X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JANUARY 2, 1925.

CHANGES IN STATE BANK MEMBERSHIP:

Admissions:

	Capital	Surplus	Total resources
DISTRICT NO. 1.			
B. M. C. Durfee Trust Co., Fall River, Mass.	$400,000	$400,000	$5,091,713

Closed:

State Bank of New Hampton, New Hampton, Iowa.

Converted Into National Bank:

Farmers Commercial Bank, Benson, North Carolina.

Absorbed by State Member:

Peoples Savings Bank, Grand Rapids, Mich.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

Forest Hill National Bank, Newark, New Jersey.
First National Bank, Bradford, Ohio.
Lincoln National Bank, Cincinnati, Ohio.

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JANUARY 9, 1925.

CHANGES IN STATE BANK MEMBERSHIP:

Admissions:

N O N E

Change of Title:

The Commercial Bank, Trust and Title Co., Miami, Florida, has changed its title to "Commercial Bank & Trust Co."

Voluntary Withdrawals:

Guaranty Bank & Trust Co., Lexington, Ky.
The Kuna State Bank, Kuna, Idaho.

Closed:

Oglethorpe County Bank, Lexington, Ga.
Waterloo Bank & Trust Co., Waterloo, Iowa.

Absorbed by State Member:

Commercial Savings Bank, Grand Rapids, Mich.
(Absorbed by Kent State Bank, Grand Rapids, Mich.)

Converted into National Bank:

The Farmers State Bank, Plano, Texas
(Converted into The Farmers National Bank of Plano, Texas).

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

Adirondack National Bank, Saranac Lake, N. Y.
National Exchange Bank, Wheeling, W. Va.
Murchison National Bank, Wilmington, N. C.
First National Bank of Nelson County, Lovingston, Va.
Holston National Bank, Knoxville, Tenn.

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JANUARY 16, 1925.

CHANGES IN STATE BANK MEMBERSHIP:

Admissions:

N O N E

Closed:

Southern Exchange Bank, Dublin, Georgia.
Citizens Guaranty State Bank, Lufkin, Texas.
Farmers & Merchants Bank, Rexburg, Idaho.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

Northfield National Bank, Northfield, Vermont.
Gadsden National Bank, Gadsden, Alabama.
Kalamazoo National Bank, Kalamazoo, Michigan.

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JANUARY 23, 1925.

CHANGES IN STATE BANK MEMBERSHIP:

Admissions:

N o n e.

Closed:

The Farmers Bank, St. George, South Carolina.
Webster County Trust & Savings Bank, Fort Dodge, Iowa.

Withdrawa:

The Coleman State Bank, Coleman, Oklahoma.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

Citizens National Bank, Mulberry, Indiana.
Harlan National Bank, Harlan, Iowa.
First National Bank, Stewartville, Minnesota.

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JANUARY 30, 1925.

CHANGES IN STATE BANK MEMBERSHIP:

Admissions:

	Capital	Surplus	Total resources
DISTRICT NO. 5.			
The Home Bank, St. Matthews, S. C. (new charter)	$70,000	$20,000	$564,992
DISTRICT NO. 11.			
Texas State Bank & Trust Co., San Antonio, Texas	300,000	30,000	2,684,343

Closed:

Security State Bank, Cooper, Texas.
Bank of Jordan Valley, Jordan Valley, Ore.

Voluntary Withdrawal:

Citizens Bank of Cape Vincent, Cape Vincent, N. Y.

Absorption of Nonmember:

The Auburn State Bank, Auburn, Ill., a member, has absorbed the Farmers State Bank, Auburn, Ill., a nonmember.

Consolidation:

The Home Bank, St. Matthews, S. C., and the Farmers Bank and Trust Co., St. Matthews, S. C., a nonmember, have consolidated under the title of The Home Bank and under a new charter.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

South Side National Bank & Trust Co., Newark, N. J.
Labor Co-operative National Bank of Paterson, N. J.
Farmers and Mechanics National Bank, Phoenixville, Pa.
National Bank of Harrisonburg, Harrisonburg, Va.
Holston National Bank, Knoxville, Tenn.
American National Bank, Hutchinson, Kans.

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED FEBRUARY 6, 1925.

CHANGES IN STATE BANK MEMBERSHIP:

Admissions:

None.

Converted into a National Bank:

Metropolitan Trust Company of the City of New York, New York, N. Y.
Bank of Cartersville, Cartersville, Ga.

Absorption of Nonmember Banks:

The Wapello State Savings Bank, Wapello, Iowa, has absorbed the Citizens State Bank, Wapello, Iowa, a nonmember.

The Bank of Rosalia, Rosalia, Washington, has absorbed the Bank of Plaza, Plaza, Washington, a nonmember.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

Fort Worth National Bank, Fort Worth, Texas (Supplemental)
Metropolitan National Bank & Trust Co. of the City of New York, New York, N. Y.

FEDERAL RESERVE BOARD ANNCUNCEMENT
WEEK ENDED FEBRUARY 13, 1925.

CHANGES IN STATE BANK MEMBERSHIP:

Admissions:

	Capital	Surplus	Total resources
DISTRICT NO. 1.			
Carroll County Trust Co., Conway, N. H.	$75,000	$15,000	$1,209,363
DISTRICT NO. 9.			
Trout Creek State Bank, Trout Creek, Mich.	25,000	-	184,578
DISTRICT NO. 12.			
Multnomah Commercial & Savings Bank, Multnomah, Oregon.	25,000	5,000	120,844

Consolidation:

The Atlantic Exchange Bank and Trust Co., Baltimore, Md., has consolidated with and under the title of the Baltimore Trust Co.

Absorbed by Nonmember:

The Liberty Bank of Baltimore County, Baltimore, Md., is being taken over by the Union Trust Company of Maryland, Baltimore, Md., a nonmember, merger to be effective March 1st.

Absorption of National Bank:

The B. M. C. Durfee Trust Co., Fall River, Mass., has absorbed the First National Bank of Fall River.

Change of Title:

The Montclair Essex Trust Co., Montclair, N. J., to the Montclair Trust Company.

The Guardian Savings & Trust Co., Cleveland, Ohio, to The Guardian Trust Company.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

First National Bank, Houlton, Maine.
The National Bank of Smyrna, Smyrna, Dela.
The Gettysburg National Bank, Gettysburg, Pa.
Second National Bank, Mechanicsburg, Pa.
First National Bank, Columbus, Ohio.
Third National Bank, Dayton, Ohio.
Greenville National Bank, Greenville, Pa.
First National Bank, Portsmouth, Va.
First National Bank, Great Falls, Mont.
Winfield National Bank, Winfield, Kans.

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED FEBRUARY 20, 1925.

CHANGES IN STATE BANK MEMBERSHIP:

Admissions:

None.

Change of Title and Location:

The Stockmens State Bank, Corona, New Mexico, has changed its title to the First State Bank and its location to Estancia, New Mexico.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

Citizens National Bank, Anthony, Kansas.
First National Bank, Perry, New York.
First National Bank, Greenville, Alabama.

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED FEBRUARY 27, 1925.

CHANGES IN STATE BANK MEMBERSHIP:

Admissions:

None.

Reopened:

The Malcom Savings Bank, Malcom, Iowa.

Absorption of National Bank:

The Fidelity Bank and Trust Co., Memphis, Tenn., has taken over the Southern National Bank, Memphis, Tenn.

Change of Location:

The Commercial & Savings Bank Co., Buckeye City, Ohio,- name of location changed to Danville, Ohio.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

Dedham National Bank, Dedham, Mass.
Cedar Falls National Bank, Cedar Falls, Iowa.
First National Bank, Hood River, Oregon.

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED MARCH 6, 1925.

CHANGES IN STATE BANK MEMBERSHIP:

Admissions.

DISTRICT NO. 3.	Capital.	Surplus.	Total Resources.
Central Trust Company, Harrisburg, Pennsylvania,	$400,000	$600,000	$4,527,759

Voluntary withdrawal.

Bank of Emmett, Emmett, Idaho.

Succeeded by National Bank.

Central State Bank of Dallas, Texas, has been succeeded by The Central National Bank in Dallas, Texas.

Merger.

Farmers & Merchants State Bank of Menahga, Minnesota, has been merged with the First National Bank, Menahga, Minnesota.

Closed.

Lockney State Bank, Lockney, Texas.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

None.

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED MARCH 13, 1925.

CHANGES IN STATE BANK MEMBERSHIP:

Admissions:

None.

Converted into National Bank:

Bank of Prineville, Prineville, Oregon.

National Bank absorbed by State Member:

The First National Bank of Arco, Idaho, has been absorbed by the Butte County Bank, Arco, Idaho, a member.

Voluntary Withdrawals:

Citizens Bank of Delavan, Delavan, Wisconsin.
Eldorado County Bank, Placerville, California.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

First National Granite Bank, Augusta, Maine.
Citizens National Bank, Franklin, Indiana.
First National Bank, Jewell Junction, Iowa.
National Bank of Arkansas, Pine Bluff, Ark.
Albany National Bank, Albany, Texas.

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED MARCH 20, 1925.

CHANGES IN STATE BANK MEMBERSHIP:

Admission:

	Capital	Surplus	Total resources
DISTRICT NO. 8.			
Bank of Earle, Earle, Ark.	$25,000	$2,500	$112,233

Change of Title:

The Guaranty State Bank & Trust Co., Waxahachie, Texas, has changed its title to First State Bank and Trust Company.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

Overbrook National Bank, Philadelphia, Penna.

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED MARCH 27, 1925.

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership

N O N E

Voluntary Withdrawal

Bank of Cave Spring, Cave Spring, Ga.

Closed

Commercial Bank of Bertrand, Bertrand, Mo.

Consolidated with State Member

The Guaranty State Bank, Killeen, Texas, has consolidated with and under the title of the First State Bank, Killeen, Texas.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

First National Bank, Malden, Mass.
Manufacturers National Bank, North Attleboro, Mass.
National Bank of Bellows Falls, Bellows Falls, Vt.(Supplemental)
Dubois National Bank, Dubois, Pa. (Supplemental)

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED APRIL 3, 1925.

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership:

	Capital	Surplus	Total resources
DISTRICT NO. 2.			
Longacre Bank, New York, N. Y.	$200,000	$75,108	$2,887,332

Change of Title:

The First Guaranty State Bank, Seymour, Texas, has changed its title to First State Bank.

Absorbed by National Bank:

Farmers & Merchants Bank, Filer, Idaho.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

First National Bank, West Orange, New Jersey.
Massanutten National Bank, Strasburg, Virginia.
First National Bank in Orlando, Orlando, Florida.
First National Bank, Vincennes, Indiana.
Farmers National Bank, Salina , Kansas (Supplemental)
New First National Bank in Oakland, Oakland, California.

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED APRIL 10, 1925.

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership:

	Capital	Surplus	Total resources
DISTRICT NO. 2.			
The Community Trust Company, Middleport, N. Y.	$100,000	$25,000	$362,927
DISTRICT NO. 11.			
Central State Bank, Sherman, Texas	100,000	10,000	516,625

Succeeded by a National Bank:

Farmers & Mechanics State Bank, Childress, Texas.

Converted into a National Bank:

First State Bank, Wills Point, Texas.

Change of Title:

The Chattanooga Savings Bank, Chattanooga, Tennessee, has changed its title to Chattanooga Savings Bank & Trust Co.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

First National Bank, Enosburg Falls, Vermont.
First National Bank, Highland Falls, New York.
First National Bank, Scranton, Pennsylvania.
First National Bank, Dallastown, Pennsylvania.
First National Bank, Seabreeze, Florida.

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED APRIL 17, 1925.

CHANGES IN STATE BANK MEMBERSHIP:

Admissions:

	Capital	Surplus	Total resources
DISTRICT NO. 3.			
Excelsion Trust Co., Philadelphia, Pa.	$300,000	$400,000	$5,572,930

Closed:

American State Bank, Athens, Ga.

Absorbed by Nonmember:

First State Bank, Bay City, Texas.

Converted into National Banks:

Como State Bank, Como, Texas.
Lubbock State Bank, Lubbock, Texas
Security State Bank & Trust Co., Lubbock, Texas.
Farmers State Bank, Olney, Texas.
First State Bank, Sylvester, Texas.

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED APRIL 24, 1925.

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to the System:

N O N E

Consolidated with State Member:

The Yorkville Bank, New York, N. Y., has consolidated with the Manufacturers Trust Co., New York, N. Y., a member.

The Citizens State Bank, Early, Iowa, has consolidated with the State Bank of Early, Early, Iowa, a member.

Converted to National Bank:

The First State Bank, Floydada, Texas.

Closed:

The Citizens State Bank, Gooding, Idaho.

Voluntary Liquidation:

The Yakima Trust Company, Yakima, Washington.

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

The Pacific National Bank, San Francisco, California.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

Peoples National Bank, Waterville, Maine.
Connecticut River National Bank, Charlestown, N. H.
Peoples National Bank, Langhorne, Penna.
Citizens National Bank, Warren, Penna.
Second National Bank, Erie, Penna.
First National Bank, Hagerstown, Md.
Talladega National Bank, Talladega, Ala.
Washington Park National Bank, Chicago, Ill.
New England National Bank and Trust Co., Kansas City, Mo.

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED MAY 1, 1925.

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to the System:

	Capital	Surplus	Total resources
DISTRICT NO. 2.			
Title Guaranty and Trust Co., Plainfield, N. J.	$200,000	$40,000	$326,788
Mount Pleasant Bank, Pleasantville, N. Y.	100,000	100,000	2,685,257
DISTRICT NO. 3.			
Easton Trust Co., Easton, Penna.	250,000	600,000	8,679,831

Change of Title:

The Guaranty State Bank & Trust Co., Gatesville, Texas, has changed its title to "Guaranty Bond Bank & Trust Company".

The First Guaranty State Bank, Mertens, Texas, has changed its title to "First State Bank".

Absorbed by National Bank:

The Farmers Bank, Winder, Ga.

Succeeded by National Bank:

City Guaranty State Bank, Childress, Texas.

Converted into National Bank:

First State Bank, Bonham, Texas.
Mercantile Bank & Trust Co., Dallas, Texas.
First State Bank, Hamlin, Texas.
Farmers State Bank, Italy, Texas.
Kilgore State Bank, Kilgore, Texas.

National Bank absorbed by State Member:

The Citizens National Bank, Longview, Texas, has been absorbed by the Commercial Guaranty State Bank, Longview, Texas, a member.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

Ocean City National Bank, Ocean City, N. J.
Traders National Bank, Kansas City, Mo.

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED MAY 8, 1925.

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to the System:

	Capital	Surplus	Total resources
DISTRICT NO. 3.			
Merchants Banking Trust Co., Mahanoy City, Penna.	$200,000	$212,500	$2,034,681

Change of Title:

The First Guaranty State Bank, Palmer, Texas, has changed its title to First State Bank.

Absorption of National Bank and Change of Title:

The Ohio Banking & Trust Co., Massillon, Ohio, has taken over the Merchants National Bank of Massillon, Ohio, and has changed its title to The Ohio-Merchants Trust Company.

Voluntary Withdrawal:

Farmers & Merchants Bank, Chipley, Ga.

Consolidated with Nonmember:

Wells-Dickey Trust Co., Minneapolis, Minn.

Absorption of State Member:

The Bank of Italy, San Francisco, Calif., a member, has absorbed the San Fernando Valley Savings Bank, San Fernando, Calif., also a member.

Converted into National Bank:

Farmers Guaranty State Bank, Clifton, Texas.
First State Bank, Grand Prairie, Texas.
First State Bank, Reagan, Texas.
First Guaranty State Bank, Valley View, Texas.
First State Bank, West, Texas.

Closed:

Liberty State Bank, Soper, Okla.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

Holyoke National Bank, Holyoke, Mass. (Supplemental)
First National Bank, Ballston Spa, N. Y.
Arcadia National Bank, Newark, N. Y.
Dominion National Bank, Bristol, Va.

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED MAY 15, 1925.

CHANGES IN STATE BANK MEMBERSHIP:

	Admitted to the System: Capital	Surplus	Total resources	Date
DISTRICT NO. 3.				
Port Carbon State Bank, Port Carbon, Penna.	$50,000	$5,000	$439,921	5-13-25

Closed:

City-Commercial Savings Bank, Mason City, Iowa	5-11-25

Converted into National Bank:

Guaranty Bond State Bank, Robstown, Texas	5-12-25
Farmers Guaranty State Bank, Stephenville, Texas	5-13-25
Sudan State Bank, Sudan, Texas	5-11-25
First State Bank, Terrell, Texas	5-14-25

Succeeded by a National Bank:

Josephine State Bank, Josephine, Texas	5-11-25
Moran State Bank, Moran, Texas	5-12-25

Voluntary Withdrawal:

Pender State Bank, Pender, Nebraska	5-11-25

Change of Title:

The Kentucky Title Savings Bank & Trust Co., Louisville, Kentucky, has changed its title to "Kentucky Title Bank and Trust Company".	5- 8-25

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

First National Bank, Carteret, N. J.	5-14-25
Merchants National Bank, Whitehall, N. Y.	5-14-25
First National Bank, Brighton, Colo.	5-14-25
First National Bank, Glenwood Springs, Colo.	5-14-25
Columbia National Bank, Dayton, Washington	5-14-25

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED MAY 22, 1925.

CHANGES IN STATE BANK MEMBERSHIP:

Date

Admitted to the System:

N o n e.

Closed:

Farmers State Bank, Colfax, Ind. 5-21-25

Change of Title:

The Farmers Guaranty State Bank, Clifton, Texas, has changed its title to the Farmers State Bank. 3-26-25

The First Guaranty State Bank, Jacksonville, Texas, has changed its title to First State Bank. 3-10-25

The Bank of Commerce, Sinton, Texas, has changed its title to Commercial State Bank. 4- 7-25

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

Birmingham National Bank, Derby, Conn.	5-21-25
First National Bank, Waukegan, Ill.	5-21-25
Stockyards National Bank, Kansas City, Mo.	5-21-25
Mercantile National Bank in Dallas, Dallas, Tex.	5-21-25

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED MAY 29, 1925.

CHANGES IN STATE BANK MEMBERSHIP: Date

Admitted to Membership:

N o n e.

Change of Title:

The Peoples Guaranty State Bank, Tyler, Texas, has changed its title to Peoples State Bank. 5-25-25

Closed:

The First State Bank, Teague, Texas. 5-23-25

Absorbed by Nonmember:

Carolina Bank & Trust Co., Henderson, N. C. 5-26-25

Absorbed by National Bank:

Citizens State Bank, Valley Mills, Texas. 5-18-25

Converted into National Bank:

Cameron County Bank, La Feria, Texas. 5-23-25
First State Bank, Paducah, Texas. 5-23-25

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

Palmer National Bank, Palmer, Mass. 5-29-25
Community-South Side National Bank,Buffalo,N.Y. 5-27-25
National Bank of Commerce, Williamson, W. Va. 5-29-25
First National Bank, Lexington, Va. 5-29-25
First National Bank, Eldon, Iowa 5-29-25
National Bank of Topeka, Topeka, Kans. 5-22-25

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JUNE 5, 1925.

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership:	Date
N o n e	

Closed:

American Bank of Laurel, Laurel, Mont.	6- 1-25

Converted into National Bank:

The Pacific Bank, New York, N. Y.	6- 2-25
First State Bank, Emhouse, Texas.	6- 4-25
First State Bank, Robstown, Texas.	5-29-25

Voluntary Withdrawals:

Columbia County Bank, Magnolia, Ark.	6- 4-25
Farmers Bank & Trust Co., Magnolia, Ark.	6- 2-25
The Farmers Bank, Star, Idaho	6- 1-25

Change of Title:

The Commercial Guaranty State Bank, Nacogdoches, Texas, to Commercial State Bank.	3-19-25
The Guaranty State Bank & Trust Co., Ralls, Texas, to Security State Bank & Trust Co.	3- 9-25

National Banks Absorbed by State Member:

Fifth National Bank, New York, N. Y. (Absorbed by Manufacturers Trust Co., New York)	5-29-25
The Gotham National Bank, New York, N. Y. (Absorbed by Manufacturers Trust Co., New York)	5-29-25

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

National Mohawk River Bank, Fonda, N. Y.	6- 2-25
Pacific National Bank, New York, N. Y.	6- 2-25
First National Bank, Eldora, Iowa.	6- 2-25

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JUNE 12, 1925.

CHANGES IN STATE BANK MEMBERSHIP:	Date
Closed:	
Farmers State Bank, La Fontaine, Ind.	6- 8-25
Absorbed by National Bank:	
The Grand Avenue Bank, St. Louis, Mo.	5-29-25
Converted into National Bank:	
The First State Bank, Kaufman, Texas	6- 8-25
The First State Bank, Weatherford, Texas	6- 5-25
Standard Bank of Orange County, Fullerton, Cal.	6-10-25

PERMISSION GRANTED TO EXERCISE TRUST POWERS:	
Genesee Valley National Bank, Geneseo, N. Y.	6- 9-25
First National Bank, Pearl River, N. Y.	6- 9-25
Ardmore National Bank & Trust Co., Ardmore, Pa.	6- 8-25
Vineland National Bank, Vineland, N. J.	6- 9-25
First-Citizens National Bank, Dyersburg, Tenn.	6- 9-25
First National Bank, Lincoln, Nebr.	6- 9-25
First National Bank, Pocatello, Idaho.	6- 9-25

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JUNE 19, 1925.

CHANGES IN STATE BANK MEMBERSHIP:

Admitted:

	Capital	Surplus	Total resources	Date
District No. 10.				
Empire Trust Co., St. Joseph, Mo.	$200,000	$40,000	$2,706,843	6-17-25

Voluntary Withdrawal:

The McCurtain County Bank, Broken Bow, Okla. 6-17-25

Absorbed by Nonmember:

The Framers State Bank, Ganado, Texas. 6-16-25

Converted into National Bank:

First State Bank, Lamesa, Texas. 6-15-25
First State Bank, Santa Anna, Texas. 6-15-25

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

The American First National Bank, Findlay, Ohio. 6-16-25

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JUNE 26, 1925.

CHANGES IN STATE BANK MEMBERSHIP:

	Admissions: Capital	Surplus	Total resources	Date
DISTRICT NO. 2.				
American Union Bank, New York, N. Y.	$800,000	$201,108	$8,132,647	6-25-25
DISTRICT NO. 11.				
Farmers Guaranty State Bank, Brady, Texas.	50,000	5,000	152,289	6-24-25

Voluntary Withdrawal:

Flatonia State Bank, Flatonia, Texas. 6-22-25

Change of Title:

The Guaranty State Bank, Rockwall, Texas, has changed its title to Security State Bank of Rockwall. 6-20-25

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

Clarion County National Bank of Edenburg, Knox, Pa.	6-25-25
The National Bank of Snow Hill, Snow Hill, N. C.	6-24-25
First National Bank, Westport, Ind.	6-25-25
First National Bank, Sauk Centre, Minn.	6-25-25

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

X-4234
January 2, 1925.

CONDITION OF ACCEPTANCE MARKET

November 13 to December 10, 1924.

The offerings of new bills, drawn chiefly against grain and cotton, during the four weeks' period ending December 10 were comparatively heavy. Purchases by dealers accordingly increased and exceeded those of the previous period, although they were smaller than during the large agricultural export movements of September and October. The investment demand was insufficient to move these bills at prevailing rates and dealers' rates were raised generally, twice in November and again in December. The purchases of banks both in the financial centers and in the interior declined as compared with the month before. During the period the Federal reserve banks made large purchases of bills from dealers and raised their actual purchase rates. As a result chiefly of these reserve bank purchases, dealers portfolios were considerably reduced, although they showed a moderate increase again toward the end of the period.

Rates in the New York market ranged from 2 3/8 per cent bid and 2 1/4 per cent offered for prime 90-day bills in the first half of November to 3 per cent bid and 2 7/8 per cent offered on and after December 6. Thirty-day maturities were quoted at 2 7/8 per cent bid and 2 3/4 per cent offered on the latter date and 120-day bills at 3 1/4 per cent bid and 3 per cent offered.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4235
January 2,1925

SUBJECT: Decision in Pascagoula Case.

Dear Sir:

There is enclosed herewith for your information a copy of the opinion rendered December 29, 1924, by the United States District Court for the Northern District of Georgia in the case of Pascagoula National Bank v. Federal Reserve Bank of Atlanta, et al.

Very truly yours,

Walter L. Eddy,
Secretary.

Enclosure.

TO GOVERNORS OF ALL F.R.BANKS.

IN THE DISTRICT COURT OF THE UNITED STATES

FOR THE NORTHERN DISTRICT OF GEORGIA.

PASCAGOULA NATIONAL BANK, Plaintiff,	)	
vs.	)	
	)	NO. 295
FEDERAL RESERVE BANK OF ATLANTA, et al, Defendants.	)	IN EQUITY.

The handling of checks between Federal Reserve banks and non-member banks of the reserve system was dealt with in American Trust & Banking Co., v. Federal Reserve Bank of Atlanta, 256 U.S. 350; 262 U.S. 643, and in Farmers & Merchants Bank of Monroe v. Federal Reserve Bank of Richmond, 262 U.S. 649. The present case involves the handling of checks between the Federal Reserve Bank and one of its members under Regulation J of the Federal Reserve Board. That regulation, adopted to execute the collection and clearing house powers granted in Section 13 and Section 16 of the Federal Reserve Act, requires that each Federal Reserve bank shall exercise the function of a clearing house and collect checks on terms and conditions particularly set forth, whose effect, so far as here material, is that such reserve bank will receive at par, checks which can be collected at par, and only such whether they be sent by its own member and affiliated banks, or by, or for the account of, other reserve banks, and whether the checks are drawn on its own member banks or non-member banks, and that the checks sent each reserve bank will be counted as reserve or become available for withdrawal by the bank sending them (subject to final payment) only in accordance with a time schedule based on experience of the average time required to collect checks drawn on the different points.

The observance of this regulation by the Reserve Bank of Atlanta results in a refusal by it to permit the complainant, one of its members, to deduct the previously charged "exchange" or compensation for remitting payment for checks drawn on complainant, and prevents complainant getting immediate credit for checks sent by it to the Reserve Bank when drawn on points at a distance from Atlanta, whereby it loses the use of the credit during the period of delay. The complainant contends, first, that by the provision of Section 16 of the Reserve Act, it is entitled to immediate credit, at par, for checks drawn on any of the depositors in the Reserve Bank of Atlanta, no matter at what distance from Atlanta the drawee may be. Second, that under the Hardwick amendment of Section 13, it has the right to make a charge for remitting payment to the Reserve Bank of Atlanta of checks drawn on itself when these are not the property of the Reserve Bank, but are handled for collection. Third, That under Section 13 the Reserve Bank of Atlanta has no right to have or collect any checks drawn on complainant which come to the Reserve Bank from a source outside of the Sixth Reserve District. Fourth, That if the Reserve Act authorizes this deprivation of complainant's right to charge for remittance, it takes its property without due process of law, contrary to the Constitution. We consider these contentions in order.

1. The provision of Section 16, which is claimed to require the immediate credit of checks is: "Every Federal reserve bank shall receive on deposit at par from member banks or from Federal reserve banks, checks and drafts drawn upon any of its depositors." Complainant, being a member bank, claims immediate credit, at par, for all the checks and drafts on the depositors of the Reserve Bank of Atlanta, who are either member banks of the Sixth Reserve District, the United States or other reserve banks. Regulation J

allows immediate credit for Government checks and vouchers, and for items payable in the city where the reserve bank is located. When payable at a distant point the item is deferred for the number of days indicated on the time schedule, and then credited without any deduction (subject to final payment) whether returns have been actually received or not. Are these latter items "received on deposit at par"? Section 5 of Regulation J states the terms on which checks sent to a reserve bank "for deposit or collection" will be handled, the first being: "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 endorsements". A check so received and handled is really received for collection and not on deposit in the common sense of the word, meaning general deposit in which arises the relation of debtor and creditor, not that of principal and agent. Webster's International Dictionary: "Deposit" In a general deposit the check on indorsement and delivery to the banker becomes at once the property of the banker, who owes the depositor the face of the check, or other agreed sum, and becomes bound to honor the depositor's checks therefor. New York v. Massey, 192 U.S. 138, 145; McGregor, Receiver, v. Battle, 128 Ga. 577. The depositor's only relation to the check, thereafter, is his liability under his indorsement in case of non-payment, a liability usually enforced by "charging the check back" to him. Usually the depositor may check immediately, but this is not of the essence of a general deposit. The parties may agree otherwise, and it is not uncommon in banking practice, where large checks, payable at a distance, are taken at par, to delay availability on the checking account so that the banker may not, by honoring checks in advance of collection,

be lending his money without interest. The inclusion of the time schedule only in the terms upon which the reserve bank will receive deposits would be ordinary prudent banking, considering the enormous volume of the aggregate reserve bank "float", as the mass of checks in transit is called. It may be noted that, by Section 13, non-member clearing banks are required to protect their deposited checks in transit by maintaining a balance sufficient to offset them, which is another way of saying that the checks are not available credits while in transit. It must be remembered also that these deposit accounts of the member banks in the reserve bank, though subject to check, constitute their reserve required under Section 19. By amendment of this Section this reserve must be "an actual net balance." "Net" means that all proper charges and deductions have been made from the account; "actual" excludes what is merely fictitious or supposed. Uncollected checks, though supposed to be drawn against actual, available deposits, may not be, and if so they may nevertheless be defeated of payment by many circumstances, such as death or countermand of the drawer, or offset by the banker upon the drawer's insolvency. An immediate credit of them must be largely on the faith of the depositor's indorsement, but the mere obligation of the member bank is not the actual reserve intended by the law. Moreover, the requirement that the reserve bank itself maintain a reserve in gold or lawful currency of thirty-five per cent of its deposits is involved if the "float" is to be counted as present deposits. The time schedule by which credit is deferred until checks would ordinarily be collected minimizes the chance of accumulated disappointments in collection, and the amount of merely supposed balance in the reserves of members, and seems a very reasonable reconcilation of the requirement

of Section 16, that the checks be received on deposit in the reserve account, with that of Section 19, that the reserves be actual net balances.

The additional stipulation that the reserve bank will act only as agent makes greater difficulty. It probably means that the checks are at first received only for collection; Ward v. Smith, 7 Wal. 447. "Deposits for collection" are spoken of in Section 13, but "on deposit" in Section 16 does not mean for mere collection. Since, however, credit is to be given at the expiration of the period fixed by the time schedule, whether returns from the check have actually been received or not, at that time certainly the agency is to cease and the check is to become and does become the property of the reserve bank and the transaction ripens into a general deposit. The check is then "received on deposit at par," as required by Section 16.

2. The next contention relates to charges not for collecting checks on others, but for remitting to the reserve bank payment of checks drawn on the member bank itself. Section 16 provides: "Nothing herein contained shall be construed as prohibiting a member bank from charging actual expenses incurred in collecting and remitting funds or for exchange sold to its patrons. The Federal Reserve Board shall, by rule, fix the charges to be collected by the member banks from its patrons whose checks are cleared through the Federal Reserve bank and the charge which may be imposed for the service of clearing or collection rendered by the Federal reserve bank." Whether the right established in the first clause quoted, of a member bank to charge actual expenses for collecting and remitting, would include a remittance in payment of checks drawn on it and presented by the reserve bank; or whether the term "its patrons" in the second sentence refers to those sending checks to the reserve bank and implies that all expense of clearance of their

checks is to be charged back to them, are questions that need not be decided. For the later legislation, known as the "Hardwick amendment" of Section 13 is directly applicable and controls. It provides that "nothing in this or any other section of this Act shall be construed as prohibiting member or non-member bank from making reasonable charges, to be determined and regulated by the Federal Reserve Board, but in no case to exceed ten cents per $100 or fraction thereof, based on the total of checks and drafts presented at any one time for collection or payment and remission therefor by exchange or otherwise; but no such charges shall be made against the Federal reserve banks." The complainant argues that the last clause is in the nature of a proviso or exception wholly repugnant to the main enactment preceding it, and therefore void, leaving the grant of the right to make reasonable charges unrestrained by the exception. Or, if the last clause is to be treated as a part of the main enactment equally with what precedes, that the two parts are so inconsistent as to render the whole legislation abortive, and leave Section 16 to control. As pointed out in Farmers & Merchants Bank of Monroe v. Federal Reserve Bank of Richmond, 262 U. S. 649, 666, there is no such repugnance in the Hardwick amendment as to cause either consequence. The right to make the charge is established as to checks sent for collection or payment by other member banks or non-member banks, but it cannot be made against reserve banks. We therefore come to consider the contention that the charge is not made against a reserve bank unless such bank is the lawful owner of the checks dealt with, and that if it is handling them only as the agent of another, for collection, the charge is against the true owner and to be passed back by the reserve bank to that owner. The proceedings of Congress in adopting the amendment show that par clearance through the reserve banks was the issue dealt

with. The intent of the original amendment was to destroy such clearance as a reserve bank policy. The addition of the clause under discussion was made with the intent, and has the effect, to firmly establish it and give to the reserve system and to the public whatever advantage in clearing and collecting checks may follow therefrom, as well as to save the reserve banks from an expense in collecting their own checks. To forbid remittance charges against reserve banks means no more than that remittances to them shall not be diminished by such charges, without any inquiry, if that would be practicable, into the real ownership of the items remitted for. The reserve banks cannot recognize as proper such charges made against them, and in this sense are forbidden to pay them.

3. The contention that the Reserve Bank of Atlanta cannot handle for collection or deposit checks on complainant coming to it from sources outside the Sixth Reserve District is erroneous. The evidence is that the Reserve Bank handles no such checks on its members except those sent it by another reserve bank or by the members of another reserve bank by the latter's authority and for its account. Section 13 declares that any Federal reserve bank may "solely for the purposes of exchange or collection, receive from other reserve banks . . . . checks and drafts payable upon presentation within its district." These other reserve banks may receive from their members and non-members maintaining clearing balances "checks and drafts payable upon presentation" at any place. So checks drawn upon complainant coming to member banks or non-member clearing banks in another reserve district may be sent by them to the reserve bank of their district and by it sent for collection or exchange to the reserve bank of complainant's District without going beyond the permissions of Section 13. A check sent by a member bank by the authority

and for the account of its reserve bank is in effect received from the latter.

4. The result of these provisions of the Reserve Act, so construed is to require a member bank to pay without deduction checks drawn on it when presented by its reserve bank, whether paid over its counter or by the more convenient means of a check on its own deposits elsewhere. This takes none of the property or property rights of complainant without due process of law. Complainant may refuse to pay otherwise than in cash over its counter, according to the common law, as, on the other hand, the reserve bank may insist on that sort of payment. What is lost is the right to agree on a compensation for a more convenient payment by draft on more accessible reserves when both parties are willing so to agree. That the State, having power over the state banker and his business, may regulatehis method of receiving and paying out his deposits, was ruled in Farmers & Merchants Bank of Monroe v. Reserve Bank of Richmond, 262 U. S. 649. A similar power must be recognized in the United States to regulate the banking in the Federal Reserve System. Complainant being a National bank, chartered to do its business under the Federal laws, cannot complain that those laws are not, or do not remain, such as it would prefer. It is not compelled to do anything without compensation. It is simply told that if it does the thing in question it must be done without compensation. Noble State Bank v. Haskell, 219 U. S. 575.

The evidence offered by the defendants as to the actual conduct of their business is pertinent and admissible. The remainder, relating mainly to matters either irrelevent or to be judicially known, is excluded.

Nothing unlawful appearing in any of the acts of the defendants complained of, a decree may be taken dismissing the bill. This December 29,1924.

(signed) Sam H. Sibley
U. S. Judge.

FEDERAL RESERVE BOARD X-4236

STATEMENT FOR THE PRESS

For Immediate Release January 3, 1925.

Reduced demands on the Federal reserve banks for credit accommodation, together with lower interest and discount rates, were responsible for a reduction of $12,400,000 in gross earnings of the Federal reserve banks in the calendar year 1924, as compared with 1923, gross earnings in 1924 amounting to $38,300,000, the lowest figure for any year since 1917. Current expenses, depreciation charges, reserves to cover losses on paper of failed banks, etc., amounted to $34,600,000, as compared with $38,000,000 the year before and net earnings to only $3,700,000 as against $12,700,000 in 1923.

Earnings of two of the reserve banks, Cleveland and Kansas City, were not sufficient to fully cover current expenses, depreciation charges, reserves, etc., or any part of the dividends accrued during the year, and while the earnings of the Federal Reserve Banks of Boston, New York, St.Louis and San Francisco were in excess of current expenses, depreciation charges, reserves, etc., they were not sufficient to meet in full the dividend requirements. The Federal reserve banks named were authorized by the Federal Reserve Board to pay unearned dividends, totalling approximately $2,540,000, out of surplus.

Of the six Federal reserve banks whose earnings were sufficient to cover current expenses, depreciation charges, reserves and dividends, only four had an excess of earnings after such charges. Of these, Philadelphia, Richmond and Dallas transferred all of the remainder of their earnings, aggregating $175,732.79, to surplus account, while the Minneapolis bank transferred

$12,627.39 to surplus account and paid $113,646.58 to the United States Government as a franchise tax, in accordance with Section 7 of the Federal Reserve Act.

Full details as to the disposition of the gross earnings of each Federal reserve bank will appear in the forthcoming Annual Report of the Federal Reserve Board.

X-4237

OFFICERS AND DIRECTORS OF FEDERAL RESERVE BANKS

District No. 1 - Federal Reserve Bank of Boston

(Frederic H. Curtiss, Chairman and Federal Reserve Agent, Allen Hollis Deputy Chairman, W. P. G. Harding, Governor.)

