not be used as a pretext for the passage of an act to provide for 2% interest on realized balances.

I am also handing you an analysis of the statements which will be self-explanatory.

Very truly yours,

D. R. Crissinger,  
Governor.

Hon. Otis Wingo,  
House of Representatives,  
Washington, D. C.

## FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARDMarch 6, 1924.  
X-3987

Subject: Notarial Fees

Dear Sir:

The Board is making an investigation of the problem of notary fees paid by Federal reserve banks for notarial work done in connection with their banking operations in the hope of reaching a satisfactory solution of this problem.

To assist it in this investigation, the Board desires you to furnish detailed information along the following lines:

1. The amount of notary fees paid during each of the past three fiscal years.
2. The amount of fee paid per item and the controlling statutory rates at the present time.
3. The manner of designating notaries at the present time.
4. The names of the notaries employed during the past three years and the amount of fees received annually by each during such period.
5. A statement of any other services performed, and compensation received, by such notaries.
6. The present method of payment of fees to such notaries and the disposition of fees received by them.
7. All other information pertinent to the performance of notarial services and the compensation paid therefor.

By order of the Federal Reserve Board.

Walter L. Eddy  
Secretary.

TO ALL FEDERAL RESERVE AGENTS.

## FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARDMarch 7, 1924.  
X-3988SUBJECT: Proposed Amendment to Section 19 of Federal Reserve  
Act regarding Reserves.

Dear Sir:

It has been proposed that the Federal Reserve Board recommend to Congress the enactment of an amendment to the Federal Reserve Act which will permit member banks to deduct "due from bank balances" from gross deposits in computing the reserves that they are required to carry with the Federal Reserve Banks. The text of the bill which it is proposed that the Board shall recommend to Congress is as follows:

"An Act to Amend Section 19 of the Federal  
Reserve Act, As Amended.

"BE IT ENACTED BY THE SENATE AND THE HOUSE OF REPRESENTATIVES OF THE UNITED STATES OF AMERICA IN CONGRESS ASSEMBLED, That the eighth paragraph of Section 19 of the Federal Reserve Act, as amended by the Act of June 21, 1917, is amended to read as follows:

"In estimating the reserve balances required by this Act, member banks may deduct from the amount of their gross demand deposits the amounts of balances due from other banks, except Federal Reserve Banks and foreign banks, including in such balances, checks with Federal Reserve Banks in process of collection, checks on other banks in the same place, and exchanges for clearing house."

By direction of the Board, I have to request a full expression of your views as to the desirability of the proposed amendment.

Very truly yours,

Walter L. Eddy,  
Secretary.

TO CHAIRMEN OF F. R. BANKS

## FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

March 8, 1924.  
X-3989

Subject: Proposed Regulation J, Series of 1924.

Dear Sir:-

The Federal Reserve Board is now considering the promulgation of a new regulation J to take the place of Regulation J, Series of 1920, which is now in effect. There is enclosed herewith a copy of the proposed new regulation in the form tentatively adopted by the Board.

Before finally adopting this new regulation, the Board desires to have the benefit of your comments thereon and any recommendations you may have to make. You appreciate, of course, the desirability of the Board issuing a new regulation at the earliest possible date, particularly in view of the recent decision of the Supreme Court of the United States in the case of the Federal Reserve Bank of Richmond vs. Malloy Brothers, and it is respectfully requested, therefore, that you advise the Board at your earliest convenience of any suggestions you may desire to make.

Very truly yours,

Walter L. Eddy,  
Secretary.

TO GOVERNORS & AGENTS OF ALL FEDERAL RESERVE BANKS.



PROPOSED REGULATION J.  
Series of 1924  
(Superseding Regulation J of 1920)

X-3989-a

## 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 nonmember 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 nonmember 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 nonmember 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 nonmember State banks and trust companies will hereinafter be referred to as nonmember 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.

(a) Each Federal Reserve Bank will receive at par from its member banks and from nonmember clearing banks in its district, checks<sup>1</sup> drawn on all member and nonmember clearing banks, and checks drawn on all other nonmember banks which are collectable at par in funds acceptable to the Federal Reserve Bank of the district in which such nonmember banks are located.

(b) Each Federal Reserve Bank will receive at par from other Federal Reserve Banks, and from all member and nonmember clearing banks in other Federal Reserve districts authorized to route direct for the credit of their accounts with their respective Federal Reserve Banks, checks drawn on all member and nonmember clearing banks of its district, and checks drawn on all other nonmember banks of its district which are collectable at par in funds acceptable to it.

(c) No Federal Reserve Bank shall receive on deposit or for collection any check drawn on any nonmember bank which cannot be collected at par in funds acceptable to the Federal Reserve Bank.

## 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 reserve and become available to meet checks drawn. For all checks received, the sending bank will be given immediate credit, or deferred credit, in accordance with such time schedule, and as provided below.

For all such checks as are received for immediate credit in accordance with such time schedule, immediate credit, subject to final payment, will be given upon the books of the Federal Reserve Bank at full face value in the reserve account or clearing account upon day of receipt, and the proceeds will at once be counted as reserve and become available to meet checks drawn.

For all such checks as are received for deferred credit in accordance with such time schedule, deferred credit, subject to final payment, will be entered upon the books of the Federal Reserve Bank at full face value, but the proceeds will not be counted as re-

<sup>1</sup>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.

serve nor become available to meet checks drawn until such time as may be specified in such time schedule, at which time credit will be transferred from the deferred account to the reserve account or clearing account and will then be counted as reserve and become available to meet checks drawn.

#### SECTION V. MANNER OF COLLECTION.

The Federal Reserve Board hereby authorizes, and each member and nonmember clearing bank will be required to authorize, the Federal Reserve Banks to handle checks received on deposit or for collection as follows:

(1) A Federal Reserve Bank will act as agent only and will assume no liability except for its own negligence and its guaranty of prior indorsements.

(2) A Federal Reserve Bank is authorized to present or send checks for payment in cash or exchange draft direct to the bank on which they are drawn or at which they are payable, or in its discretion to forward them to another Agent with authority to present or send them for payment in cash or exchange draft direct to the bank on which they are drawn or at which they are payable.

(3) Checks received by a Federal Reserve Bank on its member or nonmember clearing banks will be forwarded or presented direct to such banks, and such banks will be required to remit therefor at par 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 the Federal Reserve Bank reserves the right to charge such items to the reserve account or clearing account of such bank at any time when the Federal Reserve Bank deems it necessary to do so.

(4) Checks received by a Federal Reserve Bank payable in other districts will be forwarded to the Federal Reserve Bank of the district in which such items are payable.

(5) A Federal Reserve Bank will charge back the amount of any check for which payment either in cash or in the proceeds of an exchange draft has not actually been received, regardless of whether or not the check itself can be returned.

#### SECTION VI. PENALTIES FOR DEFICIENCIES IN RESERVES.

(a) 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 bank 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.

(b) 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. If a member bank draw against items before such time, the draft will be charged against its reserve balance if such balance be sufficient in amount to pay it; but any resulting impairment of reserve balances will be subject to all the penalties provided by the Act.

(c) 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:

1. Deficiencies in reserve balances of member banks in central reserve and reserve cities will be computed on the basis of average daily net deposit balances covering a weekly period of seven days. Deficiencies in reserve balances of other member banks will be computed on the basis of average daily net deposit balances covering a semimonthly period.

2. Penalties for deficiencies in reserves will be assessed monthly on the basis of average daily deficiencies during each of the reserve computation periods ending in the preceding month.

3. A basic rate of 2 per cent per annum above the Federal Reserve Bank discount rate on 90-day commercial paper will be assessed as a penalty on deficiencies in reserves of member banks.

(d) 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:

1. 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 one-fourth of 1 per cent for each week thereafter during which the average reserve balance is deficient, will be assessed on weekly deficiencies until the required reserve has been restored and maintained for four consecutive weekly periods, provided that the maximum penalty charged will not exceed 10 per cent.

2. When a member bank outside of a central reserve or reserve city has had an average deficiency in reserves for three consecutive semimonthly periods, a progressive penalty, increasing at the rate of one-half 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 semimonthly 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.

PROPOSED AMENDMENTS TO REGULATION H, SERIES OF 1923.  
(Revised Draft)

A. In the fourth line of the last paragraph of Section III, strike out the words "to insure compliance with the act and these regulations," and insert a period after the word "necessary."

B. Change Section IV to Section VII; strike out the word "and" in the third line of said section; insert a comma after the word "Act;" change the semicolon at the end of subdivision 1 of said section to a comma; and add the following at the end of said subdivision 1:

"and the conditions prescribed by the Federal Reserve Board and agreed to by such State bank or trust company prior to its admission."

C. Change Section V to VIII.

D. Insert the following new sections immediately after Section III:

SECTION IV. CONDITIONS OF MEMBERSHIP.

Pursuant to the authority contained in the first paragraph of Section 9 of the Federal Reserve Act, which provides that the Federal Reserve Board may permit applying banks to become members of the Federal Reserve System "subject to such conditions as it may prescribe", the Federal Reserve Board will prescribe the following conditions of membership for each bank or trust company hereafter applying for admission to the Federal Reserve System, in addition to such other conditions as the Board may consider necessary or advisable in the particular case -

1. Except with the permission of the Federal Reserve Board, such bank or trust company shall not cause or permit any change to be made in the general character of its assets or in the scope of the functions exercised by it at the time of admission to membership, such as will tend to affect materially the standard maintained at the time of its admission to the Federal Reserve System

and required as a condition of membership.

2. Such bank or trust company shall at all times conduct its business and exercise its powers with due regard to the safety of its customers.

3. Such bank or trust company shall not reduce its capital stock except with the permission of the Federal Reserve Board.

4. Such bank or trust company shall not, except after applying for and receiving the permission of the Federal Reserve Board, establish any branch, agency or additional office.

5. Such bank or trust company shall not, except after applying for and receiving the permission of the Federal Reserve Board, consolidate with or absorb any other bank or branch bank; nor 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; nor directly or indirectly promote the establishment of any new bank for the purpose of acquiring such an interest in it; nor make any arrangement to acquire such an interest.

6. Such bank or trust company shall reduce to, and maintain within, the limits prescribed by the laws of the State in which it is located, any loan which may be in excess of such limits.

7. Such bank or trust company shall reduce to an amount equal to 10 per cent of its capital and surplus all balances in excess thereof, if any, which are carried with banks or trust companies which are not members of the Federal Reserve System, and shall at all times maintain such balances within such limits.

8. Such bank or trust company may accept drafts and bills of exchange drawn upon it 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, the aggregate amount of acceptances outstanding at any one time which are drawn for the purpose of furnishing dollar exchange in countries specified by the Federal Reserve Board shall not exceed 50 per cent of its capital and surplus, and the aggregate amount of all other acceptances, whether domestic or foreign, outstanding at any one time shall not exceed 50 per cent of its capital and surplus, except that the Federal Reserve Board, upon the application of such bank or trust company, may increase this limit from 50 per cent to 100 per cent of its capital and surplus:

Provided, however, that in no event shall the aggregate amount of domestic acceptances outstanding at any one time exceed 50 per cent of the capital and surplus of such bank or trust company.

9. The Board of directors of said bank or trust company shall adopt a resolution authorizing the interchange of reports and information between the Federal Reserve Bank of the district in which such bank or trust company is located and the banking authorities of the State in which such bank is located.

Each bank or trust company applying for membership hereafter will be required to agree to the above conditions and any other conditions which the Board may prescribe, prior to the admission of such bank or trust company to the Federal Reserve System.

#### SECTION V. CHANGES IN ASSETS OR BROADENING OF FUNCTIONS.

Each bank or trust company hereafter admitted to the Federal Reserve System and each bank or trust company which has heretofore been admitted subject to Condition No. 1 of Section IV or subject to any similar condition, shall, before opening any new department, consolidating or merging with any



- 3½ -

other bank, purchasing the assets of any other bank or trust company, establishing any branch, agency or additional office, or taking any other steps which may result in a change in the general character of its assets or broadening in the functions exercised by it, notify the Federal Reserve Board of its intention to take such action in order that the Federal Reserve Board may make an examination or take such other steps as it may consider necessary to ascertain whether such action will tend to affect materially the standard maintained by such bank at the time of its admission and required as a condition of membership.

## SECTION VI. PRINCIPLES GOVERNING ESTABLISHMENT OF BRANCHES.

In passing upon applications by State banks and trust companies for permission to establish branches, agencies or additional offices, under Condition No. 4 of Section IV, or under any similar condition which may have been prescribed by the Federal Reserve Board and agreed to by any bank or trust company heretofore admitted to the Federal Reserve System, the Federal Reserve Board will observe the following principles -

1. The Federal Reserve Board will restrict the establishment of branches, agencies or additional offices by such banks or trust companies to the corporate limits of the city or town in which the parent bank is located and to such territory as is contiguous to such place or location of the parent bank or head office as the term "contiguous territory" is now defined by the Federal Reserve Board or as it may hereafter be defined. <sup>1</sup>

2. The Federal Reserve Board will not consider an application by such bank or trust company for a permit to establish a branch, agency, or additional office, unless the authorities of the State in which such bank is located regularly make simultaneous examinations of the head office and all branches, agencies or additional offices of such bank, <sup>OR</sup> ~~nor~~ unless the examinations made by the State authorities are, in the judgment of the Federal Reserve Board, of such character in every respect as to furnish the Federal Reserve Board with sufficient information as to the condition of such bank and the character of its management to enable it fully to protect the interests of the public.

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1. The term "contiguous territory" is defined by the Board to mean: "The territory of a city or town whose corporate limits at some point coincide with the corporate limits of the city or town in which the parent bank is located." This definition has been amended in the case of Los Angeles and San Francisco, California, by a more specific definition which is effective until August 1, 1924.

3. The Federal Reserve Board will require each bank or trust company which establishes or maintains branches, agencies or additional offices to maintain for itself and such branches, agencies or additional offices an adequate ratio of capital to total liabilities and an adequate percentage of its total investments in the form of paper or securities eligible for discount or purchase by Federal reserve banks.

4. The Federal Reserve Board will not consider any application to establish a branch, agency or additional office until the establishment of such branch, agency or additional office has been approved by the Banking authorities of the State in which such bank or trust company is located and such authorities have certified that, (1) the applying bank or trust company is solvent and is not in a dangerous or extended condition and (2) the character of its management is such as to justify the establishment of such branch, agency or additional office; nor until the Directors or Executive Committee and the Federal Reserve Agent of the Federal Reserve Bank of the District in which such bank or trust company is located have submitted a report on these facts and a recommendation as to whether or not the application should be granted.

5. Before permitting such bank or trust company to establish any branch, agency, or additional office, the Federal Reserve Board will require the Federal Reserve Agent of the district in which such bank is located to make an investigation and report whether in his opinion the establishment of such branch, agency, or additional office would be in the interest of the public in the locality in which it is to be established and whether it would endanger the existence of existing local unit banks.

6. When permission is granted for the establishment of such branch,

agency or additional office same shall be established and opened for business within six months after such permission is granted. If such branch, agency, or additional office is not established within such time the permit shall become void, unless the time is extended by the Board for good cause.

7. The Federal Reserve Board reserves the right to cancel any permit which it has granted to establish any branch, agency or additional office whenever in its judgment the bank operating such branch, agency or additional office has engaged in unfair competition or other unfair practices to the detriment of other banks or of the public, or has failed adequately to serve the public interest in the community in which it is located.

## FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

March 8, 1924.

X-3991

SUBJECT: Report of Gold Payments and Receipts.

Dear Sir:-

The Board is receiving regularly, at the end of each month, from one of the Federal reserve banks a statement of its gold payments and receipts. The Board would like to obtain a similar monthly statement from your bank, head office and branches combined, reporting gold transactions as follows:

Gold Payments:

(1) Coin paid to banks and individuals	- - - -	\$
(2) Certificates paid to banks and individuals	- -	
(3) Coin paid to U.S. Disbursing Officers	- - -	
(4) Certificates paid to U.S. Disbursing Officers	-	
Total payments	- - - -	\$

Gold Receipts:

(1) Coin	- - - - -	\$
(2) Certificates	- - - - -	
Total receipts	- - - - -	\$
Net payments or receipts	- -	\$

Very truly yours,

Walter L. Eddy,  
Secretary.TO GOVERNORS OF ALL FEDERAL RESERVE BANKS  
EXCEPT NEW YORK.

## FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

X-3992

Your subscription to the Federal Reserve Bulletin expires with the \_\_\_\_\_ issue. If you desire to renew it for another year, kindly return the enclosed slip with remittance of \$ \_\_\_\_\_ made payable to the order of the Federal Reserve Board.

The subscription price of the Bulletin has been reduced to \$2.00 per annum, effective January, 1924. The amount above indicated, together with credit allowance of \$ \_\_\_\_\_ on copies forwarded prior to \_\_\_\_\_ will entitle you to a subscription for the period of \_\_\_\_\_ to \_\_\_\_\_ inclusive.

Very truly yours,

J. C. Noell,  
Assistant Secretary.

Enclosure.

## FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARDMarch 11, 1924.  
X-3993

Subject: Fees in Par Clearance Cases

Dear Sir:-

Referring to Board's letter X-3566 of November 17, 1922, in connection with the employment of Hon. John W. Davis in all par clearance litigation, there is enclosed herewith a statement of his account, which the Federal Reserve Board has approved.

The total amount now chargeable for services and expenses against each Federal reserve bank directly involved is as follows:

Atlanta	\$16,064.81
Richmond	5,137.37
Cleveland	2,512.51
San Francisco	2,508.30
	<u>\$26,222.99</u>

In accordance with Board's letter X-3626 under date of January 31, 1923, it is requested that each of the above named banks remit to Stetson, Jennings, Russell and Davis, 15 Broad Street, New York City, the amount above indicated, and that each Federal reserve bank reimburse the above named banks with their pro rata share (based on capital and surplus as of January 16, 1924) in each instance, which the Board has determined as follows:

Due from	Due to			
	Atlanta	Richmond	Cleveland	San Francisco
Boston	\$1,172.73	\$ 375.03	\$ 183.41	\$ 183.11
New York	4,337.50	1,387.09	678.38	677.24
Philadelphia	1,445.83	462.36	226.13	225.75
Cleveland	1,751.07	559.97	273.86	273.40
Richmond	851.44	272.28	133.16	132.94
Atlanta	642.59	205.49	100.50	100.33
Chicago	2,216.94	708.96	346.73	346.15
St. Louis	738.98	236.32	115.58	115.38
Minneapolis	530.14	169.53	82.91	82.77
Kansas City	674.72	215.77	105.53	105.35
Dallas	578.33	184.95	90.45	90.30
San Francisco	1,124.54	359.62	175.87	175.58
	<u>\$16,064.81</u>	<u>\$5,137.37</u>	<u>\$2,512.51</u>	<u>\$2,508.30</u>

Very truly yours,

Enclosure

J. C. Noell  
Assistant Secretary.

New York, February 26, 1924.

FEDERAL RESERVE BOARD, Dr.

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To Stetson, Jennings, Russell & Davis  
Counsellors at Law,  
15 Broad Street

For professional services rendered in connection  
with the Par Clearance Cases, as follows:

American Bank & Trust Company v. Federal Reserve  
Bank of Atlanta:

Preparing answer; preparing answers to written  
interrogatories filed against the defendant; pre-  
paring cross-interrogatories on plaintiff's inter-  
rogatories addressed to witnesses; taking deposition  
of Governor Harding on July 22, 1921; trial at  
Atlanta January 9-14, inclusive, 1922; preparation  
of brief filed in District Court, February 16, 1922;  
settling decree at Savannah March 25, 1922; brief  
and argument in Circuit Court of Appeals, October,  
1922; motion to advance in Supreme Court of United  
States; brief and argument in Supreme Court of  
United States, April 1923.

\$25,000.00

Farmers & Merchants Bank of Monroe, North Caro-  
lina, v. Federal Reserve Bank of Richmond:

Conference February 20, 1922, with Deputy Governor  
Peple and Attorney Wallace; assisting in brief on  
rehearing before Supreme Court of North Carolina;  
criticism of reply brief to petition for certiorari;  
preparing motion to advance in Supreme Court of United  
States; participation in brief and argument in Supreme  
Court of United States; preparing petition for rehear-  
ing in Supreme Court of United States.

5,000.00

Farmers & Merchants Bank of Catlettsburg v. Federal  
Reserve Bank of Cleveland (two cases, one in equity and  
one at law):

Conference with local counsel of Cleveland bank  
and criticism of brief in equity case filed in District  
Court; revising answer filed upon conclusion temporary  
injunction proceedings; general supervision of the two  
cases. (This litigation is not yet concluded).

2,500.00

Brookings State Bank v. Federal Reserve Bank of  
San Francisco (two cases, one in equity and one at law).

Conference in San Francisco with local attorney;  
general supervision of the two cases. (This litigation  
is not yet concluded).

2,500.00

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 \$30,000.00



Brought forward

\$35,000.00

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Disbursements.

American Bank & Trust Company v. Federal Reserve Bank of Atlanta:

Expenses Washington, D. C. and Atlanta and Savannah, Georgia, Messrs. Davis and Angell .....	\$381.22	
Expenses Washington D. C. and Atlanta, Georgia, Mr. Davis .....	181.42	
Printing brief, District Court .....	98.90	
Printing brief, Circuit Court of Appeals ...	68.45	
Printing brief, Supreme Court of United States .....	104.60	
Printing motion to advance in Supreme Court,	11.95	
Telegrams, telephones and postage .....	106.03	
Stenographic services .....	112.24	1,064.81

Farmers & Merchants Bank of Monroe, North Carolina, v. Federal Reserve Bank of Richmond.

Expenses Washington, D. C., Mr. Davis .....	42.15	
Printing motion to advance .....	11.95	
Printing petition for rehearing .....	73.50	
Telegrams, telephones, etc. ....	9.77	137.37

Farmers & Merchants Bank of Catlettsburg v. Federal Reserve Bank of Cleveland (two cases):

Telegrams .....	5.21	
Stenographic services .....	7.30	12.51

Brookings State Bank v. Federal Reserve Bank of San Francisco (two cases)

Telegrams .....		8.30
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Grand total ..... \$36,222.99

Retainer received January 18th, 1922  
in case of American Bank & Trust Company  
v. Federal Reserve Bank of Atlanta

10,000.00

Balance due ..... \$26,222.99

TREASURY DEPARTMENT  
Office of the Secretary  
WASHINGTON

X-3995

March 7, 1924.

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 February 1 to February 29, 1924, amounting to \$116,454, as follows:

<u>Federal Reserve Notes, 1914</u>						
	<u>\$5</u>	<u>\$10</u>	<u>\$20</u>	<u>\$50</u>	<u>\$100</u>	<u>Total</u>
Boston.....	413,000	16,000	72,000	---	6,000	507,000
New York.....	351,000	---	---	---	---	351,000
Philadelphia....	353,000	133,000	99,000	12,000	---	645,000
Cleveland.....	170,000	---	94,000	11,000	---	275,000
Richmond.....	85,000	55,000	52,000	---	---	192,000
Chicago.....	519,000	273,000	106,000	20,000	---	918,000
San Francisco...	98,000	---	---	---	---	98,000
	<u>1,988,000</u>	<u>526,000</u>	<u>423,000</u>	<u>43,000</u>	<u>6,000</u>	<u>2,986,000</u>

2,986,000 sheets at \$39.00 per M.....\$116,454.00

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

	<u>Sheets</u>	<u>Compen- sation</u>	<u>Plate Printing</u>	<u>Materials</u>	<u>Inc. Com- pensation</u>	<u>Total</u>
Boston.....	507,000	\$6,844.50	\$5,196.75	\$5,957.25	\$1,774.50	\$19,773.00
New York.....	351,000	4,738.50	3,597.75	4,124.25	1,228.50	13,689.00
Philadelphia..	645,000	8,707.50	6,611.25	7,578.75	2,257.50	25,155.00
Cleveland.....	275,000	3,712.50	2,818.75	3,231.25	962.50	10,725.00
Richmond.....	192,000	2,592.00	1,968.00	2,256.00	672.00	7,488.00
Chicago.....	918,000	12,393.00	9,409.50	10,786.50	3,213.00	35,802.00
San Francisco..	98,000	1,323.00	1,004.50	1,151.50	343.00	3,822.00
	<u>2,986,000</u>	<u>\$40,311.00</u>	<u>\$30,606.50</u>	<u>\$35,085.50</u>	<u>\$10,451.00</u>	<u>\$116,454.00</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

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

X-3997  
March 13, 1924.

SUBJECT: EXPENSE MAIN LINE, Leased Wire System,  
February, 1924.

Dear Sir:-

Enclosed herewith you will find two mimeograph statements, X-3997-a and X-3997-b, covering in detail operations of the main line, Leased Wire System, during the month of February, 1924.

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

Very truly yours,

Fiscal Agent.

(Enclosures)

TO GOVERNORS OF ALL BANKS.

X-3997-a

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS  
TRANSMITTED OVER MAIN LINE OF THE FEDERAL RESERVE  
LEASED WIRE SYSTEM FOR THE MONTH OF FEBRUARY, 1924.

From	Fed. Res. Bank Business	Percent of Total Bank Business (*)	Treasury Dept. Business	War Finance Corp. Business	Total
Boston	35,573	3.41	5,043		40,616
New York	229,382	21.96	12,722		242,104
Philadelphia	54,956	5.26	5,395		60,351
Cleveland	77,465	7.42	4,125		81,590
Richmond	69,082	6.62	4,366		73,448
Atlanta	79,357	7.60	4,442		83,799
Chicago	116,911	11.19	6,359		123,270
St. Louis	79,059	7.57	5,452		84,511
Minneapolis	44,830	4.29	2,673		47,503
Kansas City	68,699	6.58	4,475		73,174
Dallas	70,251	6.73	3,095		73,346
San Francisco	119,538	11.37	8,757		128,295
<b>TOTAL</b>	<b>1,045,103</b>	<b>100.00</b>	<b>66,904</b>		<b>1,112,007</b>
Board	255,644		48,010	214	303,868
<b>Total</b>	<b>1,300,747</b>		<b>114,914</b>	<b>214</b>	<b>1,415,875</b>
Percent of Total	91.87%		8.12%	.01%	
Bank Business	1,300,747	words or	91.88%		
Treasury Dept.	114,914	" "	8.12%		
<b>TOTAL</b>	<b>1,415,661</b>		<b>100.00%</b>		

(\*) These percentages used in calculating the pro rata share of leased wire expenses as shown on the accompanying statement (X-3997-b)

FEDERAL RESERVE BOARD,  
Washington, D. C.  
March 13, 1924.

REPORT OF EXPENSE  
MAIN LINE  
FEDERAL RESERVE LEASED WIRE SYSTEM FEBRUARY, 1924.

X-3997-b

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	\$ 681.80	\$ 250.00	\$ 431.80
New York	1,267.79	-	-	1,267.79	4,390.68	1,267.79	3,122.89
Philadelphia	200.00	-	-	200.00	1,051.69	200.00	851.69
Cleveland	388.00	-	-	388.00	1,483.56	388.00	1,095.56
Richmond	315.00	-	-	315.00	1,323.60	315.00	1,008.60
Atlanta	240.00	-	-	240.00	1,519.55	240.00	1,279.55
Chicago (#)4,916.19		16.00	-	4,932.19	2,237.22	4,932.19	(*)2,694.97
St. Louis	271.00	-	-	271.00	1,513.55	271.00	1,242.55
Minneapolis	283.33	-	-	283.33	857.75	283.33	574.42
Kansas City	346.68	-	-	346.68	1,315.61	346.68	968.93
Dallas	251.00	-	-	251.00	1,345.60	251.00	1,094.60
San Francisco	380.00	-	-	380.00	2,273.32	380.00	1,893.32
Fed. Res. Board			15,571.07	15,571.07			
<b>TOTAL</b>	<b>\$9,108.99</b>	<b>\$16.00</b>	<b>\$15,571.07</b>	<b>\$24,696.06</b>	<b>\$19,993.93</b>	<b>\$9,124.99</b>	<b>\$13,563.91</b>
				(a) 4,702.13			(a) 2,694.97
				\$19,993.93			\$10,868.94

(#) Includes salaries of Washington operators.

(&) Amount reimbursable to Chicago.

(\*) Credit.

(a) Received \$2.13 (B) from War Finance Corporation and \$4,700.00 from Treasury Department covering business for month of February, 1924.

(b) Original charge \$4.75, reduced by \$2.62, due to over-charge for January.

X-3999

Speaking on the subject of "Currency Elasticity" in the course on Federal Reserve Policies, before the New York University School of Commerce, Accounts and Finance, Mr. A. C. Miller, Member of the Federal Reserve Board, took occasion to emphasize the importance of the currency functions of the Federal Reserve Banks.

"There is some misconception", said Mr. Miller, "of the relative importance of the functions performed by the Federal Reserve Banks. The Federal Reserve Banks are frequently described as bankers' banks or as banks of rediscount; and such they are; but they are also, and in a more important sense, banks of issue. They are the banks which supply currency to their member banks and for the use of the public when the currency supply needs to be increased. To rest content with simply saying that the Reserve Banks are banks of rediscount overlooks what it is that leads member banks to rediscount with their Federal Reserve Banks. Taking the Federal Reserve Banks as a whole a review of their history will disclose that rediscounting takes place on a large scale only when additional circulating medium is required by member banks to meet the demands of their customers for pocket currency. There is great constancy in the "reserve deposits" item in the Federal Reserve Bank statement over fairly long periods of time, but there is much fluctuation in the "note issues" and the "earning assets" items. It will be found to be pretty invariably true that when the earning assets, that is the loans and investments, of the

Federal Reserve Banks rise it is because of increased currency issues. There is a very close parallelism observable between variations in the total volume of the earning assets of the Federal Reserve Banks and the total volume of their Federal Reserve notes in circulation. This means that while the Reserve Banks are banks of rediscount, rediscounting by member banks, looking at the matter in the aggregate, is for the purpose of obtaining currency. Essentially, therefore, the Reserve Banks are currency banks, banks to which the other banks turn when they need more cash, and more cash specifically in the form of currency of hand.

"The Reserve Banks, of course, perform several other functions for their member banks and the public, but these are either not banking functions strictly speaking, such for example as acting as custodian of securities, making collections and transfers, performing fiscal functions, and acting as a clearing house, etc., or they are functions that are also performed in one degree or another by the ordinary banks of the country, such as acting as reserve agent, depository, etc. In addition to doing all these things the Reserve Banks also issue currency. They are the only institutions permitted under law to create fiduciary currency (that is currency not covered by gold) against other collateral than United States bonds with the circulation privilege. In their essential nature, therefore, Federal Reserve Banks are best conceived and described as banks of issue. Currency issue is their distinctive

function. They were set up and invested with broad powers in the creation of fiduciary currency in order to provide a much needed elastic element in our national circulation. The reserve moneys previously carried by member banks are concentrated in the Federal Reserve Banks in order to give them an ample and secure basis for the exercise of their currency functions. In brief, the Federal Reserve Banks are reserve banks because they are currency banks. The supplying of currency is their primary function. The reserves taken over by them from their member banks constitute reserve primarily for the protection of their currency issues.

"An examination of the currency history of the United States in the last five years clearly demonstrates the manner in which the Reserve Banks supply the elastic element in the nation's currency. There has been considerable variation in the total volume of money in circulation in this period of time. That variation is closely paralleled by the volume of Federal Reserve notes in circulation. During the great expansion of 1919 and 1920 it was the expansion of Federal Reserve notes that supplied the great increase in the volume of money in circulation. The decline in the total volume of circulation in the year 1921 is fully reflected in the decline in the volume of Federal Reserve notes. A characteristic of an elastic currency is that it shall expand or contract according to the



volume of currency required by the country to take care of the volume of trade at a given price level. A large upward or downward swing in the trade curve of the United States is usually pretty well mirrored in the upward or downward swing of the Federal Reserve note curve. The one exception to this statement in recent years is found in the year 1923. That was a year of expanded trade calling for an increased quantity of circulating medium. No increase, however, took place in the volume of Federal Reserve notes. This was for the reason that the continued heavy influx of gold into the United States made it expedient for the Federal Reserve Banks to supply the increased currency demands of the community by paying out gold certificates instead of by issuing Federal Reserve notes. In brief, our unprecedentedly strong gold position caused gold to be used to supply the elastic element in our national circulation in this instance. But it still continued to be true, nevertheless, that the Federal Reserve Banks were providing the increase needed in the country's total circulation.

"This shows that there are two methods by which the Federal Reserve Banks provide currency elasticity. The one method is to pay gold or lawful money out of their holdings of reserve money when these are abundant and this course seems advisable on other grounds. The other method is to create new currency by the issue of additional Federal Reserve notes against the kinds of collateral prescribed by the Federal Reserve Act."

## FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

X-4002

March 20, 1924.

**SUBJECT: Advice of Holiday.**

Dear Sir:

The Detroit Branch of the Federal Reserve Bank of Chicago will be closed on Monday, April 7th, account of holiday, and therefore will not participate in either the regular Gold Fund Clearing or Federal Reserve Note Clearing of that date, April 7th.

Please include your credits for April 7th with your credits for April 8th for that office in your Gold Fund Clearing telegrams of April 8th.

Kindly notify Branches.

Yours very truly,

J. C. Noell,  
Assistant Secretary.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS  
(except Chicago)

## FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

X-4003

March 21, 1924.

SUBJECT: Advice of Holiday.

Dear Sir:

Federal Reserve Bank of Kansas City will be closed Tuesday, April 8th, account holiday. Therefore, that office will not participate in either regular Gold Fund Clearing or Federal Reserve Note Clearing of that date, April 8th. Please include your credits for April 8th with your credits for April 9th for that office in your Gold Fund Clearing telegrams of April 9th, and make no shipment of Kansas City Federal Reserve notes, fit or unfit, to that office or Washington, respectively, on date of holiday, April 8th.

For your information, Oklahoma City Branch of the Federal Reserve Bank of Kansas City will also be closed on Tuesday, April 8th, account holiday.

Kindly notify Branches.

Yours very truly,

J. C. Noell,  
Assistant Secretary.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS, except Kansas City.

## FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

March 22, 1924.  
X-4004

SUBJECT: Correspondence with Congressman Wingo.

Dear Sir:

For your information there is enclosed herewith copy of a letter received by the Board from Honorable Otis Wingo, Member of Congress, together with a copy of the Board's reply, all with reference to the expenses of the Federal Reserve banks.

By direction of the Federal Reserve  
Board.

Very truly yours,

Walter L. Eddy,  
Secretary.

(Enclosures)

TO ALL GOVERNORS AND AGENTS.

( COPY )

X-4004-a  
March 21, 1924.

Dear Congressman Wingo:

I received in due course your letter of February 27th, requesting that you be furnished with statistics covering the cost of operation of each Federal Reserve bank during the years 1920 to 1923 inclusive, showing items separately along the lines of the clipping from the Wall Street Journal which you enclosed with your letter.

In compliance with your request, I am sending you herewith a mimeograph statement containing a comparison of the expenses of the Federal Reserve banks during the years in question, together with one giving the volume of operations in the principal departments of the banks during the same years.

For your further information, I am also sending you copy of a memorandum addressed to me by the Chief of the Board's Division of Bank Operations commenting upon the statements.

I trust that these enclosures will give you all the information you desire.

Very truly yours,

(signed) D. R. Crissinger

D. R. Crissinger,  
Governor.Hon. Otis Wingo,  
House of Representatives,  
Washington, D. C.

( COPY )

X-4004-b

CONGRESS OF THE UNITED STATES  
JOINT COMMITTEE OF INQUIRY  
ON MEMBERSHIP IN FEDERAL RESERVE SYSTEM  
WASHINGTON, D.C.

February 27, 1924.

Federal Reserve Board,

Washington, D. C.

Gentlemen:-

Please give me statistics covering  
the cost of operation of each Federal Reserve  
Bank, separating the items and the year, as in-  
dicated in the enclosed clipping.

Yours truly,

(signed) Otis Wingo

W-T

## OFFICERS OF FEDERAL RESERVE BANKS

X-4005

<u>Chrm. &amp; F.R. Agt.</u>	<u>Governor</u>	<u>Deputy Governor</u>	<u>Cashier</u>	<u>Asst. Cashier</u>	<u>Asst. F.R. Agt.</u>	<u>Auditor</u>
<u>BOSTON</u>						
F.H. Curtiss	W.P.G. Harding	C.C. Bullen W.W. Paddock	Wm. Willett	E.G. Hult W.N. Kenyon E.M. Leavitt L.W. Sweetser C.B. Pitman # W.C. Rich #	C.F. Gettemy	H.F. Currier
<u>NEW YORK</u>						
Pierre Jay	Benj. Strong	J.H. Case L.F. Sailer G.L. Harrison E.R. Kenzel	L.H. Hendricks* A.W. Gilbert* G.E. Chapin* J.W. Jones*	J.L. Morris# W.B. Matteson# A.L. Lins# G.H. Coe # R.M. O'Hara# J.E. Crane# H.M. Jefferson# I.W. Waters# E.L. Dodge# J.M. Rice# E.C. French# W.A. Hamilton# B.M. Grant# H. R. Murray# S.S. Vansant# A.K. Lauckner# G.B. Roberts #	S.A. Morgan W.R. Burgess W.H. Dillistin#	L.R. Rounds
<u>PHILADELPHIA</u>						
R.L. Austin	G.W. Norris	W.H. Hutt	W.A. Dyer(&) W.G. McCreedy*	W.J. Davis C.A. McIlhenny S.R. Earl F.W. LaBold R.M. Miller, Jr. J.M. Toy	A.E. Post W.T. Grosscup J.F. Rehfuß**	W.I. Rutter, Jr.

\* Controller

# Manager

(&amp;) Also Secretary

\*\* Acting

Chrm. & F.R. Agt. Governor      Deputy Governor. Cashier      Asst. Cashier      Asst. F.R. Agt.      Auditor

CLEVELAND

D.C. Wills	E.R. Fancher	M.J. Fleming	J.C. Nevin(&)	H.F. Strater	W.H. Fletcher	F.V. Grayson
		F.J. Zurlinden		C.W. Arnold	J.B. Anderson	
				W.F. Taylor		
				C.L. Bickford		
				D.B. Clouser		
				G.H. Wagner		
				G.A. Stephenson#		

RICHMOND

Wm.W. Hoxton	G.J. Seay	C.A. Peple	G.H. Keesee	Thos. Marshall, Jr.	J.G. Fry	Hugh Leach
		R.H. Broadus	J.S. Walden, Jr.*	G.S. Sloan	R.H. Lee	
				Edw. Waller, Jr.		
				W.W. Dillard		
				C.V. Blackburn		
				J.T. Garrett #		
				A.S. Johnstone#		

ATLANTA

J.A. McCord	M.B. Wellborn	J.L. Campbell	M.W. Bell	W.B. Roper	Ward Albertson	W.S. Johns
		Creed Taylor		H.F. Conmiff		
				W.R. Patterson		
				R.A. Sims		
				J.B. Tutwiler		
				J.M. Slattery#		
				W.H. Toole#		

CHICAGO

Wm.A. Heath	J.B. McDougal	J.H. Blair	K.C. Childs*	E.L. Harris#	W.F. McLallen(&)	F.R. Burgess
		C.R. McKay	J.H. Dillard*	F.M. Huston#	W.H. White#	
			W.C. Bachman*	J.G. Roberts#	C.G. Rutledge**	
			D.A. Jones*	R.E. Coulter#		
			O.J. Netterstrom*	F. Bateman#		
			Clarke Washburne*	R.H. Buss#		
				F.R. Hanrahan#		
				E.A. Delaney#		
				J.H. Rumbaugh#		
				R.J. Hargreaves#		

\* Controller  
# Manager  
(&) Also Secretary  
\*\* Acting

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Chrm. & F.R. Agt. Governor  
CHICAGO (Cont'd)

Deputy Governor

Cashier

Asst. Cashier

Asst. F.R. Agt.

Auditor

L.G. Meyer#  
A.W. Dazey#  
W.A. Hanscn#  
A.R. LeRoy#  
L.G. Pavay#  
J.C. Callahan#  
F.A. Lindsten#  
R.E. Huelsman#  
Irving Fischer#

ST. LOUIS

Wm. McC. Martin D.C, Biggs

O.M. Attebery

J.W. White

A.H. Hail  
W.H. Glasgow  
J.W. Rinkleff  
E.C. Adams  
S.F. Gilmore  
F.N. Hall

C.M. Stewart

E.J. Novy

MINNEAPOLIS

John H. Rich

R.A. Young

W.B. Geery

Gray Warren

H.C. Core  
L.F. Rast  
A.R. Larson  
W.C. Langdon  
H.I. Ziemer

C.L. Mosher

J.F. Ebersole

B.V. Moore

F.C. Dunlop\*

Harry Yaeger\*\*

KANSAS CITY

M.L. McClure

W.J. Bailey

C.A. Worthington

J.W. Helm

John Phillips, Jr.  
G.E. Barley  
E.P. Tyner  
A.M. McAdams  
G.H. Pipkin  
M.W.E. Park  
A.G. Frost

C.K. Boardman(&)

S.A. Wardell

\* Controller

# Manager

(&) Also Secretary

\*\* Asst. Deputy Governor

<u>Chrm. &amp; F.R. Agt.</u>	<u>Governor</u>	<u>Deputy Governor</u>	<u>Cashier</u>	<u>Asst. Cashier</u>	<u>Asst. F.R. Agt.</u>	<u>Auditor</u>
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DALLAS

Lynn P. Talley	B.A. McKinney	R.R. Gilbert Val J. Grund	R.B. Coleman	W.O. Ford R.T. Freeman J.L. Lumpkin W.D. Gentry J.L. Hermann	C.C. Hall W.J. Evans	R.L. Foulks
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SAN FRANCISCO

John Perrin	J.U. Calkins	Wm. A. Day Ira Clerk** L.C. Ponticus**	W.N. Ambrose	W.M. Hale C.E. Earhart C.D. Phillips H.N. Mangels H.M. Craft Mudie McRitchie S.A. MacEachron E.C. Mailliard	S.G. Sargent H.C. Breck(&)	F.H. Holman (Genl) J.M. Osmer
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- \* Controller
- # Manager
- (&) Also Secretary
- \*\* Asst. Deputy Governor

Corrected to March 25, 1924.

OFFICERS OF FEDERAL RESERVE BRANCH BANKS

X-4005-a

<u>Manager</u>	<u>Asst. Manager</u>	<u>Cashier</u>	<u>Asst. Cashier</u>	<u>Auditor</u>	<u>Asst. F.R. Agent</u>
<u>HAVANA AGENCY OF F.R. BANK OF BOSTON</u>					
Horace E. Snow					
<u>BUFFALO</u>					
Schneckenburger, W.W.		H.W. Snow	C. Blakeslee E. L. Theobald		
<u>CINCINNATI</u>					
L.W. Manning		B.J. Lazar	J.P.H. Brewster H. N. Ott	B. Kennelly (Asst.)	P.J. Faulkner
<u>PITTSBURGH</u>					
Geo. DeCamp		T.C. Griggs	P.A. Brown F. E. Cobun	Raymond Armor (Asst.)	T. M. Jones
<u>BALTIMORE</u>					
A.H. Dudley		E.G. Grady	F.McC. Leeke T. I. Hays M. F. Reese	Henry Schutz	C. N. Duley
<u>NASHVILLE</u>					
J.B. McNamara		J.B. Fort, Jr.			W. T. Tyler
<u>NEW ORLEANS</u>					
Marcus Walker		W.H. Black	J.A. Walker	F.C. Vasterling	Lawson Brown (& Auditor)
<u>BIRMINGHAM</u>					
A.E. Walker			W.C. Sterrett	H.J. Urquhart	J. B. Cobbs (& Auditor)
<u>JACKSONVILLE</u>					
G.R. DeSaussure			W.S. McLerin, Jr.		G.N. Martin (& Aud.)
<u>SAVANNAH AGENCY</u>					
R.N. Groover		D.E. Avery			
<u>HAVANA AGENCY OF F.R. BANK OF ATLANTA</u>					
L.C. Adelson*		L.L. Magruder			
<u>DETROIT</u>					
Wm.R. Cation * Effective April 1st.		John B. Dew	H.J. Chalfont H.J. Gardner	Geo.T. Jarvis (Asst)	John G. Baskin Wm.C. Schreder (Acting)

Manager  
LITTLE ROCK  
A. F. Bailey

Asst. Manager

Cashier

Asst. Cashier

Auditor

Asst. F.R. Agent

M. H. Long

F. A. Coe

F. P. Maguire  
(Asst.)

LOUISVILLE  
W. P. Kincheloe

John T. Moore

Earl R. Muir

Lee A. Moore  
(Asst.)

MEMPHIS  
John J. Heflin

V. S. Fuqua

S. K. Belcher  
C. E. Martin

HELENA  
R;E. Towle

H. F. Brown

R. E. Schumacher

H.L. Zimmermann  
(& Auditor)

DENVER  
J. E. Olson

A. J. Conway

John A. Cronan

R. W. Smith D. C. Meigs

OMAHA  
L. H. Earhart

G. A. Gregory

W. D. Lower  
Wm. Phillips

T. G. Sanders  
(& Asst. Aud.)

OKLAHOMA CITY  
C. E. Daniel

R. O. Wunderlich

R. L. Mathes

O. A. Leamon  
(Asst.)

EL PASO  
D. P. Reordan

M. Crump

Allen Sayles

W. P. Clarke  
(& Asst. Aud.)

HOUSTON  
Fred Harris

M. D. Jenkins

L.G. Pondrom

LOS ANGELES  
C. J. Shepherd G.H. Schmidt

H. C. Vogelsang A. W. Scougall  
A. J. Dumm

PORTLAND  
Frederick Greenwood R.B. West

J. P. Blanchard J. P. Read

SEATTLE  
C. R. Shaw

B. A. Russell Geo. H. Williams

<u>Manager</u>	<u>Asst. Manager</u>
<u>SALT LAKE CITY</u>	
R. B. Motherwell	A. B. Nordling

Cashier

Asst. Cashier  
 Paul M. Lee  
 J. M. Leisner

Auditor      Asst. F.R. Agent

E. W. Morton

SPOKANE

W. L. Partner	D. L. Davis
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Evan Berg

M. C. Dague

## STATEMENT FOR THE PRESS

For Release in Morning Papers  
Thursday, March 27, 1924.

X-4006

The following is a summary of general business and financial conditions throughout the several Federal Reserve Districts, based upon statistics for the months of February and March, as contained in the forthcoming issue of the Federal Reserve Bulletin.

Employment at industrial establishments increased in February and the output of basic commodities was slightly larger. Distribution, both at wholesale and retail continued large; wholesale prices were somewhat higher; and there was a further increase in the volume of borrowing for commercial purposes.

PRODUCTION:

The Federal Reserve Board's index of production in basic industries, adjusted to allow for length of month and other seasonal variations, increased less than 1 per cent in February. Production of pig iron, steel ingots, and flour increased, while mill consumption of cotton and production of cement and lumber declined. Factory employment advanced 1 per cent in February, following successive decreases during the three preceding months. Increases in working forces were reported by most industries and were particularly large at iron and steel plants, automobile factories, and textile finishing establishments. Fuller employment through reduction of part-time work is indicated by an increase of over 5 per cent in average weekly earnings. Building activity was slightly less than in January, though contracts awarded were 7 per cent larger than a year ago.

TRADE:

Railroad shipments in February were in greater daily volume than in January and car loadings of practically all important commodities were larger

than a year ago. The daily average volume of wholesale business increased about 5 per cent in February, but was slightly smaller than a year ago. Sales of meat, dry goods, and hardware were larger than in February, 1923, while sales of shoes were smaller. Department store sales in February averaged about the same daily volume as in January and about 8 per cent more than a year ago, while merchandise stocks at these stores at the end of the month were 6 per cent above last year's level. Business of mail order houses and chain stores also showed increased activity in comparison with January.

PRICES:

Wholesale prices, as measured by the index of the Bureau of Labor Statistics, advanced slightly in February. Prices of fuel, metals, and building materials increased, while prices of farm products, clothing, and chemicals declined. During the first two weeks in March price declines occurred in wheat, cotton, silk, hides, and rubber, and price advances in hogs, copper, and crude petroleum.

BANK CREDIT:

The volume of borrowing for commercial purposes at member banks in leading cities in the early part of March continued the increase which began in the latter part of January, and on March 12 total loans of the reporting banks were higher than at any time since the seasonal peak at the turn of the year, and about \$275,000,000 higher than a year ago.

At the Federal reserve banks during the four-week period ending March 19 a further decline in the volume of discounts for member banks and of acceptances was offset by an increase in the holdings of U. S. securities, so that total earning assets were at about the same level as in February. Federal reserve note circulation continued to decline, while the total money in circulation increased.

Easier money conditions were reflected in a slight decline in rates for commercial paper to  $4\frac{1}{2}$  per cent and also in lower rates for bankers' acceptances and reduced yields on Treasury certificates. The March offering of \$400,000,000 of one-year Treasury certificates bearing interest at 4 per cent, as compared with  $4\frac{1}{4}$  per cent on a similar issue sold in December, was oversubscribed.



X-4007  
March 26, 1924.

Federal Reserve Board

SUBJECT: Bonus Bill (H. R. 7959) as it  
affects the Federal Reserve System.

om: Mr. Wyatt, General Counsel.

Mr. Lee, of the Senate Drafting Service, called me on the telephone Monday morning and advised me that Senator Smoot desires to have a member of the Federal Reserve Board, or a representative of the Board, appear before the Finance Committee of the Senate to discuss Section 502 of the Bonus Bill (H. R. 7959), which provides for bank loans against the security of "adjusted service certificates" and for the rediscount of such loans by the Federal reserve banks. He said that Senator Smoot will probably address a formal request to the Board, but he thought the Board would like to know about it as soon as possible in order that it might have an opportunity to study the bill.

#### GENERAL PROVISIONS OF THE BILL.

In general, this bill provides for additional compensation to each veteran in an amount equal to \$1.25 for each day of overseas service and \$1.00 for each day of home service, the total amount received by any veteran to be limited to \$500 in the case of veterans who performed no overseas service and \$625 in the case of veterans who did perform overseas service. In all cases in which such additional pay amounts to \$50 or less it is to be paid in cash, but where it amounts to more than \$50 it is to be paid in the form of "adjusted service certificates" which are in substance paid-up 20-year endowment insurance policies in amounts equal to the amount of 20-year endowment insurance that could be purchased by a single premium equal to the amount of such adjusted service credit increased by 25 per cent. The face value of such certificates is payable (1) to the veteran twenty years after date of the certificate, or (2) upon the death of the veteran prior to the date of expiration of such period, to the beneficiary named therein. These certificates also bear a loan value which is not in excess of either (1) 90 per cent of the reserve value of the certificate, computed on the basis of an annual premium for twenty years and calculated in accordance with the American Experience Table of Mortality and interest at four per cent per annum, compounded annually; or (2) 60 per cent of the face value of the certificate.

#### LOAN PRIVILEGES.

There is given below a brief analysis of the loan privileges accorded under Section 502 of the bill:

(1) Loans may be made only in accordance with the provisions of this section.

(2) National banks and State banks and trust companies are authorized, after the expiration of two years after the issuance of such certificates, to make loans to veterans upon their promissory notes secured by such certificates in amounts not exceeding the loan basis of such certificates.

(3) The rate of interest charged on such loans shall not exceed by more than two per cent the Federal reserve rediscount rate on commercial paper.

(4) Such notes may be sold by one bank to another or may be discounted or rediscounted by one bank with another.

(5) Upon the endorsement of any bank, and subject to regulations to be prescribed by the Federal Reserve Board, such notes shall be eligible for discount by Federal reserve banks, regardless of whether or not the discounting bank is a member of the Federal Reserve System. In order to be eligible for rediscount, however, such notes must have a maturity at the time of rediscount not in excess of nine months, exclusive of days of grace.

(6) The rate of interest charged by a Federal reserve bank on such rediscounts shall be the same as that charged on commercial paper.

(7) Such notes are eligible as collateral security for the issuance of Federal reserve notes.

(8) The Federal Reserve Board may permit Federal reserve banks to rediscount such notes with each other at rates to be fixed by the Board.

(9) Whenever a note is sold, the bank making the sale shall promptly notify the veteran.

(10) If the veteran does not pay the principal and interest of such loan at maturity the bank holding the note may, "after the expiration of six months after the loan was made", present it to the Director of the Veterans Bureau who "may, in his discretion," accept the certificate and note and pay the bank in full satisfaction of its claim the amount of the unpaid principal due it with interest to date.

(11) Such certificates may be redeemed by the veteran upon payment of the principal and interest of the loan.

(12) If such certificates are not redeemed, the Director of the Veterans Bureau deducts the amount of the loan with interest and pays the balance to the veteran on the maturity of the certificate, or to his beneficiary in the event he dies before the maturity of the certificate.

(13) Where a veteran dies before the maturity of a loan, the amount thereof with interest becomes immediately due and payable in which event the Director of the Veterans Bureau pays the note with interest to the bank holding such note, deducting the amount from the face value of the certificate.

(14) If the certificate matures during the life of a veteran, any bank holding an unpaid note secured by such certificate presents it to the Director of the Veterans Bureau who pays the note with interest and deducts the amount from the face value of the certificate.

(15) No payment upon any note shall be made under this section by the Director of the Veterans Bureau to any bank unless the note when presented to him is accompanied by an affidavit by an officer of the bank which made the loan stating that such bank has not charged or collected, or attempted to charge or collect, directly or indirectly, any fee or other compensation (except interest as authorized by this section) in respect of any loan made under this section by the bank to a veteran.

#### QUESTIONS OF POLICY.

This presents several important questions of policy for the Board's consideration, including the following:

- (a) The advisability of having such notes made eligible for re-discount by Federal reserve banks.
- (b) The advisability of permitting Federal reserve banks to re-discount such notes for nonmember banks.
- (c) The advisability of permitting such notes to be used as security for the issuance of Federal reserve notes and thus become a basis for our currency.

#### CONCLUSION.

After I have had an opportunity to study this bill more carefully, I probably shall submit some criticisms of the legal phraseology of Section 502.

I am having this memorandum mimeographed and shall furnish a copy to each member of the Board, together with a copy of the Bill.

Respectfully,

Walter Wyatt,  
General Counsel.

## FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

X-4009  
March 27, 1924.

**SUBJECT:** Information furnished to Committee on Banking and  
Currency of the House of Representatives.

Dear Sir:-

Under date of March 10, 1924, the Clerk of the Banking and Currency Committee of the House of Representatives requested the Board to furnish the Committee with a detailed statement showing what has been expended for the sites of each Federal reserve bank; how much has been expended for each building; what has been the cost of the completed building, and where not completed, the estimated cost of completion; the cost of the building proper, and the cost of the vaults, permanent equipment, furnishings and fixtures to be segregated; also the number of officers and employees at each of the branch Federal reserve banks.

In compliance with this request, the Board furnished the Committee with two statements, St. 3972 and St. 3983, relative to the cost of bank premises, and one statement, St. 3986, relating to the number and salaries of officers and employees at each Federal reserve bank and branch as of December 31, 1923, copies of which are enclosed herewith.

Very truly yours,

Walter L. Eddy,  
Secretary.

ENCLOSURES.

TO GOVERNORS OF ALL F. R. BANKS.

## FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARDX-4010  
March 27, 1924.

SUBJECT: Interpretation of the word "borrower" as used  
in Section 13.

Dear Sir:

For some time the Federal Reserve Board has had under consideration the question: What is the proper interpretation of the word "borrower" as used in the following provision of Section 13 of the Federal Reserve Act:

"The aggregate of such notes, drafts, and bills bearing the signature or indorsement of any one borrower, whether a person, company, firm, or corporation, rediscounted for any one bank shall at no time exceed ten per centum of the unimpaired capital and surplus of said bank; but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values".

The question involved is whether the word "borrower" as used in this provision refers to the maker or to the indorser of a promissory note discounted at a member bank and later offered for rediscount at a Federal reserve bank.

The specific facts upon which this question arose were as follows: A cattle dealer sold cattle to various farmers, taking in payment therefor the notes of the individual farmers and discounting these notes with his indorsement at a member bank. The amount of each note was less, but the aggregate amount of all of them was more, than ten per cent of the capital and surplus of the member bank. Under such circumstances, if the cattle dealer who indorsed all the notes were considered the "borrower" the Federal reserve bank could not rediscount such notes in an amount exceeding ten per cent of the member bank's capital and surplus; but if the farmers who were the makers of the notes were to be considered the "borrowers" the notes of each farmer would be eligible for rediscount in an amount not exceeding ten per cent of the member bank's capital and surplus and the aggregate amount of such notes bearing the indorsement of the same cattle dealer, which might be discounted at a Federal reserve bank by a single member bank would be several times ten per cent of the member bank's capital and surplus.

When first called upon to rule on this question, the Federal Reserve Board took the position that, in determining the amount of notes bearing the signature or indorsement of any one borrower which a Federal

reserve bank may legally rediscount for any one member bank under the above quoted provision of Section 13, the maker of a note should be considered the borrower unless it appears that he is an accommodation maker, in which event the indorser who receives the benefit of the loan should be considered the borrower. The Board was asked to reconsider that ruling and, after very careful reconsideration, reaffirmed the position formerly taken.

Subsequently, the Governors' Conference requested the Board to reconsider the question again, and each Federal reserve bank requested its counsel to render an opinion on this subject and submit it to the Federal Reserve Board for the information and assistance of the Board in formulating its final ruling. Opinions of counsel to all Federal reserve banks were finally received and were found to be in hopeless conflict. Some counsel agreed with the position taken by the Board, others took the opposite position, while others, reached still different conclusions.

The Board has carefully reconsidered the entire subject and is of the opinion that the position heretofore taken by it is correct. It rules, therefore, that in determining the amount of notes bearing the signature or indorsement of any one borrower which a Federal reserve bank may legally rediscount for any one member bank under the above quoted provision of Section 13, the maker of a note should be considered the borrower, unless it appears that he is an accommodation maker, in which event the indorser who receives the benefit of the loan should be considered the borrower.