DIRECTOR	RESIDENCE	BUSINESS AFFILIATION	TERM EXPIRES Dec.31
Class A:			
Frederick S. Chamberlain	New Britain, Conn.	V-P.-Cash., New Britain Natl. Bank	1925
Alfred L. Ripley	Boston, Mass.	Pres. Merchants Nat'l Bank	1926
Edward S. Kennard	Rumford, Maine	V-P & Cashier Rumford Nat'l Bank	1927
Class B:			
E. R. Morse	Proctor, Vt.	Treasurer, Vermont Marble Co.	1925
Philip R. Allen	E. Walpole, Mass.	V-P. Bird & Son Inc. Paper Co.	1926
Charles G. Washburn	Worcester, Mass	Director, The Washburn Co.	1927
Class C:			
Chas. H. Manchester	Providence, R.I.	Public Utilities	1925
Frederic H. Curtiss	Boston, Mass		1926
Allen Hollis	Concord, N.H.	Lawyer	1927

District No.2 - Federal Reserve Bank of New York

(Pierre Jay, Chairman and Federal Reserve Agent, Wm. L. Saunders, Deputy Chairman, Benjamin Strong, Governor.)

Class A:			
Gates W. McGarrah	New York, N.Y.	Chrm. Mechanics & Metals Natl. Bk.	1925
R. H. Treman	Ithaca, N.Y.	Pres. Tompkins County Nat'l Bank	1926
Delmer Runkle	Hoosick Falls, N.Y.	Pres. Peoples Nat'l Bank	1927
Class B:			
Owen D. Young	New York, N.Y.	Chrm. General Electric Co.	1925
Theodore F. Whitmarsh	New York, N.Y.	Pres. Francis H. Leggett & Co.	1926
Samuel W. Reyburn	New York, N.Y.	Pres. Lord & Taylor	1927
Class C:			
Pierre Jay	New York, N.Y.		1925
Wm. L. Saunders,	New York, N.Y.	Chrm-Dir. Ingersoll-Rand Co.	1926
Clarence M. Woolley	New York, N.Y.	Chrm. American Radiator Co.	1927

DIRECTOR	RESIDENCE	BUSINESS AFFILIATION	TERM EXPIRES Dec.31
	District No.3 - Federal Reserve Bank of Philadelphia		
(Richard L. Austin, Chairman and Federal Reserve Agent, Chas. C. Harrison, Deputy Chairman, Geo. W. Norris, Governor.)			
Class A:			
John C. Cosgrove	Johnstown, Pa.	Dir. United States Trust Co.	1925
Jos. Wayne, Jr.,	Phildelphia, Pa.	Pres. Girard Nat'l Bank	1926
Francis Douglas	Wilkes-Barre, Pa.	Cashier, First Nat'l Bank	1927
Class B:			
Alba B.Johnson	Philadelphia, Pa.	Chrm.Southwark Foundry & Mach.Co.	1925
Edwin S. Stuart	Philadelphia, Pa.	Merchant	1926
Charles K. Haddon	Philadelphia, Pa.	Merchant,and V-P Lumbermen's Insurance Co.	1927
Class C:			
H. L. Cannon	Bridgeville, Del.	Canner, - Farmer	1925
R. L. Austin	Philadelphia, Pa.		1926
Chas. C. Harrison	Philadelphia, Pa.	Banker	1927
	District No.4 - Federal Reserve Bank of Cleveland		
(D. C. Wills, Chairman and Federal Reserve Agent, Lewis Blair Williams, Deputy Chairman, E. R. Fancher, Governor.)			
Class A:			
Chess Lamberton	Franklin, Pa.	V-P Lamberton Nat'l Bank	1925
Robert Wardrop	Pittsburgh,Pa.	Chrm. First Nat'l Bank	1926
O. N. Sams	Hillsboro, Ohio	Pres. Merchants Nat'l Bank	1927
Class B:			
R. P. Wright	Erie, Pa.	Reed Manufacturing Company	1925
Geo. D. Crabbs	Cincinnati, Ohio	Philip Carey Manufacturing Co.	1926
John Stambaugh	Youngstown, Ohio	Iron and Steel Manufacturer	1927
Class C:			
L. B. Williams	Cleveland, Ohio	Hayden, Miller & Company	1925
D. C. Wills	Cleveland, Ohio		1926
W. W. Knight	Toledo, Ohio	V-P. Bostwick-Braun Co.	1927

DIRECTOR	RESIDENCE	BUSINESS AFFILIATION	TERM EXPIRES Dec.31
District No.5 - Federal Reserve Bank of Richmond (Wm. W. Hoxton, Chairman and Federal Reserve Agent , Frederic A. Delano, Deputy Chairman, George J. Seay, Governor.)			
Class A:			
John F. Bruton	Wilson, N.C.	Pres. First National Bank	1925
L. E. Johnson	Alderson, W.Va.	Pres. First National Bank	1926
Charles F. Rieman	Baltimore, Md.	Pres. Western National Bank	1927
Class B:			
Edwin C. Graham	Washington, D.C.	Pres.Nat'l Elec. Supply Co.	1925
D. R. Coker	Hartsville, S.C.	Merchant and Planter	1926
Edmund Strudwick	Richmond, Va.	Pres.Atlantic Life Insurance Co.	1927
Class C:			
Robert Lassiter	Charlotte,N.C.	Textiles	1925
Wm. W. Hoxton	Richmond, Va.		1926
Frederic A. Delano	Washington,D.C.	Receiver	1927
District No.6 - Federal Reserve Bank of Atlanta (Oscar Newton, Chairman and Federal Reserve Agent, W. H. Kettig, Deputy Chairman, M. B. Wellborn, Governor.)			
Class A:			
T. W. McCoy	Vicksburg, Miss	Pres. Merchants Natl. Bank	1925
P. R. Kittles	Sylvania, Ga.	Pres. The Nat'l Bank of Sylvania	1926
Eugene R. Black	Atlanta, Ga.	Pres. Atlanta Trust Company	1927
Class B:			
W. H. Hartford	Nashville, Tenn.	Hartford Hosiery Mills	1925
Leon C. Simon	New Orleans, La.	Pres. Kohn, Weil & Simon, Inc.	1926
J. A. McCrary	Decatur, Ga.	Contractor & Engineer	1927
Class C:			
W. H. Kettig	Birmingham,Ala.	Southern Rep., Crane Company	1925
Oscar Newton	Atlanta, Ga.		1926
Lindsey Hopkins	Atlanta, Ga.	Investment Banker	1927

DIRECTOR	RESIDENCE	BUSINESS AFFILIATION	TERM EXPIRES Dec.31
District No.7 - Federal Reserve Bank of Chicago (William A. Heath, Chairman and Federal Reserve Agent, James Simpson, Deputy Chairman, James B. McDougal, Governor.)			
Class A:			
Charles H. McNider	Mason City, Ia.	Pres. First National Bank	1925
E. L. Johnson	Waterloo, Ia.	Pres. Leavitt & Johnson Trust Co.	1926
George M. Reynolds	Chicago, Ill.	Chrm. Con.& Com'l Natl.Bank	1927
Class B:			
S. T. Crapo	Detroit, Mich.	Sec.& Treas.Huron Portland Cement Company	1925
Robert Mueller	Decatur, Ill.	Mueller Manufacturing Co.	1926
A. H. Vogel	Milwaukee, Wis.	Pres.Pfister & Vogel Leather Co.	1927
Class C:			
F. C. Ball,	Muncie, Ind.	Pres. Ball Bros. Mfg. Company	1925
James Simpson	Chicago, Ill.	Pres. Marshall Field & Co.	1926
Wm. A. Heath	Chicago, Ill.		1927
District No. 8 - Federal Reserve Bank of St. Louis (William McC.Martin, Chairman and Federal Reserve Agent, John W. Boehne, Deputy Chairman, David C. Biggs, Governor.)			
Class A:			
John C. Martin	Salem, Ill.	Cashier, Salem National Bank	1925
John G. Lonsdale	St. Louis, Mo.	Pres. Nat'l Bank of Commerce	1926
J. C. Utterback	Paducah, Ky.	Pres. City National Bank	1927
Class B:			
W. B. Plunkett	Little Rock, Ark.	Plunkett-Jarrell Grocery Co.	1925
LeRoy Percy	Greenville, Miss.	Attorney at Law	1926
Rolla Wells	St. Louis, Mo.	Pres.Wells Realty & Investment Co.	1927
Class C:			
C. P. J. Mooney	Memphis, Tenn.	Editor "Commercial Appeal"	1925
John W. Boehne	Evansville, Ind.	Retired Capitalist	1926
Wm. McC. Martin	St. Louis, Mo.		1927

DIRECTOR	RESIDENCE	BUSINESS AFFILIATION	TERM EXPIRES Dec.31
District No.9 - Federal Reserve Bank of Minneapolis			
(John R. Mitchell, Chairman and Federal Reserve Agent, Homer P. Clark, Deputy Chairman, R. A. Young, Governor.)			
Class A:			
Theodore Wold	Minneapolis, Minn.	V-P. Northwestern Nat'l Bank	1925
J. C. Bassett	Aberdeen, S.D.	Pres. Aberdeen Nat'l Bank	1926
Wesley C. McDowell	Marion, N.D.	Pres. First National Bank	1927
Class B:			
F. R. Bigelow	St. Paul, Minn.	Insurance	1925
N. B. Holter	Helena, Mont.	Holter & Company, Hardware	1926
F. P. Hixon,	LaCrosse, Wis.	Hixon & Company, Inc.	1927
Class C:			
George W. McCormick	Menominee, Mich.	Gen.Mgr. Menominee Sugar Co.	1925
John R. Mitchell	Minneapolis, Minn		1926
Homer P. Clark	St. Paul, Minn.	Pres. West Publishing Co.	1927
District No.10 - Federal Reserve Bank of Kansas City			
(M. L. McClure, Chairman and Federal Reserve Agent, Heber Hord, Deputy Chairman, W. J. Bailey, Governor.)			
Class A:			
Frank W. Sponable	Paola, Kansas	Pres.Miami County Nat'l Bank	1925
E. E. Mullaney	Hill City, Kans.	Pres. Farmers & Merchants Bank	1926
J. C. Mitchell	Denver, Colo.	Pres. Denver Nat'l Bank	1927
Class B:			
J. M. Bernardin	Kansas City, Mo.	J. M. Bernardin Lumber Co.	1925
Harry W. Gibson	Muskogee, Okla	Retired	1926
Thos. C. Byrne	Omaha, Nebr.	Byrne & Hammer Dry Goods Co.	1927
Class C:			
Fred O. Roof	Denver, Colo.	Mining & Merchandising	1925
M. L. McClure	Kansas City, Mo.		1926
Heber Hord	Central City, Nebr.	Stockman - Farmer	1927

DIRECTOR	RESIDENCE	BUSINESS AFFILIATION	TERM EXPIRES Dec.31
District No.11 - Federal Reserve Bank of Dallas (Lynn P. Talley, Chairman and Federal Reserve Agent, Clarence E. Linz, Deputy Chairman, B. A. McKinney, Governor.)			
Class A:			
W. H. Patrick	Clarendon, Tex.	Pres.First Nat'l Bank	1925
Howell E. Smith	McKinney, Tex.	Pres.First Nat'l Bank	1926
J. H. Frost	San Antonio, Tex.	V-P. Frost Nat'l Bank	1927
Class B:			
Marion Sansom	Fort Worth, Tex.	Livestock Commissioner	1925
J. J. Culbertson	Paris, Tex.	Cotton Oil Mills	1926
Frank Kell	Wichita Falls, Tex.	Pres.& Gen.Mgr.Wichita Falls & Southern Railroad Company	1927
Class C:			
Lynn P. Talley	Dallas, Tex.		1925
Clarence E. Linz	Dallas, Tex	V-P.& Treas. Southland Life Ins.Co.	1926
S. B. Perkins	Dallas, Tex.	Perkins Dry Goods Company	1927
District No.12 - Federal Reserve Bank of San Francisco (John Perrin, Chairman and Federal Reserve Agent, Walton N. Moore, Deputy Chairman, J. U. Calkins, Governor.)			
Class A:			
C. K. McIntosh	San Francisco,Cal.	Pres.The Bank of California, N.A.	1925
J. S. Macdonnell	Pasadena, Cal.	Pres.First Nat'l Bank	1926
Howard Whipple	Turlock, Cal.	Pres.Commercial Bank	1927
Class B:			
E. H. Cox	Madera, Cal.	Pres.Weed Lmbr.Co.of San Fran'sco	1925
A.B.C.Dohrmann	San Francisco,Cal.	Pres.Dohrmann Commercial Co.	1926
Wm. T. Sesnon	San Francisco,Cal.	Farmer	1927
Class C:			
Wm. Sproule	San Francisco,Cal.	Pres.Southern Pacific Co.	1925
John Perrin	San Francisco,Cal.		1926
Walton N. Moore	San Francisco,Cal.	Walton N. Moore Dry Goods Co.	1927

OFFICERS AND DIRECTORS OF FEDERAL RESERVE BRANCH BANKS

District No. 2 - Buffalo Branch of theFederal Reserve Bank of New York (W. W. Schneckenburger, Managing Director.)

DIRECTOR	RESIDENCE	BUSINESS AFFILIATION	TERM EXPIRES Dec. 31
W. W. Schneckenburger	Buffalo, N. Y.		1925
Harry T. Ramsdell	Buffalo, N. Y.	Pres.Mfgrs. & Traders Nat'l Bank	1925
John A. Klcepfer # Chrm.	Buffalo, N. Y.	Pres. Liberty Bank	1925
Wolcott J. Humphrey	Warsaw, N. Y.	Pres. Wyoming County Nat'l Bank	1926
Carlton M. Smith #	Buffalo, N. Y.	Pres. Smith Fassett & Company	1926
Elliott C. McDougal	Buffalo, N. Y.	Pres. Marine Trust Company	1927
Arthur Hough #	Batavia, N. Y.	Pres. Wiard Plow Company	1927

District No. 4 - Cincinnati Branch of the Federal Reserve Bank of Cleveland (L. W. Manning, Managing Director)

L. W. Manning	Cincinnati, Ohio		1925
E. S. Lee	Covington, Ky.	Pres. First Nat'l Bank	1925
Hon.Judson Harmon # Chrm.	Cincinnati, Ohio	Atty., Harmon, Colston, Goldsmith & Hoadly	1925
Chas. W. DuPuis	Cincinnati, Ohio	Pres. Citizens Nat'l Bk. & Tr. Co.	1926
John Omwake #	Cincinnati, Ohio	Pres. U. S. Playing Card Co.	1926
A. Clifford Shinkle	Cincinnati, Ohio	Pres. Fourth & Central Trust Co.	1927
George M. Verity #	Middletown, Ohio	Chrm.American Rolling Mill Co.	1927

District No. 4 - Pittsburgh Branch of the Federal Reserve Bank of Cleveland (George DeCamp, Managing Director)

George DeCamp	Pittsburgh, Pa.		1925
Chas. D. Armstrong	Pittsburgh, Pa.	Chrm. Union Nat'l Bank	1925
Chas. W. Brown # Chrm.	Pittsburgh, Pa.	Pres. Pittsburgh Plate Glass Co.	1925
Joseph R. Eisaman	Greensburg, Pa.	V-P. First National Bank	1926
James D. Callery #	Pittsburgh, Pa.	V-P. Philadelphia Co.(Pittsburgh)	1926
R. B. Mellon	Pittsburgh, Pa.	Pres. Mellon Nat'l Bank	1927
Joseph R. Naylor #	Wheeling, W. Va.	John S. Naylor & Company	1927

District No. 5 - Baltimore Branch of the Federal Reserve Bank of Richmond (Albert H. Dudley, Managing Director)

Albert H. Dudley	Baltimore, Md.		1925
Levi B. Phillips	Cambridge, Md.	Pres. Nat'l Bank of Cambridge	1925
Wm. H. Matthai # Chrm.	Baltimore, Md.	V-P. Nat'l Enameling & Stamping Co.	1925
Carter G. Osburn	Baltimore, Md.	Pres.Farmers & Mer. Nat'l Bank	1926
Edmund P. Cohill #	Hancock, Md.	Pres. & Treas.Tonoloway Orchard Co.	1926
Henry B. Wilcox	Baltimore, Md.	V.Chrm. Merchant's Nat'l Bank	1927
John G. Rouse #	Baltimore, Md.	Pres. Rouse, Hempstone & Co.	1927

District No.6 - New Orleans Branch of the Federal Reserve Bank of Atlanta (Marcus Walker, Managing Director.)

DIRECTOR	RESIDENCE	BUSINESS AFFILIATION	TERM EXPIRES Dec.31
Marcus Walker	New Orleans, La.		1925
J. P. Butler, Jr.,	" " "	Pres.Canal Com'l Tr.& Svgs.Bk.	1925
P. H. Saunders #Chrm.	" " "	V-P.Newman,Saunders & Co.,Inc.	1925
F. W. Foote	Hattiesburg,Miss	Pres.First Nat'l Bank	1926
L. C. Simon #	New Orleans, La.	Pres.Kohn, Weil & Simon, Inc.	1926
R. S. Hecht	" " "	Pres.Hibernia Bank & Tr.Co.	1927
Albert P. Bush #	Mobile, Ala.	Pres.T.G.Bush Grocery Co.	1927

District No.6 - Birmingham Branch of the Federal Reserve Bank of Atlanta (A. E. Walker, Managing Director.)

A. E. Walker,	Birmingham, Ala.		1925
John H. Frye	Birmingham, Ala.	Pres.Traders Nat'l Bank	1925
W. H. Kettig # Chrm.	Birmingham, Ala.	Southern Rep., Crane Company	1925
W. W. Crawford	Birmingham, Ala.	Pres.American Trust & Svgs.Bank	1926
Oscar Wells #	Birmingham, Ala.	Pres.First Nat'l Bank	1926
T. O. Smith	Birmingham, Ala.	Pres.Birmingham Trust & Svgs.Co.	1927
John P. Kohn #	Montgomery, Ala.	Real Estate and Insurance	1927

District No.6 - Jacksonville Branch of the Federal Reserve Bank of Atlanta (George R. DeSaussure, Managing Director.)

George R. DeSaussure	Jacksonville, Fla.		1925
G. G. Ware	Leesburg, Fla.	Pres.First Nat'l Bank	1925
J. C. Cooper # Chrm.	Jacksonville, Fla.	Attorney at Law	1925
Edward W. Lane	Jacksonville, Fla.	Pres.Atlantic Nat'l Bank	1926
Fulton Saussy #	Jacksonville, Fla.	Saussy & Common	1926
C. P. Kendall	Jacksonville, Fla.	V-P.Barnett Nat'l Bank	1927
L. C. Edwards #	Tampa, Fla.	Pres.Florida Citrus Exchange	1927

District No.6 - Nashville Branch of the Federal Reserve Bank of Atlanta (Joel B. Fort, Jr., Managing Director.)

Joel B. Fort, Jr	Nashville, Tenn.		1925
T. A. Embry	Winchester,Tenn.	Pres.Farmers Nat'l Bank	1925
W. H. Hartford # Chrm.	Nashville, Tenn.	Pres.Hartford Hosiery Mills	1925
E. A. Lindsey	Nashville, Tenn.	Pres.Tenn.Hermitage Nat'l Bank	1926
P. M. Davis #	Nashville, Tenn.	V-P American National Bank	1926
J. E. Caldwell	Nashville, Tenn.	Pres.4th & 1st Bank & Trust Co.	1927

1927

District No.7 - Detroit Branch of the Federal Reserve Bank of Chicago (Wm. R. Cation, Managing Director)

DIRECTOR	RESIDENCE	BUSINESS AFFILIATION	TERM EXPIRES Dec.31
Wm. R. Cation	Detroit, Mich.		1925
Julius H. Haass	Detroit, Mich.	Pres.Wayne County & Home Svgs.Bk.	1925
Chas. H. Hodges # Chrm.	Detroit, Mich.	Pres.Detroit Lubricator Co.	1925
John W. Staley	Detroit, Mich.	Pres.Peoples State Bank	1926
N. P. Hull #	Lansing, Mich.	Pres.Grange Life Insurance Co.	1926
George B. Morley	Saginaw, Mich.	Pres.Second Nat'l Bank	1927
Harry H. Bassett #	Flint, Mich.	Pres.Buick Motor Company	1927

District No.8 - Louisville Branch of the Federal Reserve Bank of St. Louis (W. P. Kincheloe, Managing Director)

W. P. Kincheloe	Louisville, Ky.		1925
Attilla Cox	Louisville, Ky.	Attorney	1925
E. L. Swearingen #Chrm.	Louisville, Ky.	Pres.First Nat'l Bank	1925
Eugene E. Hoge	Frankfort, Ky.	Pres.State Nat'l Bank	1926
William Black #	Louisville, Ky.	Pres.B. F. Avery & Sons, Inc.	1926
Max B. Nahm	Bowling Green,Ky.	V-P. Citizens Nat'l Bank	1927
E. H. Wood #	Lucas, Ky.	Farmer & Live Stock Grower	1927

District No.8 - Memphis Branch of the Federal Reserve Bank of St. Louis (V. S. Fuqua, Managing Director)

V. S. Fuqua	Memphis, Tenn		1925
J. W. Vanden	Jackson, Tenn.	Pres.First Nat'l Bank	1925
T. K. Riddick # Chrm.	Memphis, Tenn.	Attorney	1925
Jno. D. McDowell	Memphis, Tenn.	Pres.Fidelity Bank & Trust Co.	1926
S. E. Ragland #	Memphis, Tenn.	Pres.Central-State Nat'l Bank	1926
R. Brinkley Snowden	Memphis, Tenn.	V-P. Bank of Commerce & Trust Co.	1927
E. M. Allen #	Helena, Ark.	Planter & Real Estate	1927

District No.8 - Little Rock Branch of the Federal Reserve Bank of St. Louis (A. F. Bailey, Managing Director)

A. F. Bailey	Little Rock, Ark.		1925
J. E. England, Jr.	Little Rock, Ark.	Pres.England Nat'l Bank	1925
Moorhead Wright # Chrm.	Little Rock, Ark.	Pres.Union Trust Company	1925
Stuart Wilson	Texarkana, Ark.	V-P. State Nat'l Bank	1926
C. S. McCain #	Little Rock, Ark.	Pres. Bankers Trust Company	1926
John M. Davis	Little Rock, Ark.	Pres.Exchange Nat'l Bank	1927
Hamp Williams #	Hot Springs, Ark.	Pres.Hamp Williams Hardware Co.	1927

District No. 9 - Helena Branch of the Federal Reserve Bank of Minneapolis (R. E. Towle, Managing Director.)

DIRECTOR	RESIDENCE	BUSINESS AFFILIATION	TERM EXPIRES Dec. 31
R. E. Towle	Helena, Mont		1925
Lee M. Ford	Great Falls, Mont	Pres. Great Falls Natl. Bank	1925
H. W. Rowley # Chrm.	Billings, Mont.	Pres. Billings Investment Co.	1925
R. O. Kaufman	Helena, Mont.	Dir. Union Bank and Trust Co.	1926
C. J. Kelly #	Butte, Mont.	Hanson Packing Company	1926
T. A. Marlow	Helena, Mont.	Pres. Natl. Bank of Montana	1927
Henry Sieben #	Helena, Mont.	Pres. Sieben Live Stock Co.	1927

District No. 10 - Denver Branch of the Federal Reserve Bank of Kansas City (J. E. Olson, Managing Director.)

J. E. Olson	Denver, Colo.		1925
Harry Farr	Greeley, Colo.	V-P Farr Produce Company	1925
Murdo MacKenzie # Chrm.	Denver, Colo.	The Matador Land & Cattle Co., Ltd.	1925
A. C. Foster	Denver, Colo.	V-P. United States Nat'l Bank	1926
R. H. Davis #	Denver, Colo.	Merchant, Wholesale Drug business	1926
C. C. Parks	Denver, Colo.	V-P. First Nat'l Bank	1927
Wm. L. Petriken #	Denver, Colo.	Pres. Great WesternSugar Co.	1927

District No. 10 - Omaha Branch of the Federal Reserve Bank of Kansas City (L.H.Earhart, Managing Director.)

L. H. Earhart	Omaha, Nebr.		1925
A. H. Marble	Cheyenne, Wyo.	Pres.Stock Growers Nat'l Bank	1925
W. J. Coad # Chrm.	Omaha, Nebr.	Pres. Packers Nat'l Bank	1925
T. L. Davis	Omaha, Nebr.	V-P. First Nat'l Bank	1926
J. E. Miller #	Lincoln, Nebr.	Miller & Paine Department Stores	1926
R. O. Marnell	Nebraska City, Nebr.	Cashier, Merchants Nat'l Bank	1927
A. J. Weaver #	Falls City, Nebr.	V-P. First National Bank	1927

District No. 10 - Oklahoma City Branch of the Federal Reserve Bank of Kansas City (C.E.Daniel,Managing Director.)

C. E. Daniel	Oklahoma City, Okla.		1925
Ned Holman	Guthrie, Okla.	Pres. First Nat'l Bank	1925
E. K. Thurmond # Chrm.	Oklahoma City, Okla.	Banker	1925
Walter Ferguson	Oklahoma City, Okla.	V-P. First Nat'l Bank	1926
Frank Buttram #	Oklahoma City, Okla.	V-P. Liberty Nat'l Bank	1926
William Mee	Oklahoma City, Okla.	Pres. Security Nat'l Bank	1927
W. A. Stuart #	Okmulgee, Okla.	Pres. Fullerton-Stewart Lumber Co.	1927

District No.11 - El Paso Branch of the Federal Reserve Bank of Dallas (Dwight P.Reordan, Managing Director)

DIRECTOR	RESIDENCE	BUSINESS AFFILIATION	TERM EXPIRES Dec.31
Dwight P. Reordan	El Paso, Texas		1925
E. M. Hurd	El Paso, Texas	The H. Lesinsky Company	1925
W. W. Turney # Chrm.	El Paso, Texas	Attorney at Law	1925
E. A. Cahoon	Roswell, N. M.	Pres., First Natl.Bank of Roswell	1926
A. P. Coles #	El Paso, Texas	Investments	1926
George D. Flory	El Paso, Texas	V-P., The State Natl. Bank	1927
H. L. Kokernot #	Alpine, Texas.	Cattleman	1927

District No.11 - Houston Branch of the Federal Reserve Bank of Dallas (Fred Harris, Managing Director)

Fred Harris	Houston, Texas		1925
Guy M. Bryan	Houston, Texas	V-P. Second Nat'l Bank	1925
R. M. Farrar # Chrm.	Houston, Texas	Pres.Farrar Lumber Co.	1925
E. F. Gossett	Houston, Texas	V-P. South Texas Com.Nat'l Bank	1926
J. Cooke Wilson #	Beaumont, Texas	Pres.The Wilson Brcach Company	1926
Fred W. Catterall	Galveston, Texas	Cash.First Natl.Bank of Galveston	1927
E. A. Peden #	Houston, Texas	Pres.Peden Iron and Steel Company	1927

District No.12 - Portland Branch of the Federal Reserve Bank of San Francisco (Frederick Greenwood, Managing Director)

Frederick Greenwood	Portland, Ore.		1925
Edward Cookingham	Portland, Ore.	Pres.Ladd & Tilton Bank	1925
Jos. N. Teal # Chrm.	Portland, Ore.	Teal,Winfree,Johnson & McCullock	1925
J. C. Ainsworth	Portland, Ore.	Pres.United States Nat'l Bank	1926
Nathan Strauss #	Portland, Ore.	Gen.Mgr.,Fleischner,Mayer & Co.	1926
William Pollman	Baker, Ore.	Pres.First Nat'l Bank; & Pres Baker Loan & Trust Company	1927
A. C. Dixon #	Eugene, Ore.	Gen.Mgr.,Booth-Kelly Lumber Co.	1927

District No.12 - Seattle Branch of the Federal Reserve Bank of San Francisco (C. R. Shaw,Managing Director)

C. R. Shaw	Seattle, Wash.		1925
Chas.E.Peabody # Chrm.	Seattle, Wash.	Chrm. Puget Sound Navigation Co.	1925
M. F. Backus	Seattle, Wash.	Pres. National Bank of Commerce	1925
M. A. Arnold	Seattle, Wash.	Pres. First Nat'l Bank	1926
Chas. H. Clarke #	Seattle, Wash.	Pres. Kelly Clarke Company	1926
E. W. Purdy	Bellingham, Wash.	Pres. First Nat'l Bank	1927
Charles E. Gaches #	Mt.Vernon, Wash.	Farmer	1927

District No. 12 - Spokane Branch of the Federal Reserve Bank of San Francisco (W. L. Partner, Managing Director.)

DIRECTOR	RESIDENCE	BUSINESS AFFILIATION	TERM EXPIRES Dec. 31
W. L. Partner	Spokane, Wash.		1925
R. L. Rutter	Spokane, Wash.	Pres. Spokane & Eastern Tr. Co.	1925
Peter McGregor # Chrm.	Hooper, Wash.	Pres. McGregor Land & Livestock Co.	1925
C. E. McBroom	Spokane, Wash.	Pres. Exchange Nat'l Bank	1926
G. I. Toevs #	Spokane, Wash.	V-P. Centennial Mill Company	1926
Charles L. McKenzie	Colfax, Wash.	Retired	1927
E. H. Van Ostrand #	Coeur d'Alene, Ida.	Pres. Craig Mountain Lumber Co., Winchester, Idaho	1927

District No. 12 - Salt Lake City Branch of the Federal Reserve Bank of San Francisco (R.B. Motherwell, Managing Director)

R. B. Motherwell	Salt Lake City, Utah		1925
L. H. Farnsworth	Salt Lake City, Utah	Chrm. Walker Brothers, Bankers	1925
G. G. Wright # Chrm.	Salt Lake City, Utah	Gen. Mgr. Consol'd Wagon & Mach. Co.	1925
Charles H. Barton	Ogden, Utah	Pres. Nat'l Bank of Commerce	1926
Lafayette Hanchett #	Salt Lake City, Utah	Pres. Utah Power & Light Co.	1926
J. S. Bussell	Pocatello, Idaho	Pres. Citizens Bank & Trust Co.	1927
Chapin A. Day #	Ogden, Utah	Pres. Ogden Portland Cement Co.	1927

District No. 12 - Los Angeles Branch of the Federal Reserve Bank of San Francisco (C. J. Shepherd, Managing Director.)

C. J. Shepherd,	Los Angeles, Cal.		1925
Henry M. Robinson	Los Angeles, Cal.	Pres. First Nat'l Bank	1925
Isaac B. Newton # Chrm.	Los Angeles, Cal.	Retired	1925
J. F. Sartori	Los Angeles, Cal.	Pres. Security Trust & Svgs. Bank	1926
W. L. Valentine	Fullerton, Cal.	Pres. Fullerton Oil Co.	1926
F. J. Belcher, Jr.	San Diego, Cal.	Pres. First Nat'l Bank	1927
E. M. Lyon #	Redlands, Cal.	Horticulturist	1927

Appointed by Board

Corrected to April 1, ~~March 15~~, 1925.

FEDERAL RESERVE BOARD

X-4239

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 9, 1925.

SUBJECT: Procedure in Adjustments of Capital Stock Holdings of Member Banks.

Dear Sir:

Referring to Board's letter X-4206 of December 11, 1924, on the subject of "Adjustments in Capital Stock Holdings of Member Banks", several inquiries have been raised regarding procedure, and in order that the practice of all Federal reserve banks may be similar you are advised as follows:

(1) Adjustments are to be made January 1 and July 1 of each year. By this it is meant that beginning with the dates named or as soon thereafter as the reports are available, the office of the Federal Reserve Agent should check the stockholdings of member banks with the capital and surplus figures as shown in reports of condition rendered at or about the close of the preceding six months' period, and request the member banks by letter to file appropriate applications for changes in stock where their holdings do not conform to that required by law and the regulations of the Board, it being understood that in connection with decreases in surplus you will be governed by the special instructions heretofore issued. (See letter X-3874, November 1, 1923). When the applications have been received and verified, they should be listed and forwarded to the Board.

(2) Applications involving a small number of shares which come in voluntarily after the submission of those received as a result of the semi-annual canvass, may be submitted at your convenience, it being suggested that they be permitted to accumulate for a period of say one month.

(3) Applications involved in the following instances should be forwarded to the Board as promptly as possible:

(a) Those for original stock;
(b) Those of liquidating agents or receivers for surrender of stock;
(c) Those resulting from consolidations;
(d) Those involving a considerable amount of stock, occasioned by an increase in capital or surplus, or by a decrease in capital.

What is to be considered a "considerable amount of stock" is left to your discretion, with the suggestion, however, that it would be well to take care of all applications where the change in capital or surplus amounts to $100,000 or more. In cases where the change is less than $100,000 the ratio of the change to the size of the bank, as evidenced by its capital and surplus, should be taken into consideration.

(4) It is of course to be understood that the above arrangement does not involve the certificates of increase and decrease of capital stock which you render periodically upon a form addressed to the Comptroller of the Currency. These should now be made out in duplicate at the close of business June 30 and December 31, and forwarded to the Comptroller of the Currency and to the Board. In this connection it is requested that the certificates be accompanied by a recapitulation in substantially the form herewith.

Very truly yours,

WALTER L. EDDY,
Secretary.

Enclosure:

TO ALL FEDERAL RESERVE AGENTS.

4239-a

RECAPITULATION

State	Previously Allotted	Allotted this period	Surrendered this period	Held at end of period
	--- NATIONAL BANK STOCK ---			
TOTALS:				

---STATE MEMBER BANK STOCK---

TOTALS:				

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4240

January 9, 1925.

SUBJECT: Code Words to be used in Currency Telegrams.

Dear Sir:

The Federal Reserve Board's letter of July 8, 1922, (X-3470), "Code Words to be Used in Currency Telegrams" has been revised and is superseded by this letter. Please amend all code books accordingly.

CLAVICLE: Treasurer, U. S., requested to ship today (name of bank or branch)(amount)(denomination). Please credit Treasurer, U. S., as transfer of funds upon receipt.

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

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

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO CHAIRMEN OF ALL FEDERAL RESERVE BANKS

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4241

January 9, 1925.

SUBJECT: Discontinuance of Complete Par List for July.

Dear Sir:

During the past few years, it has been customary for the Board to publish in January and July a complete par list and a monthly supplement thereto for the remaining months of the year. The suggestion has recently been made that the publication of the complete list for July might be dispensed with, and that a monthly supplement similar in form to that prepared for other months be issued in lieu thereof.

In view of the fact that substantial changes in the par list are gradually becoming less frequent and also that an approximate saving to the System of $2,000 per annum would be effected by the elimination of the complete list for July, it is believed the above proposal merits consideration.

The Board will accordingly appreciate advice from you as to whether or not, in your opinion, adoption of this suggestion will prove practicable.

Yours very truly,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS.

X-4242

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TREASURY DEPARTMENT
Office of the Secretary
WASHINGTON

January 6, 1925.

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, 1924, amounting to $95,403, as follows:

Federal Reserve Notes, 1914.

	$5	$10	$20	Total
Boston	100,000	50,000	50,000	200,000
New York	400,000	---	---	400,000
Philadelphia	100,000	50,000	50,000	200,000
Cleveland	125,000	50,000	50,000	225,000
Richmond	100,000	50,000	25,000	175,000
Atlanta	100,000	---	---	100,000
Chicago	391,000	---	---	391,000
Kansas City	247,000	---	---	247,000
Dallas	100,000	50,000	40,000	190,000
San Francisco	200,000	50,000	100,000	350,000
	1,863,000	300,000	315,000	2,478,000

2,478,000 sheets at $38.50 per M $95,403.00

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

	Sheets	Compensation	Plate Printing	Materials	Total
Boston	200,000	$3,550.00	$1,636.00	$2,514.00	$7,700.00
New York	400,000	7,100.00	3,272.00	5,028.00	15,400.00
Philadelphia	200,000	3,550.00	1,636.00	2,514.00	7,700.00
Cleveland	225,000	3,993.75	1,840.50	2,828.25	8,662.50
Richmond	175,000	3,106.25	1,431.50	2,199.75	6,737.50
Atlanta	100,000	1,775.00	818.00	1,257.00	3,850.00
Chicago	391,000	6,940.25	3,198.38	4,914.87	15,053.50
Kansas City	247,000	4,384.25	2,020.46	3,104.79	9,509.50
Dallas	190,000	3,372.50	1,554.20	2,388.30	7,315.00
San Francisco	350,000	6,212.50	2,863.00	4,399.50	13,475.00
	2,478,000	43,984.50	20,270.04	31 148.46	95,403.00

The Bureau appropriation 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,

Commissioner.

FEDERAL RESERVE BOARD

WASHINGTON

X-4243

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 12,1925

SUBJECT: Bank and Public Relations Work.

Dear Sir:

Reference is made to the Board's letter of December 19, 1924, X-4218, with regard to the Committee report submitted at the recent conference of Federal Reserve Agents on the subject of "Bank and Public Relations Work". The Board's attention has been called to the fact that the conference had in mind, not a concerted effort "to bring before the business men of the country the advantages they are receiving*** from the Federal Reserve System", but "the preparation of definite plans for bringing about a better understanding of the System among the business men".

The Board has, therefore, reconsidered the action reported in its previous letter and has approved the recommendation that a committee of the Agents give consideration to the preparation of such plans.

Very truly yours,

Walter L. Eddy,
Secretary.

TO ALL FEDERAL RESERVE AGENTS.

(C C P Y) X-4244

January 13, 1925.

My dear Senator _____

I have your letter of January 7th enclosing a letter from Mr. _____, regarding the eligibility of notes based on calcium arsenate stored in Federal warehouses for rediscount by Federal reserve banks.

The eligibility of promissory notes for rediscount by Federal reserve banks does not depend upon the existence or character of collateral security; but, under the terms of Section 13 of the Federal Reserve Act it depends upon the question whether or not they are issued or drawn, or the proceeds are used for commercial or agricultural purposes. If, therefore, the notes in question are negotiable in form, have maturities not in excess of those prescribed by the Federal Reserve Act, and arise out of commercial or agricultural transactions or the proceeds are used for commercial or agricultural purposes, they are technically eligible for rediscount at a Federal reserve bank.

If the notes are notes of farmers given in payment for calcium arsenate or any other goods to be used for strictly agricultural purposes, such notes would be eligible for rediscount as agricultural paper with maturities not in excess of nine months.

If, however, such notes are the notes of dealers in calcium arsenate, they could be eligible only as commercial paper with maturities not in excess of 90 days. The storage of calcium arsenate or any other goods by a dealer pending a reasonably prompt sale would be deemed to be a commercial transaction within the meaning of the Federal Reserve Act and notes given to finance the storage would be eligible as commercial paper; but if the storage is for the purpose of withholding calcium arsenate from the market in order to obtain a speculative price it would not be deemed a commercial transaction.

While the eligibility of promissory notes for rediscount from a legal standpoint does not depend at all upon the existence or character of collateral security, you will, of course, understand that the existence of good collateral will make them more desirable from a credit standpoint. The desirability from a credit standpoint of paper offered for rediscount, however, is a matter to be passed upon by the Federal reserve banks in the exercise of their banking discretion rather than by the Federal Reserve Board. If any more definite or specific information is desired, therefore, as to whether these notes will actually be accepted for rediscount when offered to a Federal reserve bank it would be best to take the matter up directly with the Federal reserve bank to which it is contemplated such notes will be offered.

Very truly yours,

(Signed) D. R. Crissinger,
Governor

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4246

January 15,1925.

SUBJECT: Change in Inter-District Time Schedule.

Dear Sir:

By agreement between the Federal Reserve Bank of St. Louis and the Federal Reserve Bank of Kansas City, the following change should be made in the inter-district time schedule:

St. Louis to Omaha - one day

For the time being it has been considered advisable that no change be made in the time schedule on items forwarded by Omaha Branch of the Federal Reserve Bank of Kansas City to the Federal Reserve Bank of St. Louis.

Yours very truly,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS.

IN THE DISTRICT COURT OF THE UNITED STATES

For the District of Oregon.

FEDERAL RESERVE BANK OF SAN FRANCISCO, Plaintiff,
v.
PACIFIC GRAIN COMPANY, Defendant,

E-8658

November 17, 1924.

Albert C. Agnew, of San Francisco, California, and Wood, Montague & Matthiessen, of Portland, Oregon, for plaintiff:

Dolph, Mallory, Simon & Gearin and Edgar Freed, all of Portland, Oregon, for Defendant.

WOLVERTON, District Judge:

At the time of the transactions hereinafter noted, the Federal Reserve Bank of San Francisco (to be, for convenience, called the Bank), was the holder, by indorsement of McCormick & Co., Bankers, of three promissory notes, aggregating $40,000, of which Inter-mountain Milling Company was the maker, bearing date, respectively, February 28, March 7, and March 9, 1921. The Pacific Grain Company, by J. E. MacAlpine, its authorized agent, wrote the Federal Reserve Bank, Salt Lake City, Utah, as follows:

"Salt Lake City, Utah,
June 17th, 1921.

Federal Reserve Bank,
Salt Lake City, Utah.

Gentlemen:

In conformity with arrangements made on all of the outstanding paper of the Inter-mountain Milling Company, held by other banks, we will state to you, that, in consideration of your extending note you hold of $40,000.00 for a period of thirty days from date, we will at the expiration of that time indorse the paper on the understanding that arrangements can be made for a further extension or renewal.

Yours truly,
Pacific Grain Company,
By J. E. MacAlpine, Agt."

The proposition couched in the letter was made in pursuance of previous conversations between the writer and Louis H. Moore, who at the time was the authorized collecting agent of the Bank, that is, the Federal Reserve Bank of San Francisco.

At this time the Grain Company was the owner of seventy per cent of the stock of the Milling Company. The two companies had interlocking directorates; that is to say, three members of the board of directors of the Grain Company, who were owners of qualifying shares in the Milling Company, were also directors of the latter company, and constituted a majority of the board. Hoben was secretary of the Grain Company, and Kennedy of the Milling Company. Draper was president of both concerns. The dealings between the two companies in respect to the transactions relating to the sale of grain out of which the debt in suit arose, that is, the total during the season, amounted to a very large sum of money. Mr. Max Houser was the principal owner of the Grain Company, and Kennedy was his confidential employee, and handled business more or less for the Grain Company.

At about the same date as the proposition by MacAlpine, agent, was made for an indorsement of the Bank's paper, the Grain Company, through Kennedy, procured a renewal of the Milling Company's note with Walker Bros., Bankers, and further endeavored to secure a loan of a large sum on the Milling Company's properties. So it may be said that there was then existing an interrelation between the two companies respecting their business organization and affairs.

In the meantime the Milling Company has gone into the hands of a receiver, through voluntary liquidation, and the Grain Company has presented to the receiver for

payment its claim for a large sum, which claim is being held by the receiver in process of inquiry whether to allow or disallow the same.

The instant suit is one to compel specific performance on the part of the Grain Company, in that it be required to indorse the Bank's paper, and be held to liability thereon, and to restrain it from disposing of its claim against the Milling Company, and for further relief.

The first contention of the defendant is that it has not been shown that the Grain Company had such an interest in the Milling Company as to take the case out of the rule that one corporation cannot indorse paper for another. I am of the view, however, that the application of the rule is obviated under the facts appearing in the foregoing statement.

The next question arising is, as it is pertinently stated by counsel for the defendant, "Did the Pacific Grain Company contract to indorse the notes?" This leads to an examination of the letter, or it might otherwise be termed the proposition or offer, of June 17th. The pertinent context is, "That, in consideration of your extending note you hold of $40,000.00 for a period of thirty days from date, we will at the expiration of that time indorse the paper on the understanding that arrangements can be made for a further extension or renewal."

Let us analyze the paper, as far as is essential. The last clause, namely, "on the understanding," etc., is somewhat ambiguous. If read as a proviso (of which it has some of the earmarks), it would seem to render the proposition clearer, and there is some indication from

evidence aliunde that such was the understanding. More, the collecting agent for the Reserve Bank, had previously had a conference with MacAlpine with respect to the Milling Company's obligations then held by the Bank, and touching which the Bank was desirous of obtaining the indorsement of the Grain Company. The financial condition of the Milling Company was more than likely in the minds of the agents at the time, and the interlocking relations of the two companies were probably understood by both such agents. Further, it appears that about the same time that the proposition was made for indorsement by agent MacAlpine, namely, June 17, 1921, the Grain Company arranged with Walker Bros., Bankers, at Salt Lake City, for a renewal of a note of the Milling Company. These matters of evidence throw some light upon what was meant by the words "further extension or renewal." Evidently "extension" pertained to an act that required the assent of the Bank, while "renewal" is referable to an act that could be performed only by the Milling Company; it being the maker of the notes held by the Bank. So that, read in the light of the evidence, the indorsement was to be made provided "arrangements can be made" for an extension on the part of the Bank, or a renewal on the part of the Milling Company. In either event, if accomplished, the Grain Company was to indorse.

But however it may be, whether we treat the clause as a proviso or adhere to the literal, it is clear that it was contemplated that there should be an accord between the parties pertaining to a further extension or renewal as a condition to the indorsement of the notes by the Grain Company.

The consideration for the proposition was an extension of time for payment of the notes. The notes became due on May 29th, June 5th, and June 7th, respectively, and the Bank was already extending grace when the proposition was made June 17th, and thence continued to refrain from enforcing payment of the obligations. The act of the Bank in thus continuing to refrain from enforcing the obligations was a sufficient consideration on its part for sustaining the proposition.

It is argued that the proposition was never accepted by the Bank, and therefore failed as an agreement between the parties. But the very act which supplied the consideration was also the equivalent of an acceptance of the proposition on the part of the Bank, and it then became an agreement to be fulfilled by the parties according to its terms and conditions. It is quite apparent that the proposition put in writing was but a confirmation of the understanding touching the matter that was previously reached orally.

The question of larger difficulty arises in view of the stipulation for indorsement of the paper. It includes and contemplates an arrangement for further extension or renewal, which involves the element of time, and this, from the very nature of things, is necessarily to be arrived at as a condition to the indorsement. That is to say, a further agreement as to the time the obligations were to run is within the intendment of the stipulation, and that is essentially a prerequisite to the requirement for indorsement.

Further reference to the correspondence of the parties will be helpful. On June 21, 1921, the Grain Company, by J. P. Hoben, Secretary, wrote the Federal Reserve Bank of

Salt Lake City confirming the authority of MacAlpine to sign the letter. On August 8th following, Moore, the collecting agent, addressed to the Grain Company an inquiry touching what action it expected to take respecting the letter of the 17th. On August 12th the Grain Company made reply, addressed to the Salt Lake City Bank, as follows:

> "We have your letter of August 8th, and wish to state that we have been endeavoring to arrive at some definite conclusion regarding the affairs of the Inter-mountain Milling Co. A meeting is to be held next week, and at that time we hope to be able to advise you just what can be done in the matter, but will say at this time that the outlook is not promising."

On September 15th Moore directed a letter to the Grain Company requesting that it fulfill its agreement to indorse the paper, and advising that he was sending it to the Portland Branch Bank, so as to make it available for that purpose. The Branch Bank notified the Grain Company that it had the paper, and sought to know the company's attitude with respect to indorsement of it, and was referred, first to Kennedy, and then to Malpas, chairman of a bankers' committee which at the time had the affairs of the Grain Company in charge, and finally to Houser, who repudiated all authority of any one for writing the letter agreeing to indorse the obligations held by the Bank, and stated that, so far as he felt, there existed no legal or moral obligation on the part of the Grain Company to indorse the paper. This leads to no other result than an absolute repudiation on the part of the Grain Company of all contract or agreement to indorse.

The Bank stood ready at all times to meet the stipulations of the proposition, but without avail. Had

the Grain Company entertained the thought of conferring with the Bank for making an agreement as to the time of extension, and stood willing to agree to a reasonable time in that particular, the Bank would have been required to yield in order to meet the condition of the proposition or offer, whatever it may be called. But the Grain Company having flatly repudiated the proposition, the Bank was under no further obligations to insist upon reaching an agreement as to the time of extension, and its only remedy left was to seek specific performance. The Grain Company could not repudiate its entire obligations and thus rid itself of all attempt to come to an agreement with the Bank respecting the time the paper should run when indorsed. Having repudiated, and thus refused concord with the Bank as to the time of extension, it cannot thereby defeat the right of the Bank to insist upon specific performance.

A Decree will be entered requiring the Grain Company to indorse the notes of the Milling Company; that the Bank recover from the Grain Company the balance due upon such paper according to the terms thereof; that the Grain Company be restrained from disposing of the proceeds of its claim against the Milling Company, as prayed; and that the Bank have its costs and disbursements.

IN THE DISTRICT COURT OF THE UNITED STATES
FOR THE NORTHERN DISTRICT OF GEORGIA.

CAPITAL GRAIN & FEED COMPANY VS. FEDERAL RESERVE BANK OF ATLANTA	NO. 659 AT LAW.

This is an action at law for damages on account of alleged negligence of the Federal Reserve Bank of Atlanta in the handling of a check sent it for collection. Demurrers to the petition and to the answer are for decision.

The petition sets up that petitioners, a partnership doing business under the name Capital Grain & Feed Company, having a deposit of more than $7,500.00 in the Merchants Bank of Montgomery, Alabama, drew their check for that sum, payable to the order of Fifth National Bank of New York, had it certified by the Merchants Bank and sent it to the Fifth National Bank for collection and credit, it being agreed with the latter bank as follows:

> "This bank acts only as collecting agent and assumes no liability on account of delay or loss while items are in transit, or until it receives final actual payments from its correspondents."

The check was forwarded by the Fifth National Bank to the Federal Reserve Bank of New York and by the latter to defendant, who received it on the morning of December 19th, 1922. On the afternoon of the next day the check was sent for payment direct to the drawee, Merchants Bank of Montgomery, which was a member bank of defendant, reaching it on the morning of December 21st. Merchants Bank charged the check to plaintiff's account and sent its draft on the defendant in payment, which was received in Atlanta December 22nd. Though there were funds to the credit of the Merchants

Bank sufficient to pay the draft, it was not paid and proceeds remitted to the New York bank. The following day the Merchants Bank was put in the hands of a receiver, and it is now impossible to collect from it beyond some dividends paid by the receiver, which have reduced the loss to $3,750.00. Negligence is claimed in that defendant knew the weak condition of the Merchants Bank and should not have delayed collecting the check as it did, should not have sent it direct to the drawee but should have presented it for payment in cash over the counter, the Merchants Bank having on hand all during December, 1922, cash sufficient to pay it, and should not have accepted the draft in payment, or having done so, should not have delayed paying the draft until after the failure of the Merchants Bank. Notice of the facts was not given by defendant until the afternoon of December 23rd, and this is also charged as negligence.

1. The first contention urged is that the defendant had no such relations with plaintiffs as to be liable to suit by them, but is answerable only to the forwarding bank. Under the quoted agreement with the Fifth National Bank, that bank did not accept ownership of the check, though it was payable to it, but was to act only as an agent for its collection. Had there been no other stipulation, since the transaction was in the course of banking business done in New York, what is termed"the New York rule" would have applied, by which it would be held that the Fifth National Bank had undertaken to make the ultimate collection, furnish-

ing the necessary agencies and means therefor and not merely to procure for the plaintiffs other agents to make it. Exchange National Bank v. Third National Bank, 112 U. S. 276. The result would be that the correspondent banks to which the check was forwarded would be the agents of the Fifth National Bank and not of plaintiffs, and for non-feasance, at least, would not be accountable to plaintiffs, as they would be if their agents. The plaintiffs would be entitled to hold the Fifth National Bank, and it alone, responsible. But the New York rule is, after all, only a presumption of law as to what the parties to such a transaction intended to agree to. It may be altered or abrogated by statute, or departed from by mere agreement otherwise. Federal Reserve Bank of Richmond v. Malloy, et al., 264 U. S. 160/. In that case the deposit for collection was made in Florida where the legislature had enacted that "When a bank receives for collection any check . . . and forwards the same for collection as herein provided (i.e. without delay, in usual commercial way in use according to the regular course of business of banks), 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." This statute was held to enter into the contract of deposit for collection, and since the effect of it was to relieve the receiving bank from liability for the defaults of its correspondents, they were held to be intended not to be agents of the receiving bank and answerable only to it, but of the

owner of the check and answerable to him. Otherwise the owner would be wholly without remedy on the one hand and on the other a principal would have escaped responsibility for the negligence of its own agents, and those agents have escaped responsibility to any person. In the present case the agreement is that the receiving bank "assumes no liability on account of delay or loss while items are in transit or until it receives final actual payments from its correspondents. The substance of this agreement is exactly the same as the Florida statute and must be held to have the same consequences. Each correspondent is the agent of plaintiffs and answerable to them for its conduct. The plaintiffs may therefore sue the defendant for its negligence.

2. While the relationship between plaintiffs and the collecting bank is controlled by the law and the contract at the place of deposit, as has just been ruled, the duty of the correspondent bank is primarily regulated by the law and the customs of banking at the place where it does its business, and may be affected likewise by special instructions given it or agreements made. When the Fifth National Bank, through the Federal Reserve Bank of New York, procured the Federal Reserve Bank of Atlanta to act for plaintiffs in collecting this check, the parties must have expected the thing to be done according to the law and customs applying in Atlanta and Montgomery. While the original rule of law was that a check ought not properly to be sent for payment

direct to the drawee bank. Reserve Bank v. Malloy, supra., yet in both Georgia and Alabama there are closely similar statutes enacting that checks drawn on a bank in another city within or without the state may be sent for payment by a collecting bank direct to the drawee bank without incurring liability; "Provided, however, such forwarding bank shall have used due diligence in other respects in connection with the collection of such instrument." See Georgia Acts 1919, page 207 Sec. 36; Alabama Acts 1919, page 856, Sec. 1. Under this legislation the mere sending the check to the drawee for payment is not negligence and the collecting bank is not rendered liable for consequences which were not reasonably to be foreseen by it. If, however, the drawee bank is known to the collecting bank to be in a failing condition, as is alleged here, and liable at any time to suspend payments, due diligence may require some extra effort at collection to be made. Whether such was the case here and what due diligence would have required to be done under the circumstances, are questions of fact to be determined by a jury. Ordinarily a forwarding for presentment on the day after receipt of a check is considered sufficient diligence. 5. Cyc. 532; Comer v. Dufore, 95 Ga. 376, but here again notice of special circumstances might be considered by the jury to require greater haste.

3. The general rule of law is that a collecting bank which accepts in payment of the check to be collected the draft of the drawee on another bank takes the risk of the

draft being paid, Reserve Bank v. Malloy, supra. The defendant here, while it did not pay the draft on it sent by the Montgomery bank, did not return it and demand the check back, but let matters stand, so that it may be found to have accepted it. But it is contended that no harm was done thereby, because the Alabama bank had the right, under the Alabama statute approved September 30th, 1920, to tender the draft in payment. The material part of this statute is:

> "Whenever a check or checks are forwarded or presented to a bank for payment by any Federal Reserve bank, express company or post office employee, other bank, banker, trust company or by any agent or agents thereof, or through any other agency or individual, the paying bank or remitting bank may pay or remit the same at its option either in money or in exchange drawn on its reserve agent or agents in the city of New York or in any reserve city within the Sixth Federal Reserve District."

This Act is said to be unconstitutional in that thereby the state of Alabama has made something else than gold and silver coin tenderable in payment of the debts of the Merchants Bank to its depositors. The holder of an uncertified check has no debt against the bank; First National Bank v. Whitman, 94 U. S. 343. Where, however, the bank has certified the check for the drawer, as was done here, a direct and primary obligation arises on the part of the bank to pay it; Merchants Bank v. State Bank, 10 Wal. 604, at p. 647, 648. It may well be, however, that the payment due on the certified check is only in such medium and at such time and place as would have been proper had the check not been certified. So it becomes necessary to examine the application of this statute to or-

dinary checks. In Thompson v. Riggs, 5 Wal. 663, where the point at issue was the proper medium of payment, it was said:

> "Where the deposit is general and there is no special agreement proved, the title to the money deposited, of whatever kind, passes to the bank and the bank becomes liable for the amount as for a debt which can only be discharged by such money as is by law a lawful tender."

In Farmers Bank v. Federal Reserve Bank of Richmond, 262 U. S.649, a statute of North Carolina, which gave the bank the right to pay its check by another check, except where the depositor, in drawing his check, specified that it should be payable in money, was good, because it did not deprive the depositor of the right to collect his debt in money but simply made his failure to specify that mode of payment a consent to the payment by check. The statute here goes much further and is fundamentally different. It offers no basis of permitted consent in the payment of a particular check and could involve the consent of the depositor only by supposing that in making his deposit with such a law on the statute books he consented thereto. But the statute does not pretend to regulate the terms on which deposits in banks in Alabama shall be made. It baldly enacts an option of payment of them whereby the bank may have an absolute choice of paying in cash or by check. This is, on its face, a plain effort to make a debt by general deposit dischargeable by something else than gold or silver coin or

other medium fixed by the constitutional Federal authority. The depositor so far from being presumed to consent thereto, should rather be presumed to have treated the law as void and without effect on his rights. Had the act merely made the place of payment optional and authorized the drawee to refer the holder of the check to its reserve cities for payment, or if the check to be given on the reserve city were made only tentative and to be payment when itself paid in legal money, the case would have been different. It is true that a check, as between the parties giving and receiving it, is ordinarily not payment until itself paid, unless expressly taken as payment, but in the case of a commercial check presented and paid by another check, the first check is taken up and marked "paid" and charged to the drawer, and he and all prior endorsers are discharged. There is no dishonor and protest or other means taken to hold them liable. The second check is thus, by force of commercial custom, necessarily payment. And this statute so declares. Moreover, the statute is so broad as to appear to apply also to the second check given in payment of the first, if on an Alabama bank. So that it, when presented, might itself be paid by another check and so no money ever be collectible in Alabama, or any other state where a similar law should be enacted. The statute, as written, is an effort by a state to make a class of debts payable at the option of the debtor in something else than gold and silver coin, and is void. It affords no reason why the defendant here should not have

demanded money in payment of the check in its hands for collection.

4. It is also contended that the Reserve Board regulation J, Series 1920, sub-section 8, which was in force at this time, authorized the sending of this check direct to the drawee, and the remittance back by draft. This regulation, I think, is not such a Departmental action as will be judicially noticed without pleading, as a statute would be. Its provisions, not appearing in the petition, cannot be considered on a demurrer thereto.

5. Furthermore, the petition alleges that the draft which the Merchants Bank sent to defendant was good and that defendant neglected to pay it and remit the proceeds promptly and that the loss really resulted from that neglect. If that be the truth, plaintiffs have a cause of action for this conduct independently of all else.

6. The demurrers to the petition will therefore be overruled, except those to paragraphs 15 and 16, touching the failure to give notice to the drawer of the situation. It affirmatively appears that nothing was unpaid except the draft made by Merchants Bank on defendant. The drawer was no party to it and not to be notified of its dishonor. Moreover, notice of its non-payment, if it were bad, could have been given only twenty-four hours before the receivership, and plaintiff could have made no collection without procuring and surrendering this draft. The damage, if any was done, was not due to want of notice, nor avoidable by no-

tice, but to the other matters discussed above. The plaintiffs 77
case must stand or fall on these. Paragraphs 15 and 16 will be stricken.

7. The answer is not demurrable as a whole. Its denials put the plaintiffs on proof of many of their allegations. It sets up that the draft sent the defendant in payment could not be paid when received because in excess of available balance on hand to the credit of the Merchants Bank, but that items in course of collection for it when available would have rendered the draft good. A jury might conclude that the defendant acted prudently in holding the draft to await these collections instead of sending it back to Montgomery.

8. The general reference in paragraph 17 of the answer to the rules and regulations of the Federal Reserve Board and to business usages and customs adds nothing to the defense. These are not to be judicially noticed, but must be pleaded and proved in order to be available. On the other hand, the general reference to the statutes of Georgia and Alabama is unnecessary but unobjectionable, such public laws of either state as are applicable and valid being judicially noticed and applied without pleading or proof.

9. Paragraph 20 of the answer is defective as pleaded. If the rules and regulations of the Reserve bank referred to were sufficiently pleaded, the knowledge of them on the part of the plaintiffs would be material. Their knowledge of the statutes involved is not material, for all per-

sons are bound to know the statutes binding on banks with which they deal. The contention that plaintiffs knew of the pending insolvency and failure of the Merchants Bank and if they had succeeded in withdrawing their deposits it would have been a preference of them, void under the Alabama law, seems to state a matter of defense. The failure of the defendant to secure a collection the benefit of which the plaintiffs could not retain, would not be a damage to them, it appearing that they have received equal treatment with other creditors by the receiver. The allegation that one of the plaintiffs, being a director of the Merchants Bank, ought to have known of its condition, is irrelevant and stricken. Such obligation would not in this case be the equivalent of actual knowledge. This portion of the defense is retained, though meagerly pleaded, for further investigation of the law and facts that may be applicable thereto.

Judgment may be taken upon the demurrers in accordance with this opinion.

This 8th day of January, 1925.

Sam'l H. Sibley,

U. S. Judge.

The McFadden bill as it passed in the House of Representatives sets up a new and more restrictive definition of eligibility for membership in the Federal Reserve System. It would make ineligible for membership all non-member banks operating branches outside the home city in States which now permit such branches by "law or regulation". These States and the number of banks which would be made ineligible except on the condition of giving up their outside branches are:

Arizona	4
Alabama	4
Arkansas	2
California	50
Delaware	4
Florida	1
Georgia	10
Indiana	1
Louisiana	21
Maryland	15
Maine	20
Michigan	3
Massachusetts	6
Mississippi	8
North Carolina	34
New Jersey	4
Ohio	8
Pennsylvania	9
South Carolina	4
Rhode Island	2
Tennessee	14
Virginia	18
Washington	3
Total	245

Several of these States, including Alabama, Arkansas, Florida, Indiana, New Jersey and Washington do not now permit the establishment of branches, and some others do not permit new branches beyond city limits. In Pennsylvania recent branches are of limited power.

X-4252
Jan. 23, 1925

The Federal Reserve Board

Mr. Wyatt, General Counsel.

Analysis and Criticism of McFadden Bill in the form in which it passed the House.

C O N F I D E N T I A L .

At a special meeting of the Board on the afternoon of Tuesday, January 20, the Board considered a telephonic request from Senator Glass for an analysis of the McFadden Bill in the form in which it passed the House of Representatives, and the following motion was carried:

> "Mr. Platt moved that Counsel prepare for submission to the Board an analysis and criticism of the McFadden Bill, both as to form and policy, omitting the branch banking provisions."

In the following memorandum I shall endeavor faithfully to comply with this request and to give a full and frank expression of my own views with regard to this bill. I understand that the Board does not desire me to attempt to prepare a statement of what I understand to be, or think ought to be, the Board's views, but rather a frank statement of my own personal views for the information of the Board, with the understanding that they will not necessarily be adopted as the Board's views and will not be communicated to Congress unless they are so adopted.

Any analysis of a bill such as this necessarily contains the writer's views as to what will be its legal effect, but I wish to make it clear that certain provisions of this bill are so ambiguous that it is impossible for me at this time to render a final and thoroughly considered opinion as to their legal effect. I can only discuss it on the basis of what I think the effect will be if the bill is passed in its present form.

I shall discuss each section of the bill in order.

SEC. 1. CONSOLIDATION OF STATE BANK WITH NATIONAL BANK.

Section 1 amends the Act of November 7, 1918, which provides for the consolidation of national banks, by adding a new paragraph to provide for the direct consolidation of a State bank with a national bank. Under the present law, whenever it is desired to consolidate a State bank with a national bank it is necessary first to convert the State bank into a national bank and then consolidate the two national banks; and this amendment is designed to obviate the extra step of first converting the State bank into a national bank. This simplification of the procedure would seem to be very desirable. The new section follows the general lines of the present provision of the law governing the consolidation of national banks and contains ample provision for safeguarding the rights of the minority stockholders. It also forbids the consolidated association from retaining any branches which may have been established beyond the corporate limits of the place in which it is located, or which may have been established within the corporate limits of such place subsequent to the enactment of this bill if the State laws did not permit the establishment of branches at the time of the enactment of the bill.

SEC. 2. CHARTERS OF NATIONAL BANKS.

This section amends Section 5136 of the Revised Statutes so as to provide perpetual or indeterminate charters for national banks in lieu of the present ninety-nine year charters. It is designed primarily to enable national banks to compete for trust business on more even terms, and is very important and desirable. It provides that each national bank shall have succession until:

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(a) It is voluntarily dissolved by the stockholders;

(b) Its franchise is forfeited for violation of law;

(c) It is terminated by either a general or special Act of Congress; or

(d) It is placed in the hands of a receiver and finally liquidated by him.

SEC. 3. REAL ESTATE FOR BANKING HOUSES.

Section 3 amends Section 5137 of the Revised Statutes so as to permit a national bank to own such real estate as shall be necessary for its accommodation in the transaction of its business instead of only such as shall be necessary for its immediate accommodation in the transaction of its business as provided by the present law. It simply strikes out the word "immediate" from this section. This is intended merely to serve the convenience of national banks which desire to purchase lots upon which to construct banking houses in the future. Under the present law, as it has been construed by the Comptroller, a national bank cannot purchase such a lot unless it intends to build immediately, and this has been found to be somewhat inconvenient. I see no objection to this amendment.

SEC. 4. CAPITAL STOCK OF NATIONAL BANKS IN OUTLYING DISTRICTS.

This section amends Section 5138 of the Revised Statutes so as to permit the organization of national banks with a capital of $100,000 in the outlying districts of cities with a population in excess of 50,000 inhabitants, whereas under the present law a capital of $200,000 is required. In the light of the present tendency of local business centers to grow up in

the outlying districts of large cities, this would seem to be a desirable provision. It is unfortunate, however, that in revising this section the language was not simplified and clarified. The language of the present section is quite involved, due to the fact that it has been amended from time to time by the addition of provisos, and it could very easily be simplified by the use of more direct language. No attempt is made to simplify it, and the amendment is tacked on at the end as an additional exception, thus further complicating it.

SEC. 5. STOCK DIVIDENDS.

This amends Section 5142 of the Revised Statutes which relates to the increase of capital stock by national banks so as to simplify somewhat the terms of that section and to add a provision authorizing national banks to increase their capital stock by the declaration of stock dividends from accumulated surplus. This would seem to be very desirable, since it would encourage banks to increase their capital stock, thus increasing the double liability of the shareholders and providing additional protection for the depositors.

SEC. 6. CHAIRMAN OF THE BOARD.

This section amends Section 5150 of the Revised Statutes so as to provide that the president of the bank shall be chairman of the board of directors unless the directors designate some other director in lieu of president to act as chairman of the board. This seems to be quite unimportant and probably could be covered by a provision in the bank's by-laws, but I see no objection to it.

SEC. 7. CONVERSION OF STATE BANKS WITH BRANCHES.

This amends Section 5155 of the Revised Statutes which authorizes State

banks converting into national banks to retain in operation any branches which they may have established prior to such conversion. It is amended in the following respects:

1. The present requirements of the law that the capital of such State banks must be joint and assigned to and used by the mother bank and branches in definite proportions and that the amount of circulating notes redeemable at the parent bank in each branch shall be regulated by the amount of capital assigned to and used by each, are eliminated:

2. A proviso is added prohibiting any State bank having branches in operation outside of the corporate limits of the place in which it is located to retain any such branches after conversion except foreign branches; and

3. A further proviso is added expressly permitting banks which have been converted from State banks into national banks prior to the enactment of this bill to retain any branches, either within or without the city of the home office, but prohibiting any such bank to retain in operation any branch, wherever located, which may have been established subsequent to the enactment of this bill in any State which did not by law or regulation at the time of the approval of the bill permit State banks or trust companies to have branches.

SEC. 8. BRANCHES OF NATIONAL BANKS.

This section pertains primarily to the establishment of branches by national banks and will not be discussed, in view of the Board's wishes in the matter. It may be remarked, however, that this section is very complicated and not at all free from ambiguities.

SEC. 9. BRANCHES OF STATE MEMBER BANKS

This section amends Section 9 of the Federal Reserve Act so as to regulate the establishment of branches by State member banks of the Federal Reserve System. I shall not discuss it, therefore, except to call attention to the fact that it contains a complete regulation on this subject and expressly provides that the establishment of any branch by a member bank shall not require the approval of the Federal Reserve Board. It is also very complicated and contains a number of ambiguities.

SEC. 10. LIMITATIONS ON LOANS BY NATIONAL BANKS TO SINGLE BORROWERS.

Section 10 of the Bill is intended to revise Section 5200 of the Revised Statutes in such a way as to clarify and liberalize its provisions. In my opinion, however, it does not clarify it but makes it more ambiguous and complicated than ever before, and some of the amendments are entirely too liberal in enlarging the amounts which a national bank may lend to a single customer.

General discussion.

The basic idea of Section 5200 is that no bank should lend to any one customer an amount exceeding one-tenth of its own capital and surplus, and this principle has long been recognized by the enlightened members of the banking fraternity as one of the wisest and soundest principles of the National Bank Act. It is based on the old adage that one should not put all of his eggs in the same basket, and is intended primarily to avoid two evils: (a) That of making the solvency of a bank depend too largely upon the solvency of a single large borrower or a small group of borrowers, and (b) that of permitting a few large borrowers to absorb too large a proportion of the lending power of the bank to the detriment of other customers.

Prior to the amendment of October 22, 1919, there were but two exceptions to the basic 10% limitation. The discount of (a) "bills of exchange drawn in good faith against actually existing values", and (b) "business paper actually owned by the person negotiating the same" were excepted altogether from this limitation.

The amendment of October 22, 1919, which was intended to meet the needs of agriculture for broader credit facilities, added a number of other exceptions and materially broadened the amounts of certain kinds of loans and discounts which might be made for a single customer. (See F.R.Bulletin

for November, 1919, p. 1055.) Many persons considered that amendment unsound; and every time a proposal has come forward to further liberalize the limitations of Section 5200 the Federal Reserve Board has disapproved such proposals and expressed the view that the limitations on loans which national banks might make to single borrowers had been broadened about as far as could be done with safety by the amendment of October 22, 1919. (See letter, Acting Governor Platt to Senator McLean, February 16, 1923.)

I concur in this view and fear that any further liberalization of the limitations of Section 5200 will do more harm than good by permitting excessive loans to single borrowers, which may impair the ability of the banks to care for the needs of other borrowers and also endanger the safety of the banks themselves. The proposal to liberalize further this limitation grows out of a desire to enable national banks to meet the competition of State banks which operate under looser and less sound laws; but it has been argued with much force that the best competitive advantage enjoyed by national banks is the prestige which they enjoy due to their generally sound condition and high standard of banking. Any lowering of these standards to meet the competition of unsound State banking may do them more harm than good.

Section 5200 has always been somewhat ambiguous and difficult to apply in certain cases, and the amendment of October 22, 1919, made it quite complicated. Even as so amended, however, it has been thoroughly construed and is quite generally understood by the banking fraternity. If it is to be clarified, therefore, as many as possible of its present terms should be retained and the clarification should be accomplished through a simpler arrangement and the use of more direct language. I believe that the best way to clarify it would be to rewrite it in the form of a tabular statement along the lines of the analysis printed on page 1055 of the November, 1919, Bulletin.

The proposed revision contained in the McFadden Bill proceeds on a somewhat different theory, however. The subject is approached from a new angle and new terms are employed which have never been construed and have no well defined meaning in either legal or banking circles. The result is that it is quite ambiguous and I think it will be extremely difficult to construe and apply. Furthermore, its provisions are in some respects even more complicated than those of the present Section 5200.

In justice to Mr. Collins, Deputy Comptroller of the Currency, I wish to say that I am informed that he did not write this section of the McFadden Bill, as is generally supposed.

I shall now endeavor to analyze and comment on the proposed new Section 5200 in some detail; but before doing so I wish to put the Board on notice that I cannot at this time attempt to express a final opinion as to what many of its provisions mean or what their legal effect will be. I can only say what I think they mean and what I think their legal effect will be. Their exact meaning and effect can be known only after they have been construed and applied in practice and in the light of concrete problems which will arise in the future.

The Basic Limitation:

The present law limits "The total liabilities to any association or any person or of any company, corporation, or firm for money borrowed, including in the liabilities of a company or firm the liabilities of the several members thereof", which has been generally held to mean the direct liabilities of the actual borrowers. The proposed revision would limit "The total obligations to any national banking association of any person, copartnership, association, or corporation," and the new term "obligation", around which the

entire section revolves, is defined to mean "the direct liability of the maker or acceptor of paper discounted with or sold to such association and the liability of the endorser, drawer, or guarantor who obtains a loan from or discounts paper with or sells paper under his guaranty to such association and shall include in the case of obligations of a copartnership or association the obligations of the several members thereof." This can be understood and may be clear enough, in spite of the introduction of the new term "obligations"; but, instead of liberalizing the law, it makes the basic limitation much stricter than that contained in the old law by making it apply to secondary liabilities as endorser, drawer, or guarantor, as well as to direct liabilities as maker or acceptor. This effect is largely nullified, however, by the fact that the new section, like the old section, excepts entirely from the basic limitation the discount of commercial or business paper actually owned by the person, company, corporation, or firm negotiating the same.

The new section, like the old section, makes the basic limitation 10% of the bank's capital and surplus and contains numerous exceptions to this limitation. Unlike the old section, however, these exceptions are not in the form of provisos but are set out in separate paragraphs numbered from 1 to 9, which is a distinct improvement and would greatly clarify the law if the exceptions were all clear and simple.

I shall take up each of these exceptions in order:

Exception No. 1.

"Obligations in the form of drafts or bills of exchange drawn in good faith against actually existing values" are entirely excepted from the limitation and those of a single borrower may be discounted in any amount. This is substantially the same as the present law.

Exception No. 2.

"Obligations arising out of the discount of commercial or business paper actually owned by the person, copartnership, association or corporation negotiating the same" are likewise excepted altogether from the limitation. This is substantially the same as the present law.

Exception No. 3.

"Obligations drawn in good faith against actually existing values and secured by goods or commodities in process of shipment" are wholly excepted from the limitation. This is the same as the first exception except that (a) it applies to all "obligations" and, therefore, would seem to apply to notes as well as to drafts and bills of exchange,

and (b) such obligations must be secured by goods or commodities in process of shipment.

The expression "drawn in good faith against actually existing values", however, is entirely inappropriate as applied to notes and for that reason it could be argued that this exception is not intended to apply to notes. Yet if it should be construed to apply only to drafts and bills of exchange it would cover nothing that is not fully covered by the first exception and, therefore, would have no effect. I assume, therefore, that it is intended primarily to cover notes secured by goods or commodities in process of shipment and to take the place of the provision of the present law which wholly excepts from the limitation "demand obligations when secured by documents covering commodities in actual process of shipment." If so, it would broaden the law so as to apply to time obligations as well as demand obligations and to those secured by goods as well as those secured by commodities. It may be intended to cover also "drafts and bills of exchange secured by shipping documents conveying or securing title to goods shipped," which are at present excepted altogether from the limitations of Section 5200, but the first exception is broad enough to cover this class of paper.