Very truly yours,

D. R. Crissinger,  
Governor.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS.

## FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARDMarch 28, 1924.  
X-4011-aSUBJECT: Regulation H, Series of 1923, as amended  
March 27, 1924.

Dear Sir:-

The Board has amended its Regulation H, Series of 1923, as per the enclosed mimeographed copy thereof. This amended regulation is effective immediately, and you are requested to prepare and send copies to all of your member banks.

Very truly yours,

D. R. Crissinger,  
Governor.

(Enclosure)

TO GOVERNORS AND FEDERAL RESERVE AGENTS.

REGULATION H  
Series of 1924  
(Superseding Regulation H of 1923.)

X-4011

MEMBERSHIP OF STATE BANKS AND TRUST COMPANIES.

SECTION I. 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 cent 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 exceeding 6,000 inhabitants.	50,000	30,000
Exceeding 6,000 but not exceeding 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 paid-up and unimpaired 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 fund exclusively applicable to such capital increase not less than 50 per cent of its net earnings for the preceding year prior to the payment of dividends, 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 such fund shall be large enough to provide for the necessary increase in capital, or at such other time as the Federal Reserve Board may require, such fund or as much thereof as may be necessary shall be converted into capital by a stock dividend or used in any other manner permitted by State law to increase the capital of such bank to the amount required under (a): Provided, however, That such bank may be excused in whole or in part from compliance with the terms of this paragraph if it increases its capital through the sale of additional stock: Provided, further, That nothing herein contained shall be construed

as requiring any such bank to violate any provision of State law, and in any case in which the requirements of this paragraph are inconsistent with the requirements of State law the requirements of this paragraph may be waived and the subject covered by a special condition of membership to be prescribed by the Federal Reserve Board.

## SECTION II. APPLICATION FOR MEMBERSHIP.

Any eligible State bank or trust company may make application on F. R. B. Form 83a, made a part of this regulation, to the Federal Reserve Board for an amount of capital stock in the Federal Reserve Bank of its district equal to 6 per cent of the paid-up capital stock and surplus of such State bank or trust company. This application must be forwarded direct to the Federal Reserve Agent of the district in which the applying bank or trust company is located and must be accompanied by Exhibits I, II, and III, referred to on page 1 of the application blank,

## SECTION III. APPROVAL OF APPLICATION.

In passing upon an application the Federal Reserve Board will consider especially -

1. The financial condition of the applying bank or trust company and the general character of its management;
2. Whether the corporate powers exercised by the applying bank or trust company are consistent with the purposes of the Federal Reserve Act; and
3. Whether the laws of the State or district in which the applying

bank or trust company is located contain provisions likely to prevent proper compliance with the provisions of the Federal Reserve Act and the regulations of the Federal Reserve Board made in conformity therewith.

If, in the judgment of the Federal Reserve Board, an applying bank or trust company conforms to all the requirements of the Federal Reserve Act and these regulations, and is otherwise qualified for membership, the Board will issue a certificate of approval subject to such conditions as it may deem necessary. When the conditions imposed by the Board have been accepted by the applying bank or trust company the Board will issue a certificate of approval, whereupon the applying bank or trust company shall 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 appropriate certificate of stock will be issued by the Federal Reserve Bank. The remaining half of its subscription shall be subject to call when deemed necessary by the Federal Reserve Board.

#### SECTION IV. CONDITIONS OF MEMBERSHIP.

Pursuant to the authority contained in the first paragraph of Section 9 of the Federal Reserve Act, which provides that the Federal Reserve Board may permit applying banks to become members of the Federal Reserve System "subject to such conditions as it may prescribe", the Federal Reserve Board will prescribe the following conditions of membership for each bank or trust company hereafter applying for admission to the Federal Reserve System, in addition to such other conditions as the Board may consider necessary or advisable in

the particular case -

1. Except with the permission of the Federal Reserve Board, such bank or trust company shall not cause or permit any change to be made in the general character of its assets or in the scope of the functions exercised by it at the time of admission to membership, such as will tend to affect materially the standard maintained at the time of its admission to the Federal Reserve System and required as a condition of membership.

2. Such bank or trust company shall at all times conduct its business and exercise its powers with due regard to the safety of its customers.

3. Such bank or trust company shall not reduce its capital stock except with the permission of the Federal Reserve Board.

4. Such bank or trust company shall not, except after applying for and receiving the permission of the Federal Reserve Board, establish any branch, agency or additional office.

5. Such bank or trust company shall not, except after applying for and receiving the permission of the Federal Reserve Board, consolidate with or absorb any other bank or branch bank; nor 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; nor directly or indirectly promote the establishment of any new bank for the purpose of acquiring such an interest in it; nor make any arrangement to acquire such an interest.

6. Such bank or trust company shall reduce to, and maintain within, the limits prescribed by the laws of the State in which it is located, any loan which may be in excess of such limits.

7. Such bank or trust company shall reduce to an amount equal to 10 per cent of its capital and surplus all balances in excess thereof, if any, which

are carried with banks or trust companies which are not members of the Federal Reserve System, and shall at all times maintain such balances within such limits.

6. Such bank or trust company may accept drafts and bills of exchange drawn upon it 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, the aggregate amount of acceptances outstanding at any one time which are drawn for the purpose of furnishing dollar exchange in countries specified by the Federal Reserve Board shall not exceed 50 per cent of its capital and surplus, and the aggregate amount of all other acceptances, whether domestic or foreign, outstanding at any one time shall not exceed 50 per cent of its capital and surplus, except that the Federal Reserve Board, upon the application of such bank or trust company, may increase this limit from 50 per cent to 100 per cent of its capital and surplus: Provided, however, that in no event shall the aggregate amount of domestic acceptances outstanding at any one time exceed 50 per cent of the capital and surplus of such bank or trust company.

9. The Board of directors of said bank or trust company shall adopt a resolution authorizing the interchange of reports and information between the Federal Reserve Bank of the district in which such bank or trust company is located and the banking authorities of the State in which such bank is located.

Each bank or trust company applying for membership hereafter will be required to agree to the above conditions and any other conditions which the Board may prescribe, prior to the admission of such bank or trust company to the Federal Reserve System.

**SECTION V. CHANGES IN ASSETS OR BROADENING OF FUNCTIONS.**

Each bank or trust company hereafter admitted to the Federal Reserve System and each bank or trust company which has heretofore been admitted subject to Condition No. 1 of Section IV or subject to any similar condition, shall, before opening any new department, consolidating or merging with any other bank, purchasing the assets of any other bank or trust company, establishing any branch, agency or additional office, or taking any other steps which may result in a change in the general character of its assets or broadening in the functions exercised by it, notify the Federal Reserve Board of its intention to take such action in order that the Federal Reserve Board may make an examination or take such other steps as it may consider necessary to ascertain whether such action will tend to affect materially the standard maintained by such bank at the time of its admission and required as a condition of membership.

**SECTION VI. PRINCIPLES GOVERNING ESTABLISHMENT OF BRANCHES.**

In passing upon applications by State banks and trust companies for permission to establish branches, agencies or additional offices, under Condition No. 4 of Section IV, or under any similar condition which may have been prescribed by the Federal Reserve Board and agreed to by any bank or trust company heretofore admitted to the Federal Reserve System, the Federal Reserve Board will observe the following principles -

1. The Federal Reserve Board will as a general principle restrict the establishment of branches, agencies or additional offices by such banks or

trust companies to the city of location of the parent bank and the territorial area within the state contiguous thereto, as said territory has been defined in the Board's resolution of November 7, 1923,<sup>(1)</sup> excepting in instances where the State banking authorities have certified and the Board finds that public necessity and advantage renders a departure from the principle necessary or desirable.

2. The Federal Reserve Board will not consider an application by such bank or trust company for a permit to establish a branch, agency, or additional office, unless the authorities of the State in which such bank is located regularly make simultaneous examinations of the head office and all branches, agencies or additional offices of such bank, nor unless the examinations made by the State authorities are, in the judgment of the Federal Reserve Board, of such character in every respect as to furnish the Federal Reserve Board with sufficient information as to the condition of such bank and the character of its management to enable it fully to protect the interests of the public.

3. The Federal Reserve Board will require each bank or trust company which establishes or maintains branches, agencies or additional offices to maintain for itself and such branches, agencies or additional offices an adequate ratio of capital to total liabilities and an adequate percentage of its total investments in the form of paper or securities eligible for discount or purchase by Federal reserve banks.

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1. The term "contiguous territory" is defined in the Board's resolution of November 7, 1923, to mean: "The territory of a city or town whose corporate limits at some point coincide with the corporate limits of the city or town in which the parent bank is located."

4. The Federal Reserve Board will not consider any application to establish a branch, agency or additional office until the establishment of such branch, agency or additional office has been approved by the Banking authorities of the State in which such bank or trust company is located and such authorities have certified that, (1) the applying bank or trust company is solvent and is not in a dangerous or extended condition and (2) the character of its management is such as to justify the establishment of such branch, agency or additional office; nor until the Directors or Executive Committee and the Federal Reserve Agent of the Federal Reserve Bank of the District in which such bank or trust company is located have submitted a report on these facts and a recommendation as to whether or not the application should be granted.

5. Before permitting such bank or trust company to establish any branch, agency, or additional office, the Federal Reserve Board will require the Federal Reserve Agent of the district in which such bank is located to make an investigation and report whether in his opinion the establishment of such branch, agency, or additional office would be in the interest of the public in the locality in which it is to be established and whether it would endanger the existence of existing local unit banks.

6. When permission is granted for the establishment of such branch, agency or additional office same shall be established and opened for business within six months after such permission is granted. If such branch, agency, or additional office is not established within such time the permit shall become void, unless the time is extended by the Board for good cause.



7. The Federal Reserve Board reserves the right to cancel any permit which it has granted to establish any branch, agency or additional office whenever in its judgment the bank operating such branch, agency or additional office has engaged in unfair competition or other unfair practices to the detriment of other banks or of the public, or has failed adequately to serve the public interest in the community in which it is located.

SECTION VII. POWERS AND RESTRICTIONS.

Every State bank or trust company while a member of the Federal Reserve System -

1. Shall retain its full charter and statutory rights as a State bank or trust company, subject to the provisions of the Federal Reserve Act, to the regulations of the Federal Reserve Board, "and the conditions prescribed by the Federal Reserve Board and agreed to by such State bank or trust company prior to its admission".

2. Shall maintain such improvements and changes in its banking practice as may have been specifically required of it by the Federal Reserve Board as a condition of its admission and shall not lower the standard of banking then required of it;

3. Shall enjoy all the privileges and observe all those requirements of the Federal Reserve Act and of the regulations of the Federal Reserve Board made in conformity therewith which are applicable to State banks and trust companies which have become member banks; and

4. Shall comply at all times with any and all conditions of membership prescribed by the Federal Reserve Board at the time of the admission of such member bank to the Federal Reserve System.

## SECTION VIII. EXAMINATIONS AND REPORTS.

Every State bank or trust company, while a member of the Federal Reserve System, shall be subject to examinations made by direction of the Federal Reserve Board or of the Federal Reserve Bank by examiners selected or approved by the Federal Reserve Board.

In order to avoid duplication, examinations of State banks and trust companies made by State authorities will be accepted in lieu of examinations by examiners selected or approved by the Board wherever these are satisfactory to the directors of the Federal Reserve Bank, and examiners from the staff of the Board or of the Federal Reserve Banks will, whenever desirable, be designated by the Board to act with the examination staff of the State in order that uniformity in the standard of examination may be assured.

Every State bank or trust company, while a member of the Federal Reserve System, shall be required to make in each year not less than three reports of condition on F. R. B. Form 105. Such reports shall be made to the Federal Reserve Bank of its district on call of such bank, on dates to be fixed by the Federal Reserve Board. They shall also make semiannual reports of earnings and dividends on F. R. B. Form 107. As dividends may be declared from time to time, each State bank or trust company member shall also furnish to the Federal Reserve Bank of its district a special notification of dividend declared on F. R. B. Form 107a. F. R. B. Forms 105, 107, and 107a are made a part of this regulation.

FEDERAL RESERVE BOARD

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WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

X-4012  
March 29, 1924.

SUBJECT: Corrections in Inter-District Time Schedule.

Dear Sir:-

By agreement between the Federal Reserve Bank of San Francisco and the Federal Reserve Bank of Minneapolis the following changes should be made in the inter-district time schedule:

Seattle to Minneapolis - St. Paul - 3 days.  
Minneapolis - St. Paul to Seattle - 3 days

Very truly yours,

J. C. Noell,  
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

## FEDERAL RESERVE BOARD

X-4013

## Statement for the Press

For Immediate Release

CONDITION OF ACCEPTANCE MARKET

February 14 to March 12, 1924

During the four-week period ending March 12 the acceptance market was less active than in the preceding four weeks. The supply of bills showed a considerable reduction and was smaller than in any month since October. Bills drawn to finance the exportation of cotton and the importation of sugar constituted the greater proportion of the total supply, but there were also substantial amounts of acceptances issued against silk, wool, grain, provisions, and to provide dollar exchange. The demand was irregular during the greater part of the period and total sales by dealers were considerably smaller than a month earlier. The principal demand for bills, especially with short maturities, came from city banks where considerable funds had accumulated in anticipation of tax payments.

Rates on acceptances, after strengthening early in February when the demand for bills slackened, became firmer and remained generally unchanged at  $4 \frac{1}{8}$  bid, and 4 offered for 30-day maturities, and  $4 \frac{1}{8}$  to  $4 \frac{1}{4}$  bid and 4 to  $4 \frac{1}{8}$  offered for 60 and 90 day bills. Rates on maturities of more than three months ranged from  $4 \frac{1}{4}$  to  $4 \frac{5}{8}$  bid and  $4 \frac{1}{8}$  to  $4 \frac{1}{2}$  offered varying as to different length bills. After the middle of March money rates became easier and acceptance rates showed a declining tendency.

## FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARDX-4014  
March 31, 1924.

Dear Sir:

There is enclosed herewith for your information as Counsel to the Federal Reserve Bank of \_\_\_\_\_, a copy of a brief filed in the Supreme Court of the United States by the Solicitor General of the United States as amicus curiae in the case of the State of Missouri at the relation of the Burnes National Bank, St. Joseph, Missouri, v. A. B. Duncan, Judge of the Probate Court of Buchanan County, Missouri, which case is now pending before the Supreme Court of the United States on a writ of error to the Supreme Court of Missouri.

As you probably know, the Burnes National Bank had been named as executor under a will and had made application to the Probate Court for appointment as such executor. On January 29, 1923, the Probate Court refused to issue letters testamentary to the national bank on the ground that under the laws of Missouri the bank was not authorized to act as executor. The national bank applied to the Supreme Court of Missouri for a writ of mandamus requiring the Probate Court to appoint it as executor. The Supreme Court of Missouri upheld the decision of the Probate Court and denied the writ of mandamus. The opinion of the Court, a copy of which I sent you some time ago, is to the effect that the exercise of trust powers by national banks in Missouri is in contravention of State law. The Court considered the provision in Section 11(k) of the Federal Reserve Act that the exercise of trust powers by national banks shall not be deemed to be in contravention of State law when State institutions which compete with national banks are permitted to exercise such powers, but failed to apply this provision, arguing that it is not controlling and that trust companies in Missouri do not compete with national banks in the sense contemplated by the statute.

The case was promptly taken to the Supreme Court of the United States on a writ of error and has been advanced on the docket and set for argument on April 7th. It is hoped, therefore, that a final decision of this question will be rendered by the Supreme Court of the United States before the Court adjourns in June. The case is of particular interest because it is the first one presented to the Supreme Court of the United States which involves the application of Section 11(k) of the Federal Reserve Act as amended by the Act of September 25, 1918.

At the suggestion of the Federal Reserve Board and the Comptroller of the Currency, the Secretary of the Treasury requested the Department of Justice to intervene in the case on behalf of the United States, and in accordance with this request the Solicitor General obtained leave of the Court to file a brief and make an oral argument in the case on behalf of the United States as *amicus curiae*. At the request of the Solicitor General, the enclosed brief was prepared largely in this office.

Very truly yours,

Walter Wyatt  
General Counsel

Enclosure.

## FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARDX-4016  
April 1, 1924.SUBJECT: Additional Bank Holidays  
during April, 1924.

Dear Sir:

For your information, the following Federal Reserve Banks and Branches will be closed on dates specified during April, account holidays:

Monday . April 14 - Birmingham - Jefferson's birthday

Tuesday April 15 - Salt Lake City - Arbor Day

Friday April 18 - Philadelphia - Good Friday  
Pittsburgh  
Baltimore  
New Orleans  
Nashville  
Jacksonville  
Memphis  
Minneapolis

Saturday April 19 - Boston - Patriot's Day

Monday April 21 - Dallas - San Jacinto Day  
El Paso  
Houston

Tuesday April 22 - Omaha - Arbor Day

Tuesday April 22 - New Orleans - Election Day

Saturday April 26 - Atlanta - Memorial Day  
Birmingham  
Jacksonville

Therefore, on the dates indicated, the banks affected will not participate in either the regular Gold Fund Clearing or the Federal Reserve Note Clearing. Please include your credits for

- 2 -

X-4016

the banks affected on each of the holidays with your credits for the following business day in your Gold Fund Clearing telegrams, and make no shipments of Federal Reserve Notes, fit or unfit, to Head Office or to Washington, respectively, on the holidays mentioned.

Kindly notify Branches.

Yours very truly,

J. C. Noell,  
Assistant Secretary.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS.



## FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

X-4019  
April 7, 1924.

SUBJECT: Amended Regulation "H", Series of 1924.

Dear Sir:-

The Board's Regulation "H", Series of 1924, which was adopted and made effective March 27, 1924, has today been amended as per the enclosed copy.

Please have prepared copies of the amended regulation and distribute them to the member banks of your district.

By direction of the Federal Reserve Board.

Very truly yours,

Walter L. Eddy,  
Secretary.

(Enclosure)

TO ALL F. R. AGENTS, COPY TO THE GOVERNORS.

REGULATION H  
Series of 1924 (As amended April 7, 1924)  
(Superseding Regulation H of 1923.)

MEMBERSHIP OF STATE BANKS AND TRUST COMPANIES.

SECTION I. 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 cent 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 exceeding 6,000 inhabitants.	50,000	30,000
Exceeding 6,000 but not exceeding 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 paid-up and unimpaired 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 fund exclusively applicable to such capital increase not less than 50 per cent of its net earnings for the preceding year prior to the payment of dividends, 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 such fund shall be large enough to provide for the necessary increase in capital, or at such other time as the Federal Reserve Board may require, such fund or as much thereof as may be necessary shall be converted into capital by a stock dividend or used in any other manner permitted by State law to increase the capital of such bank to the amount required under (a): Provided, however, That such bank may be excused in whole or in part from compliance with the terms of this paragraph if it increases its capital through the sale of additional stock: Provided, further, That nothing herein contained shall be construed

as requiring any such bank to violate any provision of State law, and in any case in which the requirements of this paragraph are inconsistent with the requirements of State law the requirements of this paragraph may be waived and the subject covered by a special condition of membership to be prescribed by the Federal Reserve Board.

#### SECTION II. APPLICATION FOR MEMBERSHIP.

Any eligible State bank or trust company may make application on F. R. B. Form 83a, made a part of this regulation, to the Federal Reserve Board for an amount of capital stock in the Federal Reserve Bank of its district equal to 6 per cent of the paid-up capital stock and surplus of such State bank or trust company. This application must be forwarded direct to the Federal Reserve Agent of the district in which the applying bank or trust company is located and must be accompanied by Exhibits I, II, and III, referred to on page 1 of the application blank.

#### SECTION III. APPROVAL OF APPLICATION.

In passing upon an application the Federal Reserve Board will consider especially -

1. The financial condition of the applying bank or trust company and the general character of its management;
2. Whether the corporate powers exercised by the applying bank or trust company are consistent with the purposes of the Federal Reserve Act; and
3. Whether the laws of the State or district in which the applying

bank or trust company is located contain provisions likely to prevent proper compliance with the provisions of the Federal Reserve Act and the regulations of the Federal Reserve Board made in conformity therewith.

If, in the judgment of the Federal Reserve Board, an applying bank or trust company conforms to all the requirements of the Federal Reserve Act and these regulations, and is otherwise qualified for membership, the Board will issue a certificate of approval subject to such conditions as it may deem necessary. When the conditions imposed by the Board have been accepted by the applying bank or trust company the Board will issue a certificate of approval, whereupon the applying bank or trust company shall 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 appropriate certificate of stock will be issued by the Federal Reserve Bank. The remaining half of its subscription shall be subject to call when deemed necessary by the Federal Reserve Board.

#### SECTION IV. CONDITIONS OF MEMBERSHIP\*

Pursuant to the authority contained in the first paragraph of Section 9 of the Federal Reserve Act, which provides that the Federal Reserve Board may permit applying banks to become members of the Federal Reserve System "subject to such conditions as it may prescribe", the Federal Reserve Board will prescribe the following conditions of membership for each bank or trust company hereafter applying for admission to the Federal Reserve System, in addition to such other conditions as the Board may consider necessary or advisable in

the particular case -

1. Except with the permission of the Federal Reserve Board, such bank or trust company shall not cause or permit any change to be made in the general character of its assets or in the scope of the functions exercised by it at the time of admission to membership, such as will tend to affect materially the standard maintained at the time of its admission to the Federal Reserve System and required as a condition of membership.

2. Such bank or trust company shall at all times conduct its business and exercise its powers with due regard to the safety of its customers.

3. Such bank or trust company shall not reduce its capital stock except with the permission of the Federal Reserve Board.

4. Such bank or trust company shall not, except after applying for and receiving the permission of the Federal Reserve Board, establish any branch, agency or additional office.

5. Such bank or trust company, except after applying for and receiving the permission of the Federal Reserve Board, shall not consolidate with or absorb or purchase the assets of any other bank or branch bank for the purpose of operating such bank or branch bank as a branch of the applying bank; nor 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; nor directly or indirectly promote the establishment of any new bank for the purpose of acquiring such an interest in it; nor make any arrangement to acquire such an interest.

6. Such bank or trust company shall reduce to, and maintain within, the limits prescribed by the laws of the State in which it is located, any loan which may be in excess of such limits.

7. Such bank or trust company shall reduce to an amount equal to 10 per cent of its capital and surplus all balances in excess thereof, if any, which

are carried with banks or trust companies which are not members of the Federal Reserve System, and shall at all times maintain such balances within such limits.

8. Such bank or trust company may accept drafts and bills of exchange drawn upon it 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, the aggregate amount of acceptances outstanding at any one time which are drawn for the purpose of furnishing dollar exchange in countries specified by the Federal Reserve Board shall not exceed 50 per cent of its capital and surplus, and the aggregate amount of all other acceptances, whether domestic or foreign, outstanding at any one time shall not exceed 50 per cent of its capital and surplus, except that the Federal Reserve Board, upon the application of such bank or trust company, may increase this limit from 50 per cent to 100 per cent of its capital and surplus:

Provided, however, that in no event shall the aggregate amount of domestic acceptances outstanding at any one time exceed 50 per cent of the capital and surplus of such bank or trust company.

9. The Board of directors of said bank or trust company shall adopt a resolution authorizing the interchange of reports and information between the Federal Reserve Bank of the district in which such bank or trust company is located and the banking authorities of the State in which such bank is located.

Each bank or trust company applying for membership hereafter will be required to agree to the above conditions and any other conditions which the Board may prescribe, prior to the admission of such bank or trust company to the Federal Reserve System.

SECTION V. PERMISSION NECESSARY PRIOR TO MAKING  
CHANGES IN ASSETS OR SCOPE OF FUNCTIONS.

Each bank or trust company hereafter admitted to the Federal Reserve System and each bank or trust company which has heretofore been admitted subject to Condition No. 1 of Section IV or subject to any similar condition, shall through the Federal Reserve Agent, request the permission of the Federal Reserve Board prior to taking any action which may result in a change in the general character of its assets or in the scope of the functions exercised by it at the time of admission to membership, such as will tend to affect materially the standard maintained at the time of its admission to the Federal Reserve System and required as a condition of membership.

The Board considers that among the actions which may result in changes of the kind referred to in this Section are the establishment of branches, agencies or additional offices and consolidations or mergers with, or purchases of the assets of other banks or branch banks.

SECTION VI. PRINCIPLES GOVERNING ESTABLISHMENT OF BRANCHES.

In passing upon applications by State banks and trust companies for permission to establish branches, agencies or additional offices, under Condition No. 4 of Section IV, or under any similar condition which may have been prescribed by the Federal Reserve Board and agreed to by any bank or trust company heretofore admitted to the Federal Reserve System, the Federal Reserve Board will observe the following principles -

1. The Federal Reserve Board will as a general principle restrict the establishment of branches, agencies or additional offices by such banks or



trust companies to the city of location of the parent bank and the territorial area within the state contiguous thereto, as said territory has been defined in the Board's resolution of November 7, 1923,<sup>(1)</sup> excepting in instances where the State banking authorities have certified and the Board finds that public necessity and advantage render a departure from the principle necessary or desirable.

2. The Federal Reserve Board as a general principle will not consider an application by such bank or trust company for a permit to establish a branch, agency, or additional office, unless the authorities of the State in which such bank is located regularly make simultaneous examinations of the head office and all branches, agencies or additional offices of such bank, nor unless the examinations made by the State authorities are, in the judgment of the Federal Reserve Board, of such character in every respect as to furnish the Federal Reserve Board with sufficient information as to the condition of such bank and the character of its management to enable the Federal Reserve Board fully to protect the interests of the public.

3. The Federal Reserve Board as a general principle will require each bank or trust company which establishes or maintains branches, agencies or additional offices to maintain for itself and such branches, agencies or additional offices an adequate ratio of capital to total liabilities and an adequate percentage of its total investments in the form of paper or securities eligible for discount or purchase by Federal Reserve Banks.

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(1) The term "contiguous territory" is defined in the Board's resolution of November 7, 1923, to mean: "The territory of a city or town whose corporate limits at some point coincide with the corporate limits of the city or town in which the parent bank is located."

4. The Federal Reserve Board will not consider any application to establish a branch, agency or additional office until the State banking authorities have approved the establishment of such branch, agency or additional office, and the Directors or Executive Committee and the Federal Reserve Agent of the Federal Reserve Bank of the district in which such bank or trust company is located have made a report upon the financial condition of the applying bank or trust company, the general character of its management, what effect the establishment of such branch, agency or additional office would have upon other banks or branches in the locality in which it is to be established, and whether, in their opinion, it would be in the interest of the public in such locality, together with their recommendation as to whether or not the application should be granted.

5. When permission is granted for the establishment of such branch, agency or additional office same shall be established and opened for business within six months after such permission is granted. If such branch, agency, or additional office is not established within such time the permit shall become void, unless the time is extended by the Board for good cause.

6. The Federal Reserve Board reserves the right to cancel any permit which it may grant thereafter to establish any branch, agency or additional office whenever it shall appear, after hearing, that such branch, agency or additional office, is being operated in a manner contrary to the interest of the public in the locality in which it is established.

#### SECTION VII. POWERS AND RESTRICTIONS.

Every State bank or trust company while a member of the Federal Reserve System -

1. Shall retain its full charter and statutory rights as a State bank or trust company, subject to the provisions of the Federal Reserve Act, to the regulations of the Federal Reserve Board, and to the conditions prescribed by the Federal Reserve Board and agreed to by such State bank or trust company prior to its admission.
2. Shall maintain such improvements and changes in its banking practice as may have been specifically required of it by the Federal Reserve Board as a condition of its admission and shall not lower the standard of banking then required of it;
3. Shall enjoy all the privileges and observe all those requirements of the Federal Reserve Act and of the regulations of the Federal Reserve Board made in conformity therewith which are applicable to State banks and trust companies which have become member banks; and
4. Shall comply at all times with any and all conditions of membership prescribed by the Federal Reserve Board at the time of the admission of such member bank to the Federal Reserve System.

## SECTION VIII. EXAMINATIONS AND REPORTS.

Every State bank or trust company, while a member of the Federal Reserve System, shall be subject to examinations made by direction of the Federal Reserve Board or of the Federal Reserve Bank by examiners selected or approved by the Federal Reserve Board.

In order to avoid duplication, examinations of State banks and trust companies made by State authorities will be accepted in lieu of examinations by examiners selected or approved by the Board wherever these are satisfactory to the directors of the Federal Reserve Bank, and examiners from the staff of the Board or of the Federal Reserve Banks will, whenever desirable, be designated by the Board to act with the examination staff of the State in order that uniformity in the standard of examination may be assured.

Every State bank or trust company, while a member of the Federal Reserve System, shall be required to make in each year not less than three reports of condition on F. R. B. Form 105. Such reports shall be made to the Federal Reserve Bank of its district on call of such bank, on dates to be fixed by the Federal Reserve Board. They shall also make semiannual reports of earnings and dividends on F. R. B. Form 107. As dividends may be declared from time to time, each State bank or trust company member shall also furnish to the Federal Reserve Bank of its district a special notification of dividend declared on F. R. B. Form 107a. F. R. B. Forms 105, 107, and 107a are made a part of this regulation.

## FEDERAL RESERVE BOARD

WASHINGTON

X-4022

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

SUBJECT: CONDITIONS OF MEMBERSHIP.

Dear Sirs:

This is to advise you that the Federal Reserve Board has had under consideration your application for shares of the capital stock of the Federal Reserve Bank of and is ready to approve the same upon the following conditions:

1. Except with the permission of the Federal Reserve Board, you shall not cause or permit any change to be made in the general character of your assets or in the scope of the functions exercised by you at the time of admission to membership, such as will tend to affect materially the standard maintained at the time of your admission to the Federal Reserve System and required as a condition of membership.
2. You shall at all times conduct your business and exercise your powers with due regard to the safety of your customers.
3. You shall not reduce your capital stock except with the permission of the Federal Reserve Board.
4. You shall not, except after applying for and receiving the permission of the Federal Reserve Board, establish any branch, agency or additional office.
5. Except after applying for and receiving the permission of the Federal Reserve Board, you shall not consolidate with or absorb or purchase the assets of any other bank or branch bank for the purpose of operating such bank or branch bank as a branch of the applying bank; nor directly or indirectly, through affiliated corporations or otherwise, acquire an interest in another bank in excess of twenty per cent of the capital stock of such other bank; nor directly or indirectly promote the establishment of any new bank for the purpose of acquiring such an interest in it; nor make any arrangement to acquire such an interest.

6. You shall reduce to, and maintain within, the limits prescribed by the laws of your State, any loan which may be in excess of such limits.
7. You shall reduce to an amount equal to ten per cent of your capital and surplus all balances in excess thereof, if any, which are carried with banks or trust companies which are not members of the Federal Reserve System, and shall at all times maintain such balances within such limits.
8. You may accept drafts and bills of exchange drawn upon you of any character permitted by the laws of the State of your 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, the aggregate amount of acceptances outstanding at any one time which are drawn for the purpose of furnishing dollar exchange in countries specified by the Federal Reserve Board shall not exceed fifty per cent of your capital and surplus, and the aggregate amount of all other acceptances, whether domestic or foreign, outstanding at any one time shall not exceed fifty per cent of your capital and surplus, except that the Federal Reserve Board, upon your application, may increase this limit from fifty per cent to one hundred per cent of your capital and surplus: provided, however, that in no event shall the aggregate amount of domestic acceptances outstanding at any one time exceed fifty per cent of your capital and surplus.
9. Your Board of Directors shall adopt a resolution authorizing the interchange of reports and information between the Federal Reserve Bank of your district and the banking authorities of the State in which you are located.

## FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

X-4023  
April 12, 1924.

SUBJECT: EXPENSE MAIN LINE, Leased Wire System,  
March, 1924.

Dear Sir:-

Enclosed herewith you will find two mimeograph statements, X-4023-a and X-4023-b, covering in detail operations of the main line, Leased Wire System, during the month of March, 1924.

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

Very truly yours,

Fiscal Agent.

(Enclosures)

TO GOVERNORS OF ALL BANKS.  
(EXCEPT CHICAGO)

X-4023-a

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS  
TRANSMITTED OVER MAIN LINE OF THE FEDERAL RESERVE  
LEASED WIRE SYSTEM FOR THE MONTH OF MARCH, 1924.

From	Fed. Res. Bank Business	Percent of Total Bank Business (*)	Treasury Dept. Business	War Finance Corp. Business	Total
Boston	37,574	3.16	6,317		43,891
New York	250,087	21.05	14,285		264,372
Philadelphia	53,303	4.48	8,134		61,437
Cleveland	89,899	7.57	7,071		96,970
Richmond	73,454	6.18	6,327		79,781
Atlanta	87,103	7.33	7,977		95,080
Chicago	144,792	12.19	11,048		155,840
St. Louis	97,296	8.19	8,322		105,618
Minneapolis	53,459	4.50	4,898		58,357
Kansas City	92,919	7.82	8,175		101,094
Dallas	72,222	6.08	5,704		77,926
San Francisco	136,032	11.45	15,514		151,546
<b>TOTAL</b>	<b>1,188,140</b>	<b>100.00%</b>	<b>103,772</b>		<b>1,291,912</b>
Board	283,034		102,258	155	385,447
<b>Total</b>	<b>1,471,174</b>		<b>206,030</b>	<b>155</b>	<b>1,677,359</b>
Percent of Total	87.71%		12.28%	.01%	
Bank Business	1,471,174 words	or 87.72%			
Treasury Dept.	206,030	" "	12.28%		
<b>TOTAL</b>	<b>1,677,204</b>	<b>100.00%</b>			

(\*) These percentages used in calculating the pro rata share of leased wire expenses as shown on the accompanying statement (X-4023-b)

FEDERAL RESERVE BOARD,  
Washington, D. C.  
April 12, 1924.



REPORT OF EXPENSE  
MAIN LINE  
FEDERAL RESERVE LEASED WIRE SYSTEM MARCH, 1924.

X-4023-b

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	\$ 671.54	\$ 250.00	\$ 421.54
New York	1,324.95	-	-	1,324.95	4,473.42	1,324.95	3,148.47
Philadelphia	200.00	-	-	200.00	952.06	200.00	752.06
Cleveland	388.00	-	-	388.00	1,608.73	388.00	1,220.73
Richmond	315.00	-	-	315.00	1,313.34	315.00	998.34
Atlanta	262.50	-	-	262.50	1,557.73	262.50	1,295.23
Chicago (#)	4,906.53	-	-	4,906.53	2,590.54	4,906.53 (*)	2,315.99
St. Louis	292.38	-	-	292.38	1,740.49	292.38	1,448.11
Minneapolis	284.33	-	-	284.33	956.31	284.33	671.98
Kansas City	346.68	-	-	346.68	1,661.86	346.68	1,315.18
Dallas	251.00	-	-	251.00	1,292.09	251.00	1,041.09
San Francisco	380.00	-	-	380.00	2,433.28	380.00	2,053.28
Federal Res. Board	-	-	16,753.48	16,753.48	-	-	-
<b>TOTAL</b>	<b>\$9,201.37</b>	<b>- \$16,753.48</b>	<b>\$25,954.85</b>	<b>\$21,251.39</b>	<b>\$9,201.37</b>	<b>\$14,366.01</b>	<b>(A) 4,703.46</b>
			<b>\$21,251.39</b>			<b>(B) 2,315.99</b>	<b>\$12,050.02</b>

(#) Includes salaries of Washington operators.

(&) Amount reimbursable to Chicago.

(\*) Credit

(A) Received \$3.46 from War Finance Corporation and \$4,700.00 from Treasury Department covering business for month of March 1924.

Revised Draft of  
PROPOSED REGULATION J.  
Series of 1924  
(Superseding Regulation J of 1920)

X-4025

CHECK CLEARING AND COLLECTION.

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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 nonmember 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 nonmember 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 and collect checks for such of its member banks as desire to avail themselves of its privileges and for such nonmember 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 nonmember State banks and trust companies will hereinafter be referred to as nonmember clearing banks.

Each Federal Reserve Bank shall exercise the functions of a clearing house and collect checks 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 nonmember clearing banks in its district, checks<sup>1</sup> drawn

<sup>1</sup>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 the order of a certain person therein named, or to him or his order, or to bearer, and payable on demand.

on all member and nonmember clearing banks, and checks drawn on all other nonmember banks which are collectable at par in funds acceptable to the Federal Reserve Bank of the district in which such nonmember banks are located.

(2) Each Federal Reserve Bank will receive at par from other Federal Reserve Banks, and from all member and nonmember clearing banks in other Federal Reserve Districts which are authorized to route direct for the credit of their accounts with their respective Federal Reserve Banks, checks drawn on all member and nonmember clearing banks of its district, and checks drawn on all other nonmember banks of its district which are collectable at par in funds acceptable to the collecting Federal Reserve Bank.

(3) No Federal Reserve Bank shall receive on deposit or for collection any check drawn on any nonmember bank which cannot be collected at par in funds acceptable to the Federal Reserve Bank of the district in which such nonmember bank is located.

#### SECTION IV. TIME SCHEDULE AND AVAILABILITY OF CREDITS.

(1) Each Federal Reserve Bank will publish a time schedule showing the time at which any item sent to it will be counted as reserve and become available for withdrawal or other use by the sending bank. For all checks received, the sending bank will be given immediate credit, or deferred credit, in accordance with such time schedule, and as provided below.

(2) For all such checks as are received for immediate credit in accordance with such time schedule, immediate credit, subject to final payment, will be given upon the books of the Federal Reserve Bank at full face value in the reserve account or clearing account upon day of receipt, and the proceeds will at once be counted as reserve and become available for withdrawal or other use by the sending bank.

(3) For all such checks as are received for deferred credit in accordance with such time schedule, deferred credit, subject to final payment, will be entered upon the books of the Federal Reserve Bank at full face value, but the proceeds will not be counted as reserve nor become available for withdrawal or other use by the sending bank until such time as may be specified in such time schedule, at which time credit will be transferred from the deferred account to the reserve account or clearing account subject to final payment and will then be counted as reserve and become available for withdrawal or other use by the sending bank.

#### SECTION V. TERMS OF COLLECTION.

The Federal Reserve Board hereby authorizes, and each member and nonmember clearing bank which sends checks to a Federal Reserve Bank for deposit or collection shall by such action be deemed to authorize, the Federal Reserve Banks to handle such checks subject to the following terms and conditions:

(1) A Federal Reserve Bank will act as agent only and will assume no liability except for its own negligence and its guaranty of prior indorsements.

(2) A Federal Reserve Bank may present such checks for payment or send such checks for collection direct to the bank on which they are drawn or at which they are payable, or in its discretion may forward them to another Agent with authority to present them for payment or send them for collection direct to the bank on which they are drawn or at which they are payable.

(3) A Federal Reserve Bank may in its discretion and at its option, either directly or through an agent, accept either cash or bank drafts in payment of or in remittance for such checks and shall not be held liable for any loss resulting from the acceptance of bank drafts in lieu of cash, nor for the failure of the drawee bank or any agent to remit for such checks, nor for the nonpayment of any bank draft accepted in payment or as a remittance from the drawee bank or any agent.

(4) Checks received by a Federal Reserve Bank on its member or non-member clearing banks will ordinarily be forwarded or presented direct to such banks, and such banks will be required to remit or pay therefor at par in cash or bank draft acceptable to the collecting Federal Reserve Bank, or at the option of such Federal Reserve Bank to authorize such Federal Reserve Bank to charge their reserve accounts or clearing accounts.

(5) Checks received by a Federal Reserve Bank payable in other districts will be forwarded for collection upon the terms and conditions herein provided to the Federal Reserve Bank of the district in which such checks are payable.

(6) The amount of any check for which payment in actually and finally collected funds is not received shall be charged back to the forwarding bank, regardless of whether or not the check itself can be returned.

#### SECTION VI. PENALTIES FOR DEFICIENCIES IN RESERVES.

(a) 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 bank 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.

(b) 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. If a member bank draw against items before such time, the draft will be charged against its reserve balance if such balance be sufficient in amount to pay it; but any resulting impairment of reserve balances will be subject to all the penalties provided by the Act.

(c) 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:

1. Deficiencies in reserve balances of member banks in central reserve and reserve cities will be computed on the basis of average daily net deposit balances covering a weekly period of seven 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.

2. Penalties for deficiencies in reserves will be assessed monthly on the basis of average daily deficiencies during each of the reserve computation periods ending in the preceding month.

3. A basic rate of 2 per cent per annum above the Federal Reserve Bank discount rate on 90-day commercial paper will be assessed as a penalty on deficiencies in reserves of member banks.

(d) 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.

1. 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 one-fourth of 1 per cent for each week thereafter during which the average reserve balance is deficient, will be assessed on weekly deficiencies until the required reserve has been restored and maintained for four consecutive weekly periods, provided that the maximum penalty charged will not exceed 10 per cent.

2. When a member bank outside of a central reserve or reserve city has had an average deficiency in reserves for three consecutive semi-monthly periods, a progressive penalty, increasing at the rate of one-half 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.

Each Federal Reserve Bank shall also promulgate rules and regulations not inconsistent with the terms of the law or of this regulation, governing the details of its check clearing and collection operations. Such rules and regulations shall be set forth by the Federal Reserve Banks in their letters of instruction to their member and nonmember clearing banks and shall be binding upon any member or nonmember clearing bank which sends any check to such Federal Reserve Bank for collection or to any other Federal Reserve Bank for the account of such Federal Reserve Bank for collection.

X-4027

THE AMENDMENTS TO THE FEDERAL RESERVE ACT IN THE MCFADDEN BILL REFERRING TO  
BRANCH BANKING.

The McFadden Bill (H. R. 6855) has been announced as a bill drawn for the purpose of liberalizing the National Banking Act, so that National banks may no longer be prevented by law from performing banking functions regarded as useful and sound in principle which State banks have long been performing. The Comptroller of the Currency has noted the fact that State banks have steadily gained in numbers and in resources while National banks have failed to maintain the same rate of growth. Since January 1, 1913, he tells us 173 National banks, each with capital of over \$100,000 have given up their National charters and taken out State charters.

These facts are indisputable and in so far as the bill confines itself to its announced purpose I have no criticism to make of it, further than to state that some of the departures from commercial banking need very careful consideration. One of the liberalizing provisions of the bill has to do with branch banking within city limits, and with this provision the Federal Reserve Board is unanimously in agreement. I think I may fairly add that the members of the Board regret that this liberalizing feature of the bill does not go to the full limit of permitting the establishment of branches in all cities large enough to have need for outlying banking facilities, as a matter of right and without regard to the limitations of State laws. It would seem that the National banks might sometimes be permitted to take the lead in a matter of sound banking which every competent banker and every economist approves.

So much for the liberalizing, or modernizing features of the bill, designed to permit banks to transact legitimate business along sound lines by modern methods. We can all get behind and support these features, these amendments to the National Banking Act. But the bill doesn't stop there. It seeks to amend the Federal Res-

serve Act, and here it becomes repressive and reactionary. Because many bankers are opposed to any further liberalizing of the National Banking Act the bill seeks to deprive state bank members of the Federal Reserve System of some of their charter rights guaranteed them under the Act of June 21, 1917, particularly with reference to branch banking. Certain states permit and even encourage banks of sufficient capital to establish branches beyond city limits, on the theory that the farmer is as much entitled to the best and safest banking service as the city dweller is. Instead of advocating the same privileges for National banks that these states give their State banks the Comptroller of the Currency has entered into an elaborate argument against branch banking in general, an argument which would, if sound, utterly destroy his city branch banking recommendation if it were not for the development of a very ingenious theory of home rule. The states may, according to this theory, decide for themselves whether banks shall or shall not have branches within city limits, but they must not be allowed to decide whether any branch banks shall exist outside of the large cities - if their banks are to remain in the Federal Reserve System.

There isn't an economist in the country who would agree with the arguments of the Comptroller. Some 322 independent banks have failed in this country since the 1st of January this year(to April 11th), more than two-thirds of them banks with a capital less than \$50,000, and more than seven-eighths of them banks with a capital less than \$100,000. With failures still running at the rate of nearly 100 a month an unprejudiced outsider might be pardoned for thinking that unit banking rather than branch banking is at present in most need of defense.

The Comptroller bases his arguments on two assumptions, both demonstrably erroneous. He assumes, first, that branch banking in this country is wholly a big

city proposition - that the banks in the big cities will establish branches throughout each state if allowed to do so - and, second, that country branch banking, that is branch banking outside of the big cities, is "fostered and protected" by the Federal Reserve System.

The first of these assumptions the Comptroller partly discredits himself in his statement that he has never yet discovered a big banker who wished to extend his institution beyond city limits. I think that is true of the big bankers in Chicago and in most of the great cities of the East. They already do a national business, receiving deposits from and making loans to large commercial and manufacturing institutions throughout the country, without branches. Furthermore they receive deposits from, make loans to, and exercise a certain amount of control over, thousands of small banks all over the country. It is doubtful if they would gain enough more to compensate them for the added responsibility if they were to establish branches outside city limits. But the error of the Comptroller's assumption is fully demonstrated not by conjectures or by the statements of big bankers but by the facts of the development of branch banking in the states which have permitted it. Although the laws of California have provided distinctly for state-wide branch banking since 1909 only one institution has really spread its branches throughout the State, one other has branches covering about one-third of the State and two others cover territory that is hardly more than suburban or contiguous. The overwhelming majority of the institutions engaging in branch banking in California are country banks not located in any of the large cities. Throughout the Southern states branch banking is a country bank proposition, with head offices generally not even in towns large enough to be called cities. The bank having the largest number of branches in Alabama (about 15 branches) is not a



Birmingham bank, but a bank at Decatur. The largest branch banking system in Mississippi, with about 14 branches, has its headquarters at Grenada, and the largest branch banking system in Maryland has its head office not in Baltimore or in Annapolis, or in any town large enough to be called a city, but in Cambridge. In Alabama, Georgia, Louisiana, Maryland, Virginia, North Carolina and South Carolina there are 134 banks operating 319 branches, less than three branches to a bank, and less than a dozen of these banks are domiciled in the larger cities.

Further positive proof of the error of the assumption that branch banking is a city monster which must be chained up lest it spread its tentacles over the whole country is found in connection with the facts which disprove the Comptroller's second assumption, viz: that branch banking is "fostered and protected" by the Federal Reserve System. Of the 134 banks which operate branches in the Southern states mentioned only 20 are member banks, leaving 114 non-members, and these 114 non-members are operating 233 branches, or about 2 branches to each bank. In Virginia there are 2 members operating 3 branches and 22 non-members with 29 branches. The "head offices" are located in such towns as Clintwood, Columbia, Gloucester, Keller, Keysville, Louisa, Staunton, Tappahannock, Urbanna, Wakefield and Williamsburg. Six banks in Richmond maintain branches, but not one of them has more than 2 branches and only one of them, the Richmond Trust Company, of which Mr. John Skelton Williams is president, has a branch outside of the city. One bank in Norfolk has 2 branches both outside the city and one bank in Lynchburg has a branch at Bedford.

Exactly the same conditions prevail in North Carolina and in Georgia, with the single exception of the Citizens and Southern of Savannah, which has branches in Atlanta and Macon. In the section of Tennessee within the Atlanta Federal Reserve

District there are 12 non-member banks operating 33 branches, and no member banks with branches. In the other end of the district one member bank in Memphis has branches, but they are inside the city.

Certainly this Southern development of branch banking is not "fostered and protected" by the Federal Reserve System, since it is nearly all outside the System. But even in California, the great branch banking state, the same thing is true. There are 88 state banks in that state maintaining branches, but only 19 of them are members of the System, leaving 69 outside, and the outsiders are almost all country banks. It is true of course that the member banks maintain the most branches, but when it comes to the question of being "fostered and protected" it should be said that the large branch banking systems, the Bank of Italy, the Pacific Southwest Trust and Savings, and the Security Trust and Savings, have none of them ever been large borrowers from the Federal Reserve System. One of them never has borrowed and the other two only to carry Liberty bonds. During the strenuous months of 1920 and 1921 it may fairly be said that these large branch banking institutions furnished a large share of the reserve funds which were loaned by the Federal Reserve Bank of San Francisco to the independent unit banks.

The restrictive amendments to the Federal Reserve Act are, it seems to me, unfair, as they overthrow the guarantees under which the larger California State banks, and many State banks elsewhere were persuaded to join the Reserve System. We were willing enough to invite them in and offer them the guarantee of their charter rights when their funds were sorely needed, but now that the seas are smooth we propose to repeal the guarantees so far as branch banking is concerned.

It not only seems to me unfair but from every point of view unwise. Every economist favors branch banking as affording the best and safest means of extending

banking accommodations to agricultural sections and small communities. Professor O. M. W. Sprague begins an article on branch banking in the Quarterly Journal of Economics with these words: "Upon few subjects has the consensus of opinion of both economists and financial writers been more general than upon the advantages of branch banking over a system of separate local banks. Its superiority in respect to safety, economy, the equalization of rates for loans, and the diffusion of banking facilities cannot be questioned."

The economists generally agree that branch banking is a matter of most concern not to the big cities or their big banks, but to thinly settled agricultural communities. They believe that our present scheme of extending banking facilities to such communities by means of small weak independent banks, banks with a capital of \$5,000, \$10,000, or even \$25,000, is unsafe for depositors and uneconomical, making interest rates to the farmers higher than necessary. Professor J. Laurence Laughlin of Chicago University, one of the men who had a prominent part in the preliminary work leading to the establishment of the Federal Reserve Act, declared in 1912 that "the maintenance of such conditions necessarily involves some rather serious suffering." Hasn't this prediction been rather strikingly and painfully verified by the great number of bank failures in the Northwest?

Most of the Comptrollers of the Currency have recommended branch banking in some form, and nearly all of them have recognized its superiority either as a general proposition or under certain conditions to unit banking. The first Comptroller, Hugh McCullough, was himself the President of one of the most notable branch banking systems in the country, the Bank of Indiana. Mr. Hepburn refers to this bank as "an exemplary illustration of the efficiency of branch banking as a system." Comptroller Eckles, whose administration felt the full force of the

Panic of 1893 advocated the establishment by national banks of branches in places not having national banks already established. Comptroller Charles G. Dawes who succeeded him recommended branch banking in places with a population less than 2000. Mr. Dawes in an address to Pennsylvania bankers in 1903 spoke against "general domestic branch banking," but in the course of the address frankly admitted that one of the advantages of branch banking would be lower interest rates to the farmers who grow crops having a cash value. Recent Comptrollers have recommended branch banking within city limits as something absolutely necessary in most of our great cities in order to save the National banks of the cities from destruction by state bank competition. Branch banking by counties was recommended by some of them, and was recommended also by the Federal Reserve Board in 1918. In its report for 1922 the Board urged that National banks be given the same privileges with regard to branches that state banks have been given in the branch banking states.

The last recommendation is the only one that will fully meet the situation, so far as the competition of state banks is concerned. If this cannot be carried the Committee might authorize branch banking by national banks in cities where the states limit branch banking to cities, and in counties where states permit country banks to establish branches. Such an amendment would greatly strengthen the country banks in agricultural sections, and would enable the Federal reserve banks to deal with well managed institutions, instead of small banks which often have no fair chance to survive in times of stress.

The argument that branch banking is monopolistic is unsupported by any actual evidence - the evidence on the other hand is clearly to the effect that branch banking increases competition. It is true that the number of chartered banks in

Canada, and the number of joint stock banks in England and Scotland, have greatly decreased, but except in the largest cities there are more banks competing with each other than before. A recent Parliamentary investigation (1923) into the question of banking in its relation to agriculture in England contains this statement:

"Finally, from the point of view of the agricultural community, it is important to realize that, notwithstanding the absorption of the small country Banks, there is, in fact, far keener competition for rural business than ever before; while, in the matter of security to depositors, the amalgamation of the Banks has also been of very great advantage. The old private Banks were always heavily involved in the fortunes of a restricted area and this was a source of weakness at times of local crisis. The Joint Stock Banks spread their risks over a wider area and a greater range of industries, and can better carry periods of depression." (Report of the Committee on Agricultural Credit, p. 22).

Similar findings were made by a Canadian committee, which investigated credit conditions in the Canadian northwest a year or so ago. Furthermore Mr. Frank W. Murphy and Mr. Castleman, a committee representing our own northwestern farmers, testified a few weeks ago that one of the advantages Canadian wheat growers had over the wheat growers on our side of the line was better treatment from their banks and lower interest rates.

Why ignore this direct testimony? And why ignore the direct testimony of the Californians? Can any one maintain that there is less competition among banks in California today than there was before the development of the branch banking systems in that state? Can any one deny that agricultural situations as serious as that now existing in the wheat growing states of the Ninth Federal Reserve District have been handled in California practically without bank failures?

Isn't it rather un-American to express fear of monopoly in a field where the units are so overwhelmingly numerous? "In union there is strength" is an American

shibboleth. Every week brings increased evidence of the lack of strength of the small unit banks in agricultural sections of our country. The states chiefly concerned have tried guaranteeing deposits and every other remedy, except the one remedy of uniting resources, a remedy which has been successful wherever tried.

In conclusion I wish to say that the Federal Reserve Board has directed its division of analysis and research to make a complete study and survey of branch banking in this country, and with some reference also to conditions in other countries. The Board has also recently adopted regulations dealing with branch banking, copy of which I present for the record. I submit that these regulations will take care of the matter adequately and make unnecessary the amendments to the Federal Reserve Act contained in the bill.

April 17, 1924

Edmund Platt.

TREASURY DEPARTMENT  
Office of the Secretary  
WASHINGTON

X-4028

April 14, 1924.

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 March 1 to March 31, 1924, amounting to \$136,461, as follows:

	Federal Reserve Notes, 1914					Total
	\$5	\$10	\$20	\$50	\$100	
Boston.....	400,000	160,000	75,000	---	---	635,000
New York.....	517,000	---	---	---	---	517,000
Philadelphia...	387,000	200,000	100,000	18,000	---	705,000
Cleveland.....	174,000	100,000	50,000	20,000	---	344,000
Richmond.....	190,000	40,000	30,000	---	---	260,000
Chicago.....	532,000	98,000	93,000	---	---	723,000
Minneapolis....	---	---	---	10,000	5,000	15,000
San Francisco..	200,000	70,000	30,000	---	---	300,000
	<u>2,400,000</u>	<u>668,000</u>	<u>378,000</u>	<u>48,000</u>	<u>5,000</u>	<u>3,499,000</u>

3,499,000 sheets at \$39.00 per M.....\$136,461.00

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

	Compen- sation	Plate Printing	Materials	Inc. Com- pensation	Total
Boston.....	\$8,572.50	\$6,508.75	\$7,461.25	\$2,222.50	\$24,765.00
New York.....	6,979.50	5,299.25	6,074.75	1,809.50	20,163.00
Philadelphia..	9,517.50	7,226.25	8,283.75	2,467.50	27,495.00
Cleveland.....	4,644.00	3,526.00	4,042.00	1,204.00	13,416.00
Richmond.....	3,510.00	2,665.00	3,055.00	910.00	10,140.00
Chicago.....	9,760.50	7,410.75	8,495.25	2,530.50	28,197.00
Minneapolis...	202.50	153.75	176.25	52.50	585.00
San Francisco..	4,050.00	3,075.00	3,525.00	1,050.00	11,700.00
	<u>\$47,236.50</u>	<u>\$35,864.75</u>	<u>\$41,113.25</u>	<u>\$12,246.50</u>	<u>\$136,461.00</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.

X-4088-a

TREASURY DEPARTMENT  
Office of the Secretary  
WASHINGTON

April 14, 1924.

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 March 1 to March 31, 1924, amounting to \$39.00, as follows:

Federal Reserve Notes, 1918

	<u>\$500</u>	<u>Total</u>
Minneapolis.....	1,000	1,000
1,000 sheets at \$39.00 per M.....		\$39.00

The charges against the Federal Reserve Bank of Minneapolis 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>
1,000	\$13.50	\$10.25	\$11.75	\$3.50	\$39.00

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

Respectfully,

(Signed) S. R. Jacobs  
Deputy Commissioner.



X-4029

To - Federal Reserve Board

April 12, 1924

From - Mr. Wyatt, General Counsel.Subject: Revised Draft of Regulation "J"

All of the Federal reserve banks have replied to the Board's circular letter of March 8, 1924 (X-3989) requesting suggestions with reference to the proposed Regulation J, Series of 1924, and such replies are attached hereto.

I have carefully considered all the suggestions made in these letters and have prepared and submit herewith a revised draft of Regulation J which incorporates all of such suggestions except those discussed below. None of the changes affect the broad policy of the regulation.

Mr. Bullen, Deputy Governor of the Federal Reserve Bank of Boston, suggests that whenever the publication of a complete series of the regulations is undertaken it would be well to transfer that portion of Regulation J which refers to deficiencies in reserves, to Regulation D and that Regulation D should be given a new caption - "Reserves." Mr. Bullen thinks this would be a more logical grouping of the regulations and I agree with him. I have not incorporated this change in the present Regulation J, however, for fear that it might cause some delay in the promulgation of the new regulation. I believe that when the new Regulation J and the proposed new Regulation H are finally adopted it would be well to issue a complete new edition of the Board's regulations, in order that the entire regulations may be included in one pamphlet so as to avoid the confusion and inconvenience which would result from the necessity of referring to several different publications. This would not involve much extra expense because the present regulations are plated and would not have to be set up in type and proof-read. If the Board decides to do this I think it might be well to adopt Mr. Bullen's suggestions at the time the new regu-

lations are issued and this could be done with very little trouble and without any change in the substance of the Board's regulations. It would merely amount to a transfer of part of the regulations from one place to another.

Mr. Jay suggested that a provision should be inserted in Section 6 of Regulation J relating to penalties for deficiencies in reserves, which provision should cover that provision of the law which forbids a member bank to make new loans or pay any dividends while its reserves are deficient. He says that the present provisions of Regulation J with reference to penalties for deficiencies in reserves sometimes give rise to the impression that such penalties are in lieu of this requirement of the law and that the Board therefore has waived this requirement of the law. Such an impression, however, is absurd on its face, because the Federal Reserve Board has no power to waive this provision of the law. Furthermore, it is quoted in Section 6, and I do not see how the present regulation with reference to deficiencies in reserves could possibly give rise to any misunderstanding. It would seem that the incorporation of such a provision in that section would amount to an unnecessary repetition of the terms of the law. It is believed, however, that if and when the Board transfers the provisions regarding deficiencies in reserves to Regulation D it would be well to rearrange the quotation from the law and when that is done it might not be inappropriate to adopt Mr. Jay's suggestion and insert a section in the new regulation which would cover the subject of new loans and dividends while the reserves are deficient.

Mr. Wills, Federal Reserve Agent at Cleveland, has suggested that the Board insert in Section III (3) of Regulation J, the words "unless otherwise notified" or "until further notice," so as to qualify the requirement that Federal reserve banks shall not receive on deposit or for collection any check on any nonmember

bank which cannot be collected at par in funds acceptable to the Federal reserve bank. Mr. Wills says:

"The reason for this suggestion is the possible effect of an absolute regulation which makes it mandatory upon a Federal Reserve Bank not to accept any check of the character described. I am wondering whether a milder statement might not serve the purpose of the regulation and still not convey notice to remitting non-member banks that they may abandon their remitting and feel perfectly safe that the Federal Reserve Bank at no time and under no conditions would reinstate its over-the-counter presentation."

I think there is much merit in Mr. Wills' suggestion and that it is worthy of very careful consideration, since it might have the effect of reducing the number of withdrawals from the par list. I believe, however, that it is not in accordance with the present policy of the Board which I understand is to make it perfectly clear that the Federal Reserve System has definitely abandoned the collection of checks over the counter and therefore will not attempt to collect any checks on nonmember banks which will not remit in funds acceptable to the Federal reserve bank except where such checks can be collected through other banks in the same town or city. If the Board desires to adopt Mr. Wills' suggestion I think the best form would be to insert the words "until further notice" at the beginning of Section III (3).

Mr. Randolph, Counsel to the Federal Reserve Bank of Atlanta, has suggested the addition of the following clause to Section V:

"A Federal Reserve Bank will at all times be protected in conclusively presuming that any national or state bank which is permitted to remain open, and to transact its business, by the Federal or State authorities having supervision thereover, is solvent and is a suitable instrumentality to be utilized in collecting checks or other items, whether drawn on itself or on other banks."

He explains his reasons for this suggestion as follows:

"It seems to us that the Federal Reserve Banks should be authorized by a regulation which would be binding upon all members of the system, to rely upon the conclusive presumption that any bank which is permitted to remain open is in a solvent condition, and is a suitable instrumentality to avail of in the collection of checks; otherwise the Reserve Banks (naturally being more or less familiar with the affairs of their member banks), must assume a possible liability in handling in the usual way checks drawn on members known to be in a weakened condition, or else, by refusal to handle such items in the usual way, perhaps precipitate failures which they are trying to avert."

I have not incorporated this suggestion in the revised draft of Regulation J because I doubt that the Board will care to adopt it, since it seems to go too far in limiting the liability of Federal reserve banks and in absolving them of all responsibility of conducting their business in a business-like way. It might give the impression that the Federal reserve banks are entirely too "hard-boiled" and might even result in legislation requiring the Federal reserve banks to assume more responsibility in the collection of checks. Furthermore, the new section V(3) inserted in the revised draft of this regulation affords the Federal reserve banks considerable additional protection against this sort of liability and certain other changes in the regulation have been made for the same purpose. If, however, the Board decides to adopt Mr. Randolph's suggestion, it will be very easy to insert it in Section V.

Mr. Martin, Federal Reserve Agent at St. Louis, has suggested that the term "exchange draft" be defined in a foot-note just as the term "checks" is defined. In my opinion this suggestion should not be adopted, because it would have the effect of limiting the authority of Federal reserve banks to accept exchange drafts in payment of checks forwarded for collection and in that way would increase their liability under the doctrine of the Malloy case, thereby defeating one of the principal purposes of the new regulation.

Governor Young of the Federal Reserve Bank of Minneapolis, suggests that the word "nonmember" should be eliminated from Section III (3), so that the section would forbid Federal reserve banks to receive on deposit or for collection any check drawn on any bank (member or nonmember) which cannot be collected at par in funds acceptable to the Federal reserve bank. He is afraid that the Federal reserve bank would be liable for negligence if it forwards a check to the drawee bank when the Federal reserve bank knows that such drawee bank is in a precarious condition and he says that it is often impossible to present such checks over the counter, which is the only safe way of collecting them under such circumstances. He says, however, that the Federal reserve bank can protect itself against such liability with reference to checks drawn on nonmember banks by dropping such banks from the par list and refusing to handle any further checks on them when they are in a precarious condition. This, of course, can be done under Regulation J in the form tentatively adopted by the Board. As to member banks, Mr. Young also admits that he is protected to a considerable extent by the fact that he is able to charge off the amount of dishonored checks from the reserve account of such member banks and also by requiring additional collateral from such member banks, which collateral is held not only as security for rediscounts of that bank but also for any other liability of such member bank to the Federal reserve bank. He says that on February 29, 1924, the Federal Reserve Bank of Minneapolis had approximately \$250,000 in dishonored drafts of closed nonmember banks which were in payment of transit items and about \$400,000 of such drafts of member banks, and that, "The \$400,000 of dishonored drafts from closed member banks, we are perhaps liable on a portion of the amount, but we are so fortified in most cases with additional collateral that was pledged for any and all obligations of the bank to us, that the eventual loss,

even though we are found negligent, will only be a small portion of the amount." These facts would seem to show that the liability of the Federal reserve bank, if any, for sending items direct to member banks which are known to be in a precarious position is not so great after all. Furthermore, it is believed that the new Section V (3) and certain other changes incorporated in the attached revised regulation, including the specific authority to send such checks direct to the drawee banks at any time, would afford a Federal reserve bank sufficient protection against losses of the kind contemplated by Governor Young.

There is a far more important and vital objection to Mr. Young's suggestion, however, which lies in the fact that under the terms of Section 16 as interpreted by the Supreme Court of the United States in the par clearance cases, Federal reserve banks are required by law to receive on deposit from member banks or from Federal reserve banks, checks and drafts drawn on any member bank or clearing member bank, and if Section III (3) were amended as suggested by Governor Young, it would forbid Federal reserve banks from doing something that they are required by law to do. This being so, such a regulation would be absolutely void and of no effect and of course could not afford the Federal reserve bank any protection whatever. If Governor Young desires to ignore this requirement of the law and refuse to handle checks on member banks which are in a precarious condition he could do so just as well under the regulation as it is now written as he could under the regulation amended in accordance with his suggestion, since the Board has no more authority than he has to disobey the law or take any action inconsistent therewith. If the Board attempted to do so it would not give him any more authority than he now has to refrain from handling such checks. For these reasons I did not incorporate Governor Young's suggested change in the present draft of the regulation.

Governor Calkins of the Federal Reserve Bank of San Francisco suggests that the words "their accounts with" should be eliminated from Section III (2) since it seems doubtful to him whether authorization obtains for direct routing between member banks and Federal reserve banks of different districts for the account of the sending bank and that consequently the effect of this should be to have such sendings for the account of the Federal reserve bank of the district in which the sending bank is located. Governor Calkins' point is not entirely clear, but it seems to me that his recommendation involves a distinction without a difference. Where one Federal reserve bank receives a check from a bank located in another district and credits it to the account of the Federal reserve bank in the other district, such other Federal reserve bank would naturally credit the check to the account of the member bank which forwarded it for collection, regardless of whether or not this phrase is contained in the regulation. The regulation as now drawn, therefore, conforms most closely to the actual practice and it would seem better not to adopt this suggestion.

Governor Calkins also suggests that old Section V (4), new Section V (5), be amended so as to authorize the sending of checks payable in another district to the branch of the Federal reserve bank or direct to the drawee bank for the account of the Federal reserve bank of the drawee bank's district, in order to shorten the time necessary to collect such checks and eliminate circuitous routing. This suggestion has much merit, but it would make quite a radical change in the present method of handling such checks and would lead to such legal and practical complications as to make it inadvisable in my opinion to adopt such suggestion until after very careful study and a thorough discussion at a Governors' Conference. A more important objection to this change is that it might subject Federal reserve banks

to additional legal liability and thus defeat one of the principal purposes of the new Regulation J which is to limit the liability of the Federal reserve banks in handling checks for collection. If the regulation should be amended so as to authorize a Federal reserve bank receiving checks on a bank in another district to send such checks at its option either to the drawee bank direct or to the Federal reserve bank of the drawee's district, it would place the burden upon the Federal reserve bank to decide which is the better course to pursue in each case, and if the Federal reserve bank should elect to send a check to the Federal reserve bank of the drawee's district rather than direct to the drawee bank and such sending should result in a delay in presentation of such check and the drawee bank should fail before the presentation but after the time it could have been presented if sent direct, the Federal reserve bank might be charged with negligence because it failed to adopt the most expeditious manner of collection. Where the bank is only authorized to send such a check to the Federal reserve bank of the drawee's district, however, it would be protected in complying with the Board's regulation and would not be forced to make a decision which might result in a loss.

In addition to the changes suggested by the various Federal reserve banks, I have made a few other changes in the regulation, some of which are original with me and some of which were suggested by Messrs. Wallace and Stroud, Counsel for the Federal Reserve Banks of Richmond and Dallas, respectively. The most important of these is the new Section V(3) which was inserted because it is believed that it constitutes a clearer and more specific authorization to accept bank drafts in payment of checks forwarded for collection, and more completely protects the Federal reserve banks against liability growing out of the doctrine of the Malloy case.



Federal Reserve Bank  
of Richmond

April 17, 1924.

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

Dear Mr. Wyatt:

Mr. Wallace has shown me your telegram of yesterday to him stating that the Board has determined to defer final action with respect to Regulation J until after the coming Conference of Governors, and that the regulation may be made a topic of discussion at that Conference. Mr. Wallace discussed with the officers of the Bank your letter of the 15th to him accompanying which was the last draft of Regulation J.

Inasmuch as the Board is aware that Mr. Wallace has collaborated with you in the verbal preparation of certain provisions of the regulation, which necessarily involved discussion with our officers, I do not think it inappropriate for me, as a result of the discussion of your letter with Mr. Wallace on yesterday, to transmit to you certain suggestions, relating specifically to Section V, paragraph (4).

Mr. Wallace participated, at your request, in a conference between you and Counsel of the Dallas bank, and we are, of course, aware of the conclusions arrived at and the reasons therefor. We have given very careful consideration to the changes incorporated by you in the draft of the regulation as a result of that conference, and we have arrived at the decision that it is highly advisable to change somewhat the form of paragraph (4). It is my understanding, of course, that, at the present stage, there is entire freedom of suggestion on your part and on the part of Mr. Wallace and on our part, the whole matter being in course of preparation for submission to the Board.

I regard paragraph (4) as being one of the most important in the regulation, and we have come to the conclusion that if we can make it follow as nearly as possible the language of the former Regulation J, it will be advisable from many points of view. We have, therefore, examined the former regulation, and are sending you herewith draft of that paragraph as we now believe would meet the requirements better than anything heretofore considered. If it does not meet the contention of the Counsel for the Dallas bank, it is to be regretted; but in our opinion, the peculiar situation of the Dallas bank should not necessarily determine the language of the paragraph, which would be applicable to all Federal Reserve Banks alike.

In the draft of paragraph as we submit it, you will notice a very close analogy between the two methods of collection, one by remittance and the other by charge to the drawee bank on the books of the Reserve Bank. In the one case, drafts on the reserve or clearing accounts or remittances in other immediately available funds are required; in the other case, the charge is made against the reserve accounts of the member banks and the clearing accounts. When the charge is made, it is at the expiration of the agreed transit time;

we are therefore of the opinion that there should be a provision that if remittance is not received at the expiration of the agreed transit time, there should be vested in the Reserve Bank the authority to charge the accounts of the delinquent banks. This authority may be by implication, vested in us by other terms of the regulation, but in our judgment it is very much better to have it specifically stated. This is the provision which may come in conflict with the argument of the Dallas bank. Nevertheless, we are of the opinion stated.

While I have stated that the new regulation should follow the language of the old regulation, there is one respect in which we think the time opportune for change, and we think it is of importance to make the change. The old regulation provides that when the remittance method of collection is in force, rather than the charge method, remittance shall be made in funds acceptable to the Federal Reserve Bank; there can be only one class of funds entirely acceptable to Federal Reserve Banks in dealing with members in this connection, that is immediately available funds, and it should be so expressed in our judgment. In dealing with nonmember banks, the term "acceptable funds" is used, which does not in practice, at least, always mean immediately available funds; but there is the strongest kind of reason in giving a Reserve Bank discretion as to the definition of "acceptable funds" in this connection in dealing with nonmembers, because in certain parts of the country (this being one of them) immediately available funds cannot be furnished by a very large number of banks.

In leaving the phraseology "acceptable funds" in the draft of the regulation applicable to member banks, there has been -- and there will continue to be -- great danger of their raising the contention that acceptable funds should mean in their case what it means in the case of nonmember banks. This cannot be; there is a wide distinction, and we believe now is the time to eliminate those words from the regulation, and that it is of extreme importance that they be eliminated.

Inasmuch as you are preparing a form for submission, as we understand it, I would suggest your adoption of paragraph (4) as we submit it to you herewith, or at least that you give it as an alternative paragraph, so that when the matter is presented it shall be in the most desirable form or, if there are two opinions, in alternative form. I recognize that conflicting opinions render your position in this matter a trying one.

Permit me to suggest, also, that should the Board decide to submit the regulation to the Conference of Governors, a copy of the proposed form of regulation be transmitted to each governor in advance, to permit him to discuss the matter with the operating department of his bank; this is a matter which the governors themselves would ordinarily refer to the Standing Committee on Collections for report and recommendation, but inasmuch as it is desirable to issue Regulation J with as little delay as possible, it would be advisable, in our opinion, to furnish the Reserve Banks with a copy of the regulation as proposed so that discussion may be had in advance of the Conference and decision reached in the Conference.

Very truly yours,  
(signed) Geo. J. Seay,

GEO. J. SEAY,  
Governor.

GJS-CCP  
Encls.

## SECTION V (4) - REGULATION J.

Checks received by a Federal Reserve Bank on its member or nonmember clearing banks will ordinarily be forwarded or presented direct to such banks, and such banks will be required to pay or remit therefor at par in cash or in drafts on their reserve or clearing accounts or in other immediately available funds, 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 at the expiration of the agreed transit time between the Federal Reserve Bank and such bank, the Federal Reserve Bank shall have the right to charge such items to the reserve account or clearing account of such bank at the expiration of such time.

C O P Y

## FEDERAL RESERVE BANK

OF CLEVELAND

X-4032

April 18, 1924.

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

Dear Mr. Wyatt:

I acknowledge receipt of your letter of April 15, enclosing revised draft of Regulation J, which you submitted to the Federal Reserve Board.

I note that you have incorporated some further changes and these appear to me to meet some of the objections. There is, however, one portion of Section 5 which I believe still needs revision and I notice that you have not adopted a change which we recommended in connection with this section. Paragraph 4, Section 5, reads as follows:

"Checks received by a Federal Reserve Bank on its member or non-member clearing banks will ordinarily be forwarded or presented direct to such banks and such banks will be required to remit or pay therefor at par in cash or bank draft acceptable to the collecting Federal Reserve Bank, or at the option of such Federal Reserve Bank to authorize such Federal Reserve Bank to charge their reserve accounts or clearing accounts."

The language of the last portion of this paragraph seems to me to be needlessly involved. Furthermore, it raises a question as to the legal right of a Federal Reserve Bank to charge the reserve account of a member bank or the clearing account of a non-member clearing bank, in the event that such member or non-member clearing bank fails to authorize the Federal Reserve Bank to do so. I think I understand the objections which may have been raised by some of the Federal Reserve Banks to the language which you have stricken out in the revised regulation. In striking it out, however, you may have met the objections of some of the Federal Reserve Banks but a new objection was raised from the standpoint of those Reserve Banks which may feel that they desire to reserve the right to charge the reserve account of the member bank or the clearing account of a non-member bank in case of the failure of a member or non-member clearing bank after checks sent to them for collection have been charged to the customers' account but before a remittance in acceptable funds has been received by a Federal Reserve Bank.

The language of the revised regulation, I think you will agree,

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

specifically gives the Federal Reserve Bank the right to charge the reserve account or the clearing account only when authorized by the member bank or the non-member clearing bank to do so. Inasmuch as the language is specific, it would seem that the courts might hold that Federal Reserve Banks had the right to charge the reserve account or clearing account only when authorized to do so and it might be presumed by the courts that the Federal Reserve Banks were prohibited from exercising this right in the absence of specific authorization from the member or non-member clearing bank.

In our district, we require our member banks (and we have no non-member clearing accounts outside of Cleveland) to remit for the checks which we send to them. In some cases, we permit them to authorize us to charge their reserve account but we specifically reserve the right in our check collection circular to charge the reserve account whenever in our judgment we deem it necessary to do so. This reservation is for our protection in the case of the failure of a member bank and we have found it very useful in several cases recently, notably in the cases of the Springfield National Bank and the National Bank of Barnesville, both of Ohio.

In either of these cases, had the receiver questioned our right to charge the reserve account under the terms of the revised Regulation J, I am inclined to think the court would have sustained the receiver for reasons given above. I would like, very much, to see incorporated in the new regulation, either the language which has been stricken out in the revised copy or the language suggested in my telegram of April 7th, as follows:

"Provided that the Federal Reserve Bank may effect payment of such checks by charging the reserve or clearing accounts of the drawee banks with them."

Those Reserve Banks which may object to this provision on the basis of court decisions giving the proceeds of checks handled for collection and remittance, a different status from the proceeds of checks sent for collection and credit, might object to either of these suggested changes. It occurs to me, however, that their objections might be overcome, if the following were substituted:

"Provided, however, that the Federal Reserve Bank will retain all of its legal rights to protect itself in cases of emergency."

Very truly yours,

(Signed) H. F. Strater,  
Assistant Cashier.

## FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARDX-4033  
April 21, 1924.

Subject: Daylight Saving, 1924.

Dear Sir:

The Federal Reserve Board has been advised that the following Federal Reserve Banks and Branches will operate under the daylight saving plan during the period beginning April 28th and ending Sunday, September 28, 1924:

Boston	Cincinnati
	Pittsburgh
New York	
Buffalo	Chicago
Philadelphia	

Further advice will be given in event the plan becomes operative in other Federal Reserve Bank or Branch cities.

Yours very truly,

J. C. Noell,  
Assistant Secretary.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS.

( COPY )

X- 4034

FEDERAL RESERVE BANK  
OF DALLAS

April 16, 1924.

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

Gentlemen:

I have your telegram of April 15th, with reference to our objection to the proviso in old subdivision 3, new subdivision 4 of Section 5, Regulation "J". The proviso in question is as follows:

"Provided, however, that the Federal Reserve Bank reserves the right to charge such items to the reserve account or clearing account of such bank at any time when the Federal Reserve Bank deems it necessary to do so."

The language employed in the old subdivision 3, which preceded the proviso in question, constituted general authority from the Federal Reserve Board for Federal Reserve Banks to follow either one of two general methods of collection; that is, each Federal Reserve Bank could, at its option, forward checks for collection and remittance or for collection and credit.

If the first method were adopted, then the Federal Reserve Bank would look wholly to the remittance sent it for payment of the items involved. This remittance could, of course, be in the form of a draft on the bank's reserve account or on other acceptable drawees, and the Federal Reserve Bank would, under its duties as agent having authority to receive these remittance drafts, be liable only for due diligence in the presentation and collection of the remittance draft sent it. It is very desirable where this plan is followed, that the Federal Reserve Bank undertake no duty to its principal, further than to use ordinary care in the collection of the remittance draft sent it in payment of the checks.

If the second method were followed, then the Federal Reserve Bank could, by proper authorization, charge the account of the bank to which items are sent, even though Regulation "J" did not contain the proviso above quoted.

In connection with banks following the collection and remittance plan, the proviso under discussion might easily be construed by the courts to place upon a Federal Reserve Bank the duty of charging the bank's account with the amount of outstanding cash letters whenever such Reserve Bank has the slightest information which would lead it to believe that the ultimate collection of the remittance draft is in anywise doubtful. A state of facts might frequently arise when a Federal Reserve Bank would fail to

charge the account of a bank with the outstanding cash letters, and before the remittance draft was collected, the bank to which the items were sent failed. Under such circumstances, our principal would contend that we had full authority to charge the account of the bank to which we sent the items for collection, and had we taken advantage of the authority conferred upon us, the items would have been collected; and thus it would be contended that we were negligent in failing to charge the account. We would, therefore, always be confronted with a serious question in the collection of checks from extended member banks.

Banks following the collection and remittance plan would never have occasion to charge the account of the bank to which items were sent unless they were specifically authorized to do so. The proviso, therefore, could benefit only those banks following the collection and credit plan. I am firmly of the opinion that the proviso does not in any manner strengthen the position of Federal Reserve Banks following the latter plan, because as a matter of law they would have the right to charge the account of the bank to which items were sent.

We would have no objection to the proviso if it applied only to Federal Reserve Banks following the collection and credit plan. However, as it read in the old subdivision 3, it applied both to the banks following the collection and remittance plan, and to those following the collection and credit plan.

For the reasons hereinabove stated, it is our opinion that old subdivision 3, as changed and now incorporated in new subdivision 4, gives to any Federal Reserve Bank all the latitude which it could possibly desire, and at the same time does not contain the embarrassing features.

Very truly yours,

(signed) E. B. Stroud, Jr.

Office Counsel.

EBS-j



## FEDERAL RESERVE BOARD

## STATEMENT FOR THE PRESS

For Release in Morning Papers,  
Monday, April 28, 1924.

X-4036

The following is a summary of general business and financial conditions throughout the several Federal Reserve Districts, based upon statistics for the months of March and April, as contained in the forthcoming issue of the Federal Reserve Bulletin.

Production of basic commodities decreased during March, and there was a recession in wholesale prices. Distribution, both at wholesale and retail, showed less than the usual seasonal increase and was smaller than a year ago.

**PRODUCTION:**

The Federal Reserve Board's index of production in basic industries, adjusted to allow for length of month and other seasonal variations, declined 3 per cent in March. Output was reduced by most industries and the decreases were particularly large in mill consumption of cotton and production of bituminous coal and copper. Daily average production of steel ingots, however, was larger than in any previous month. The level of factory employment was unchanged but some curtailment in working hours was evidenced by a decline of one per cent in average weekly earnings. Contract awards for new buildings in March reached the highest total value on record, owing chiefly to a large increase in the New York district.

Estimates by the Department of Agriculture on the basis of condition on April 1 indicate a reduction of 4 per cent in the yield of winter wheat and of 6 per cent in the production of rye as compared with the final harvests in 1923.

**TRADE:**

Shipments of commodities by railroads declined each week in March and car loadings were 4 per cent less than a year ago. Wholesale trade increased

slightly during March but was 8 per cent less than a year ago owing to decreases in sales of dry goods, shoes, and hardware. March sales of department stores were 8 per cent less than in March, 1923, and merchandise stocks at the end of the month were 8 per cent larger than a year ago. Sales of mail order houses also showed less than the usual seasonal increase in March. Decrease in the volume of purchases at retail compared with last year is partly accounted for by the late Easter and the generally unfavorable weather conditions.

#### PRICES:

Wholesale prices, as measured by the Bureau of Labor Statistics index, decreased slightly more than one per cent in March and were 6 per cent lower than a year ago. Prices of farm products, foods, clothing, chemicals, and house furnishings declined, building materials remained unchanged, while fuel and metals were slightly higher than in February. During the first three weeks of April quotations on pig iron, lead, coal, silk, and sugar declined, while prices of wheat, corn, and cotton advanced.

#### BANK CREDIT:

Volume of borrowing for commercial purposes at member banks in leading cities, after increasing during the early part of the year, remained constant at a high level between the middle of March and the middle of April. During the four-week period total loans of these banks were in larger volume than at any time in more than two years.

Discounts and investments of the Federal Reserve Banks, which on April 2 were slightly above \$1,000,000,000, declined by about \$125,000,000 during the first three weeks in April to the lowest point for the year. This decline represents a reduction in discounts and in the holdings of acceptances, while

the volume of government securities increased somewhat.

Money rates in the New York market during the first three weeks in April were at about the same level as in the latter part of March. Prime commercial paper was quoted at 4 1/2 per cent and 90 day bankers' acceptances at 4 per cent throughout the period.

## FEDERAL RESERVE BOARD

X-4037

## Statement for the Press

For Immediate Release

April 25, 1924.

CONDITION OF ACCEPTANCE MARKET

March 13 to April 9, 1924.

During the period ending April 9, the acceptance market was under the influence of wide variations in money rates. The easing of the money market in the middle of March resulted in an active demand for acceptances, especially from city banks, which was temporarily in excess of the supply. But early in April the money market became firmer and the demand for bills slackened. Notwithstanding a slight increase in the supply of bills the active demand, together with heavy maturities, resulted in a further reduction in dealers' portfolios which reached the lowest point since October. Bills drawn to finance the exportation of cotton and the importation of sugar constituted the greater proportion of the total supply but considerable amounts were issued against silk, wool, provisions, and to furnish dollar exchange.

Easier money rates in March were reflected immediately in lower acceptance quotations, but by the close of the period the rate had partly recovered. Rates ranged from  $3\frac{7}{8}$  to  $4\frac{1}{8}$  per cent bid and  $3\frac{3}{4}$  to  $4\frac{1}{8}$  per cent offered for maturities up to 90 days and from 4 to  $4\frac{1}{2}$  per cent bid and  $3\frac{7}{8}$  to  $4\frac{3}{8}$  per cent offered for maturities of more than three months.

## FEDERAL RESERVE BOARD

## STATEMENT FOR THE PRESS

For Immediate Release.

April 23, 1924.  
X-4039

The complete official English text of the reports of the experts appointed by the Reparations Commission to make an inquiry into fiscal and monetary conditions in Germany (the so-called Dawes-McKenna reports) will appear in the May issue of the Federal Reserve Bulletin, the official monthly publication of the Federal Reserve Board.

The Federal Reserve Board has announced that it will, on order, be able to supply, at a nominal charge, pamphlets containing a reprint of that portion of the May issue of the Federal Reserve Bulletin containing the text of the Dawes-McKenna reports.

## FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

X-4040

April 29, 1924.

SUBJECT: Revision of Code Word "Archery".

Dear Sir:

There is enclosed herewith a revision of the translation for the code word "Archery", necessitated by the adoption of the new Regulation "H", Series of 1924.

Very truly yours,

J. C. Noell,  
Assistant Secretary.

(Enclosure)

TO CHAIRMEN OF ALL F. R. BANKS.

(4-26-24)

CODE FOR TELEGRAPHIC ADVICE  
APPROVAL OF APPLICATIONS OF STATE INSTITUTIONS FOR MEMBERSHIP.

Archery - The application of ----- for membership has been approved by the Federal Reserve Board subject to the conditions enumerated in Section IV, Regulation H, series of 1924, numbered 1 to 9 inclusive, (Should any of the following conditions be imposed, they will be referred to by number):

10. Prior to the payment of a dividend you shall carry to surplus account not less than one-tenth part of your net profits for the preceding dividend period until your surplus fund shall amount to twenty per cent of your capital stock.
11. You shall agree not to pay any dividend until you have a surplus of (\$---), and that thereafter prior to the payment of a dividend you shall carry to surplus account not less than one-tenth part of your net profits for the preceding dividend period until your surplus fund shall amount to twenty per cent of your capital stock.
12. You shall charge off at once, out of undivided earnings, not less than (\$---) from your securities account, and shall agree that after admission to the system you will charge off from this account annually not less than twenty per cent of the depreciation in your investments, until the book and market values thereof are more nearly in accord.
13. You shall agree to bond your active officers and employees handling cash or securities or having access to same.
14. You shall dispose of or otherwise secure any loan which may be secured by your own stock.
15. You shall agree to require financial statements wherever possible in connection with all important loans.
16. You shall agree to reduce annually the amount charged to ---- until the same more nearly represents actual liquidating value.
17. You shall agree to reduce the amount of your ----- and make every effort to keep same at a minimum.

18. As provided in the Federal Reserve Board's Regulation H, series of 1924, you shall increase your paid-up and unimpaired capital within five years after the approval of your application by the Federal Reserve Board to \$ ----- . For the purpose of providing for such increase, you shall set aside each year in a fund exclusively applicable to such capital increase not less than fifty per cent of your net earnings for the preceding year prior to the payment of dividends, and if such net earnings exceed twelve per cent of your paid-up capital, then all net earnings in excess of six per cent of your paid-up capital shall be carried to such fund, until such fund amounts to \$ ----- . Whenever such fund shall amount to \$ ----- , or at such other time as the Federal Reserve Board may require, such fund or as much thereof as may be necessary shall be converted into capital by a stock dividend or used in any other manner permitted by State law to increase your capital to the required amount. Such increase in capital may be provided in whole or in part by the sale of additional stock.

\* \* \*



## FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARDApril 29, 1924.  
X-4041

SUBJECT: Advice of Holiday.

Dear Sir:

The Federal Reserve Bank of San Francisco, together with its Los Angeles Branch, will be closed on Tuesday, May 6th, on account of Election Day. Therefore, those offices will not participate in either the regular daily Gold Fund Clearing or the Federal Reserve Note Clearing of that date, May 6th. Please include your credits for May 6th with your credits for May 7th for those offices in your Gold Fund Clearing telegrams of May 7th, and make no shipment of San Francisco Federal Reserve Notes, fit or unfit, to that office or to Washington, respectively; on date of holiday, May 6th.

Kindly notify Branches.

Yours very truly,

J. C. Noell,  
Assistant Secretary.

To Governors of all F. R. Banks, except San Francisco.

IN THE DISTRICT COURT OF THE UNITED STATES,  
 IN AND FOR THE DISTRICT OF IDAHO,  
 EASTERN DIVISION

FEDERAL RESERVE BANK OF )  
 SAN FRANCISCO, a corporation, :  
 )  
 Plaintiff, : No. 415  
 )  
 v. : MEMORANDUM DECISION ON  
 ) DEMURRER TO AMENDED COMPLAINT.  
 A. D. MILLER, JR., :  
 )  
 Defendant. :

March 31st, 1924.

Albert C. Agnew, Geo. H. Lowe and Budge & Merrill, Attorneys  
 for Plaintiff.

Miller & Ricks, Attorneys for Defendant.

DIETRICH, DISTRICT JUDGE:

The plaintiff, as assignee, sues the defendant, a resident citizen of Idaho, upon a promissory note given by him to a bank organized and doing business in the State of Idaho under the laws of that state. By his demurrer defendant challenges the jurisdiction of the court, relying upon the provision that "no district court shall have cognizance of any suit (except upon foreign bills of exchange) to recover upon any promissory note or other chose in action in favor of any assignee \* \* \* unless such suit might have been prosecuted in such court to recover upon

said note or other chose in action if no assignment had been made."

Sec. 24, Judicial Code.

Clearly the objection would be well taken if jurisdiction were predicated upon diversity of citizenship. But the plaintiff contends that it being a federal reserve bank, organized under the laws of the United States, the suit is to be deemed to be one "arising under the constitution or laws of the United States". And in this position it seems to be clearly sustained by the decided cases. See *Am. Bank & Trust Co. v. Federal Reserve Bank of Atlanta*, 256 U. S. 350; *Bacon v. Federal Reserve Bank of San Francisco*, 289 Fed. 513, and *Federal Reserve Bank of Dallas v. Webster*, 287 Fed. 579.

The defendant, however, conceding this contention, still urges that the "assignee clause", above quoted, limits the jurisdiction of federal courts as well in cases arising under the constitution or laws of the United States as where diversity of citizenship is relied upon. And it must be conceded that, considered apart from its origin and history, the language is readily susceptible to such a construction. But it is to be noted that as originally enacted (Sept. 24, 1789) the limitation could have had reference only to suits where jurisdiction rests upon diversity of citizenship or the alienage of one of the parties. The original enactment is found in Sec. 629 of the Revised Statutes of the United States (1878 Edition), which is as follows:

"The Circuit courts shall have original jurisdiction as follows:  
"First. Of all suits of a civil nature at common law or in equity, where the matter in dispute, exclusive of costs, exceeds the sum or value of five hundred dollars, and an alien is a party, or the suit is between a citizen of the state where it is brought and a citizen of another state: Provided, That no circuit court shall have cognizance of any suit to recover the contents of any promissory note or other chose in action in favor of an assignee, unless a suit might

have been prosecuted in such court to recover the said contents if no assignment had been made, except in cases of foreign bills of exchange."

Clearly by the proviso Congress originally intended the limitation to apply only to cases referred to in this subdivision.

By the amendment of August 13, 1888 (25 Stat. 433), there were gathered together in the same paragraph provisions covering jurisdiction not only of cases where one party is an alien or where there is diversity of citizenship, but also cases arising under the constitution or laws of the United States, or treaties, and also cases in which the United States was plaintiff, and following the paragraph there is a provision substantially the same as the proviso above quoted.

With some difference in arrangement and slight differences in language, the whole paragraph, including the limitation, is carried forward into the first subdivision of section 24 of the Judicial Code (Act of March 3, 1911), upon which defendant relies.

Without elaborate discussion, it may be briefly stated that there is no indication anywhere that Congress ever intended to enlarge the scope of the proviso clause as originally enacted, or to make it applicable to suits other than those there referred to. It is not thought that an intention materially to change or enlarge the application of the original clause should be inferred from slight changes in phraseology and the more logical and compact arrangement of existing provisions of the law. Sections 294 and 295, Judicial Code; *Anderson v. Pacific etc. Co.*, 225 U. S. 187; *Hermann v. Edwards*, 238 U. S. 107. The proviso has been the subject of consideration in a multitude of decisions, many of them since the revision of 1888, but in no case called to my attention has it been held to apply

where jurisdiction is predicated upon the ground that the suit arises under the constitution or laws of the United States.

The precise question is discussed at length in Federal Reserve Bank of Dallas v. Webster, 287 Fed. 579, and Sowell v. Federal Reserve Bank, 294 Fed. 798, the reasoning of which is highly persuasive.

The demurrer will be overruled.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

X-4043  
April 30, 1924.

SUBJECT: Banking Hours, Salt Lake City.

Dear Sir:

The Federal Reserve Board is advised by the Federal Reserve Bank of San Francisco that the banking hours at the Salt Lake City Branch during the period May 15th to September 15th inclusive, will be from 9 a.m. to 2 p.m. mountain time, except on Saturdays, when the hours will be 9 a.m. to 12 noon, as at present.

Kindly notify Branches.

Yours very truly,

J. C. Noell,  
Assistant Secretary.

To Governors of all F. R. Banks .

# FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

April 30, 1924.  
X-4044

Dear Sir:

I am enclosing herewith for your information a copy of the opinion rendered April 28 by the Supreme Court of the United States in the case of State ex rel Burnes National Bank of St. Joseph v. Duncan, which reverses the decision of the Supreme Court of Missouri and upholds the right of national banks in Missouri to exercise trust powers.

As you probably know, the Burnes National Bank had been named as executor under a will and had made application to the Probate Court having jurisdiction, for appointment as such executor. On January 29, 1923, the Probate Court refused to issue letters testamentary to the national bank, on the ground that under the laws of Missouri the bank was not authorized to act as executor. The national bank applied to the Supreme Court of Missouri for a writ of mandamus, requiring the Probate Court to appoint it as executor. On January 4, 1924, the Supreme Court of Missouri rendered a decision denying the writ of mandamus. The Court held in effect that the exercise of trust powers by national banks in Missouri was in contravention of State law. It considered the provision of Section 11(k) of the Federal Reserve Act that the exercise of trust powers by national banks shall not be considered in contravention of State law when State institutions which compete with national banks are permitted to exercise such powers, but failed to apply this provision, arguing that it is not controlling and that trust companies in Missouri do not compete with national banks in the sense contemplated by the statute.

The case was promptly appealed to the Supreme Court of the United States, was advanced on the docket and was argued on April 11. At the suggestion of the Federal Reserve Board and the Comptroller of the Currency, the Secretary of the Treasury requested the Department of Justice to intervene in the case on behalf of the United States; and in accordance with this request the Solicitor General filed a brief and made an oral argument of the case in behalf of the United States as *amicus curiae*.

In reversing the decision of the Supreme Court of Missouri the Supreme Court of the United States said that, "Whatever may be the State law, national banks having the permit of the Federal Reserve Board may act as executors if trust companies competing with them have that power". This would seem to establish once and for all the right of national banks to exercise trust powers in any State in which competing State corporations exercise such powers, regardless of discriminatory State legislation. Mr. Justice Holmes rendered the opinion of the Court and Mr. Justice Sutherland rendered a dissenting opinion, in which Mr. Justice McReynolds concurred.

It is believed that this decision, which was rendered just seventeen days after the case was argued and less than seventeen weeks after the decision of the Supreme Court of Missouri, establishes quite a record for speed. It is also interesting to note that the case was finally decided by the Supreme Court of the United States almost exactly fifteen months after the Probate Court refused to issue letters testamentary to the national bank.

Very truly yours,

Walter Wyatt,  
General Counsel.

(Enclosure - opinion)



FEDERAL RESERVE BOARD

X-4045

STATEMENT FOR THE PRESS

For Release in Morning Papers,  
Monday, May 5, 1924.

The Federal Reserve Bulletin for May will contain the following summary of the provisions of the report to the Reparations Commission made by the committee of experts on the German budget and currency stabilization.

The May issue will also contain the complete official English text of the reports of the two committees (the so-called Dewes and McKenna reports). Copies of reprints of the text of the reports can be obtained from the Federal Reserve Board at a nominal charge.

REPARATION PAYMENTS AND STABILIZATION OF GERMAN CURRENCY.

Report of Experts to Reparation Commission.- During the month the principal event of interest has been the report of the committees of experts appointed by the Reparation Commission to make an inquiry into fiscal and monetary conditions in Germany and their relation to the problem of reparations. After receiving the unanimous approval of the Reparation Commission the reports of the experts were accepted by the German Government and favorably received by the Governments of the Allied countries as offering a practical basis for a solution of the problem of reparations. In view of the importance of these reports, which are reprinted in full elsewhere in this issue, the present review summarizes the proposed program of action contained in the recommendations of the committee on budget and currency.

Under its terms of reference this committee was to consider "means of balancing the German budget and the measures to be taken to stabilize its currency." The essential features of the plan recommended by the committee are a schedule of reparation payments to be made by Germany directly out of taxation and through the imposition of a mortgage debt upon German railways and industry; the separation of collections in Germany, for which the German Government is to be held responsible, from the transfer of funds abroad, which is to be controlled by a committee representing the Allies whose function it

will be to make the maximum transfers consistent with maintenance of exchange stability; the establishment of a new bank of issue to unify and stabilize German currency; and the flotation of a foreign loan intended to assist in the establishment of the bank and in enabling Germany to meet her most urgent immediate obligations.

The committee regards its proposal as one indivisible whole and considers it essential to its successful operation that the report be adopted in its entirety. It furthermore points out that while the plan does not "attempt a solution of the whole reparation problem, it foreshadows a settlement extending in its application for a sufficient time to restore confidence, and at the same time is so framed as to facilitate a final and comprehensive agreement as to all the problems of reparation and connected questions as soon as circumstances make this possible."

In considering the conditions essential to the restoration of Germany's credit and the establishment and maintenance of stability in budget and currency, the committee based its report on the assumption that the fiscal and economic unity of Germany will be restored. Furthermore, the committee recognizes that Germany's present financial conditions are such that reparation payments can be made from her ordinary budget revenues only after a period of recuperation. The report says: "At the time of our investigation Germany was passing through an acute economic crisis, the direct result and the culminating point of a depreciation of the currency so catastrophic as practically to destroy the currency and reduce the budget to all but a shadow. The habit of saving has been destroyed and it will require time and the restoration of confidence to reestablish it. The existing wealth is maldistributed in an almost unparalleled degree. The cessation of depreciation, with the consequent removal of the premium on exports and the stabilization of prices at a level which

is momentarily, at any rate, above that of the world level, has had important reactions. Finally, the state of employment and the fiscal and economic machinery of Germany have been violently deranged by the events of 1923. A return to normal conditions in this respect can not be effected overnight."

In its analysis of the problem of stabilization of the German currency and balancing the German budget, the committee distinguishes sharply between the two phases of the problem, the amount of revenue Germany can make available for the reparation account and the amount which can be transferred to foreign countries. Since the probable amount of the budget surplus and other collections on reparation account can be more definitely estimated than the amount which can be made available for payments abroad, the report presents a schedule of annual payments over a series of years, but does not undertake to estimate the amounts that can be converted into foreign currencies without causing instability of exchange. The limits within which payments can be made abroad are defined as follows: "The funds raised and transferred to the Allies on the reparation account can not in the long run exceed the sums which the balance of payments makes it possible to transfer without currency and budget instability ensuing." The entire plan rests upon this distinction between the collections in Germany on reparation account, which are measured by the German taxpayers' capacity to pay, and the transfer of funds to the Allies, the volume of which depends in the final analysis on Germany's balance of international payments.

Schedule of Collections.-

The committee, in view of its terms of reference, did not undertake to determine the total amount of reparation payments, but worked out a plan of annual payments to be inclusive for any particular year of all possible charges for which Germany may be liable to the Allies, with the understanding that any

addition to one category of charges can only be made at the expense of another. The first four years of the operation of the plan are regarded as a period of recuperation and transition, with a gradual increase of payments to the fifth year, when the amount to be paid reaches a standard total. During the first two years no payments are to be made out of ordinary budget receipts; in the following years the payments from this source are increased so that in the standard year the budget furnishes one-half of the total payments. The plan further provides for a foreign loan and for the collection of interest upon a mortgage indebtedness to be placed on German railroads and industry. Essential deliveries in kind are to continue and their value is to be included each year in the total of payments prescribed by the plan. The amounts which it is estimated Germany will be in a position to pay during the periods of recuperation and transition and the standard amounts specified for subsequent years are given in the following schedule, which designates the several sources from which the funds are to be derived. Provision is made for modification of the amounts set forth in the schedule during the third and fourth years in accordance with the yield of certain controlled revenues and for additions to the standard payments to be determined by an index of prosperity.

## SCHEDULE OF COLLECTIONS

(In millions of gold marks)

	Budget moratorium period		Transition period		Standard year
	First Year	Second Year	Third Year	Fourth Year	Fifth and subsequent years
Ordinary budget -----			110	500	1,250
Foreign loan -----	800				
Interest on railway bonds -----	200	595	550	660	660
Sale of railway preference shares -----		500			
Interest on industrial bonds -----		125	250	300	300
Transport tax -----			290	290	290
Total -----	1,000	1,220	1,200	1,750	2,500

Sources of collections -

In the proposed schedule, as shown above, no collections on reparation account are expected to be made out of funds derived from the ordinary budget during the two years of recuperation or so-called budget moratorium. It is a requirement of the plan, however, that for these two years taken as a whole ordinary revenues and expenditures shall balance.

In the third year the budget is expected to contribute 110,000,000 gold marks, in the fourth year 500,000,000 marks, and in the fifth and subsequent years 1,250,000,000 marks, which constitutes one-half of the total standard payment. The contributions of the budget to reparation payments are to be secured by the control and supervision of revenues derived from taxes on tobacco, alcohol, sugar, and beer, and from customs receipts. During the transition period, the third and fourth years, provision is made for increases and decreases in payments within the

limit of 250,000,000 marks, dependent upon the yield of these controlled revenues. It is estimated that these revenues will yield in the standard year over 2,000,000,000 marks, against which reparation payments will be a first charge. Any excess of yield over this charge will be available to the German Government for ordinary expenditures. Beyond indicating the total amounts to be paid from budget and the guarantees provided by the controlled revenues, the committee does not undertake to prescribe methods of raising revenue, but Germany is left free to devise such fiscal arrangements as seem best adapted to her conditions. The committee does, however, commend to the German Government certain methods of taxation which have been worked out by technical experts.

A proposed foreign loan of 800,000,000 gold marks is to be the chief source of reparation payment during the first year. This loan is intended to "serve the double purpose of assuring currency stability and financing essential deliveries in kind during the preliminary period of economic rehabilitation." The relation of this loan to the proposed bank of issue and its use as a basis of currency stabilization is considered later in this review.

Other proposed sources of payment are interest on railroad and industrial bonds, the sale of railway preference shares, and the transport tax. The committee places upon the German railroads a total valuation of 26,000,000,000 gold marks, and against this total its plan provides for the issue of 11,000,000,000 of mortgage bonds, 2,000,000,000 of preference shares, and 13,000,000,000 of common stock. The mortgage bonds, which shall be guaranteed by the German Government, are to be turned over to the Reparation Commission and are to bear in the standard year a rate of interest of 5 per cent and an amortization charge of 1 per cent.

The income from these bonds, which increases during the first four years, is the principal source of payments during these years. Of the preference shares, one-fourth is to be turned over to the German Government and three-fourths to a company which is to take over the operation of the railroads. This company is to be administered by a board of directors representing the Reparation Commission, the German Government, and the holders of the preference shares. From the sale of its preference shares the Government is to make reparation payments in the second year amounting to 500,000,000 marks, and in case the sale of these shares fails to yield this amount the deficit is to be made up by an internal loan. The common stock is to be issued to the German Government, which will have authority to hold the stock or to sell it, as it prefers. Through redemption of the bonds and the repurchase of the preference shares the plan provides a means for the German Government ultimately to regain control of the railroads.

Upon German industry the plan places a mortgage amounting to 5,000,000,000 gold marks to be represented by bonds, the burden to be distributed among individual concerns and guaranteed by the Government. The yield of these bonds in the standard year (5 per cent interest plus 1 per cent amortization) is to be a source of reparation payments beginning with the second year. The tax now levied on railroad transportation is retained and, beginning with the third year, is to be a direct source of reparation payments up to 290,000,000 marks. Total payments under the schedule, as shown in the table, are to increase from 1,000,000,000 gold marks in the first year to 2,500,000,000 gold marks in the standard year.

Commensurate taxation. -

A guiding principle used by the committee in determining this schedule of annual payments was that the German people should bear a burden of taxation as heavy as that borne by the peoples of the allied countries - the principle of commensurate taxation. This principle, which is considered just in its application to Germany, is also deemed to be economically desirable, because it tends toward competitive equality in international trade between Germany and the Allies. The placing of a mortgage debt of 16,000,000,000 marks upon German railroads and industry is in recognition of the fact that all bonded indebtedness in Germany has been virtually extinguished through the fall of the mark. Railroads and industry, which through the depreciation of the German currency have been relieved of a large part of their burden of bonded indebtedness to investors, are to contribute under this plan to currency and fiscal restoration and to reparation payments through the assumption of a mortgage debt to the Reparation Commission. Interest payments on this mortgage debt into reparation account will under the plan take the place of the annual interest charges which were borne by German enterprises in the years before inflation. No mortgage debt is placed upon agriculture, but it is recommended that the German Government, in case it deems it desirable, impose such a mortgage in favor of the regular budget. Certain obligations, it may be noted, have already been imposed upon agricultural land through the levy which guarantees the rentenmarks.

Two considerations are indicated by the committee which might lead to a modification of the annual totals specified in the schedule - growth of industrial prosperity and changes in the value of gold. For the purpose of enabling the



Allies to share in the growth of German industry and trade, an index of prosperity is proposed, which, after the first five years, may indicate variable additions to the standard payments on reparation account. Thus the payments, instead of being modified by changes in the value of exports alone as is contemplated under existing arrangements, will under the proposed plan increase in accordance with a composite index based upon statistics of railway traffic, population growth, total foreign trade, consumption of tobacco, sugar, beer, and alcohol, budget expenditures (excluding reparation payments), and per capita consumption of coal. There is no provision for decreasing the standard payments on the basis of the prosperity index, but in case it indicates a reduced capacity for payment in any year the amount of the deficiency is to be deducted from any future supplementary payment based on the index. A further modification is provided for on the basis of changes in the value of gold which, in case they exceed 10 per cent of its value in 1928, may result in future years in a corresponding increase or decrease of annual reparation payments.

Transfer of funds to Allies - A more important factor in its possible effect upon total reparation payments is the provision which places a definite limit upon the accumulation of reparation funds in Germany in excess of the amount that can be transferred abroad without resulting in undue fluctuation of exchanges. In case collections on reparation account are in excess of what Germany's balance of payments will make it possible to remit to the Allies, a limit is placed upon the accumulation of reparation funds in Germany. Up to 2,000,000,000 marks these funds, which are to be deposited in the new bank of issue, may be used in short-term credit operations in Germany. If the accumulation continues beyond this amount and up to 5,000,000,000 marks, the funds may be used by the Allies in Germany in the purchase of bonds and other forms of investment. When, however, the total amount of these funds reaches 5,000,000,000 marks provision is made for a decrease of payments out of the budget and the transport tax and for their discontinuance to the extent that transfers can not be effected. Even before the funds accumulated reach this total the payments may be modified if in the judgment of the transfer committee it appears that further accumulation is a menace to the fiscal or economic situation of Germany or to the creditor countries. In case the transfer committee discovers concerted financial maneuvers by the Government or by individuals to prevent<sup>the</sup> transfer, the transfer committee may undertake whatever measures are necessary to defeat these maneuvers and is authorized under these circumstances to accumulate funds beyond the limit of 5,000,000,000 marks.

In discussing the relation between collection - that is, the German taxpayers' capacity to pay - and remittance abroad - that is, Germany's capacity

to pay the Allies - recognition is made in the report of the fact that the amount that can be paid abroad by means of an economic surplus in international trade is "by comparison with the budget, incapable of close calculation, 'unmanageable', and too elastic. But limits set by economic balance, if impossible of exact determination, are real. For stability of a country's currency to be permanently maintained, not only must her budget be balanced but her earnings from abroad must be equal to the payments she must make abroad, including not only payments for goods she imports but sums paid in reparation. Nor can balance of the budget itself be permanently maintained except on the same conditions." Thus the amount which the exchange position makes it possible for the Allies to transfer not only limits the receipts to the Allies on reparation account but also ultimately places a limit upon the collections to be made in Germany. Faced with this limitation the committee does not undertake to make a definite estimate of the amount which can be transmitted, but makes the volume of transfers depend upon the actual exchange situation as it develops in experience.

Bank of Issue - Reference has already been made to the proposed bank of issue, which is to serve as the depository of reparation funds collected in Germany and is regarded by the committee as an essential agency for the creation of a unified and stable currency. Establishment of the Rentenbank, through which the recent stability of German currency has been brought about, is viewed by the committee as not affording, in the absence of other measures, an adequate guaranty of permanent stabilization. Such stability the committee believes is essential to the maintenance of a balanced budget and the restoration of German

credit. The committee provides safeguards that reparation payments will not lead to instability of exchange through the control it places in the hands of the transfer committee, and proposes to maintain the gold value of the domestic currency by means of the establishment of the new bank of issue and through the limitations placed upon its note-issuing power.

The bank is to perform the usual functions of a central bank and may, in fact, be established through a reorganization of the Reichsbank. The capital of the bank is to be 400,000,000 gold marks, of which one-fourth is to represent the fixed assets of the Reichsbank and the remainder is to be offered for sale in Germany and abroad. The bank is to have the exclusive right, with certain minor qualifications, to issue notes, and all other notes now in circulation are to be gradually withdrawn. Against these notes the bank is required to maintain a normal reserve of  $33\frac{1}{3}$  per cent in gold, stable foreign exchange and gold credits with foreign banks. The purpose is to keep the currency stable in relation to gold and as soon as conditions will permit to place it upon a convertible basis. Against its demand deposits the bank is to maintain a reserve of 12 per cent in gold, with certain further provisions regarding liquidity of assets. The bank is intended to be primarily a bankers' bank, though it may make loans directly to the public, with safeguards as to type and maturity of paper to be discounted. It is to be the fiscal agent of the German Government, but entirely free from governmental control, and its power to lend to the Government and to State enterprises is strictly limited.

It is contemplated that the new bank of issue, which will either supersede the Reichsbank or be the outcome of a reorganization of that bank,

will absorb the recently organized gold discount bank (the so-called Schacht Bank). This latter bank is considered an interim arrangement expressly limited to providing the means of carrying on foreign trade and thus supplementing the Rentenbank, whose operations and currency issues are limited to domestic trade. According to the committee's plan, the Rentenbank is to be liquidated. With the passing of the Rentenbank and the absorption of the gold discount bank, the new bank of issue is intended through its operation at home and abroad to take over the functions which at present are performed by both of these institutions.

Proposed Administrative Machinery - Provision is made in the plan for machinery to administer the bank of issue and the railroads, and for the establishment of a transfer committee. Administrative arrangements with reference to the bank provide for an organization committee consisting of the president of the Reichsbank and one member of the committee of experts; and after its establishment a general board of 14 members, 7 elected by German stockholders and 7 foreign members, representing United States, Great Britain, France, Italy, Belgium, the Netherlands, and Switzerland, to be appointed by the organization committee, and later selfperpetuating. This board is to elect the president of the bank, who must be approved by the president of the Reich, and for the first six months of the bank's operation is to be the president of the Reichsbank. The board is to have general supervision of the operations of the bank, and the actual administration is to be in charge of a managing board to consist of German nationals appointed by the president subject to the approval of the general board and the president of the Reich. In addition the general board shall elect a banking commissioner to supervise the maintenance of reserves and the issue and redemption of notes.

The railroads are to be operated by a board of 18 directors, 9 of whom are to be appointed by the trustee of the mortgage bonds and 9 by the German Government. After the sale of the preference shares the holders of these shares will elect four directors and the Government will appoint five. Of the directors appointed by the trustee, five may be of German nationality. The chairman of the board and the general manager shall be Germans. The foreign members of the board of directors will select the commissioner of railways who is to exercise supervision over the operations of the roads, and in case the railways fail to yield net revenues sufficient to meet the required reparation payments, is to take over the functions of the general manager.

The Reparation Commission will appoint a trustee of bonds and a commissioner of controlled revenues. The trustee will receive and hold the railway and industrial bonds and will have charge of the sale of these bonds and the collection of interest payments. The duty of the commissioner of controlled revenues will be to supervise the reparation payments out of budget, and in case of default to take complete charge of the controlled revenues.

All operations in connection with the transfer of funds to the Allies and the investment in Germany of accumulated funds is to be in charge of a transfer committee appointed by the Reparation Commission. With this committee will rest the decision to suspend collections when the funds exceed the stated limit of 5,000,000,000 marks. This committee will include in its membership the agent for reparation payments, who is to be the principal representative of the Reparation Commission and is to coordinate the activities of all the agencies proposed by the plan.

Foreign Loan - Funds arising from the proposed foreign loan of

800,000,000 gold marks, to which reference has been made in connection with the first year's reparation payments, will be deposited in the bank to the credit of the German Government and will constitute a contribution to its reserves and thus enlarge the basis of its currency issues. The loan will also help to overcome the acute shortage of liquid funds in Germany and will assist in meeting her immediate and more urgent obligations to the Allies, particularly in making payments in Germany for goods to be delivered on reparation account.

In commenting upon the credit position of Germany in connection with the proposed foreign loan and upon the use to be made of the funds thus raised, the report states that -

"A considerable sum can certainly be raised upon the good security that the plan provides, with a clear prospect of improved international political position and of stability.

"The question is, therefore, whether the claims upon Germany can be so reduced by agreement among the allied creditors as to come within this potential credit. If they can, then obviously the greater the reduction the more moderate the sum to be raised, and the greater the probability of Germany successfully raising a loan. If not, then the loan will not be forthcoming, stability can not be insured, and neither this plan nor any other can come into being.

"The successful launching of the scheme depends, therefore, upon three main factors: (1) Limitation of payments for all purposes to 1,000,000,000 gold marks, of which at least 800,000,000 must be spent in Germany for the first year, and thereafter to such sums as are available under the plan during the succeeding years; (2) cooperation between the Allies and Germany in securing political conditions which will incline the investors of the world favorably toward the German loan upon good security; (3) a loan of 800,000,000 gold marks, which will serve the double purpose of securing currency stability and financing essential deliveries in kind during the preliminary period of economic rehabilitation."

Currency Stabilization and Reparations - Flotation of this external loan will be one of the first practical steps in the carrying out of the plan, after the acceptance of the report by the Governments concerned, and will test the acceptability to the investing public of the security offered by the plan. Banking credits of a short-term character have already been granted by New York and London bankers in connection with the recent establishment of the gold discount bank in Germany. The establishment of foreign credits as a means of stabilizing currency in relation to gold was the plan followed by a number of other European countries during the past year, and the results of this method of currency stabilization were described in the previous issue of the Federal Reserve Bulletin. In effect these plans establish a gold exchange standard and may be regarded as constituting an intermediate arrangement between depreciating paper money with wide fluctuations in exchange and currency stability on the gold



standard. Currency reforms undertaken in Europe have been in the direction of reestablishing the connection between domestic currencies and gold by linking them to stable foreign exchanges. In those countries whose budgetary position was not immediately affected by the payment of reparations, this method of currency reform has resulted in a greater stability of exchange. In Germany the balancing of the budget and the stabilization of the currency is complicated by reparation obligations, but in its proposals the committee has considered currency stability as essential to the restoration of German credit and has made the maintenance of stability a limiting factor upon the payment of reparations.

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# FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

X-4047  
May 5, 1924.

Subject: Advice of Holiday; Portland Branch.

Dear Sir:-

The Portland Branch of the Federal Reserve Bank of San Francisco will be closed on Friday, May 16th, on account of Election Day. Therefore, that office will not participate in either the regular daily Gold Fund Clearing or the Federal Reserve Note Clearing of that date. Please include your credits for May 16th with your credits for May 17th for that office in your Gold Fund Clearing telegrams of May 17th.

Kindly notify Branches.