The new expression, "secured by goods or commodities in process of shipment" is not as good as the old expression "secured by documents covering commodities in actual process of shipment" and "secured by shipping documents conveying or securing title to the goods shipped."

Exception No. 4.

This reads, "Obligations as endorser or guarantor of notes, other than commercial or business paper excepted under (2) hereof, having a maturity of not more than six months, and owned by the person, corporation, association, or copartnership endorsing and negotiating the same, shall be subject under this section to a limitation of 15 per centum of such capital and surplus in addition to such 10 per centum of such capital and surplus."

This is an illustration of the unnecessarily involved language of the new section. No one can tell from a mere reading of it what it is intended to cover. The purpose of clarifying the law would be served much better by defining in simple, direct language precisely what paper is meant.

Since it covers only "obligations as endorser or guarantor" it is hard to understand what this exception is intended to cover that is not covered by the second exception, which pertains to "obligations arising out of the discount of commercial or business paper actually owned by the person," etc., negotiating the same - unless it is intended to cover accommodation loans with a maturity not in excess of six months. By reference to the report on the Pepper Bill by the Senate Committee on Banking and Currency, however, I find that the fourth exception is intended to cover notes not arising directly

out of commercial transactions, such as "renewed commercial paper, personal loans, notes in settlement of past due debts, notes given for the purchase of live stock, notes given for personal services, and the like." It would seem very unwise to give a preferential status to any paper of this kind, except possibly notes given for the purchase of live stock, and these probably would be covered by the second exception, since they would be business paper actually owned by the person discounting them.

While this exception would give a preferential status to this class of paper, the bill really restricts rather than broadens the law on this class of liability; because the 10% limitation of the present law applies only to direct liabilities and does not impose any limitation on liabilities as endorser or guarantor, whereas the basic 10% limitation in the bill applies to liabilities as endorser or guarantor and this exception merely raises the limit on such liabilities on this particular class of paper to 25%.

Exception No. 5.

This excludes from the limitation "Obligations in the form of bankers' acceptances of other banks of the kind described in Section 13 of the Federal Reserve Act". This is substantially the same as the present law.

Exception No. 6.

This is extremely complicated and involved, and is replete with awkward and ambiguous language. It reads as follows:

"(6) Obligations of any person, copartnership, association or corporation, in the form of notes or drafts secured by shipping documents, warehouse receipts or other such documents transferring or securing title covering readily marketable nonperishable staples when such property is fully covered by insurance shall be subject under this section to a limitation of 15 per centum of such capital and surplus in addition to such 10 per centum of such capital and surplus when the market value of such staples securing such obligation is not at any time less than 115 per centum of the face amount of such obligation, and to an additional increase of limitation of 5 per centum of such capital and surplus in addition to such 25 per centum of such capital and surplus when the market value of such staples securing such additional obligation is not at any time less than 120 per centum of the face amount of such additional obligation, and to a further additional increase of limitation of 5 per centum of such capital and surplus in addition to such 30 per centum of such capital and surplus when the market value of such staples securing such additional obligation is not at any time less than 125 per centum of the face amount of such additional obligation, and to a further additional increase of limitation of 5 per centum of such capital and surplus in addition to such 35 per centum of such capital and surplus when the market value of such staples securing such additional obligation is not at any time less than 130 per centum of the face amount of such additional obligation, and to a further additional increase of limitation of 5 per centum of such capital and surplus in addition to such 40 per centum of such capital and surplus when the market value of such staples securing such additional obligation is not at any time less than 135 per centum of the face amount of such additional obligation, and to a further additional increase of limitation of 5 per centum of such capital and surplus in addition to such 45 per centum of such capital and surplus when the market value of such staples securing such additional obligation is not at any time less than 140 per centum of the face amount of such additional obligation, but this exception shall not apply to obligations of any one person, copartnership, association or corporation arising from the same transactions and secured upon the identical staples for more than ten months."

I have puzzled over it long and hard, but I cannot attempt to express a final opinion at this time as to its meaning or legal effect. I can only explain it as I understand it at this time.

It deals with "obligations" in the form of notes or drafts secured by shipping documents, warehouse receipts or other such docu-

ments transferring or securing title covering readily marketable non-perishable staples when such property is fully covered by insurance," but it does not apply to "obligations of any one person, copartnership, association or corporation arising from the same transactions and secured upon the identical staples for more than ten months." It apparently is intended to take the place of the present exception which permits a national bank to lend any customer, in addition to the basic 10% amount, an additional amount equal to 15% of its capital and surplus if such additional amount is evidenced by notes secured by shipping documents, warehouse receipts, or other such documents, conveying or securing title covering readily marketable, nonperishable, staples, including live stock, the market value of which is not less than 115% of the loan and which is fully covered by insurance.

The principal changes which it would make in existing law with reference to this class of paper appear to be as follows:

1. The amount which may be loaned to one customer on this class of paper (excepting live stock paper) would be increased from 25% of the bank's capital and surplus to 50%, upon a graduated increase in the amount of security, as explained below:

2. The privilege of borrowing on this class of paper secured by the same staples would be permitted for ten months out of any twelve instead of six months out of any twelve, as at present; and

3. Live stock paper, which is covered by the same exception in the present law, would be covered by a separate exception which will be discussed later.

The provision for a graduated increase in the amount of the loan upon a graduated increase in the amount of security apparently would permit a bank to lend to one customer an amount equal to 50% of its capital and surplus on this class of paper, if the amount in excess of 10% but not in excess of 25% of its capital and surplus is secured by staples having a market value of 115 per cent of the face amount of the loan, the next amount equal to 5% of capital and surplus is protected by a 20% margin, the next 5% by a 25% margin, and so on.

It is interesting to see how this could be applied in practice. A bank with a capital and surplus aggregating $1,000,000 which desires to lend as much as possible on this class of paper to a favored customer could lend him $500,000, and the total security required by the law would be only $497,500 or 99½% of the face amount of the loan. This could be worked out as indicated in the following table:

Percentage of Capital and Surplus	Amount of Loan	Percentage of Security	Amount of Security
10	$100,000	None	None
15	150,000	115	$172,500
5	50,000	120	60,000
5	50,000	125	62,500
5	50,000	130	65,000
5	50,000	135	67,500
5	50,000	140	70,000
Total 50%	$500,000	99.5%	$497,500

This would seem to be entirely too large an amount for a national bank to tie up in a loan of this kind to a single customer for ten months. A few such loans might seriously jeopardize the bank's solvency if the price of the underlying staples should take a large slump, especially if the market conditions should become such as to make it impossible for the borrowers to sell the goods and liquidate their loans.

It might be argued that no well managed bank would take such a chance, but the restrictions in the law are for the protection of depositors in poorly managed banks, which have been found to be quite numerous. If bankers would always conduct their business along sound and conservative lines, the limitations of Section 5200 would be entirely unnecessary; but experience has proven them to be very important and necessary, and the bars should not be let down too much, if at all.

In my opinion, exception number 6 of the Bill is entirely too liberal and is unsound and dangerous.

Exception No. 7.

This exception pertains to live stock paper. In addition to the basic 10% of capital and surplus, which may be loaned on any kind of paper and without any security, it would permit any national bank to lend any customer an additional amount equal to 15% of its capital and surplus on notes or drafts secured by shipping documents or instruments transferring or securing title covering live stock or giving a lien on live stock with a market value of not less than 115 per cent of the face amount of the notes evidencing such additional loan. It differs from existing law in these respects:

(a) There is no requirement for insurance;

(b) The provision limiting this privilege to six months out of any twelve is omitted entirely;

(c) It covers drafts as well as notes; and

(d) Whereas the present law requires the security to be shipping documents, warehouse receipts or other such documents conveying or securing title, the bill would permit the security to be shipping documents "or instruments" transferring or securing title covering live stock or "giving a lien on live stock."

The term "instruments giving a lien on live stock" might be construed to include chattel mortgages or even mere trust receipts.

Exception No. 8.

This pertains to notes secured by Liberty Bonds or certificates of indebtedness of the United States, and appears to be substantially the same as the present law, except that the additional amount which may be loaned without the consent of the Comptroller of the Currency and the Secretary is increased from 10% to 15% of the bank's capital and surplus in addition to the basic 10%.

Exception No. 9.

This is entirely new and forbids the purchase of "obligations evidencing indebtedness of any person, copartnership, association, or corporation in the form of bonds, notes, debentures and the like commonly known as investment securities" in an amount exceeding 15% of the bank's capital and surplus, in addition to the basic 10% which may be loaned on any class of paper and without any security.

Under the present law, as has been construed by the Comptroller of the Currency, national banks may purchase corporate bonds and other investment securities without any limitation, and this bill would limit the amount of bonds of any one corporation or "investment securities" issued by any one borrower which may be purchased by a national bank to an amount not exceeding 25% of the bank's capital and surplus.

Obligations of the United States, obligations of any State or of any political subdivision thereof, and obligations issued under the authority of the Federal Farm Loan Act, however, would be excepted altogether from any limitation, and all investment securities purchased prior to the enactment of the Bill would be exempted until December 31, 1925.

Comparison of Bill with Section 5200.

The following comparative tabular analysis of the Bill and the existing law will serve to indicate in a general way the changes which would be made in Section 5200. In the interest of brevity, however, it has not been made technically accurate and complete.

EXISTING LAW		McFADDEN BILL	
BASIC LIMITATION		BASIC LIMITATION	
10% of bank's paid up and unimpaired capital and surplus. (applies only to direct liabilities.)		10% of bank's paid up and unimpaired capital and surplus. (Applies to all "obligations", whether in the form of direct liabilities or indirect liabilities as drawer, endorser or guarantor.)	
EXCEPTIONS		EXCEPTIONS	
Class of Paper	Amount which may be loaned in addition to basic 10% limitation	Class of "Obligations"	Amount which may be incurred in addition to basic 10% limitation.
1. Bills of exchange drawn in good faith against actually existing values.	No limitation imposed by law.	Drafts or bills of exchange drawn in good faith against actual values.	No limitation imposed by law.

Class of paper	Amount which may be loaned in addition to basic 10% limitation.	Class of "Obligations".	Amount which may be incurred in addition to basic 10% limitation.
2. Commercial or business paper actually owned by person, company, corporation or firm negotiating the same.	No limitation imposed by law.	Commercial or business paper actually owned by person, copartnership, association or corporation negotiating the same.	No limitation imposed by law.
3. Drafts and bills of exchange secured by shipping documents conveying or securing title to goods shipped. Demand obligations secured by documents covering commodities in actual process of shipment.	No limitation imposed by law.	Obligations (both time and demand) drawn in good faith against actually existing values and secured by goods or commodities in process of shipment.	No limitation imposed by law.
4. Obligations as endorser or guarantor of notes other than commercial or business paper	No limitation imposed by law.	Obligations as endorser or guarantor of notes other than commercial or business paper having a maturity of not more than six months and owned by person, corporation, association or copartnership endorsing and negotiating the same.	15% of bank's capital and surplus in addition to 10% basic limitation.
5. Bankers' acceptances of the kind described in Section 13 of the Federal Reserve Act.	No limitation imposed by law.	Bankers' Acceptances of other banks of the kind described in Section 13 of the Federal Reserve Act.	No limitation imposed by law.

Class of Paper.	Amount which may be loaned in addition to basic 10% limitation.	Class of "Obligations".	Amount which may be incurred in addition to basic 10% limitation.
6. Notes secured by shipping documents, warehouse receipts or other such documents conveying or securing title covering readily marketable non-perishable staples fully insured when actual market value of property securing obligation is not at any time less than 115% of the note secured by the documents.	15% of bank's capital and surplus in addition to 10% basic limitation. Exception does not apply for more than six months in any consecutive twelve months.	Notes, or drafts of any person, copartnership, association or corporation secured by shipping documents warehouse receipts or other such documents transferring or securing title covering readily marketable non-perishable staples, when such property is fully covered by insurance. (This exception shall not apply to obligations of any one person, copartnership, association or corporation arising from the same transactions and secured upon the identical staples for more than ten months.)	15% of bank's capital and surplus in addition to 10% basic limitation when market value of staples securing obligation is not at any time less than 115% of face amount of such obligation; with an additional 5% of such capital and surplus for each additional 5% increase in the market value of security over the amount of obligation by graduated scale up to a maximum exemption of 50% of capital and surplus when market value of security is 140%. (Each 5% increase required in value of security applies only to the 5% increase in the amount of the obligation, and not to the entire amount thereof.)

Class of Paper.	Amount which may be loaned in addition to basic 10% limitation.	Class of "Obligations"	Amount which may be incurred in addition to basic 10% limitation.
7. Notes secured by shipping documents, warehouse receipts or other such documents conveying or securing title covering live stock fully covered by insurance when actual market value of live stock is not at any time less than 115% of the face amount of the notes secured thereby.	15% of capital and surplus in addition to 10% basic limitation. Exception does not apply for more than six months in any consecutive twelve months.	Notes, drafts of any person, copartnership association or corporation secured by shipping documents or instruments transferring or securing title covering live stock or giving a lien on live stock when the market value of the live stock securing the obligation is not at any time less than 115% of the face amount of the notes covered by such documents.	15% of bank's capital and surplus in addition to 10% basic limitation. (The time limit on this privilege is repealed altogether.)
8. Notes secured by not less than a like amount of bonds or notes of the United States issued since April 24, 1917 or certificates of indebtedness of the United States.	10% of capital and surplus in addition to 10% basic limitation. (The Comptroller of the Currency, with the approval of the Secretary of the Treasury may remove all limitations on this class of paper.)	Obligations of any person, copartnership, association or corporation secured by not less than a like amount of bonds or notes of the United States issued since April 24, 1917 or certificates of indebtedness of the United States.	15% of bank's capital and surplus in addition to 10% basic limitation. (The Comptroller of the Currency with the approval of the Secretary of the Treasury may remove all limitations on this class of obligations.)

Class of Paper.	Amount which may be loaned in addition to basic 10% limitation.	Class of "Obligations."	Amount which may be incurred in addition to basic 10% limitation.
9. Investment securities.	No limitation imposed by law.	Obligations evidencing indebtedness of any person, copartnership, association or corporation in the form of bonds, notes, debentures and the like commonly known as investment securities. (Purchases of such obligations completed before the passage of this Act are not subject to any limitation until December 31, 1925.)	15% of bank's capital and surplus in addition to basic 10% limitation.
9a. Government and municipal bonds.	No limitation in present law as to such investments. (But see paragraph 8 of this analysis.)	Obligations of the United States, general obligations of any State or political subdivision thereof or obligations issued under the authority of the Federal Farm Loan Act.	No limitation imposed by law.

SEC. 11. LIMITATION OF TOTAL LIABILITIES OF NATIONAL BANKS.

This section amends Section 5202 of the Revised Statutes, which prescribes as a general rule that no national bank shall at any time be indebted in any way in an amount exceeding the amount of its capital stock, so as to make an exception as to liabilities incurred under the provisions of the Agricultural Credits Act.

This amendment was contained in the Agricultural Credits Act of 1923, but was made inoperative through an error, and this section of the McFadden Bill was merely intended to correct that mistake. It relates to liabilities of national banks as endorsers of paper which they have rediscounted with Federal Intermediate Credit Banks.

SEC. 12. UNLAWFUL CERTIFICATION OF CHECKS.

Section 5208 of the Revised Statutes makes it unlawful for any officer, director, agent or employee of any Federal reserve bank or any member bank of the Federal Reserve System to certify a check before the amount thereof "shall have been regularly entered to the credit of the drawer on the books of the bank", and this would be amended so as to prohibit only the certification of a check before the amount thereof "shall have been regularly deposited in the bank by the drawer thereof."

This would seem unimportant, but it may provide a loophole whereby violators of this provision may escape liability, since it is more difficult to prove that a check is drawn against insufficient funds if this question of fact is not made to depend upon the status of the bank's books at the time the check is drawn.

It is contended that the present law causes inconvenience by requiring a person who deposits money in a bank and desires immediately to draw a certified check against such deposit to wait until the proper entries have been made on the books before his check is certified. It would seem, however,

that this is a matter of detail which could be attended to speedily by the officers of the bank if they desire to accommodate such a customer.

SEC. 13. REPORTS OF CONDITION BY NATIONAL BANKS.

This amends Section 5211 of the Revised Statutes so as to permit reports of condition made by national banks to the Comptroller of the Currency to be verified by the oath or affimation of a vice president or an assistant cashier of the association designated by the board of directors to verify such reports in the absence of the president and cashier. The present law requires such reports to be verified by the president or cashier and this amendment is intended to serve the convenience of a bank when both the cashier and president are absent. I see no objection to it.

SEC. 14. LIMITATION ON REDISCOUNTS BY FEDERAL RESERVE BANKS OF PAPER OF THE SAME BORROWER

This amends the fourth paragraph of Section 13 of the Federal Reserve Act, which now prohibits any Federal reserve bank to discount for any one member bank the paper of any one borrower in an amount exceeding 10 per cent of the capital and surplus of such member bank, excepting only bills of exchange drawn in good faith against actually existing values. The amendment would incorporate by reference all of the exceptions to the 10% limitation of Section 5200 of the Revised Statutes in the form in which it would be amended by this bill.

In principle, this would seem to be perfectly logical; because it ought to be safe for a Federal Reserve Bank to discount any amount of paper of a single borrower which it is safe for a member bank to lend to a single borrower. The chief practical objection to it is that the McFadden Bill would amend Section 5200 so as to make the limitations of that section entirely too liberal and, therefore, the amendment to the Federal Reserve Act would also be

too liberal. Unless the proposed liberalization of Section 5200 is considerably modified, this amendment to the Federal Reserve Act should be stricken out; but I personally favor its retention if the proposed revision of Section 5200 is amended so as not to broaden materially the present amounts which a national bank may lend to one borrower.

This is the amendment which brought forth severe criticism of the bill by Dr. Willis and other authorities on the ground that it would change the fundamental character of paper which may be rediscounted by Federal reserve banks and even permit them to discount stocks, bonds, and other investment securities. As pointed out above, however, the amendment affects only the amount of paper of any one borrower which may be rediscounted for any one member bank and does not affect the character of paper which may be rediscounted. As originally drawn, this section was somewhat ambiguous as to the amount of paper which might be rediscounted for any one borrower, but it was amended on the floor of the House so as to clarify this point, and the following proviso was added:

"Provided, however, that nothing in this paragraph shall be construed to change the character or classes of paper now eligible for discount by Federal reserve banks".

The result is that this section will permit Federal reserve banks to rediscount for any one member bank the paper of any one borrower in an amount equal to that which a national bank may lend to any one borrower and it is made perfectly clear that this provision does not affect the character or classes of paper eligible for rediscount by Federal reserve banks.

SEC. 15. SAFE DEPOSIT BUSINESS.

This section would add a new paragraph at the end of Section 13 of the Federal Reserve Act, authorizing national banks tc engage in the safe deposit business, either by leasing receptacles on their premises or by owning stock in corporations organized under State law "tc conduct a safe deposit business located on or adjacent to the premises of such association." It is provided that the amount invested in the capital stock of any such safe deposit company shall not exceed 15 per cent of the bank's capital and surplus. In view of the fact that national banks have for years been engaging in the safe deposit business under their implied powers, I see no objection to this amendment.

SEC. 16. THEFTS BY NATIONAL BANK EXAMINERS.

This amends the second paragraph of subsection (a) of Section 22 of the Federal Reserve Act which now prohibits bank examiners from accepting loans or gratuities from banks examined by them so as to make it cover assistant examiners also and so as to make it a crime against Federal law for any examiner to steal or unlawfully take or conceal any property of value in the possession of any member bank or from any safe deposit box in or adjacent to the premises of such bank. This would seem to be a very proper and desirable amendment.

SEC. 17. REAL ESTATE LOANS AND INVESTMENT BUSINESS.

This amends Section 24 of the Federal Reserve Act by changing the provisions regarding real estate loans by national banks, adding a new paragraph expressly authorizing national banksto engage in the business of buying and

selling investment securities, and adding a provision forbidding national banks to pay a higher rate of interest on deposits of any kind than may lawfully be paid by State banks or trust companies in the same State.

Real Estate Loans.

The principal changes in the provisions regarding real estate loans are these:

1. National banks in central reserve cities, which are now forbidden to make real estate loans, would be authorized to make such loans;

2. Loans could be made on city real estate with maturities up to five years, whereas at present such loans can be made only with maturities not exceeding one year; and

3. Loans could be made on city real estate located anywhere in the Federal Reserve District or within one hundred miles of the lending bank whereas at present such loans can be made only on real estate within one hundred miles of the lending bank.

The amendment authorizing national banks in central reserve cities to make real estate loans would seem relatively unimportant, because it would affect only two cities, New York and Chicago. It may be considered a step in the wrong direction, however, because it has always been thought desirable to require banks in central reserve cities to keep themselves in an especially liquid condition, and this would permit them to make their condition less liquid.

The amendment permitting loans on city real estate to be made with maturities up to five years would seem to be desirable, because it is too inconvenient and expensive to renew such loans every year. The Board has provided in its regulations on this subject that where such a loan is made for a term of one year the mortgage or deed of trust securing it may be so drawn as to cover renewals or extensions of the original loan, provided the bank does not commit itself in advance to grant such renewals or extensions. I understand that this has been found to be unsatisfactory, however, because borrowers do not like to go to the expense of placing mortgages on their property in order to obtain a loan for only one year where they have no assurances that such loans will be renewed or extended at the end of the year. It has also been found difficult in some cases to word the mortgages or deeds of trust so as effectively to secure renewals or extensions of the loan under local laws. In order to assure the liquidity of national banks and to offset the effect of extending the term of such loans however it would seem advisable to add a provision to the law requiring the bank to apportion such loans so as to have a certain proportion of them - say one-fifth - fall due each year. This would keep the bank in a position to liquidate some of its real estate loans each year if it is found that its condition was becoming too nonliquid.

As originally drawn, this section would have changed the limitation on the aggregate amount of real estate loans which may be made by national banks so as to make it 25 per cent of the bank's capital stock and surplus or one-third of its time deposits whichever is the less, instead of 25 per cent of its capital and surplus or one-third of its time deposits whichever is the greater, as now provided by the law. This resulted from an error, and the

words "at the election of the association" were inserted on the floor of the House in an attempt to cure the mistake. This is somewhat ambiguous, however, and it would have been much better if the words, "whichever is the greater" had been inserted in lieu of those which were inserted.

The limitation on the aggregate amount of real estate loans which may be made is also changed so as to apply to the liability of the bank as endorser or guarantor of real estate loans which it has sold. This would restrict the power of a national bank to make additional real estate loans if it has previously made such loans and sold them with its endorsement or guaranty, and would seem unnecessary and undesirable. It might actually discourage a national bank from disposing of some of its real estate loans at a time when it needed to rid itself of slow assets.

The following inartistic and ambiguous definition of a real estate loan is also introduced into this section:

"A loan secured by real estate within the meaning of this section shall be in the form of an obligation or obligations secured by mortgage, trust deed, or other such instrument

upon real estate when the entire amount of such obligation or obligations is made or sold to such association."

The effect of this definition on the law is very uncertain, and it should be clarified or omitted entirely. It may be construed to prevent a national bank from making a real estate loan at all unless it holds the entire obligation secured by any one mortgage or deed of trust, or it may be construed to remove the restrictions of Section 24 altogether as to any bond, note, or other obligation secured by real estate when the national bank does not hold the entire amount secured by a lien on the same real estate. The latter effect probably is what is intended.

Instead of clarifying the law regarding the power of national banks to make real estate loans, the bill would rewrite the entire provision on this subject in language which is more ambiguous than the present law. This is so inconsistent with the purpose of the Bill to clarify the law that the entire section ought to be rewritten in simple language retaining as far as possible the phraseology of the present law.

It has been suggested that the limitation on the aggregate amount of real estate loans that may be made by a national bank ought to be increased to one-half of the bank's capital and surplus, in order to enable country banks to meet the competition of State banks and to serve better the needs of their communities. If any such change is made, however, it would seem that it should be applicable only to country banks and should be surrounded with additional safeguards. I believe that it would be unsafe to increase further this amount unless the bank is required to segregate its savings deposits in a separate department of the bank and is permitted to make real estate loans in the increased amount only from the assets of the savings department. This would avoid rendering the assets of the commercial department non-liquid.

Investment Securities.

The provision expressly authorizing national banks to buy and sell investment securities would seem to be relatively unimportant, because of the fact that they have been doing this business for years under their present powers. The amendment is not in very satisfactory form, however, because it is not at all clear just what is included in the term "investment securities." It would seem better either to define this term precisely or to give the Comptroller of the Currency express authority to promulgate regulations specifying the classes of securities which might be purchased and sold. The amendment contains one good safeguard in that it authorizes national banks to sell such securities only "without recourse". This would be still better if it said "without recourse, guaranty or warranty of any kind."

Savings Deposits.

The following restriction is tacked on to the reference in the present law to savings deposits:

> "But the rate of interest which such banks may pay upon such time deposits or upon other deposits shall not exceed the maximum rate authorized to be paid upon such deposits by State banks or trust companies organized under the laws of the State wherein such national banking association is located."

This is entirely out of harmony with the general purpose of the bill, because it restricts rather than liberalizes the powers of national banks. Furthermore, it refers to the rate of interest "authorized to be paid" by State banks, and it might be argued that it technically would forbit any national bank to pay any interest on deposits when the State law contains no express authority for State banks to pay a certain rate of interest. If this interpretation were adopted, it would be quite a serious handicap to national banks, because very few, if any of the State laws contain express authority to pay a certain rate of interest on deposits. In my opinion, this particular amendment should be stricken out. It certainly will not benefit the poor savings depositors.

CRIMES AGAINST MEMBER BANKS.

Section 17 of the original bill, which would have made it a Federal crime to conspire to boycott or black-list or to cause a general withdrawal of deposits or patronage from or otherwise to injure the business or good will of any national bank or State member bank of the Federal Reserve System or to rob or burglarize any such bank or to make false

statements for the purpose of obtaining loans from any such bank or to conceal, dissipate, sell, or fraudently dispose of any personal property which is mortgaged to a member bank was stricken from the bill on the floor of the House.

GENERAL COMMENTS.

The most remarkable thing about the bill as a whole is that it is intended to clarify and modernize the National Bank Act, but fails adequately to modernize it and instead of clarifying and simplifying it, it makes it much more complicated and ambiguous in many respects. It deals only with a few isolated sections of the Act and some of these are made more ambiguous and complicated instead of being clarified and simplified. Furthermore, the bill does not touch many of the subjects with respect to which the National Bank Act needs to be modernized and does not do many of the things which could be done to enable national banks to compete on more equal terms with State banks.

These defects obviously result from the fact that the bill is a piece of emergency legislation and was drawn hastily and with a view of excluding everything which might give rise to much opposition or debate except the very important provisions regarding the acute question of branch banking. Many of the ambiguities result from amendments tacked on from time to time to meet the whims of various persons or interests.

The desirability of revising the National Bank Act so as to clarify its complicated and frequently amended provisions and so as to enable national banks to conform more easily to more modern banking practices and compete on a more equal basis with State banking institutions has long been recognized. These ends could best be accomplished, however, through a complete

revision and codification of the entire Act, based upon a thorough, scientific study made by a committee of banking experts and drafted by experienced specialists in banking laws. It is too late to attempt this at the present term of Congress, however, and this bill with proper amendments should be enacted at this Session if the emergency facing the National Banking System which the Comptroller of the Currency described in his Annual Report is to be met promptly. Even if this bill is enacted, however, a complete, scientific revision and codification of the entire National Bank Act should be undertaken at once, and it would be well to add a provision to this bill authorizing the appointment of a commission to employ experts and draft such a revision.

As intimated above, there are numerous matters not touched upon in this bill which should be covered in a general revision of the National Bank Act in order to enable national banks to conform more easily to modern banking practices and to compete on a more equal basis with State banks and trust companies. I shall not endeavor to enumerate all such provisions, but shall merely point out a few of the more important ones.

Separate Savings Departments.

I feel strongly that the National Bank Act should be amended in such a way as to require national banks which receive savings deposits to establish separate savings departments, the assets of which would be segregated and kept entirely separate and distinct from the assets of their commercial and trust departments. Under the present law, national banks may receive savings deposits, but such deposits are mingled with the general assets of the bank, and upon the failure of a bank the savings depositors have to share as general creditors along with the commercial depositors. Furthermore, savings depositors operate under a

contract with the bank whereby the bank may require thirty days' notice before permitting the withdrawal of savings deposits, whereas commercial depositors are not bound by any such restrictions. The result is that in the event of a run upon a bank it may exercise the right to require this thirty days' notice, thus preventing the savings depositor from withdrawing his funds but permitting the commercial depositor to withdraw all of his funds. This leaves the savings depositor to share only in such assets as remain after the collapse of the bank, which assets frequently are almost worthless and of a non-liquid character. This is a great injustice to savings depositors, who should be given special protection. It could be avoided if the assets of the savings department were segregated from the other assets of the bank and the savings depositor were given a prior lien thereon.

Furthermore, the segregation of savings deposits would be of great advantage to national banks in States like California which have fully developed departmental banking, and would enable them to compete with State banks on much more equal terms. Under the present law, many national banks in California find that they are unable to compete with State savings banks for savings business and, therefore, are forced to organize affiliated savings banks under State law, which is both cumbersome and expensive.

If separate savings departments were established under proper safeguards, national banks could also be permitted to use the funds of such departments in making real estate loans to a greater extent than can be permitted under the existing law, since safety rather than liquidity is the most important requisite for the investment of savings deposits. Real estate loans usually are safer and the only objection to them is that they are non-liquid and, therefore, not a desirable investment for commercial deposits.

If it is not considered desirable to compel all national banks which receive savings deposits to establish separate savings departments, a compromise might be effected either by making the establishment of such departments optional with the bank or by requiring them to establish such departments only in those States in which State banks are required to do so. If the establishment of such departments is made optional, any increased power to make real estate loans should be conditioned on the establishment of such separate savings departments.

A provision for the organization of separate savings departments was contained in the original Federal Reserve Act in the form in which it passed the House, but it was stricken out by the Senate. Subsequently, I drafted a bill which was introduced in the Senate by Senator Calder. This was worked out in great detail and was designed to authorize national banks to establish separate savings departments at their option, and upon the establishment of such separate savings departments to make real estate loans to a greater extent than permitted under the existing law.

The establishment of separate savings departments has been objected to on the ground that it is "departmental banking", and some persons seem to think that departmental banking is a very vicious thing. It seems obvious to me, however, that if a bank is to be permitted to follow the modern tendency and engage in all the various different classes of banking business, including commercial banking, savings banking, trust business, and investment business, it would be much safer to require these various classes of business to be segregated in separate departments than to permit them to be mingled together in the same department.

Acceptance Powers.

Another respect in which I feel that the National Bank Act should be amended so as to enable national banks to compete on a more equal basis with State banks is with respect to their power to issue bankers' acceptances. Heretofore Congress has been very cautious in granting this power to national banks and has hedged it about with very severe restrictions, because the business was new to this country and it was feared that the banks would develop unsound acceptance practices. Today, however, the situation is entirely changed. Banks have become better acquainted with the acceptance business and it has been found that the Federal reserve banks can effectively discourage any unsound acceptance practices by refusing to discount or purchase on the open market acceptances which have been issued on an unsound basis.

The State of New York has recognized the changed situation with regard to bankers' acceptances and, in simple and broad terms, has authorized State banks to accept for payment at future dates all drafts drawn on them by their customers. This has resulted in giving the New York State banks much greater latitude and a tremendous advantage over national banks in their acceptance business and has been a source of embarrassment to the national banks.

I would recommend that the first sentence of the sixth paragraph of Section 13 of the Federal Reserve Act be amended to read as follows:

> "Any member bank may accept for payment at a future date drafts drawn upon it by its customers having not more than six months sight to run, exclusive of days of grace, and may issue letters of credit authorizing the holders thereof to draw drafts upon it or its correspondents."

Power of Comptroller to enforce compliance with law.

Another thing which I think should be covered by the bill

is the power of the Comptroller to enforce compliance with the provisions of the National Bank Act and the regulations of his office without bringing a suit to forfeit the bank's charter, which is a very drastic action and inevitably results in the immediate closing of the bank. I feel that the Comptroller should be given power to bring pressure in less drastic ways to compel banks to comply with the law and with sound banking practices. Officers and directors of banks which violate any provision of the National Bank Act might be made subject to fine and imprisonment and the Comptroller might be given power to forbid any bank to make any additional loans, pay any dividends, or pay any further salaries to its officers until they had complied fully with the terms of the law. Some such power as this would enable the Comptroller to bring pressure to bear upon a bank and would in practice be more useful than the present power to bring a suit for the forfeiture of the bank's charter, because that action is so very drastic that the Comptroller hesitates to exercise it, and I understand that it has only been exercised in one or two cases, although there is hardly a time when many national banks are not violating some of the provisions of the National Bank Act and disregarding the admonitions of the Comptroller and his Examiners.

CONCLUSION.

I feel that this bill needs much clarification and that a number of its sections should be amended materially so as to correct the matters criticized above. Sections 10 and 17 should be entirely rewritten. If the Board so desires, I shall be very glad to prepare drafts of any amendments which the Board may wish to have offered to the Bill.

Respectfully,

Walter Wyatt
General Counsel.

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

STATEMENT FOR THE PRESS

X-4253

For Release in Morning Papers,
Tuesday, January 27, 1925.

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 and employment in December continued the increase which began in the autumn and wholesale prices advanced further to the highest level for the year. Railroad shipments of goods continued in large volume and trade, both at wholesale and retail, was larger than a year ago.

Production. - The index of production in basic industries advanced about 10 per cent in December to a point 25 per cent higher than last summer but was still below the level of the opening months of 1924. Practically all of the 22 industries included in the index shared in the advance and the increases were particularly large in iron and steel, cotton manufacturing, coal mining, and meat packing. Among the industries not represented in the index the output of automobiles declined in December and was the smallest for any month in more than two years. Increased industrial activity was accompanied by an advance of about 2 per cent in factory employment, with larger increases in the metal and textile industries, and by a growth of nearly 5 per cent in total factory payrolls. Volume of building, as measured by contracts awarded, was less in December than in November, but continued unusually large for the season of the year.

Trade. - Distribution of goods was greater in December than in the same month of 1923, as indicated by larger railroad shipments and an increase in the volume of wholesale and retail trade. Christmas trade at department stores was greater

than in the previous year, and sales by mail order houses and chain stores were the largest on record. Wholesale trade was seasonally less than in November but in practically all lines was larger than a year ago. Marketing of agricultural products was greater than for the corresponding month of any recent year.

Prices. - A further advance of more than 2 per cent in the Bureau of Labor Statistics index of wholesale prices carried the average in December 8 per cent above the low point of June and to the highest level since April, 1923. Prices of all groups of commodities were higher, the principal increases being in farm products and foods. In the first half of January prices of grains, wool, coal, and metals increased further, while sugar, dairy products, silk, coke, and rubber declined.

Bank Credit. - At the Federal reserve banks the rapid return flow of currency after the holiday trade resulted, during the four weeks ending January 21, in a reduction of earning assets about equal to that for the same season a year earlier. The net outflow of currency from the reserve banks during the month preceding Christmas amounted to more than $200,000,000, and the return flow after the Christmas peak, reflected both in the increase in reserves and in the decline of Federal reserve note circulation, was in excess of $300,000,000. Fluctuations in the earning assets of the reserve banks during the past two months have reflected chiefly these seasonal changes in the demand for currency. The decline in discounts brought their total on January 21 to a smaller volume than at any time in 1924, and acceptances also showed a seasonal decrease. Holdings of United States securities, which have declined for more than two months, were about $175,000,000 below the level of last autumn and in about the same amount as at the middle of 1924. Net exports

of gold, which gave rise to a demand for reserve bank credit, amounted to $30,000,000 in December and were in larger volume during the first three weeks in January.

The growth of demand deposits at member banks in leading cities during the three weeks ending in the middle of January, which has been greater than the increase in their total loans and investments, has reflected the return of currency from circulation. In the same period there was some increase in commercial loans and a continued growth in loans secured by stocks and bonds. Holdings of investment securities have decreased somewhat since the middle of November, particularly at the banks in New York City.

Firmer conditions in the money market in December and the first few days in January were followed later in the month by declines in rates on commercial paper to 3 1/2 per cent.

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

X-4254
January 27, 1925.

CONDITION OF ACCEPTANCE MARKET

December 11,1924 to January 21,1925.

The supply of bills in the market was moderately good throughout the last half of December and the first three weeks of January. Firmer conditions in the money market and uncertainty as to bill rates in the middle of December diminished the demand and on December 18 dealers' rates were advanced generally from 2 7/8 to 3 per cent on 90-day bills. On December 22 the buying rates of the New York Federal Reserve Bank were raised 1/8 of one per cent on all maturities and the Federal Reserve bank's purchases during the week ending December 24 were considerably larger than previously. Toward the end of the year the supply of bills offered to the New York market was increased by sales of acceptances by banks from their own portfolios, but the effect of these sales on the market was offset by an additional demand from the correspondents of foreign clients. With easier money conditions after the close of the year, local demand increased generally. Savings banks took a larger volume of bills and out-of-town sales improved. The supply diminished toward the close of the reporting period, ending January 21st, and dealers' portfolios on that date were reduced to the lowest volume reported since September 10. Rates in New York on January 21 ranged from 3 per cent bid and 2 7/8 per cent offered for 30-day bills to 3 5/8 per cent bid and 3 1/2 - 3 3/8 per cent offered for 180-day bills.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4256
January 30, 1925

SUBJECT: Expense Main Line, Leased Wire System,
December, 1924.