Yours very truly,

J. C. Noell,  
Assistant Secretary.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS, except San Francisco.

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# FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

X-4048  
May 7, 1924.

Subject: Affiliation of officers and employees with outside  
business concerns.

Dear Sir:-

The Board recently received the following anonymous letter: "Since when has the Federal reserve bank through its managers, such as -----, gone into stock selling?" Upon inquiry it developed that an officer of a Federal reserve branch bank had become president and director of a certain real estate investment company. He had accepted this position on the understanding that his connection with the Federal reserve bank should not be used in any way for the benefit of the real estate company, and that he could give to the company only so much of his time and services as were not devoted to the affairs of the Federal reserve branch. When the question was raised as to the propriety of his connection with the real estate company, he immediately severed that connection.

There appears to be no provision of law which would prohibit an officer of a Federal reserve bank from forming an outside connection with a business concern of any kind, but the Federal Reserve Board believes it will be as obvious to the directors of the Federal reserve banks as it is to itself that the good conduct and repute of the Federal Reserve System require that the officers of the reserve banks shall give their entire time and attention to the affairs of the banks and not be identified with any outside business interests.

The suggestion is made that the board of directors of each reserve bank, if it has not already done so, reach some understanding with the personnel of the bank concerning affiliations with outside business enterprises.

Very truly yours,

Governor.

TO CHAIRMEN OF ALL F. R. BANKS.

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# FEDERAL RESERVE BOARD

WASHINGTON

X-4049

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

May 7, 1924

SUBJECT: Report of Committees of Experts to  
Reparation Commission.

Dear Sir:

By direction of the Federal Reserve Board, I am transmitting herewith a copy of the complete official English text, with annexes, of the Report of Committees of Experts to Reparation Commission.

Very truly yours,

J. C. Noell,  
Assistant Secretary.

TO DIRECTORS, CHAIRMEN AND GOVERNORS OF ALL F.R. BANKS,  
AND DIRECTORS OF ALL BRANCHES.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

X-4051a

May 9, 1924.

SUBJECT: Regulation "J", Series of 1924.

Dear Sir:

The Federal Reserve Board has adopted the enclosed Regulation "J", Series of 1924, which supersedes its Regulation "J" of 1920. This Regulation is effective immediately, and you are requested to prepare and send copies to all of your member and clearing non-member banks.

Yours very truly,

Edmund Platt,  
Vice Governor.

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

REGULATION J.  
Series of 1924  
(Superseding Regulation J of 1920)

CHECK CLEARING AND COLLECTION

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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 nonmember 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 nonmember 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 and collect checks for such of its member banks as desire to avail themselves of its privileges and for such nonmember 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 nonmember State banks and trust companies will hereinafter be referred to as nonmember clearing banks.

Each Federal Reserve Bank shall exercise the functions of a clearing house and collect checks 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 nonmember clearing banks in its district, checks<sup>1</sup> drawn

<sup>1</sup>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 the order of a certain person therein named, or to him or his order, or to bearer, and payable on demand.

on all member and nonmember clearing banks, and checks drawn on all other non-member banks which are collectable at par in funds acceptable to the Federal Reserve Bank of the district in which such nonmember banks are located.

(2) Each Federal Reserve Bank will receive at par from other Federal Reserve Banks, and from all member and nonmember clearing banks in other Federal Reserve Districts which are authorized to route direct for the credit of their respective Federal Reserve Banks, checks drawn on all member and nonmember clearing banks of its district, and checks drawn on all other nonmember banks of its district which are collectable at par in funds acceptable to the collecting Federal Reserve Bank.

(3) No Federal Reserve Bank shall receive on deposit or for collection any check drawn on any nonmember bank which cannot be collected at par in funds acceptable to the Federal Reserve Bank of the district in which such nonmember bank is located.

#### SECTION IV. TIME SCHEDULE AND AVAILABILITY OF CREDITS.

(1) Each Federal Reserve Bank will publish a time schedule showing the time at which any item sent to it will be counted as reserve and become available for withdrawal or other use by the sending bank. For all checks received, the sending bank will be given immediate credit, or deferred credit, in accordance with such time schedule, and as provided below.

(2) For all such checks as are received for immediate credit in accordance with such time schedule, immediate credit, subject to final payment, will be given upon the books of the Federal Reserve Bank at full face value in the reserve account or clearing account upon day of receipt, and the proceeds will at once be counted as reserve and become available for withdrawal or other use by the sending bank.

(3) For all such checks as are received for deferred credit in accordance with such time schedule, deferred credit, subject to final payment, will be entered upon the books of the Federal Reserve Bank at full face value, but the proceeds will not be counted as reserve nor become available for withdrawal or other use by the sending bank until such time as may be specified in such time schedule, at which time credit will be transferred from the deferred account to the reserve account or clearing account subject to final payment and will then be counted as reserve and become available for withdrawal or other use by the sending bank.

#### SECTION V. TERMS OF COLLECTION.

The Federal Reserve Board hereby authorizes the Federal Reserve Banks to handle such checks subject to the following terms and conditions; and each member and nonmember clearing bank which sends checks to any Federal Reserve Bank for deposit or collection shall by such action be deemed (a) to authorize the Federal Reserve Banks to handle such checks subject to the following terms and conditions, (b) to warrant its own authority to give the Federal Reserve Banks such authority and (c) to agree to indemnify any Federal Reserve Bank for any loss resulting from the failure of such sending bank to have such authority.

(1) A Federal Reserve Bank will act only as agent of the bank from which it receives such checks and will assume no liability except for its own negligence and its guaranty of prior indorsements.

(2) A Federal Reserve Bank may present such checks for payment or send such checks for collection direct to the bank on which they are drawn or at which they are payable, or in its discretion may forward them to another agent with authority to present them for payment or send them for collection direct to the bank on which they are drawn or at which they are payable.

(3) A Federal Reserve Bank may in its discretion and at its option, either directly or through an agent, accept either cash or bank drafts in payment of or in remittance for such checks and shall not be held liable for any loss resulting from the acceptance of bank drafts in lieu of cash, nor for the failure of the drawee bank or any agent to remit for such checks, nor for the non-payment of any bank draft accepted in payment or as a remittance from the drawee bank or any agent.

(4) Checks received by a Federal Reserve Bank on its member or nonmember clearing banks will ordinarily be forwarded or presented direct to such banks, and such banks will be required to remit or pay therefor at par in cash or bank draft acceptable to the collecting Federal Reserve Bank, or at the option of such Federal Reserve Bank to authorize such Federal Reserve Bank to charge their reserve accounts or clearing accounts; provided, however, that any Federal Reserve Bank may reserve the right in its check collection circular to charge such items to the reserve account or clearing account of any such bank at any time when in any particular case the Federal Reserve Bank deems it necessary to do so.

(5) Checks received by a Federal Reserve Bank payable in other districts will be forwarded for collection upon the terms and conditions herein provided to the Federal Reserve Bank of the district in which such checks are payable.

(6) The amount of any check for which payment is actually and finally collected funds is not received shall be charged back to the forwarding bank, regardless of whether or not the check itself can be returned.

#### SECTION VI. PENALTIES FOR DEFICIENCIES IN RESERVES.

(a) 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 bank 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.

(b) 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. If a member bank draw against items before such time, the draft will be charged against its reserve balance if such balance be sufficient in amount to pay it; but any resulting impairment of reserve balances will be subject to all the penalties provided by the Act.



(c) 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:

1. Deficiencies in reserve balances of member banks in central reserve and reserve cities will be computed on the basis of average daily net deposit balances covering a weekly period of seven 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.

2. Penalties for deficiencies in reserves will be assessed monthly on the basis of average daily deficiencies during each of the reserve computation periods ending in the preceding month.

3. A basic rate of 2 per cent per annum above the Federal Reserve Bank discount rate on 90-day commercial paper will be assessed as a penalty on deficiencies in reserves of member banks.

(d) 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.

1. 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 one-fourth of 1 per cent for each week thereafter during which the average reserve balance is deficient, will be assessed on weekly deficiencies until the required reserve has been restored and maintained for four consecutive weekly periods, provided that the maximum penalty charged will not exceed 10 per cent.

2. When a member bank outside of a central reserve or reserve city has had an average deficiency in reserves for three consecutive semi-monthly periods, a progressive penalty, increasing at the rate of one-half 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.

Each Federal Reserve Bank shall also promulgate rules and regulations not inconsistent with the terms of the law or of this regulation, governing the details of its check clearing and collection operations. Such rules and regulations shall be set forth by the Federal Reserve Banks in their letters of instruction to their member and nonmember clearing banks and shall be binding upon any member or nonmember clearing bank which sends any check to such Federal Reserve Bank for collection or to any other Federal Reserve Bank for the account of such Federal Reserve Bank for collection.

## FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

X-4053  
May 9, 1924.

SUBJECT: Banking hours, Helena Branch.

Dear Sir:

The Federal Reserve Board is advised by the Federal Reserve Bank of Minneapolis that the banking hours at the Helena Branch during the period May 15th to September 1st inclusive, will be from 9 a.m. to 2 p.m. mountain time, except on Saturdays, when the hours will be 9 a.m. to 12 noon, as at present.

Kindly notify Branches.

Yours very truly,

J. C. Noell,  
Assistant Secretary.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS, EXCEPT MINNEAPOLIS.

X-4054

TREASURY DEPARTMENT  
Office of the Secretary  
WASHINGTON

May 6, 1924.

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 April 1 to April 30, 1924, amounting to \$124,410.00, 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 .....	473,000	113,000	60,000	5,000	5,000	656,000
New York .....	436,000	- -	- -	- -	- -	436,000
Philadelphia ..	422,000	208,000	118,000	10,000	- -	758,000
Cleveland .....	64,000	- -	60,000	10,000	- -	134,000
Richmond .....	127,000	66,000	25,000	- -	- -	218,000
Chicago .....	491,000	93,000	25,000	- -	- -	609,000
Kansas City...	100,000	- -	10,000	- -	- -	110,000
San Francisco..	<u>130,000</u>	<u>139,000</u>	<u>- -</u>	<u>- -</u>	<u>- -</u>	<u>269,000</u>
	2,243,000	619,000	298,000	25,000	5,000	3,190,000

3,190,000 sheets at \$39 per M ..... \$124,410.00

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

	<u>Sheets</u>	<u>Compen- sation</u>	<u>Plate Printing</u>	<u>Materials</u>	<u>Inc.Com- pensation</u>	<u>Total</u>
Boston.....	656,000	\$ 8,856.00	\$ 6,724.00	\$7,708.00	\$ 2,296.00	\$ 25,584.00
New York....	436,000	5,886.00	4,469.00	5,123.00	1,526.00	17,004.00
Philadelphia	758,000	10,233.00	7,759.50	8,906.50	2,653.00	29,562.00
Cleveland...	134,000	1,809.00	1,373.50	1,574.50	469.00	5,226.00
Richmond....	218,000	2,943.00	2,234.50	2,561.50	763.00	8,502.00
Chicago.....	609,000	8,221.50	6,242.25	7,155.75	2,131.50	23,751.00
Kansas City.	110,000	1,485.00	1,127.50	1,292.50	385.00	4,290.00
San Francisco	<u>269,000</u>	<u>3,631.50</u>	<u>2,757.25</u>	<u>3,160.75</u>	<u>941.50</u>	<u>10,491.00</u>
	3,190,000	\$43,065.00	\$32,697.50	\$37,482.50	\$11,165.00	\$124,410.00

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

Respectfully,

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

X-4056 308

FEDERAL ADVISORY COUNCIL

STATEMENT FOR THE PRESS

For release in morning papers,  
Wednesday, May 14, 1924.

At the meeting of the Advisory Council of the Federal Reserve Board held in Washington on May 12th and 13th, the resignation of Mr. Alfred L. Aiken as a member and Vice President of the Council was presented. Mr. Charles A. Morss, of Boston, has been designated by the Boston Federal Reserve Bank to succeed Mr. Aiken, and in his place he was elected a member and Vice Chairman of the Executive Committee. Mr. E. F. Swinney, of Kansas City, was elected Vice President of the Council.

In addition to the customary discussion of discount rates and economic conditions, the Council at the request of the Board gave consideration to the Dawes report. In view of the general interest in the matter it was decided to permit the publication of the Council's statement to the Board bearing on this subject, as follows:

"At the request of the Federal Reserve Board the Advisory Council has given careful consideration to the Report of the First Committee of Experts, the so-called Dawes Report.

The Council wishes to record its admiration for the excellent work done by the Committee and to express the hope that with the least possible delay the Committee's recommendations will be carried into actual effect.

The Council furthermore endorses the wish recently expressed by President Coolidge that American private capital and initiative give this plan its hearty support as a demonstration of the Nation's desire to do its full share in the economic rehabilitation of the Old World.

The Council has given particular thought to the question of how far the Federal Reserve System may aid the country in accomplishing these aims.

It is obvious that the Federal Reserve System, as such, cannot by any action of its own cooperate in the flotation and distribution of the new German loan, the absorption of which on a liberal scale by the United States is one of the prerequisites of the Dawes Plan. Nor should any such direct aid by the Federal Reserve System be necessary. There should be no difficulty in placing this loan provided it is properly secured and provided the investing public feels confident that the debtor, having accepted the burden in good faith, will be free to go about his work without hindrance as long as he makes the utmost effort of which he is capable.

While, therefore, the Council has no suggestion to offer to the Federal Reserve Board concerning this phase of the problem, there are important services the Federal Reserve System could render with regard to the operations of the new Note-Issuing Bank which Germany is to organize under the provisions of the Dawes Plan.

The Council urges the Federal Reserve Board to examine very closely into the powers vested in this respect in the Federal Reserve Banks and to study the question how far it may be desirable to amend existing rulings and regulations in order to approach the problem of Europe's financial and economic reconstruction in the most helpful spirit, in the same manner as is being done by the Bank of England and other central note-issuing banks.

Unless America finds ways and means to permit her excessive banking strength to benefit other countries, particularly those striving to bring their house in order, the dollar cannot maintain its position as a world standard of exchange, and foreign countries - and even American banking and commerce - will, once more, in a larger degree become dependent upon and

tributary to the pound sterling, to the greater exclusion of the dollar. It is idle, however, to preach the use of the dollar, unless, at the same time, we render it possible for other countries to avail themselves of our dollar facilities. It is obvious that our credit power cannot continue to grow indefinitely without the danger of over-saturation. If the stream of gold that floods our shores is not stemmed in time it is to be feared that, ultimately, we will not be able to ward off its inflationary effects. And inflation would only aggravate the economic maladjustment already existing within our own boundaries; a maladjustment which not only disturbs and endangers our trade with other countries, but which makes our agricultural situation particularly difficult and distressing.

But, irrespective of the danger of inflation against which there still are at our disposal powerful cushions that could be applied in order to counteract or soften its effect, the problem ought to be weighed from another and even more important angle.

It is the question of whether the world is more likely to regain the blessings of economic stability under the sway of several fluctuating standards of exchange or by a general return, as speedy as circumstances may permit, to definite relations of exchanges to gold as the ultimate measure and regulator.

The Dawes Report leads the world to the cross-roads in this regard. It provides for a German note-issuing bank on a gold basis, but leaves the door open to place it on a sterling basis, and it cannot be denied that there is no small probability of the latter basis being chosen. In the opinion of the Council the sooner Germany can be placed on a gold or gold-exchange basis, the sooner can England, and other countries, also, return to an

unrestricted gold standard, while, if Germany were placed on a sterling basis, England, - in returning to an unrestricted gold basis - would have to pull not only her own weight, but that of Germany also. It is obvious, therefore, that, if the new German bank is placed on the sterling exchange basis, the world must prepare itself to remain on a basis of exchange instability for a prolonged period, the end of which cannot be foreseen, while the adoption of the gold (that is, the dollar) basis would accelerate the return to world-wide stability.

It is this momentous alternative that is involved in the organization of the new German Note-Issuing Bank, and the Council deems it its duty to point to its importance with all the emphasis of which it is capable. It is not as an American problem that we are discussing this phase, but as one that touches the future of all the world.

The Council has been pleased to learn that it has been ruled that Federal Reserve Banks may consider as eligible for their open market purchases certain German dollar trade bills, payable in the United States, if endorsed by the recently established German Gold Rediscount Bank, the so-called Schacht Bank, and by approved American endorsers.

The Council sees in this decision a move in the right direction, helpful to all parties concerned, inasmuch as it transfers credit power from where it is idle and redundant to where an acute shortage of credit cripples the purchasing ability of a country, which normally ranks second in line as a buyer of our goods.

The Council recommends that, when the new German Note-Issuing Bank, provided in the Dawes Plan, is organized, the Federal Reserve Banks take the steps necessary in order to facilitate the rediscounting in this country

of properly protected German gold bills, be it through the intermediary of American banking institutions, or through so-called agency agreements, or such other arrangements as have been concluded by Federal Reserve Banks with Central Banks of other countries.

Measures of this character do not only tend to bring our gold hoard into active and healthy use, but by enabling and encouraging other countries to trade in terms of dollars we stimulate our own foreign commerce. We facilitate furthermore, the direct sale in dollars, of our own products, instead of making foreign countries and ourselves dependant in this respect upon Great Britain's acting as broker and banker, as naturally she would, where the Pound Sterling would govern as an exclusive basis of commerce and trade.

If there is any reason to assume that success of the Dawes Plan may prove the turning point in Europe's long road of suffering and decline, it is a unique opportunity and duty for the United States to lend a helpful hand to the utmost of its ability.

In the opinion of the Council, there does not seem to be any room for doubt with regard to the policy which in these circumstances the Federal Reserve System should pursue."

May 13, 1924.



FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

X-4057

May 15, 1924.

SUBJECT: Limitation of Gold Held as Security for Federal Reserve Notes.

Dear Sir:

Reports received by the Board sometime ago from one of the Federal Reserve Banks indicated that the Federal Reserve Agent held as security for Federal reserve notes an amount of gold in excess of the amount of the bank's notes actually outstanding. At the request of the Board, its Counsel has rendered an opinion to the effect that the Board may properly issue a ruling requiring that a Federal Reserve Bank shall at no time have lodged with the Federal Reserve Agent an amount of gold in excess of its Federal reserve notes outstanding.

By direction of the Board there is transmitted herewith a copy of Counsel's memorandum and you are requested to give the Board the benefit of any comment you may have to make on the subject covered thereby.

Yours very truly,

Walter L. Eddy,  
Secretary.

(Enclosure)

TO ALL FEDERAL RESERVE AGENTS

( C O P Y )

X-4057-a  
Apr. 18, 1924.

To Federal Reserve Board

Subject: Limitation of gold held by  
Federal reserve agents as secur-  
ity for Federal reserve notes.

From Mr. Freeman, Assistant Counsel.

This office has been requested for an opinion as to whether or not the Board can legally issue a ruling "requiring that a Federal reserve bank shall at no time have lodged with the Federal reserve agent an amount of gold in excess of the amount of its Federal reserve notes outstanding."

In my opinion the Board may properly issue such a ruling. Section 16 of the Federal Reserve Act, which deals with the issuance of Federal reserve notes, contemplates that the Federal reserve agent shall issue Federal reserve notes to the Federal reserve bank upon the deposit of an equal amount of collateral security therefor, such security consisting of eligible paper, gold and gold certificates. When notes are thus issued upon the security of gold, the Act requires that such gold be held in the joint custody of the Federal reserve agent and the Federal reserve bank, the agent and the bank being jointly liable therefor. This liability for the safe custody of such gold imposes a burden upon the Federal reserve agent and I do not believe that the Act contemplates that he must assume liability for gold owned by the Federal reserve bank and not required as security for the notes. In this capacity, the Federal reserve agent is the Board's representative and the Act similarly does not contemplate that the Board should be burdened with such responsibility.

Section 16 provides specifically that Federal reserve notes may be issued upon the security "of collateral in amount equal to the sum of the Federal reserve notes thus applied for and issued pursuant to such application", and also provides that "in no event shall such collateral security, whether gold, gold certificates, or eligible paper, be less than the amount of Federal reserve notes applied for". The Act thus fixes a minimum of required collateral security and while it does not provide specifically that the Federal reserve agent shall not hold security in excess of the amount of notes issued, the following provision indicates that in ordinary circumstances there need be no excess collateral: "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". In other words, unless and until the Board does call for such additional security, an amount of security equal to the amount of notes issued satisfies the requirements of the law. It would follow that the Board, in the exercise of its general supervisory power over Federal reserve banks and to avoid unnecessary liability, may properly rule that the custody of gold collateral in excess of 100% and the responsibility for its safekeeping should remain in the Federal reserve bank. The provision authorizing the Board to call for additional security for outstanding notes, moreover, probably would not authorize the Board to require a Federal reserve bank to deposit more than 100% in gold security, as this provision no doubt refers to additional security in the form of eligible paper, or a greater percentage of gold security in place of paper security, but not exceeding 100%.

Respectfully,

(Signed) Edgar W. Freeman,  
Assistant Counsel.

X-4059

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(Copied from The Saturday Evening Post)  
April 12, 1924, issue.

THAT PAIN IN OUR NORTHWEST  
By Garet Garrett.

OH, WRETCHED abundance! Ruin and plenty are as twin specters stalking to and fro in the land. The Department of Agriculture causes expensive color posters to be displayed on the walls of the post offices, urging people to eat more meat. This is for the sake of the cattle raisers. There is propaganda in the same spirit for the sake of the grain growers. Bread is man's perfect food. Increase thereof thy morsel.

We eat what we can. Yet of precious sustenance there is a surplus left. American agriculture is at the verge of economic despair. Over great fertile areas it is bankrupt. The Government is called upon to save it, either directly by grants of money from the United States Treasury, or indirectly by law, or both. It is believed to be unable to save itself. Also it is believed that unless it is saved the whole country will sink under the calamity of excessive abundance. Does it lie in riddle between God and man that you can have ruin and plenty at the same time? Hath man himself invented this contradiction? Or is the omen of disaster a product perhaps of the political imagination?

For the dispassionate answer consult statistics. What in the broadest outline is the statistical history of American agriculture these last few years? We take the Statistical Abstract of the last census, turn to page 682, and see that the value of farms and farm property has increased in twenty years as follows:

- In 1900 it was 20 billions.
- In 1910 it was 41 billions.
- In 1920 it was 78 billions.

Increase in twenty years, 290 per cent, or at the rate of 14 1/2 per cent a year.

However, this is the Census Bureau talking. Its word on agricultural matters is perhaps incomplete. We want to know if the value of the land's produce has been increasing, and at what rate; for of course the value of the land is determined, or should be determined, by the value of what it produces. So we take down the latest yearbook of the Department of Agriculture; and therein it appears that the annual value of farm products has been as follows:

- 1900, 5 billion dollars
- 1905, 6 1/4 billion dollars
- 1910, 9 billion dollars
- 1915, 10 3/4 billion dollars
- 1916, 13 1/2 billion dollars
- 1917, 19 1/3 billion dollars
- 1918, 22 1/2 billion dollars
- 1919, 23 3/4 billion dollars
- 1920, 18 1/3 billion dollars
- 1921, 12 1/2 billion dollars
- 1922, 14 1/3 billion dollars

In fifteen years from 1900 to 1915 the aggregate value of the land's produce more than doubled; in the next four years, representing the war's demand, it more than doubled again. In 1920 and 1921 it was roughly halved, owing to the great postwar price deflation, but in 1922 it somewhat recovered, and in 1923 it was even a little better. The remarkable fact is that after all the deflation of prices the value of the land's produce is nearly 50 per cent greater than it was in any year preceding the war.

How much of this increase may have come from an extension of the area farmed? Let us regard that factor. There must have been an increase in the number of farms and in the number of acres tilled. So it is. But the increase has been unimportant. Only about 21 per cent in twenty years against an increase of 290 per cent in the value of farms and farm property. So now we look for the value of crops per acre. That will be the final test. Finding it, in the yearbook, we see that this corresponds to the increase in the aggregate value of crops. In fifteen years from 1900 to 1915 the value of crops per acre doubled; then in the war period it doubled again. In 1920 and 1921 it was halved; in 1922 it somewhat recovered and is still, after all the postwar price deflation, very much higher than in any year before the war. Clearly, the value of the land's produce has enormously increased. But beware of statistics. They have been known to bite the hand that made them. You would think an industry ought not to be ruined and was certainly not doomed whose plant and equipment had been increasing in value for twenty years at the rate of  $14\frac{1}{2}$  per cent a year, and whose product in that time had more than twice doubled in value, with a setback in the next three which, though it was very severe, leaves it still much higher than ever it was before the war, considered either in gross or in value per acre. You are tempted to say if it is ruined it has only itself to blame, even to suspect that the agricultural crisis is perhaps greatly imagined. You may be right-- statistically, rationally right-- and everyone else may be emotionally wrong. That will not dispose of the situation.

#### SOME STRIKING FIGURES.

For a situation does exist. Everything about it is controversial. All its premises are debatable. Even its geography is vague. Generally it is referred to as the situation in the Northwest. The American Northwest is no precisely delimited area. Yet from certain phenomena a rough fact appears. The fact is that a situation, itself undefined, is most acute in what is called the Ninth Federal Reserve Bank District, which comprises principally Minnesota, North Dakota, South Dakota and Montana.

Having so far as possible isolated the situation, it is natural then to ask, What is it?

Stupid question! As well ask a mathematician what one is. If you insist on a simple definition and will not stay for a dissertation on the properties of number, all he can say is that one is one. Likewise, if you insist upon a simple definition of what the situation in the Northwest is, upon having it without a compendium of economic and social theory since Adam Smith, all that anyone can do is to refer you to it. There it is. Look at it. Among its effects and phenomena are these:

1. In January the Department of Agriculture published the findings of a special survey touching 2,289,000 farmers in fifteen wheat and corn growing states. In two years--1921 and 1922--the number of them that went bankrupt was 600,000. Of these, 108,000 lost their property by foreclosure or other legal process; 122,000 lost their property by default without legal process; 373,000, though bankrupt, retained physical possession of their property through the leniency of creditors. Since this survey was made the economic mortality has continued.

It is highest in the states of North Dakota, South Dakota and Montana. If the foreclosures, farm by farm, are laid upon a large-scale map certain areas, whole counties, are seen to be solid black, with only here and there a little white spot.

#### THE VICIOUS CIRCLE OF DEPRESSION.

Many lawyers specialize in foreclosure practice and make wholesale prices to loan companies that have many cases in the neighborhood. One lawyer in Montana has 1500 foreclosure cases in his office, current; he puts system into the work and uses multiple forms which his stenographers know how to fill up and file.

2. Practically all these bankrupt farmers, besides having mortgaged their land, borrowed money also on their notes at the local bank. They cannot pay these notes. Therefore the banks fail. In the four Northwestern states -- North Dakota, South Dakota, Montana and Minnesota-- nearly 550 banks have failed. In Montana every third bank has failed. They are still closing. There are large towns like Lewistown, and whole counties, in which all the banks have shut up. Business is on a cash basis.

3. Farmer and banker bankruptcy on such a scale creates a state of general anxiety. The elements of sympathetic danger are fairly obvious. No bank stands alone like a solitary cedar tree. Banks rest upon one another. A country bank in South Dakota borrows from a Sioux Falls bank, the Sioux Falls bank borrows from a Minneapolis bank, the Minneapolis bank borrows from a Chicago bank, and the Chicago bank borrows in New York. Thus no bank can fall anywhere without in some degree affecting other banks. Nor does any one section of the country stand alone and self-contained. When an agricultural section is in distress it will buy fewer automobiles and less of all the products of industry, and if this continues long there begins to be unemployment in the industrial centers, which causes the industrial population to buy less food, which reacts in turn upon agriculture, and so on in a circle.

4. The Government has declared that a grave emergency is present. In a message to Congress at the end of January the President described it as an "economic situation in certain wheat-growing sections of the Northwest", and said it had reached a stage requiring "organized cooperation on the part of the Federal Government and the local institutions of that territory." He favored the prompt enactment of what is known as the pig-and-chicken bill. This is a bill which appropriates \$50,000,000 out of the United States Treasury to be loaned to wheat farmers for the purchase of milch cows, pigs and chickens in order that they may get started in the way of feeding themselves. This is called Federal aid toward diversified farming, in areas where agriculture has consisted in mining the soil year after year for one thing only -- to wit, wheat. The President recommended also that the life of the War Finance Corporation be extended in order that it might assist in meeting the emergency, and this was done.

5. In the first week of February, at the suggestion of the President, a great conference of Northwest bankers, merchants, manufacturers, railroad men, farmers and agricultural experts was held in Washington under the chairmanship of Mr. Hoover to think up a way of saving banks that could not save themselves without utterly ruining their farmer debtors by forcing them to pay down to their breath. The result was Northwest relief corporation with \$10,000,000

capital privately subscribed and \$100,000,000 credit, partly to be supplied by the Government, the uses of which, so far as it functions, will be to thaw out the frozen assets of Northwestern banks, especially real-estate assets, which at the present time are like solid ice. Land that was thought only three years ago to be the very best security for a bank loan now is almost unsalable. This relief corporation, finding a bank otherwise solvent but unable to realize on its assets because they are frozen, will take over those assets, or lend upon them, and slowly warm them in the bosom of optimism, biding a better time.

#### STRANGE EXPERIMENTS.

6. Meanwhile the imminence of some very strange legislation. For Example One, a bill which would oblige the Government to buy and sell all basic agricultural commodities, thereby substituting itself for the hated middleman who is supposed to do away with the farmer's profit. For Example Two, a bill creating a commission with power to raise the average price of basic agricultural commodities to a parity with the average price of industrial commodities, according to a statistical device called an index number, and then to dump in foreign markets all such food products as cannot be eaten among us at that price. This proposal, called the McNary Bill, has the active support of the Secretary of Agriculture, who is said to have helped write it; it has the support of farmers generally; it has the support also of a great many bankers and merchants in the agricultural regions, who say they do not know whether it will work or not, but maybe it will, and if it does the price of farm produce will be improved. All their prosperity is bound up in the price of farm produce, together with the speculative value of farm land, in which they are all deeply involved.

7. Lastly, in consequence of all this economic disorder, there is a state of mind in which men deliberately reject realistic modes of thought, and advocate experimental remedies, knowing them by every rational test to be unsound. Even Mr. Hoover will say there comes a time when you are obliged to bend your economics to ends in social welfare. And still you do not know what the situation is.

Do you speak of the causes, thinking perhaps to stalk the effects? There all controversy truly begins. The cause, did you say? It is that the Government, having moved the farmer dangerously to increase his production for reasons of patriotism, left him afterward to the mercy of bankers, who outrageously deflated him, the Federal Reserve System assisting; it is that big business is organized against the farmer to exploit him; it is that industry receives the benefits of tariff protection while agriculture does not, so that the farmer sells on the open market at a world price and buys in a closed market at a protected price; or it is that the American wheat grower is not an agriculturist, but a soil miner, a land gambler, a reckless borrower of credit, a planter, without slaves who pays the I.W.W.'s six or eight dollars a day to reap his one crop, buys his food in the city, and charges his loss to the Government. Any or all of this may be true in fact to some degree. But a fact is not necessarily a cause.

There is no doubt that the radical explanation of agriculture's dilemma has been the excessive supply in the last three years of certain great staples, principally cattle and wheat, the production of which was enormously stimulated during the war. Which was the greater stimulus, the price or the patriotism, it would now be unseemly to consider. But certainly it was the price alone for nearly two years after the Armistice that stimulated production to its apex.

## INCREASING WHEAT ACREAGE.

The high point or peak, both in cattle production and wheat acreage, was reached in 1919, the year after the Armistice. Prices were still very high in 1919 and until mid-year of 1920, higher than during the war; and then suddenly the demand slumped. The high price for wheat -- \$2.58 per bushel on the farm -- was touched in 1919, after the Government had removed its price control. Similarly the high price for beef cattle -- ten cents a pound on the farm -- was touched in 1919.

In 1914, before the war, the number of beef cattle on the farms was 36,000,000. It increased steadily, as the price rose, until it touched 45,000,000 in 1919. The decrease since has been much slower than the increase was. Last year, according to the yearbook of the Department of Agriculture, the number of beef cattle on the farms was still 42,000,000 -- that is to say, one-sixth more than in 1914, and only one-fifteenth less than the highest point touched on the peak of the postwar demand.

So also as to wheat. The area in wheat in 1914 was fifty-three and a half million acres. It increased steadily as the price of wheat advanced until it was seventy-five and a half million in 1919. Not until last year was the acreage reduced to somewhere near the prewar level; and by that time the world's production had so increased that the total supply exceeded the prewar demand. The Wheat Council of the United States, which is an organization formed last year of farmers, millers, railroad men and bakers to take a world-wide view of wheat, discovered that in 1923 the wheat exporting countries had perhaps 350,000,000 more bushels to sell than had been required in any one year before the war by all the wheat-importing countries of the world. In view of that fact, which is a continuing and not an accidental fact, and seeing, moreover, that the cost of producing wheat in the United States is higher than in the other surplus-wheat countries, such as Canada, Argentina, India and Egypt, it appeared to the Wheat Council of the United States to be perfectly futile for American farmers to go on raising wheat for export.

## THE OBVIOUS REMEDY.

The evidence is not arguable. What afflicts basic agriculture is over-production. But if you say this to one of the farm lobby at Washington, to a member of the farm bloc in Congress, to the Secretary of Agriculture, or to anyone like that, you will be regarded wearily, and with some abhorrence; as one who may be expected to utter a terrible banality about the law of supply and demand. Any one of them, speaking in what is believed to be the farmer's point of view, will say: "Well, suppose that is it. What are you proposing to do about it?"

If you say the obvious remedy is to curtail production, the weariness deepens, turning to disgust. Everybody says that. Now you say it. Go on. And if you go on to say that when the farmer shall have produced an amount of wheat one measure less than the domestic demand he will thereby automatically add thirty cents a bushel to the price of his crop, since there is an import duty of thirty cents on wheat, the provocation becomes great indeed.

"Yes," says one of the farm lobby, a member of the farm bloc, the Secretary of Agriculture, or anyone like that in Washington. "There is a duty of thirty cents a bushel on wheat. What of it? Does the farmer get the benefit? No. He sells his whole product, as before, at the world price. In the first

place he is unorganized. In the second place his output is variable, according to the whims of Nature. He cannot regulate his production exactly to meet the domestic demand. Nor can he, being unorganized, do as the steel people do. They have two prices. One is the export price, the world price. The other is domestic price, which is the world price plus the tariff. They fill the American demand at the high, protected price. Then they sell their surplus product abroad at the world price. The farmer cannot do that for himself. Therefore in all fairness the Government should either do it for him or remove the tariff on all those things which the farmer buys."

By such line of discourse you are brought to see two points of light. The first is an idea. The second is a conclusion.

The idea is that in spite of uncontrolled production the price of agricultural commodities may be raised by act of Congress.

The conclusion is that the ruin of agriculture is owing not to overproduction as such, but to one of the effects of overproduction which comes to be regarded as a cause in itself, namely, the fact that from the high peak of war prices certain basic agricultural commodities have fallen much more than industrial commodities. Hence the disparity that everyone is talking about, meaning the disparity between the purchasing power of what the farmer produces and the cost of what he buys.

This conclusion is widely, in fact generally accepted. The President says: "The great food staples do not sell on a parity with the products of industry. Their average price is little above the prewar level while manufactures are about 50 per cent higher. The farmer is not receiving his share. The result has been a decrease in the value of farm lands, the choking of the avenues of credit with obligations which are doubtful or worthless, the foreclosure of mortgages and the suspension of a large number of banks."

There is that disparity. And it is cruel. A bushel of wheat, worth in money what it was worth before the war, will actually buy only two-thirds as much because those things which the farmer must exchange his wheat are 50 per cent

/for

higher than they were when wheat was at this price before. Agriculture under these conditions would be seriously depressed. Nevertheless, on reflection the fact of that disparity alone seems an inadequate explanation of the situation in the Northwest.

#### SEARCHING OUT CAUSES.

Contradictions appear. To instance: While it is true of wheat and cattle that prices are little above the prewar level, other agricultural commodities whereof there has been less overproduction have fared very much better. Therefore you would expect the situation to be most acute in those areas where wheat and cattle are produced by the one-crop system, and very little else. Indeed, advocates of the plan to lend \$50,000,000 out of the Treasury among the wheat growers of the Northwest in order that they may buy chickens, pigs and cows, find themselves in the way of saying that the one-crop system was the great evil, that the present situation is very largely owing to that evil, and that the solution lies in diversified farming. That will scan in North Dakota, which is all wheat, and in Montana, which is either all wheat or all cattle; but what of South Dakota with its panic in land values, its progression of bank failures, its comparable plight, in spite of the fact that two-thirds of its agriculture already is highly diversified? In its survey of farmer bankruptcy the Department of Agriculture treated Montana, North Dakota and South Dakota alike, whereas in



fact their agricultural conditions are extremely different. Then commenting on its own data the department said that 43,000 farmers lost their property as a result of having bought land in the boom -- that is to say, land speculation.

Then also in the remedies applied and proposed to be applied there are amazing contradictions. Through the War Finance Corporation the Government is extending credit to the cattle raisers, who are staggering under the weight of excessive production; at the same time Congress is voting money out of the Treasury to stock the Northwestern wheat farms with animals. Beyond this, it is proposed by act of Congress to raise the average price of agricultural commodities to a parity with industrial commodities and keep it there, which would tend to stimulate production again, and at the same time to create a great Federal machine to monopolize the export of our agricultural surplus and dump it in foreign markets.

One begins to be seized with the thought that the depression in agriculture, owing to the great fall in cattle and wheat and the situation in the Northwest, may be two distinct species of thing which various people, for political, mistaken or other reasons, insist upon treating as one pattern of woe.

The thought suggests a method. Washington is filled with soothsaying, theories of healing, emotional quarreling, political anxieties; but ruins contain their own history. Let us therefore try the archaeological method. On our way it may be well to stop at Chicago, which is much nearer than Washington to what has happened. Chicago, besides, is keeper of the wheat pit, proprietor of the packing industry, and in all these matters cool-minded -- so cool-minded that it is supposed to be cold-blooded and without springs of human compassion.

Well, it becomes very interesting. You get a group of Chicago bankers together and say, writing it down on a pencil pad as you think it:

"Let us suppose the five principal factors in the Northwest situation are these: (1) Acts of Providence, (2) bad banking, (3) bad farming, (4) land speculation, and (5) too much credit. Now how should these be weighed? How should you set them down in the order of their importance?"

They reply, all with one voice, "Leave Providence out of it."

#### TOO MANY BANKS

You say, crossing out that factor, "All right. How about the four remaining?"

They answer: "You've got them upside down. Put the last one first. Too much credit. And you can't cure what ails them up there in the Northwest by giving them more credit."

"What is the right cure?"

"For everybody to take his loss and work it out."

That does sound cold-blooded even in Chicago. In Washington it would sound reactionary. And yet, how shall it be answered?

Then you go over to the Rookery Building for a word with John Clay -- a Scot, dean of the livestock business, very hard in the head, whose money loaned out to farmers for feeding purposes was probably what put the fat on the next beefsteak you will eat. He has written what he thinks of the situation. He has printed it in large type over the whole front page of his private livestock bulletin. It is this:

The Federal Reserve agent at Minneapolis, in his report to the Federal Reserve Board at Washington, brings out some remarkable facts

as to the position of agriculture in the Northwest states.  
Read the following:

NUMBER OF PEOPLE PER BANK	
In the whole United States . . . . .	3,520
In Michigan . . . . .	5,130
In Wisconsin . . . . .	2,710
In Minnesota . . . . .	1,590
In Montana . . . . .	1,370
In South Dakota . . . . .	921
In North Dakota . . . . .	768

Fancy what madness seized the people of North Dakota. They had a bank to every 768 people, 384 males, about 200 really earning their bread and butter. So in this one-crop country there is a deluge of bankers, of storekeepers, of grafters living off one another till the bubble bursts; and when the crash comes everybody is wrong but themselves.

Banks are closing in those last four states with tiresome regularity. It is pathetic to think of those unfortunate circumstances, of homes made desolate by loss of deposits or forced liquidation. In this flood of false, reckless financing the day of retribution comes. Nothing can stop it, for economic conditions right and equalize the vagaries of men who defy the just laws of Nature, of production and consumption. I talk specially of the West and Northwest. There more than at any time since the end of the Civil War we need courage, conservatism, honest conviction to stem the tide of growing taxation, of mortgaged towns, cities, counties and states -- in fact, the whole country -- against future generations. The inheritance of extravagance and fraud will be an awful load for the children to bear in the long years to come.

Here is Montana. One of the famous disaster spots is a vast three-cornered area of semiarid land, half the size of Iowa, in the north-central part of Montana, called the triangle. Until a few years ago this was public land, covered with natural buffalo grass. All it was supposed to be fit for was cattle grazing. Then it was opened for settlement by homesteaders. Montana decided that what it needed was people. It got that idea first from the great Northern Railway; the Chicago, Milwaukee & St. Paul Railway, which had just extended its line through Montana to the Pacific Coast, supported it. The three of them together -- the state, that is, and the two railroads -- put on a great advertising campaign for people. They spread color posters at country fairs in the East and Middle West to excite the eye; these were followed by paid criers to excite the ears. One of the posters represented the farmer plowing silver dollars out of the soil of Montana. The criers said it was not at all exaggerated. And this was free land. All you had to do was to go and take it.

The rush began. Havre, at one corner of the triangle, was overwhelmed. Every Great Northern train disgorged homesteaders. They slept in heaps at the railroad station, because there was nowhere else to sleep, and vanished at dawn with the professional locators who knew where the free land was and charged fifty dollars for pointing it out. So the triangle was settled. Nobody knew what would come of it. The natives, whose business had been cattle, mining, merchandising and banking, with a little oil speculation aside, looked on uneasily. They did not believe this land would farm. They had heard of

dry farming; but they could not imagine growing grain in place of buffalo grass on this high semiarid bench. Moreover, these rash homesteaders were not all farmers. Nearly two-thirds of them were people who knew nothing about farming; they were doctors, lawyers, miners, blacksmiths, bartenders, old maids, wrestlers, butchers, sailors -- thousands of them in this miscellaneous character. And as to the one-third who were farmers, they were from Iowa, Illinois and Missouri, and knew nothing whatever about dry farming here or anywhere else.

Yet a miracle happened. All of them planted wheat on that virgin soil; nothing but wheat -- no gardens, no trees, no shrubs, not even feed for their livestock. And the wheat came -- wonderful hard wheat, commanding a premium in all the markets of the world -- prodigious wheat, twenty-thirty and forty bushels to the acre, from merely throwing seed upon the ground. This happened in 1915; it happened again in 1916; and people abandoned themselves to ecstasy. The poster was true. You could plow dollars out of Montana soil. From land that cost them nothing but the trouble of taking it, two-dollar wheat, thirty bushels to the acre! What was that land worth now? Figure it for yourself. Life became very exciting. You might have seen at sundown on a harvest day one hundred wagons waiting still at the elevator to unload the fabulous wheat, and the owners playing black jack in the village near by. A cigar was a quarter; a shave was fifty cents; and food was dear because nobody raised any food to eat -- nothing but wheat to sell. Everybody was rich. Everybody wished to be richer still. The way to get richer was to get more land. Having got all the free land that was arable they began to buy it. New-comers bought it from the lucky first comers; then they bought it from one another.

#### PYRAMIDING MORTGAGES.

"You could have sold the top of that mountain then," said a banker sadly.

A man with a quarter section he had got for nothing mortgaged it at 10 per cent to buy a whole section, part cash and part mortgage. Then, to farm the section he needed a steam tractor, and for that he borrowed money on his note at 10 or 12 per cent. Expectations were so great that nobody cared about the rate of interest; and because the rate of interest was unlimited, money, especially mortgage money, came pouring in from the East. Loan companies sent agents around in automobiles soliciting farmers to mortgage their land. This was another miracle. Credit was like wheat. All you had to do was to wish for it, and there it was. It came to the door in an automobile.

Thus they built an enormous pyramid upside down, everybody getting richer and richer on credit. You didn't need any capital. You could borrow at the bank on the value of your land for anything you wanted, even a closed car, and pay out of the next crop. Once it was that the first thing that opened in a new town was the saloon. In the triangle it was the bank. A proper triangle town consisted of six or eight little houses, one large garage, and two banks in shingle shanties. And the activity of banking was somewhat like this:

Farmer: "I own a half section of land up the road worth fifty dollars an acre. That's \$16,000. There's a mortgage on it for twenty-five an acre. That's \$8,000. Eight from sixteen leaves eight. That's what I'm worth -- \$8,000, not saying anything about what's on the land. I need some ready money until my crop comes off. Am I good for \$2000 on my note?"

Banker: "I guess you are."

The banker writes it down in his book that the farmer is good for \$2000

on his note and may draw his checks on the bank up to that amount. But he has not got the money in the safe. He has to get it. So he sends the farmer's note to the Federal Reserve Bank at Minneapolis for rediscount. That means he pledges the farmer's note there for a loan of \$2000 in bright clean currency, which duly arrives in a nice package and is paid out over the counter to people who bring in the farmer's checks and want the cash on them. The banker has charged the farmer, say, 10 per cent interest; but he himself pays only  $4\frac{1}{2}$  per cent interest at Minneapolis. The difference is the bank's profit.

The reason why the farmer needs this \$2000 of ready money is not that he is poor. He needs it because he is getting rich so fast. He has bought more land and more equipment to farm it with; then he has to hire labor because he has more land than he can farm himself, and that means a pay roll to meet; and he has naturally bought an automobile to go about in, having so many things to oversee. The more land he can swing, the more credit he can borrow to increase the scale of his operations, the more money he will make if nothing happens. But if his crop fails he will be unable to pay his note; not only will he be unable to pay that note but he will be obliged to borrow more on a second note to bring off the next year's crop; and the bank, having started with him, is obliged to go on, for if it doesn't everything will be lost.

#### WHEN THE CRASH CAME

So it comes that more notes go to Minneapolis to be rediscounted, and more currency is duly received in nice packages and paid out over the bank's counter to people who bring in the farmer's checks and want the cash; and everybody has more at hazard on the next crop. If that fails, so that the stakes have all to be doubled a second time, it begins to be serious. Then if a third crop fails disaster begins. The value of land collapses. Mortgages begin to be foreclosed. The farmer cannot pay what he owes the triangle bank; and his notes which the triangle bank has hypothecated at Minneapolis are worthless because there is now no equity in the farmer's land above the mortgage.

The Minneapolis bank writes to the triangle bank, saying: "Those farmer notes you pledged with us are overdue. Please redeem them at once."

But the triangle bank cannot redeem them. It has paid away the money on the farmers' checks and there is no way to get it back. So it answers the Minneapolis bank, saying: "All the farmers hereabouts are bankrupt. When we ask them to pay they say, 'All we've got is nothing. If you want that come and get it.' And that is all we can say. You have their notes, as we pledged them with you. We cannot redeem them. But if you think there is anything around here you want, please come and get it. We don't know what that could be".

Just then two or three depositors who had some real money with the bank came in. They have heard a rumor. They want their money out. The banker walks past them without speaking and sticks a piece of white paper on the glass of the front door. There he stands, looking out, with his hands in his pockets. The bank is bust.

All this has been supposed, for uses of illustration. But it happened, literally, throughout the triangle. The 1917 crop, out of which people meant to pay for their automobiles, their tractors, their extravagances and their added land, fell to seven bushels per acre. Nobody was dismayed. You had to expect that in dry farming. They borrowed more money and planted more wheat -- more, of course, than the year before. The 1918 crop averaged less than five bushels to the acre. Still they were optimistic. Credit seemed inexhaustible.

The counties sold tax-exempt bonds to Eastern investors and distributed the money among farmers to enable them to plant again. Hill County alone did this to the tune of \$300,000. The thing was to plant more wheat, more than ever before; there could not be three failures in succession. If only they planted enough and then if they got another crop like 1916, everybody could pay. After that they would be a little more conservative.

It was a desperate gamble - the last throw - all or nothing! Result: Nothing. The 1919 crop was just nothing. And the whole triangle was bankrupt. Many of the people to whom the county loaned money just up and moved away. You may drive through the triangle now for forty or fifty miles along the new, bonded Roosevelt Highway, and seem to see nothing but abandoned towns, abandoned farms, banks along the road with pieces of white paper pasted on their door panes and steam tractors sinking in the fields like lost locomotives.

Kremlin is a characteristic town - six or eight houses, an elevator, a large garage and two banks. The garage is closed; but in one year it sold 125 automobiles. Both banks are closed. One has not yet got its receiver in. There is a famine of receivers, owing to the unprecedented demand. The cashier is still there. It is only decent, after having taken a snapshot of the bank as if it were a public exhibit, to go in and speak to him. He is from South Dakota and smokes a corn cob pipe.

#### DOMESTIC TRAGEDIES

"The Government told us to raise wheat," he says. "It never told us to stop. We raised it, or tried to raise it, until we all went broke. That's the end of the story."

"Do you speak as a banker or as a farmer?"

"Both. I had 1000 acres in wheat this year. It looked like a good crop. Then the grasshoppers came. They were so bad the locomotive engineers had to sand the rails to get through here. That's truth. You can see what happened. They ate everything there was. I got 125 bushels from 1000 acres."

"Now what are you going to do?"

"I'm going to stick around here. It's worse in South Dakota, from what I hear. This wouldn't be so bad if only we had raised some corn. Did you know corn would grow here? We didn't know it."

At Havre the bank buildings are of brick with stone columns, and the fatal pieces of white paper are read through plate glass. In one plate-glass window may be several notices, announcing not only the insolvency of this bank but that also of a number of shingle-shanty banks out on the bench, or a foreclosure notice like this:

TO WHOM IT MAY CONCERN: The chattel mortgage of Frank and Eloise Robinson for \$1650 being now due and unpaid . . . the following property will be sold at auction, to wit: One red cow named Betty, one roan heifer named Irene, one black gelding named Dick, one gray mare, 14 yrs., named Bell -  
(Signed) FIRST NATIONAL BANK OF FRESNO,  
By Its Receiver.

This receiver has received not only the brick bank but a number of little banks, including the one at Fresno, where Frank and Eloise mortgaged Betty, Irene, Dick and Bell. He is within. He is glad to see you. Visiting breaks up the gloomy echoes. There are some people in town. He will have them in - the man who was governor when Montana thought what she needed was people; and the president of a bank that ought not to have failed and perhaps would not have failed if its depositors had not got themselves into a sympathetic panic. These and others. They seem all a little dazed. Nobody could have imagined what happened. It seems unreal, stranger than fact. Only three years ago the president of the bank that ought not to have failed would not have taken \$300 a share for his bank stock. Now he will pay an assessment if he can, or lose it if he can't.

"But isn't this what happened? You overcapitalized and overmortgaged two freak years of plenty and put nothing by. You believed your own color poster at last."

"Yes," they say, "that's so."

"Too much credit. That is what ruined you really?"

"It did," says the man who was governor. "Not here in the triangle only. Everywhere. The loan companies swamped us with money. I know a man who had the finest 10,000-acre ranch in the state. Owed nobody a penny. He thought he would borrow \$60,000. The loan agent said: 'Why not take ninety?' He said, 'All right - ninety.' Now he's bankrupt. The mortgage is being foreclosed."

"Why did he borrow \$90,000?"

"I asked him that question. I said 'Why did you borrow the money?' He said, 'I'm damned if I know why. Everybody else was branching out. I thought I'd get me a few tractors and some fine stock.'"

"This is Hill County?"

"Yes."

"It's black with foreclosures?"

"Almost solid black," they sigh.

"But here and there is a white spot. What has happened in those white spots?"

"There are what you call white spots," says the man whose bank ought not to have failed. "That's a good way to put it. White spots. I'll tell you what happened in one of them. This last year, you know, we were about to get another crop when the grasshoppers came. The sky was veiled with them, gleaming in the sunlight. A pretty sight, if you've never seen it. But what a scourge! They eat everything down to moisture. The land they've been over is as if it were summer fallowed. You have seen it. Well, there was a woman out there whose husband worked on the railroad. She did the farming. She fought the grasshoppers with her hands, and right there, surrounded by people who got no wheat at all, she brought through a crop of forty bushels to the acre and paid off a \$1200 mortgage. Last year! I know because she paid it at my bank. I said, 'Well, you ought to be mighty glad to get that paid! That seemed to hit her in a place she'd forgotten about. First she stared at me, then she began to sob. That was a white spot, wasn't it?'"

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"And badly as the cattle business is hurt, there are white spots in that picture too."

"There are," says the man who was governor. "I know a man who is making money in cattle right now."

"How does he do it?" the others asked.

"He doesn't raise too many, and they are fine. Up to 1600 pounds per head. He always gets the top price."

What befell the cattle industry of Montana is a separate story. First is the fact that cattle raising there had always been an exciting gamble with Nature. It did not have to be; people liked it to be. Natural buffalo grass, which cures on the stalk, makes rich grazing both winter and summer - winter in the valleys and summer on in the mountains. Therefore the drudgery of raising feed may be avoided. There is the story of a ranchman who on returning from an errand to the city was furious to find that a raw hand had plowed a patch of ground for potatoes.

"But potatoes will grow here," said the culprit.

"I know they will," said the ranchman. "But if you start that the hunny-akkers will come in."

#### TROUBLES IN FLOCKS

That is a contemptuous word, meaning farmers who work the soil. The rancher's idea was both to grow and fatten cattle on the untilled bosom of Nature. Now and then came a bad year. Then he lost. But the next year he began again, pyramided his herd with each successive good year, and played for sweepstakes.

They were doing this, as usual, in 1917 and 1918, only on a much larger scale than usual, and went into 1919 with a clean-up in sight such as hitherto they had dreamed of. Never had the pyramid been so enormous, never so dangerous, and the price was in the sky. Then came the drought, the same that killed the wheat growers in the triangle. There was not enough buffalo grass to bring the herds through another winter. And just as they had made up their minds not to risk it, but to scale the pyramid by selling off a lot of cattle, the outlaw switchmen's strike began. For weeks livestock accumulated at the shipping pens; cattle cars couldn't be moved out. In October it began to snow; and the snow that fell in October was still on the ground the next May. The winter was terrific. Without feed, never having raised any, they had to import hay from other states, and it cost them up to forty-five dollars a ton. They borrowed money on their notes at the bank to pay for it. But already they had borrowed on their cattle as much or more than it had been safe for banks to lend. The banks were caught. If they didn't lend more money for feed the cattle would be lost, together with all the money already loaned upon it.

Take a concrete case. In the autumn of 1919 two banks in the Judith Basin were lending \$3,000,000 on growing livestock which at the very highest prices was worth \$10,000,000. There was margin enough in that, provided nothing happened.

In the spring of 1920 their loans on that same livestock had increased to \$6,000,000. The increase represented money loaned for hay. Then there was no calf crop to speak of, because the cows were weak and slunk their calves. Finally, in 1920, came the great fall in prices, and the disaster was complete. A steer that had been thought worth \$200 fell to actually \$60; a cow that had been worth \$100 fell to \$30. In the fall of 1920 the livestock on which those two banks in Judith Basin had loaned \$6,000,000 could not be sold for \$6,000,000. Much of it was carried over for another year, everybody desperately hoping for a better price. The price did not improve; the livestock did not fatten. It had not the bone. The hard winter had hurt it. The banks at last could go no further. They could not borrow any more money at Minneapolis because they had nothing to pledge; and Minneapolis was calling upon them to pay what they already owed. The cattle at last were sold off for carners and cutters, and brought less than the cost of the hay they had eaten in the winter of 1919-20.

Never had there been so great a cattle disaster in Montana. But then, never had the play for sweepstakes been so steep.

The banker who tells you this story brings out some folders containing the cattlemen's notes. You shall see how it was. Here, for example, is a man who in 1918 borrowed \$8,000 on his note to buy some cattle. He had sold out and was going in again; and he borrowed the money to do so. At that time his net worth was \$30,000, a figure obtained by subtracting his debts from the estimated value of his land. That note was never paid. It was renewed and increased. In 1921, on what survived of his cattle, he owed the bank \$20,000, and his net worth was nil, because the estimated value of his land had fallen. He owed more than he was worth. Wasn't it amazing? And how could anyone have foreseen it?

#### WHEN NATURE FROWNED

One's amazement does not exactly follow the banker's words. The ironic way of Nature with the man who presses chance - yes, one may wonder at it. But the way of Montana banks with credit is a matter lower down. And that takes away the breath. Banking was a pyramided industry too. The pyramiding of land, of wheat growing, of cattle raising, of bank loans, of mortgages - it was all one piece of excitement, and had already gone so far that it was no trouble at all for the Lord to upset it. One frown of Nature, and it crashed.

What the receivers found when they came to take possession of that every third bank in Montana which failed was that everybody more or less had been doing all these things together, with a kind of wild, uncontrollable enthusiasm. It was a pyramid of pyramids. Bankers were involved in land and cattle and wheat. The big speculators in land and cattle and wheat were involved in the banks. As there were many new wheat growers and cattle raisers who knew only the profits and none of the risks, so also there were many new bankers who knew only how easy it was to increase their profits and thereby the value of their bank stocks by increasing their loans and deposits. They competed with one another to make loans. They loaned money not only to one another; they loaned it to themselves and sometimes to people they knew nothing about except that they owned the land, wore spurs and smelled of cattle. They were known, when business was a little dull, to swap notes with one another, almost for no other reason apparently than to whoop it up.



Or one would go out and create business in this fashion: A man owned some cattle. The banker would say, "I know somebody who will buy those cattle at a very good price, provided you will leave the money on deposit with the bank." If the cattle owner was willing the banker would go to another man, saying: "There's a fine herd of cattle over here for sale. Why not buy it? Our bank will lend you the money." Thus loans and deposits were both increased, with no increase at all in the wealth of the community; and the rival bank had then to think up some way to increase its loans and deposits or seem to be falling behind.

Not only did bankers finance the land and wheat and cattle pyramids. They took part in them. And then when the receivers began to examine the paper in the banks they found among the worthless assets of the banks' debtors - what would you think? Why, bank stocks. That is to say, bankrupt borrowers were also stockholders in bankrupt banks. They had borrowed money to buy bank stocks as they had borrowed money to buy land. Was it gambling? That is a harsh word. It was boosting. And what were they playing with? Depositors' money. Everybody forgot the depositor.

Most of this rainbow banking got started during the war. The Government encouraged it, not directly, yet inevitably, by putting unlimited credit at the disposal of bankers through the Federal Reserve System and then exhorting them to finance all manner of production. Once it got started, you almost could not stop it without a smash.

It was very prevalent. Yet it was not universal. We must keep the perspective. A great majority of the banks of Montana were always sound and always will be. And the strength of Montana is still in the sons of those pioneers who when Helena burned up held a meeting to decide what they should do. They had no cattle, no sheep, no agriculture. Placer mining was about played out. Quartz mining had not begun. All their merchandise came from St. Louis, up the Missouri to Fort Benton and then by wagon overland. A message of commiseration was received from the merchants of St. Louis, who said they had collected a large sum of money which they wished to contribute to the restoration of Helena. To whom should they send it? The men of Helena sent back word, saying: "Thanks. Please return the money to those from whom you received it. We came here with nothing but our hands. Therefore we are no worse off than when we started. And we like to think we can start all over again."

Now North Dakota. Years ago the bonanza wheat miners with their monster outfits passed slowly westward over this virgin soil. They were followed by settlers, mostly at first Scandinavians imported by the railroads that had Federal land-grant acreage to sell. They are a strange, unaccountable people, both credulous and suspicious in morbid degree, with the brooding fatalism of a one-crop mentality, a Nordic belief in imitative magic, and no sense of humor. They began to grow wheat because it was wheat land and that was the easiest crop. They have been growing it ever since, and relatively little of anything else. They were urged to diversify their farming. The local bankers, the county agents, the agricultural colleges, the rotary clubs - all preached diversification of crops and livestock. But these people would grow wheat.

#### THE ONLY REMEDY

It is a habit very hard to break. For wheat a farmer works ninety days; if he has general crops and livestock he works every day. Changing from wheat

to general farming means going hard to work. A survey last year showed that 20 per cent of North Dakota farms had no sows; some had no chickens; many had no cows. There were farms without barns, wheat in that case being threshed at harvest and hauled to the elevator hot. Such farmers buy the food they eat. A North Dakota farm self-contained in swine, dairy, poultry and garden products is exceptional.

Yet these are the people who lost \$70,000,000 with Townley in five years. The same survey that revealed the scarcity of milk cows, pigs and chickens showed that among 61 average farmers statistically sampled, 21 had tractors and 47 had automobiles. They were not poor. They were obstinate, unable to give up the fixed notion that wheat must pay. They mined the fertility of the soil until the earth groaned, the growth became thin and mean, and the yield per acre declined in a disastrous manner. There was only one way to save agriculture in North Dakota. That was to change it fundamentally, as had been done, for example, in Iowa.

But the farmers thought it could be saved by law. They hated farmyard drudgery. There was a saying among them that they would not pull tests. They thought the trouble was that the railroads and the millers and the speculators got all the profit; which, even if it were true, had nothing to do with the basic problem. They dramatized these ideas and took them to the legislature at Bismarck. The legislators told them to go home and slop their pigs. This made them very angry.

The episode has always since been treated as the beginning of the Non-Partisan League experiment under the leadership of Arthur C. Townley, a man who had failed at bonanza farming on rented land with borrowed money in Golden Valley and who then borrowed an automobile and went about telling the farmers that if they would take control of the state they could make their own credit, be rid of their taxes, have their own mills and packing houses and stores, and be big business itself. He appealed to their faith in imitative magic. To become all of them rich like bankers they had only to imitate bankers; to be millers they had only to have mills; to be packers they required only a packing plant; to be statesmen they had only to sit as statesmen sat.

They went with him. He took their dues in the form of post-dated checks. The first example. No money. Only the promise to pay. They got possession of the state by voting together. Then they changed the constitution in order to create a state bank, which was to make their credit. It offered bonds to raise capital. The bonds would not sell. Thereupon the bank itself bought them. Then small cooperative banks were formed, in imitation of real banks; the capital was supplied by post-dated checks which the state bank treated as money. All the real money there was at any time was state money, such as school funds, all of which the state bank required to be deposited with itself; then it spread this public money out to the cooperative banks to be loaned to good league members. A tinsmith became state superintendent of banks. With post-dated checks they founded chain stores and fifty-one newspapers to tell only the non-partisan truth. They built at Fargo a packing plant that cost \$2,300,000. It lost \$1,300,000 in seven months' operations. Afraid to refuse to buy cattle from its 17,000 stockholders, it bought the cattle and resold them at a loss. It sent away dressed and packed meats and brought them back unsold

to be ground into fertilizer. They started a \$3,000,000 mill and elevator at Grand Forks and left it unfinished. State taxes trebled in five years; and when the structure fell it was not hollow, as everyone supposed; it was alive with white-eyed, mephitic things, hostile to the light, that scattered and disappeared with amazing rapidity.

### THREE CLASSES OF FARMERS

Sanity has been somewhat restored. There are many who perversely believe the scheme was all right and that big business killed it. They are the irreducible minority. A great majority are ready to try a return to agriculture on principles previously recommended. They are willing to take pigs from the rotary clubs, bees from the bankers, cows and chickens from the United States Government, and tend them for increase.

The population falls into three categories. One-fifth of it is silent, efficient and getting on; it asks for nothing but a rough parity of buying power and to be let alone. Three-fifths of it is badly in debt, but not bankrupt; it can work itself out. The last fifth is hopeless and still vocal. These are they who forgot farming and set out to regulate government.

Meanwhile business, notwithstanding the wreck of banking, is transacting itself with less awkwardness than you would imagine. Not all the banks that were insolvent could be permitted to shut their doors; there had to be places to put money for safe-keeping and a way to get it back when it was needed. So many of them, instead of being shut up tight, were chloroformed. That is the word they use for it. The method was simple. It was to draw a red line across the books as of a certain date. Everything prior to that date was moribund; and the bank, having lost its capital, could not, of course, make loans. But it could, subsequently to the date of that red line, receive new deposits, keep these separate, and permit them to be withdrawn or checked against in the ordinary way of bank deposits. This plan has been adopted also in South Dakota.

When the sound bankers at Fargo who are telling you about Townleyism pause for breath you can startle them by saying:

"You ought to build a monument to him."

"Why?"

"Because he saved North Dakota from having a land boom. Say that for him. Outside capital shunned you. Eastern lean companies would not come in."

"That's right," they admit. "Like the monument down South to the boll weevil, you mean. Yes. No evil without some blessing. We haven't had any land boom here. We are still close to the soil. Much better off in that respect than South Dakota. And we'll come back all the faster. Correct."

If farming were anywhere safe it ought to be so in South Dakota. Most of it is intelligently diversified. The land is tame and very desirable. The farms are like the woodcuts at the top of the months in the old almanacs.

"What happened to South Dakota?" you ask a banker at Sioux Falls.

He answers mechanically: "Corn that was two dollars is sixty cents. Oats that were a dollar are forty cents. Hogs that were twenty cents are six. Wheat that was three dollars a bushel is ninety cents."

"Is that all?"

"Ain't that enough? Where are you from?"

"You don't mention land."

He moves a little uneasily. "No", he says. "You don't mention land around here if you can help it. Land that was three and four hundred dollars and acre is a hundred and fifty if you can sell it at all - and worth that if you can buy it."

"And you capitalized two-dollar corn, twenty-cent hogs and three-dollar wheat in the value of land."

"They went crazy," he says, speaking slowly. "Take a case like this: A man had 160 acres of fine land, owed nothing, \$20,000 in the bank. What could happen to him?"

"What did?"

"He lost his mind. He bought the quarter section next to him for \$500 an acre. That was \$80,000, wasn't it? He paid his \$20,000 cash down, and gave a mortgage for \$60,000. You might sell that land today for half the face of the mortgage. It's being foreclosed. That man has lost everything he owned. He has disappeared. And he was a good farmer too."

"Too easy to borrow money. That seems to have been true everywhere."

"Yes," he answers, "and too much prosperity. A farmer with nothing to borrow on was just in here trying to get a loan. I said, 'Tell me, do you know what happened to you?' He said, 'Yes, I know. I sold some hogs all at one time for \$3800 and it made a fool of me.'"

"It appears that in the year 1920, when borrowing in all forms was at its peak, South Dakota went to the top of the automobile list. She was distinguished for having more motor cars in proportion to her population than any other state in the Union."

His reply to that is to spit.

"How did you come through? Why is your bank one of the four left standing in this neighborhood?"

#### GRANDPA'S ADVICE

"I never forgot what my grandfather told me," he answers. "My grandfather said, 'Suppose everybody to be dishonest until you know better; trust your own money all the time and the other fellow's money only half the time; never lend to a man while he's losing.' I've been running this bank on those principles for many years, and you see it's still here."

Although everybody will violently reject the thought, nevertheless it seems true that South Dakota had a mild attack of the North Dakota disease. There was, only in less degree, the same belief in the magic of credit; also the idea that it was one of the state's functions to create and distribute credit.

The annual report of the South Dakota Rural Credit Board begins with this thesis:

"It appeared that a state ought to use its credit to help the people of the state . . . This system was organized for the purpose of giving to the farmers cheap money on long time."

On that theory the Rural Credit Board has sold \$47,500,000 of tax-exempt state bonds to Eastern investors, meaning to lend the money to the farmers; but apparently also it undertook in time of stress to aid the state banking system, for by the last annual report it had deposits in 276 state banks; and for these deposits it has no surety whatever, none being required, since all bank deposits are guaranteed by law.

This deposit-guaranty scheme has not the look of one of those three-horned monsters that once prowled about, for God knows why, in what now is South Dakota. Its resources are insufficient to pay interest on the deposits that are lost, to think nothing of the principal. Of the four banks that have failed in Sioux Falls one is a national bank, three are state banks. On each of the three defunct state banks one reads the rash and disproved legend, in silver and gold letters: "Deposits Guaranteed." Later truth in the form of a small typewritten notice is pasted on the door:

This bank suspended business Jan. 24, 1924, and is now in the hands of the Superintendent of Banks of South Dakota on account of constant withdrawals, causing a depletion of reserve.

(Signed) JOHN HIRNING, Superintendent  
of Banks of the State of South Dakota.

It was never intended perhaps that politics should control banking in South Dakota, as was the case in North Dakota; and yet that politics did touch banking deeply in South Dakota is not easily denied. And their ideas of what banks were for became very grand and social. The big credit machine was the Sioux Falls Trust and Savings Bank. It had four and a half million dollars in deposits, of which one-half million was state money and two millions represented the reserves of nearly 200 small state banks, which seemed under some kind of psychic compulsion to keep their money in that place. The Sioux Falls Trust and Savings Bank advertised on the billboards its own idea of what it was for; and that was to bring the sky and the town much nearer together. A subsidiary concern, which it owned, issued guaranteed gold bonds secured by unspecified collateral as to which unlimited rights of substitution were reserved.

Afterward the people who had bought the bonds seemed rather to enjoy the excitement of guessing whether their security was the garage, a new apartment house, or the hotel, and whether, in any case, it began at the floor or at the eaves.

#### A FAMILIAR AMERICAN MALADY

In the area of ruin Montana, North Dakota and South Dakota are the high spectacles. In Montana one-third of the banks have failed, representing a little more than one-quarter of her entire banking capital, and involving one-fifth of her total bank deposits. In North Dakota one-quarter of all the banks have failed, representing about one-fifth of her entire banking capital, and involving one-fifth of her total deposits.

In South Dakota about one-tenth of the banks have failed, representing nearly one-fifth of her whole banking capital, and one-tenth of her bank deposits. The failures in Minnesota have been fewer than one bank in twenty, representing only 2 per cent of the state's banking capital and 1-1/2 per cent of its bank deposits.

Now let us demand the lowest common denominator for the distress of - Montana, with its overturned wheat and cattle pyramids, that had a wild land boom;

North Dakota, with its one-crop obsession, that had no land boom;

South Dakota, with its highly diversified farming, that had a land boom.

What is it if not, in all three cases, a delirious way with credit?

There is a basic depression of agriculture, owing to overproduction; to the fact that we produce a surplus of wheat in competition with countries whose costs of production are much lower than ours; to the fact that our foreign market for beef is limited because Argentina can always undersell us; and,

lastly, to the fact that the products of agriculture are less protected from the competition of low-cost countries and have been more deflated from war prices than the products of industry. These are grave problems. They complicate and do touch the situation in the Northwest; but they touch all basic agriculture at the same time in a certain way.

They do not explain why one type of malady is extremely acute in three states whose agricultural conditions are structurally dissimilar.

It is a very familiar American malady - this delusion that credit is substance.

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A FIFTY-YEAR CRISIS IN AGRICULTURE  
by Garet Garrett.

It is proposed that we shall have in this country a successful agriculture without its ancient means - that is to say, without either slave labor or peasantry.

Conscience has abolished slave labor. It is forever put away. As for peasantry, we care not for it. The word associates with Old World drudgery, "Shall the American farmer be reduced to the condition of the European peasant?" asks the political rhetorician. We answer all with one voice "No!"

This is what the psychologist calls a reaction. Few stop to examine what "peasantry" means. The sound is wrong. It makes us think of Russia or the Balkans; we pass lightly over France and Germany, where peasantry, though it hurts the back, does offer one sweet reward. The name of that reward is security. Wars, revolutions, economic disasters pass; the peasantry survives, like a tree, through the seasons. It appears that we do not esteem security. Or perhaps we take it for granted. At any rate, we say "No!" We point with pride to the fact that although the yield per acre is much lower in this country than in Europe the yield per man is higher. To explain this we keep in our minds the picture of the American farmer, not bending his back, not tending a few acres intensively, but sitting on his plow with eyes to see his prairie domains stretching to the horizon, commanding mechanical energy. That is the American way.

Nevertheless, agriculture without slave or peasantry presents difficulties which are yet unsolved. We hardly know what they are, never having defined them thoughtfully. It has been possible for a long time to conceal them. They could very easily be concealed as long as new land was to be had for the trouble of taking it - virgin land that increased in value from the first stroke of the ax and was prodigal in giving. And it could be further concealed as long as the cost of production continued to fall, as it did for many years, even where the first richness of the soil had been taken. It continued to fall for two reasons - the use of improved implements and the method of specialization.

#### The Rising Costs of Agricultural Production

But now the land is all accounted for; all owned. There cannot be any such improvement upon existing implements as these represent upon the scythe and flail. And specialization already has been carried to the point of evil. Thus costs are rising. They have risen enormously for reasons that are permanent. And now concealment begins to be much more troublesome.

Agriculture in this country was at first of two types. There was the planter type, resting upon slave labor. The planter crops were such as rice, tobacco and cotton.

The other was the individualistic type - heroic, romantic, allegorical. With a few rude tools, a gun, his team and wagon, a bushel of seed, a bag of salt and a new wife, the pioneer entered the wilderness. Later the surveyor found him in a log cabin, proprietor of the solitude, surrounded by increase. Others came and bought him out; he went on to do it again. Then these others, having further improved the land, sold it again and followed the original soil breaker.



When they overtook him he sold and went on. So wave after wave.

We can remember it who were not there. The straining of the wagon gear through the listening stillness of forest, nameless terrors, the pungency of hot harness, the odors of evening and frying food on the river bank, the sweetness of coarse fare, storm, starlight, morning, boundless expectation, and news and rumor even there. Always someone had gone before; news was coming back. The place of eminent desire was not Boon's Lick. The perfect valley was just discovered farther on. Then the great anxiety whether in taking what was here one had not missed what rumor said was there.

#### Speculation in Land a Century Ago

"Scarcely," says a contemporary writer - 1826 - "has a family fixed itself and enclosed a plantation with the universal fence - split rails laid in the worm trail, or what is known in the north by the name of Virginia fence - reared a suitable number of log buildings, in short, achieved the first rough improvements that appertain to the most absolute necessity, than the assembled family about the winter fire begin to talk about the prevailing theme - some country that has become the rage as a point of immigration. They offer their farm for sale and move away."

Selling out on the third or fourth wave, to people who built roads as they came, who brought hardware, better tools and flocks, and who meant to stay, gave those restless homesteaders the capital they required to go on with.

Speculation in land was already the national mania.

Flint, writing his Recollections in 1826, said: "During my residence in Missouri the rage for speculating in their lands was at its highest. I have

often been at collections where lands were at sale for taxes and by orders of the court, and at other times, when there were voluntary sales at auction. The zeal to purchase amounted to a frenzy. Land speculators constituted a particular party. It required prodigious efforts to become adroit. The speculators had a peculiar kind of slang dialect, appropriate to their profession, and when they walked about, it was with an air of solemn thoughtfulness, as though they were the people and wisdom would die with them. A very large tract of land was cried by the sheriff for sale when I was present, and the only limits and bounds given were that it was thirty miles north of St. Louis. A general laugh ran through the crowd assembled at the courthouse door. But a purchaser soon appeared. ... Families were constantly arriving, many of them polite and well-informed, and they were going on to these tracts, which, portrayed by the interested surveyor and speculator, and as yet only partially explored, were to be their home. Never have I seen countenances suffused with more interest or eagerness than in circles of this description, where the comparative beauty and advantages of different sections of the country, or the best sites for location, were the themes of conversation. No doubt many of these speculations were dishonest. No subject is more susceptible of all the arts of cheating, because in no point is it so impossible to disprove advantages, which vary with the imagination of him who contemplates them."

But, as he adds, there were moments of retribution. The speculators at that time overstayed their market, as one says in Wall Street. Land values took a mighty fall and many of them were ruined. The tract of land lying somewhere thirty miles north of St. Louis was for a time perhaps unsaleable. Not for long.

Less than ten years later, in 1835, a survey was made for a railroad in Illinois from the steamboat landing at Alton through Brown's Prairie by Carlinville and Otter Point to Springfield, a distance of seventy miles. Merely the survey. And people were seized with the delusion that there would soon be no more farm land on that prairie, only cities. Farms in a state of rude development as farms were immediately laid out in town lots. Imaginary town sites were sold on what are still to this day only very good farms. A panic followed. Always as a thing of course the panic followed. Yet never did the value of land go back to where it was. Fantastic values disappeared; permanent values steadily and amazingly increased, and this has never stopped.

#### Plenty, Famine and Panic

What occurred on the Illinois prairie has been occurring ever since, not as a rational procedure but as an expression of the pioneer mentality, with its restless, excitable imagination, its love of adventure, its ruling phantasy of wealth by luck and discovery, and its aversion to slow repetitious toil. Briefly, the mentality of the gold seeker. We know it. There is less or more of it in all of us.

So far from ever having sought to control or rationalize this spirit, the Government has encouraged it. There has never been but one national land policy. That was and is to exploit the land. Why not? The land - it is the land that makes us rich! There was nothing else to begin with.

It was in order to bring value quickly to the land that the Government made enormous grants of the public domain to the railroad builders; and on the part of the builders to create and capture that value was the great incentive. Many

of the early railroads were conceived as settlement projects on a magnificent scale. A railroad might be laid down on the prairie almost as fast as a team could walk; and then the only problem was to get people in fast enough from the Old World. The increase in the value of the land was expected to pay for everything, even the failures and disappointments, and ultimately it did.

When it was no longer necessary to subsidize railroad building with grants of land the Government found something else to do. There were vast areas of arid lands. Agriculture did not need these lands - not then. It does not need them now. Yet the impulse to exploit them was irresistible. Enormous sums of money have been spent to reclaim them by irrigation. But irrigated land, although very productive, is costly. It may be a good investment for such as mean to practice intensive farming on small acreage. But the element of speculation is not present. The majority pass it over and take instead the free, unirrigated land beyond, where the hazards are steep but where something you become possessed of for nothing may make you suddenly rich.

Of this a notable instance has just occurred. When a vast tract of semi-arid land called the Montana triangle was opened for settlement there was a frantic rush to seize it. A motley of adventurers, speculators and people with neither capital nor experience, whom the blind earth hunger moved, and also a great many farmers from Iowa, Illinois, Missouri and South Dakota, where land had become dear - they all crossed the beautiful irrigated Milk River Valley, and established themselves on that dry, high bench beyond, where land was free and where nothing had ever grown but buffalo grass. Over an area half the size of Iowa eighteen thousand habitations, seventy towns and villages, schoolhouses, banks and elevators popped out of the ground.

And, note, nobody knew whether or not that land would farm. The Government that threw it open for settlement did not know, the railroads that brought the people did not know, the Agricultural College of Montana did not know; and of course the people did not know. They would have to find out. They planted wheat. If the land would grow anything it would grow wheat; and, besides, wheat growing is the true American way of exploiting the virgin soil. It is more exciting than placer mining, and much less laborious.

This semiarid land did at first yield wheat in a prodigious manner. After two fresh years of plenty it was valued at fifty dollars an acre; you could borrow twenty-five on it. After three fresh years of bad weather it fell to ten or fifteen dollars an acre. Then the panic. Montana now is dealing with the consequences. They will pass. The Agricultural College is teaching people how safely to grow wheat there, on a dicing principle, so that if you get one crop in three you come out ahead. That land never again will go back to buffalo grass. It probably could not happen as a matter of biological fact, for it is said that once the natural sod is broken the grass will not return. But for economic reasons it is forbidden to happen. The land was not and is not needed for wheat. There is a ruinous surplus of wheat. Yet there are those towns, the elevators, the investment which cannot be permitted to perish. To support it the people must be kept on the soil. To this end shall be employed all the resources of agricultural knowledge; even, if necessary, public funds.

Now the point. It is this; If by "peasantry" we shall agree to mean, not uncouth rusticity but a manner of taking root in the soil for special love of it, the painstaking cultivation of small holdings with the labor of the family and a high degree of self-containment upon the land, then American agriculture is

largely free of it. Actually it does exist. The cases are innumerable. But it is not characteristic. What may be called the American idea of agriculture is somewhat as follows:

First, that it shall be at least as profitable as industry or business for all who are willing to engage in it;

Second, that it shall not be more laborious than industrial life, for if it is people will leave it;

Third, and for the same reason, that it shall enjoy as far as possible all the benefits of city life and be compensated for those it is obliged to do without;

Fourth, that it shall be efficient, as business is, and produce primarily a money crop.

#### Our Unique Idea of Agriculture

There is almost no thought of a country life self-sufficing in virtue of satisfactions beyond the reach of cities, a rural culture self-regarding in its own environment. When you speak of it people do not know what you are talking about. Farming is understood to be a business, not a way of living one might prefer to any other.

This American idea of agriculture, altogether unique in the world, was never stronger than at the present time. It controls all our ways of thinking. The power of education is behind it. The Government first and last spends great sums of money in support of it. We adopt it unawares. Consider now how it is the fashion to speak of agriculture. Farming is an unscientific term, becoming

obsolete. We speak, instead, of the wheat industry, of the cattle industry, of the dairy industry, of overhead, fixed charges, net income, quantity production and turnover.

It shall be said, first, that if in any country on earth this idea may be realized, here is that country; and, moreover, that the extent to which American agriculture has been already urbanized, specialized, industrialized, could not be imagined anywhere else. It has more plumbing, more automobiles, more scientific data, more news, more contact with the cities, more excitement, more attention, shorter hours and less drudgery than any other agriculture in the world, now or ever before. Great numbers of farmers keep their families in towns. Many go to Florida or California for the winter. In their preoccupation with the one money crop, whatever that may be, they often neglect to produce their own food. They increasingly buy their food, as city people do, and the same kinds.

Taking it the country over, 40 per cent of the food eaten on the farms is not produced on the farms. It is not that they sell grain for cash and buy flour or bakers' bread, not that they sell hogs for cash and buy hams and bacon and lard from the Chicago packers by the trainload; they buy garden vegetables, potatoes, fruits, canned goods, jellies, milk, butter, eggs, cheese and poultry. In Missouri, Iowa, Minnesota, North Dakota, South Dakota, Nebraska and Kansas the average farm produces less than 60 per cent of what is eaten there, and in North Dakota alone the average farm buys more than half that is eaten on its own table; and this runs up to 100 per cent, the farm in that case producing no food at all for its own table - nothing but cash wheat to be hauled away to the elevator. Thus farmyard drudgery is avoided - no milking, no slopping the

pigs, no hoeing, no chores at all, and only ninety or a hundred days' work in the year.

Well, if such is the American idea and it tends to be realized, then what is the problem? Is it that progress is not rapid enough? Are we impatient? No.

The problem has many aspects. Totally it derives from the fact that this type of agriculture is always in trouble. It passes from one crisis to another and is chronically in need of being saved. Just now it is proposed, among other things, that the Government shall lend money to those farmers in the Northwest who have failed to raise their own food - money with which they shall buy milch cows, pigs and chickens in order that they may get in the way of feeding themselves. This measure is obviously false to the idea, and is justified only on the ground of an emergency. It is what might be called a step backward toward peasantry. Indeed, many of those proposed to be helped regard it in that light. They do not want to milk cows and slop pigs. All they want is a high price for wheat.

So the problem is complicated. And there is endless confusion from the fact that nobody wants to give up the idea. Nobody wants to admit that it tends to defeat itself. This it does in an inevitable manner.

#### The Great Land Boom.

Exploiting new lands faster than they are needed has this result, that there is always a potential food surplus. In that case, with agriculture on a money-crop basis, what is bound to happen? A profit is killed in the rush to seize it. Millions of farmers with an uncontrollable impulse increase their production of the cash crop that happens to be profitable. Then the potential surplus becomes actual and everybody is left in the lurch.



Such being the case, or, if it is true, as all professors of farm economics prove by their figures, that agriculture under the American idea does not pay, then what keeps it going? Roughly, the answer is that what floats it and has floated it all these years is the increase in the value of land.

How now? A riddle. If there is no profit in agriculture why does the land increase in value?

The explanation is not simple. To begin, when the professors of farm economics, either those of the Government or those of the states, demonstrate by statistics the absence of profit in agriculture - nay, the actual loss in it - they take this year or last year alone. Land values, interest, taxes, rents, all as they are, it is true - agriculture does not pay. The farmer is lucky to make wages. But if land values, interest, taxes and rent were still what they were fifteen or twenty years ago there would be a profit. This means that the profits of agriculture are to a very great extent absorbed by the increase in the value of the land; or, to say it another way, the earning power of the land is capitalized in advance, just as a Wall Street stock that pays no dividend may rise in anticipation of one, and then stop rising, even decline a little when the dividend is declared. There is no gain from buying it afterward; there is only a small return on the investment, and the risk, besides, that the dividend will be discontinued. That is what happens to land. In special years, with high prices, its earning power runs up; then it is valued accordingly and people excitedly buy it. Then prices fall and its earning power declines; so also its value.

There is always the expectation of this. Land booms come and come again. They are not at all confined to new experimental lands.

In 1918 and 1919, after the Armistice, there was the wildest boom in Western farm land that has occurred since the raw prairie days. It represented the capitalization in land values of the high wartime prices for agricultural produce. Iowa land values had been for a generation the first example in stability. In 1900 it could be said that they had once doubled in thirty years. Nothing mercurial there. They doubled again in the next ten years with the rise in the average price of all crops; and that had already made them rather dear, - so dear that one of the oldest mortgage-loan companies in Chicago pulled out of Iowa and went into Texas lands. Then suddenly between 1910 and 1919 they doubled again. People lost their heads. They dealt in farms as in blue-sky mining stocks, selling them, buying them back, selling them again. A man in Lincoln township sold his farm at \$250 an acre, bought it back at \$270, and sold it again at \$425. Those Iowa farmers who sold out in 1919 at values calculated on the basis of two-dollar wheat and twenty-cent hogs, got the profit - not from the preceding ten years but from the next ten years of Iowa agriculture.

And there are yet other reasons why the value of land rises faster than the profits of agriculture. One is that innate earth hunger of people which has the strength of instinct. Another is the certainty that people will continue to multiply until the bowl is full and running over.

Anyhow it is a fact that in proportion as the American idea of specialized money cropping is realized agriculture becomes an extra-hazardous occupation, chronically somewhere in trouble. It is a fact, also, that so long as the land continues to be exploited in the characteristic Western manner the only natural restraint upon overproduction will be loss.

This means that as you have marginal railroads, marginal mines, marginal factories, so you will have marginal farms and marginal farmers. The marginal producer is one whose costs are high, whose efficiency is low, and whose placement in the scheme is perhaps disadvantageous. In good times he makes a little money, in fair times he exists, in worse times he loses or goes bankrupt.

As applied to agriculture this coldblooded thought is shocking. We almost cannot accept it. As to a coal mine or a railroad it is all right. There economics may rule. In the state of Illinois there are above a hundred marginal coal mines. When prices are high they open up and add their production to the total, thereby limiting everybody's profits; when prices fall they shut up again. We do not care. The spectacle of an idle coal mine does not move us sentimentally. We regard it, indeed, with satisfaction. It represents insurance against extortion. Yet the spectacle of an idle farm saddens us. We react emotionally. It is a human tragedy. Here someone has tried to get a living from the soil and failed. Conclusion: There is something wrong in a country where one cannot get a living from the soil.

#### The Wheat-Raising Machinist

"Here is a case," says a Montana banker. "A man came to me only the other day saying he didn't believe he could stick it out. He had not been able to make a living for his family. He was running behind. Another poor year would finish him. Then he would have to go back to his job in Minneapolis, where he was making eight dollars a day at his trade. He was a machinist. Now what are you going to do? If something isn't done right away that man will have to abandon his farm; and there are hundreds, thousands like him."

But now consider what this case represents. It is one of numerous cases, fairly typical. A machinist is a product of technical training. He applies his skill to steel. The result is a machine, and machines are in great demand. The world cannot get enough of them. Only a few nations can produce them. If we are thinking to produce a surplus of anything for sale abroad, then let it be a surplus of machines, for they command a high price - the price of high craft skill. What has this machinist done? He has deserted the task of machine making and gone to Montana to raise wheat. There is already too much wheat. It is produced in surplus by the least rewarded, the least developed labor in the world - in Egypt, in India, in Argentina, in thirty-eight different countries, in all of which wages and standards of living are lower than they are here. Now fancy an American machinist, a man of his technical skill, worth eight, ten, maybe fifteen dollars a day, putting himself into competition with that kind of labor? In doing so he adds his moiety to the world's surplus of wheat and then complains that he cannot make a living. He is really not interested in any of this. He was not a farmer to begin with; he is not a farmer now. What moved him was the thought of getting a farm for nothing - a wheat ranch in Montana that would make him rich. If you tell him there is a sure way to get a living for himself and family on the farm, that he needs a garden, some fruit trees, milch cows, pigs and chickens, he will say: "Oh! That isn't what I came out here to do. That means work every day in the year. I'd rather go back to my trade."

Yet even a banker asks what shall be done to keep this man on the land, thereby thinking, as most of us do, without reflection, that if he has to abandon his farm it will be a tragedy, and that many such tragedies portend a social disaster. Most of that thinking, or feeling, is great nonsense. Nevertheless, it is very general and its consequences are amazing.

For more than fifty years our political life has been tormented by the effort to put profit into agriculture - to do it by edict or economic stratagem - notwithstanding the two facts already developed - namely, that the ceaseless exploitation of land creates the potentiality of a ruinous surplus and that the only natural restraint upon overproduction is loss.

#### Panaceas of the Past

In the last year of the Civil War wheat was \$3.50 a bushel, other things in proportion. High prices held for another year, just as they did through 1919, and land values increased in the same way, everybody going into debt to buy more of it, as if the laws of gravity and reaction had been suspended forever. In the next year the collapse began, and agricultural commodities declined for nearly thirty years. So did the products of industry in a parallel manner, and for the same reason - namely, excessive and uncontrolled production; but it is agriculture we now speak of.

The first two or three years of the fall were the worst, because that was the most violent part of it and because also it caught the farmers heavily in debt for land the earning power and value of which had been calculated on war prices. In the decade from 1870 to 1880 the production of wheat more than doubled. That would seem a fairly obvious reason for its decline in price. But that cause was disregarded; every other reason was imagined - many reasons that did not exist. There followed in order the Grange movement, the Farmers' Alliance, the Populist Party and Bryanism. The means whereby it was proposed to restore a profit to agriculture, excessive production notwithstanding, were mainly these:

Coöperative selling;  
Coöperative buying;  
Low freight rates;  
Fiat money;  
Free silver.

Coöperation was tried on a very extensive scale. There was something in it if it could be well managed, but it seldom was; and the most there was in it was only the middleman's profit, and that was not enough to make agriculture profitable. Railroad rates were reduced by law in the agricultural states and the principle of state regulation of railways was established. Nor did that make agriculture profitable. It made hardly any difference at all, except to the railroads. The consumer, not the producer, pays the freight in general. What the producer pays is a geographical penalty, governed by his distance from the point of consumption. Fiat money and free silver were never tried. Both proposals were abandoned, not that the farmers believed in them less but for the reason that all at once agricultural-commodity prices stopped falling and began to rise.

This happened between 1895 and 1900. Why it happened need not be discussed. It will be enough to say that the products of both agriculture and industry, having fallen together for nearly thirty years, stopped falling together and began rising together. The causes were general over the whole world. The universal evil of low prices, which international commissions had been investigating in a futile manner, suddenly vanished. Wants enormously increased. Demand began to catch up. And if the products of industry advanced faster than the products of agriculture in the next twenty years, which apparently was the case, that was owing to the fact that basic industry stopped exploiting its resources in the pioneer spirit and found ways to rationalize production, as agriculture never did.

It was no act of Congress that saved American agriculture through all that heartbreaking decline in prices that began in 1868 and continued for nearly thirty years. Nor did low freight rates save it. Nor would fiat money have saved it. It was saved by its own way with necessity.

That which has been called the American idea of agriculture was not so strong then; it had not been developed. What there was of it was put aside. Those farmers who could paid off their debts; those who couldn't were foreclosed upon; then they started again on deflated land. They grappled with the soil. They produced their own food, dressed it themselves, and supplied the village demand. They bought nothing they could make or produce for themselves, or do without. On this long curve of falling prices came into being a generation of farmers who would sooner want than borrow, who regarded debts with terror, who thought signing a note was a step with the sheriff. They never could understand what they saw on a rising price curve where the next generation lived.

#### Borrowing in Falling Markets

They were right and sound in their feeling about debts. On falling prices it is disastrous to borrow. It takes always more and more to pay back, until at last you are ruined. If when wheat is a dollar a bushel you borrow a thousand dollars, that represents a debt of a thousand bushels of wheat. But if wheat falls to fifty cents the debt is doubled. You need two thousand bushels to pay it off.

Precisely the opposite is true in a time of rising prices. Then it takes less and less of your labor and produce to pay back what you borrow. If when wheat is a dollar a bushel you borrow a thousand dollars, that again represents

a thousand bushels of wheat. But if wheat rises to two dollars a bushel the debt is halved. You need only five hundred bushels to pay it off.

Between 1895 and 1900 prices began to rise, and they rose for more than twenty years, not uninterruptedly, of course, but as the tide rises. Old farmers whose wisdom was that of the falling price curve saw the young men going into debt, and prophesied their ruin. But the young men escaped. They borrowed more and more; they bought land with borrowed money and gave their notes at the bank for working capital. Their land increased in value and their notes did not worry them. If they could not pay them off one year they renewed them and waited for a better crop or better prices.

Now suddenly a great discovery occurs. The perfect solution is at hand. The way to put profit in agriculture is to give it credit, plenty of credit - credit such as any other business gets. The farmer shall be financed. He shall do business at the bank. He shall have banks specially adapted to his uses and needs.

Coöperative marketing is not forgotten. It is all the better. The reason why it never succeeded is that it never was properly financed. It wanted credit. The master key is credit - credit to buy land with, credit to buy implements with, credit to sow and harvest with, credit with which to hold one's crops for a fair price instead of selling them away to the speculator.

This became of a sudden the ruling theme. For fifteen years no man spoke sympathetically to the farmer's case without saying that above all else what he needed was credit - cheap credit, long-time credit, short-time credit, honorable credit, special forms of credit determined by the special problems of his industry.



Consent was unanimous. Never had human contradiction hit upon a more seductive panacea. There was plenty of it. It was cheaply dispensed. The patient clamored for it.

So the farmer was financed. Yea, how he was financed!

The amount of credit that has been placed at the call of agriculture in the last ten years cannot be definitely calculated. There is no figure to express it. Nobody knows how much it is. A former secretary of the Treasury estimated that the amount provided for by Federal legislation alone - by that only - was five billion dollars.

First of the credit agencies under the jurisdiction of the Federal Government came the Federal Reserve System with twelve regional banks. The functions of these twelve regional Federal Reserve Banks were mainly two - to mobilize the gold resources of the country, and to make credit more elastic, more equitably accessible to everybody by lending money out of one great reservoir, through those twelve Federal Reserve Banks, to private banks, which in turn should lend it to private borrowers. For the farmer it worked like this: If he went with his note to the small-town bank and asked to borrow on it and the small-town bank had no money of its own to lend, it could still take the farmer's note, send it to the nearest one of the twelve Federal Reserve Banks and get the money.

#### Farmers Killed by Credit Kindness

But that was not enough. It was soon found that the rules under which the notes of merchants and manufacturers were taken at the Federal Reserve Banks were too narrow for the farmer. Therefore the rules were relaxed in his favor, so that a farmer's note had more time and grace at a Federal Reserve Bank than any other.

And that was not enough. The farmer needed credit for what he was doing - yes. And he could get it. But he needed credit also for what he was going to do. So Congress created the Federal Farm Loan System, with twelve regional Federal Land Banks to be launched where necessary, with government credit; and the purpose of these banks was to lend money to national farm-loan associations, which in turn should lend it to farmers for the purchase of agricultural land, for the equipment and improvement of the land and to pay off old mortgages. Any ten or more natural persons could form a national farm-loan association; more than forty-four hundred have been formed. The same law authorized the creation by private persons of joint-stock land banks, under the supervision of the Government, such banks to sell debentures up to fifteen times the amount of their capital, and lend the money on land.

Still not enough. In March, 1923, Congress passed the great Agricultural Credits Act, creating twelve Federal Intermediate Credit Banks, to be established "alongside of but organically independent of the twelve Federal Land Banks," each with a capital of five million dollars provided by the United States Government. These intermediate credit banks lend money for "agricultural purposes" for periods of six months to three years.

The same act provided also for national agricultural credit corporations to lend money for "agricultural purposes" direct to farmers, and national agricultural rediscount corporations to take over from private banks loans that have already been made for "agricultural purposes."

These are the agencies created by Federal legislation:

- Federal Reserve Banks;
- Federal Land Banks;
- Joint-stock land banks;

National farm-loan associations;  
Federal Intermediate Credit Banks;  
National agricultural credit corporations;  
National agricultural rediscount corporations.

These agencies have placed in the last ten years, by an estimate of a former Secretary of the Treasury, five billion dollars of new credit at the disposal of agriculture.

And this is by no means all. The War Finance Corporation, a banking concern set up during the war to finance war activities - owned by the Government and furnished with government capital - has been converted into an agency for extending government credit direct to agriculture.

In addition to what the Federal Government has done, the states have been at the same time dispensing credit to agriculture. They, too, have created farm-loan systems and farm-credit boards; they have sold tax-exempt bonds on the public credit and loaned the money to farmers at low rates of interest.

And above everything else there occurred a wild multiplication of private banks in the agricultural districts, under both national and state charters, whose principal business was to lend money to farmers on their notes and who competed with one another for the privilege of doing so. Any few natural persons with a little money could start a bank. In the Northwest area, called the Ninth Federal Reserve District, more than fifty national banks were chartered by the Comptroller of the Currency at Washington over the protest of the Federal Reserve Bank at Minneapolis. There were already too many new and inexperienced banks, as the Federal Reserve Bank at Minneapolis knew; but the man then Comptroller of the Currency at Washington said that if people wanted banks they should have them. So farmers became their own bankers; they could give credit to themselves.

Never since credit was invented had agriculture so much of it. Never before in all the history of banking was the farmer so much financed. And with what results?

There is again an acute crisis in agriculture. It is the worst that has occurred in this generation. Farmers by the tens of thousands - the Department of Agriculture says by the hundreds of thousands - are losing or have already lost their property, their lands and chattels, by forfeiture to creditors and by the foreclosure of mortgages. In the Northwest area alone - Minnesota, Montana, North Dakota and South Dakota - where occurred an expansion of credit perhaps greater in a relative sense than anywhere else, more than five hundred banks are shut up because the farmers cannot pay their notes. The War Finance Corporation has been dispatched to the scene with more credit. An extraordinary credit corporation has been formed by private bankers of the East and the Middle West, at the instance of the Government, to go to the relief of the Northwestern banks.

There is still no lack of credit. That is not the trouble. The difficulty is to find anything suitable upon which to grant credit. Farms, livestock, chattels, commodities in storage are already mortgaged for more than they are worth.

#### Mortgaged to the Hilt

And you have this spectacle to ponder: Those bankrupt money croppers of the Northwest, with neither means of their own nor credit at the bank with which to buy the chickens, pigs and milch cows they need in order to be able to feed themselves, are to have money out of the United States Treasury for this purpose, and at the same time a large mortgage-loan company in Minneapolis, having bought

and sold Northwestern farm mortgages until the bag burst, makes a street-window display of Imperial Japanese Government  $6\frac{1}{2}$  per cent bonds. There is a good demand for them. They are selling. Is the word of the Japanese Government then better security than Northwestern farms and chattels? No. The explanation is simply that the Northwestern farmers, who desperately need the money that Minneapolis investors are putting into Japanese bonds, have nothing left to pledge. They have borrowed more on their farms and chattels than those farms and chattels would bring if put up for sale at auction.

Here now an interruption. We shall be reminded that this crisis in agriculture is owing to the headlong fall in prices. Yes. The fall in prices was a cause. But it was the last cause. If the farmers had not been extravagant with credit before, if they had not mortgaged their property above its ears in the days of exuberance, if in North Dakota they had not used it to hold wheat for three dollars and fifty cents a bushel when they might have been selling it for two dollars, if they had not behaved as if the day of payment had been abolished by edict, there would still have been a crisis, no doubt, but not the kind of crisis it is. There would have come losses, disappointments, hard times, but no avalanche of bankruptcy, pulling down banks by the hundreds. Credit is a thing you can use only once. Having already used it they could not use it again to ease themselves down as prices fell away. Not only that. Just when they began to need credit for reasons beyond their control, and when they had nothing left to pledge or mortgage, the day of payment arrived. What they already owed was due and payable.

The farmers say they were deflated in a brutal manner by the banks. Particularly do they say this in the Northwest, where now the consequences are most acute. To this the failure of more than five hundred banks in Minnesota, North Dakota, South Dakota and Montana is a fairly convincing answer. Banks that are brutal save themselves. These did not. First they loaned too freely; then they did not demand payment in time. They are not denounced for having loaned too freely, nor for having renewed farmers' notes beyond prudence instead of requiring them to be paid; they are denounced for having demanded payment at all. Borrowing human nature will always blame more the banker who demands to be paid than the one who refused in the first place to lend.

#### Danger Signals Unheeded

For a long time before the fall in prices began it was notorious that much of the credit at the call of agriculture was being improperly used. There seemed no way to stop it. A great deal of it was by indirection. Individual farmers tied up their own money in golden affairs of the imagination, especially in land speculation, and relied upon the banks for money with which to carry on farming operations. Thus, less and less the farmer financed himself with his own means; more and more of his own capital was left free for adventure. The local banks, unable to take care of him, and having a great deal of their capital also tied up in speculation or in bad loans, passed him on, or, rather, they passed his notes on, to the nearest Federal Reserve Bank. The notes were all regular enough. They were for agricultural purposes, according to law. They were therefore eligible for rediscount - that is to say, they were properly purchasable under the rules; yet every Federal Reserve Bank knew what the situation was.

In December, 1919, the Federal Reserve Bank of Minneapolis said:

"It is quite evident that through the extravagances of individuals and the indiscriminate extension of credit by certain banks for investment and speculative purchases the reserves held by the Federal Reserve Banks have been used through an indirect process for purposes other than those intended and authorized by law. The extension of credit for speculative purposes is not confined to stocks and bonds alone; but substantial advances have been made to encourage the movement of land and for speculation in commodities. The Federal Reserve Bank of Minneapolis has used every precaution to eliminate such use of its facilities, but indirectly these credits have been extended, with the result that an unwarranted overextension of credit exists. If this condition is permitted to continue it will in time work a severe hardship upon everyone."

No matter. The inverted pyramid of bank loans continued to grow. It grew until it fell; after that it grew lying down. "Following the collapse of prices in 1920," says the Federal Reserve Bank of Minneapolis, speaking of the Northwest, "banking, Federal Reserve and War Finance credits underwent an acute secondary inflation, for the obvious reason that farmers caught in the collapse could not continue without immediately available resources. No funds were available for current operations, or to meet maturing indebtedness, except by borrowing from the banks."

In 1921 the War Finance Corporation came with its bag of emergency credit. It is there still.

How strange! The Federal Reserve Bank of Minneapolis says one cause was too much credit. Yet a block away is the temporary office of the War Finance Corporation, with an organization made on the

spot, dispensing more credit. However, the part of the War Finance Corporation is somewhat like that of the physician with the violent drug addict. He must believe he will continue to get it, and at the same time he must be tapered off.

The true index to what agriculture has done to itself with credit is a statistical curve representing the rise in the farmer's annual interest charges and taxes. His interest and taxes together in 1923 were threefold what they were in 1913. Threefold!

The increase in his interest represents what he borrowed as an individual. Farm mortgages more than doubled in ten years.

"The great increase in mortgage indebtedness," says the Howard-Moorhouse Agricultural Business Service, "came in 1919, as a result of land speculation after the Armistice. The total amount on January 1, 1920, has been estimated at eight billion dollars, which was more than twice the amount of ten years previous. Since 1920 there has been a further increase of one billion dollars, due to the funding of current obligations incurred during and just previous to the depression."

After the Armistice. During and just previous to the depression.

This is not unsympathetic testimony. The Howard-Moorhouse Agricultural Business Service is conducted by James R. Howard, first president of the American Farm Bureau Federation; N. C. Murray, formerly/statistician of the Bureau of Crop Estimates; Lloyd M. Graves, formerly statistician of the American Farm Bureau Federation, and H. W. Moorhouse, formerly dean of the School of Commerce of the Oklahoma State College.

It is obvious that what agriculture did with credit was to capitalize war prices in the value of the land.



The increase in the farmer's taxes represents, not altogether, but principally, his group borrowing. In his political capacity he adopted the universal example and sold enormous amounts of state, county, township and school-district bonds. He used the money to improve his social environment, saying: "Why are we not entitled to have these things too? Why shall our children not have schools as fine as those the city people's children have?"

There is no simple answer to that question. It perhaps cannot be answered separately at all. It ties up with the whole problem of American agriculture. The machinist who leaves his job in Minneapolis to get a free wheat ranch in Montana not only thinks he is entitled to a profitable price for his wheat; he thinks he is entitled to have, out there on what was yesterday a cattle range covered with buffalo grass, a school for his children like the school in Minneapolis. And he thinks this without reference to the fact that in choosing to raise wheat instead of making machines he has put himself into competition with the low-paid wheat-producing labor of Argentina, Egypt, India and thirty-five other countries.

#### Building on Credit

But the farmers asked the question in a rhetorical manner only. They did not wait for the answer. The credit was handy and they used it. They did not build country schools. They built city schools, with baths, gymnasiums and all. You can understand it.

You can understand also the disgust of the roundheaded banker, whose bank has never failed and never will, who started in life with one calf and one horse, when he says, "Over here's a town of five hundred people that's just built a school that cost fifty-three thousand dollars. They put in one of them gymnasium

things. Now they will hire somebody to teach their kids basketball because they've got nothing better to do."

Product: Taxes.

Farm taxes per acre, taking the country at large, were in 1923 about  $2\frac{1}{2}$  times what they were in 1913. Commenting upon this the Department of Agriculture says: "In 1913 taxes consumed a little less than one-tenth of the farmer's net income. In 1923 they consumed nearly one-third of it." Then it adds:

"Between 80 and 90 per cent of the taxes paid by the farmer is for expense within the county, the larger items being schools and roads. Such taxes, therefore, are within the control of a majority of the people of the county."

That is merely to say, the farmer did it to himself. A very great portion of his taxes is now beyond control, since it represents interest on money borrowed - interest on county, township and district bonds sold to outside investors.

In reduction, the great solution solved nothing; it produced instead many lamentable effects which were not intended. It will take years to efface them.

So now the sacred credit myth is in decline. If there were symbols of this fetish on which farmers could inflict their wrath you would find them lying in the Western ditches ignominiously, like those pagan rain gods the heathen were used to hurl into the dry fields so they might see for themselves how bad the drought was, and perhaps repent.

You cannot put profit into agriculture by giving it credit. That is settled.

Farmers themselves now say, "We don't want any more credit. That one thing has nearly ruined us. What we want is better prices."

Many of them indeed are suspicious of further experiments with credit, even such as lending Northwestern wheat croppers money out of the United States Treasury to stock their farmyards with chickens, pigs and milch cows; they suspect that the Government thereby begs the issue and postpones consideration of the true solution. For there is a new solution. Everything else has been tried; therefore this is bound to work.

The name of the new solution is the McNary Bill. The name stands for an idea. The idea is price control by government edict. But it must not be so stated. To say baldly what it is would perhaps defeat it. There is already too much prejudice against the thought of price fixing. And because it must not be referred to as a scheme for controlling prices by edict the exposition of it by its friends becomes extremely involved.

#### The McNary Bill Analyzed

It begins with a declaration of the thing to be done - namely, to make basic agricultural commodities worth as much as industrial commodities when by reason of overproduction or a surplus above domestic needs they are selling for less. The means by which this is to be accomplished are as follows:

First, the United States Agricultural Commission to notify the President that there is a surplus of wheat, flour, corn, cotton, wool, cattle, sheep, swine or any food product of cattle, sheep or swine, and that the domestic price is too low. The President thereupon by proclamation declares an emergency to exist in respect of that commodity.

Second, the United States Agricultural Commission determines what the domestic price of that commodity ought to be. This it does by means of a statistical index number comparing agricultural products with industrial products. The price

so determined is called the ratio price, and it is proclaimed as the price that by right should and in fact shall thereafter prevail.

Third, the United States Agricultural Export Corporation, now for the first time named, begins to operate. This is a merchandising concern, to be owned by the Government, with two hundred million dollars capital out of the Treasury. At the ratio price proclaimed by the commission the United States Agricultural Export Corporation will buy up all the surplus, or any amount necessary, of wheat or corn or cattle, or whatever the commodity is, in order to make the ratio price effective; and then the surplus over domestic needs it shall dump in foreign markets for what it can get. Both the amount that will have to be sold abroad and the loss thereon - meaning by loss the difference between the domestic price and the world price outside - will be estimated beforehand. Say the commodity is wheat; and it is estimated that one-tenth of the wheat crop will have to be sold abroad at twenty-five cents a bushel less than the official domestic price. In that case every farmer when he sells his wheat will get the full official domestic price, except that as to the one-tenth which is exportable surplus he shall receive the last twenty-five cents per bushel in the form of scrip; If the loss on what is exported turns out to be less than twenty-five cents a bushel he may get something for his scrip; if the loss turns out to be more he lets the Government worry. The scrip, you will understand, is bought for cash at any post office, like stamps, and the post offices turn the money in to the United States Agricultural Export Corporation. If you are a buyer of wheat you are obliged to have scrip with which to pay the last twenty-five cents on every tenth bushel. It is compulsory.

Unless one is interested in the McNary Bill curiously, as a piece of experimental mechanism, all that one needs to know about it is this: It is a proposal to employ the power and credit of the Government to lift the average price of basic agricultural products. If it is not meant to do that it has no point whatever; if it were not meant to do that nobody would be for it.

It is an undertaking to put profit into agriculture in spite of excessive production, in spite of the fact that the exploitation of land in the characteristic American manner creates the potentiality of surplus in the first place, in spite of the fact that the only natural restraint upon overproduction is loss.

Even more. One comes at last to the complete contradiction that the average price of agricultural products must be lifted because there is overproduction.

The bill contains its own argument. All these things proposed to be done are necessary because "there exists a general emergency in respect of agricultural commodities." And then it declares - the bill declares - that the general emergency is owing to "the existence of surpluses available for export" and to "the economic impracticability of immediately preventing the continued production of such surpluses."

Thought of limiting production is resentfully rejected by all concerned, for three reasons: First, it is too simple; second, it is impracticable; third, it is impossible. That is to say, agricultural production must not be subject to that restraint which regulates every other kind of production - namely, the restraint of loss.

In North Dakota the true problem is how to diversify agriculture- how to induce wheat growers to bother with pigs and chickens, milch cows and bees, in order to feed themselves. Necessity is the only inducement to which they have

responded. One crop for money - that is what they want.

Farmers are united for the McNary Bill. The Department of Agriculture is for it. All the agricultural minds of Congress are behind it. Many more Western business men, even bankers, than you might suppose are for it, on the ground that if it helps agriculture, no matter how, it will help them too. The bill includes the hated millers and <sup>the</sup>/horned packers. It had to do this, for obviously they could not buy grain and cattle from the farmers at the high ratio price and sell flour and meat products abroad at the world price; and if they could not do this they would not buy from farmers more than enough to supply the domestic demand. So it is provided that the millers and packers may buy at the high ratio price and then sell their exportable surplus of flour, hams, sausages, bacon, lard, and so on, to the United States Agricultural Export Corporation.

#### Are We Farmers at Heart

And what the farmers are for is not the McNary Bill as such. They are for the doctrine it embodies. A bill by any other name that went much further with the same doctrine would be more acceptable. The doctrine is that agriculture, as it has been and is and wants to be without change, shall be made to pay as a matter of public policy. The marginal farm and the marginal farmer shall be saved for the sake of all that structure of exploited land values, and at the same time the farmer shall be saved from drudgery and boredom in virtue of the great money-crop idea.

The farmer is not alone to blame. He is perhaps the least to blame. His relation to the soil, wherein it is uneconomic, is an effect, not a cause.

The United States Government through the Department of Agriculture, and the states through their agricultural colleges, have spent vast sums of money to propagate the thought of money cropping, of specialization, of industrial methods as applied to agriculture, all the emphasis on production, with a shabby imitation of city culture at the end. The one thing that has not been sold to the farmer is farming - the agricultural life for its spiritual satisfaction, as a manner of living. Do you say it has not these satisfactions? Then at heart we are not farmers. That may be it. And yet, half of us are on the farm. Of that half of us, only about 20 per cent are in serious trouble. All the commo-  
tion relates to that 20 per cent. They are the marginal people. Their costs are high, their efficiency is low, they have planter notions under a high wage system, and they make the surplus. There is about the same percentage of mar-  
ginal people in shopkeeping,<sup>in</sup> manufacturing, in any field of human activity. Only in agriculture is the question of their survival a political issue. One wonders what would happen to American agriculture if only it were let alone.

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# FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

X-4062  
May 15, 1924.

SUBJECT: EXPENSE MAIN LINE, Leased Wire System,  
April, 1924.

Dear Sir:-

Enclosed herewith you will find two mimeograph statements, X-4062-a and X-4062-b, covering in detail operations of the main line, Leased Wire System, during the month of April, 1924.

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-4062-a

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINE OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF APRIL, 1924.

From	Fed. Res. Bank Business	Percent of Total Bank Business (*)	Treasury Dept. Business	War Finance Corp. Business	Total
Boston	32,920	2.88	3,608		36,528
New York	237,547	20.75	10,817		248,364
Philadelphia	52,112	4.55	5,127		57,239
Cleveland	89,924	7.86	3,420		93,344
Richmond	74,454	6.50	3,299		77,753
Atlanta	79,271	6.92	4,135		83,406
Chicago	139,506	12.19	8,232		147,738
St. Louis	94,144	8.22	4,103		98,247
Minneapolis	51,259	4.48	2,519		53,778
Kansas City	91,967	8.03	4,420		96,387
Dallas	69,567	6.03	2,345		71,912
San Francisco	132,061	11.54	7,315		139,376
TOTAL	1,144,732	100.00	59,340		1,204,072
Board			46,452	354	319,508
Total	1,417,434		105,792	354	1,523,580
Percent of Total	93.04%		6.94%	.02%	
Bank Business	1,417,434 words	or 93.05%			
Treasury Dept.	105,792	" " 6.95%			
TOTAL	1,523,226	100.00%			

(\*) These percentages used in calculating the pro rata share of leased wire expenses as shown on the accompanying statement (4062-b)

FEDERAL RESERVE BOARD,  
Washington, D. C.  
May 15, 1924.

REPORT OF EXPENSE  
 MAIN LINE  
 FEDERAL RESERVE LEASED WIRE SYSTEM APRIL, 1924.

X-4062-b

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	\$ 623.70	\$ 250.00	\$ 373.70
New York	1,356.65	-	-	1,356.65	4,493.68	1,356.65	3,137.03
Philadelphia	200.00	-	-	200.00	985.36	200.00	785.36
Cleveland	388.00	-	-	388.00	1,702.19	388.00	1,314.19
Richmond	315.00	-	-	315.00	1,407.66	315.00	1,092.66
Atlanta	255.00	-	-	255.00	1,498.61	255.00	1,243.61
Chicago (#)	4,973.76	-	-	4,973.76	2,639.90	4,973.76 (*)	2,333.86
St. Louis	260.00	-	-	260.00	1,780.15	260.00	1,520.15
Minneapolis	283.33	-	-	283.33	970.20	283.33	686.87
Kansas City	365.51	-	-	365.51	1,739.00	365.51	1,373.49
Dallas	251.00	-	-	251.00	1,316.70	251.00	1,065.70
San Francisco	380.00	-	-	380.00	2,499.14	380.00	2,119.14
Fed. Res. Board			17,086.85	17,086.85			
<b>TOTAL</b>	<b>\$ 9,278.25</b>	<b>-</b>	<b>\$17,086.85</b>	<b>\$26,365.10</b>	<b>\$21,656.29</b>	<b>\$9,278.25</b>	<b>\$14,711.90</b>
				(A) 4,708.81			(&) 2,333.86
				<u>\$21,656.29</u>			<u>\$12,378.04</u>

(#) Includes salaries of Washington operators.