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-4256-a and X-4256-b, covering in detail operations of the main line, Leased Wire System, during the month of December, 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.

Yours very truly,

Fiscal Agent.

(Enclosures)

TO GOVERNORS OF ALL BANKS EXCEPT CHICAGO.

X-4256-a

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

From	Fed. Res. Bank Business	Percent of Total Bank Business (*)	Treasury Dept. Business	War Finance Corp. Business	Total
Boston	26,240	3.03	7,807	-	34,047
New York	197,921	22.89	18,084	-	216,005
Philadelphia	37,315	4.32	8,943	-	46,258
Cleveland	69,861	8.08	9,617	-	79,478
Richmond	41,007	4.74	7,548	-	48,555
Atlanta	62,388	7.22	10,081	-	72,469
Chicago	96,771	11.19	12,071	-	108,842
St. Louis	67,270	7.78	9,199	-	76,469
Minneapolis	39,429	4.56	5,934	-	45,363
Kansas City	67,577	7.82	9,327	-	76,904
Dallas	55,962	6.47	6,231	104	62,297
San Francisco	102,918	11.90	17,512	-	120,430
Total	864,659	100.00%	122,354	104	987,117
Board	285,777		139,059	1,814	426,650
Total	1,150,436		261,413	1,918	1,413,767
Percent of Total	81.37%		18.49%	.14%	

Bank Business 1,150,436 words or 81.48%
Treasury Dept. 261,413 words or 18.52%

Total 1,411,849 " " 100.00%

(*) These percentages used in calculating the pro rata share of leased wire expenses as shown on the accompanying statement (X-4256-b)

FEDERAL RESERVE BOARD
Washington, D. C.
January 30, 1925

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

X-4256-b

Name of Bank	Operators' Salaries	Operators' Overtime	Wire Rental	Total Expenses	Pro Rata Share of Total Expenses	Credits	Payable to Federal Reserve Board
Boston	$ 250.00	$ -	-	$ 250.00	$ 540.53	$ 250.00	$ 290.53
New York	920.82	2.00	-	922.82	4,083.42	922.82	3,160.60
Philadelphia	200.00	-	-	200.00	770.66	200.00	570.66
Cleveland	272.00	-	-	272.00	1,441.42	272.00	1,169.42
Richmond	200.00	-	-	200.00	845.58	200.00	(#) 850.25
Atlanta	255.00	-	-	255.00	1,288.00	255.00	1,033.00
Chicago	(*)3,775.24	-	-	3,775.24	1,996.22	3,775.24	(&)1,779.02
St. Louis	200.00	-	-	200.00	1,387.90	200.00	1,187.90
Minneapolis	183.40	-	-	183.40	813.47	183.40	630.07
Kansas City	265.64	-	-	265.64	1,395.03	265.64	1,129.39
Dallas	251.00	-	-	251.00	1,154.20	251.00	903.20
San Francisco	380.00	-	-	380.00	2,122.88	380.00	1,742.88
Fed. Res. Board			$14,788.34	$14,788.34			
TOTAL	$7,153.10	$2.00	$14,788.34	$21,943.44 (a)4,104.13 $17,839.31	$17,839.31	$7,155.10	$12,667.90 (b)1,779.02 $10,888.88

(#) Includes $204.67 for branch line business transmitted over main line circuit.
(*) Includes salaries of Washington operators
(&) Credit the
(a) Received $47.00 from War Finance Corp. and $4,057.13 from the Treasury Dept. covering business for the month of December, 1924.
(b) Amount reimbursable to Chicago

FROM ADDRESS TO WASHINGTON SOCIETY OF ENGINEERS, DECEMBER 3, 1924.

In a few spots recovery was retarded by unfortunate conditions, such as the drouths in New Mexico and on the Pacific Coast, and there have been some brakes on the wheels of progress that may be mentioned. Since the beginning of the present year almost 700 banks have failed, nearly all small institutions serving agricultural communities in the West. These are an aftermath of agricultural depression, but that doesn't in my opinion tell the whole story. They are due in large measure to a bad banking system - to a multiplication beyond all reason of small, weak, often badly managed institutions. Bankers will tell you that our American banking system is the best in the world. If efficiency and safety and service to all classes of customers in small as well as in large communities at reasonable rates are requisites of a good banking system our American system instead of being the best in the world is not far from the worst. In no other great commercial nation is there so great a contrast between rates for loans in the financial centres and rates for loans in the agricultural sections. We have 2 per cent money in Wall Street and 10 or 12 per cent money in the Dakotas. The little country bank - Senator Glass has called some of them toll gates - is nevertheless regarded as a sacred American institution, little less sacred than the little red schoolhouse. It can fail in great numbers just at the time when everything else is recovering yet no one thinks of questioning the institution itself or of suggesting that a better system of serving small communities could be devised - that is no one except a few economists and theorists who don't count. Bankers are all for increasing the number of banks unmindful of the repeated lessons of the past.

A good system of banking for small communities should provide banks large enough to afford good management, and serving a territory wide enough to include a variety of crops and industries, so that the safety of a bank would not be put in jeopardy by depression in any one industry or by a mere local calamity. This means larger banks, and less banks and would probably make necessary the extension of banking facilities to some of the smaller communities by means of branches. Branch banking comes under the condemnation of the American Bankers Association every year, but it is the system of every other great commercial country, and in spite of various efforts to suppress it has made considerable progress in the banking systems of about a third of our states. The time will come, I believe, when business men, farmers and manufacturers will be compelled to give this matter some study instead of leaving it wholly to the bankers.

FEDERAL RESERVE BOARD

WASHINGTON

X-4258

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 30, 1925.

SUBJECT: Code Words to be used by the Federal Reserve Bank of New York in advising other Federal reserve banks of transactions in purchases and sales of Government securities from the Special Investment Account for the Federal Reserve System.

Dear Sir:

In connection with the coded telegrams transmitted by the Federal Reserve Bank of New York to other Federal reserve banks relating to the purchases and sales of Government securities from the Special Investment Account for the Federal Reserve System, you are advised a revision has been made in the translation of the code words "NOTABLY" and "NOTCH", as listed in the Board's circular letter of January 9, 1924, (X-3940).

It is requested that the above two code words with their accompanying translations be cancelled in the Federal Reserve Telegraphic Code and that they be replaced by the code words "NOTABLES" and "NOTARIAL" with the revised phraseology as below indicated:

NOTABLES: Purchased to-day $_____ U. S. securities System Special Investment Account. We charge you $_____ your apportionment. Please credit us. For your information this purchase consists of $_____ (class of securities).

NOTARIAL: Sold to-day $_____ U.S.securities System Special Investment Account. We credit you $_____ your apportionment. Please charge us. For your information this sale consists of $_____ (class of securities)

Two additional code words have also been adopted and are as follows:

NOTATING: Sale to-day results in difference between book value and proceeds of securities sold of $_____ . We (charge) (credit) you $_____ representing your participation.

NOTEDLY: For use in your press statement your participation at the close of business to-day in United States securities held in the System Special Investment Account is $_____ consisting of $_____ certificates of indebtedness, $_____ Treasury notes, and $_____ Liberty Loan Bonds.

It is requested that a record of the above cancellations and additions be made on page 164 in your copies of the Federal Reserve Telegraphic Code.

Yours very truly,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F.R.BANKS.

OFFICERS OF FEDERAL RESERVE BANKS

Chrm. & F.R.Agt.	Governor	Deputy Governor	Cashier	Asst. Cashier	Asst. F.R.Agt.	Auditor	Counsel
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F. H. Curtiss	W.P.G. Harding	W.W. Paddock	Wm. Willett	E.G. Hult	C.F. Gettemy	H.F. Currier	
				W.N. Kenyon			
				E.M. Leavitt			
				L.W. Sweetser			
NEW YORK							
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		L.F. Sailer	A.W. Gilbart*	W.B. Matteson#	Carl Snyder***		J.H. Philbin
		G.L. Harrison	G.E. Chapin*	A.J. Lins#			(Asst.)
		E.R. Kenzel	J.W. Jones*	C.H. Coe#			
			R.M. Gidney*	R.M. O'Hara#			
			L.R. Rounds*	J.E. Crane#1			
				H.M. Jefferson#			
				I.W. Waters#			
				J.M. Rice#			
				E.C. French#			
				S.S. Vansant#			
				A.K. Lauckner#			
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PHILADELPHIA							
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				S.R. Earl			
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Chrm. & F.R.Agt.	Governor	Deputy Governor	Cashier	Asst. Cashier	Asst. F.R.Agt.	Auditor	Counsel
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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#1			
RICHMOND							
Wm. W. Hoxton	G.J. Seay	C.A. Peple	G.H. Keesee	Thos. Marshall,Jr.	J.G. Fry	Hugh Leach	M.G.Wallace
		R.H. Broaddus	J.S. Walden,Jr.*	G.S. Sloan	S.M. Foster**		
				Edw. Waller, Jr.			
				W.W. Dillard			
				C.V. Blackburn			
				J.T. Garrett#			
				A.S. Johnstone#			
ATLANTA							
Oscar Newton	M.B. Wellborn	J.L. Campbell	M.W. Bell	H.F. Conniff	Ward Albertson	W.S. Johns	Randolph &
		Creed Taylor		R.A. Sims	(&)		Parker
				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.L.Powell
		C.R. McKay	J.H. Dillard*	F.M. Huston#	(&)		
			W.C. Bachman*	J.G. Roberts#	W.H. White		
			D.A. Jones*	R.E. Coulter#			
			O.J. Netterstrom*	F. Bateman#			
			Clarke Washburne*	R.H. Buss#			
				E.A. Delaney#			
				J.H. Rumbaugh#			
				R.J. Hargreaves#			

Chrm. & F.R.Agt.	Governor	Deputy Governor	Cashier	Asst. Cashier	Asst. F.R.Agt.	Auditor	Counsel
CHICAGO (Cont'd)				L.G. Meyer# A.W. Dazey# A.R. LeRoy# L.G. Pavey# J.C. Callahan# F.A. Lindsten# R.C. Huelsman# Irving Fischer#			
ST. LOUIS Wm.McC. Martin	D.C. Biggs	O.M. Attebery	J.W. White	A.H. Haill W.H. Glasgow J.W. Rinkleff E.C. Adams S.F. Gilmore F.N. Hall	C.M. Stewart	E.J. Novy	J.G.McConkey (&)
MINNEAPOLIS John R. Mitchell	R.A. Young	W.B. Geery B.V. Moore Harry Yaeger****	Gray Warren F.C. Dunlop*	H.C. Core L.E. Rast A.R. Larson W.C. Langdon H.I. Ziemer F.M. Bailey#	C.L. Mosher J.F. Ebersole		A. Ueland
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	C.K. Boardman (&)	S.A.Wardell	H.G. Leedy

Chrm. & F.R.Agt.	Governor	Deputy Governor	Cashier	Asst. Cashier	Asst.F.R.Agt.	Auditor	Counsel
DALLAS							
Lynn P. Talley	B.A. McKinney	R.R. Gilbert Val J. Grund	R.B. Coleman	W.O. Ford R.T. Freeman W.D. Gentry J.L. Hermann E.B. Austin	C.C. Hall W.J. Evans	R.L.Foulks	E.B.Stroud,Jr. (Office)
SAN FRANCISCO							
John Perrin	J.U. Calkins	Wm. A. Day Ira Clerk L.C. Pontious	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 Allan Sproul (&)	F.H. Holman (Genl) J.M. Osmer E.W. Morton	A.C. Agnew E.E. Hull (Asst. to)

* Controller
\# Manager
(&) Also Secretary
#1 Also Assistant Secretary
** Acting
*** General Statistician
**** Asst.Deputy Governor
\## Head of Audit Dept.

Corrected to March 26, 1925

OFFICERS OF FEDERAL RESERVE BRANCH BANKS

Managing Director	Cashier	Asst. Cashier	Auditor	Asst. F.R. Agent
HAVANA AGENCY OF F.R. BANK OF BOSTON Horace E. Snow (Mgr.)				
BUFFALO W.W. Schneckenburger	H.W. Snow, Jr.	C.L. Blakesle E.L. Theobald		
CINCINNATI L.W. Manning	B.J. Lazar	J.P.H. Brewster H.N. Ott	B. Kennelly (Asst.)	P.J. Faulkner
PITTSBURGH Geo. DeCamp	T.C. Griggs	P.A. Brown F.E. Cobun	Raymond Armor (Asst.)	T.M. Jones
BALTIMORE A.H. Dudley	E.G. Grady	T.I. Hays M.F. Reese	Henry Schutz	
NASHVILLE J.B. Fort, Jr.	E.C. Huggins, Jr.	Leo Starr		
BIRMINGHAM A.E. Walker	H.J. Urquhart	T.N. Knowlton		
NEW ORLEANS Marcus Walker	J.A. Walker W.H. Black#	F.C. Vasterling		Lawson Brown (& Auditor)
JACKSONVILLE G.R. DeSaussure	W.S. McLarin, Jr.			
SAVANNAH AGENCY R.N. Groover (Mgr.)	D.E. Avery#			
HAVANA AGENCY OF F.R. BANK OF ATLANTA L.C. Adelson (Mgr.)	L.L. Magruder#			

Managing Director	Cashier	Asst. Cashier	Auditor	Asst. F.R. Agent
DETROIT Wm.R. Cation	J.B. Dew	H.J. Chalfont H.H. Gardner	Geo. J. Jarvis (Asst.)	John G. Baskin Wm.C. Schrader (Acting)
LITTLE ROCK A.F. Bailey	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 V.S. Fuqua	S.K. Belcher	C.E. Martin		
HELENA R.E. Towle	H.F. Brown	R.E. Schumacher W.A. Cutler, Jr.		H.L. Zimmermann (& Auditor)
DENVER J.E. Olson	A.J. Conway	John A. Cronan	R.W. Smith (Asst.)	
OMAHA L.H. Earhart	G.A. Gregory	W.D. Lower Wm. Phillips	T.G. Sanders (Asst.)	
OKLAHOMA CITY C.E. Daniel	R.O. Wunderlich	R.L. Mathes	O.A. Leamon (Asst.)	
EL PASO D.P. Reordan	M. Crump	Allen Sayles	M.C. Smyth	
HOUSTON Fred Harris	L.G. Pondrom	H.R. DeMoss	C.L. Whitley	

Managing Director	Cashier	Asst. Cashier	Auditor	Asst. F.R. Agent
LOS ANGELES C.J. Shepherd	G.H. Schmidt#	A.J. Dumm L.C. Meyer		
PORTLAND Frederick Greenwood	R.B. West#	J.P. Blanchard		
SEATTLE C.R. Shaw		B.A. Russell		
SALT LAKE CITY R.B. Motherwell	A.B. Nordling#	P.M. Lee J.M. Leisner		
SPOKANE W.L. Partner	D.L. Davis#	Evan Berg		

Assistant Manager

Corrected to January 31, 1925

FEDERAL RESERVE BOARD

X-4261

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

February 4, 1925.

SUBJECT: Observance of Holidays by Federal Reserve Banks.

Dear Sir:

This will confirm the following telegram addressed to you today by the Secretary of the Board:

"Board today approved recommendation of Governors' Conference and has ruled that each Federal reserve bank shall advise the Board at least ten days in advance of a prospective holiday affecting either the parent bank or any of its branches whether the parent bank or such branches under advice of the bank's counsel will close or remain open on such holiday. It is understood that if a bank or branch closes on a particular legal holiday it will not participate either way in the gold settlement fund clearing and that if it remains open it will participate both ways. The ruling of the Board, letter X-4128 August 1, 1924, rescinded."

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS.

X-4263

FEDERAL RESERVE BOARD

1:39

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

February 5, 1925.

SUBJECT: Membership in American Acceptance Council and American Bankers' Association.

Dear Sir:

One of the Federal Reserve banks has recently made inquiry of the Federal Reserve Board as to whether or not in the opinion of the Board it is advisable for the bank to continue its sustaining membership in the American Acceptance Council, the dues for which during the year 1925 will be $300. The bank states that it derives no direct value from the membership.

The Board, upon inquiry, has learned that a majority of the Federal Reserve banks are in favor of continuing their sustaining memberships in the Council, and is, therefore, of the opinion that it should be optional with each bank as to whether or not it maintains membership for the year 1925. The Board believes that the question of the advisability and propriety of the Reserve banks as a whole continuing their memberships in the Council subsequent to 1925 should be made a topic for discussion at the next Governors' Conference.

The Board, at the suggestion of one of the Federal Reserve banks, also desires the Governors at their next conference to consider the question of Federal Reserve banks continuing paid memberships in the American Bankers' Association.

The matter of continuing memberships in the two organizations referred to should be discussed by the Governors with their respective boards of directors prior to the time of the next conference and the views of the directors submitted to the conference.

Very truly yours,

Walter L. Eddy,
Secretary.

TO GOVERNORS OF ALL F.R.BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

X-4264

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

February 7, 1925.

SUBJECT: Circulars issued by Federal Reserve Banks.

Dear Sir:

Referring to the Board's request contained in letter of August 4, 1921, (X-3180), it appears that some of the banks are not forwarding to the Board regularly as issued six copies of all new circular letters addressed to their member banks.

In order that the Board may receive such circular letters promptly as issued, it will be appreciated if you will again call to the attention of the proper department the Board's request in order that there will be no omission or delay in the transmission of these letters.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F.R.BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4265

February 9, 1925

SUBJECT: Holiday Washington's Birthday,
Monday, February 23, 1925.

Dear Sir:

For your information, there will be no Gold Settlement Fund or Federal Reserve Note Clearing on Monday, February 23rd, on account of observance of Washington's birthday, and Board's books will be closed.

Please advise 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

X-4266

February 9, 1925

SUBJECT: Banks closed during 1924.

Dear Sir:

By direction of the Federal Reserve Board, I enclose herewith, for your information and not for publication, copy of a statement showing the number of banks closed in each of the Federal reserve districts during the year 1924.

This tabulation is based upon information furnished the Board from time to time during the year by the Federal Reserve Banks and the Comptroller of the Currency.

Very truly yours,

J. C. Noell,
Assistant Secretary.

To the Governors of all Federal
Reserve Banks.

CLOSED BANKS - 1924.

The attached tables give a consolidated statement of banks closed throughout the United States during the year 1924, as taken from the Board's records.

Table 1 gives the total number of banks closed, together with their capital and surplus, being arranged by Districts, and classified as National Banks, State Member Banks, and Non-member Banks.

The table shows that a total of 753 banks closed, with capital of $35,267,595, and surplus of $11,375,390.

Of these, 127 were National Banks, with capital of $9,365,000, and surplus of $4,099,260; 34 were State Member Banks, with capital of $2,545,000, and surplus of $759,630, and 592 were non-member Banks, with capital of $23,357,595, and surplus of $6,516,500.

The percentage table indicates that National Banks comprised 17% of the total number closed, 26½% of the capital, and 36% of the surplus.
State Member Banks 4½% of the number, 7% of the capital, and 7% of the surplus.
Non-member Banks 78½% of the number, 66½% of the capital, and 57% of the surplus.

District No. 9, with 299 banks, took the lead in the number closed, with District No. 10 second, with 134 banks.

These two districts together comprised 57½% of the total number closed, 40% of the capital, and 49% of the surplus.

The table discloses that District No. 4, Cleveland, is the one and only District in which no banks were closed.

Table 2 gives the same information as above, but classifies the banks with relation to their capital.

The table indicates that banks with capital of $25,000 and less make up 65% of the total; banks with less than $75,000 capital, 88%, and banks with less than $100,000 capital, 90%, which leaves banks with capital of $100,000 or more making up 10%.

Table 3 is a statement of banks re-opened during the year 1924, which indicates that only 5% of the closed banks re-opened within the year.

TABLE 1.

STATEMENT OF BANKS CLOSED LURING THE YEAR 1924, BY FEDERAL RESERVE DISTRICTS, AND CLASSIFIED AS NATIONAL BANKS, STATE MEMBER BANKS AND NON-MEMBER BANKS.

	Number of Banks	Capital	Surplus
DISTRICT NO. 1. (Boston)			
National Banks	1	$ 150,000	$ 100,000
State Member Banks	0		
Non-member Banks	0		
Total	1	150,000	100,000
DISTRICT NO. 2. (New York)			
National Banks	2	1,525,000	762,500
State Member Banks	0		
Non-member Banks	3	5,030,000	36,930
Total	5	6,555,000	799,430
DISTRICT NO. 3. (Philadelphia)			
National Banks	1	50,000	28,500
State Member Banks	0		
Non-member Banks	0		
Total	1	50,000	28,500
DISTRICT NO. 4. (Cleveland)			
National Banks	0		
State Member Banks	0		
Non-member Banks	0		
Total	0		
DISTRICT NO. 5. (Richmond)			
National Banks	3	200,000	28,500
State Member Banks	1	100,000	20,000
Non-member Banks	29	1,132,670	335,350
Total	33	1,432,670	383,850
DISTRICT NO. 6. (Atlanta)			
National Banks	4	365,000	160,000
State Member Banks	9	625,000	246,290
Non-member Banks	31	939,300	334,230
Total	44	1,929,300	740,520
DISTRICT NO. 7. (Chicago)			
National Banks	4	225,000	114,010
State Member Banks	9	490,000	123,210
Non-member Banks	88	3,927,500	1,581,680
Total	101	4,642,500	1,818,900
DISTRICT NO. 8. (St. Louis)			
National Banks	1	200,000	5,000
State Member Banks	2	200,000	36,000
Non-Member Banks	52	1,583,625	575,320
Total	55	1,983,625	616,320

DISTRICT NO. 9. (Minneapolis)	Number of Banks	Capital	Surplus
National Banks	50	$ 2,555,000	$1,245,070
State Member Banks	9	795,000	200,970
Non-member Banks	240	5,948,500	2,180,150
Total	299	9,298,500	3,626,190
DISTRICT NO. 10. (Kansas City)			
National Banks	32	1,745,000	956,930
State Member Banks	2	125,000	27,000
Non-member Banks	100	3,051,500	971,750
Total	134	4,921,500	1,955,680
DISTRICT NO. 11. (Dallas)			
National Banks	19	1,885,000	554,500
State Member Banks	2	210,000	106,160
Non-member Banks	31	913,000	239,490
Total	52	3,008,000	900,150
DISTRICT NO. 12. (San Francisco)			
National Banks	10	465,000	144,250
State Member Banks	0		
Non-member Banks	18	831,500	261,600
Total	28	1,296,500	405,850
TOTAL FOR ALL DISTRICTS			
National Banks	127	9,365,000	4,099,260
State Member Banks	34	2,545,000	759,630
Non-member Banks	592	23,357,595	6,516,500
Grand Total	753	35,267,595	11,375,390
PERCENTAGES			
National Banks	17%	26½%	36%
State Member Banks	4½%	7%	7%
Non-member Banks	78½%	66½%	57%
Total	100%	100%	100%

Table 2.

STATEMENT OF CLOSED BANKS, CLASSIFIED AS TO CAPITAL

CAPITAL	DISTRICTS												TOTAL
	1	2	3	4	5	6	7	8	9	10	11	12	
25,000 and less,	0	3	0	0	16	26	58	36	229	89	22	11	490
26,000 to 49,000,	0	0	0	0	3	6	5	5	17	11	8	2	57
50,000 to 74,000,	0	0	1	0	7	5	21	10	30	20	9	11	114
75,000 to 99,000,	0	0	0	0	2	0	1	1	4	2	2	3	15
100,000 to 124,000,	0	0	0	0	4	4	11	0	11	10	8	0	48
125,000 to 199,000,	1	0	0	0	1	1	2	1	3	0	0	1	10
200,000 to 499,000,	0	0	0	0	0	2	3	2	4	1	2	0	14
500,000 to 1,000,000,	0	0	0	0	0	0	0	0	1	1	1	0	3
Over 1,000,000.	0	2	0	0	0	0	0	0	0	0	0	0	2
Total	1	5	1	0	33	44	101	55	299	134	52	28	753

Banks with capital of $25,000 and less make up 65% of the total;

Banks with less than $75,000 capital, 88%;

Banks with less than $100,000 capital, 90%;

Leaving banks with capital of $100,000 or more making up 10%.

Table 3.

STATEMENT OF BANKS RE-OPENED IN 1924, WHICH HAD PREVIOUSLY CLOSED DURING THE YEAR

	Number of Banks	Capital	Surplus
DISTRICT NO. 6. (Atlanta)			
National Banks	0		
State Member Banks	1	$ 25,000	$ 1,000
Non-member Banks	3	85,000	15,170
Total	4	110,000	16,170
DISTRICT NO. 7. (Chicago)			
National Banks	1	60,000	60,000
State Member Banks	0		
Non-member Banks	6	200,000	45,890
Total	7	260,000	105,890
DISTRICT NO. 8. (St. Louis)			
National Banks	0		
State Member Banks	0		
Non-member Banks	2	35,000	4,690
Total	2	35,000	4,690
DISTRICT NO. 9. (Minneapolis)			
National Banks	2	75,000	20,000
State Member Banks	0		
Non-member Banks	16	425,000	172,600
Total	18	500,000	192,600
DISTRICT NO. 10. (Kansas City)			
National Banks	1	50,000	10,000
State Member Banks	0		
Non-member Banks	1	10,000	6,500
Total	2	60,000	16,500
DISTRICT NO. 11. (Dallas)			
National Banks	1	50,000	50,000
State Member Banks	0		
Non-member Banks	2	65,000	7,500
Total	3	115,000	57,500
DISTRICT NO. 12. (San Francisco)			
National Banks	1	50,000	--
State Member Banks	0		
Non-member Banks	1	25,000	16,500
Total	2	75,000	16,500
TOTAL FOR ALL DISTRICTS			
National Banks	6	285,000	140,000
State Member Banks	1	25,000	1,000
Non-member Banks	31	845,000	268,850
Grand Total	38	1,155,000	409,850

X-4268

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TREASURY DEPARTMENT
Office of the Secretary
WASHINGTON

February 10, 1925.

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 to January 31, 1925, amounting to $100,000, as follows,-

	Federal Reserve Notes, 1914.			
	$5	$10	$20	Total
Boston	100,000	100,000	100,000	300,000
New York	400,000	---	---	400,000
Philadelphia	100,000	50,000	50,000	200,000
Cleveland	300,000	---	100,000	400,000
Richmond	100,000	50,000	50,000	200,000
Atlanta	100,000	---	---	100,000
Chicago	400,000	---	---	400,000
Minneapolis	50,000	---	---	50,000
Kansas City	100,000	---	50,000	150,000
Dallas	50,000	50,000	---	100,000
San Francisco	100,000	100,000	100,000	300,000
	1,800,000	350,000	450,000	2,600,000

2,600,000 sheets at $38.50 per M . . . . . $100,100.

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

	Sheets	Compensation	Plate Printing	Materials	Total
Boston	300,000	$5,325.00	$2,454.00	$3,771.00	$11,550.00
New York	400,000	7,100.00	3,272.00	5,028.00	15,400.00
Philadelphia	200,000	3,550.00	1,636.00	2,514.00	7,700.00
Cleveland	400,000	7,100.00	3,272.00	5,028.00	15,400.00
Richmond	200,000	3,550.00	1,636.00	2,514.00	7,700.00
Atlanta	100,000	1,775.00	818.00	1,257.00	3,850.00
Chicago	400,000	7,100.00	3,272.00	5,028.00	15,400.00
Minneapolis	50,000	887.50	409.00	628.50	1,925.00
Kansas City	150,000	2,662.50	1,227.00	1,885.50	5,775.00
Dallas	100,000	1,775.00	818.00	1,257.00	3,850.00
San Francisco	300,000	5,325.00	2,454.00	3,771.00	11,550.00
	2,600,000	$ 46,150.00	$21,268.00	$ 32,682.00	$100,100.00

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) R. W. Barr,
Acting Deputy Commissioner.

FEDERAL RESERVE BOARD

WASHINGTON

X-4269

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

February 13, 1925.

SUBJECT: Bank Holidays

Dear Sir:

The Federal Reserve Board is advised that the New Orleans Branch of the Federal Reserve Bank of Atlanta will be open for business on Monday, February 23rd, as the law of the State of Louisiana does not provide for the observance on Monday of a holiday falling on Sunday.

On Tuesday, February 24th, the New Orleans Branch will be closed on account of observance of Mardi-Gras. Please include credits for the New Orleans Branch in your Gold Fund Clearing telegram of the following day.

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

Letter to Governors of all
Federal Reserve Banks.

STATEMENT FOR THE PRESS

February 17, 1925.

For Release in
Morning Papers.

The organization meeting of the Federal Advisory Council was held yesterday, the membership as constituted for 1925 being as follows:

Federal Reserve District	#1 - Boston,	C. A. Morss
" " "	#2 - New York,	P. M. Warburg
" " "	#3 - Philadelphia,	L. L. Rue
" " "	#4 - Cleveland,	G. A. Coulton
" " "	#5 - Richmond,	J. M. Miller, Jr.
" " "	#6 - Atlanta,	Oscar Wells
" " "	#7 - Chicago,	F. O. Wetmore
" " "	#8 - St. Louis,	Breckinridge Jones
" " "	#9 - Minneapolis,	G. H. Prince
" " "	#10 - Kansas City,	E. F. Swinney
" " "	#11 - Dallas,	W. M. McGregor
" " "	#12 - San Francisco,	H. S. McKee

Paul M. Warburg was re-elected President and E. F. Swinney, Vice President, making them ex-officio members as well of the executive committee. The remaining four members of the executive committee elected were C. A. Morss, who was again made Vice Chairman of that committee, L. L. Rue, J. M. Miller, Jr., and F. O. Wetmore.

The general conditions in the country and the open market operations of the Federal reserve banks were the main topics of discussion.

FEDERAL ADVISORY COUNCIL
1925

Officers:

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

Executive Committee:

Paul M. Warburg — Levi L. Rue
Charles A. Morss* — John M. Miller, Jr.
E. F. Swinney — F. O. Wetmore

MEMBERS

District		Address
No. 1	Charles A. Morss	Simplex Wire & Cable Co., 201 Devonshire Street, Boston, Mass.
No. 2	Paul M. Warburg	Internat'l. Acceptance Bank 52 Cedar Street, New York, N. Y.
No. 3	Levi L. Rue	The Philadelphia Natl. Bank, 421 Chestnut Street, Philadelphia, Pa.
No. 4	Geo. A. Coulton	Union Trust Company, Cleveland, Ohio.
No. 5	John M. Miller, Jr.	First National Bank, Richmond, Va.
No. 6	Oscar Wells	First National Bank, Birmingham, Alabama.
No. 7	Frank O. Wetmore	First National Bank, Chicago, Illinois.
No. 8	Breckinridge Jones	Mississippi Valley Trust Co. St. Louis, Mo.
No. 9	G. H. Prince	Merchants National Bank, St. Paul, Minn.
No.10	E. F. Swinney	First National Bank, Kansas City, Mo.
No.11	W. M. McGregor	First National Bank, Wichita Falls, Tex.
No.12	Henry S. McKee	Barker Brothers, Los Angeles, Calif.

Address of Mr. Georgen, Federal Reserve Bank, New York, N. Y.
* Vice Chairman.

Corrected to February 17, 1925.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4273
February 17, 1925

SUBJECT: Expense Main Line, Leased Wire System, January, 1925.

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-4273-a and X-4273-b, covering in detail operations of the main line, Leased Wire System, during the month of January, 1925.

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.

Yours very truly,

Fiscal Agent.

(Enclosures)

TO GOVERNORS OF ALL BANKS EXCEPT CHICAGO.

X-4273-a

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINE OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF JANUARY, 1925.

From	Fed. Res. Bank Business	Percent of Total Bank Business(*)	Treasury Dept. Business	War Finance Corp. Business	Total
Boston	25,652	3.04	4,273	-	29,925
New York	174,050	20.65	7,989	-	182,039
Philadelphia	34,342	4.07	4,858	-	39,200
Cleveland	65,748	7.80	4,990	-	70,738
Richmond	43,009	5.10	3,311	-	46,320
Atlanta	59,252	7.03	3,868	-	63,120
Chicago	94,642	11.23	7,035	-	101,677
St. Louis	71,127	8.44	5,849	-	76,976
Minneapolis	36,548	4.34	2,590	-	39,138
Kansas City	72,346	8.58	5,136	-	77,482
Dallas	59,446	7.05	3,002	-	62,448
San Francisco	106,852	12.67	9,393	-	116,245
TOTAL	843,014	100.00%	62,294	-	905,308
Board	284,709		31,464	339	316,512
Total	1,127,723		93,758	339	1,221,820
Percent of Total	92.30%		7.67%	.03%	

Bank Business	1,127,723	words or	92.32%
Treasury Dept.	93,758	" "	7.68%
Total	1,221,481	" "	100.00%

(*) These percentages used in calculating the pro rata share of leased wire expenses as shown on the accompanying statement (X-4273-b)

REPORT OF EXPENSE
MAIN LINE
FEDERAL RESERVE LEASED WIRE SYSTEM, JANUARY, 1925.

X-4273-b

Name of Bank	Operators' Salaries	Operators' Overtime	Wire Rental	Total Expenses	Pro Rata Share of Total Expenses	Credits	Payable to Federal Reserve Board
Boston	$ 250.00	$ -	$ -	$ 250.00	$ 630.71	$ 250.00	$ 380.71
New York	1,006.32	-	-	1,006.32	4,284.26	1,006.32	3,277.94
Philadelphia	216.66	-	-	216.66	844.40	216.66	627.74
Cleveland	276.33	-	-	276.33	1,618.27	276.33	1,341.94
Richmond	170.00	-	-	170.00	1,058.10	170.00	(#)1,092.77
Atlanta	255.00	-	-	255.00	1,458.52	255.00	1,203.52
Chicago	(*)3,662.50	7.00	-	3,669.50	2,329.89	3,669.50	(&)1,339.61
St. Louis	212.00	-	-	212.00	1,751.05	212.00	1,539.05
Minneapolis	188.98	-	-	188.98	900.42	188.98	711.44
Kansas City	275.64	-	-	275.64	1,780.09	275.64	1,504.45
Dallas	251.00	-	-	251.00	1,462.66	251.00	1,211.66
San Francisco	380.00	-	-	380.00	2,628.65	380.00	2,248.65
Fed. Res. Board			(c) 15,324.52	15,324.52			
TOTAL	$7,144.43	$7.00	$15,324.52	$22,475.95	$20,747.02	$7,151.43	$15,139.87
				(a) 1,728.93			(b) 1,339.61
				$20,747.02			$13,800.26

(#) Includes $204.67 for branch line business transmitted over main line circuit.
(*) Includes salaries of Washington operators.
(&) Credit
(a) Received $ 7.23 from the War Finance Corp. and $1,721.70 from the Treasury Dept covering business for the month of January, 1925.
(b) Amount reimbursable to Chicago.
(c) Includes $ 45.20 charge for duplexing Chicago-Dallas wire in March, 1924.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4275

February 19, 1925.

Subject: Bank holidays during March.

Dear Sir:

The Federal Reserve Bank of Dallas, together with its El Paso and Houston Branches, will be closed on Monday, March 2nd, on account of observance of Texas Independence Day.

Baltimore Branch of the Federal Reserve Bank of Richmond will be closed on Wednesday, March 25th, on account of observance of Maryland Day.

On the dates indicated, the banks affected will not participate in either the Gold Fund Clearing or the Federal Reserve Note Clearing. Please include your credits for 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 shipment of Dallas Federal Reserve notes, fit or unfit, to the Head Office or to Washington, respectively, on March 2nd.

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

X-4276

February 20, 1925.

SUBJECT: Changes in Inter-District Time Schedule.

Dear Sir:

By agreement between the Federal Reserve Bank of Chicago and the Federal Reserve Banks of Cleveland, Minneapolis and San Francisco, the following changes should be made in the Inter-District Time Schedule:

Detroit to Pittsburgh - one day
Pittsburgh to Detroit - one day

Detroit to Helena - three days

Detroit to Salt Lake City - three days.

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

February 20, 1925.
X-4277

SUBJECT: Clearing Telegrams.

Dear Sir:

At such times as it becomes necessary for the Federal reserve banks or branches to employ commercial telegraph lines in forwarding to the Board the daily Gold Fund and Federal Reserve Note Clearing telegrams, it is requested that the telegrams be sent as open messages, and that the amounts be stated neither in code nor in numerals.

The following form is suggested:

"Labeg Two million six thirty eight
thousand five forty six ten.
Boston Twenty five dollars
New York Two fifty five thousand six
fifty four twenty"

Very truly yours,

J. C. Noell,
Assistant Secretary.

To Governors of all F. R. Banks

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS X-4278

For Release in Morning Papers,
Saturday, February 28, 1925.

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.

Further growth in production during January carried the output of basic commodities to the highest point reached since the spring of 1923. Employment at industrial establishments increased slightly, but remained below the level of a year ago. Prices of farm products continued to advance and there were smaller increases in the wholesale prices of most of the other groups of commodities.

Production. - Production in basic industries, after a rapid increase in recent months, advanced 8 per cent in January and was 34 per cent above the low point of last summer. The most important factor in the increase in the level of production since August has been the greater activity in the iron and steel industry, but in January the output of lumber, minerals, food products, and paper, and the mill consumption of cotton also showed considerable increases. The woolen industry was somewhat less active in January and output of automobiles, though larger than in December, was considerably smaller than a year ago. Further increases during the month in employment in the metal, textile, and leather industries were largely offset by seasonal declines in the number employed in the building materials and food products industries. Building activity, as measured by contracts awarded, though less in January than during the closing months of 1924, was near the high level of a year ago.