(\*) Credit.

(A) Received \$3.81 from War Finance Corporation and \$4,700.00

from Treasury Department covering business for the month of April, 1924.

(&) Amount reimbursable to Chicago.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

May 15, 1924.  
X-4063

SUBJECT: Holiday, Friday, May 30th,  
account Memorial Day.

Dear Sir:

For your information, on Friday, May 30, 1924,  
the offices of the Federal Reserve Board will be  
closed on account of observance of Memorial Day.

Accordingly, the Board's books will be closed  
and there will be no Gold Settlement Fund or Federal  
Reserve Note Clearing on that date.

Please advise Branches.

Yours very truly,

J. C. Noell,  
Assistant Secretary.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS.

137  
X-4064  
(Revised)

INDEX OF FORMS

IN USE BY THE FEDERAL RESERVE BOARD

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(CORRECTED TO MARCH 15, 1925)

Printed Forms of the Federal Reserve Board

Mimeographed Forms of the Federal Reserve Board:

X Forms

St. Forms

Unnumbered Forms

Printed Forms of the Issue and Redemption Division

Mimeographed and Multigraphed Forms of the Issue  
and Redemption Division

Printed Forms of the Treasury Department

Miscellaneous Printed Forms

LIST OF PRINTED FORMS OF  
THE FEDERAL RESERVE BOARD

X-4064-A  
(Revised)

<u>Form Number</u>	<u>Description</u>	<u>Division</u>
-	Employee's record folder	Chief Clerk
-	Order slips for publications (Three to each set - white, blue, yellow)	R. & S. (Library)
-	Certificate of authorization to serve under Clayton Act	General Counsel
FRA-5	Daily statement of Federal Reserve Agent	Bank Operations
30	Application for stock by national bank	Examination
30a	Application for stock by non-member bank when converting into a national bank	Examination
34	Balance sheet of Federal reserve bank	Bank Operations
38	Classification of discounted and purchased bills	Bank Operations
41	Record card, application for stock by national banks	Examination
41a	Record card, application for stock by State banks	Examination
45	Requisition for Federal reserve notes (Original, Confirmation and Copy)	Currency
46	Member bank reconcilment request	Examination
48	Clearing house verification	Examination
51	Voucher for traveling expenses	Chief Clerk
51a	Continuation sheet for Form 51	Chief Clerk
52	Voucher for purchases and services other than personal	Chief Clerk
53	Schedule of disbursements	Fiscal Agent
53a	Continuation sheet for Form 53	Fiscal Agent

<u>Form Number</u>	<u>Description</u>	<u>Division</u>
54	Purchase order - receiving clerk's copy	Chief Clerk
54a	Purchase order - Vendor's copy	Chief Clerk
55	Fiscal Agent's account current	Fiscal Agent
56	Application for additional stock by national banks	Examination
58	Certificate of increase of capital stock (Exhibits A, increase, and B, decrease)	Examination
59	Certificate of decrease of capital stock (Exhibits A, increase, and B, decrease)	Examination
60	Application for surrender of stock	Examination
60a	Application for surrender of stock (for consolidating member banks)	Examination
61	Application of national banks for fiduciary powers	Examination
61a	Cover to application of national banks for fiduciary powers (Containing recommendations and action taken)	Examination
61b	Supplementary application of national bank for additional fiduciary powers	Examination
61c	Analysis of Report of Examination, Fiduciary Powers	Examination
62	Requisition for printing and binding	Chief Clerk
63	General Account (Ledger)	Fiscal Agent
78	Library record card	R. & S.(Library)
81	Charge slip	R. & S.(Library)
83a	Application for stock by State bank, with supplement	Examination
86	Application for surrender of stock by liquidating national bank	Examination
87	Application by receiver of insolvent member bank for surrender of stock	Examination

<u>Form Number</u>	<u>Description</u>	<u>Division</u>
90	Gold Settlement Fund balance sheet (Federal Reserve Agents' ledger)	Gold Settlement
92	Cash Letters	Examination
93	Drafts and Notes letter	Examination
93a	Continuation Sheet for Form 93	Examination
94	Application to serve as Director under Clayton Act	General Counsel
94a	Statement of bank in connection with application to serve as Director under Clayton Act.	General Counsel
94b	Recommendation of Agent in connection with application to serve as Director under Clayton Act	General Counsel
94d	Application to serve as Director under Clayton Act (private banker)	General Counsel
94e	Statement of private banker in connection with application to serve as Director under Clayton Act	General Counsel
95	Earnings of Federal reserve banks	Bank Operations
96	Current expenses of the Federal reserve banks	Bank Operations
97	Income and expense, "Other real estate"	Bank Operations
97a	Reimbursable expenditures, account of Fiscal Agency operations	Bank Operations
98	Work sheet (8 x 10 $\frac{1}{2}$ ) listing Federal reserve banks	Bank Operations (General)
98a	Work sheet (8 x 13 $\frac{1}{2}$ ) listing Federal reserve banks	Bank Operations (General)
105	Report of condition of member banks	Bank Operations
107	Report of earnings and dividends	Bank Operations
107a	Special Notification of dividend declared	Bank Operations
120	Gold Settlement Fund ledger	Gold Settlement

<u>Form Number</u>	<u>Description</u>	<u>Division</u>
126	Reconcilement of collection item debits of Federal reserve banks.	Examination
128	Work sheet for member bank condition statement	Bank Operations
129a	Gold Settlement Fund Clearing ledger (3 sheets)	Gold Settlement
131	Office correspondence letterheads (letter size and memorandum size)	Chief Clerk (General)
136	Record of telegrams sent and received	Telegraph Office
137	Gold Settlement Fund Clearing telegram blank (Outgoing "Drysalter")	Gold Settlement
137a	Confirmation of 137	Gold Settlement
137b	Gold Settlement Fund Clearing telegram blank (Incoming "Labeg")	Gold Settlement
137c	Confirmation of 137b	Gold Settlement
141	Employee's record card	Chief Clerk
142	Percentage block sheet	Secretary
143	Application by liquidating member State bank or trust company for surrender of stock	Examination
144	Word card for international price index	Res. & Statistics
145	Order card for Library	R. & S. (Library)
146	Annual check card for publications	R. & S. (Library)
147	Annual check card for publications	R. & S. (Library)
148	Original telegram blank	Chief Clerk (General)
148a	Confirmation telegram blank	Chief Clerk (General)
149	Encumbrance record	Fiscal Agent
150	Application for approval of title under Edge Act	General Counsel
151	Articles of association of corporations under Edge Act	General Counsel



<u>Form Number</u>	<u>Description</u>	<u>Division</u>
152	Organization certificate of corporations under Edge Act	General Counsel
155	Deposit block work sheet	Examination
156	Cross reference sheet	Chief Clerk (Mails & Files)
157	International price index card	Res. & Statistics
160	Receipts and payments of paper currency	Currency
161	Fiscal Agent's daily balances	Fiscal Agent
162	Record of transportation requests	Fiscal Agent
163	Record of receipts by Fiscal Agent	Fiscal Agent
164	Record card of condition reports, etc.	Bank Operations
167	New currency shipped to Federal reserve banks	Currency
169	Items and securities held in custody	Examination
169a	Continuation sheet for 169	Examination
170	Monthly report of clearing operations	Bank Operations
171	Monthly report of average daily holdings of each class of earning assets, etc.	Bank Operations
173 (X-2098)	Application for stock in international banking corporations	General Counsel
174	Redemption account, Federal reserve bank notes	Currency
175	Analysis of weekly statement of Federal reserve banks	Bank Operations (For Mr. Hamlin)
177	Record card of receipts and shipments of grain, flour and stocks	Res. & Statistics
181	Bond of Federal Reserve Agent	Secretary
182	Bond of Assistant Federal Reserve Agent	Secretary
183	Federal Reserve Note Clearing ledger	Gold Settlement

<u>Form Number</u>	<u>Description</u>	<u>Division</u>
184	Federal Reserve Note Clearing telegram blank (Outgoing "Drummer")	Gold Settlement
184a	Confirmation of 184	Gold Settlement
184b	Federal Reserve Note Clearing telegram blank (Incoming "Druid")	Gold Settlement
184c	Confirmation of 184b	Gold Settlement
185	Currency received for redemption (For use of the Treasurer, U.S.)	Currency
186	U. S. currency (allotments, shipments and balances due)	Currency
187	Record of classified expenditures	Fiscal Agent
188	Comparison of expenses of Federal reserve banks and branches by functions	Bank Operations
189	Blank form for reporting items for collection (foreign - 2 pages)	Examination
190	Record card of examination - foreign banking corporations	Examination
191	State bank membership ledger	Examination
192	National bank ledger	Examination
194	Report of Federal Reserve Agent of Federal reserve notes received and issued	Currency
195	Library slip for material loaned	R. & S. (Library)
196	Library slip for periodicals loaned	R. & S. (Library)
199	War Loan Tracers	Examination
200	Serial Record card	R. & S. (Library)
202	National Bank Membership ledger	Examination
203	Requests for Currency Shipments	Currency
203a	" " " "	"
203b	" " " "	"
203c	" " " "	"

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MIMEOGRAPHED "X" FORMS OF  
THE FEDERAL RESERVE BOARD

X-4064-B  
(Revised)

<u>Form Number</u>	<u>Description</u>	<u>Division</u>
X- 228	Deposit letter	Fiscal Agent
X- 284	Miscellaneous reimbursements	Fiscal Agent
X- 300	Requisition for stationery or equipment	Chief Clerk (General)
X- 402	Cover page of memorandum of recommendation to the Board on application of State banks for membership	Examination
412	Reference slip to Counsel	Chief Clerk
544	Purchase order record	Chief Clerk
X- 567b	State bank membership record card	Examination
X- 584	Letter of transmittal of telegraphic request for Federal reserve notes	Currency
X- 585	Letter of transmittal of requisition confirming telegraphic request for Federal reserve notes	Currency
X- 586	Letter of transmittal of requisition for Federal reserve notes	Currency
608	Request for annual leave	Chief Clerk (General)
654	Docket for Board Meetings	Secretary
675	Acknowledgment of payment for subscription to Federal Reserve Bulletin	Chief Clerk
X- 783	Federal reserve bank stock record card	Examination
X- 889	Letter forwarding checks	Fiscal Agent
X-1051	Letter showing balance in Federal Reserve Agent's Fund at close of business each week	Gold Settlement
X-1084	Personnel report, rendered semi-monthly	Chief Clerk
X-1104	Report of prevailing interest and discount rates	Research and Statistics
X-1145	Summary of transactions for week	Gold Settlement

<u>Form Number</u>	<u>Description</u>	<u>Division</u>
X-1145b	Summary of transactions, Federal Reserve Agent's Fund	Gold Settlement
X-1185	Federal reserve notes issued, retired and outstanding-Statement for U.S.Treasurer	Bank Operations
X-1221	Letter re "Approved Methods for the Preparation of Balance Sheet Statements"	Chief Clerk
X-1301	Memorandum form of recommendation to Board of application for authority to accept up to 100% of capital and surplus	Examination
X-1339	Letter showing balance of F.R.Banks in Gold Settlement Fund	Gold Settlement
X-1343	Requisition for Stamps	Chief Clerk
X-1344	Requisition for Car Tokens	Chief Clerk
X-1397	Docket sheet	General Counsel
X-1466	Sheet listing acknowledgments of circular letters issued by the Board	Chief Clerk
X-1479	Daily noon cable rates	Currency
X-1504	Bulletin receipts	Chief Clerk
X-1505	"Approved Methods for the Preparation of Balance Sheet Statements" receipts	Chief Clerk
X-1599	Acknowledgment to Board's circular letters	Chief Clerk
X-1623	Check acknowledgment	Chief Clerk
X-1686	Certification for commercial telegraph company bills	Chief Clerk
X-1790a	Telegrams handled	Telegraph Office
X-1845	Certification of duty for night force	Gold Settlement
X-1855	Time record for night clearing force	Gold Settlement
X-1912	Transportation receipt card	Fiscal Agent
X-1918	Reference form for Clayton Act application	General Counsel
X-1984	Letter of renewal for subscription to Federal Reserve Bulletin with slip attached to be returned with remittance	Chief Clerk

X-4064-B  
(Revised)

<u>Form Number</u>	<u>Description</u>	<u>Division</u>
X-2098 (Form 173)	Application for stock in international banking corporations	General Counsel
X-3016	Release form	Telegraph Office
X-3168	Reference slip to Comptroller General	Chief Clerk
X-3168a	" " " " "	Chief Clerk
X-3168b	" " " " "	Chief Clerk
X-3201	Gold Settlement Fund reconcilment form	Examination
X-3220	Bank members - liquidations, etc.	Examination
X-3260	Photostat requisition	Chief Clerk
X-3268	Application for position	Chief Clerk
X-3269	Record card of firms from whom purchases are made	Chief Clerk
X-3314	Letter of transmittal with Federal Reserve Board's Gold Settlement Fund checks	Gold Settlement
X-3316	Schedule of time of arrival of Federal Reserve Note Clearing telegrams	Gold Settlement
X-3325	Gold Settlement Fund work sheet	Gold Settlement
X-3338	Receipts, Gold Settlement Fund Clearing and payments Federal Reserve Note Clearing	Gold Settlement
X-3344	Statement of "Other" Federal reserve notes, etc.	Gold Settlement
X-3352	Daily clearings through Gold Settlement Fund	Gold Settlement
X-3409	Application for sick leave	Chief Clerk (General)
X-3476	Branch bank file card, for branches of member banks	Examination
X-3488	Salary card of officers of Federal reserve banks and branches (alphabetically)	Chief Clerk
X-3488b	Salary card of officers of Federal reserve banks and branches according to titles and divisions	Chief Clerk

<u>Form Number</u>	<u>Description</u>	<u>Division</u>
X-3509	Sheet listing "Reserves against Federal reserve notes after setting aside 35% against deposits"	Secretary
X-3509a	Sheet listing percentages, deposits, etc. (Work sheet)	Secretary
X-3509b	Sheet listing "Free Gold"	Secretary
X-3561	Letter enclosing Federal reserve note statement to bank with charges	Fiscal Agent
X-3561a	Letter enclosing Federal reserve note statement to bank without charges	Fiscal Agent
X-3599	Daily list of absentees	Chief Clerk (General)
X-3612	"Tend" Sheet (Reserve Statement)	Gold Settlement
X-3650	Memorandum to Chief Clerk of work sent to Government Printing Office	Chief Clerk
X-3651	Postal Telegraph Cable Company blank listing corrections	Chief Clerk
X-3656a	Sheet listing "Members present"	Secretary
X-3686	Release form for night clearing telegrams	Gold Settlement
X-3692	Branch bank form for loose leaf folder	Examination
X-3704	Biographical sketch card	Secretary
X-3725	Monthly report of sick leave taken	Chief Clerk
X-3729	Counsel's office receipt for files	General Counsel
X-3774	Gold Settlement statement receipt	Gold Settlement
X-3830	Form of card for record of correspondence in file	Examination
X-3858	Receipt record of correspondence taken from files of office of General Counsel	General Counsel
X-3868	Travel Authorization	Chief Clerk
X-3878	Registered mail receipt	Chief Clerk

<u>Form Number</u>	<u>Description</u>	<u>Division</u>
X-3895	Record of national banks admitted and withdrawn, classified and showing number, capital, surplus, and resources	Examination
X-3995a	Same as X-3895, for State banks	Examination
X-3909	Receipt for books borrowed from Counsel's office	General Counsel
X-3935	Receipt slip for dockets	Secretary
X-3962	Closed bank form for weekly report, for loose leaf book	Examination
X-3964	Examiner's voucher record card	Fiscal Agent
X-3998	Memorandum bill form	Chief Clerk
X-4030	Office reference form	General Counsel
X-4050	Aggregate amount of leave taken by personnel of Otis Building	Chief Clerk
X-4090	Route slip - Counsel	General Counsel
X-4270	Budget of Expenditures	Fiscal Agent
X-4305	Request for Currency Shipments	Currency
X-4315	Changes in personnel in D.C. (Report to Civil Service Commission)	Chief Clerk
X-4315a	Changes in personnel outside D. C. (Report to Civil Service Commission)	Chief Clerk

MILIEOGRAPHED "ST" FORMS OF

X-4064-C  
(Revised)

FIL FEDERAL RESERVE BOARD.

<u>Form Number</u>	<u>Description</u>	<u>Division</u>
St. 51	Weekly report of principal resource and liability items of member banks in selected cities	Bank Operations
St. 69	Working sheet for "Float" statement	Bank Operations
St. 69b	Preliminary working sheet for "Float" statement	Bank Operations
St. 70	Working sheet for weekly percentage statement showing separate reserve percentages against deposits, notes, etc.	Bank Operations
St. 92	Working sheet for daily condensed statement of condition of Federal reserve banks	Bank Operations
St. 92a	Condensed statement of condition of Federal reserve bank (Daily "Tend" telegram)	Bank Operations
St. 92b	Condensed statement of condition of Federal reserve bank	Bank Operations
St. 92c	Condensed statement of condition of Federal reserve bank	Bank Operations
St. 92d	Supplementary working sheet for use with daily condensed statement of condition of Federal reserve banks	Bank Operations
St. 92e	Statement of difference between data shown in daily TEND telegrams and on mail balance sheets form 34	Bank Operations
St. 92f	Statement showing reduction in reserve ratio	Bank Operations
St. 178 (form 57)	Federal reserve notes outstanding, as shown by Federal Reserve Agent's daily statements Form F.R.A. - 5	Bank Operations
St. 195 (44)	Federal Reserve Agent's report of Federal reserve notes received from Comptroller, returned for destruction, issued to bank, and returned by bank, (by denominations)	Bank Operations
St. 231	Working sheet for weekly consolidated statement of condition of Federal reserve banks	Bank Operations
St. 246	Working sheets for average maturity and average rates charged on bills discounted and bills purchased	Bank Operations



<u>Form Number</u>	<u>Description</u>	<u>Division</u>
St. 246a	Working sheets for average maturity and average rates charged on bills discounted and bills purchased	Bank Operations
St. 246b	Working sheets for average maturity and average rates charged on bills discounted and bills purchased	Bank Operations
St. 321 (A)	Discount and open market operations of the Federal reserve bank during the month	Bank Operations
St. 588 (44a)	Classification of money held by the Federal reserve bank and of gold held by the Federal Reserve Agent; also Federal reserve notes outstanding and forwarded for redemption; as of the end of the month	Bank Operations
St. 728	Distribution slip	Bank Operations
St. 974	Deficiencies in reserves of member banks	Bank Operations
St.1241	Memorandum of Trans-Atlantic Radio of noon exchange cables in New York	Research and Statistics
St.1252	Deficiencies in deposit reserves of the Federal reserve bank	Bank Operations
St.1287	Daily statement of rediscounts and sales between Federal reserve banks	Bank Operations
St.1501	Working sheet for maturity distribution of bills discounted and bought, U. S. certificates of indebtedness, and municipal warrants held by the Federal reserve banks	Bank Operations
St. 1542	Distribution or mailing list for statements	Bank Operations
St.1548a	"	Bank Operations
St.1872	Distribution or mailing list for mimeographed letters	Bank Operations
St.1872a	"	Bank Operations
St.2252	Analysis sheet for weekly reporting member bank statement	Bank Operations
St.2252a	"	Bank Operations

<u>Form Number</u>	<u>Description</u>	<u>Division</u>
St.2471	Working sheet for average rates charged by member banks on customers paper rediscounted with Federal reserve banks	Bank Operations
St.2786	Working sheet for calculation of average maturity of paper discounted for member banks in each State and the amount of such discounts adjusted to a common maturity basis	Bank Operations
St.2786a	"	Bank Operations
St.2786b	"	Bank Operations
St.2810	Bank premises report (new building operations)	Bank Operations
St.2810a	Bank premises report (remodeled building operations)	Bank Operations
St.2903	Working sheet for weekly Federal reserve agents' statement	Bank Operations
St.3410	Summary of changes in the principal assets and liabilities of the reserve banks for use in preparing weekly analysis	Bank Operations
St.3438	Discounted bills held by each Federal reserve bank and total earning assets held by the System	Bank Operations
St.3458	Summary of condition of Federal reserve banks as compared with preceding day and daily averages of preceding month	Bank Operations
St.3458a	Daily summary of condition of Federal reserve banks	Bank Operations
St.3501	Deposits of member banks in each State (grouped by size of cities and towns)	Bank Operations
St.3512	Blank working sheet listing all Head offices and Branches	Bank Operations
St.3598	Condensed statement showing changes in condition of Federal reserve bank	Bank Operations
St.3677	Paper held under discount at the end of the month for member banks whose borrowings from the Federal reserve bank were continuously in excess of their combined capital and surplus during the report period	Bank Operations

<u>Form Number</u>	<u>Description</u>	<u>Division</u>
St.3839	Card record of member banks whose borrowings are continuously in excess of capital and surplus	Bank Operations
St.3839a	Summary of member banks whose borrowings are continuously in excess of capital and surplus	Bank Operations
St.4080	Working sheet for monthly statement showing classification of bills purchased	Bank Operations
St.4350	Working sheet for combining San Francisco and branch figures for weekly statement	Bank Operations
St.4374	Daily letter to Assistant Federal Reserve Agent at New York giving classification of earning assets of the Federal Reserve System	Bank Operations

MIMEOGRAPHED UNNUMBERED FORMS OF  
THE FEDERAL RESERVE BOARD

X-4064-d  
(Revised)

<u>Description</u>	<u>Division</u>
Reference slip	Chief Clerk
Record card of distribution of supplies	Chief Clerk
Telegraph receiving blank	Telegraph Office
Daily time report	Research & Statistics
Request for statistical assistance	Research & Statistics
Summary of Daily Time Reports	Research & Statistics
Income & Expense Accounts	Research & Statistics
Work Sheet - Months listed	Research & Statistics
Letter to Library of Congress	Library ( R. & S.)
Letter re exchange of publications	Library (R. & S.)
Letter re securing certain material	Library (R. & S.)
Letter re failure to receive publications for which exchange is made for other publications	Library (R. & S.)
Letter of appreciation for receipt of publications	Library (R. & S.)
Letter re failure to receive publications regularly	Library (R. & S.)
Letter re non-receipt of periodicals	Library (R. & S.)

LIST OF PRINTED FORMS CURRENT IN  
THE FEDERAL RESERVE ISSUE AND REDEMPTION DIVISION

<u>Form Number</u>	<u>Description</u>
2316	Record of Federal reserve notes deposited and on hand
2317	Vault balance, mutilated Federal reserve notes (book form)
2318	Register of mutilated Federal reserve notes
2319	Daily report of mutilated Federal reserve notes (book form)
2320	Schedule of Federal reserve bank currency issued to Federal reserve banks
2320a	Schedule of Federal reserve bank currency issued to Federal reserve banks
2321	Schedule of Federal reserve bank currency withdrawn from vault for issue to Federal reserve banks
2321a	Schedule of Federal reserve currency withdrawn from vault
2322	Daily report (book form)
2323	Daily report (2 book forms)
2324	Schedule of Federal reserve notes withdrawn from vault
2325	Schedule of Federal reserve notes issued
2325a	Schedule of Federal reserve notes issued
2325b	Schedule of Federal reserve notes issued
2325c	Schedule of Federal reserve notes issued
2325d	Schedule of Federal reserve notes issued
2326	Federal reserve bank account
2327	Federal Reserve Agent account
2327a	Federal Reserve Agent account
2328	Advice of issue of Federal reserve bank
2329	Advice of Federal reserve notes returned by bank
2329a	See Form numbers 6232 R.A. and 6232 A.R.A. (second sheets)
2330	Advice of reissue of Federal reserve notes
2331	Request to print Federal reserve notes
2332	Request to print Federal reserve bank currency
2333	Certificate of destruction of Federal reserve notes
2333a	Certificate of destruction of Federal reserve notes
2333b	Certificate of destruction of Federal reserve notes
2335	Counter's schedule
2336	Federal reserve bank currency account
2337	Vault balance, Federal reserve bank currency (book form)
2338	Counter's monthly record
6232 R.A.	Advice of Federal reserve notes redeemed and delivered for destruction
6232 A.R.A.	Advice of Federal reserve notes redeemed and delivered for destruction
8070	Letter of transmittal of new Federal reserve notes
8070a	Receipt of Federal reserve notes by Federal Reserve Agent
8070b	Receipt of Federal reserve notes by Assistant Treasurer U.S.
8070c	Receipt of Federal reserve notes by Superintendent U.S. Mint
8449	Federal Reserve Alto.
8486	Book record of Federal reserve plates
8487	Federal reserve dies
8488	Federal reserve rolls

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MIMEOGRAPHED AND MULTIGRAPHED FORMS OF  
THE FEDERAL RESERVE ISSUE AND REDEMPTION DIVISION

X-4064-F

<u>Form Number</u>	<u>Description</u>
1	Form letter to Director, Bureau of Engraving and Printing on Federal reserve bank currency
2	Form for Federal reserve bank notes issued
3	Form for Federal reserve bank currency received and issued
4	Memorandum for issuing Federal reserve bank currency
5	Memorandum for issuing Federal reserve notes
6	Memorandum for wrong notes accounting
7	Schedule of errors in Federal reserve notes
8	Form letter to Federal reserve banks of Federal reserve bank notes shipped
9	Form A-Letter to Director, Bureau of Engraving and Printing on Federal reserve notes.
10	Form B-Letter to Federal Reserve Agent of shipment of Federal reserve notes
11	Form letter to Director, Bureau of Engraving and Printing for delivery of Federal reserve currency to U.S. Treasurer
13	Form letter to Federal reserve bank for delivery of Federal reserve bank currency to U. S. Treasurer
14	Form letter to Treasurer of U.S. transmitting drafts for payment of plates engraved.
15	Form letter for mutilated Federal reserve notes received and destroyed
16	Monthly statement of Federal reserve bank currency
17	Monthly statement of Federal reserve bank notes
18	Monthly statement of Federal reserve notes outstanding
19	Monthly statement of Federal reserve bank notes outstanding
21	Form for denominational lots
22	Semi-monthly balance sheet of Federal reserve notes
23	Weekly memorandum of Federal reserve notes printed and shipped
24	Weekly memorandum of Federal reserve notes shipped
25	Form schedule of Federal reserve bank note circulation
26 (2316-c)	Federal reserve bank notes shipped and on hand
27	Supplementary order for printing Federal reserve bank currency
28	Request for preparation of plate and to print Federal reserve bank currency

PRINTED FORMS OF THE TREASURY  
DEPARTMENT

X-4064-G  
(Revised)

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(Used by the Federal Reserve Board)

<u>Form Number</u>	<u>Description</u>	<u>Division</u>
62	Requisition to Chief Clerk, Treasury Department for supplies or services	Chief Clerk
1013	Payroll for personal services (Standard Form-Comptroller General, U.S.)	Chief Clerk
1013a	Payroll for personal services (follow sheet) (Standard Form-Comptroller General, U.S.)	Chief Clerk
1013b	Payroll for personal services (carbon sheet) (Standard Form-Comptroller General, U.S.)	Chief Clerk
1013c	Payroll for personal services (follow sheet for carbon) (Standard Form-Comptroller General, U.S.)	Chief Clerk
1603	Certificate for salary (Office of Disbursing Clerk)	Chief Clerk
2131	"Special" tag (Departmental Stock Form)	General
2139	Requisition for disbursing funds (Departmental Stock Form)	Fiscal Agent
2141	Order for books and blanks (Departmental Stock Form)	Chief Clerk
2150	Daily list of absentees for the year (Departmental Stock Form)	Issue and Redemption
2152	Individual record of absence for the year (Departmental Stock Form)	Chief Clerk
2163	Requisition to Bureau of Supplies for articles of stationery (Departmental Stock Form)	Chief Clerk
2220	Carbon of Treasury check (Departmental Stock Form)	Fiscal Agent
2222	Oath of office (Departmental Stock Form)	Chief Clerk
2225	Instruction to binder (Departmental Stock Form)	Chief Clerk

<u>Form Number</u>	<u>Description</u>	<u>Division</u>
5273	"Statement accompanying deposit" (Treasurer's Office-Cashier)	Fiscal Agent
5584	Balance card (Treasury Department Form)	Fiscal Agent
6599	Certificate of deposit for checking account (Treasurer's Office-Cashier)	Fiscal Agent



MISCELLANEOUS PRINTED FORMS

X-4064-H  
(Revised)

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<u>Form Number</u>	<u>Description</u>	<u>Division</u>
E	Quarterly functional expense report (31 pages) - (Printed and distributed by the Federal Reserve Bank of New York)	Bank Operations
BD-4	Schedule of bills discounted (Printed by each Federal reserve bank)	Bank Operations
BD-7	Schedule of bills bought in open market (Printed by each Federal reserve bank)	Bank Operations
S--2	Schedule of investment operations (Printed by each Federal reserve bank)	Bank Operations
3570	Memorandum form of corrections in telegraph bill (Western Union Telegraph Company blank)	Chief Clerk
6047a	Record of subject matter taken from Files (Library Bureau Catalogue Card)	Chief Clerk (Mails & Files)

# FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

X-4065  
May 19, 1924.

SUBJECT: Advice of Holiday.

Dear Sir:

The Federal Reserve Banks of Richmond, Atlanta and Dallas, together with Branch Banks at New Orleans, Memphis, El Paso and Houston will be closed on Tuesday, June 3rd, account holiday.

Therefore, those offices will not participate in either the regular daily Gold Fund Clearing or the Federal Reserve Note Clearing of that date. Please include your credits for June 3rd with your credits for June 4th for those offices in your Gold Fund Clearing telegrams of June 4th, and make no shipments of Federal Reserve Notes, fit or unfit, to Head Offices concerned or to Washington, respectively, on date of holiday.

For your information, Birmingham, Nashville and Jacksonville Branches of the Federal Reserve Bank of Atlanta will also be closed on date of holiday, June 3rd.

Kindly notify Branches.

Yours very truly,

J. C. Noell,  
Assistant Secretary.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS

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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

For Release in Morning Papers,  
Wednesday, May 28, 1924.

X-4067

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.

Factory employment and production of basic commodities declined in April and there was a further recession in wholesale prices. Retail trade was larger than in March, chiefly because of Easter buying, and was at about the level of earlier months of the year. There was a decrease in the volume of borrowing for commercial purposes and further easing of money rates.

PRODUCTION:

The Federal Reserve Board's index of production in basic industries, adjusted to allow for seasonal variations, declined 2 per cent in April. Declines were particularly large in the iron and steel, coal, and woolen industries. Mill consumption of cotton, on the other hand, showed less than the usual seasonal reduction between March and April. Factory employment declined 2 per cent in April, owing chiefly to large reduction of forces at textile and clothing establishments. Contract awards for new buildings reached a higher value than in March and were also larger than a year ago; value of building permits granted, however, declined and was smaller than in the corresponding month of 1923.

Department of Agriculture estimates on May 1 of the yield of winter wheat and rye are somewhat above the forecasts made in April. The acreage of winter wheat is estimated at 7 per cent less than last year.

TRADE:

Railroad shipments, which since the middle of March have been smaller

than last year, were 3 per cent less in April than a year ago. Shipments of coal were much below last year, while loadings of merchandise and miscellaneous freight were higher.

Wholesale trade in April was in about the same volume as during the preceding month and as in April, 1923. Sales of dry goods and hardware were smaller than a year ago, while sales of drugs and shoes showed some increase. Department store sales were considerably larger in April than in March, partly owing to the unusually late Easter; total sales for the two months were 2 per cent greater than in the corresponding period of 1923. Merchandise stocks at department stores showed less than the usual seasonal increase in April, but were at a higher level than a year ago.

PRICES:

Wholesale prices, according to the Bureau of Labor Statistics index, declined 1 per cent during April and reached the lowest point since May, 1922. Farm products, however, advanced 2 per cent in April. Metals and foods showed substantial reductions; prices of clothing, fuel, and chemicals also declined; while prices of building materials and house furnishings remained unchanged. During the first half of May quotations on cotton, wheat, flour, and hogs increased, while prices of sugar, silk, wool, and metals declined.

BANK CREDIT:

During the five week period ending May 14, the volume of borrowing for commercial purposes at member banks in leading cities declined somewhat from the high level reached early in April. There were increases, however, in loans on stocks and bonds and in investments in securities; so that the total of all loans and investments at the middle of May was higher than a month previous, and in larger volume than at any time in more than three years.

Volume of borrowing by member banks at Federal reserve banks declined further during the last week of April and in May, while holdings of securities bought in the open market increased slightly. Total earning assets declined to \$795,000,000 on May 21, the lowest figure since the autumn of 1917.

Further easing of money conditions during the last week of April and the first three weeks of May was reflected in a continued rise of the prices of government securities, in a reduction from 4 1/2 to 4 1/4 per cent in the rate for prime commercial paper, and a decline in the rate for bankers' acceptances from 4 to 3 per cent. On May 1 the discount rate of the Federal Reserve Bank of New York was reduced from 4 1/2 to 4 per cent.

X-4068

A GLANCE AT BRANCH BANKING BY STATES

SHOWING NUMBER OF INSTITUTIONS CONDUCTING BRANCHES IN EACH STATE THAT ARE MEMBERS OF THE FEDERAL RESERVE SYSTEM AND THE NUMBER THAT ARE OUTSIDE THE RESERVE SYSTEM.

The following brief statements with regard to branch banking in each of the states where branch banking is permitted (omitting the states where branch banking is confined to city limits) have been compiled for the purpose of showing that Section 9 of the McFadden bill will not accomplish what is expected of it, viz: the prevention of the spread of branch banking by state banks.

The figures submitted will show that there are four times as many non-member state banks engaged in operating branches as there are member state banks, 236 non-members and 58 members. The member state banks maintaining branches are, generally speaking, larger than the non-members, many of the latter being simply country banks extending banking facilities to smaller neighboring communities by means of branches. In some cases these non-member institutions are groups of country banks united together under a common management with a common board of directors.

The development of most of these country branch banking systems has been very gradual and along conservative lines. Some of them have been in existence for a considerable term of years - the Bank of Grenada (Mississippi) for example, for thirty years. Only occasionally do they add branches, but those that are outside of the Federal Reserve System will certainly not be induced to join by the prohibition contained in Section 9. If that section should become law its natural result would be to repel these banks and keep them outside of the System, and to drive some that are now members - and very desirable members - to withdraw.

The figures do not include city branch banking in New York, Massachusetts, Ohio and Michigan, where branch banking is confined to city limits, (in Ohio to city limits and contiguous territory). City branch banking is chiefly a matter of convenience to customers. Country branch banking is a matter of safety and service to customers.

It has been impossible in all cases to obtain the capital and surplus of the non-member banks operating branches, but this is given for enough of the states to be of some value for purposes of comparison.

SUMMARY OF MEMBER AND NON-MEMBER BANKS MAINTAINING BRANCHES BY STATES.  
(Omitting States where branches are permitted only within city limits.)

	<u>Member</u>	<u>Non-member</u>
Alabama	1	4
California	19	69
Delaware	1	4
Florida	0	1
Georgia	8	9
Louisiana	8	25
Maine	3	20
Maryland	3	16
Mississippi	1	8
North Carolina	5	33
Rhode Island	3	4
South Carolina	2	5
Tennessee	2	16
Virginia	<u>2</u>	<u>22</u>
	58	236

ALABAMA

Alabama has 1 member bank (capital and surplus \$65,000) with 1 branch; and 4 non-member banks (capital and surplus \$643,000) with 18 branches.

FLORIDA

Florida has 1 non-member bank with 2 branches.

GEORGIA

Georgia has 8 member banks (capital and surplus \$6,698,000) with 14 branches; and 9 non-member banks with 29 branches.

LOUISIANA

Louisiana has 8 member banks with 41 branches, and 25 non-member banks with 43 branches.

MISSISSIPPI

Mississippi has 1 member bank (The Bank of Grenada, capital and surplus \$550,000) with 12 branches, and 8 non-member banks with 11 branches. Capital and surplus of non-members \$1,135,000.

NORTH CAROLINA

North Carolina has 5 members with 13 branches and 33 non-members with 49 branches. These figures are as of June 30, 1923. (Since January 1, 1924, one member bank has withdrawn from the Federal Reserve System and has established three branches, so that present figures would show 34 non-members with 52 branches.) The 13 members have a capital and surplus of \$3,624,000 and the 33 non-members \$6,175,000.

TENNESSEE

Tennessee has 2 member banks with 5 branches, and 16 non-members with 41 branches.

MARYLAND

Maryland has 3 members with 11 branches (nearly all in Baltimore) and 16 non-members with 52 branches. The capital and surplus of the 3 members is \$6,900,000, and of the 16 non-members \$7,112,000.



VIRGINIA

Virginia has 2 member banks with 3 branches, and 22 non-members with 29 branches, nearly all of them country banks in comparatively small towns. The capital and surplus of the 2 members is \$3,400,000, and of the 22 non-members \$6,298,000.

SOUTH CAROLINA

South Carolina has 2 member banks with 3 branches, and 5 non-members with 13 branches. The 2 members have capital and surplus of \$700,000, and the 5 non-members \$1,240,000.

DELAWARE

Delaware has one member bank maintaining one branch, the Wilmington Trust Company, capital and surplus \$3,110,000, deposits \$14,221,236, and 4 non-member banks operating 13 branches. One of these, the Delaware Trust Company of Wilmington, has 11 branches, only one of which is in Wilmington. The capital and surplus of the non-member banks operating branches is \$4,120,000, and their combined deposits \$24,000,000.

MAINE

Maine has 3 member state banks (trust companies) maintaining branches and 20 non-members. The law permits a trust company to have branches in its own and "an adjoining county." The 3 member banks have 8 branches, and the 20 non-members 39 branches. No bank has more than 4 branches at present.

The capital and surplus of the 3 members is \$1,250,000 and their deposits \$12,882,178. The capital and surplus of the 20 non-members is \$4,272,000 and their deposits \$56,934,013. One of the non-members has a capital (\$25,000) and surplus (\$25,000) of only \$50,000. The others run from \$75,000 up to \$725,000. An even half of them have a capital less than \$100,000.

RHODE ISLAND

Rhode Island has 3 member banks maintaining branches (state-wide law) and 4 non-members, the members (all in Providence) being very much larger banks than the non-members. The 3 members maintain 14 branches, and one of them (now maintaining only 1 branch) has been authorized to open several more. The non-members maintain 5 branches. Three of them are in comparatively small towns, Wakefield, Westerly and Woonsocket. The 3 members have capital \$8,000,000, surplus \$11,000,000 and deposits \$190,478,710. The 4 non-members have capital \$600,000, surplus \$635,000 and deposits \$13,806,471.

CALIFORNIA

In California, where the laws have provided for branch banking since 1909, there are (December 31, 1923) 19 member banks maintaining branches, and 69 non-member banks. Most of the latter are country banks, but they include several large institutions in Los Angeles. The 19 member banks have 264 branches and the 69 non-members 202. Of the 264 member bank branches 100 are located in the city of the parent bank and 164 outside. Of the 202 non-member branches 102 are located in the city of the parent bank and 100 outside.

California is the leading branch banking state, and the only one in which branches have been extended to any considerable distance from the parent banks. Branch banking appears to be popular, and to be rendering good service especially to the large agricultural interests and to the cooperative marketing associations.

The largest branch banking institution, in number of branches, is the Pacific Southwest Trust and Savings of Los Angeles, but the largest bank in Los Angeles in resources is the Los Angeles Savings and Trust Company, which has only about 12 branches outside of the city limits. The branches of the

Bank of Italy of San Francisco covers the widest extent of territory.

Branches are obtained by purchase of or consolidation with existing institutions, and "de novo" branches are not permitted outside of the cities, except rarely and where adequate banking accommodation does not exist. It does not appear that unit banks have in any case been driven out of existence, or forced into consolidations by the competition of branches. As a rule the branches outside the cities are managed by the same man who managed them before they became branches, and they generally have full discretion, except for large loans and investments.

X-4069

## FEDERAL RESERVE BOARD

## Statement for the Press

For Immediate Release

May 28, 1924.

CONDITION OF ACCEPTANCE MARKET

April 10 to May 14, 1924

For the period ending May 14, the principal factor influencing the acceptance market was a general decline in money rates. Early in April call money rates declined and dealers' rates on acceptances were reduced from 4 per cent bid and  $3\frac{7}{8}$  per cent offered to  $3\frac{7}{8}$  per cent bid and  $3\frac{3}{4}$  per cent offered. The reduction in rates resulted in an active investors' demand for bills and dealers' aggregate portfolios were reduced to the lowest levels since October. The active demand and a decrease in holdings caused a further reduction in dealers' quotations in the week ending April 30 to  $3\frac{5}{8}$  per cent bid and  $3\frac{1}{2}$  per cent offered, rates that were maintained during the remaining weeks of the period. The demand for bills came principally from banks and investors. Federal reserve banks' holdings declined steadily during the period and reached the lowest level of the year in the week ending May 14. Bills of short maturity, principally 60 days, were reported to be in the best demand although bills of longer maturities were easily absorbed. Commodities against which bills were drawn were sugar, cotton, grain, wool, hides and leather, tobacco, and provisions.

# FEDERAL RESERVE BOARD

400

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

X-4071  
May 31, 1924.

SUBJECT: Requests for Rulings.

Dear Sir:

The Board has from time to time, and with increasing frequency in the recent past, received requests for rulings from junior officers and employees of Federal reserve banks. The Board disapproves this practice for various reasons which need not be detailed at length, but chiefly because it often means duplication of work and loss of time. In many cases the questions raised can be answered by the senior officers of the bank or have already been covered in correspondence between them and the Board. For purposes of record to the banks, it would also be more businesslike to have correspondence on official matters pass through the hands of the senior officers and this will make for greater efficiency and orderliness of administration.

The Board accordingly advises you that in the future all requests for rulings emanating from your bank should be addressed to the Board over the signature of the Governor, Chairman, or the acting senior officer.

Yours very truly,

D. R. CRISSINGER  
Governor.

TO ALL GOVERNORS AND CHAIRMEN.

## FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

June 6, 1924

X-4074

SUBJECT: Payment of Dividends on June 30, 1924.

Dear Sir:

Will you kindly accompany your usual mid-year dividend resolution, which should reach the Board not later than June 27, with the following statements:

1. Unpaid indebtedness of closed banks to Federal reserve bank, giving names of the 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 names of the banks, indebtedness of each, character of security, if any, and probable losses.

In view of the fact that the earnings of the Federal Reserve System as a whole are now not much in excess of expense and dividend requirements, the earnings of some of the Federal reserve banks during the current six month period may not be sufficient to cover current expenses, depreciation in the assets of the bank, probable losses and dividend requirements, and accordingly such banks will have to modify somewhat the second paragraph of the form of dividend resolution accompanying the Board's letter St. 3557 of June 12, 1923.

Following the custom adopted two years ago, the books of the Federal reserve banks will not be closed on June 30 of this year, nor will any reserves be set up at that time to take care of depreciation in the assets of the bank, to cover losses on paper of suspended banks, or for other purposes.

By order of the Federal Reserve Board.

Very truly yours,

Walter L. Eddy,  
Secretary.

to Chairman of each Bank.

## FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

June 6, 1924.

X-4075

SUBJECT: Opinion of Counsel re X-3953.

Dear Sir:

A reading of the report of the recent Governors' Conference discloses the fact that there is apparently some doubt in the minds of certain of the Governors as to the legality of the Federal reserve banks acting in accordance with the ruling of the Board as contained in its letter of January 25, 1924, X-3953, which permits Federal reserve banks to treat shipments of currency in transit to and from member banks as part of their lawful reserves, when applying the prescribed penalties for deficiencies.

For your information, there is enclosed herewith a copy of an opinion rendered by the Board's Counsel as to the legality of the practice in question.

Very truly yours,

D. R. Crissinger,  
Governor.

Enclosure:

TO GOVERNORS OF ALL F. R. BANKS.

C O P Y

To Federal Reserve Board  
 From Mr. Wyatt, General Counsel

March 28, 1924.

SUBJECT: Currency in transit as legal reserve balances.

In the attached letter, Governor Strong of the Federal Reserve Bank of New York questions the Board's legal authority to permit Federal reserve banks to count currency in transit as part of the required reserve balances of member banks. His argument is based largely upon the language of Section 19 of the Federal Reserve Act, which provides in part that each member bank "shall hold and maintain with the Federal reserve bank of its district an actual net balance equal to not less \*\*\* than" a certain percentage of its deposits. In Governor Strong's opinion, this provision requires that member bank reserves must be kept on deposit with the Federal reserve bank and he argues that currency in transit can not be considered as held with the Federal reserve bank.

I agree with Governor Strong that the required reserve balances of member banks must be held with their Federal reserve banks, and I also agree that ordinarily currency in transit is not thus held. In legal contemplation, however, currency in transit may be considered to be held by a Federal reserve bank if the railroad company, the express company, or other carrier is legally its agent for the purpose of receiving and holding such currency. In the eyes of the law, custody and possession of an agent are the custody and possession of the principal. Currency in transit, therefore, will legally constitute part of the required reserves of a member bank, provided the carrier in such case is the agent of the Federal reserve bank and receives and holds such currency for the Federal reserve bank rather than for the member bank.

I have not sufficient information as to the arrangements which the several Federal reserve banks have made for shipping currency to and from their member banks to enable me to determine definitely whether the carrier is in fact the agent of the Federal reserve bank for the purpose of receiving and holding such currency. I understand, however, that the Federal reserve banks pay the transportation charges and insure such shipments in their own names, and if this is true it is a strong indication that the carriers are the agents of the Federal reserve banks. If it is decided to have the carriers act as the agents of the Federal reserve banks for this purpose, however, it would be advisable to cover the matter by express contracts with both the carriers and the member banks, in order that there may be no doubt as to the legal relation of the parties or the legal title to the currency. I can see no legal reason why arrangements to this end could not be made and if they are made, I believe that the Board would be acting within its legal authority in permitting Federal reserve banks to count<sup>currency</sup> in transit under such shipping arrangements as part of the reserve balances of their member banks. Unless, however, the carriers are the agents of the Federal reserve banks for the purpose of receiving and holding shipments of currency, I believe the Board has no authority to rule that currency in transit may be considered in computing reserve requirements or penalties for deficiencies in reserves of member banks.

The greater part of Governor Strong's letter deals with various practical reasons why it would be inadvisable to count currency in transit as part of member bank reserves. These considerations raise important questions of policy for the Board's determination and, in my opinion, this entire matter should be decided as a question of policy rather than of law.

Respectfully,

(Signed) WALTER WYATT, General Counsel.



( C O P Y )

FEDERAL RESERVE BANK

X-4076-a

OF DALLAS

June 2, 1924

Federal Reserve Board  
Washington, D.C.

In re: City of Douglas Arizona  
v.

Attention Mr. Walter Wyatt.

Federal Reserve Bank

Dear Mr. Wyatt:

The above case was tried before the United States District Judge on May 7th. Prior to the submission of testimony in the case, we presented exception to the Plaintiff's petition on the ground that there was no privity of contract between Plaintiff and Defendant. The Court overruled this exception. After the testimony had been submitted, the Judge announced that, in his opinion the facts of the case brought us entirely within the rule as laid down by the Supreme Court of the United States in the Malloy case, although he expressed doubt as to the right of the Plaintiff to maintain the action, and requested that both sides submit written briefs on this question. These briefs were submitted, and on the 29th of May, the Court rendered judgment in favor of the Federal Reserve Bank, upholding our position that no privity of contract existed.

I have undertaken to have Judge Smith write an opinion, in order that it might be used as authority in other cases. However, the Judge is ordered to New York to hold Court for several weeks, beginning about the 15th of June, and on account of the fact that his docket is rather crowded until he leaves, we have not as yet been able to get his promise to write the opinion. I am in hopes however, that he will do so after he returns from New York, as he is a very able Judge, and his opinion would be a valuable precedent for us.

For your information, I am enclosing herewith, the brief which I have filed on the question involved. I did not try to make an exhaustive brief, for the reason that the question was very thoroughly argued before the Court upon our exception.

Very truly yours,

(signed) E. B. Stroud, Jr.

Office Counsel

( COPY )

X-4076-b

IN THE DISTRICT COURT OF THE UNITED STATES  
FOR THE WESTERN DISTRICT OF TEXAS  
EL PASO DIVISION

THE CITY OF DOUGLAS )  
a Municipal Corporation, )  
 )  
Plaintiff, )  
 )  
vs )  
 )  
FEDERAL RESERVE BANK OF )  
DALLAS, )  
 )  
Defendant. )

No. 847 LAW

BRIEF OF DEFENDANT.

In conformity with the request of this honorable court we submit brief on the legal question presented by the defendant with reference to the right of the City of Douglas to maintain this action. It being our understanding that the court does not desire any additional law or argument with reference to the merits of the case, we confine this brief purely to the point above stated.

The question arises over the different holdings of the courts of this country as to the relationship existing between the owner of an item deposited for collection and the several banks in the chain of collecting banks undertaking to make the collection. The court has well in mind the distinction between the so-called "New York" and "Massachusetts Rule" and we think it unnecessary to go into any lengthy discussion as to the difference in these rules.

The "New York Rule", briefly stated, is that the first bank undertaking the collection becomes an independent contractor and subsequent banks in the chain are its agent but not the agent of the owner of the item.

This rule is adhered to by the Supreme Court of the United States.

Hoover v. Wise, 91 U. S. 309  
Exch. Ntl. Bk. v. Third Ntl. Bk., 112 U.S. 276  
Fed. Reserve Bk. v. Malloy, U.S. Sup. Ct. Adv.  
Opinions, March 15, 1924; 68 L. Rd. 288

In the case of Hoover v. Wise, supra, the Supreme Court of the United States in an opinion by Mr. Justice Hunt, after discussing various cases, says:

"These cases show that where a bank as a collection agency receives a note for the purpose of collection, its position is that of an independent contractor, and that the instruments employed by such bank in the business contemplated are its agents and not the sub-agents of the owner of the note."

In the case of Exchange National Bank v. Third National Bank, supra, the court in an opinion by Mr. Justice Blatchford adopts the "New York Rule," citing with approval the case of Hoover v. Wise, Supra.

In the case of Federal Reserve Bank of Richmond v. Malloy, supra, the identical question under consideration was presented. Mr. Justice Sutherland in the opinion summarizes the question as follows:

"The State decisions in respect of the liability of a correspondent bank to the owner of a check forwarded for collection by the initial bank of deposit are in conflict beyond the possibility of reconciliation. A number of States following the 'New York Rule,' so-called, have held that there is no such direct liability but that the initial bank alone is responsible to the owner \* \* \*."

"This court in Exchange National Bank v. Third National Bank, 112 U.S. 276 \* \* \* after reviewing the two lines of decisions, approved the 'New York Rule.'"

We think the distinction between the so-called "New York" and "Massachusetts Rule" is so clearly drawn by these decisions and others that there is no reason to go further into this question than to call the court's attention to the authorities above cited.

It is, of course, elementary that a collecting bank may enter into such a contract as would relieve it of the liability imposed by the so-called "New York Rule", for obviously an agent would be liable to its principal only for the discharge of the obligations which it expressly undertook. And thus, should the original bank make a contract with its principal which would put it clearly within the "Massachusetts Rule," that rule would undoubtedly control. To do this, of course, the original bank should either expressly or impliedly contract with its principal only to act as a forwarding agent. The facts in the case under consideration are not such as would put the First National Bank of Douglas in that category. The contract of the First National Bank of Douglas, as disclosed by the uncontradicted testimony, was to collect, there being no agreement or understanding, express or implied, to the contrary. In other words, if the "New York Rule" ever applied to the facts in any given case, it undoubtedly applied in the case under consideration.

It is perfectly apparent that the conclusion reached in the Malloy case was forced because of the provisions of the Florida statute. In principle the court adhered to its former holdings, sustaining the so-called "New York Rule", but held that the Florida statute was an express contract which changed the status of the parties.

In this connection we want to direct the attention of the Court to what we deem an important fact, which is, that prior to the passage of this statute the Supreme Court of Florida had adopted as the rule of decision in that State the so-called "New York Rule". Please see Brown v. People's Banks, 52 So. 719. The opinion is very instructive and is quite a clear elucidation on the question. The facts in that case are identical, to all intents and purposes, with the facts in our case. The Florida statute in question was enacted

subsequent to the bringing of the action in that case but prior to its decision, and this is commented upon in the opinion. As some question is sought to be raised by the plaintiff herein indicating the contention that they had a contract which took the transaction away from the "New York Rule," it may be well in this case to here set out the Florida statute made basis of the decision in the Malloy case.

"\* \* \* When a check, draft, note or other negotiable instrument is deposited in a bank for credit, or for collection, it shall be considered due diligence on the part of the bank in the collection of any check, draft, note or other negotiable instrument so deposited, to forward en route the same without delay in the usual commercial way in use according to the regular course of business of banks, and that the maker, endorser, guarantor or surety of any check, draft, note or other negotiable instrument, so deposited, shall be liable to the bank until actual final payment is received, and that when a bank receives for collection any check, draft, note or other negotiable instrument and forwards the same for collection, as herein provided, it shall only be liable after actual final payment is received by it, except in case of want of due diligence on its part, as aforesaid.

"All laws which are in conflict with this act are hereby repealed, and this act shall take effect immediately upon its approval by the Governor."

That is quite a different contract to the one relied upon by the plaintiff in this case. The pass book, on its face had this statement: "Out of town items subject to final payment," which, of course, meant nothing and created no different relationship between the depositor and the bank than existed as a matter of law. It is the rule of law that a depositor assumes to repay to a bank the amount of any check that is dishonored. His endorsement of the check fixes that liability. Hence we say that the recital on the pass book in question did not constitute any different contract than the law itself imposed. Please see *Brown v. People's Bank*, 52 So. 721, and many other cases.

It would be well, as we believe, for the court to have constantly

in mind the fact that in the trial court Judge Connor held the Federal Reserve Bank liable because of the Florida statute, clearly indicating that aside from that statute the rule in the Federal court would deny liability. We perceive no good could result from an attempt to draw fine-haired distinctions as to what was really held in Exchange National Bank case because it is quite clear from a reading of the various cases wherein this question has been under consideration by the Supreme Court that that court is committed to an adoption of the so-called "New York Rule" in the absence of positive contract to the contrary in a particular case. We again ask the court to read the Brown case, supra.

With these preliminary observations we pass to the direct question which the court upon the hearing of the case evidenced some doubt, that is, does the law as announced by the courts of Arizona, Texas, or the Supreme Court of the United States, control in this action? We submit that by the uncontradicted authorities the rule as laid down by the Supreme Court of the United States controls in this case. We base this upon the following proposition:

The decisions of a State court will be controlling only when those decisions interpret the positive statutory law of the State. In questions of general commercial law, each court will be found by its own interpretation of that law upon the theory that there is only one common law and each court presumes that its interpretation of that law is correct.

St. Nicholas Bk. v. State Ntl. Bk. 13 L. R. A. 241 Faulkner v. Hart, 82 N. Y. 413  
Swift v. Tison, 10 Law Ed. 865  
Oats v. Ntl. Bank, 25 Law Ed. 580  
Third Ntl. Bk. v. Ntl. Bk. of Commerce, 139 S. W. 665  
Liverpool S.S. Co. v. Phoenix Life Ins. Co. 129 U.S. 397

It can not be questioned but that the rule of law with reference to the relationship between the owner of an item and several banks undertaking the collection thereof is a rule of common law. It is not dependent upon any

statute, for admittedly there is no statute in either Arizona or Texas. As far as we have been able to determine the courts of Arizona have not passed directly upon the question. Four courts of civil appeals in Texas have adhered to the "New York Rule" and the Supreme Court of Texas in a recent decision has followed the "Massachusetts Rule." With this condition existing the question presented is whether or not this court should be guided by the interpretation of the law as laid down by the Supreme Court of the United States or by the Supreme Court of Texas.

In the case of Liverpool & Great Western S.S. Co. v. Phoenix Insurance Co., supra, Mr. Justice Gray who delivered the opinion of the court says:

"But on this subject, as on any question depending upon mercantile law and not upon local statute or usage, it is well settled that the courts of the United States are not bound by decisions of the courts of the state, but will exercise their own judgment, even when their jurisdiction attaches only by reason of the citizenship of the parties, in an action at law of which the courts of the State have concurrent jurisdiction and upon a contract made and to be performed within the State."

In the case of St. Nicholas Bank v. State National Bank, supra, the New York Court of Appeals passed upon the identical question here presented. The facts of the case are almost identical with those in the case before this court. The question presented was whether the rule as announced by the New York courts (the so-called "New York Rule") or the rule announced by the courts of Tennessee (the so-called "Massachusetts Rule") controls. In passing upon the question the court says, after referring to the opinion of the Supreme Court of Tennessee upholding the "Massachusetts Rule":

"That decision was not based upon any statute law but upon the principles of the common law, supposed to be applicable to the facts of the case. It did not make or establish law, but expounded the law and furnished some evidence of what the law applicable to that case was, evidence which other courts might or might not take and receive as reliable and sufficient. And

even the same court, upon fuller discussion and more mature consideration, might in some subsequent case refuse to take the same view of the law. There is no common law peculiar to Tennessee. But the common law there is the same as that which prevails here and elsewhere, and the judicial expositions of the common law there do not bind the courts here. The courts of this State and of other States and of the United States would follow the courts of that State in the construction of its statute law but the courts of this State will follow its own precedents in the expounding of the general common law applicable to commercial transactions, and so it has been repeatedly held."

We do not care to bother the court with a long and laborious brief as we believe the principles of law to be definitely settled by the decisions referred to and the court will undoubtedly like to read these decisions and place his own interpretation upon the principles of law herein set forth. We believe, however, that the authorities cited herein conclusively establish, first: that under the rules laid down by the Supreme Court of the United States there is no privity of contract between the City of Douglas and the Federal Reserve Bank; second: that this court, being a Federal court, is bound by the decisions of the Supreme Court of the United States; and third: that the question presented, being a question of general law, the interpretation of that law as laid down by the Supreme Court of the United States is controlling.

Respectfully submitted,

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Attorneys for Defendant



TREASURY DEPARTMENT  
Office of the Secretary  
WASHINGTON

June 6, 1924.

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 May 1 to May 31, 1924, amounting to \$111,740.00, as follows,-

Federal Reserve Notes, 1914.

	<u>\$5</u>	<u>\$10</u>	<u>\$20</u>	<u>Total</u>
Boston .....	477,000	50,000	50,000	577,000
New York .....	534,000	---	---	534,000
Philadelphia ..	362,000	225,000	150,000	737,000
Cleveland .....	115,000	50,000	115,000	280,000
Richmond .....	---	50,000	50,000	100,000
Chicago .....	516,000	---	---	516,000
Kansas City ...	100,000	---	---	100,000
San Francisco .	<u>101,000</u>	<u>50,000</u>	<u>25,000</u>	<u>176,000</u>
	2,205,000	425,000	390,000	3,020,000

3,020,000 sheets @ \$37.00 per M ..... \$111,740.00

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

	<u>Sheets</u>	<u>Compen- sation</u>	<u>Plate Printing</u>	<u>Materials</u>	<u>Inc. Com- pensation</u>	<u>Total</u>
Boston .....	577,000	\$7,789.50	\$4,760.25	\$ 6,779.75	\$2,019.50	\$21,349.00
New York ...	534,000	7,209.00	4,405.50	6,274.50	1,869.00	19,758.00
Philadelphia	737,000	9,949.50	6,080.25	8,659.75	2,579.50	27,269.00
Cleveland ..	280,000	3,780.00	2,310.00	3,290.00	980.00	10,360.00
Richmond ...	100,000	1,350.00	825.00	1,175.00	350.00	3,700.00
Chicago ....	516,000	6,966.00	4,257.00	6,063.00	1,806.00	19,092.00
Kansas City	100,000	1,350.00	825.00	1,175.00	350.00	3,700.00
San Francisco	<u>176,000</u>	<u>2,376.00</u>	<u>1,452.00</u>	<u>2,068.00</u>	<u>616.00</u>	<u>6,512.00</u>
	3,020,000	40,770.00	24,915.00	35,485.00	10,570.00	111,740.00

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

Respectfully,  
(signed) S. R. JACOBS  
Deputy Commissioner.

## FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARDX-4078  
June 9, 1924.SUBJECT: Inter-district Shipments of Currency

Dear Sir:

The recent conference of Governors held on May 5-7, 1924, discussed the practicability of a plan whereby a member bank in one Federal reserve district can obtain currency from and ship currency to the reserve bank of an adjacent district, where the member bank is so situated that the transit time between the member bank and its own Federal reserve bank is considerably greater than the transit time to the reserve bank of the adjacent district.

The Governors' Conference recommended and the Federal Reserve Board has approved the policy that Federal reserve banks be permitted to make shipments to member banks in adjacent districts upon the application and approval of the Federal reserve banks of the districts in which such member banks are located.

The Board recognizes that there are many objections to this procedure, both theoretical and practical, and, therefore, the use of the plan should be resorted to only in special cases of emergency, or in isolated cases where for geographical or other reasons it is peculiarly desirable to do so, and then only upon the request by one Federal reserve bank of another.

Very truly yours,

Walter L. Eddy,  
Secretary.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

X-4079

June 17, 1924

SUBJECT: Code word to be used by the Board in connection with telegraphic advices to Federal reserve banks, covering the monthly cost of Federal reserve notes printed for each bank.

Dear Sir:

In order to reduce the phraseology in telegrams transmitted by the Board to Federal reserve banks on the last day of each month, advising of the cost of printing Federal reserve notes for each bank, as covered under paragraph 26, page 3, of general instructions on the preparation of the earning and expense report issued in December 1922, you are advised that, commencing with the telegrams of June 30th, the following code word, supplied from the Federal Reserve Telegraphic Code, will be used by the Board in its telegrams to the Federal reserve banks covering such advices:

"CHIGNON: Referring to page 3, paragraph 26, general instructions covering preparation of earning and expense report, Treasury Department advises cost of Federal reserve notes printed for your bank during period \_\_\_\_\_ to \_\_\_\_\_ is \$ \_\_\_\_\_."

It is requested that the code word "CHIGNON" indicated in this letter, be added to the bottom of page 47 of the Federal Reserve Telegraphic Code to follow the code word "CHIFFON."

Yours very truly,

Walter L. Eddy,  
Secretary.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS.

BANK COLLECTIONS AND PAR CLEARANCE

Despite increasing liberalism in other fields, our American courts seem determined to compel banking practice to conform to established doctrines of law and steadfastly refuse to adapt the law to sound banking practice. As one might expect, any such medieval legalistic principle cannot be carried to its logical conclusion. The existence of banking customs cannot be wholly ignored. Their partial and reluctant recognition has led to some strange inconsistencies in the law of bank collections and has confronted the banks with some curious problems of law evasion.

In the case of Federal Reserve Bank of Richmond v. Malloy (1924, U.S.) 44 Sup. Ct. 296, the United States Supreme Court reiterated the apparently rigid rule that a bank acting as collection agent of commercial paper is under a duty to the holder to receive cash in payment, and accepts an exchange draft at its peril. The court by way of dictum admits that if the custom were without exception to transmit the proceeds of checks (not cleared through clearing houses or the books of the Federal Reserve Banks) by receiving drafts of the drawee upon some other banks, it might be permitted to control. But this ray of hope is considerably dimmed by the court's curious assertion that "there is nothing to prevent the sending bank from requiring the drawee to remit currency as a condition upon which the check may be satisfied." Yet only recently the same court in American Bank & Trust Co. v. Federal Reserve Bank of Atlanta noted some of the reasons why drawee banks have come to rely on the custom of paying their obligations by means of drafts. That case arose out of the attempt of the Federal Reserve Banks to effectuate universal par clearance. Country banks have strenuously resisted par clearance

because a large part of their profits consists of the small exchange charges which they arbitrarily deduct from the amount of every draft remitted by them at a distance in payment of checks drawn on them and which it is the purpose of par clearance to eliminate. Another important source of income is the interest paid on the deposits in city banks against which they draw these drafts. In trying to bring them to terms the Federal Reserve Bank of Atlanta struck a double blow. It undertook to collect checks over the counters of recalcitrant banks, thus forcing them to pay in cash the face value of the checks. This eliminated the exchange charge, and it also deprived the banks of interest by compelling them to maintain large amounts of cash in their own vaults. The Supreme Court enjoined the Reserve Bank from collecting checks "except in the usual way." True, the undenied allegations of the bill declared that the Reserve Bank was accumulating checks on the country banks and presenting them in large and irregular batches in order to compel them to keep on hand an excessive amount of cash; and when on retrial the allegations were denied by the Reserve Bank and not sustained by the evidence, the relief sought in this respect was denied. But in denying the relief the court stressed the point that the Reserve Bank had formally declared itself willing to receive in payment of such items a draft of the drawee, if solvent, on any other solvent bank. Certainly in that case the court realized that compliance with the rule against taking payment of checks in bank drafts was at least undesirable.

Oddly enough another feature of the same struggle for par clearance which exposed the obsolescence of the rule of the Malloy case may carry within it the germs of a remedy. Before the state banks had won their contention in the courts the legislatures of several agricultural states came to their rescue by providing that drafts on these banks whenever presented by or through a

Federal Reserve Bank might be paid in exchange, and less exchange charges. The constitutionality of the North Carolina statute was sustained in *Farmers' & Merchants' Bank of Monroe v. Federal Reserve Bank of Richmond* (1923) 262 U.S. 649, 43 Sup. Ct. 651. So far as these statutes permit the payment of checks in exchange drafts, they are to be unqualifiedly approved. They raise, however, some questions as to the legal responsibility of banks which now receive such drafts in payment of commercial paper. As against a principal who must be taken to know the disability of his agent to require cash, obviously it is no longer negligence not to collect cash. It is equally clear that the agent would not be justified in receiving every sort of draft offered by the drawee. Certainly it could not take a draft which it knew to be worthless. But must it be free from negligence in not knowing the draft to be worthless? Must it be reasonably certain that the draft is good? If it were not for the rules of protest and notice, the problem would be relatively simple. A check might be treated like a promissory note without endorsers; a worthless draft given by the drawee might be regarded as conditional payment, its dishonor leaving the holder all his original rights against the drawer and other parties. This rule might well be applied in cases where protest and notice had been waived or in the rare cases in which the worthlessness of the second draft, as, for instance a check on another institution in the same city, could be discovered in time to protest the first one. In deciding cases which may arise under these statutes the law of bank collections may be forced into line with banking practice. As a practical solution of the problem, the Federal Reserve Banks will simply contract themselves out of all responsibility. They will merely add one more to their already long list of exemptions from liability. And the member banks will just as rapidly change the set of conditions upon which they receive checks for collection. As to the original collecting bank's ability to

make such a contract with all of its principals, some interesting problems of offer and acceptance arise, and it is probable that there are occasional instances in which the bank could not shake off all liability.

But that portion of these statutes which purposes to obviate par clearance by permitting the deduction of exchange charges was prompted by a short-sighted policy. Exchange fees exacted for services which are not rendered are a useless drain on commerce, a waste motion; but their elimination, generally conceded to be highly desirable, has been most difficult to put into practice. Even member banks at first refused to remit at par voluntarily and had to be required to do so. Nor after Congress permitted to non-member banks the advantages of collection through the Federal Reserve System, could these banks be induced to give up their exchange charges. The Reserve Banks determined to collect at par regardless of opposition or temporary expense, as is illustrated by the American Bank & Trust Co. case. Whenever the opposition persisted, in remaining unconvinced, their effort was effectively blocked. At present attempts to achieve a universal par clearance system by coercion of unwilling banks have been abandoned. The protest against the change, however, is that of the subliminal competitor always loudly voiced on the introduction of new, more efficient conditions. If it is true, as the objectors insist, that they cannot exist without their unearned profits, then at least they should be recognized as parasitic and maintained as such.

The building up of a smooth efficient system of commercial transfers and clearances has been one of the most valuable contributions of the Federal Reserve. The decision in the Malloy case will not induce a return to clumsy expensive methods of transferring funds. Nor will the decision in the Farmers' Bank case permanently deter par clearance. Universal par clearance is essential to efficiency and it is not likely that the Federal Reserve Banks will be satisfied with an incomplete system.

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# FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

X-4082  
June 10, 1924.

SUBJECT: Withdrawal of authority to effect exchanges, replacements and redemptions of United States paper currency as fiscal agents.

Dear Sir:

There are enclosed herewith for your information a copy of a letter addressed to the Board by Mr. Winston, Under Secretary of the Treasury, under date of June 10 and a copy of the Board's reply of the same date.

You will note that Mr. Winston advises the Board that, owing to the failure of Congress to pass the Second Deficiency Bill, the Treasury is without funds with which to defray the expenses of shipments of unfit United States paper currency from the Federal Reserve Banks to the Treasury and the expenses of shipments of new United States paper currency from the Treasury to the Federal Reserve Banks until July 1, 1924, and that because of this situation the Treasury has temporarily discontinued the fiscal agency functions of the Federal Reserve Banks in effecting exchanges, replacements and redemptions of United States paper currency until July 1, 1924. You will also note that this has no bearing on shipments of Federal reserve bank notes, Federal reserve notes and national bank notes.

Mr. Winston requests the Board to advise you of the Treasury's position in this matter, but, inasmuch as the authority of the Federal Reserve Banks to perform such functions as fiscal agents of the Government emanated from the Treasury Department, the Board feels that notification of the withdrawal of such authority should also emanate from the Treasury Department and has so notified Mr. Winston.

The Board feels that, upon the withdrawal of this fiscal agency function, the Federal Reserve Banks should discontinue exchanging, replacing and redeeming United States paper currency until this function is restored, since this is purely a Governmental function which the Federal Reserve Banks can no longer legally perform. When applications are made to the Federal Reserve Banks for the exchange, replacement or redemption of such United States paper currency it is suggested that the



Federal Reserve Banks advise the applicants that their authority in this respect has been temporarily withdrawn by the Treasury due to the failure of Congress to appropriate funds to defray the expenses thereof and that it will be necessary for the applicants to ship such currency direct to the Treasury for exchange, replacement or redemption.

Of course, irrespective of its authority as fiscal agent, a Federal Reserve Bank has the same right as any other bank in the ordinary course of its banking business to exchange one form of currency for another. No difficulty should be experienced in meeting the denominational demand for currency, except perhaps with respect to \$1 bills, in which event the reserve banks can pay out such \$1 bills as they have on hand, irrespective of the standard of their fitness and also partially meet the demand for \$1 pieces by paying out standard silver dollars.

Very truly yours,

D. R. Crissinger,  
Governor.

(Enclosures)

TO ALL GOVERNORS OF FEDERAL RESERVE BANKS.

## THE UNDERSECRETARY OF THE TREASURY

WASHINGTON

June 10, 1924.

My dear Governor Crissinger:

The second deficiency bill failed of passage before the close of Congress Saturday. This bill carried a deficiency appropriation necessary to permit shipments of United States paper currency for the last three weeks of June. The Federal Reserve Banks are acting under instructions of the Treasury in receiving unfit currency, forwarding it to the Treasury in Washington, and receiving in exchange new currency so far as available. I accordingly wired them that since the appropriations were insufficient, if they desired new currency it could only be furnished if they wished to pay the expense of shipment. I expressly stated that this had no bearing on shipments of Federal Reserve notes, Federal Reserve Bank notes, and National Bank notes. When the subtreasuries were in existence, it had been the practice on shipments of paper currency from banks to the Treasury or to the subtreasuries, that the bank making the shipment paid the expenses of sending in the unfit currency and of transporting the new currency. When the subtreasuries were abolished, as a matter of convenience the Treasury authorized the Federal Reserve Banks to receive for it unfit currency and to pay out for it new currency, and the Treasury then paid the expense of shipments from and to the Federal Reserve Banks. Since funds for this expense are no longer available and will not be until the beginning of the next fiscal year on July 1st, the Treasury has been obliged to withdraw these agencies temporarily and

return to its original practice.

It is, of course, unfortunate that the deficiency bill did not pass but the Treasury is faced with a condition which it cannot remedy, and unless the Federal Reserve Banks are willing to assume this expense, shipments of new currency to the Federal Reserve Banks will cease until July 1, 1924. I trust, therefore, that your Board will advise the Federal Reserve Banks of the Treasury's position and your views in respect thereto.

Very truly yours,

(signed) Garrard B. Winston

Garrard B. Winston,  
Under Secretary of the Treasury.

Hon. D. R. Crissinger,  
Governor,  
Federal Reserve Board.

C O P Y

X# 4082b

June 10, 1924.

Honorable Garrard B. Winston,  
Under Secretary of the Treasury,  
Washington, D. C.

Dear Mr. Winston:

The Board has received your letter of June 10th and notes that, because of the failure of Congress to pass the Second Deficiency Bill, the Treasury is without funds with which to defray the expenses of shipments of unfit United States paper currency from the Federal reserve banks to the Treasury and the expense of shipments of new United States paper currency from the Treasury to the Federal reserve banks until July 1, 1924, and that because of this situation the Treasury has temporarily discontinued the fiscal agency function of the Federal reserve banks in effecting exchanges, replacements and redemptions of United States paper currency until July 1, 1924. It is also noted that this has no bearing on shipments of Federal reserve bank notes, Federal reserve notes and national bank notes.

Inasmuch as the Federal reserve banks act as the fiscal agents of the Government in performing these functions, the Board assumes that you have notified the Federal reserve banks of the withdrawal of their authority to effect exchanges, replacements and redemptions of United States paper currency as fiscal agents of the Government.

In view of the withdrawal of this fiscal agency function, the Federal reserve banks will have to discontinue exchanging, redeeming and replacing United States paper currency until this function is restored, since this is purely a Governmental function, which the Federal reserve banks can no longer legally perform.

Very truly yours,

(Signed) D. R. CRISSINGER

Governor.

# FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

X-4083  
June 11, 1924.

SUBJECT: Necessity for Individual Surety Bonds for  
Federal Reserve Agents and Assistant Federal  
Reserve Agents.

Dear Sir:

The question has been raised whether individual surety bonds for Federal reserve agents and assistant Federal reserve agents are necessary in view of the fact that the Federal reserve banks carry bankers' blanket bonds which purport to cover all losses which are covered by the individual surety bonds. It appears that some of the Federal reserve banks are under the impression that because of these blanket bonds there is no necessity for such individual surety bonds, and especially in cases where the blanket bonds contain clauses expressly covering the acts of Federal reserve agents and assistant Federal reserve agents.

Section 11(i) of the Federal Reserve Act authorizes and empowers the Federal Reserve Board "to require bonds of Federal reserve agents". Notwithstanding the permissive character of this provision, the Board believes that in order adequately to protect the interests of the United States it should require bonds of the Federal reserve agents running directly to the Government, and it has accordingly always required Federal reserve agents to execute individual surety bonds for the protection of the United States. The Board has likewise required that all assistant Federal reserve agents execute such individual surety bonds in accordance with the terms of the mandatory provision of Section 4 of the Act that "The Federal Reserve Board shall require such bonds of the assistant Federal reserve agents as it may deem necessary for the protection of the United States."

It may be that the bankers' blanket bonds which are carried by the Federal reserve banks are sufficient to protect the banks and the United States against all losses which are covered by the individual surety bonds executed by the Federal reserve agents and assistant Federal reserve agents. It should be noted, however, that these blanket bonds are in substance no more than insurance policies obligating the insurance companies only and imposing no liability whatever upon the Federal reserve agents or assistant agents. It is well recognized that the term "bond" as used in this connection refers to an instrument in which there is a double liability, that of the principal obligor as well as that of the surety. The bankers' blanket bonds carried by the Federal reserve banks are not such instruments.

The direct primary liability of the Federal reserve agent or assistant agent assumed under a surety bond in which he is the principal obligor is in the Board's opinion necessarily contemplated by the law and this requirement is not satisfied by an insurance policy. Under the law, therefore, the Board may not properly permit its agents to discontinue their individual surety bonds.

It is apparent that a provision contained in the bankers' blanket bonds specifically covering the acts of the Federal reserve agents and assistant agents does not meet the Board's objections to the discontinuance of the use of individual surety bonds for the agents and their assistants. Such a clause would, of course, do away with any uncertainty as to whether the bankers' blanket bonds were sufficiently broad in terms to cover the Federal reserve agents and their assistants, but it does not change the nature of the blanket bond which is essentially an insurance policy, nor does it impose any direct primary liability on the Federal reserve agents or assistant agents. The Board, therefore, does not feel that it can properly permit Federal reserve agents or assistant agents to be relieved of their individual surety bonds even in a case where the Federal reserve bank carries a bankers' blanket bond containing a clause expressly extending the scope of the bond to cover the acts of the Federal reserve agent and his assistants.

Yours very truly,

D. R. Crissinger,  
Governor.

TO ALL FEDERAL RESERVE AGENTS.

X-4085

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

## STATEMENT FOR THE PRESS

FOR IMMEDIATE RELEASE:  
2:30 p. m.

June 11, 1924

The Federal Reserve Board announces that the Federal Reserve Banks of Boston and New York have both reduced their rediscount rates to  $3\frac{1}{2}$  per cent for all classes of paper of all maturities, effective June 12, 1924.

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# FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

X-4087  
June 14, 1924.

SUBJECT: EXPENSE MAIN LINE, Leased Wire System,  
May, 1924.

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-4087-a and X-4087-b, covering in detail operations of the main line, Leased Wire System, during the month of May, 1924.

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

Very truly yours,

Fiscal Agent.

(Enclosures)

To Governors of all banks  
(except Chicago)



X-4087-a

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINE OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF MAY, 1924.

From	Fed. Res. Bank Business	Percent of Total Bank Business(*)	Treasury Dept. Business	War Finance Corp. Business	Total
Boston	37,796	3.22	3,936	-	41,732
New York	236,192	20.15	9,316	-	245,508
Philadelphia	55,632	4.75	4,594	-	60,226
Cleveland	97,370	8.31	3,182	-	100,552
Richmond	73,869	6.30	3,189	-	77,058
Atlanta	90,237	7.70	3,504	33	93,774
Chicago	142,026	12.11	7,221	-	149,247
St. Louis	94,086	8.03	3,947	-	98,033
Minneapolis	55,822	4.76	3,145	-	58,967
Kansas City	91,238	7.78	3,942	55	95,235
Dallas	71,101	6.06	3,363	-	74,464
San Francisco	126,934	10.83	6,932	-	133,866
TOTAL	1,172,303	100.00	56,271	88	1,228,662
Board	278,943		47,599	624	327,166
Total	1,451,246		103,870	712	1,555,828
Percent of Total	93.28%		6.67%	.05%	
Bank Business	1,451,246 words	or 93.32%			
Treasury Dept.	103,870	" "	6.68%		
TOTAL	1,555,116	" "	100.00%		

(\*) These percentages used in calculating the pro rata share of leased wire expenses as shown on the accompanying statement (4087-b)

FEDERAL RESERVE BOARD,  
Washington, D. C.  
June 14, 1924.

REPORT OF EXPENSE  
 MAIN LINE  
 FEDERAL RESERVE LEASED WIRE SYSTEM MAY, 1924.

X-4087-b

Name of Bank	Operators' Salaries	Operators' Overtime	Wire Rental	Total Expense	Pro Rate Share of Total Expense	Credits	Payable to Federal Reserve Board
Boston	\$ 250.00	\$ -	\$ -	\$ 250.00	\$ 697.62	\$ 250.00	\$ 447.62
New York	1,356.65	-	-	1,356.65	4,365.52	1,356.65	3,008.87
Philadelphia	200.00	-	-	200.00	1,029.09	200.00	829.09
Cleveland	388.00	-	-	388.00	1,800.37	388.00	1,412.37
Richmond	315.00	-	-	315.00	1,364.90	315.00	1,049.90
Atlanta	255.00	-	-	255.00	1,668.21	255.00	1,413.21
Chicago (#)	4,938.62	-	-	4,938.62	2,623.65	4,938.62	2,314.97 (*)
St. Louis	323.69	-	-	323.69	1,739.71	323.69	1,416.02
Minneapolis	283.33	-	-	283.33	1,031.26	283.33	747.93
Kansas City	346.64	-	-	346.64	1,685.55	346.64	1,338.91
Dallas	251.00	.75	-	251.75	1,312.91	251.75	1,061.16
San Francisco	380.00	-	-	380.00	2,346.33	380.00	1,966.33
Fed. Res. Board			17,096.14	17,096.14			
<b>TOTAL</b>	<b>\$9,287.93</b>	<b>\$ .75</b>	<b>\$17,096.14</b>	<b>\$26,384.32</b>	<b>\$21,665.12</b>	<b>\$9,288.68</b>	<b>\$14,691.41</b>
				(a) 4,719.70			(&) 2,314.97
				\$21,665.12			\$12,376.44

(#) Includes salaries of Washington operators.

(\*) Credit.

(a) Received \$4700.00 from the Treasury Dept. and \$19.70 from War Finance Corporation covering business for the month of May, 1924.

(&) Amount reimbursable to Chicago.

FEDERAL RESERVE BOARD,  
 Washington, D. C.  
 June 14, 1924.

FEDERAL RESERVE BOARD  
STATEMENT FOR THE PRESS

For Immediate Release  
3:00 o'clock p.m.

X-4088  
June 13, 1924.

The Federal Reserve Board announces that the directors of the Federal Reserve Banks of Richmond and Chicago have reduced the rediscount rates of both banks to 4 per cent on all classes of paper of all maturities, effective June 14, 1924.

# FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

X-4089  
June 14, 1924.

SUBJECT: Announcements of Rate Changes.

Dear Sir:

Your attention is again called to the prime importance of keeping secret and confidential all information concerning prospective rate changes until such changes have become effective. Section 14(d) of the Federal Reserve Act authorizes Federal reserve banks "to establish from time to time, subject to review and determination of the Federal Reserve Board, rates of discount to be charged by the Federal reserve bank for each class of paper." Under this provision of law, rate changes do not become effective until they have been approved by the Federal Reserve Board and, although as a general practice, Federal reserve banks initiate rate changes, it must be borne in mind that any action taken by directors of Federal reserve banks with respect to discount rates is not final. Until, therefore, the Board has given its approval to any change in rate, such change is not effective and it cannot be too strongly emphasized that no publicity whatever should be given to any prospective rate changes.

This matter has been called to your attention several times in the past. In Circular Letter X-3077, dated March 22, 1921, the Board stressed the importance of withholding information concerning rate changes and in the previous circular letters the Board directed that code telegrams be used in all communications respecting discount rates. See circular letters X-1852, dated March 4, 1920; X-1833, dated February 16, 1920; X-1307, dated December 14, 1918. The instructions contained in these letters, however, have not always been followed strictly and in several cases information concerning rate changes has been given to the public prior to the dates on which the changes became effective.

In order to prevent further occurrences of this nature, the Board has in mind promulgating rules and regulations governing the announcement of rate changes. To this end, it has tentatively adopted the following and before finally issuing same requests such suggestions and comment thereon as you may care to make.

1. All telegraphic communications dealing with rate changes shall be in code.
2. No information of any kind with respect to any rate change shall be published until the Federal reserve bank in question shall have been advised that such change has been approved by the Federal Reserve Board.
3. Announcements of rate changes which have been approved shall be made as nearly as possible simultaneously by the Federal reserve bank concerned and the Federal Reserve Board and such announcements shall be made immediately after the close of business at the bank concerned on the day on which the rate change was approved and not sooner.
4. The new rate shall be effective at the beginning of the first business day following the day on which the announcement of the change was made.
5. In view of the dual capacity of the Federal reserve agent as Chairman of the Board of Directors of the Federal reserve bank and as local representative of the Federal Reserve Board, all announcements with respect to rate changes on the part of the Federal reserve bank shall be made by him and he will be held strictly responsible for compliance with these rules and regulations.
6. All communications or announcements to other Federal reserve banks with respect to such rate changes shall be made only by or with the approval of the Federal Reserve Board.

Yours very truly,

Walter L. Eddy,  
Secretary.

To Chairmen and Governors of all Federal Reserve Banks.

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

For Immediate Release  
3:00 o'clock p.m.

X-4091  
June 17, 1924.

The Federal Reserve Board announces that the Federal Reserve Bank of Atlanta has reduced its rediscount rate from  $4\frac{1}{2}$  per cent to 4 per cent on all classes of paper of all maturities, effective June 18, 1924.

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# FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

X-4092

June 17, 1924

SUBJECT: Index Digest of the Federal Reserve Act.

Dear Sir:

There is enclosed a notice of a new Index Digest of the Federal Reserve Act, and kindred Acts, which the Federal Reserve Board is about to publish. The Board would suggest that you communicate with your member banks, and obtain subscriptions from as many as care to purchase the book, forwarding the same to the Federal Reserve Board. The Federal Reserve Board will ship orders direct to the Federal reserve banks for distribution. Enclosed is a sample page of the new book.

Very truly yours,

G o v e r n o r

(Enclosure)

TO ALL FEDERAL RESERVE AGENTS.

ANNOUNCEMENT

The Federal Reserve Board has had prepared, through Mr. C. S. Hamlin, a Member of the Board, a third edition of the Index Digest of the Federal Reserve Act. The first edition was published in 1915, and the second in 1918. Since the publication of the second edition, the Federal Reserve Act has been amended in many important particulars. The new edition contains the text of the Federal Reserve Act as amended to date, and the text of other Acts which either amend it or have relation to it. Each line of the text is numbered for ready reference, and there is contained an alphabetical table of words and phrases contained in all the various Acts, with a concise digest showing the use of each word and phrase, and the corresponding use in other sections of the respective Acts, the references being to section, line, and page of the text.

The price of the Digest is \$2.00 per volume.

All who desire copies of this Digest should send their subscriptions at once to the Federal reserve bank of their district. In order that the Board may know how many copies to print, it is urged that these subscriptions be sent in as soon as possible.



X-4104

FEDERAL RESERVE BANK OF RICHMOND

OPINION BY JUDGE JESSE F. WEST.

Wytheville, Va., June 12, 1924.

H. D. PETERS, RECEIVER OF PRINCE  
EDWARD-LUNENBURG COUNTY BANK, and M. E. GEE.

CIRCUIT COURT OF LUNENBURG COUNTY.

On and before January 5, 1922, the Federal Reserve Bank of Richmond was engaged in the business of banking, as defined in a certain act of Congress known as the Federal Reserve Act. The Prince Edward-Lunenburg County Bank was a State banking corporation engaged in the business of banking at Meherrin, Virginia. The Prince Edward-Lunenburg County Bank was not a member bank and maintained no deposit account with the Federal Reserve Bank of Richmond, and the Federal Reserve Bank of Richmond maintained no deposit account with the Prince Edward-Lunenburg County Bank, but the Federal Reserve Bank of Richmond was authorized to receive and did receive from various member banks and other persons checks and drafts drawn upon and payable by the Prince Edward-Lunenburg County Bank. In order to collect the amount of such drafts, the Federal Reserve Bank of Richmond had agreed with the Prince Edward-Lunenburg County Bank that all such checks and drafts should be sent by the Federal Reserve Bank of Richmond, from its office in Richmond, by mail, to the Prince Edward-Lunenburg County Bank, at its office in Meherrin, Virginia; and that the Prince Edward-Lunenburg County Bank, when the said checks and drafts were received, would present or cause them to be presented to itself, and would pay such as were good and it desired to pay, and would return properly protested such as it was unwilling to pay, and would immediately

remit the amount of the checks which it paid by means of a shipment of currency or money to the Federal Reserve Bank of Richmond or by means of a draft drawn by the Prince Edward-Lunenburg County Bank upon some other bank with which it had funds upon deposit.

The two banks had done business under the above arrangement for some time, and on the 5th day of January, 1922, the Federal Reserve Bank of Richmond sent to the Prince Edward-Lunenburg County Bank a letter containing checks drawn upon the Prince Edward-Lunenburg County Bank to the amount of \$2,295.10. The Prince Edward-Lunenburg County Bank received the above mentioned letter on the 6th day of January, 1922. Apparently the drawers of the checks had sufficient balances with the bank to have required it to pay, and the bank had on hand a sufficient sum to have enabled it to have paid the checks had they been presented at its counter and cash demanded.

The Prince Edward-Lunenburg County Bank accordingly cancelled the checks sent to it by the Federal Reserve Bank of Richmond, and charged them to the accounts of the several drawers of the said checks, and deducted them from the balances of such drawers.

The Prince Edward-Lunenburg County Bank thereupon drew in favor of the Federal Reserve Bank of Richmond a draft upon the Bank of Commerce & Trusts, of Richmond, Virginia, for the sum of \$2,295.10, and sent it to the Federal Reserve Bank of Richmond in settlement for the amount which the Prince Edward-Lunenburg County Bank had collected upon the checks sent to it by the Federal Reserve Bank of Richmond. This draft was dated and apparently mailed on the 6th day of January, 1922. At that time the Prince Edward-Lunenburg County Bank

had on deposit to its credit with the Bank of Commerce & Trusts the approximate amount of \$11,000.00. As soon as the said draft was mailed to the Federal Reserve Bank of Richmond and certain other drafts apparently given under like circumstances were mailed to the payees thereof, the Prince Edward-Lunenburg County Bank deducted the amount of the said drafts from its balances with the Bank of Commerce & Trusts and charged the amount of the said drafts to the persons to whom they were payable, just as if cash had actually been withdrawn from the Bank of Commerce & Trusts and delivered to the payees of the several drafts.

The said draft for \$2,295.10 was received by the Federal Reserve Bank of Richmond in due course of mail and was presented by it to the Bank of Commerce & Trusts and demand was made for the payment. Payment was refused because in the meantime a receiver had been appointed for the Prince Edward-Lunenburg County Bank by a decree entered by the judge of the Circuit Court of Lunenburg County. At the time the said draft was so presented the said Bank of Commerce & Trusts had in its hands the sum of approximately \$11,000 payable to the order of the Prince Edward-Lunenburg County Bank, but it refused to pay this sum to the Federal Reserve Bank because of the fact that a receiver had been appointed, and the said sum has since been paid over to the receiver in this cause.

Prior to the closing of the Prince Edward-Lunenburg County Bank, the Federal Reserve Bank of Richmond had been directed by the Secretary of the Treasury of the United States to make for the public, through a branch which the Federal Reserve Bank of Richmond maintains in the city of Baltimore, ex-

changes of different kinds of United States coin and currency for other kinds of coin and currency, and it had accordingly issued a circular addressed to all the banks in the Fifth Federal Reserve District, in which the Federal Reserve Bank of Richmond did business, stating that it was ready and willing to exchange any kind of United States coin and currency for any other kind of coin and currency for which it might properly be exchangeable, provided the persons shipping the coin and currency for exchange would pay the cost of such shipment.

On the 6th day of January, 1922, the Prince Edward-Lunenburg County Bank shipped to the Federal Reserve Bank of Richmond, at its Baltimore branch, the sum of \$510.82 in five cent and one cent pieces of United States coin. At the time that this shipment was made the Prince Edward-Lunenburg County Bank requested the Federal Reserve Bank of Richmond to send to the Prince Edward-Lunenburg County Bank a check in settlement for the amount of coin so shipped. The amount due for said shipment, after deducting express charges, was \$505.45, but the check requested by the Prince Edward-Lunenburg County Bank was not sent because before the coin could be counted and the check prepared and sent, the Federal Reserve Bank of Richmond was informed that the Prince Edward-Lunenburg County Bank had been placed in the hands of a receiver.

In due time the Federal Reserve Bank of Richmond presented its claim to the commissioner to whom this cause was referred, and contended that the Prince Edward-Lunenburg County Bank was its agent for the purpose of transmitting to it the money collected upon the several checks sent to it by the Federal Reserve Bank of Richmond, and that by reason of the fiduciary relationship of the Prince Edward-Lunenburg County Bank the cash in its vault was impressed

with a trust in favor of the Federal Reserve Bank of Richmond, or that the cash in the Bank of Commerce & Trusts, against which the draft sent to the Federal Reserve Bank of Richmond was drawn, was impressed with a trust. The said Federal Reserve Bank of Richmond further admitted that it held in its hands the sum of \$505.45, which should in a settlement of its account between itself and the receiver be properly a credit upon the amount due by the said failed bank to it. The commissioner to whom this cause was referred sustained the contention of the Federal Reserve Bank of Richmond, and reported that it was entitled to receive payment in full out of the cash in the hands of the receiver, or out of the funds in the Bank of Commerce & Trusts.

In apt time Crag C. Hatchett, by his attorney, filed in the Circuit Court of Lunenburg County his petition alleging that he was a depositor of the failed bank, and, therefore, interested in the administration of its estate, and further asking that he be allowed to become a party defendant to the claim of the Federal Reserve Bank of Richmond and to object and to make exceptions to certain portions of the report of Commissioner Nelson including the portion which determined that the Federal Reserve Bank of Richmond was entitled to a secured or preferred claim.

Thereupon, the Federal Reserve Bank of Richmond filed in court its petition, alleging in substance the above mentioned facts, and praying that the report of Commissioner Nelson be approved and confirmed so far as it dealt with its claim. Further evidence was taken by both Crag C. Hatchett and the Federal Reserve Bank of Richmond, but no specific conflicts of testimony appeared from such evidence.

The foregoing statement of facts, taken from the petition, is sustained by the record.

Upon the final hearing the court entered a decree denying the claims of the Federal Reserve Bank of Richmond to a preference, establishing its claim as an unpreferred debt for \$2,295.10, adjudging that it is not entitled to set off against the indebtedness due it by the Prince Edward-Lunenburg County Bank the sum of \$505.45, referred to in the petition, and directing the Federal Reserve Bank to pay the same to the receiver of the Prince Edward-Lunenburg County Bank. The case is before us upon an appeal from that decree.

The appellant assigns as error the action of the court:

First: In denying the claim of petitioner to be a lien upon the cash which was in the vault of the Prince Edward-Lunenburg County Bank at the time that the receiver took charge and in refusing to direct that so much of such cash as was necessary to pay in full the claim of petitioner should be paid over to it.

Second: In denying the claim of petitioner to be an equitable lien upon the deposit of the Prince Edward-Lunenburg County Bank in the Bank of Commerce & Trusts, and in refusing to direct the receiver to pay over to petitioner from such funds a sum sufficient to pay its claim in full.

Third: In adjudging that the Federal Reserve Bank of Richmond was not entitled to apply on the indebtedness due it by the Prince Edward-Lunenburg County Bank, the sum of \$505.45, and in requiring and directing the Federal Reserve Bank of Richmond to pay the same to the receiver.

In order to make collections of checks handled by them, banks usually adopt one of two methods - - reciprocal accounts, or remittance. Under the reciprocal accounts method, the collecting bank, upon receipt of payment of the checks, gives credit upon its books to the forwarding bank, and the forwarding bank charges the collecting bank upon its books. They settle from time to time according as the balance accumulates, with the one or the other. Under this method, as soon as the collection is made the relation of the banks is that of creditor and debtor. Under the remittance method the forwarding bank sends the checks to the collecting bank with instructions to collect them and remit immediately. The collecting bank is not authorized to retain the proceeds in its hands and therefore acts only as an agent for the forwarding bank. It is manifest that the remittance method was the one used by the Federal Reserve Bank of Richmond in the instant case.

The first two assignments of error involve the question, whether the facts disclosed by the record are such as to create a trust relation which gave to the Federal Reserve Bank of Richmond a lien upon the assets of the failed bank, before and after they passed into the hands of the receiver.

When a bank receives from its correspondent a check upon itself, it is an agent for its correspondent to make a presentation to itself. *Hilsinger v. Trickett*, 36 Ohio St. 286; Ann. Cas. 1913-D, p. 421.

The agreement between the two banks constituted the Prince Edward-Lunenburg County Bank a special agent to collect and remit immediately the proceeds of the checks enclosed, either in currency or by draft on some other bank. When the checks were cashed, the \$2,295.10 realized thereby became the

property of the Federal Reserve Bank of Richmond, in the hands of the Prince Edward-Lunenburg County Bank as its trustee. The trustee had the right to withdraw the money from its bank in currency and ship it to the Federal Reserve Bank of Richmond, in which event no controversy would have arisen. The fact that it retained the actual cash, thus permitting the same to temporarily mingle with its general funds, and sent the Federal Reserve Bank of Richmond a draft upon its deposit in the Bank of Commerce & Trusts, did not, however, cause the relation of debtor and creditor to arise, but the general deposit was thereby impressed with a trust. .

The relation of principal and agent, which it is admitted obtained between the parties at the beginning of the transaction, did not change to that of debtor and creditor.

The authority expressly given the Prince Edward-Lunenburg County Bank was to collect the checks and remit immediately by means of a shipment of currency to the Federal Reserve Bank of Richmond, or by means of draft drawn by the Prince Edward-Lunenburg County Bank upon some other bank with which they had funds upon deposit. An authority to do a specific thing authorizes by implication the doing of whatever is necessary to accomplish the thing authorized, but not the doing of another and separate thing. The authority granted was to collect and remit at once. The authority now sought to be added by implication is to destroy, by the mere cashing of the checks, the relation of principal and agent and to substitute therefor the relation of debtor and creditor. It is clear that this change of relation was not necessary to carry into effect the authority granted. Besides, the mingling of trust money with that of the trustee does not defeat the owner's title, simply because there is no way to identify



money. The general assets being increased by the amount of the money attempted to be converted, it is equitable and just that the general assets should bear the burden of the preference.

We cannot agree with the contention of appellee that a commingling of the proceeds of the checks with the funds of the collecting banks brings about the relation of debtor and creditor.

Where the relation of trustee and cestui que trust is established the mingling of the trust fund with the general fund in the hands of the trustee does not destroy the trust, but serves to extend the trust or lien to the whole mass of money.

In the recent case of Board of Supervisors v. Prince Edward-Lunenburg County Bank, 138 Va. , 31 Va. App. 335, this court quoted with approval from Knatchbull v. Hallett, (L. R. 13 Ch. Div. 696, 707), where Sir George Jessel, Master of the Rolls, says: ". . . Supposing, instead of being invested in the purchase of land or goods, the money were simply mixed with other moneys of the trustee, using the term . . . in its full sense, as indicating every person in a fiduciary capacity. Does it make any difference, according to the modern doctrine of equity? I say, none. It would be very remarkable if it were to do so. Supposing the trust money was 1000 sovereigns, and the trustee put them into a bag, and by mistake or accident, or otherwise, dropped a sovereign of his own into the bag. Could anybody suppose that a judge, in equity, would find any difficulty in saying that the cestui que trust has a right to take 1000 sovereigns on the 1001 sovereigns, but that is the effect of it. I have no doubt of it."

Upon the question of whether the relationship existing between banks in such cases is that of debtor and creditor or that of trustee and cestui que trust, the authorities are in sharp conflict, but we feel that the better reason and weight of authority support the views expressed herein.

It appears from the record that as soon as the draft was sent to the Federal Reserve Bank of Richmond the cashier of the Prince Edward-Lunenburg County Bank deducted the amount thereof from the apparent balance due from the Bank of Commerce & Trusts upon which the draft was drawn, just as if this amount had already been withdrawn from the latter bank and transferred to the Federal Reserve Bank of Richmond. By this act the cashier intended to set apart such a portion of the balance in the Bank of Commerce & Trusts as was necessary to meet the draft sent to the Federal Reserve Bank of Richmond, as he was obligated to do under his contract.

Equity regards that as done which ought to have been done. Under such circumstances, the draft on the Bank of Commerce & Trusts was an equitable assignment of the funds to the Federal Reserve Bank of Richmond, and we will so adjudge.

In Messenger v. Carroll Trust & Savings Bank (Iowa), 185 N. W. 545, the Moline Flow Company sent a draft to the Carroll Trust & Savings Bank at Carroll, with the instructions to collect and remit. The draft was drawn on the Swaney Company and was paid by a check on the Carroll Trust & Savings Bank. The court, in the course of its opinion, said: "It is the contention for the Moline Flow Company that the relation created between it and the bank was strictly that of principal and agent; whereas, the receiver contends that the trans-

action had created the relation of creditor and debtor only. The bank complied strictly with the directions of the claimant. It did not purport to open any account with the claimant, nor to deposit the proceeds to the credit of the claimant. It simply put such proceeds in the form of its own draft upon the Chicago Bank for the purpose of remittance. The case at this point is ruled squarely by Brown v. Sheldon State Bank, 139 Iowa 83, 117 N. W. 289, and by our previous cases cited therein. The question is fully discussed in the Brown case, and nothing can be gained by a repetition of the discussion here. Following such case, it must be held that the proceeds of the sight draft came into the hands of the bank as agent for the Moline Plow Company, and that the title thereto was at all times in the principal and not in the agent."

"We deem it clear that the net result of the transaction of payment by the Swaney Company and the receipt thereof by the collecting bank was the same as though the Swaney Company had drawn the currency into its own hands by means of check, and had thereupon delivered the same to the collecting bank in payment of the sight draft. Such is the holding of the cited cases."

In the case of Goodyear Tire & Rubber Company v. Hanover State Bank, 204 Pacific 992, decided by the Supreme Court of Kansas, the Goodyear Tire & Rubber Company of Akron, Ohio, sent a draft to the Hanover State Bank. The draft was drawn upon Poell Bros., who paid it by a check on the Hanover State Bank. The Hanover State Bank failed before remitting the amount of the draft to the Goodyear Tire & Rubber Company. The court held that the Rubber Company was entitled to impress a trust upon the cash in the hands of the failed bank. In disposing of the case this language was used:

"If Poell Bros., instead of paying the draft upon them by check, had used currency for the purpose, there can be no doubt that the receiver would hold the amount in trust for the plaintiff, for the total of the cash, or its equivalent, which came into his hands would necessarily, or at all events presumptively, have been that much larger by reason of such payment. The court is of the opinion that the rule applies, that where a payment to a bank is made by check drawn thereon, the result is the same as though the depositor had presented his check, received the money over the counter, and then used it in making the payment. That rule has often been announced. Washon v. Bank, 87 Kan. 698, 125 Pac. 17; 2 Morse on Banks and Banking (5th ed.) 451, and cases cited in note.

" . . . It follows from these views that the money belonging to the plaintiff must be regarded as having passed into the hands of the receiver, increasing by that amount the assets to be administered by him, and that the plaintiff is entitled to reclaim it as a trust fund."

In the case of Keal v Hanover State Bank, 204 Pac. 994, the Kansas court also held that where a check of one . . . is sent by mail for collection to the bank on which it is drawn, which has at the time of its receipt, and at all other times thereafter, sufficient cash to meet it, and the bank charges it to the drawer and at once mails to the owners a draft for the amount, payment of which is prevented by the bank commissioner taking charge of the bank issuing it, before it could be presented in due course of business, the owners of the check have a preferred claim for its amount against the assets of the suspended bank.

To the same effect is Kansas State Bank v. First State Bank of Marion, 62 Kan. 788.

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In State v. Edwards, Receiver, 61 Neb. 181, 85 N. W. 43, the court said "It is a recognized principle in this State that money collected by a bank for another on notes or drafts is in trust for the owner who is a preferred creditor in case the bank goes into liquidation."

In Arnot v. Bingham, 55 Hun. 553, the plaintiff sent to the First National Bank of Danville a note payable by one of its customers at the bank. The customer paid the note by means of a check. The check was cancelled and charged to the customer's account. At the time the customer had to his credit a balance sufficient to pay his check and the bank had cash in its vaults sufficient to have paid the check had payment been demanded in cash. In deciding the case, the New York court said: "If the receipt by the Danville Bank of the maker's check, the cancellation and surrender of the note and deducting the amount of the check from the maker's account was in effect a collection of such check from the general fund, then in the hands of the bank, so that it was bound to hold the money for the plaintiffs and apply it to the purpose for which it was collected, then we think that it was properly held that the funds remaining in the hands of the bank when it failed, as between the plaintiffs and the bank, or between the plaintiffs and the receiver, equitably belonged to the plaintiffs, as well as the amount collected on the McCullom note."

In State National Bank v. First National Bank of Atchison, 187 S. W. 673, the First National Bank of Atchison sent to the State National Bank for collection certain drafts of F. J. Darrag & Company. These drafts were presented to Darrag & Company by the State National Bank, who paid them by

their check on the State National Bank. The State National Bank collected the check of Darrag & Company by charging it to the account of that firm, on June 15th. On June 19th the State National Bank closed its doors because of insolvency, without having remitted the amount of the check, but with cash on hand in excess of the amount of the check. In deciding the case the Supreme Court of Arkansas held: "It is likewise well established that a bank receiving a draft for collection merely is the agent of the remitter, drawer, or forwarding bank and takes no title to the paper or the proceeds when collected, but holds the same in trust for remitting. Second National Bank v. Bank of Aline, 99 Ark. 386; Oklahoma State Bank v. Bank of Central Arkansas, 179 S. W. 509, 3 R. C. L. 633; 3 Am. & Eng. of Law 816; 5 Cyc. p. 514; Macy v. Roedenbeck, 227 Fed. 546."

In the course of the opinion the court further said:

"The payment of the drawee of the draft of the amount thereof, by the delivery of its check therefor against his account in the collecting bank and the charging of the amount against his account, constituted to all intents and purposes a payment in cash of the drafts; the check being merely the vehicle of transfer of the cash. Certainly there is no necessity for the drawee of the drafts to take its check to its bank, the collector, and present it and receive the money and hand it back to the bank in payment of the draft.

"The testimony shows that the bank had more money on hand each day it continued business, after the collection of the drafts than the amount thereof, and that the lowest amount it had on hand thereafter, and which went into the hands of the receiver, was more than \$7,000 and under the rule

announced by this court in Covey v. Cannon, 104 Ark. 550, 149 S. W. 514, this showing is a sufficient identification of the proceeds of the collected drafts and tracing them to the possession of the receiver."

To the same effect are: State v. Bank of Commerce, 85 N. W. 43, 61 Neb. 181, 52 L. R. A. 858; Kansas State Bank v. First State Bank, 64 Pac. 634, 62 Kan. 788; First National Bank v. Sanford, 62 Mo. App. 394; and Anheuser Busch Brewing Co. v. Norris, 36 Neb. 31, 83 N. W. 1037.

In Western German Bank v. Norvell, 134 Fed. 726, the court held that "when a bank receives money, it being known to its officers to be insolvent, and mingles the money with its own funds, which, to an amount larger than the sum so received from its client, goes into the hands of its receiver, it is not essential to the right of its client to recover from the receiver that he should be able to trace the identical money into the receiver's hands; but it is sufficient to show that the sum which went into the receiver's hands was increased by the amount which the bank received of its client. Richardson v. New Orleans Rid. Co., 102 Fed. 42, C. C. A. 619, 52 L. R. A. 67, and cases cited."

In the case of In re City Bank of Dowagiac, 186 Fed. 250, the bank collected \$500 upon a draft sent it by the Harris Bank. It intermingled the actual money received with its general funds and used it to pay certain debts other than its obligations to the Harris Bank, but it drew against its account with its New York correspondent a draft in favor of the Harris Bank for the proceeds of the collection. The Dowagiac Bank failed before this remittance draft was presented, or collected, having a balance with its New York correspondent more than equal to the outstanding draft payable to the Harris Bank. The court stated the law thus:

"It is clear beyond dispute that Nelson is not a general creditor, but that this money, when received by the City Bank, was a trust fund, belonging to Nelson; and the only question in controversy is the selection of the property to which Nelson's lien attaches. The referee gave him a lien only upon the general balance of cash on hand in the vaults of the bank, at Dowagiac, when it closed; and, as this amount was only \$495, and there are a large number of other preferred claims against the same fund, Nelson will receive, from this lien, nothing of consequence. He appeals from the disallowance of his claim as a lien against the fund in the National City Bank of New York on February 8th, and since transferred to the trustee.

"I think this latter lien should be allowed. My understanding of the situation is that on February 5th, and because of the mingling of this fund, by the City Bank, with its general funds, Nelson had a lien upon such general funds. This was a floating, indefinite lien, and it could be localized and made specific, either by Nelson's act in seizing sufficient of such funds to satisfy it, or by the act of the City Bank in appropriating sufficient of such funds for that purpose, in which appropriation Nelson, or those representing him, should join or acquiesce. Such specific appropriation was made by the City Bank, when it drew its draft for that purpose against its New York depository, and had already furnished, or then did furnish, to such depository, funds sufficient to meet this draft. I think this appropriation of a fund for this purpose, followed by Nelson's use of the draft and demand for the fund so appropriated, established and fixed the lien for \$499.50 against such fund, and the trustee should pay to Nelson this amount, unless there are other conflicting liens against the same fund."



Both counsel for appellant and appellee rely upon the case of First National Bank of Alexandria v. Payne, 85 Va. 890. The First National Bank sent Payne & Company, private bankers doing business in Warrenton, Va., a letter containing checks drawn by various depositors in Payne & Company upon that banking firm and requested Payne & Company to credit the account of the First National Bank of Alexandria with the proceeds of the checks. A clerk in the office of Payne & Company accordingly cancelled the checks and charged them to the accounts of the depositors and credited the amount of the checks to the First National Bank of Alexandria. On the day upon which the letter was received by Payne & Company and the above mentioned entries made in the accounts, Payne & Company were dissolved by the death of one of its partners. The proceeds of the checks received were never paid over to the First National Bank of Alexandria, and it was discovered that the firm was insolvent and an assignment was made for the benefit of its creditors. The Alexandria bank filed a petition praying that the entire amount of the checks sent by it to Payne & Company be paid over to it upon the theory that the proceeds of the checks were a trust fund which did not pass to the assignee. The court sustained this contention and ordered that the full amount of the claim of the First National Bank of Alexandria be paid.

This was clearly a case of reciprocal accounts, and but for the dissolution of the firm of Payne & Company by the death of one of the partners, the proceeds of the checks would have passed to the assignee, and the position of the First National Bank of Alexandria would have been that of a general creditor. Upon the firm's dissolution, however, the surviving partner was without authority to make the firm a debtor to any one, and his action in

crediting the account of the First National Bank of Alexandria with the proceeds of the checks was a nullity. The checks had been collected but the proceeds were the property of the Alexandria bank and having been actually but wrongly turned over to the assignee, the court properly ordered the same paid over to the First National Bank of Alexandria, for whom it had been collected. The Payne case is authority for the proposition that wherever the relation of creditor and debtor does not exist, the mingling of the funds of the forwarding bank with the general funds of the collecting bank will not defeat the right of the forwarding bank to collect the amount due it out of such general funds.

The appellee relies also upon two other Virginia cases: Pennington, Receiver v. Third National Bank of Columbus, Ga., 114 Va. 374, and Miller v. Norton & Smith, 114 Va. 609.

The Pennington case resembles, in some respects, the instant case. It is true that the court, although not necessary to the decision of the case, laid down the general rule, that "the collection of a draft by a bank for a customer in the ordinary course of business (italics ours), and placed to the customer's credit, amounts to a general deposit by the latter, and creates the relation of debtor and creditor between them." But the court also held that the Tarboro bank, which failed, and had collected a draft sent it "for collection and return, remit to National Park Bank, New York, for our credit and advise", and mingled the proceeds with its general funds, was a trustee and that the general deposit balance of that bank in the hands of the Norfolk correspondent was impressed with a trust. If, as we hold, the relationship of debtor and creditor never arose in the case at bar, then we find nothing in the Pennington case to sustain the contention of the appellee.

It is true that the trust was established on the ground of the insolvency of the collecting bank, known to its executive officers at the time when the collection was received, but it does not follow that if the collection had been sent, as in the instant case, under instructions to remit immediately the amount of the checks by shipment of currency, to the forwarding bank, or by means of a draft drawn by the collecting bank upon some other bank with which it had funds upon deposit, the court would have held that the collecting bank did not hold the proceeds of the checks as trustee.

The case of Miller v. Norton & Smith, 114 Va. 609, likewise fails to sustain the contention of the appellee.

In this case, the court was dealing with an insolvent forwarding bank and not an insolvent collecting bank. Unlike the instant case, there was no question of special agency, and Miller intended after the check was collected, to let the proceeds remain in bank as a general deposit. The real question involved was whether or not before the collection was complete the forwarding bank should be regarded as a holder of the check for value, or as a mere agent for collection. The court held that it was an agent because it had not given value; and that the deposit when made, being general, the beneficial ownership of the money vested in the bank and that the relationship between it and the depositor became that of debtor and creditor.

Among cases from other jurisdictions, relied on by the appellees, which do sustain his contention, may be mentioned the following: First National Bank v. Davis, 114 N. C., 41 Am. St. Rep. 795; Burman v. First

National Bank, 43 Am. St. Rep. 870; People v. Merchants & Mechanics Bank, 78 N. Y. 266; Sayles v. Cox, 49 Am. St. Rep. 940; Akin v. Jones, 42 Am. St. Rep. 921; Central Trust Co. of Ill. v. Hanover Trust Co., (Mass.), 136 N. E. 336, and others.

In First National Bank v. Davis, 114 N. C. 343, 41 Am. St. Rep. 795, supra, unlike the instant case, there was no agreement between the forwarding and the receiving bank. The Bank of <sup>New</sup> Hanover was in the habit of receiving from the First National Bank of Richmond checks and other evidences of indebtedness for collection, charging for its services as collecting agent and remitting daily the proceeds of its collections. The money and checks received and collected were not kept separate, but were mingled together in one general fund with the other moneys and property of the failed bank. The cashier of the New Hanover Bank, for which Davis was afterwards appointed receiver, had no knowledge of its insolvency until it had actually failed. The court held that the two banks were presumed to have entered into an implied agreement that the business would be transacted in accordance with the established custom in such business, which permitted the collecting bank to put all collections made by it into the general fund of the bank, and use them from day to day in the transaction of their current business, and when the time came for making remittance to send the forwarding bank money from its general fund, or its cashier's check for the amount due.

The court also held that the relation existing between the two banks, up to the time the checks were cashed, was that of principal and agent, and that immediately thereafter there was substituted as to such cash the relation of debtor and creditor.

In the instant case, the contract between the forwarding and receiving banks did not arise out of a custom but out of an agreement between them

by which the collecting bank would cause the checks to be presented to it for payment, and immediately upon payment remit the amount of the checks so paid to the forwarding bank by a shipment of currency, or by a draft upon some other bank with which it had funds upon deposit. Under these circumstances, it was not contemplated that the receiving bank should become the owner of the specific money collected, and it had no express or implied contract right to lend, or otherwise use it in its banking business. It was a special agent of the forwarding bank to collect the checks and remit the money immediately, and the relationship of debtor and creditor did not arise. Board of Supervisors v. Prince Edward-Lunenburg County Bank et als, 138 Va. , 31 Va. App. 336.

In determining whether or not the failed bank is a debtor or a trustee, the court may well look to the intention of the parties. If the forwarding bank intends to leave the money in the hands of the collecting bank, to be used by it in its usual course of business, it intends to become a general depositor and accepts the bank as a debtor. If on the other hand the forwarding bank, as in the instant case, does not intend it to be so used, and demands that the proceeds of the checks be immediately returned to it, it does not become a depositor, but simply entrusts the bank with the money for a special purpose, and the collecting bank becomes a trustee and a court of equity will impress with a trust the general funds in the hands of the trustee, in which the trust fund is included.

So far as the Davis case, supra, and the other cases from other jurisdictions, relied on by the appellee, are in conflict with the views herein expressed, we decline, for reasons indicated, to follow them. In this situation a further review of these cases is deemed unnecessary.

Having sustained the petitioner's first and second assignments of error, it is unnecessary to discuss the third assignment; since appellant agrees that in the settlement of accounts the amount in its hands should be credited upon its claim as though it were a part payment thereon.