Trade. - Railroad shipments were in record volume for this time of year, and loadings of merchandise and miscellaneous products were particularly heavy. Wholesale trade in January, however, was slightly smaller than in December. Sales of groceries, shoes, and hardware were in smaller volume, while sales of dry goods and drugs increased. Department store sales in most districts were somewhat smaller than a year ago, but sales of mail order houses were considerably larger.

Prices. - Wholesale prices, as measured by the index of the Bureau of Labor Statistics, rose 2 per cent during January to the highest level in four years. The increase of 10 per cent in the index since last June represents an advance of 19 per cent in prices of agricultural commodities and 3 per cent in other commodities. In the first half of February prices of grains, wool, coal, and lead declined, while petroleum and gasoline prices advanced sharply, and cotton, silk, and rubber showed smaller increases.

Bank credit. - Loans and investments of member banks in leading cities, following the rapid growth during the last half of 1924, declined by about $100,000,000 between the middle of January and the middle of February. This decrease represents a reduction in the holdings of investments, chiefly at banks in New York, partly offset by an increase in loans. Loans on stocks and bonds increased though less rapidly than in the latter part of 1924, while loans for commercial purposes declined slightly from the high level reached in the middle of January. Net demand deposits, owing largely to decreases at New York City banks, declined sharply from the high point reached in the middle of January.

At the Federal reserve banks the seasonal liquidation resulting from the return flow of currency from circulation came to a close by January 21 and during

the following four weeks there was an increase in total earning assets. This increase reflected largely the demand for gold for export, which led member banks to increase their discounts at the reserve banks. Reserve bank holdings of United States securities declined further, while acceptances showed relatively little change for the period.

Money rates, after remaining comparatively steady during most of January, showed a firmer tendency during the early part of February, when rates for prime commercial paper advanced to 3 3/4 per cent.

February 26, 1925.

X-4280

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

4:00 o'clock p.m.,
February 26, 1925.

The Federal Reserve Board announces that the Federal Reserve Bank of New York has established a rediscount rate of 3 1/2 per cent on all class of paper of all maturities, effective February 27, 1925.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4281

February 27, 1925.

SUBJECT: Changes in Inter-District Time Schedule.

Dear Sir:

By agreement between the Federal Reserve Banks of St. Louis and Kansas City, and also by agreement between the Federal Reserve Banks of Dallas and St. Louis, the following changes should be made in the Inter-District Time Schedule:

Omaha to St. Louis - one day.

Dallas to Louisville - two days.
Louisville to Dallas - two days.

Yours very truly,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS

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

STATEMENT FOR THE PRESS X-4282

For Immediate Release

February 27, 1925.

CONDITION OF ACCEPTANCE MARKET

January 22, 1925 to February 18, 1925.

During the first half of the period from January 22 to February 18 there was little change in the condition of the New York acceptance market, although some increase in the supply of bills was reported from Boston with a consequent increase in the portfolios of dealers. There were moderate offerings to reserve banks. On February 6 the New York Federal Reserve Bank's buying rates on 30 and 60-day maturities were raised to 3 per cent and dealers subsequently advanced their rates 1/8 per cent on all maturities up to 90 days. There was an increase in the foreign demand for prime member bank bills of 30 and 60 day maturity, and with easier money conditions a more active demand on the part of both local and out-of-town banks, including savings banks, developed; so that toward the end of the period New York dealers found the supply hardly sufficient to fill orders. Rates in New York on February 18 ranged from 3 1/8 per cent bid and 3 per cent offered on 30-day bills to 3 5/8 bid and 3 1/2 offered on 5 and 6-months maturities.

-COPY-

FEDERAL RESERVE BANK

OF SAN FRANCISCO X-4283

February 19, 1925.

In re: Federal Reserve Bank of San Francisco v. Receiver, Bank of Phoenix.

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

Dear Mr. Wyatt:

I hand you herewith copy of memorandum opinion recently rendered by the Superior Court of Maricopa County, Arizona, in the matter of a claim filed by us for preference against the Receiver of the Bank of Pheonix.

The facts upon which our claim was predicated are briefly these:

About March 14, 1921, the Federal Reserve Bank of San Francisco forwarded for collection to the Central Bank of Wickenburg, Arizona, a cash letter containing various checks drawn on that bank, including items totaling $2,599.81. The cash letter was received on March 16 by the Bank of Wickenburg which issued to the Federal Reserve Bank its drafts in payment. These payments were received by our Los Angeles Branch on March 17, 1921. At the time the drafts were issued, the Central Bank of Wickenburg had on deposit with the Central Bank of Phoenix, predecessor of the Bank of Phoenix, sufficient funds with which to pay said drafts. Upon receipt of the drafts, they were indorsed and forwarded to the Central Bank of Phoenix for collection and return. They were received by the Central Bank of Phoenix about March 19, 1921, stamped "paid," and charged to the account of the Central Bank of Wickenburg. The Central Bank of Phoenix thereupon issued in purported payment of the drafts drawn upon it by the Central Bank of Wickenburg two other drafts in favor of the Reserve Bank, one drawn on the First National Bank of El Paso, Texas, and the other, upon the Commonwealth National Bank of Kansas City, Mo. Upon presentation the substituted drafts issued by the Central Bank of Phoenix were dishonored, the Central Bank of Phoenix having in the meantime failed.

Subsequent to this time, the Central Bank of Phoenix was reorganized and the Bank of Phoenix assumed the payment of all outstanding liabilities. We attempted to settle the matter with the Receiver of the Bank of Phoenix out of court but failing to receive any satisfaction, filed suit, claiming preference.

You will note from the memorandum opinion that Judge Windes had to do some legal acrobatics in order to place himself in a position to allow the claim. I must admit that I am a little ashamed of our successin this matter. We relied chiefly upon the following cases.

Goodyear Tire & Rubber Co. v. Hanover State Bank,
204 Pac. 992,
Hawaiian Pineapple Co. v. Browne, 220 Pac. 1114,
Federal Reserve Bank v. Peters, 123 S. E. 379.

I thought this case might be of interest to you.

Yours very truly,

(signed) A. C. AGNEW

Counsel.

IN THE SUPERIOR COURT OF MARICOPA COUNTY,

STATE OF ARIZONA.

* * *

THE STATE OF ARIZONA ex rel W. J. Galbraith, Attorney General,

Plaintiff,

vs.

CENTRAL BANK OF PHOENIX, a corporation; CENTRAL BANK OF PHOENIX, doing business as the Bank of Phoenix, a corporation; BANK OF PHOENIX, a corporation; D. N. STAFFORD, B. C. STAFFORD, GEORGE W. MICKLE, DONALD DUNBAR, ED. C. BRADFORD, O. F. ALFORD, E. A. TOVREA, R. E. SLOAN and E. T. COLLINGS, as Officers and Directors of said Corporation,

Defendants.

No. 15797.

MEMORANDUM OF OPINION

* * * * *

The matter of the application of the Federal Reserve Bank of San Francisco for the establishment of its claim as a preference against the Bank of Phoenix, insolvent, having come before the court on an agreed statement of facts and the court feeling that its ruling thereon is in a measure contrary, or apparently contrary, to its former ruling in a similar case, the court feels it should state its reasons for such ruling.

Formerly, in a somewhat similar set of facts in the matter of the application of S. O. Lewis for a preferred claim, wherein a Montana Bank sent to the Bank of Phoenix a check, presumably for payment, and the Bank of Phoenix in payment thereof issued its draft on a correspondent bank, which draft was not paid, this court held that the relation

of debtor and creditor existed between the Montana Bank and the Bank of Phoenix and that therefore no ground for preference existed.

In the present case a great deal of additional, enlightening and convincing authority has been submitted to the court to the effect that where one bank transmits checks or drafts for collection to another bank, there being no reciprocal accounts between the two banks, and the receiving bank collects said draft or check and in remitting the collection thereof issues a draft on a correspondent of the receiving bank and transmits it through the mail to the sending bank, there is thereby created the relation of principal and agent between the sending and receiving bank. And, of course, when such a relationship is created, under the law a preference under all of the authorities is allowed. The vital question in all of these cases is merely the question of whether the relation of debtor and creditor or principal and agent has been created.

The only difference that I can see between the facts in this case and the Lewis case is that in the Lewis case a check was sent to the Phoenix bank, presumably for payment, and payment was made by the issuance of a draft and its transmission to the Montana Bank, whereas, in the present case, a draft upon the Phoenix bank was sent by the Federal Reserve Bank to the Phoenix bank for collection and return, and the Phoenix bank, in accordance with a custom which had heretofore existed between the two banks, made collection by transmitting to the Federal Reserve Bank its draft on its correspondent bank. Counsel for petitioner has attempted to distinguish the two cases upon the theory that in the Lewis case it was a question of the purchase of a draft, whereas in this case it was merely the question of transmitting for

collection. I fail to see that there is really any material difference in the two sets of facts, but I do feel that in the light of the case of Federal Reserve Bank of Richmond vs. Peters, 123 S. E. 379, decided last June, and the many authorities therein cited and discussed, this court could not do otherwise than allow the preference.

The Lewis case was decided upon the theory that a draft was purchased, and I think it is undoubtedly the law that when one purchases a draft from a bank, whether he pays therefor in checks or money, and before the draft is cashed the bank issuing the same becomes insolvent, the relation of debtor and creditor exists between the purchaser of the draft and the insolvent bank. If the court committed error in the Lewis case, I feel it did so not in an enunciation of the law, but in the assumption that a fact existed which may possibly not have existed, that is to say, that the Montana bank purchased the draft from the Bank of Phoenix. I am not sure but that the court possibly erred in its assumption in view of the fact that the Montana bank simply sent the check for payment, and the Bank of Phoenix without any solicitation on the part of the Montana bank simply issued its draft in liew of transmitting the funds. In any event, I feel that the correct and reasonable rule of law and the better authority as has been submitted in this case demands that a preference be allowed.

For the reasons above set forth the petition will be allowed and the receiver ordered to pay the claim therein presented as a preference claim in due course of administration. In view of the present condition of the bank, however, no preference claim should be paid at this time until the funds are available for that specific purpose.

F. R. Windes

J U D G E.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4285

March 9, 1925.

Subject: Code word to cover new issue of Certificates of Indebtedness, Series TD 1925, in telegraphic transactions.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal Reserve Banks, the code word "Befringe" has been designated to cover the new issue of Certificates of Indebtedness dated March 16, 1925, Series TD 1925.

This word should be inserted in the Federal Reserve Telegraphic Code Book, following the supplemental code word "Befoul", at the bottom of page 24.

Very truly yours,

J. C. Noell,
Assistant Secretary.

To Governors of all F.R.Banks.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4286

March 9, 1925.

SUBJECT: By-laws of Federal Reserve Banks and Branches.

Dear Sir:

As the copies of the by-laws of the various banks and branches now in the files of the Board do not include amendments which have been adopted since they were received, it will be appreciated if you will forward to the Board, at your convenience, three copies of the by-laws of your bank and branches, if any, which are now in effect.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO ALL FEDERAL RESERVE AGENTS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4288
March 13, 1925.

SUBJECT: Expense Main Line, Leased Wire System, February, 1925.

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-4288-a and X-4288-b, covering in detail operations of the main line, Leased Wire Sytem, during the month of February 1925.

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.

Yours very truly,

Fiscal Agent.

(Enclosures)

TO GOVERNORS OF ALL BANKS EXCEPT CHICAGO.

X-4288-a

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINE OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF FEBRUARY, 1925

From	Fed. Res. Bank Business	Percent of Total Bank Business(*)	Treasury Dept. Business	War Finance Corp. Business	Total
Boston	21,643	3.11	3,245	-	24,888
New York	133,406	19.15	4,801	-	138,207
Philadelphia	27,065	3.89	3,149	-	30,214
Cleveland	55,661	7.99	3,285	-	58,946
Richmond	36,748	5.27	2,566	-	39,314
Atlanta	49,868	7.16	3,010	-	52,878
Chicago	80,485	11.55	4,909	-	85,394
St. Louis	59,629	8.56	4,456	-	64,085
Minneapolis	32,146	4.61	2,176	-	34,322
Kansas City	56,812	8.16	3,745	-	60,557
Dallas	51,170	7.35	1,729	-	52,899
San Francisco	91,966	13.20	6,881	-	98,847
TOTAL	696,599	100.00	43,952	-	740,551
Board	241,731		29,067	250	271,048
Total	938,330		73,019	250	1,011,599
Percent of Total	92.76%		7.22%	.02%	

Bank Business	938,330	words	or 92.78%
Treasury Dept.	73,019	"	" 7.22%
Total	1,011,349	"	"100.00%

(*) These percentages used in calculating the pro rata share of leased wire expenses as shown on the accompanying statement (X-4288-b)

REPORT OF EXPENSE
MAIN LINE
FEDERAL RESERVE LEASED WIRE SYSTEM, FEBRUARY, 1925.

X-4288-b

Name of Bank	Operators' Salaries	Operators' Overtime	Wire Rental	Total Expenses	Pro Rata Share of Total Expenses	Credits	Payable to Federal Reserve Board
Boston	$ 250.00	$ -	$ -	$ 250.00	$ 646.54	$ 250.00	$ 396.54
New York	933.32	8.00	-	941.32	3,981.08	941.32	3,039.76
Philadelphia	216.66	-	-	216.66	808.69	216.66	592.03
Cleveland	276.33	-	-	276.33	1,661.04	276.33	1,384.71
Richmond	170.00	-	-	170.00	1,095.58	170.00	(#) 1,130.25
Atlanta	255.00	-	-	255.00	1,488.49	255.00	1,233.49
Chicago	(*)3,653.18	13.00	-	3,666.18	2,401.12	3,666.18	(&) 1,265.06
St. Louis	200.00	-	-	200.00	1,779.53	200.00	1,579.53
Minneapolis	183.34	-	-	183.34	958.37	183.34	775.03
Kansas City	275.64	-	-	275.64	1,696.38	275.64	1,420.74
Dallas	251.00	-	-	251.00	1,527.99	251.00	1,276.99
San Francisco	380.00	-	-	380.00	2,744.14	380.00	2,364.14
Federal Reserve Board			15,346.58	15,346.58			
TOTAL	7,044.47	$21.00	$15,346.58	$22,412.05	$20,788.95	$7,065.47	$15,193.21
				(a) 1,623.10			(b)1,265.06
				$20,788.95			$13,928.15

(#) Includes $204.67 for branch line business transmitted over main line circuit.
(*) Includes salaries of Washington operators.
(&) Credit
(a) Received $5.00 from War Finance Corp. and $1,618.10 from the Treasury Dept. covering business for the month of February, 1925.
(b) Amount reimbursable to Chicago.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4289

March 14, 1925

Subject: Code word for use between Federal Reserve Agents, in connection with the purchase and allotment of bankers' acceptances.

Dear Sir:

It has been suggested to the Board that in order to reduce the phraseology in telegrams between the Federal Reserve Agents, covering the allotment of bankers' acceptances purchased by the Federal Reserve Bank of New York, and their delivery in trust to the Federal Reserve Agent at New York, an additional code word be supplied from the Federal Reserve Telegraphic Code.

This suggestion has been approved, and effective March 23rd, the following code word will be used covering the transactions referred to:

> "Abstinent" Federal Reserve Bank New York has delivered bankers' acceptances aggregating $_____ which I hold in trust for your account."

This code word should be inserted in the Federal Reserve Telegraphic Code, at the bottom of page 2, following the code word "Abstention".

Very truly yours,

J. C. Noell,
Assistant Secretary.

To all Federal Reserve Agents.

FEDERAL RESERVE BOARD

X-4290

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

March 16, 1925.

SUBJECT: Expenditures of Federal Reserve Bank Funds for Welfare and Educational Work.

Dear Sir:

The Board has recently reviewed its letter X-4211 of December 13, 1924, on the subject of expenditures of Federal reserve banks for welfare and educational work and has decided that budgets for this work need not be submitted annually to the Federal Reserve Board for approval. The Board wishes to state, however, that expenditures for welfare and educational work, for officers' dinners, entertainment of local and out-of-town bankers, etc., and for membership dues in and donations to associations and societies should be kept within a reasonably low limit, and where there is any doubt as to whether a given expenditure is a proper one for a Federal reserve bank to make the matter should be referred to the Federal Reserve Board.

The information regarding expenditures for welfare and recreational work and for other related purposes now being furnished on the reverse side of monthly expense reports Form 96 will, of course, keep the Board informed currently of amounts being spent for such purposes. In order, however, that we may have on file a statement showing in a general way the purposes for which contributions of the Federal reserve bank to the Federal Reserve Club or Society are being used, it will be appreciated if you will kindly advise the Board for what purposes such contributions, if any, were used in 1924, and also keep the Board advised in the future of any material change in the purposes for which the club or society is authorized to use funds contributed by the Federal reserve bank.

Very truly yours,

Walter L. Eddy,
Secretary.

To all Governors

TREASURY DEPARTMENT
Office of the Secretary
WASHINGTON

March 10, 1925.

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, 1925, to February 28, 1925, amounting to $127,242.50, as follows,-

	Federal Reserve Notes, 1914					
	$5	$10	$20	$50	$100	Total
Boston	159,000	270,000	100,000	-	-	529,000
New York	619,000	-	-	-	-	619,000
Philadelphia	312,000	50,000	50,000	13,000	-	425,000
Cleveland	308,000	-	-	16,000	3,000	320,000
Richmond	150,000	50,000	50,000	-	-	250,000
Atlanta	216,000	-	-	-	-	216,000
Chicago	300,000	-	-	-	-	300,000
Kansas City	146,000	50,000	50,000	-	-	246,000
San Francisco . . .	250,000	100,000	50,000	-	-	400,000
	2,453,000	520,000	300,000	29,000	3,000	3,305,000

3,305,000 sheets at $38.50 per M $127,242.50

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

	Sheets	Compensation	Plate Printing	Materials	Total
Boston	529,000	$9,389.75	$4,327.22	$6,649.53	$20,366.50
New York . . .	619,000	10,987.25	5,063.42	7,780.83	23,831.50
Philadelphia .	425,000	7,543.75	3,476.50	5,342.25	16,362.50
Cleveland . .	320,000	5,680.00	2,617.60	4,022.40	12,320.00
Richmond . . .	250,000	4,437.50	2,045.00	3,142.50	9,625.00
Atlanta . . .	216,000	3,834.00	1,766.88	2,715.12	8,316.00
Chicago . . .	300,000	5,325.00	2,454.00	3,771.00	11,550.00
Kansas City. .	246,000	4,366.50	2,012.28	3,092.22	9,471.00
San Francisco	400,000	7,100.00	3,272.00	5,028.00	15,400.00
	3,305,000	$58,663.75	27,034.80	41,543.85	127,242.50

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) R. W. Barr,
Acting Deputy Commissioner.

X-1293

OFFICE CORRESPONDENCE

March 17. 1925.

To Federal Reserve Board

From Mr. Platt

While I can't fully agree with each item of the report as written by Mr. James, I believe that the committee should submit the regulation proposed in item (4) as offering a solution of the problem to the Governors' Conference and to the Committee on Voluntary Services.

I am not at all sure that it offers the only solution, or even that it is necessary to meet the objections and protests of the American Bankers' Association, but if the Board wishes to cut out, or to curtail by a system of charges, the collection of non-cash items the protests and resolutions offer an opportunity to do so. My own feeling is rather in favor of imposing a charge of 40 or 50 cents per $1,000 with a minimum charge of 20 or 25 cents or even less - not so much for revenue as to make member banks consider whether to send their items to a correspondent bank or to a Federal reserve bank without indiscriminately dumping them into the Federal reserve banks.

The estimate of revenue that would be derived from a charge of 50 cents per $1,000 with a minimum of 25 cents per item made by Mr. VanFossen indicates that such charges would yield a considerable profit, though they are probably lower than banks make when they make any charge at all for collection.

It would be interesting to refer to the Governors' Conference also the question whether one or two Reserve banks could make a charge for collection leaving the others on a free basis, as an experiment. The question of making charges only for items not payable at banks or through clearing houses should be given consideration.

Edmund Platt.

OFFICE CORRESPONDENCE February 13, 1925.

To Federal Reserve Board Subject: A charge for non-cash collection service.

From Special Committee (Messrs. James and Platt) on Non-Cash Collections.

Your Committee which was appointed to make a study and report to the Board on the subject of "A charge for non-cash collection service", and also the letter dated December 12, 1924, from the American Bankers' Association's Committee on Non-Cash Items recommending that the Federal Reserve Board's regulations be so amended as to prohibit the handling of non-cash collection items by the Federal reserve banks, begs to report as follows:

(1) The proposal that "Federal reserve banks impose a charge for handling non-cash collections" has been investigated through consultation with the Board's staff of operating officials and with a committee of auditors from several of the Federal reserve banks, and as a result regards the proposal as impracticable for many reasons - among which may be mentioned the great difficulty of making proper disposition or apportionment of the fees and the great variety in this class of business which makes a flat or uniform fee inadequate or inequitable.

(2) The Committee is inclined to agree in principle with the viewpoint expressed by the Non-Cash Collection Committee of the American Bankers Association which may be briefly summarized by here repeating the resolutions adopted at the 33rd Annual Convention of the Illinois Bankers Association held at Rockford, Illinois, on June 26, 1923, reading as follows:

"WHEREAS, The Federal Reserve Banks and their branches are now authorized by the Federal Reserve Board to collect notes and negotiable instruments other than cash items, and

WHEREAS, These items are generally known as "Collection Items", and not "Cash Items", and

WHEREAS, The said Federal Reserve Banks and their branches do not make any collection charge for handling these items commonly known as "Collection Items", and

WHEREAS, We do not believe it was the intention of Congress in establishing the Federal Reserve System that the several Federal Reserve Banks and their branches should go into active competition with the members of the System in handling what are known as "Collection Items", and

WHEREAS, The member banks handling "Collection Items" make collection charges, and

WHEREAS, The member banks of the Federal Reserve System furnish the capital of the Federal Reserve Banks and the dividends the member banks

may receive on their stock in the Federal Reserve Banks are limited, and

WHEREAS, The Federal Reserve Banks and their branches in handling "Collection Items" without making the usual collection charge and at a pecuniary loss to themselves, are giving unfair and unjust competition to the member banks of the system and are thereby curtailing their rightful and just profits without benefit to the Federal Reserve Banks or the System, now, therefore, be it

RESOLVED, That the Illinois Bankers Association is unalterably opposed to the Federal Reserve Banks doing a collection business as set forth and urges the Federal Reserve Board to give to the members of the System the relief that is justly due them in prohibiting the Federal Reserve Banks and their branches from handling what are generally known as "Collection Items".

(3) The Committee finds a wide divergence of opinion not only among the officers of the Federal reserve banks but among bankers generally on this subject, and has reviewed many letters both for and against the proposal to eliminate non-cash collection service from the System, with the result that the Committee feels that the time has come when definite action on the part of the Board regarding this question should be taken.

(4) The Committee submits as its solution for the problem the following resolution or regulation:

"Effective July 1, 1925, only such non-cash collection items as are payable by or at member banks, or banks that are on the par remitting lists of the Federal Reserve Banks, or that are collectible through clearing house associations, shall be handled by the Federal Reserve System".

(5) The Committee recommends that before finally adopting this resolution, or promulgating the regulation, the matter be submitted to the Committee on Voluntary Services, namely, Governors Harding, Strong, Fancher, McDougal and McKinney, with instructions that if this Committee on Voluntary Services does not agree with the recommendation of your Special Committee, then they shall at the coming Governors' conference present to the conference a definite and conclusive recommendation on this subject that will effectively and satisfactorily meet the objections and protests of the American Bankers' Association and sundry Clearing House Associations, and provide for a system of charges to be made for non-cash collection services in the Federal Reserve Banks.

George R. James.

OFFICE CORRESPONDENCE X-4294-a

180

To Mr. James February 21, 1925.

From Mr. Van Fossen Subject: Volume of Non-cash Collections

With reference to your memorandum requesting that if possible an estimate be made of the revenue availabe to the Federal Reserve System if a charge of 50 cts. per $1,000 and a minimum of 25 cts. per item were made on non-cash collections, I may say that we do not have separate data as to the number and aggregate amount of such items handled which would be subject to the 25 cent minimum charge, i.e. of items under $500. It is believed, however, that a fairly satisfactory estimate may be made on the basis of the available data.

The number and amount of non-cash items handled and the expense incurred in the performance of this work by the Federal reserve banks in 1924 were as follows:

	Items handled		Cost	Unit cost cents
	Number	Amount		
Administration	-	-	$68,647	
City collections	1,188,938	$ 2,060,268,225	223,858	18.8
Country collections	2,963,596	2,909,079,792	442,091	14.9
Coupon collections:				
Other than Government	*1,950,499	539,453,757	153,523	7.9
Government	50,483,405	720,074,065	163,573	0.32

* Represents number of separate collections not number of individual coupons.

The revenue that would be received on the volume of non-cash collections handled in 1924, if a flat charge of; (A) 50 cts. per $1,000 or, (B), 25 cts. per item were made therefor would be as follows:

	A Revenue at 50 cts. per $1,000	B Revenue at 25 cts. per item
City collections	$1,030,134	$297,234
Country collections	1,454,540	740,899
Coupon collections (except Government)	269,727	*487,625

* Calculated on basis of 25 cts. per separate collection.

Assuming an average size of $250 for items under $500 it is evident that the minimum charge of 25 cents per item on this class of items would represent a charge of double the amount that would be called for on

the basis of 50 cents per $1,000. Accordingly we may approximate the charge on the basis of 50 cents per $1,000 with a minimum of 25 cents per item, by adding to the amount calculated on the basis of 50 cents per $1,000 the proportionate part of one-half of the amount calculated on the basis of 25 cents per item for such part of the items as may be estimated to be under $500. For example, if it is assumed that 40 per cent of the city collections are under $500, 20 per cent of the estimated revenue from this source as shown in column B should be added to the amount in column A, making a total of $1,089,581.

It will be noted that the above estimates are based upon the volume of non-cash items actually handled in 1924 and do not of course purport to be based upon the probable amount of items that would be handled by the Reserve banks if the suggested charges were imposed.

With reference to Government coupons, I may say that inasmuch as the Federal reserve banks pay these coupons as fiscal agents of the Treasury, the Reserve banks could not, of course, impose a collection charge therefor upon depositors of such coupons. Accordingly no account has been taken of Government coupons in the estimates of the returns from the imposition of a collection charge on non-cash items.

(C O P Y)

Federal Reserve Board,
Washington, D. C.

Gentlemen:

Brief of American Bankers Association Committee on Collection of Non-Cash Items by Federal Reserve Banks.

Complying with request made by the Federal Reserve Board at the time of the recent hearing before you on the question of the handling of Non-Cash Items for collection by Federal Reserve Banks, I hereby submit on behalf of the American Bankers Association Committee a summary of the Committee's observations and analysis on this subject, with its recommendations.

1. ORIGIN AND ACTIVITIES OF COMMITTEE

(a) Prior to the spring meeting of the Council of the American Bankers Association at Rye, New York, in April, 1923, bankers in certain sections of the United States had indicated their disapproval of the Federal Reserve Banks being in the collection business, and the Clearing House Association of Minneapolis, Minn., had adopted a resolution (copy of which was forwarded to the Federal Reserve Board) urging that the Federal Reserve Banks discontinue the service.

(b) Acting upon this question which arose in the manner aforesaid, the American Bankers Association Council in session at Rye, New York, appointed a Committee, designated as a Committee on Non-Cash Items, to make an investigation of this activity on the part of Federal Reserve Banks and report at a later meeting with recommendations.

(c) At the meeting of the Council in Atlantic City in September, 1923, the Committee reported that they had not completed their analysis; that the Federal Reserve Board had appointed a Committee of Governors on the same matter, who had not at that time completed their investigation. Therefore, the Committee requested that it be continued as an Investigating Committee, which was granted.

(d) The Committee next reported at the Spring meeting of the Council at Augusta, Georgia, in April, 1924. (Copy of which report is hereto attached, marked Exhibit "A"). After some discussion of the Committee's report from the floor and the exchange of several questions and answers on the subject, the report was unanimously approved, and a special committee of three appointed to confer with the Federal Reserve Board, with authority to urge that the collection of Non-Cash Items by Federal Reserve Banks be discontinued.

(e) At the General Convention of the American Bankers Association held in Chicago, September last, the action of the Council at its Spring meeting in Augusta, Georgia, in the appointment of the Special Committee with authority to urge that the collection of Non-Cash Items by Federal Reserve Banks

be discontinued, was reported to the Convention in session, and approved without any objection.

(f) Prior to the hearing before the Board accorded our Committee on December 5, 1924, we endeavored to get a recent cross section of opinion from bankers on this question, and accordingly sent out a questionaire (copy of which is hereto attached, marked Exhibit "B"). This letter was sent to eighty-five bankers in all parts of the United States, who were selected without regard to whether their bank was located in a city in which there was a Federal Reserve Bank or Branch. Fifty-four replies were received up to the date of the hearing, of which forty-four expressed their opinion that the collection of Non-Cash Items by Federal Reserve Banks should be discontinued. Ten replies indicated that they were in favor of continuing the present service (These letters are attached hereto for your perusal and consideration).

2. COMMITTEE'S OBSERVATION AND FINDINGS

(a) Our Committee would like it clearly understood that our activities have been confined strictly to the handling by Federal Reserve Banks of Non-Cash Items, and has no relation to the present service by Federal Reserve Banks in the par clearance of checks and drafts drawn on member or non-member banks. Our contention is that any sight or time draft with or without documents attached drawn against an individual firm or corporation which comes in the possession of the Federal Reserve Bank without the Federal Reserve Bank having rediscounted the same for a member bank is a Non-Cash Item; therefore, a collection in their possession. Likewise any maturing note which the Federal Reserve Bank may be requested to handle for collection without the Federal Reserve Bank having first rediscounted the same is also a Non-Cash Item. Further, that all dunning drafts, etc. in which, of course, neither the member bank or the Federal Reserve Bank in particular can have any invested funds are Non-Cash Items. In brief, any item coming into the pessession of a Federal Reserve Bank not drawn on or payable by a bank or trust company and for which Reserve Bank has not given credit in reserve account to its endorser is a Non-Cash Item.

(b) That the present service of handling Non-Cash Items as hereinbefore described is materially unbalanced in its benefits to the member banks of the system.

(c) That the Federal Reserve Banking System cannot afford the overhead expense incident to the performance of this service.

(d) That it is inconsistent for any business organization to carry on an activity which incurs liability without remuneration, and the Federal Reserve Banks cannot be in the collection business without incurring liabilities. Loss of items or securities or documents attached, failure to protest or other accompanying instructions may result in loss to Federal Reserve Banks handling same.

(e) That there is no saving of time in the handling of collection items by Federal Reserve Banks. In fact, there may be a loss of time in routing collection items through Federal Reserve Banks instead of member banks routing them direct.

(f) That member banks could absorb the service now performed by Federal Reserve Banks in the collection of Non-Cash Items without any appreciable increase in their cost of operation, in that every collection item that is now handled by Federal Reserve Banks originates in a member bank, and that only in the thirty-five cities in which there is established a Federal Reserve Bank or Branch is the same item presented to the party upon whom it is drawn without it having to be sent to a bank by the Federal Reserve Bank in the city in which it is payable for presentation. Thus, all the collections handled by Federal Reserve Banks, excepting those payable in cities aforesaid, are handled at a duplication of service costs.

(g) That member banks maintain a collection department for the handling of outgoing and incoming collections, and a large percentage of member banks incur costs of advertising of this fact in an effort to put their collection departments on a maintenance or profitable basis.

(h) That the presentation of collection items by Federal Reserve Banks is generally unpopular with the public, because of the inconvenience to the payer of items presented by Federal Reserve Banks in that in the exercise of action the Federal Reserve Bank's general practice is to require that the payer must pay in cash or by a draft of a member bank drawn against its Federal Reserve balance. Therefore, when a runner for a Federal Reserve Bank takes a collection across town some fifteen or twenty blocks and presents it for payment, the payer is confronted with this condition of payment by the runner, and accordingly has to pay in cash, which he seldom has on hand, or go to his bank and arrange for a draft in favor of the Federal Reserve Bank in payment of the item. This is an inconvenience and annoyance to him and does not create for the Federal Reserve Bank a friendly feeling on the part of the public, which they are at all times hopeful of acquiring.

(i) We are convinced from our analysis of this service that Governors of certain Federal Reserve Banks contending for the continuance of this service are influenced by their immediate environments because of the benefits that accrue to certain institutions in large industrial and commercial centers in which certain Federal Reserve Banks are located and do not represent the attitude on this subject of their constituency as a whole.

(j) We are firmly of the opinion that it was not intended that a Federal Reserve Bank should function in any capacity that would bring it into direct competition with any of its member banks, or to deal in any way directly with the public, as is necessary in handling of the collection business.

(k) That the service of handling collection items by Federal Reserve Banks is not needed as a measure of saving expense or time to member banks, and the benefits that accrue by virtue of this service are being capitalized by certain member banks for profit to them for charges which they can make to their customers for handling collection items that the Federal Reserve Bank handles for them without charge or it accrues directly to the individual firm or corporation who furnished no part of the capital upon which the Federal Reserve Bank is operated, and, therefore, entitled to no part of its benefits directly.

(l) That it is unfair to impose a discretionary duty upon Reserve Bank management by it having to daily choose which member shall have the collection items on a point where there are more than one member bank, a situation which alone leads to dissension and dissatisfaction, resulting in the basis for a charge of favoritism.

(m) That many member banks receiving collection items from Federal Reserve Banks now remit without charge because they are under the impression that any item handled for a Federal Reserve Bank cannot be charged upon. Thus through this feeling of service to and cooperation with the Federal Reserve Banks they are omitting charging for a service for which they are justly entitled to remuneration.

(n) Quoting from letters recently received from bankers, which are hereto attached, as aforesaid, I desire to call your attention to a letter from the First National Bank of Detroit, Michigan, as follows:

> "As a commercial bank interested in giving direct and prompt service, we are opposed to the Federal Reserve Banks handling Non-Cash Items for the following reasons:
>
> 1st. Loss of time in routing items directly.
> 2nd. Slow and incomplete advices of payment.
> 3rd. Additional time and trouble taken to recall or reduce items.
> 4th. Difficulty in obtaining adjustment caused by their errors.
> 5th. More opportunity for special instructions to be overlooked or improperly passed on."

The Fort Worth National Bank, Fort Worth, Texas, write in part as follows:

> "The institution with which I am connected in one month handled more than $400,000 of cotton drafts through the collection department of Federal Reserve Banks, and based on an average collection charge of one-tenth of one per cent there resulted a saving for this bank of more than $400.00. While this is a profit for this particular bank, it was made at the expense of several banks located in Federal Reserve Cities, and a profit to which they were justly entitled, and which should have been paid by the drawer of the drafts or the depositor."

(o) That the future stability and popularity of the Federal Reserve System must be guarded against any tendency to increase its cost of operation by dealing directly with the public in any manner or coming in competition with its members. Free services have built up overhead that has to be met by open market activities detrimental to its future.

(p) We believe that it is universally recognized that there is a necessity at the present time of reducing the overhead cost of the System, and are therefore, firmly of the opinion that it would be recognized by a large majority of the membership of the System as prudent in the interest of economy to eliminate from the System the handling of collections, thereby saving the System in excess of one million dollars per annum, and we are convinced that such action on the part of the Reserve Board would meet with

the approval of the majority of its members and certainly could be done without any serious embarrassment to any member.

RECOMMENDATION.

Therefore, in compliance with the foregoing facts and the authority invested in this Committee by the American Bankers Association, we most earnestly urge that the Federal Reserve Board's regulations be so amended as to prohibit the handling of Non-Cash Collection Items by Federal Reserve Banks.

Respectfully submitted,

(Signed) John W. Barton,

Chairman, Committee on Non-Cash Items,
American Bankers Association

Members of Committee
attending hearing
December 5, 1924:

J. W. Barton, Minneapolis, Minnesota,
C. L. Brokaw, Kansas City, Kansas,
William C. White, Peoria, Illinois.

(C O P Y) X-4228-a

Exhibit "A"

REPORT OF COMMITTEE ON NON-CASH ITEMS TO
EXECUTIVE COUNCIL, A.B.A.
AUGUSTA, GEORGIA,
APRIL 30,1924.

President Head: The next order of business will be the report of the Committee on Non-Cash Items. Mr. Barton.

Mr. Barton: Mr. Chairman and Gentlemen of the Council: Many of you no doubt will recall that at the Spring Meeting of the Council in New York some discussion on this subject was had, which resulted in the appointment of a special committee to make investigation and report with recommendations.

Your Committee on Collection of Non-Cash Items by the Federal Reserve Banks reports as follows:

We are convinced that the service of handling collection items by Federal Reserve Banks is exceedingly unbalanced in its benefits to member banks. We believe the Federal Reserve Act did not intend to put the Federal Reserve banks in competition with commercial banks or that they should do business directly with the public.

We find based on information received from a Federal Reserve bank that only one out of twelve member banks use this service at the present time, and that this 8% of their membership is comprised almost entirely of the large city banks, thus taking away from 92% of their member banks a banking function which they feel they have a right to perform. For the Federal Reserve banks to continue to collect non-cash items would therefore tend to aggravate further many member banks in the country and keep others out of the Federal Reserve System, and continue to add to the already widespread feeling that there is a tendency within the System to increase rather than diminish their commercial activities.