Our conclusion is that the Prince Edward-Lunenburg County Bank was a special agent collecting checks for the Federal Reserve Bank of Richmond. In equity and good conscience, the money thus in its hands was at all times the property of the Federal Reserve Bank of Richmond. This money passed from the agent's hands to the hands of the receiver impressed with a trust, and is sufficiently identified, since it appears that an amount equal to the amount held for the Federal Reserve Bank of Richmond was in its hands from January 6, 1922, until its failure.

A check is not payment until the check is paid, and the drawing of a draft by the Prince Edward-Lunenburg County Bank to the order of the Federal Reserve Bank of Richmond and mailing the same to the last mentioned bank in no way affected the trust already impressed. While the check was not an assignment of the fund against which it was drawn, as between the drawer of the check and the person who gave value for it, it was an equitable assignment of the fund pro tanto. Daniel on Negotiable Instr., sec. 1643, p. 1852.

The decree complained of will be reversed and set aside, and the decree will be entered here which the lower court ought to have entered, adjudging that the receiver, H. D. Peters, out of the amount now in his hands, pay to the Federal Reserve Bank of Richmond the full sum of \$2,295.10, with interest thereon from the 6th day of January, 1922, till paid, less the sum of \$505.45, with interest from the 6th day of January, 1922, till paid, and the costs by the Federal Reserve Bank of Richmond in this suit expended.

Reversed and final judgment.

A copy,

Tests: J. M. Kelly, Clerk.

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

Statement for the Press

For Immediate Release

June 30, 1924.

CONDITION OF ACCEPTANCE MARKET

May 15th to June 11th.

During the four weeks ending June 11, the acceptance market was influenced primarily by a continuous decline in interest rates. The volume of purchases by dealers in the principal money centers, which is indicative of the supply of new bills coming into the market, reached the lowest point since early in October. The demand for bills as reflected by sales by dealers was 25 per cent smaller than in the preceding period owing in part to the low rate borne by acceptances compared with yields on other high grade investments.

Despite the smaller volume of purchases and a less active demand, dealers' aggregate portfolios were slightly heavier than at the close of the previous period. Cotton, silk, grain, wool, sugar, oil, coffee, and merchandise were the principal commodities against which bills were drawn.

At the beginning of the period rates on 30 to 90 day bills were  $3\frac{5}{8}$  per cent bid and  $3\frac{1}{2}$  per cent offered. After the middle of May there was a series of rapid reductions accelerated by an easing in call money rates which reached 2 per cent early in June. By the close of the period rates on acceptances had declined to  $2\frac{1}{2}$  per cent offered and  $2\frac{5}{8}$  per cent bid, which was approximately one per cent lower than a month earlier and  $1\frac{1}{2}$  per cent lower than a year ago. These reductions brought rates down to a level substantially below the comparable rates in the London market.

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

STATEMENT FOR THE PRESS

For immediate release  
4 p. m.

June 30, 1924

X-4106

The Federal Reserve Board announces that the Federal Reserve Bank of Kansas City has reduced its rediscount rate to 4 per cent on all classes of paper of all maturities, effective July 1, 1924.



FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

X-4107  
June 30, 1924

SUBJECT: Abolition of Office of Consulting Architect.

Dear Sir:

You are advised that the arrangement which has existed for some time between the Federal Reserve Board and Mr. A. B. Trowbridge, whereby Mr. Trowbridge has served the Board and the Federal reserve banks in the capacity of consulting architect, in consideration of a fixed annual retainer fee, has been discontinued, effective June 30th.

In the event of the necessity arising in the future, as it undoubtedly will, for the employment of the services of a consulting architect, the Board will arrange with Mr. Trowbridge, or some other architect, to serve in that capacity on an agreed basis for each specific building project.

Very truly yours,

Walter L. Eddy,  
Secretary.

TO THE GOVERNORS OF ALL FEDERAL RESERVE BANKS.

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# FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

January 2, 1924.  
St. 3868.

SUBJECT: Certification of Franchise Taxes  
paid on December 31, 1923.

Dear Sir:

In accordance with the practice adopted at the suggestion of the Treasury Department, 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 of franchise taxes (if any) paid by your bank to the United States on December 31, 1923, was determined. This statement should show the following information:

First. Gross earnings, current expenses, and profit and loss account for the calendar year 1923, in the form of the tables printed on pages 151-154 of the Board's 1922 annual report, except that the expense items should conform to the current edition of the monthly expense report form 96.

Second. Balance sheet after closing of books on December 31, 1923, in the form of the Board's consolidated weekly press statement of condition of Federal reserve banks. This balance sheet should also give, as a memorandum item, the amount of the bank's subscribed capital on December 31, 1923, also the balance in your surplus account after closing of books on December 31, 1922.

On the last sheet of these statements should appear the Auditor's certification, countersigned by a senior executive officer of the bank, reading as follows:

"I hereby certify that I have examined the above statements of earnings, expenses, and profit and loss of the Federal Reserve Bank of \_\_\_\_\_ for the calendar year 1923, and the balance sheet of such bank after closing of books on December 31, 1923; that the items in such

statements 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, as shown thereon, there was \$ \_\_\_\_\_ due the United States under 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:

\_\_\_\_\_

In the event that no franchise tax was paid on December 31, 1923, the underlined portion of the above certification should read "and that there was no amount due the United States under the provisions of Section 7 of the Federal Reserve Act approved December 23, 1913, as amended by the Act of March 3, 1919."

Kindly furnish the Board with a duplicate copy of the certified statements forwarded to the Treasury Department.

Very truly yours,

Walter L. Eddy,  
Secretary.

LETTER TO CHAIRMEN AT ALL FEDERAL RESERVE BANKS.

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# FEDERAL RESERVE BOARD

WASHINGTON

January 4, 1924.  
St. 3874

SUBJECT: Reports of Condition of State  
Banks and Trust Companies.

Gentlemen:

Your courtesy will be greatly appreciated if you will furnish the Federal Reserve Board, as soon as available, with two copies of the abstract of reports of condition of State banks and Trust companies in your State on December 31, 1923, or other recent date in case you did not issue a call for reports of condition as of December 31.

If convenient to your office, we would like to have separate figures for mutual savings banks and for private banks, providing there are any such banks operating in your state. In case the number of each class of banks reporting is not shown in the abstract, will you also be good enough to incorporate this information in your letter of transmittal. May we also ask you to segregate the data according to Federal reserve districts, if your state falls within two districts, as the value of these data to the Board and for purposes of publication will be greatly enhanced if they can be tabulated by Federal reserve districts.

The January number of the Federal Reserve Bulletin (copy of which will be forwarded to you as soon as received from the printer) contains, on page 67, a summary statement of the abstracts of reports of condition on or about September 14, 1923, of all banks and trust companies (other than mutual savings banks) under state supervision in the 48 states and the District of Columbia, to which your attention is invited.

A franked and self-addressed envelope, requiring no postage is enclosed for use in transmitting the data requested.

Very truly yours,

J. C. Noell,  
Assistant Secretary.

State Banking Department.

Enclosure.

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FEDERAL RESERVE BOARD

WASHINGTON

January 9, 1924.  
St. 3888.

SUBJECT: Revision of weekly Federal  
reserve bank press statement.

Dear Sir:

With the view of presenting the assets and liabilities of the Federal reserve banks in their logical order in the weekly press statements, the items will be rearranged in accordance with the order shown on the enclosed form St. 231 beginning with the statement for January 9. The weekly COND telegram which is sent to Federal reserve agents on Thursdays showing the condition of all banks combined will be based on the new form beginning with next week, and the code words used in that telegram will be those shown in the attached form.

It is requested that weekly press statements issued at your bank, including the statement of your bank and the consolidated statement for the System (if the latter is issued locally), be prepared in the same form beginning with January 16, 1924.

Very truly yours,

Walter L. Eddy,  
Secretary.

Enclosure

LETTER TO ALL FEDERAL RESERVE AGENTS

Released for publication Friday morning, \_\_\_\_\_, 192\_\_; not earlier.

RESOURCES AND LIABILITIES  
OF THE TWELVE FEDERAL RESERVE BANKS COMBINED

Form St. 231  
(Rev. Jan. 9, '24)

(In thousands of dollars)

RESOURCES	COND			
Gold with Federal reserve agents . . . . .	.BLIK	_____	_____	_____
Gold redemption fund with U. S. Treasury . . . . .	.BELT	=====	=====	=====
<u>Gold held exclusively against F.R. notes</u> . . . . .	.BRIK	_____	_____	_____
Gold settlement fund with F. R. Board . . . . .	.BABE	_____	_____	_____
Gold and gold certificates held by banks . . . . .	.BIRR	=====	=====	=====
<u>Total gold reserves</u> . . . . .	.EULK	_____	_____	_____
Reserves other than gold . . . . .	.BOSS	=====	=====	=====
<u>Total reserves</u> . . . . .	.TEND	_____	_____	_____
Non-reserve cash . . . . .	.TUBA	_____	_____	_____
Bills discounted:				
Sec. by U. S. Government obligations . . . . .	.BOLT	_____	_____	_____
Other bills discounted . . . . .	.BOTH	=====	=====	=====
<u>Total bills discounted</u> . . . . .	.TIME	_____	_____	_____
Bills bought in open market . . . . .	.BURK	_____	_____	_____
U. S. Government securities:				
Bonds . . . . .	.BOOK	_____	_____	_____
Treasury notes . . . . .	.BECK	_____	_____	_____
Certificates of indebtedness . . . . .	.BUTE	=====	=====	=====
<u>Total U. S. Government securities</u> . . . . .	.TALL	_____	_____	_____
Municipal warrants . . . . .	.TORN	=====	=====	=====
<u>Total earning assets</u> . . . . .	.TLLL	_____	_____	_____
5% Redemption fund - F. R. Bank notes . . . . .	.BACK	_____	_____	_____
Uncollected items . . . . .	.TODD	_____	_____	_____
Bank premises . . . . .	.TOUR	_____	_____	_____
All other resources . . . . .	.BRIG	=====	=====	=====
<u>TOTAL RESOURCES</u> . . . . .	.TOTE	_____	_____	_____
 <b>LIABILITIES</b>				
F. R. notes in actual circulation . . . . .	.TRIM	_____	_____	_____
F. R. Bank notes in circulation - net . . . . .	.TURN	_____	_____	_____
Deposits:				
Member bank - reserve account . . . . .	.CLAY	_____	_____	_____
Government . . . . .	.CAKE	_____	_____	_____
Other deposits . . . . .	.OTHR	=====	=====	=====
<u>Total deposits</u> . . . . .	.TUEB	_____	_____	_____
Deferred availability items . . . . .	.TAPP	_____	_____	_____
Capital paid in . . . . .	.CAPE	_____	_____	_____
Surplus . . . . .	.CEDE	_____	_____	_____
All other liabilities . . . . .	.CORN	_____	_____	_____
<u>TOTAL LIABILITIES</u> . . . . .	.TWIN	_____	_____	_____
Ratio of total reserves to deposit and F. R. note liabilities combined . . . . .	.TEST	_____ %	_____ %	_____ %
Contingent liability on bills purchased for foreign correspondents . . . . .	.MILD	_____	_____	_____

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FEDERAL RESERVE BOARD

WASHINGTON

January 12, 1924.  
St. 3893.

SUBJECT: Revised Forms 38, 95 and 96.

Dear Sir:

There are being forwarded to you today under separate cover the following number of copies of revised forms 38, 95 and 96 for use during 1924:

copies of form 38 - Classification of discounted and  
purchased bills.  
copies of form 95 - Monthly report of earnings.  
copies of form 96 - Monthly report of current expenses.

It will be noted that the only change on both forms 95 and 96 is the printing of a number of general captions to be used for reporting miscellaneous earnings and miscellaneous expenses. The additions have been made with the view of simplifying the reporting of miscellaneous earnings and expenses by the Federal reserve banks, also to enable the Board to have a more uniform classification of such items.

The revised form 38 is substantially the same as that used last year, with the exception that memorandum items have been added to cover holdings of paper made eligible for discount by the Agricultural Credits Act of March 4, 1923. It is believed that these changes are self-explanatory.

No revision has been made of forms 170, 171, 97 and 97a, and the Board will be glad to supply, upon request, such copies of these forms as your bank may require.

Very truly yours,

E. L. Smead, Chief,  
Division of Bank Operations.

LETTERS TO GOVERNORS OF ALL FEDERAL RESERVE BANKS

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# FEDERAL RESERVE BOARD

WASHINGTON

January 17, 1924,  
St. 3898.

SUBJECT: Revision of Weekly Federal  
Reserve Bank Statement.

Dear Sir:

The revised form of the Board's weekly press statement showing condition of Federal reserve banks, a copy of which was attached to letter St. 3888 of January 9, 1924, provides for showing holdings of U. S. bonds and Treasury notes separately. Inasmuch as weekly statements issued during 1923 showed only a combined total of "U. S. bonds and notes," and as the consolidated statements issued at some of the Federal reserve banks give comparative figures for the preceding year, the attached statement has been prepared giving the distribution of U. S. bonds and notes held by the twelve Federal reserve banks combined on each weekly statement date during 1923. It will be noted that the figures appearing under the caption "Treasury notes" include Victory notes up to May 16, 1923, and these figures should carry an appropriate note, as was done in the Board's weekly press statement for January 9, 1924, copies of which have already been sent to you.

Very truly yours,

E. L. Smead, Chief,  
Division of Bank Operations.

TO ALL FEDERAL RESERVE AGENTS



St. 3898a

U. S. BONDS AND TREASURY NOTES HELD BY THE TWELVE FEDERAL RESERVE  
BANKS COMBINED ON EACH WEEKLY STATEMENT DATE DURING 1923.

(In thousands of dollars)

Date	U. S. Bonds	Treasury Notes	Date	U. S. Bonds	Treasury Notes
Jan. 3	28,059	*154,256	July 3	25,618	64,126
Jan. 10	28,704	*147,005	July 11	25,616	68,595
Jan. 17	28,043	*128,835	July 18	25,016	66,999
Jan. 24	28,781	*138,076	July 25	25,128	59,888
Jan. 31	29,898	*133,054			
Feb. 7	29,998	*136,088	Aug. 1	24,905	58,897
Feb. 14	29,532	*133,708	Aug. 8	24,815	58,106
Feb. 21	29,315	*138,105	Aug. 15	24,824	60,043
Feb. 28	29,197	*144,778	Aug. 22	21,145	59,780
			Aug. 29	21,666	69,812
Mar. 7	28,842	*129,134	Sep. 5	20,904	75,416
Mar. 14	28,865	*131,814	Sep. 12	20,875	73,843
Mar. 21	29,298	*134,291	Sep. 19	21,387	63,283
Mar. 28	29,303	*142,905	Sep. 26	21,462	66,275
Apr. 4	29,330	*135,256	Oct. 3	22,067	67,561
Apr. 11	29,293	*133,533	Oct. 10	22,098	64,710
Apr. 18	28,155	*130,755	Oct. 17	19,733	66,518
Apr. 25	27,939	*129,091	Oct. 24	19,744	60,163
			Oct. 31	18,213	59,361
May 2	27,963	*120,030	Nov. 7	18,203	57,237
May 9	29,573	*119,387	Nov. 14	18,192	60,465
May 16	27,125	*124,538	Nov. 21	18,234	50,098
May 23	27,180	123,710	Nov. 28	18,509	52,832
May 29	26,952	125,059			
June 6	26,678	115,199	Dec. 5	18,612	51,772
June 13	25,149	100,138	Dec. 12	18,491	58,691
June 20	25,070	83,493	Dec. 19	18,464	54,493
June 27	25,220	82,938	Dec. 26	23,555	65,280

\*Includes Victory notes.

FEDERAL RESERVE BOARD,  
DIVISION OF BANK OPERATIONS  
JANUARY 17, 1924.

C.

## FEDERAL RESERVE BOARD

WASHINGTON

January 29, 1924.  
St. 3915.

SUBJECT: Federal Reserve Branch Banking.

Dear Sir:

In connection with the work of the Economy and Efficiency Committee, which has now been under way for nearly two years, the Board is making a study of the branches of the Federal Reserve Banks with special reference to the policy which should be pursued in deciding upon the extent and character of the work that should be permanently performed at the branches and to the determination of the additional cost entailed by the maintenance of the branches.

At the present time some of the branches are operated on the so-called memorandum plan while others are permitted to conduct practically all of the functions incident to the operation of the Federal reserve banks and are therefore known as "full-fledged" branches. All of the branches, however, are handling practically the same class of operations, with a few exceptions relating principally to earning assets, deposits and fiscal agency transactions, (the cost of which is comparatively small), as will be noted from Table 1 in the Outline of Federal Reserve Branch Banks covering their powers and functions and the character and volume of work handled which was issued by the Board in June, 1922.

In order that the Board may be in possession of data essential to the completion of its study in regard to the operation of Federal reserve branch banks it will be appreciated if you will furnish it at your early convenience with a report containing the following information:

A. Statement, based on functional expense reports, showing the annual cost of maintaining each of the 21 functions listed on page 32 of the quarterly functional expense report form E, together with figures in a parallel column showing the estimated net saving that could be effected if the branch were discontinued and the work taken over by the head office.

B. Statement as to whether or not in your opinion and that of the officers of the bank any one or more of the functions now being performed by the branch could be discontinued and the work taken over by the head office without slowing up the work of member banks to a greater extent than would be warranted by the saving to be effected in the expenses of the Federal reserve banks, together with an estimate of the probable annual saving.

C. Statement expressing the opinion of your Board of directors as to whether any of your branches or any of the functions now being performed by them should be discontinued.

In addition to the information specifically requested we shall also welcome a full expression of your views regarding any phase of Federal reserve branch banking which you think should be considered by the Board, especially as to the desirability of somewhat broadening the functions of Federal reserve branch banks.

Very truly yours,

Walter L. Eddy,  
Secretary.

LETTER TO CHAIRMEN AT ALL FEDERAL RESERVE BANKS  
EXCEPT BOSTON AND PHILADELPHIA.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

March 4, 1924.  
St. 3962.

SUBJECT: Abstract of Condition Reports of  
State Bank and Trust Company Members  
and of all Member banks as of  
December 31, 1923.

Dear Sir:

We are forwarding to you under separate cover copies of the Board's Abstract No. 23 showing the condition of State Bank and Trust Company members and of all member banks as at close of business on December 31, 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,

E. L. Smead, Chief,  
Division of Bank Operations.

LETTER TO EACH FEDERAL RESERVE AGENT

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

April 1, 1924.  
St. 4004

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 March 4, 1924. Please mail three copies of the form to each State Bank and Trust company member in your district for its own use and, in addition, three copies for each of its branches (if any) not located within the city in which the head office is located or within cities and towns adjacent thereto with instructions to hold the blank forms pending receipt of a call for condition reports.

Upon receipt of notice from the Board of the call for condition reports, kindly notify the banks thereof by mail if they are located within two days' time from the Federal reserve bank, or by telegram if not within two days' time by mail, and request them to fill out the reports and mail them to you promptly - in no case later than 10 days after receipt of the call.

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. If it is necessary to communicate with a bank regarding apparent errors in its report, a note to that effect should be made on the report itself before it is mailed to the Board, and the Board should be advised of the necessary corrections when the desired information is received from the member bank.

Kindly acknowledge receipt.

Yours very truly,

Walter L. Eddy,  
Secretary.

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# FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

April 7, 1924.  
St. 4012.

SUBJECT: Reports of Condition of State  
Banks and Trust Companies.

Gentlemen:

Your courtesy will be greatly appreciated if you will furnish the Federal Reserve Board, as soon as available, with two copies of the abstract of reports of condition of State banks and Trust companies in your State on March 31, 1924, or other recent date in case you did not issue a call for reports of condition as of March 31,

If convenient to your office, we would like to have separate figures for mutual savings banks and for private banks, providing there are any such banks operating in your state. In case the number of each class of banks reporting is not shown in the abstract, will you also be good enough to incorporate this information in your letter of transmittal. May we also ask you to segregate the data according to Federal reserve districts, if your state falls within two districts, as the value of these data to the Board and for purposes of publication will be greatly enhanced if they can be tabulated by Federal reserve districts.

The April number of the Federal Reserve Bulletin (copy of which will be forwarded to you as soon as received from the printer) contains a summary statement of the abstracts of reports of condition on or about December 31, 1923, of all banks and trust companies (other than mutual savings banks) under state supervision in the 48 states and the District of Columbia, to which your attention is invited.

A franked and self-addressed envelope, requiring no postage is enclosed for use in transmitting the data requested.

Very truly yours,

J. C. Noell,  
Assistant Secretary.

State Banking Department.

Enclosure.

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**FEDERAL RESERVE BOARD**

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

May 22, 1924.  
St. 4068

SUBJECT: Functional Expenses  
First Quarter 1924.

Dear Sir:

There is enclosed herewith one copy of the Functional Expense Exhibit for the First Quarter of 1924, showing for each Federal Reserve bank and branch the cost of operating each function and expense unit, together with the number of officers and of employees, the total number of units handled, units handled per employee per day, and unit costs.

Copies of the exhibit are also being mailed to the Governor of each Federal reserve bank.

Very truly yours,

Chairman, Committee on  
Economy and Efficiency.

Enclosure.

LETTER TO CHAIRMAN OF EACH FEDERAL RESERVE BANK

**FEDERAL RESERVE BOARD**

**WASHINGTON**

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

May 23, 1924.  
St. 4075.

**SUBJECT: Condition of Member Banks  
as of March 31, 1924.**

Dear Sir:

For your information there is enclosed here-  
with a preliminary statement regarding the condition  
of all member banks combined as of March 31, 1924.  
The Board's abstract (No. 24) showing the detailed  
figures for State bank and Trust company members  
and the combined figures for all member banks is now  
in the hands of the printer and will be ready for  
distribution in the near future.

Very truly yours,

Walter L. Eddy,  
Secretary.

LETTER TO EACH FEDERAL RESERVE AGENT



CONDITION OF MEMBER BANKS AS OF MARCH 31, 1924.

The Federal Reserve Board's abstract (No. 24) showing the condition of state bank and trust company members and of all member banks as of March 31, 1924, which will shortly be ready for distribution, will show increases in total loans and investments of about \$94,000,000 for all member banks and of about \$57,000,000 for member state banks together with a considerably larger decline in total deposits and in borrowings at the Federal reserve banks. The reduction in deposits is due primarily to the reduction in the amount of uncollected funds credited to depositors (characteristically large at the end of the year) as is indicated by reductions of \$117,000,000 in the amount of items with the reserve banks in process of collection, of \$180,000,000 in amounts due from banks and bankers and of \$128,000,000 in exchanges for clearing house and checks on banks in same place as the reporting bank.

There is a net reduction of 93 in the number of member banks for which figures have been included in the abstract, consisting of 69 national banks and 24 state banks and trust companies. Additions to and withdrawals from membership both of national banks and of state bank and trust company members have been of comparatively small banks for the most part, the only change which greatly affects the aggregate figures is the consolidation of the Wells-Fargo-Nevada National bank with the Union Trust Company of San Francisco. This added about \$80,000,000 to the total resources both of state bank and trust company members and of all member banks, due to the fact that figures for the former Wells-Fargo-Nevada National bank were not included in the December 31, 1923, abstract.

Loans and investments reported for all member banks increased from \$26,738,000,000 to \$26,832,000,000 or by \$94,000,000, the larger increase of \$124,000,000 shown for loans and discounts being offset in part by a decrease of \$30,000,000 in investments. Holdings of United States securities fell off about \$71,000,000 while holdings of other bonds, stocks and securities increased by \$41,000,000. Total deposits declined from \$28,487,000,000 on December 31 to \$28,248,000,000 on March 31. The substantial increase of \$239,000,000 in time deposits was more than offset by a decrease of \$445,000,000 in demand deposits.

Borrowings of member banks dropped from \$1,015,000,000 on December 31, 1923, to \$745,000,000 on March 31, 1924, or by \$273,000,000.

A similar trend is shown by the reporting member banks between January 2 and April 2. Between these dates loans and discounts of reporting members increased by \$35,000,000, while their investments declined about \$28,000,000. Net demand deposits of these banks showed a decrease of \$192,000,000 and their time deposits an increase of \$126,000,000.

Below is a condensed statement showing resources and liabilities of all member banks on March 31, 1924, with changes since April 3 and December 31, 1923.

	March 31, 1924	Changes since	
		Dec. 31, 1923	Apr. 3, 1923
Loans and discounts (inc. overdrafts)	\$19,176,000,000	+124,000,000	+604,000,000
U. S. securities	3,570,000,000	- 71,000,000	-313,000,000
Other bonds, stocks and securities	4,086,000,000	+ 41,000,000	+209,000,000
<b>Total loans and investments</b>	<b>26,832,000,000</b>	<b>+ 94,000,000</b>	<b>+500,000,000</b>
Cash in vault	494,000,000	- 67,000,000	- 24,000,000
Reserve with F. R. Banks	1,893,000,000	- 7,000,000	- 16,000,000
Items with F. R. Banks in process of collection	549,000,000	-117,000,000	- 53,000,000
Due from banks and bankers	1,644,000,000	-180,000,000	-130,000,000
Exchanges for clearing house, and checks on banks in same place	1,582,000,000	-128,000,000	+592,000,000
All other resources	1,826,000,000	- 14,000,000	+ 99,000,000
<b>Total resources</b>	<b>34,820,000,000</b>	<b>-419,000,000</b>	<b>+968,000,000</b>
Demand deposits	14,719,000,000	-445,000,000	+193,000,000
Time deposits	8,890,000,000	+239,000,000	+747,000,000
U. S. deposits	292,000,000	+ 55,000,000	-112,000,000
Certified and cashiers' checks	867,000,000	- 56,000,000	+266,000,000
<b>Total deposits (other than bank)</b>	<b>24,768,000,000</b>	<b>-207,000,000</b>	<b>+1,094,000,000</b>
Due to banks and bankers	3,480,000,000	- 32,000,000	- 28,000,000
Bills payable and rediscounts	745,000,000	-273,000,000	-223,000,000
Acceptances	413,000,000	- 13,000,000	- 8,000,000
Capital stock paid-in	2,022,000,000	+ 19,000,000	+ 42,000,000
Surplus	1,650,000,000	+ 9,000,000	+ 19,000,000
All other liabilities	1,742,000,000	+ 78,000,000	+ 72,000,000

(St. 4075)

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107

# FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

June 7, 1924  
~~May 7, 1924.~~  
St. 4095.

SUBJECT: Abstract of Condition Reports of  
State Bank and Trust Company Members  
and of all Member banks as of  
March 31, 1924.

Dear Sir:

We are forwarding to you under separate cover copies of the Board's Abstract No. 24 showing the condition of State Bank and Trust Company members and of all member banks as at close of business on March 31, 1924. 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 FEDERAL RESERVE AGENTS

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# FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

June 9, 1924.  
St. 4097

SUBJECT: Functional Expense Report, First Quarter, 1924.

Dear Sir:

Will you kindly have the following corrections made in the functional expense report for the first quarter of 1924, which was forwarded to you with our letter of May 22, 1924:

1. Page 19 - Failed Banks function.  
COMBINED FIGURES: Change number of employees for Atlanta from 3.68 to 2.83 and for Minneapolis from 41.23 to 42.08.
2. Page 25 - Currency - Receiving and Sorting expense unit.  
HEAD OFFICE FIGURES: Under verification count change Chicago figures from 34,740,200 to 57,758,690 and the total from 238,471,820 to 261,490,310.  
COMBINED FIGURES: Change Chicago figures from 35,450,200 to 58,468,690 and the total from 295,001,232 to 318,019,722.
3. Page 32 - Country checks - Remittances.  
HEAD OFFICE FIGURES: Change number of cash letters for Kansas City from 4,201 to 1,400 and the total from 22,687 to 19,886.  
COMBINED FIGURES: Change Kansas City from 6,140 to 3,339 and the total from 34,373 to 31,572.
4. Page 43 - Government Issues. Number of pieces handled - Redemptions.  
BRANCH FIGURES: Insert opposite Los Angeles 2,764, Portland 1,860, Seattle 2,099 and change total from 17,905 to 24,628.  
COMBINED FIGURES: Change San Francisco from 8,651 to 15,374 and total from 176,652 to 183,375.
5. Page 46 - Legal Function.  
COMBINED FIGURES: Change total expense for Richmond from \$5,590 to \$3,565, for Atlanta from \$3,695 to \$5,345 and for Chicago from \$6,666 to \$7,041.

Very truly yours,

E. L. Smead, Chief,  
Division of Bank Operations.

LETTER TO CHAIRMAN OF EACH FEDERAL RESERVE BANK.

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509

**FEDERAL RESERVE BOARD**

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

June 10, 1924.  
St. 4099.

SUBJECT: Earnings and Dividends reports  
of State Bank and Trust Com-  
pany members as of June 30, 1924.

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, 1924, irrespective of whether or not they may have closed their books on that date, or whether any dividends that may have been declared cover that particular period.

The report should be submitted to you in duplicate within ten days after receipt of the blank forms by reporting banks.

Kindly acknowledge receipt.

Very truly yours,

Walter L. Eddy,  
Secretary.

TO ALL FEDERAL RESERVE AGENTS

407  
300

**FEDERAL RESERVE BOARD**

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

June 25, 1924.  
St. 4107.

SUBJECT: Condition reports of state  
bank and trust company mem-  
bers, form 105.

Dear Sir:

There are being forwarded to you today under separate cover        copies of form 105 revised as of May 15, 1924. Copies of these forms should be sent to each state bank and trust company member in your district in accordance with the following schedule, with instructions to hold them pending receipt of a call for condition reports.

Banks having no branches - 3 copies

Banks having branches:

For consolidated report of head office  
and branches - 3 copies

For combined report showing condition  
of branches in head-office city -  
3 copies

For combined reports showing condition  
of all branches located in each other  
city - 3 copies for each city in which  
one or more branches are located.

Upon receipt of notice from the Board of a call for condition reports kindly notify the banks, by mail if they are located within two days' time from the Federal reserve bank or by telegram if not within 2 days' time by mail, and request them to fill out the reports and mail them to you promptly - in no case later than ten days after receipt of the call.

It will be appreciated if you will furnish the Board at your early convenience with a list of cities in your district whose corporate limits at some point coincide with the corporate limits of another city or town. This will enable the Board to determine whether or not a branch of a given bank is located in a city or town contiguous to the city or town in which the parent bank is located.

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 from the member banks. If it is necessary to communicate with a bank regarding apparent errors in its report, a note to that effect should be made on the report itself, before it is mailed to the Board, and the Board should be advised of the necessary corrections when the desired information is received from the member bank.

Kindly acknowledge receipt.

Very truly yours,

Walter L. Eddy,  
Secretary.

LETTER TO ALL FEDERAL RESERVE AGENTS.

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102

# FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

June 24, 1924.  
St. 4118.

SUBJECT: Statistics Relating to Non-member  
State Banks and Trust Companies  
Eligible for Membership.

Dear Sir:

With a view to bringing up to date the statistics regarding the number, capital, surplus, and resources of non-member banks eligible, on the basis of capitalization, for membership in the Federal Reserve System, it is requested that you kindly furnish the Board with a statement, as of June 30, 1924, showing the information outlined in the attached form. The statement should cover all non-member banks eligible for membership as of the date mentioned, but the figures of capital, surplus, and resources may be as of an earlier date, if it is necessary to use such earlier figures in order that the completion of the report may not be unduly delayed.

It will be noted from the form attached that the banks are to be divided into eight groups, based on the capital stock requirements as outlined in the Board's Regulation H, Series of 1924. The population figures should be based upon the latest available data published by the United States Bureau of the Census.

In addition to the summary figures for each state as outlined in the attached form it is requested that a list be submitted showing the name and location of each eligible non-member bank in the district whose capital and surplus combined amounts to \$1,000,000 or more. This list should also give the paid-in capital, surplus (exclusive of undivided profits), and total resources of each such bank.

Very truly yours,

Walter L. Eddy,  
Secretary.

LETTER TO ALL FEDERAL RESERVE AGENTS.



NONMEMBER STATE BANKS AND TRUST COMPANIES ELIGIBLE FOR MEMBERSHIP IN THE FEDERAL RESERVE SYSTEM  
ON THE BASIS OF CAPITAL STOCK REQUIREMENTS, JUNE 30, 1924.

Federal Reserve District \_\_\_\_\_

Banks located in cities and towns with a population of							
Over 50,000, with paid-in capital of at least		6,001 to 50,000, with paid-in capital of at least		3,001 to 6,000, with paid-in capital of at least		3,000 or less, with paid-in capital of at least	
\$200,000	\$120,000 but less than \$200,000	\$100,000	\$60,000 but less than \$100,000	\$50,000	\$30,000 but less than \$50,000	\$25,000	\$15,000 but less than \$25,000

STATE OF \_\_\_\_\_ DATE OF CONDITION REPORTS \_\_\_\_\_

Number of banks.....  
Paid-in capital.....  
Surplus (exclusive of undivided profits).....  
Total resources.....

(show same information for each state in the district)

DISTRICT TOTALS:

Number of banks.....  
Paid-in capital.....  
Surplus.....  
Total resources.....

501  
504

FEDERAL RESERVE BOARD

WASHINGTON

June 24, 1924.  
St. 4119.

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

SUBJECT: Comparative Statement of Earnings  
and Expenses, 1914-1923.

Dear Sir:

In order that data relating to the earnings and expenses and profit and loss accounts of the Federal reserve banks and reimbursable expenses of the Fiscal agency departments may be readily available on a comparable basis for each year since the organization of the Federal Reserve System, the Board has recently compiled detailed statements corresponding as nearly as practicable in form to the last published statements. Three copies of the statements relating to your bank (St. 3992, 3992a and 3992b) are attached hereto.

It will be appreciated if you will kindly have the data checked against the records of your bank and advise the Board at your earliest convenience of the result of such checking. In the statement of expenses combined figures have been shown for two or more items in some instances, because separate figures for each item were not available. We prefer, however, to have the statement show separate figures for each item throughout, and shall be glad to make the necessary revisions to that end if you find it practicable to furnish the separate figures from the records of your bank.

After replies have been received from all Federal reserve banks and such changes as are found necessary have been made, your bank will be furnished with such number of copies of the complete statements for all banks and for the System as you may desire. In the future it will be the policy of the Board to use these statements as a basis in preparing figures for publication, and it is suggested that the same practice be followed by your bank.

Very truly yours,

Walter L. Eddy,  
Secretary.

GOVERNOR OF EACH FEDERAL RESERVE BANK.

Sample page of the Index-Digest of the Federal Reserve Act  
(Third Edition)

## INSURANCE

By soliciting and selling insurance, etc. (Sec. 13, line 24, p. 29.)

The bank shall not guarantee the truth of any statement made by an  
assured in filing his application for insurance.  
(Sec. 13, line 40, p. 29.)

When such property is fully covered by insurance.  
(United States Revised Statutes, sec. 5200, line 19, p. 80.)

Any bond of indemnity required to be filed by any person to secure  
payment of any ... insurance by the United States, etc.  
(Revenue Act, sec. 1101, line 8, p. 85.)

## INSURANCE COMPANY

May act as the agent for any fire, life, or other insurance company, etc.  
(Sec. 13, line 22, p. 29.)

By soliciting and selling insurance and collecting premiums on policies  
issued by such company. (Sec. 13, line 25, p. 29.)

May receive for services so rendered such fees or commissions as may be  
agreed upon by the said association and the insurance company for  
which it may act as agent. (Sec. 13, line 28, p. 29.)

## INSURANCE POLICIES

No such bank shall in any case ... assume or guarantee the payment of any  
premium on insurance policies issued through its agency by its  
principal. (Sec. 13, line 36, p. 29.)

## INTENDING TO PARTICIPATE.

Such articles of association shall be signed by all of the persons  
intending to participate in the organization of the corporation.  
(Sec. 25a, line 40, p. 52.)

## INTENT

With intent, in either case, to injure or defraud such corporation, etc.  
(Sec. 25a, line 26, p. 61.)

With intent to injure or defraud any person, etc.  
(Sec. 25a, line 39, p. 61.)

Who with like intent aids or abets any officer ... in any violation of this  
section, etc. (Sec. 25a, line 45, p. 61.)

With intent in any case to injure or defraud such Federal reserve bank  
or member bank. (United States Revised Statutes, sec. 5209,  
line 19, p. 83.)

Who, with like intent to defraud or injure, embezzles, etc.  
(United States Revised Statutes, sec. 5209, line 27, p. 83.)

Every person who, with like intent, aids or abets any officer, etc.,  
in any violation of this section, etc.  
(United States Revised Statutes, sec. 5209, line 30, p. 83.)

#### INTERCHANGEABLE

The terms "national bank" and "national banking association" used in  
this Act shall be held to be synonymous and interchangeable.  
(Sec. 1, line 15, p. 1.)

INTEREST, CONTROLLING (Sec. 25a, line 35, p. 57; sec. 25a, line 38, p. 57.)

(See Controlling interest)

INTEREST, PUBLIC (Sec. 14, line 24, p. 33.)

(See Public interest)

INTEREST, RATE, RATES (See also Discount rates)

Shall be entitled to a refund of its cash-paid subscription with  
interest at the rate of one-half of one per centum per month  
from date of last dividend, if earned, etc.  
(Sec. 9, line 8, p. 16.)

To rediscount the discounted paper of other Federal reserve banks at  
rates of interest to be fixed by the Federal Reserve Board.  
(Sec. 11, line 35, p. 20.)

The reserve bank shall add an amount equal to said tax to the rates of  
interest and discount fixed by the Federal Reserve Board.  
(Sec. 11, line 11, p. 21.)

Federal reserve banks may compute the interest to be deducted on the  
basis of the estimated life of each bill, etc.  
(Sec. 13, line 6, p. 27.)

No such bank shall in any case guarantee either the principal or interest  
of any such loans. (Sec. 13, line 35, p. 29.)

Such bank ... shall pay such rate of interest as may be established by  
the Federal Reserve Board on only that amount of such notes which  
equals the total amount of its outstanding Federal Reserve notes  
less the amount of gold or gold certificates held by the Federal  
reserve agent as collateral security.  
(Sec. 16, line 27, p. 36.)

May file with the Treasurer of the United States an application to sell  
for its account, at par and accrued interest, United States  
bonds securing circulation to be retired.  
(Sec. 18, line 18, p. 41.)

To issue at par Treasury notes ...bearing interest at the rate of 3 per centum per annum ...and to be exempt as to principal and interest from the payment of all taxes, etc.

(Sec. 18, line 12, p. 43; sec. 18, line 17, p. 43.)

To issue United States gold bonds at par, bearing 3 per centum interest, etc.

(Sec. 18, line 22, p. 43.)

No member bank shall pay to any director, etc., a greater rate of interest on the deposits of such director, etc. than that paid to other depositors, etc.

(Sec. 22, line 35, p. 48.)

Such banks may continue hereafter as heretofore to receive time deposits and to pay interest on the same.

(Sec. 24, line 44, p. 49.)

Whoever ...represents in any way that the United States is liable for the payment of any bond or other obligation, or the interest thereon ... shall be punished, etc.

(Sec. 25a, line 11, p. 62.)

Or for one-year gold notes bearing interest at a rate of not to exceed 3 per centum, etc.

(Sec. 26, line 30, p. 62.)

To deposit its securities and its current funds subject to check with any member bank of the Federal Reserve System and to receive interest on the same as may be agreed.

(Federal Farm Loan Act, sec. 13, line 36, p. 68.)

Such deposits may bear such rate of interest ... as the Secretary of the Treasury may prescribe.

(First Liberty Bond Act, sec. 7, line 23, p. 69;  
Second Liberty Bond Act, sec. 8, line 9, p. 70;  
Third Liberty Bond Act, sec. 8, line 1, p. 71.)

No discount or rediscount under this section shall be granted at a less interest charge than one per centum per annum above the prevailing rate for eligible commercial paper of corresponding maturity.

(War Finance Corporation Act, sec. 13, line 37, p. 71.)

Discounts or rediscounts under this section shall be at an interest rate equal to the prevailing rate for eligible commercial paper of corresponding maturities.

(War Finance Corporation Act, sec. 13, line 11, p. 96.)

Whenever Federal Reserve notes are issued against the security of such obligations or paper, the Federal Reserve Board may make a special interest charge on such notes, which, in the discretion of the Federal Reserve Board, need not be applicable to other Federal reserve notes which may from time to time be issued and outstanding.

(War Finance Corporation Act, sec. 13, line 5, p. 72;  
Sec. 13, line 21, p. 96)

Including principal and interest to maturity.

(War Finance Corporation Act, sec. 15, line 23, p. 97.)

Moneys so deposited shall constitute a special fund for the payment of principal and interest of such bonds or notes, or for the purchase or redemption of such bonds or notes at not more than par and accrued interest, etc.

(War Finance Corporation Act, sec. 15, line 25, p. 97;  
Sec. 15, line 27, p. 97.)

Including principal and interest to maturity.

(War Finance Corporation Act, sec. 15, line 32, p. 97.)

Any such advance shall bear interest at a rate not exceeding  $1\frac{1}{2}$  per centum in excess of the rate of discount for 90-day commercial paper prevailing at the Federal Reserve bank, etc.

(War Finance Corporation Act, sec. 22, line 8, p. 98.)

All such loans shall bear interest at the rate of six per centum, etc.

(Transportation Act, sec. 210, line 18, p. 88.)

Rates of interest or discount charged by the Federal intermediate credit banks upon such loans and discounts shall be subject to the approval of the Farm Loan Board.

(Agricultural Credits Act, sec. 202, line 29, p. 90.)

On the majority vote of the members of the Federal Farm Loan Board any Federal intermediate credit bank shall be required to rediscount the discounted paper of any other Federal intermediate credit bank at rates of interest to be fixed by the Federal Farm Loan Board.

(Agricultural Credits Act, sec. 202, line 36, p. 90.)

COMMITTEES OF THE FEDERAL RESERVE BOARD - Effective July 1, 1924.

AGRICULTURAL CREDITS:

Mr. Cunningham  
Mr. James  
Mr. Dawes  
Mr. Goldenweiser, Sec'y.

BRANCHES - FEDERAL RESERVE:

Mr. Hamlin  
Mr. Cunningham

CLEARINGS:

Mr. Hamlin  
Mr. Dawes

CUBA:

Mr. Hamlin  
Mr. James

CURRENCY:

Mr. Dawes  
Mr. James

DISCOUNT & OPEN MARKET POLICY:

Mr. Miller  
Mr. Platt  
Mr. Cunningham  
Mr. Stewart, Sec'y.

EXAMINATIONS:

Mr. Platt  
Mr. James  
Mr. Herson, Sec'y.

INTERNATIONAL FINANCE:

Mr. Miller  
Mr. Hamlin  
Mr. Stewart, Sec'y.

LAW & LEGISLATION:

Mr. Hamlin  
Mr. Platt

NOMINATIONS:

Mr. Platt  
Mr. Miller

RESEARCH & STATISTICS:

Mr. Miller  
Mr. Cunningham  
Mr. Stewart, Sec'y.

SALARIES, EXPENDITURES & EFFICIENCY:

Mr. James  
Mr. Cunningham  
Mr. Smead, Sec'y.

EXECUTIVE COMMITTEE:

Gov. Crissinger  
Mr. Platt  
(Mr.  
(Term expires

DISTRICT COMMITTEES:

Boston:

Mr. Hamlin  
Mr. Platt

New York:

Mr. Platt  
Mr. Miller

Philadelphia:

Mr. Cunningham  
Mr. Hamlin

Cleveland:

Mr. 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

ADVISORY COMMITTEE OF GOVERNORS:

Mr. Harding      Mr. Fancher  
Mr. Strong        Mr. Seay  
Mr. Norris        Mr. McDougal

OPEN MARKET COMMITTEE OF GOVERNORS:

Mr. Harding      Mr. Fancher  
Mr. Strong        Mr. McDougal  
Mr. Norris

COMMITTEE ON VOLUNTARY SERVICES:

Mr. Harding      Mr. McDougal  
Mr. Strong        Mr. McKinney  
Mr. Fancher

GOVERNORS' COMMITTEE ON INSURANCE:

Mr. Kenzel  
Mr. Taylor  
Mr. Dillard

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

For Immediate Release  
3:00 o'clock p.m.

X-11094  
June 18, 1924.

The Federal Reserve Board announces that the Federal Reserve Bank of Philadelphia has established a rediscount rate of  $3\frac{1}{2}$  per cent on all classes of paper with maturities of ninety days or less, effective immediately.



FEDERAL RESERVE BOARD  
STATEMENT FOR THE PRESS

For Immediate Release

X-4095  
June 18, 1924.

4:30 o'clock p. m.

The Federal Reserve Board announces that the Federal Reserve Bank of St. Louis has reduced its rediscount rate from  $4\frac{1}{2}$  per cent to 4 per cent on all classes of paper of all maturities, effective June 19, 1924.

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**FEDERAL RESERVE BOARD**

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

X-4097

June 20, 1924.

SUBJECT: Holidays during July, 1924.

Dear Sir:

For your information, there will be no Gold Settlement Fund or Federal Reserve Note Clearing on Friday, July 4th, 1924, on account of observance of Independence Day, and the Board's books will be closed.

In addition to this holiday, the following offices will observe holidays during July:

Monday July 14 - (Memphis Forrest's Birthday  
(Nashville)

Thursday July 24 - Salt Lake City - Pioneer Day

Therefore, on the dates indicated, the Branches mentioned will not participate in either the regular Gold Fund Clearing or the Federal Reserve Note Clearing.

Please include your credits for Memphis and Salt Lake City Branches on their respective holidays, with your credits for the following business day, in your Gold Fund Clearing telegrams.

Please advise Branches.

Yours very truly,

J. C. Noell,  
Assistant Secretary.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS.

~~444~~  
~~111~~

# FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

X-4098

June 23, 1924.

SUBJECT: ASSESSMENT FOR GENERAL EXPENSES OF THE FEDERAL RESERVE  
BOARD, JULY 1 TO DECEMBER 31, 1924.

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, 1924, levying an assessment upon the several Federal reserve banks of an amount equal to ninety-one thousandths of one per cent (.00091) 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, 1924.

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, 1924, and one-half September 1, 1924, in each instance issuing a C/D for credit of "Salaries and Expenses, Federal Reserve Board, Special Fund", assessment for general expenses, and sending a 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)

ESTIMATE FOR JULY 1924 ASSESSMENT

X-4098a

~~449~~

Average monthly encumbrance for period  
January 1, 1924, to June 30, 1924:

Personal services, . . . . .	\$ 47,151.73	
Non-personal services, . . . . .	13,729.90	
	<hr/>	\$ 60,881.63

Encumbrance for June 1924:

Personal services, . . . . .	\$ 47,451.48	
Non-personal services, . . . . .	13,904.15	
	<hr/>	61,355.63

Estimated monthly requirements,  
July to December, 1924:

Personal services, . . . . .	\$ 47,451.48	
Non-personal services, . . . . .	14,358.42	
	<hr/>	61,809.90

Estimated monthly increase over June, 1924, . . . . . 454.27

Total estimated requirements,  
July to December 1924:

To cover above estimate, . . . . .	\$370,847.40	
To provide a contingent fund, . . . . .	10,000.00	
	<hr/>	\$380,847.40

Estimated unencumbered balance June 30, 1924, . . . . .	53,000.00	
Salaries and expenses of examiners in connection with examination of branches of Bank of Central and South America, to be reimbursed, . . . . .	26,000.00	
	<hr/>	79,000.00

Amount to be raised by assessment, . . . . . 301,847.40

Estimated paid-in capital and surplus of Federal Reserve  
Banks as of June 30, 1924, . . . . . \$332,415,000.00

An assessment of ninety-one thousandths of one per cent  
(.00091) will produce, . . . . . \$302,497.65

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 ninety-one 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 ninety-one thousandths of one per cent of the total paid-in capital and surplus of such banks as of June 30, 1924, 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, 1924, and the second half on September 1, 1924.

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# FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

June 21, 1924. X-4099

SUBJECT: Revised Regulations Governing the use of  
Federal Reserve Leased Wires.

Dear Sir:

In accordance with the action of the recent Governors' Conference, the Federal Reserve Board has revised its regulations governing the use of the Federal reserve leased wires, as follows:

1. Telegraphic transfers of funds will be accepted from and paid to member banks only. They must represent bank balances and can be made only for round amounts, i. e., multiples of \$100. The term "bank balance" shall be construed to mean an accumulation of funds comprising an established account carried by one member bank with another member bank.

2. The descriptive data in telegrams transferring funds must be limited to the name of the sending member bank, name of its correspondent member bank requesting the transfer, name of the member bank receiving credit, and name of its correspondent member bank.

3. The Federal reserve code, including test word, must be used for all messages involving the transfer of funds and, in the interest of economy, all other telegrams should be sent in code when its use shortens the message.

4. In addition to the usual mail advice to the member bank receiving credit for telegraphic transfers of funds, immediate advice by telegraph, or otherwise, should be given by the Federal reserve bank receiving the transfer, except in cases where the credited member bank has stated that other than the usual mail advice is unnecessary.

5. Requests for telegraphic transfers of funds for consumption on date of receipt should not be accepted by Federal reserve banks later than thirty (30) minutes prior to the closing hour of the Federal reserve bank to which transfer is to be made. Any telegraphic transfers of funds requested after such time will be made at the discretion of the Federal reserve bank receiving credit.

6. The leased wires shall not be used for tracing or advising payment or non-payment of any non-cash collection items, nor for transferring the proceeds thereof.

7. The leased wires shall not be used for reconciling exceptions in accounts between Federal reserve banks, except where a loss might be involved.

8. Any loss resulting from negligence on the part of the Federal reserve system in the transmission of telegrams transferring funds over the leased wires through relay stations shall be borne by the sending Federal reserve bank, unless responsibility can be definitely placed upon the Federal reserve bank to which the telegram was addressed.

9. Telegrams must be worded as concisely as possible. Telegrams should not be sent when communication by mail will suffice. For the purpose of enforcing these regulations, provision should be made in each Federal reserve bank so that any misuse of the leased wires will be brought to the attention of a designated officer for reference to the originating department, or, in the case of incoming messages, to the sending Federal reserve bank.

The above regulations are intended to govern the use of the leased wires by the Federal reserve banks. The following clauses should be included by all Federal reserve banks in their circulars to member banks relating to telegraphic transfers of funds. The Board understands each Federal reserve bank will issue a new circular letter to its member banks on July 1, 1924, making effective as of July 15, 1924, the new regulations governing wire transfers of funds for the account of member banks.

1. Telegraphic transfers of funds will be made for and paid to member banks only.

2. Transfers of bank balances in round amounts, that is, multiples of \$100, will be made over the Federal reserve leased wires. Such transfers will be made without cost to member banks. The term "bank balance" shall be construed to mean an accumulation of funds comprising an established account maintained by a member bank with its Federal reserve bank or with another member bank.

3. Transfers of proceeds of individual collection items will not be made over the leased wires.

4. The descriptive data in telegrams transferring bank balances must be limited to the amount to be transferred, name of the member bank to receive credit and, when necessary, name of its correspondent member bank and name of member bank with which request originates.

5. The Federal reserve banks maintain, at large expense, a leased wire system over which a heavy volume of important communications passes between Federal reserve banks and branches. Member banks are requested to co-operate with us in attempting to avoid over-crowding the leased wires by not making requests for telegraphic transfers of small amounts, or those which can be made as well through the mails.

6. The foregoing regulations relate to the transferring of bank balances over the Federal reserve leased wires. Federal reserve banks will also make transfers of funds for any purpose and any amount over the commercial telegraph wires. Such transfers will be accepted from and paid to member banks only, but may be for the use of any bank, individual, firm, or corporation.

7. The cost of all telegrams between Federal reserve banks transferring funds over the commercial telegraph wires will be **charged** to the member banks for which the transfers are made. Member banks should prepay the cost of telegrams requesting such transfers, and telegrams to member banks advising credit will be sent "collect".

8. The Federal Reserve Bank of \_\_\_\_\_ will use due diligence and care in the transfer of funds by telegraph to the receiving Federal reserve bank for credit to the account of the payee bank, but will not be responsible for errors or delays caused by circumstances beyond its control.

Very truly yours,

J. C. NOELL  
Assistant Secretary.

TO BE SENT TO GOVERNORS OF ALL BANKS.



TREASURY DEPARTMENT  
Office of the Secretary  
WASHINGTON

June 23, 1924.

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 21, 1924, amounting to \$90,428.00, as follows,-

Federal Reserve Notes, 1914.

	<u>\$5</u>	<u>\$10</u>	<u>\$20</u>	<u>\$50</u>	<u>Total</u>
Boston . . . . .	345,000	85,000	56,000	--	486,000
New York . . . . .	361,000	--	--	--	361,000
Philadelphia . . . . .	326,000	200,000	85,000	15,000	626,000
Cleveland . . . . .	50,000	68,000	64,000	15,000	197,000
Atlanta . . . . .	100,000	--	--	--	100,000
Chicago . . . . .	342,000	--	--	--	342,000
Kansas City . . . . .	100,000	--	--	--	100,000
San Francisco . . . . .	134,000	98,000	--	--	232,000
	<u>1,758,000</u>	<u>451,000</u>	<u>205,000</u>	<u>30,000</u>	<u>2,444,000</u>

2,444,000 sheets at \$37.00 per M . . . . . \$90,428.00

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

	<u>Sheets</u>	<u>Compen- sation</u>	<u>Plate Printing</u>	<u>Materials</u>	<u>Inc. Com- pensation</u>	<u>Total</u>
Boston . . . . .	486,000	\$10,206.00	\$2,065.50	\$4,738.50	\$ 972.00	\$17,982.00
New York . . . . .	361,000	7,581.00	1,534.25	3,519.75	722.00	13,357.00
Philadelphia . . . . .	626,000	13,146.00	2,660.50	6,103.50	1,252.00	23,162.00
Cleveland . . . . .	197,000	4,137.00	837.25	1,920.75	394.00	7,289.00
Atlanta . . . . .	100,000	2,100.00	425.00	975.00	200.00	3,700.00
Chicago . . . . .	342,000	7,182.00	1,453.50	3,334.50	684.00	12,654.00
Kansas City . . . . .	100,000	2,100.00	425.00	975.00	200.00	3,700.00
San Francisco . . . . .	232,000	4,872.00	986.00	2,262.00	464.00	8,584.00
	<u>2,444,000</u>	<u>\$51,324.00</u>	<u>10,387.00</u>	<u>\$23,829.00</u>	<u>\$4,888.00</u>	<u>\$90,428.00</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

STATEMENT FOR THE PRESS

X-4101

For Release in Morning Papers  
Friday, June 27, 1924.

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 of basic commodities and factory employment showed unusually large declines in May and were considerably below the level of a year ago. Purchases at wholesale and retail also declined during the month and were somewhat below last year's volume. Commercial loans at member banks decreased and there was a further decline in money rates.

PRODUCTION:

The Federal Reserve Board's index of production in basic industries, adjusted to allow for seasonal variations, declined about 10 per cent in May to a point about 18 per cent below the peak reached a year ago. Particularly marked decreases were shown for production of iron and steel and mill consumption of cotton. Output of anthracite, cement, and tobacco products, on the other hand, was slightly larger than in April. Factory employment declined 4 per cent in May, the number of employees being reduced in almost all reporting industries. The largest reduction of working forces occurred in the textile, metal, automobile, and leather industries. The value of building contracts awarded in May was 13 per cent less than the month before and for the first time since the beginning of the year fell below the corresponding month in 1923.

The Department of Agriculture forecasts as of June 1 indicated smaller yields of wheat, oats, and barley as compared with the harvests of 1923. The condition of the cotton crop on May 25 was 5 per cent lower than a year ago and 7 per cent below the average condition for the past ten years.

TRADE:

Railroad shipments showed a slight increase in May, but were 8 per cent smaller than a year ago. Car loadings of all classes of freight, with the exception of grain and livestock, were smaller than in May 1923.

Wholesale trade decreased slightly in May and was 6 per cent less than in May, 1923. Sales of dry goods, shoes, and hardware were much smaller than a year ago, while drug sales were slightly larger. Retail trade at department stores and mail order houses declined during May more than is usual at that season and was smaller than last year. Department store stocks were 4 per cent smaller in May than in April and 3 per cent larger than a year earlier.

PRICES:

Wholesale prices, as measured by the index of the Bureau of Labor Statistics, declined 1 per cent during May to a level about 8 per cent below the high point reached in the spring of 1923. Prices of all commodity groups, with the exception of food, declined in May. During the first half of June quotations on wheat, corn, rye, and silk increased, while prices of hogs, beef, cotton, and lumber declined.

BANK CREDIT:

Decreased demand for credit for current business requirements

between the middle of May and the middle of June was reflected in a smaller volume of borrowing for commercial purposes at member banks in leading cities. Further purchases of corporate securities by these banks and larger loans on stocks and bonds, however, resulted in an increase for the month in their total loans and investments. There was an unusually large increase in net demand deposits of these banks, which carried the total of these deposits to the highest figure on record.

At the Federal reserve banks between May 21 and June 18 there was a further decline in discounts for member banks and in acceptances purchased in the open market. Government security holdings, on the other hand, increased and total earning assets were somewhat larger than a month ago.

The prevailing ease in the money market was reflected in a further decline from  $4 \frac{1}{4}$  to  $3 \frac{1}{2}$  -  $3 \frac{3}{4}$  per cent in rates on prime commercial paper in New York. The June 15 issue of six-month Treasury certificates bore a rate of  $2 \frac{3}{4}$  per cent, compared with 4 per cent on a similar offering last December.

Discount rates at the Federal reserve banks of Cleveland, Richmond, Atlanta, Chicago, St. Louis, and San Francisco were reduced from  $4 \frac{1}{2}$  to 4 per cent during June, and the rates in Boston, New York, and Philadelphia were reduced to  $3 \frac{1}{2}$  per cent.

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

X-4102

For Immediate Release  
3:30 p. m.

June 25, 1924.

The Federal Reserve Board announces that the Federal Reserve Bank of Philadelphia has established a rediscount rate of  $3\frac{1}{2}\%$  for paper with maturities of over ninety days effective immediately. The Philadelphia Bank recently established a  $3\frac{1}{2}\%$  rate on paper maturing within ninety days.