We find that it costs Federal reserve banks thirty times as much to collect non-cash items as it does to collect cash items, for example:

During the quarter ending June 30, 1923, the Federal reserve banks handled 176,096,223 cash items at a total cost of $1,132,438, or a cost per item of .0064. During the same period 1, 253,291 non-cash items (exclusive of Government coupons) were handled at a cost of $245,291, or a cost per item of .1957.

Further that, the total cost of collecting non-cash items is rapidly increasing. In 1923 the cost to Federal Reserve banks was in excess of $1,000,000 and if not discontinued will soon be many times that amount.

We feel that the expenditure of more than a million dollars by Federal Reserve banks to collect non-cash items for less than 10% of the members is unjust to the other 90%, besides taking away from a large number of member banks the collection privilege to which they feel they are justly entitled.

We find that the Federal Reserve banks in performing this service are thus made dunning agencies for the collection of large and small accounts of varied character and descriptions at heavy cost to them and to the detriment of the System as a whole in the minds of the public. For illustration: In one Federal Reserve bank there was outstanding March 31, 1924, items for collection as follows:

Size	Number	Amount
Under $1.00	30	$ 16.31
$1.00 to 1.99	48	66.65
2.00 to 2.99	37	64.98
3.00 to 3.99	29	99.77
4.00 to 4.99	24	104.76
5.00 to 5.99	26	139.24
6.00 to 9.99	59	445.92
10.00 to 19.99	138	1,936.01
20.00 to 29.99	110	2,710.46
30.00 to 39.99	78	2,677.04
40.00 to 49.99	47	2,066.85
50.00 to 99.99	218	15,280.66
100.00 to 499.99	421	89,695.31
500.00 to 999.99	125	89,016.72
1000.00 to 2499.99	149	230,715.11
2500.00 to 4999.99	31	101,461.14
5000.00 and over	14	89,290.33
	1574	$625,987.78

of which 834 items or over half of the number of items aggregated slightly over $25,000.

Your Committee caused inquiry to be made of the Clearing House Associations in cities that have a Federal Reserve bank or a branch to determine their attitude on the question, and desires to report that out of

the 24 reporting, 17 were in favor of requesting that Federal Reserve banks discontinue the collection of non-cash items, and 7 for continuing the service, that of the 17 for discontinuing 11 adopted resolutions which were forwarded to the Federal Reserve Board.

Therefore, in view of the foregoing facts and after careful consideration of the subject matter and with a sincere regard for the full worth of the Federal Reserve System and fully appreciating the great importance of maintaining the Federal Reserve banks as banks of reserve, rediscount and issue, for which they were originally intended, we most earnestly recommend that the collection of non-cash items by Federal Reserve banks be discontinued, and further recommend that a Committee of three bankers be appointed to confer with the Federal Reserve Board with authority to urge that the Federal Reserve banks discontinue the collection of non-cash items.

J. W. Barton, Chairman
C. L. Brokaw
D. M. Finnegan
Robert F. Maddox
James Ringold
William C. White.

(C O P Y) X-4228-b

Exhibit "B"

Minneapolis, Minn. November 19,1924.

In 1923 a committee was appointed with instructions to make an investigation of the practice in vogue by Federal Reserve Banks in the handling of non-cash items for collection.

At the last spring meeting of the Council of the American Bankers Association this committee on non-cash items reported with recommendations that the Federal Reserve Board be urged to make a ruling requiring Federal Reserve Banks to discontinue handling collection items, such as bill of lading drafts, etc.,with the result that the committee's recommendations were approved and a sub-committee was selected and instructed to confer with the Federal Reserve Board in an effort to have the committee recommendations carried into effect.

This matter has been discussed from time to time with certain members of the Federal Reserve Board who have shown a keen interest in the subject. The sub-committee on non-cash items will have a hearing before the Federal Reserve Board on Friday, December 5th, at which time this service being conducted at a considerable expense to the Federal Reserve System, which unquestionably is unbalanced in its benefits to the members of the System, will be discussed.

On behalf of the committee I am writing for an expression of your opinion on this subject. We would like to have you state as to whether you are for or against the Federal Reserve Banks continuing in the collection business and we will appreciate your reasons for the position you take on this question. Similar letters are being sent to certain other bankers and it is anticipated that the replies will be helpful to the Committee in the discussion of this matter before the Federal Reserve Board.

Yours very truly,

Chairman,
Committee on Non-Cash Items.

Members of Sub-Committee:
Mr. Robt.F.Maddox, Atlanta, Ga.
Mr. C. L. Brokaw, Kansas City, Kansas.
Mr. Wm. C. White, Peoria, Ill.

FEDERAL RESERVE BOARD

WASHINGTON

X-4295

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

March 19, 1925

This is to advise you that the resolution quoted below, which was tentatively adopted by the Federal Reserve Board on March 5th, 1925, and referred to in my letter to you of March 6th, was finally adopted by the Board at its meeting today:

> "The Federal Reserve Board reaffirms previous decisions authorizing the practice, long continued, of purchase and sale in the open market of bankers' acceptances and Government securities, by Federal reserve banks from and to banks and qualified dealers, under 15-day 'repurchase agreements', it being understood that such transactions shall be open, under similar facts and conditions, to all Federal reserve banks with relation to banks and similarly qualified dealers in their respective districts".

Very truly yours,

Governor.

To all Governors except Bailey.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4296

March 23, 1925.

SUBJECT: Appointment of alternate member of
Federal Advisory Council.

Dear Sir:

The Board has been advised that the Federal Advisory Council has suggested to each Federal reserve bank that it appoint one alternate member of the Council to serve in the event of the inability of its regular member to attend a meeting.

A letter has been addressed to the President of the Federal Advisory Council advising him that under the terms of the present law, it is not believed there is any way in which the Federal reserve banks may legally make such appointments. A copy of the Board's letter to the President of the Council is enclosed herewith for your information.

Very truly yours,

D. R. Crissinger,
Governor.

To all Chairmen.

Enclosure:

March 21, 1925.

Dear Mr. Warburg:

The Board has been advised that the Council has suggested to the Federal reserve banks that they appoint one alternate member of the Federal Advisory Council to serve in the case of the inability of the regular member to attend a meeting.

The question of the Federal reserve banks appointing alternate members of the Federal Advisory Council has been before the Board on several occasions in the past, and the Board holds, upon advice of its Counsel, that under the terms of the present law it is not believed there is any way in which the Federal reserve banks may legally make such appointments.

If an occasion arises where it is impossible for a regularly appointed member to attend any particular meeting, the Council might as a matter of courtesy invite anyone it chose to attend its meetings, but in that case such a person would not be a legally constituted member of the Council and would not have power to vote on recommendations or other matters coming before the Council for consideration. The Board understands that some of the reserve banks have already appointed substitute members. Where this has been done the Board believes that the Federal Advisory Council may properly regard the action as an indication of those whom the reserve banks would like to see invited to the meetings of the Council, in the event of the inability of the regular members to attend.

There is some doubt as to whether a person invited by the Council to attend a meeting would be entitled to any compensation or allowance. The Board, however, will not question the payment of actual expenses in such cases.

I am sending a copy of this letter to each of the Federal reserve banks.

Very truly yours,

Governor.

Mr. Paul Warburg, President,
Federal Advisory Council,
52 Cedar Street,
New York, N.Y.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4297

March 23, 1925.

SUBJECT: Revised Form (61-A) - Fiduciary Application.

Dear Sir:

There is enclosed herewith copy of revised form (61-A), cover to fiduciary applications, together with a new form(61-C), prepared for the submission of analyses of reports of examinations in connection with fiduciary applications. A supply of these forms is being sent to you under separate cover and upon their receipt, your present supply of the old form 61-A should be discarded.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO ALL FEDERAL RESERVE AGENTS

Enclosures:

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

March 24, 1925.

SUBJECT: Bank Holidays during April, 1925.

Dear Sir:

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

Monday	April 6	- Detroit - Election Day
Tuesday	April 7	- New Orleans - Election Day
Friday	April 10	- Philadelphia - Good Friday
		Pittsburgh
		Baltimore
		New Orleans
		Nashville
		Jacksonville
		Memphis
		Minneapolis
Monday	April 13	- Birmingham - Jefferson's Birthday
Monday	April 20	- Boston - Patriot's Day
Tuesday	April 21	- Dallas - San Jacinto Day
		El Paso
		Houston
Wednesday	April 22	- Omaha - Arbor Day
Monday	April 27	- Atlanta - Southern 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 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.

Very truly yours,

J. C. Noell,
Assistant Secretary.

To Governors of all Federal Reserve Banks.

AN ACT

X-4299-a

To amend an Act entitled "An Act to provide for the consolidation of national banking associations," approved November 7, 1918; to amend section 5136 as amended, section 5137, section 5138 as amended, section 5142, section 5150, section 5155, section 5190, section 5200 as amended, section 5202 as amended, section 5208 as amended, section 5211 as amended, and section 5240 as amended, of the Revised Statutes of the United States; and to amend section 4, section 9, section 13, section 22, and section 24 of the Federal Reserve Act, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Act entitled "An Act to provide for the consolidation of national banking associations," approved November 7, 1918, be amended by adding at the end thereof a new section to read as follows:

"SEC. 3. That any bank or trust company incorporated under the laws of any State, or any bank or trust company incorporated in the District of Columbia, may be consolidated with a national banking association located in the same county, city, town, or village under the charter of such national banking association on such terms and conditions as may be lawfully agreed upon by a majority of the board of directors of each association, bank, or trust company proposing to consolidate, and which agreement shall be ratified and confirmed by the affirmative vote of the shareholders of each such association, bank, or trust company owning at least two-thirds of its capital stock outstanding, or by a greater proportion of such cap-

ital stock in the case of such State bank or trust company if the laws of the State where the same is organized so require, at a meeting to be held on the call of the directors after publishing notice of the time, place, and object of the meeting for four consecutive weeks in some newspaper of general circulation published in the place where the said association, bank or trust company is located, and if no newspaper is published in the place, then in a paper of general circulation published nearest thereto, unless such notice of meeting is waived in writing by all stockholders of any such association, bank, or trust company and after sending such notice to each shareholder of record by registered mail at least ten days prior to said meeting, but any additional notice shall be given to the shareholders of such State bank or trust company which may be required by the laws of the State where the same is organized: Provided, That the capital stock of such consolidated association shall not be less than that required under existing law for the organization of a national banking association in the place in which such consolidated association is located; and all the rights, franchises, and interests of such State bank or trust company so consolidated with a national banking association in and to every species of property, real, personal, and mixed, and choses in action thereto belonging, shall be deemed to be transferred to and vested in such national banking association into which it is consolidated without any deed or other transfer, and the said consolidated national banking association shall hold and enjoy the same and all rights of property, franchises, and interests in the same manner and to the same extent as was held and enjoyed by such State bank or trust company so consolidated with such national banking association:

And provided further, That when such consolidation shall have been effected and approved by the comptroller any shareholder of either the association or of the State bank or trust company so consolidated, who has not voted for such consolidation, may give notice to the directors of the consolidated association within twenty days from the date of the certificate of approval of the comptroller that he dissents from the plan of consolidation as adopted and approved, whereupon he shall be entitled to receive the value of the shares so held by him, to be ascertained by an appraisal made by a committee of three persons, one to be selected by the shareholder, one by the directors of the consolidated association, and the third by the two so chosen; and in case the value so fixed shall not be satisfactory to such shareholder he may within five days after being notified of the appraisal appeal to the Comptroller of the Currency, who shall cause a reappraisal to be made, which shall be final and binding; and the consolidated association shall pay the expenses of reappraisal, and the value as ascertained by such appraisal or reappraisal shall be deemed to be a debt due and shall be forthwith paid to said shareholder by said consolidated association, and the shares so paid for shall be surrendered and, after due notice, sold at public auction within thirty days after the final appraisement provided for in this Act; and if the shares so sold at public auction shall be sold at a price greater than the final appraised value, the excess in such sale price shall be paid to the said shareholder; and the consolidated association shall have the right to purchase such shares at public auction, if it is the highest bidder therefor, for the purpose of reselling such shares within thirty days thereafter to such person or persons and at such price as its board of directors by resolution may determine: and provided

further, That the liquidation of such shares of stock in any State bank or trust company shall be determined in the manner prescribed by the law of the State in such cases if such provision is made in the State law; otherwise as hereinbefore provided: And provided further, That no such consolidation shall be in contravention of the law of the State under which such bank or trust company is incorporated: And provided further, That except as to branches in foreign countries, dependencies or insular possessions of the United States, it shall be unlawful for any such consolidated association to retain in operation any branches which may have been established beyond the borders of the State in which such consolidated association is located; and that it shall be unlawful for any such consolidated association to retain any branch or branches in any State which does not by law, regulation or usage with official sanction permit State banks or trust companies to have such branches, but intrastate branches established by a State bank under such law, regulation or usage, and heretofore lawfully retained when consolidation was effected with a national banking association may continue to be maintained by such consolidated association."

SEC. 2. (a) That section 5136 of the Revised Statutes of the United States, subsection "Second" thereof as amended, be amended to read as follows:

"Second. To have succession from the date of the approval of this Act, or from the date of its organization if organized after such date of approval until such time as it be dissolved by the act of its shareholders owning two-thirds of its stock, or until its franchise becomes forfeited

by reason of violation of law, or until terminated by either a general or a special Act of Congress or until its affairs be placed in the hands of a receiver and finally wound up by him."

SEC. 2. (b) That that part of Section 4 of the Federal Reserve Act which relates to the powers of the Federal Reserve Banks be amended to read as follows:

"Second. To have succession until its franchise becomes forfeited by reason of violation of law or until terminated by either a general or special Act of Congress, or until placed in liquidation by the Federal Reserve Board under authority of Paragraph (h) of Section 11 of the Federal Reserve Act."

SEC. 3. That section 5137 of the Revised Statutes of the United States, subsection "First" thereof, be amended to read as follows:

"First. Such as shall be necessary for its accommodation in the transaction of its business."

SEC. 4. That section 5138 of the Revised Statutes of the United States, as amended, be amended to read as follows:

"SEC. 5138. No association shall be organized with a less capital than $100,000, except that banks with a capital of not less than $50,000 may, with the approval of the Secretary of the Treasury, be organized in any place the population of which does not exceed six thousand inhabitants, and except that banks with a capital of not less than $25,000 may, with the sanction of the Secretary of the Treasury, be organized in any place the population of which does not exceed three thousand inhabitants. No association shall be organized in a city the population of which exceeds

fifty thousand persons with a capital of less than $200,000, except that in the outlying districts of such a city banks noworganized or hereafter organized may, with the approval of the Comptroller of the Currency, have a capital of not less than $100,000."

SEC. 5. That section 5142 of the Revised Statutes of the United States, as amended, be amended to read as follows:

"SEC. 5142. Any national banking association may, with the approval of the Comptroller of the Currency, and by a vote of shareholders owning two-thirds of the stock of such association , increase its capital stock to any sum approved by the said comptroller, but no increase in capital shall be valid until the whole amount of such increase is paid in, and notice thereof, duly acknowledged before a notary public by the president, vice president, or cashier of said association, has been transmitted to the Comptroller of the Currency and his certificate obtained specifying the amount of such increase in capital stock and his approval thereof; and that it has been duly paid in as part of the capital of such association: Provided, however, That a national banking association may, with the approval of the Comptroller of the Currency, and by the vote of shareholders owning two-thirds of the stock of such association, increase its capital stock by the declaration of a stock dividend, provided that the surplus of said association, after the approval of the increase, shall be at least equal to 20 per centum of the capital stock as increased. Such increase shall not be effective until a certificate certifying to such declaration of dividend, signed by the president, vice president, or cashier of said association and duly acknowledged before a notary public, shall have been forwarded

to the Comptroller of the Currency and his certificate obtained specifying the amount of such increase of capital stock by stock dividend, and his approval thereof."

SEC. 6. That section 5150 of the Revised Statutes of the United States be amended to read as follows:

"SEC. 5150. The president of the bank shall be a member of the board and shall be the chairman thereof, but the board may designate a director in lieu of the president to be chairman of the board, who shall perform such duties as may be designated by the board."

SEC. 7. That section 5155 of the Revised Statutes of the United States be amended to read as follows:

"SEC. 5155. It shall be lawful for any bank or banking association organized under State laws and having branches to become a national banking association in conformity with existing laws, and to retain and keep in operation its branches, or such one or more of them as it may elect to retain: Provided, That no such State bank having branches in operation outside the boundaries of the State in which it is located shall upon conversion into a national banking association retain or keep in operation such branches: And provided further, That it shall be unlawful for any such national banking association to retain any branch or branches in any State which does not by law, regulation or usage with official sanction permit State banks or trust companies to have such branches; but branches established by a State bank under such law, regulation or usage and heretofore lawfully retained when conversion into a national banking association was effected may continue to be maintained by such association."

SEC. 8. That section 5190 of the Revised Statutes of the United States be amended to read as follows:

"SEC. 5190. The general business of each national banking association shall be transacted at only one office or banking house, which shall be located in the place specified in its organization certificate; but any such association may with the approval of the Federal Reserve Board establish, maintain and operate a branch or branches within the boundaries of any State which by law or regulation authorizes banks created by or existing under the laws of such State, to own, establish, maintain and operate such branches, such authority as may be granted by the Federal Reserve Board to conform in all respects to the requirements of State law as to banks created by or existing under the laws of such State; and in no event shall any bank or trust company created or existing under the laws of any State be permitted to become a member of the Federal Reserve System, or to remain a member of the Federal Reserve System, which owns, establishes, maintains or operates any branch located beyond the boundaries of the State in which such State bank or trust company is located: Provided, however, That all branches of all national banking asscciations shall be subject to the general supervisory powers of the Comptroller of the Currency and shall operate under such regulations as he may prescribe. This section shall not be construed to amend or repeal Section 25 of the Federal Reserve Act as amended, authorizing the establishment by national banking associations of branches in foreign countries or dependencies, or insular possessions of the United States.

"The term 'branch' or 'branches' as used in this section shall be held to include any branch bank, branch office, branch agency, additional office, or any branch place of business located in any State or Territory of the United States or in the District of Columbia at which deposits are received or checks cashed or money loaned."

SEC. 9. That the first paragraph of section 9 of the Federal Reserve Act be amended to read as follows:

"SEC. 9. Any bank incorporated by special law of any State, or organized under the general laws of any State or of the United States, desiring to become a member of the Federal Reserve System, may make application to the Federal Reserve Board, under such rules and regulations as it may prescribe, for the right to subscribe to the stock of the Federal reserve bank organized within the district in which the applying bank is located. Such application shall be for the same amount of stock that the applying bank would be required to subscribe to as a national bank. The Federal Reserve Board, subject to the provisions of this Act and to such conditions as it may prescribe pursuant thereto may permit the applying bank to become a stockholder of such Federal reserve bank."

SEC. 10. That section 5200 of the Revised Statutes of the United States, as amended, be amended to read as follows:

"SEC. 5200. The total direct liabilities to any national banking association of any person, firm, company, or corporation for money borrowed, including in the liabilities of a company or firm the liabilities

of the several members thereof, shall at no time exceed 10 per centum of the amount of the capital stock of such association actually paid in and unimpaired and 10 per centum of its unimpaired surplus fund; and the aggregate liabilities to any such association of any such person, firm, company, or corporation (including in the liabilities of a company or firm the liabilities of the several members thereof), to wit, the direct liabilities for money borrowed and the indirect liabilities as surety, drawer, endorser, or guarantor, where such surety, drawer, endorser, or guarantor obtains a loan from, or discounts paper with or sells paper under guaranty to any such association, shall at no time exceed 25 per centum of the amount of the capital stock of such association actually paid in and unimpaired, and 25 per centum of its unimpaired surplus fund. Such limitations as to such liabilities to any such association shall be subject to the following exceptions:

"(1) Liabilities arising out of the discount of the following-described paper shall be subject to no limitation based upon the amount of such capital and surplus:

"(a) Bills of exchange drawn in good faith against actually existing values.

"(b) Commercial or business paper actually owned by the person, company, corporation, or firm negotiating the same.

"(c) Drafts and bills of exchange secured by shipping documents conveying or securing title to goods shipped.

"(d) Demand obligations when secured by documents covering commodities in actual process of shipment.

"(e) Bankers' acceptances of the kinds described in section 13 of the Federal Reserve Act.

"(2) Liabilities of any person, corporation, firm or company arising out of the discount of the following described secured notes shall at no time exceed 15 per centum of the amount of such capital and surplus in addition to such 10 per centum of the amount of such capital and surplus, but this exception shall not apply to the notes of any one person, corporation, firm, or company, or the several members thereof for more than six months in any consecutive twelve months:

"(a) Notes secured by shipping documents, warehouse receipts, or other such documents conveying or securing title covering readily marketable nonperishable staples when the actual market value of the property securing the obligation is not at any time less than 115 per centum of the face amount of the notes secured by such documents and when such property is fully covered by insurance.

"(b) Notes secured by shipping documents, or other documents conveying or securing title covering livestock when the actual market value of such livestock is not at any time less than 115 per centum of the face amount of the notes secured by such documents.

"(3) Liabilities of any person, corporation, firm, or company arising out of the discount of notes secured by not less than a like face amount of bonds or notes of the United States issued since April 24, 1917, or certificates of indebtedness of the United States (except to the extent permitted by rules and regulations prescribed by the Comptroller of the Currency, with the approval of the Secretary of the Treasury), shall at no time exceed 10 per centum of the amount of such capital and surplus in addition to such 10 per centum of the amount of such capital and surplus."

SEC. 11. That section 5202 of the Revised Statutes of the United States as amended be amended by adding at the end thereof a new paragraph to read as follows:

"Eighth. Liabilities incurred under the provisions of section 202 of Title II of the Federal Farm Loan Act, approved July 17, 1916, as amended by the Agricultural Credits Act of 1923."

SEC. 12. That section 5208 of the Revised Statutes of the United States as amended be amended by striking out the words "or who shall certify a check before the amount thereof shall have been regularly entered to the credit of the drawer upon the books of the bank," and in lieu thereof inserting the following: "or who shall certify a check before the amount thereof shall have been regularly deposited in the bank by the drawer thereof," so that the section as amended shall read as follows:

"SEC. 5208. It shall be unlawful for any officer, director, agent,

or employee of any Federal reserve bank, or any member bank as defined in the Act of December 23, 1913, known as the Federal Reserve Act, to certify any check drawn upon such Federal reserve bank or member bank unless the person, firm, or corporation drawing the check has on deposit with such Federal reserve bank or member bank, at the time such check is certified, an amount of money not less than the amount specified in such check. Any check so certified by a duly authorized officer, director, agent, or employee shall be a good and valid obligation against such Federal reserve bank or member bank; but the act of any officer, director, agent, or employee of any such Federal reserve bank or member bank in violation of this section shall, in the discretion of the Federal Reserve Board, subject such Federal reserve bank to the penalties imposed by Section 11, subsection (h) of the Federal Reserve Act, and shall subject such member bank, if a national bank, to the liabilities and proceedings on the part of the Comptroller of the Currency provided for in section 5234, Revised Statutes, and shall, in the discretion of the Federal Reserve Board, subject any other member bank to the penalties imposed by section 9 of said Federal Reserve Act for the violation of any of the provisions of said Act. Any officer, director, agent, or employee of any Federal reserve bank or member bank who shall wilfully violate the provisions of this section, or who shall resort to any device, or receive any fictitious obligation, directly or collaterally, in order to evade the provisions thereof, or who shall certify a check before the amount thereof shall have been regularly deposited in the bank by the drawer thereof, shall be deemed guilty of a misdemeanor and shall, on conviction thereof in any district court of the United States, be fined

not more than $5,000, or shall be imprisoned for not more than five years, or both, in the discretion of the court."

SEC. 13. That section 5211 of the Revised Statutes of the United States as amended be amended to read as follows:

"SEC. 5211. Every association shall make to the Comptroller of the Currency not less than three reports during each year, according to the form which may be prescribed by him, verified by the oath or affirmation of the president, or of the cashier, or of a vice president, or of an assistant cashier of the association designated by its board of directors to verify such reports in the absence of the president and cashier, taken before a notary public properly authorized and commissioned by the State in which such notary resides and the association is located, or any other officer having an official seal, authorized in such State to administer oaths, and attested by the signature of at least three of the directors. Each such report shall exhibit, in detail and under appropriate heads, the resources and liabilities of the association at the close of business on any past day by him specified, and shall be transmitted to the comptroller within five days after the receipt of a request or requisition therefor from him, and the statement of resources and liabilities, together with acknowledgment and attestation in the same form in which it is made to the comptroller, shall be published in a newspaper published in the place where such association is established, or if there is no newspaper in the place, then in the one published nearest thereto in the same county, at the expense of the association; and such proof of publication shall be furnished as may be required by the comptroller. The comptroller shall also have power to call for special reports from any particular association whenever in his judgment the

same are necessary in order to obtain a full and complete knowledge of its conditions."

SEC. 14. That the first paragraph of section 5240 of the Revised Statutes of the United States as amended be amended to read as follows:

The Federal Reserve Agent in each Federal Reserve District as designated by the Federal Reserve Board from time to time in accordance with the provisions of section 4 of the Federal Reserve Act as amended, shall be designated by the Comptroller of the Currency as District Deputy Comptroller of the Currency for such Federal reserve district, and in such capacity as District Deputy Comptroller of the Currency shall, under regulations and instructions issued by the Comptroller of the Currency direct and superintend the examination of national every banks in said district at least twice in each calendar year and oftener if considered necessary. Examinations of national banks under the direction of said District Deputy Comptroller of the Currency shall be made by examiners appointed, with the approval of the Secretary of the Treasury, by the Comptroller of the Currency. The District Deputy Comptroller of the Currency in directing examinations of national banks in his district, and all national bank examiners shall have power to administer oaths and to examine under oath any of the officers and agents of national banks under examination. The District Deputy Comptroller of the Currency shall make a full and detailed report of condition of any bank examined under his direction to the Comptroller of the Currency.

SEC. 15. That the eighth paragraph of section 4 of the Federal Reserve Act as amended be amended to read as follows:

Class "C" directors shall be appointed by the Federal Reserve Board. They shall have been for at least two years residents of the district for which they are appointed, one of whom shall be designated by said Board as chairman of the board of directors of the Federal reserve bank and as Federal Reserve Agent. He shall be a person of tested banking experience and in addition to his duties as chairman of the board of directors of the Federal Reserve Bank he shall be required to maintain under regulations to be established by the Federal Reserve Board, a local office of said board on the premises of the Federal Reserve Bank. He shall make regular reports to the Federal Reserve Board and shall act as its official representative for the performance of the functions conferred upon it by this act. He shall receive an annual compensation to be fixed by the Federal Reserve Board and paid monthly by the Federal Reserve Bank to which he is designated. In addition to his duties as chairman of the board of directors of the Federal Reserve Bank and as Federal Reserve Agent, he shall as District Deputy Comptroller of the Currency direct and superintend the examination of banks as provided in section 5240 of the Revised Statutes of the United States as amended, in connection with which he shall make full and detailed reports as required by the Comptroller of the Currency. One of the directors of Class "C" shall be appointed by the Federal Reserve Board as deputy chairman to exercise the powers of the chairman of the board when necessary. In case of the absence of the chairman and the deputy chairman, the third Class "C" director shall preside at meetings of the Board.

SEC. 16. That the fourth paragraph of section 13 of the Federal Reserve Act be amended to read as follows:

"No Federal reserve bank shall discount for any member bank notes, drafts, or bills of exchange of any one borrower in an amount greater than may be borrowed lawfully from any national banking association under the terms of section 5200 of the Revised Statutes, as amended: Provided, however, That nothing in this paragraph shall be construed to change the character or classes of paper now eligible for discount by Federal Reserve Banks."

SEC. 17. That section 13 of the Federal Reserve Act be amended by adding at the end thereof a new paragraph to read as follows:

"That in addition to the powers now vested by law in national banking associations organized under the laws of the United States, any such associations may engage in the business commonly known as safe deposit business either by leasing receptacles on its premises or by owning stock in a corporation organized under the law of any State to conduct a safe deposit business located on or adjacent to the premises of such association: Provided, however, That the amount invested in the capital stock of any such safe deposit corporation by such association shall not exceed 15 per centum of the capital stock of such association actually paid in and unimpaired and 15 per centum of its unimpaired surplus."

SEC. 18. That section 22 of the Federal Reserve Act, subsection (a), paragraph 2 thereof, be amended to read as follows:

"(a) No member bank and no officer, director, or employee thereof shall hereafter make any loan or grant any gratuity to any bank examiner. Any bank officer, director or employee violating this

provision shall be deemed guilty of a misdemeanor and shall be imprisoned not exceeding one year, or fined not more than $5,000, or both, and may be fined a further sum equal to the money so loaned or gratuity given.

"Any examiner or assistant examiner who shall accept a loan or gratuity from any bank examined by him, or from an officer, director, or employee thereof, or who shall steal, or unlawfully take, or unlawfully conceal any money, note, draft, bond, or security or any other property of value in the possession of any member bank or from any safe deposit box in or adjacent to the premises of such bank, shall be deemed guilty of a misdemeanor and shall, upon conviction thereof in any district court of the United States, be imprisoned for not exceeding one year, or fined not more than $5,000, or both, and may be fined a further sum equal to the money so loaned, gratuity given, or property stolen, and shall forever thereafter be disqualified from holding office as a national bank examiner."

SEC. 19. That section 5209 of the Revised Statutes of the United States be amended by adding at the end thereof four new paragraphs to read as follows:

(c) If two or more persons conspire to boycott, or to blacklist, or to cause a general withdrawal of deposits from, or to cause a withdrawal of patronage from, or otherwise to injure the business or good will of any national banking association, and one or more of such parties do any act to effect the object of such conspiracy, each of the parties to such conspiracy shall be fined not more than $5,000, or imprisoned for not more than five years, or both.

(d) Whoever maliciously or with intent to deceive makes, publishes, utters, repeats, or circulates any false report concerning any national banking association, which imputes or tends to impute insolvency or unsound financial condition or financial embarrassment, or which may tend to cause or provoke or aid in causing or provoking a general withdrawal of deposits from such bank, or which may otherwise injure or tend to injure the business or good will of such bank shall be fined not more than $5,000, or imprisoned for not more than five years, or both.

(e) Whoever shall assault any person having lawful charge, control, or custody of any money, securities, funds, or other property in the possession of any national banking association or Federal Reserve Bank with intent to rob, steal, or purloin such money, securities, funds, or other property, or any part thereof, or whoever shall rob any such person of such money, securities, funds, or property, or any part thereof, shall be imprisoned not more than twenty years; and if, in effecting or attempting to effect such robbery, he shall wound such person having custody of such money, securities, funds, or other property, or put his life in jeopardy by the use of a dangerous weapon, he shall be imprisoned for not more than twenty-five years.

(f) Whoever shall break into and enter any banking house of any national banking association or Federal Reserve Bank with intent to commit a felony therein shall be imprisoned for not more than twenty years.

In any State in which offenses are committed against the provisions of this section the courts of said State having criminal jurisdiction shall have jurisdiction of all proceedings for the trial and punishment of said offenses committed in such State concurrently with the District Court of the United States sitting within such State.

SEC. 20. That section 24 of the Federal Reserve Act be amended to read as follows:

"SEC. 24. (a) Any national banking association may make loans secured by first lien upon improved real estate, including improved farm land, situated within its Federal reserve district or within a radius of one hundred miles of the place in which such bank is located, irrespective of district lines. A loan secured by real estate within the meaning of this section shall be in the form of an obligation or obligations secured by mortgage, trust deed, or other such instrument upon real estate when the entire amount of such obligation or obligations is made or is sold to such association. The amount of any such loan shall not exceed 50 per centum of the actual value of the real estate offered for security, and such loan shall not run for a longer term than five years. Any such bank may make such loans only when the aggregate amount of such loans held by it or on which it is liable as indorser or guarantor or otherwise does not exceed a sum equal to 25 per centum of the amount of the capital stock of such association actually paid in and unimpaired and 25 per centum of its unimpaired surplus fund, or to one-half of its savings deposits, at the election of the association, subject to the general limitations contained in section 5200 of the Revised Statutes of the United States. Such banks may continue

hereafter as heretofore to receive time deposits and to pay interest on the same, but the rate of interest which such banks may pay upon such time deposits or upon savings or other deposits shall not exceed the maximum rate authorized to be paid upon such deposits by State banks or trust companies organized under the laws of the State wherein such national banking association is located.

"(b) Any national banking association may engage in the business of purchasing and selling without recourse obligations evidencing indebtedness of any person, copartnership, association, or corporation in the form of bonds, notes, debentures, and the like commonly known as investment securities under such restrictions as to the character and volume of such securities as may be made by the Comptroller of the Currency, but the total amount of such investment securities of any one obliger or maker held by such association shall at no time exceed 25 per centum of the amount of the capital stock of such association actually paid in and unimpaired and 25 per centum of its unimpaired surplus fund, but this limitation as to amount shall not apply to obligations of the United States, or general obligations of any State or of any political subdivision thereof, or obligations issued under authority of the Federal Farm Loan Act. In transacting the business authorized by this subsection every national banking association shall be amenable to the law of the State in which it is located defining offenses and prescribing the penalties therefor."

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS X-4300

For Release in Morning Papers,
Friday, March 27, 1925.

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.

Production in basic industries declined in February from the high rate of output in January, but continued above the level of a year ago. Notwithstanding a decline in prices of agricultural commodities, the average of wholesale prices rose slightly owing to a further advance in prices of certain other commodities.

Production.

The Federal Reserve Board's index of production in 22 basic industries, which is adjusted to allow for differences in the number of working days and for seasonal variations, declined 3 per cent in February, but continued to be higher than at any time since the peak reached in May, 1923. Average daily output of iron and steel was exceptionally heavy, and copper production per day was the largest since 1918. There was a slight decline in activity in the woolen industry, and more considerable reductions in the output of lumber, cement, bituminous coal, and crude petroleum. Production of automobiles increased 19 per cent in February, the largest monthly increase in nearly two years, but the output was still over 25 per cent smaller than a year ago. Factory employment increased by 2 per cent in February, considerable increases being reported for the automobile, iron and steel, and clothing industries, while the number of workers in the packing and cement industries declined. Earnings of industrial workers in February were larger than in January, reflecting in part the resumption of full-time work after the inventory period.

Reports to the Department of Agriculture of intentions to plant in 1925 indicate that the acreage of practically all grains and of tobacco will be larger, and that of white potatoes smaller than in 1924.

Trade.

Total railroad freight movements continued at approximately the same daily rate in February as in January, and shipments of merchandise increased in recent weeks and were much larger than a year ago. Wholesale and retail sales were smaller during February than a year ago, owing partly to the fact that this year February had one less business day. Department store sales were one per cent smaller in February than in the corresponding month of 1924. Wholesale trade in all lines, except meats and hardware, was less than a year ago, and showed in February about the usual seasonal changes. Sales of groceries, meats, and drugs decreased, while sales of dry goods and shoes increased.

Prices.

The slight rise in the wholesale price index of the Bureau of Labor Statistics was due to advances in the fuel and lighting group, largely in petroleum, and in building materials, while prices of all the other commodity groups declined. In the first three weeks of March prices of hogs, cotton goods, and rubber increased, while prices of many other commodities decreased, the largest decreases being those for wheat and other grains.

Bank credit.

Loans of member banks in principal cities continued to increase between the middle of February and the middle of March and on March 11 were larger than at any time in the past four years. The volume of loans for commercial purposes has been at a high and almost constant level since last autumn, and loans on stocks and bonds, which have increased continuously since the summer of 1924, reached

in March the largest amount on record. Increases in loans were accompanied by further reduction in the holdings of securities, particularly at banks in the financial centers.

At the reserve banks demand for credit increased between the end of January and the middle of March, chiefly as the result of the export demand for gold and the growth in domestic currency requirements, with the consequence that earning assets increased. After March 15, however, temporary abundance of funds arising out of Treasury operations resulted in a sharp reduction in member bank borrowings.

Somewhat firmer conditions in the money market in the latter part of February and the early weeks of March were indicated by a rise of the rate on 4-6 months prime commercial paper from 3 3/4 to 4 per cent.

FEDERAL RESERVE BOARD X-4301

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

March 25, 1925.

SUBJECT: Amendments to Leased Wire Regulations.

Dear Sir:

The Federal Reserve Board has amended Paragraph 4 of its regulations governing the use of the Federal reserve leased wires (Letter of June 21, 1924, X-4099) to read as follows:

> "In addition to the usual mail advice to the member bank receiving credit for a telegraphic transfer of funds, immediate advice by telegraph or otherwise should be given by the Federal reserve bank receiving the transfer, in cases where the credited member bank has stated that wire advice is necessary. All such wire advices should be at the expense of the member bank receiving credit, and, therefore, should be sent collect."

The present regulations provide that "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", etc. Some of the reserve banks advise that their members occasionally request that telegrams between Federal reserve banks transferring funds over commercial telegraph wires be sent collect, for the reason that it is difficult at times to predetermine the expense involved where it is desired to transfer net proceeds only of certain transactions. The Board has no objection to the Federal reserve banks complying with such requests, it being understood, of course, that the right will be reserved to charge the cost of the telegrams, if necessary, to the member banks requesting the transfers.

Very truly yours,

D. R. Crissinger,
Governor.

TO ALL GOVERNORS.

OPINION OF THE SUPREME COURT OF APPEALS

OF VIRGINIA.

FEDERAL RESERVE BANK OF RICHMOND

(

(OPINION BY JUDGE MARTIN P. BURKS.

v. (

(Richmond, Va., March 19, 1925.

BOHANNAN, RECEIVER

CIRCUIT COURT OF PRINCE GEORGE COUNTY.

This case is here upon an agreed statement of facts of which appellant, in his petition for appeal, makes the following summary, the accuracy of which is not called in question:

"Your petitioner was and is a Federal Reserve Bank created by and having the powers set forth in a certain act of Congress known as the Federal Reserve Act, and having its principal place of business in the city of Richmond, Va. The Bank of Disputanta was a banking corporation organized under and in pursuance of the statutes of the State of Virginia applicable to banks, but was not a member bank of the Federal Reserve System; and, therefore, maintained no reserve account with your petitioners. In the course of its business your petitioner received from its member banks and other depositors checks drawn upon the Bank of Disputanta. In order that these checks might be collected your petitioner had made with the Bank of Disputanta an agreement, under which checks on the Bank of Disputanta could be sent by your petitioner to it in the course of mail, and the Bank of Disputanta agreed, after examining these checks, either to return them unpaid and properly protested, or else, if it desired to pay them, to immediately remit the amount thereof. The said

remittance could either be made by shipment of coin or currency, at the expense of your petitioner, or by means of a draft drawn by the Bank of Disputanta against funds on deposit to its credit with some bank located in Richmond, Va., Petersburg, Va., or some other place satisfactory to your petitioner.

"On the 20th day of January, 1922, your petitioner sent to the Bank of Disputanta checks drawn upon that bank amounting to $1,416.25. The Bank of Disputanta received these checks on or about January 21, 1922, and upon that date cancelled them, charged them to the account of the drawers, and in order to remit the amount of the said checks drew a certain draft upon the Virginia National Bank of Petersburg. This draft was sent to your petitioner, received by it on January 23rd, and immediately sent by your petitioner to the Virginia National Bank, which was a member of the Federal Reserve System, with the request that the amount thereof be paid and credited to your petitioner. On January 23, 1922, upon the petition of the State Corporation Commission, the Circuit Court of Prince George County appointed J. Gordon Bohannan receiver for the Bank of Disputanta, and such receiver immediately qualified and took possession of all the assets of the failed bank. It appeared at that time that the Bank of Disputanta was insolvent. The Virginia National Bank of Petersburg, Va., accordingly, refused payment of the draft drawn by the Bank of Disputanta.

"At the time that the said checks upon the Bank of Disputanta were collected by it and charged to the accounts of the several drawers, the Bank of Disputanta had on hand a sum in money on currency sufficient to pay the checks, and at the time that the receiver took charge he found

in the vault of the Bank of Disputanta money and currency to the sum of $1,477.66.

"At the time that the remittance draft was presented to the Virginia National Bank of Petersburg, there was to the credit of the Bank of Disputanta, with the Virginia National Bank of Petersburg, an apparent balance of $7,340.41, but the Virginia National Bank held a note made by the Bank of Disputanta for $25,000, and held collateral securing the said note to the amount of $52,199.63. The said note was not due, but after the appointment of a receiver for the Bank of Disputanta the Virginia National Bank credited the above mentioned deposit balance upon the said note for $25,000.

"At the time this case was heard in the court below the Virginia National Bank had not collected upon the said collateral pledged for the said $25,000 note a sum sufficient to discharge the balance due upon the said note, but it appeared probable that, after the claim of the Virginia National Bank of Petersburg was fully satisfied, a substantial amount of such collateral would remain in the hands of the bank subject to the order of the court.

"The cause was referred to W. D. Temple, Esq., a commissioner in chancery for the Circuit Court of Prince George County. Your petitioner duly appeared before the said commissioner and offered evidence in support of its claim and also presented to the said commissioner a petition, which is copied in the record.

"The said commissioner reported that the assets of the Bank of Disputanta in the hands of the receiver were impressed with a trust in favor of your petitioner, and that the claim of your petitioner should, therefore, be paid in full out of the money in the hands of the receiver. The receiver

in due time filed exceptions to this report, and the matter was argued before the Honorable M. R. Peterson, Judge of the Circuit Court of Prince George County. After hearing argument and considering the evidence, the honorable court sustained the exceptions to the report, and, by its order entered on December 22, 1922, decreed that the exceptions filed by the receiver be sustained, and that the claim of your petitioner be established as a claim of a general creditor."

In the petition referred to in the foregoing summary, the appellant, for reasons set forth in the petition, but which need not be here stated, asks that its claim of $1,416.25 be credited by $20.30, thus leaving the balance of its claim $1,395.95.

The appellant claims that the trial court erred in the following particulars:

"(1) In denying the claim of your petitioner to a lien upon the cash which was in the vault of the Bank of Disputanta at the time that the receiver took charge and in refusing to direct that so much of the said cash as was necessary to pay in full the claim of your petitioner should be paid over to it.

"(2) In denying the claim of your petitioner to a lien upon the deposit balance of the Bank of Disputanta in the Virginia National Bank of Petersburg, and in refusing to direct the receiver to hold for your petitioner and to pay over to it any money which might be collected by him from the said Virginia National Bank of Petersburg, Va., upon a final settlement or from the collateral in the hands of the said Virginia National Bank of Petersburg."

The case of Federal Reserve Bank of Richmond v.Prince Edward Lunenburg County Bank, 139 Va. , 123 S.E.379, 32 Va. App.152, received very careful consideration, and the conclusions therein were reached only after a careful review of the authorities. We are satisfied with those conclusions and it would be a work of supererogation to repeat the reasons and the arguments by which they were reached. That case and the instant case are"on all fours" in nearly every particular. That case determined that the relations of the Federal Reserve Bank and the debtor bank were those of principal and agent, and not of debtor and creditor; that the Federal Reserve Bank had a lien on the cash in the vaults of the debtor bank at the time of its insolvency, and that lien was not released by the remittance draft which was not paid.

It is suggested by counsel for the appellee, rather than asserted, that the Federal Reserve Bank was the agent of other undisclosed persons or banks to collect the checks in question and could not maintain a suit in its own name for their collection. The Bank of Disputanta had contracted with the Federal Reserve Bank to pay these checks to it and it is bound by its contract. Furthermore, no such objection was made when the checks were presented for payment, nor in the trial court, and it cannot be made here for the first time. But even if it could be, it would be unavailing, as an agent may sue in his own name upon a contract made with him for an undisclosed principal (National Bank v.Nolting, 94 Va.263), and, under section 5599 of the Code, a restrictive endorsee may receive payment of the instrument and may bring any action thereon that the endorser could bring.

Counsel for the appellee insists that the drawing of the draft on the Virginia National Bank localized and specialized the lien of the Federal Reserve Bank and was a waiver of the general lien on the cash in the vaults of the Bank of Disputanta; citing In re City Bank of Dowagiac, 186 Fed.250. He overlooks the fact that in the Prince Edward-Lunenburg County case it was held, that "A check is not a payment until the check is paid, and the drawing of a check 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."

Other authorities are to the same effect.

In Holder v. Western German Bank, 68 C.C.A.554, 136 Fed.90, it is said: "The Florida bank was an agent in making the collection. When it had made the collection, it held it in trust. If it mingled it with its own funds, the trust attached pro tanto to the funds. National Bank v.Insurance Co,, 104 U.S. 54, 26 L. Ed. 693, where the principle vindicated in Knatchbull v. Hallett, 13 Ch.Div. 696, by Sir George Jessel, M.R., is fully confirmed. When it sent its own draft as the remittance,it did not operate as a satisfaction of its obligation unless the draft should be paid, there being no agreement to receive the draft as payment. This would be so in the case of a common debt. And certainly the reasons for the same rule are not less where an agent transmits to his principal his own note or draft to provide means for the satisfaction of a trust obligation on account of funds received for his principal. The facts show that the draft of the Florida bank was uncollectible, that the payment of it was forbidden by the receiver, the party upon whom the right of the bank had been devolved. The trust relation between the plaintiff and the Florida bank was not discharged by such a remittance, and the collection went into the hands of the receiver subject

to the trust. If the remittance of the draft were to be regarded as provisional payment, the result would be that, in case the draft should not be paid, the parties would be remitted to their former position. In such a case there would be no sound reason as we think, for holding that the debt had lost its privileged character by a proceeding of the party owing it, unless the party to whom the debt is owing expressly assents to the change of relation between himself and his agent. The bank could not rid itself of that relation and become the mere debtor of the plaintiff by its own act. The trust was part of the plaintiff's security. Neither the plaintiff nor the Western German Bank, in his behalf, ever consented that the Florida bank should cast off the trust and become the plaintiff's debtor. It would be a most absurd consequence if a man in the possession, as an agent, of a fund belonging to another, could convert the fund into his own property by sending his check to the owner, and then, upon some change in his own circumstances, direct his bank not to pay it, and so transform himself into a debtor. Of course, if the owner consents to such a change of relationship between himself and his agent, or where the circumstances indicate that a credit in account is expected, which is the same thing, the result is different, because the destination of the fund is altered by agreement. But here there was no such agreement. The check was sent for collection and remittance. Satisfactory proof should be required that the owner assented to such change, in view of the consequences which would ensue. A man might be quite willing to trust another with the collection of his money when he would be very unwilling to loan it to him. It would seriously impair the facilities for collecting commercial paper if it should be exposed to the hazards of conversion by the agent into whose hands the proceeds might come."

In Western German Bank v. Norvell, 69 C.C.A. 330, 134 Fed. 724, it was held that, "When a bank, known by its officers to be insolvent, collects money for a customer and mingles the same with its own funds, which to an amount larger than the sum so received go into the hands of its receiver, it is not essential to the right of the customer 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 so collected."

In Spokane & E. Trust Co. v. United States S.P.Co., (C.C.A. 9th Cir.), 290 Fed. 884, 886, it is said: "Looking to the question whether the Central Bank ever had title to the Hardware Company's check, sent to it by the Seattle Bank, we are of the opinion that the writings between the remitting bank and the collecting bank at Yakima not only fail to disclose consent to any relationship of debtor and creditor, but affirmatively show that the relationship became one whereby the collecting bank was a trustee of the proceeds collected. We are also of the opinion that the Central Bank, at the time that it acted in the matter of collection, was insolvent and not in a position to become a debtor of the Steel Company. The rule as established by the weight of authority is that where a bank transmits negotiable paper for collection and returns, the bank which receives the check and undertakes the collection is the agent of the principal, and becomes a trustee of the proceeds for the owner, and, except where consent is given, the collecting bank cannot avoid such relationship and create that of mere debtor and creditor. Among many cases where the rule is clearly stated are: Holder v. Western German Bank, 136 Fed. 90, 68 C.C.A. 554; Continental Nat. Bank v. Weems, 69 Tex. 489, 6 S.W. 802, 5 Am. St. Rep. 85; Nat. Reserve Bank v. Nat.Bank, 172 N.Y.102, 64 N.E. 799; Titlow v. McCormick, 236 Fed. 209, 149 C.C.A. 399."

The holding in Holder v. Western German Bank, supra, is approved in Smith v. Township, 80 C.C.A. 145, 150 Fed. 257, 260; Erie R. Co. v. Dial, 72 C.C.A. 183, 140 Fed.689. 691; Ormsby v. Finney, 281 Fed. 836, 839, and in other cases. See also People v. Dansville Bank, 39 Hun. 187; People v. Merchants Bank, 92 Hun. 159, 36 N.Y. 989.

Several of these cases are also authority for the proposition that the authorization of direction to remit by New York exchange does not change the position of the collecting bank from that of trustee to that of debtor. If the holding in In re City Bank of Dowagiac can be said to be in conflict with the cases cited,we cannot follow it.

In the instant case the exchange draft was drawn on funds on which there was a preferred lien which was enforced, thus leaving nothing with which to pay said draft.

The decree complained of will be reversed, and a judgment will be entered in this court in favor of the Federal Reserve Bank of Richmond, Va., against J. Gordon Bohannan, Receiver of the Bank of Disputanta, for the sum of $1,395.95, with interest thereon at six per cent. per annum from January 23, 1922, until payment, and for its costs.

Reversed.

A COPY TESTE

H. Stewart Jones,

C. C.

IN THE SUPREME COURT OF THE STATE OF WASHINGTON.

231

SPOKANE VALLEY STATE BANK

Respondent

v.

E. B. LUTES and LUELLA LUTES, his wife,

Appellants,

GEORGE T. BLACK and ISABELLA BLACK, his wife,

Defendants

No. 18317

Department Two.

Filed Feb. 19,1925.

By this action the plaintiff seeks to recover from the defendants E. B. Lutes and wife approximately the sum of $3,400 with interest. The trial before the court without a jury resulted in a judgment sustaining a recovery in the amount claimed. From this judgment the defendants Lutes and wife appeal.

The facts are not in dispute and may be summarized as follows: The appellants owned a certificate of deposit issued by the Citizens Bank of Laurel, Montana, for the sum of $3,296 with accrued interest, matured on the 15th day of December, 1922. On October 2, 1922,. they purchased from George T. Black and wife a tract of land for which they agreed to pay $3,500. The certificate of deposit was to be used in the payment. To accomplish this, the deed and the certificate were under an escrow agreement placed with the respondent as escrow holder, with directions to collect the certificate when it became due. The respondent sent the certificate to the Exchange National Bank at Spokane, its correspondent. This bank a few days before the certificate became

due sent it to the Citizens National Bank of Laurel, the issuing bank. It arrived there on December 15th, the day it matured, and the Laurel bank immediately took up the certificate of deposit and issued its draft for the same drawn in favor of the Exchange National Bank of Spokane and upon the Montana National Bank of Billings, Montana. This draft was sent to the Exchange National Bank and that bank in turn delivered the draft to the Spokane Branch of the Federal Reserve Bank, for collection. The draft was then sent to the branch of the Federal Reserve Bank at Helena, Montana, which bank forwarded it to the Billings bank upon which it was drawn. On the day it arrived at the Billings bank the National Bank of Laurel, which had issued the draft, closed its doors and payment of the draft was refused. When the Exchange National Bank of Spokane received the draft it notified the respondent that there was placed to its credit the amount thereof. Some days later the respondent paid over that amount to Black and wife and delivered the deed, which it held in escrow, to the appellants. Shortly after this, the Exchange National Bank received notice from the Billings bank that the payment of the draft had been refused. The Exchange National Bank then charged the account of the respondent with the amount of the draft. The respondent notified the appellants of what had occurred and demanded reimbursement, which was finally refused. The present action was then begun.

The first question to be determined is whether the Exchange National Bank of Spokane was negligent in sending the certificate of deposit direct to the Citizens National Bank of Laurel, the bank which had issued it. Upon this question the authorities are not in harmony, but the weight of authority, as well as the more modern cases, support the rule that it is not negligence to send a certificate of deposit, bill of exchange or check to the bank which is to pay it, when that bank is the only bank in the city or town in which it is located, and that if the instrument is sent directly to the bank which issued or is to pay it, no liability arises by reason of this fact in the absence of a showing that it worked a loss.

Hilsinger v. Trickett (Ohio), 99 N.E.305;

Farmers Bank & Trust Co. v. Newland (Ky.),31 S.W.38;

Kershaw v. Ladd (Ore.), 56 Pac. 402;

Wilson v. Carlinville National Bank (Ill.),58 N.E.250;

Citizens Bank of Pleasantville v. First National Bank of Pleasantville (Iowa), 113 N.W. 481;

Waggoner Bank & Trust Co. v. Gamer Co. (Tex.),213 S.W. 92;

Indig v. National City Bank, 80 N.Y. 100;

In the present case it is not shown that any loss occurred to the appellants by reason of the certificate of deposit being sent directly to the bank that issued it. It arrived at that bank on the day it was due and immediately the draft was issued and sent to the Exchange National Bank at Spokane. In addition to this there was evidence that it was the custom of banks

to send a certificate of deposit, draft or check direct to the bank which was to pay it, even though there was another bank in the city or town where that bank was located, providing it appeared to be the strongest bank. There was evidence that the officer of the Exchange National Bank who handled the matter had looked up the standing of the two banks at Laurel, one of which was a state bank, and concluded that the issuing bank was the stronger bank of the two, and so sent the draft direct to it. There appears to be some contention that it was negligence for the Exchange National Bank to send the draft for collection through the Federal Reserve Bank rather than sending it direct to Billings. The evidence shows that this was in accordance with the custom of banks. If the custom was a general one, as the evidence shows, and was reasonable, the appellants were bound by it, even though it was not actually known to them at the time they placed the certificate of deposit with the respondent for collection, according to the weight of authority, though there are cases holding the other way. The prevailing rule appears to be that the general usage and customs of banks in making collections will bind persons dealing with them in this business, whether such usage or custom be known or not, this upon the theory that when a person hands over a negotiable instrument to a bank for collection without remark as to the course to be pursued, the bank is not bound to thrust upon him a statement of its intended course. Either he knows and approves of the ordinary and customary way that collections are handled by banks, or he voluntarily trusts

to the wisdom of the bank in handling the matter. He impliedly consents to its collection in the usual and ordinary way.

Jefferson County Savings Bank v.Commercial National Bank (Tenn), 39 S. W., 338;

Lands v. Traders' Bank of Kansas City (Mo.), 94 S.W.770;

Dorchester and Milton Bank v. New England Bank, 55 Mass. (1 Cushing) 177;

British & American Mortgage Co. v. Tibbals (Iowa), 19 N.W., 319;

San Francisco National Bank v. American National Bank of Los Angeles (Cal.), 90 Pac., 558;

Hilsinger v. Trickett (Ohio), 99 N.E.,, 305, supra.

In the case last cited it is said:

> "It is the rule of reason, sustained by sufficient authority, that the party is charged with knowledge of the general custom of banks in the matter of collection of commercial paper, and must be assumed, in the absence of other instructions, to have intended that the bank will perform the duty imposed upon it in the usual and customary way."

There was no negligence, therefore, on the part of the Exchange National Bank in sending the certificate of deposit direct to the issuing bank at Laurel, Montana, or in sending the draft for collection through the Spokane branch of the Federal Reserve Bank.

The next question is whether it was negligence for the Exchange National Bank to receive the draft in exchange for the certificate of deposit instead of requiring the cash to be

actually shipped. In considering this question, it will be assumed, but not decided, that the Exchange National Bank acted as the agent of the respondent and not of the appellants. Upon that question the authorities are in irreconcilable conflict and we will leave its determination for future consideration when it may necessarily be involved in the decision of a particular case. The evidence shows that it is the custom of banks to make remittances by draft and not by the shipment of cash. It may be, and there are some authorities to this effect, that the court could take judicial notice that this was the custom and practice of banks in making remittances, but it is not necessary in this case to go that far, as the evidence establishes the custom. The appellants, upon this question, place special reliance upon the case of Federal Reserve Bank of Richmond v. Malloy, 263 U. S., 160. In that case the proof of custom there showed that remittances were made "'by means of its (the drawee bank's) exchange draft or by a shipment of currency.'" The distinction between that case and this is in the proof as to the custom that prevailed in the respective localities from which the cases arose. The Exchange National Bank, therefore, was not guilty of negligence in failing to require the shipment of currency or gold instead of the draft.

The next question is whether the draft operated as payment absolute or conditional. Upon this question the evidence again shows the custom of banks upon receiving drafts to give credit and then should the draft not be paid to charge the item

back to the customer. . . In Bellevue Bank v. Security National Bank (Iowa), 150 N.W., 1076, quoting from Griffin v. Erskine, 131 Iowa, 444, 109 N.W. 13, it is said:

> "'Checks, drafts, and other bills of exchange are the means of transferring the money, in adjusting nearly all commercial transactions, and in authorizing an agent, whether bank or individual, to make collections, it may be assumed, in the absence of instructions to the contrary, that the authority is to be executed in the manner usual and customary in the commercial world. While the agent may not accept anything but the actual cash in satisfaction of the claim, he may receive a check or draft, negotiable and payable on demand, which he has good reason to believe will be honored on presentation, as a ready and more convenient means of obtaining the money in conditional satisfaction of the debt. Such a payment offers no greater temptation to the agent than payment in cash to which ordinarily it is equivalent. If honored by the drawee, payment relates back to the time of delivery.'"

To the same effect are the following:

First National Bank of Memphis v. First National Bank of Clarendon (Tex.), 134 S.W., 831;

Jefferson County Savings Bank v. Commercial National Bank (Tenn.), 39 S.W., 338, supra;

Hilsinger v. Trickett (Ohio), 99 N.E., 305, supra;

Albert v. State Bank, 138 N.Y. Supp., 237.

The appellants further argue that their objection to the evidence relative to the custom should have been sustained and cite in support of this position, among other authorities, the case from this court of American Sav. Bank & Trust Co. v. Dennis, 90 Wash., 547, 156 Pac., 559. In that case the bank sought to show its custom or rule in dealing with other customers in such cases as was there presented, and it was held that this rule or custom was not binding upon the defendant when he was

not aware of any such custom or rule. The difference between that case and this is that there it was a particular rule or custom of the bank, while here the evidence went, not to a particular custom of a particular bank, but to the general custom, and was properly admissable. In addition to this, the evidence in the present case as to custom was not offered for the purpose of modifying the terms or the effect of a contract, but was offered upon the question of whether the Exchange National Bank was guilty of negligence in the manner in which it handled the transaction.

Finally it is contended that the respondent, in paying out the funds to Black and wife before the draft had actually been paid, had violated the escrow agreement, but even if this were true it would not change the result. The appellants purchased the real property from Black and wife at a stipulated price, making a cash payment and agreeing that the money realized from the certificate should be used to pay the balance of the purchase price. The appellants went into possession of the property. They did not plead breach of the escrow and offered no proof of damages which they claimed to have suffered for that reason. Acting under the mistaken belief that the certificate had been paid, the respondent made payment to Black and wife. The appellants received and retained the benefit of that payment in that they have title to and possession of the property.

The judgment will be affirmed.

Main, J.

We concur:
Bridges, J.
Mitchell, J.
Fullerton, J.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4306

March 26, 1925.

SUBJECT; Discontinuance of Report Forms
X-794 and X-794-A

Dear Sir:

This is to advise you that the Federal Reserve Board will no longer require Federal Reserve Agents to furnish it with the monthly report of proofs and verifications made by the audit departments of their respective banks, and Report Forms X-794 and X-794 A are, therefore, discontinued effective immediately.

Very truly yours,

Walter L. Eddy,
Secretary.

TO ALL FEDERAL RESERVE AGENTS.

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

For immediate Release March 27, 1925

CONDITION OF ACCEPTANCE MARKET

February 18, 1925, to March 18, 1925.

With generally firmer money conditions during the latter part of February an increase in the supply of bills in the acceptance market was reported by dealers in New York and other cities. On February 27, following the advance in its rediscount rate, the New York Federal Reserve Bank raised its minimum buying rates on 60 and 90-day bills by 1/8 per cent. Bill dealers in New York thereupon increased their rates and this was followed later by increases in dealers' rates in Chicago and other cities. The volume of bills in the New York market increased temporarily after the rise in rates and dealers' sales to the Federal Reserve Bank were large. During the two weeks preceding March 18, however, demand slightly exceeded supply in most centers, owing in part to increased purchases by out of town banks. For the whole period from Febfuary 18 to March 18 New York dealers' purchases exceeded their purchases during the preceding four weeks period by about 10 per cent and were larger than for any similar period in 1923 or 1924. Their sales to other investors than Federal reserve banks were less than in the preceding four weeks and their sales to Federal reserve banks three times as great. Dealers' portfolios on March 18 were almost 20 per cent smaller than on February 18. Bills drawn in transactions covering cotton were mainly in evidence with grain, silk, and copper next in importance. The bid and offered rates in the New York market on March 18 ranged from $3\frac{1}{4}$ - 3 1/8 per cent on 30-day bills and 3 3/8 - $3\frac{1}{4}$ per cent on 60 and 90-day bills to $3\frac{3}{4}$ - $3\frac{1}{2}$ per cent on 180-day bills.

OFFICE CORRESPONDENCE X-4308

March 27, 1925.

To Mr. Wyatt, General Counsel. Subject: Effect of Recent Amendment

From Mr. Vest - Assistant Counsel to Judicial Code.

I have made a rather cursory examination of the authorities in order to determine as far as possible the effect of the recent amendment to the Judicial Code which provides that no district court shall have jurisdiction of any action or suit by or against any corporation upon the ground that it was incorporated by or under an Act of Congress. This act was passed February 13, 1925, and becomes effective May 13, 1925. Before making an examination of the legal authorities I investigated the Congressional Record in order to see if the debates in Congress while this statute was pending throw any light upon its purpose or effect. I did not find any reference, however, to that part of the statute which has to do with the jurisdiction of district courts. In the Report of the House Committee on the Judiciary submitting this bill, the provision limiting the jurisdiction of district courts is referred to but is not discussed.

Although I have not reached a definite conclusion in the matter it seems quite probable that the limitation of jurisdiction, when it takes effect on May 13, will be applicable not only to the future but also to pending proceedings. It seems to be a settled rule of law that jurisdiction over pending causes will be ousted by the repeal of the statute upon which such jurisdiction wholly depends. There are a number of cases in the United States Court supporting this doctrine. See Hallowell v. Commons, 239 U. S. 605; Railroad Company v. Grant, 98 U. S. 398; 15 Corp. Jur. 825. In accordance with this doctrine it appears that cases pending in the district courts of the United States which are in such courts solely by reason of the Federal incorporation of Federal reserve banks will after May 13 no longer be properly before the courts.

It is interesting to note that this act is very similar to that in which it was provided that jurisdiction of district courts of the United States should not extend to suits involving railroad companies upon the ground of Federal incorporation of such companies. This provision is a part of an act passed by Congress on January 28, 1915, which amended the Judicial Code in other respects. This act also contained a provision that it should not affect cases then pending in the Supreme Court of the United States but said nothing as to cases pending in the district courts. I have found no case involving the question whether cases pending in the district courts at the time

of the enactment of this statute in which jurisdiction was based alone on the Federal incorporation of a railroad company were affected, but under the doctrine just mentioned it would seem that the jurisdiction of the district courts in such cases, if any, must have ended upon the effective date of the statute.

Another very important question to the Federal reserve banks is whether or not such banks are to be considered citizens of any particular state within the meaning of the Judicial Code which gives to district courts jurisdiction over cases between citizens of different states. Federal reserve banks, of course, are organized under an Act of Congress and are, therefore, Federal corporations. They are citizens of the United States but it is at least doubtful whether they will be regarded as citizens of any particular state so that they can bring themselves within this provision of the Judicial Code. In the case of Bankers Trust Co. v. Texas & Pacific Railway, 241 U. S. 295, the question arose whether the Texas & Pacific Railway Co. which was incorporated under Act of Congress was a citizen of Texas by reason of the fact that it was a resident and inhabitant of that state. Mr. Justice Vandeventer in delivering the opinion of the Court held that this company, while a citizen of the United States, was not a citizen of a state for jurisdictional purposes. See also the case of Bacon v. Federal Reserve Bank of San Francisco, 289 Fed. 518.

It seems quite probable, therefore, that Federal reserve banks may, after May 13, 1925, sue or be sued in a United States District Court only when there is a Federal question involved in the case, regardless of the Federal incorporation of the reserve banks.

Respectfully,

George B. Vest,
Assistant Counsel.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4309
March 31, 1925.

SUBJECT: Charge for Monthly Bulletins Delivered in Bulk.

Dear Sir:

The principles governing research, statistical and publication activities of the Federal Reserve Banks adopted by the Board and transmitted to you on December 3, 1924 (Letter X-4200) provide that the Federal Reserve banks are to arrange to make a charge sufficient to cover costs for copies of their monthly bulletins delivered in bulk for distribution.

It seems desirable that charges of this character should be uniform throughout the Federal Reserve System and that there should be a common definition of the term "distribution in bulk". As the average cost of the monthly publications of the twelve Federal Reserve banks, including printing, paper, etc., is about three cents a copy or thirty-six cents per annum, the Board is of the opinion that a charge of this amount, plus the cost of shipment or delivery, should be made for copies of the bulletins delivered in bulk. Bulk distribution is defined as including all deliveries of monthly publications to member banks and others for distribution by them to the public.

By direction of the Federal Reserve Board.

Very truly yours,

Walter L. Eddy,
Secretary.

TO ALL F. R. AGENTS.

March 12,1925.

To The Federal Reserve Board Subject: Analysis of the new McFadden

From Mr. Vest - Assistant Counsel. Bill, H. R. 12453.

This office has been requested by the Board to present a legal analysis of the provisions of H. R. 12453 which was introduced by Mr. McFadden in the last few days of the 68th Congress.

Only 3 sections of the Federal Reserve Act will be affected by the bill in its present form, sections 14, 16 and 19, and the two most important changes which would be made in the Federal Reserve Act by the enactment of this bill would be the elimination of the provisions whereby Federal reserve notes may be issued against gold as collateral and an amendment to the reserve requirements for member banks.

The first section of the bill H. R. 12453, proposes to amend par. (a) of Sec. 14 by taking away from Federal reserve banks the power to exchange Federal reserve notes for gold, gold coin or gold certificates.

Sec. 2 of the bill contains a number of amendments to Section 16 of the Federal Reserve Act, the purpose of which is to eliminate from the Act those provisions which authorize Federal reserve notes to be issued against gold and gold certificates as collateral security. These provisions were added by the Amendment of June 21, 1917, and the effect of the proposed amendments to Sec. 16 would be a return to the condition existing prior to that time.

Par. 2 of Sec. 16 would be so amended that neither bills of exchange nor bankers' acceptances purchased under the provisions of Sec. 14, nor gold and gold certificates could be used as collateral security for the issuance of Federal reserve notes. Bills of exchange and bankers' acceptances purchased under Sec. 14 have been eligible as collateral for Federal reserve notes since the amendment of September 7, 1916.

Par. 3 of Sec. 16 would be amended by striking out the proviso that gold or gold certificates held by a Federal Reserve Agent as collateral for Federal reserve notes are to be counted as part of the gold reserve maintained against Federal reserve notes, but it is provided that gold or lawful money deposited with the Federal Reserve Agent is to be considered an offset against Federal reserve notes in active circulation for the purpose of computing the reserve to be carried against them.

Par. 4 of Sec. 16 requiring Federal reserve banks to maintain gold on deposit with the Treasury of the United States for the redemption of Federal reserve notes would be amended by requiring that not less than five per cent of the total amount of notes issued be so maintained on deposit with the Treasury, the qualification that the amount of gold or gold certificates held by the Federal Reserve Agent as collateral security may be deducted from this five per cent being omitted.

Par. 4 of Sec. 16 would also be amended by striking out the clause which permits the amount of gold or gold certificates held by Federal Reserve Agents as collateral security to be deducted from the total amount of outstanding Federal Reserve notes in computing the interest which may be required by the Federal Reserve Board to be paid on such notes.

Par. 6 of Sec. 16 would be amended by eliminating the provision that gold deposited with the Treasurer of the United States shall be counted and considered as if collateral security on deposit with the Federal Reserve Agent. It may be noted that the purpose of all of the above amendments to Sec. 16 is to eliminate all language in the present law which refers to the issuance of Federal Reserve notes against gold or gold certificates as collateral security.

The 3rd section of the proposed bill would amend Section 19 so as to make an important change in the present reserve requirements for member banks. This change is contained in the amendment to the 2nd paragraph of Section 19 and would permit a minimum of 60% of the reserve required to be carried with the Federal reserve bank, whereas the remainder of such reserve might be held either in the vaults of the member bank or with the Federal reserve bank in such proportions as the member bank may desire.

The remainder of the changes in Sec. 19 are largely matters of phraseology which are proposed in order to make the remainder of this section conform to the proposed change just mentioned. It may be well to note that the portion of the reserve which is maintained with the Federal reserve bank, whether it be 60% or more of the total reserve required, must be an actual net balance, while the remainder of the reserve is to be held by the member bank in its own vaults.

There is attached hereto a statement showing in detail every change proposed to be made by the Bill, H. R. 12453 in the present Federal Reserve Act.

Respectfully,

George B. Vest,
Assistant Counsel.

Statement attached.

GBV
OMC

EFFECT OF H. R. 12453 ON FEDERAL RESERVE ACT.

March 12, 1925.

The following is a list of the changes which would be made in Sections 14, 16 and 19 of the Federal Reserve Act as it now stands, by H. R. 12453, which was introduced by Mr. McFadden in the last few days of the 68th Congress:

Section 14(a), in 2nd line after words "to make loans thereon" the following words omitted:

> "exchange Federal reserve notes for gold, gold coin or gold certificates."

These words were contained in the Federal Reserve Act as originally enacted and have remained unchanged since that time.

Section 16, paragraph 2, line 10, after the word "act" the following words omitted:

> "or bills of exchange endorsed by a member bank of any Federal Reserve District and purchased under the provisions of Section 14 of this act, or bankers' acceptances purchased under the provisions of said section 14, or gold or gold certificates".

The words underlined were added to the Act by the amendment of June 21, 1917.

Section 16, paragraph 2, line 15 after the word "security", the following words omitted:

> "whether gold, gold certificates or eligible paper."

These words were a part of a clause added to the Act by the Amendment of June 21, 1917.

Section 16, paragraph 2, line 21, the word "said" before "Federal Reserve Board" omitted.

Section 16, paragraph 3, line 5, after the word "circulation" the following words omitted:

> "provided, however, that when the Federal Reserve Agent holds gold or gold certificates as collateral for Federal reserve notes issued to the bank such gold, or gold certificates shall be counted as part of the gold reserve which such bank is required to maintain against its Federal reserve notes in actual circulation."

And the following words inserted in lieu thereof:

"and not offset by gold or lawful money deposited with the Federal Reserve Agent."

These changes would restore this part of the paragraph to the same form in which it was before the amendment of June 21, 1917.

Section 16, paragraph 3, line 11, the word "out" omitted after "paid".

Section 16, paragraph 4, line 7, after the word "issued" the following words omitted:

"less the amount of gold or gold certificates held by the Federal Reserve Agent as collateral security."

These words were added to the Act by the Amendment of June 21, 1917.

Section 16, paragraph 4, line 20, the word "thereon" inserted after the words "rate of interest" and after the words "Federal Reserve Board" the following words omitted:

"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."

This change would restore this part of the paragraph to substantially the same form as it was before June 21, 1917.

Section 16, paragraph 4, line 26, the word "such" before "notes" omitted.

Section 16, paragraph 6, beginning with the words "so much" in the 8th line the remainder of the paragraph is stricken out and the following inserted in lieu thereof:

"so much of such gold as may be required for the exclusive purposes of the redemption of such Federal reserve notes."

This change would restore this part of the paragraph to substantially the same form as it was before June 21, 1917.

The second paragraph of Section 19 which in the present Act reads as follows:

"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:"

has been changed by the Bill to read as follows:

> "Every bank, banking association, or trust company which is or which becomes a member of any Federal reserve bank shall establish and maintain the following reserves, 60 per centum of which shall in each case be held as an actual net balance with the Federal reserve bank of its district and the remaining 40 per centum of which shall be held either in the same manner or in its own vaults in such ratio as it deems expedient."

Section 19, paragraph (a), line 2, the words "it shall hold and maintain with the Federal reserve bank of its district an actual net balances" omitted and the word "reserves" inserted in lieu thereof.

Precisely the same change is made in paragraph (b), and the following additional changes are made in paragraph (b):

> The words "provided however that" in the 5th line are changed to "but";
>
> The word "hold" in the 10th line is changed to "establish";
>
> The words "reserve balances" in the 10th line are changed to "reserve."

In paragraph (c) of Section 19 there are the same changes as are made in paragraph (b) of that section, with the addition that the last word "thereof" is changed to "hereof".

Section 19, 7th paragraph, at the beginning thereof the words "the required balance carried by a member bank with the Federal reserve bank may under the regulations" are changed to read as follows:

> "the reserves required by this act to be established and maintained by the member bank may under such regulations".

And in the last line thereof, the words "the total balance required by law is" are changed to read "such reserves are".

Section 19, paragraph 8, in the first line, the word "balances" is changed to "reserves" and in the last line the words "required balances with Federal reserve banks" is changed to "reserves."

In the 7th line of the 9th paragraph of Section 19 the word "Federal"is omitted before "Reserve Board."

COPY X-4312

April 1, 1925.

Federal Reserve Board,
Washington, D.C.

Attention of Mr. Walter Wyatt, General Counsel.

Dear Sirs:

I hand you herewith a copy of the opinion of the Supreme Court of North Carolina in the case of Federal Land Bank of Columbia v. J. B. Barrow, et als. A copy of this opinion was furnished me by Mr. Ruark of the firm of Ruark and Campbell.

The Federal Reserve Bank of Richmond was not a party to this suit, but you will notice that the question presented involved the failure of the Federal Reserve Bank of Richmond to collect a cashier's check on the Bank of Vanceboro. The case is of peculiar interest to me, because in the opinion the Court recognizes that since a Federal Reserve Bank cannot demand payment in cash from a North Carolina State Bank, the ruling of the Supreme Court of the United States in the Malloy case cannot apply in so far as that court held that the Federal Reserve Bank was negligent in surrendering a check before receiving payment in cash.

As you know, I have two cases pending in which the holders of checks drawn on the Bank of Vanceboro seek to recover against the Federal Reserve Bank of Richmond under the doctrine of the Malloy case, and this decision will naturally be of great assistance to me in these cases, although it is not of great importance in cases arising outside of the State of North Carolina.

Yours very truly,

M. G. Wallace,
Counsel.

MGW:IB

THE FEDERAL LAND BANK OF COLUMBIA v. J. B. BARROW and M. J. BARROW, HIS WIFE, ET ALS.

(File 18 March, 1925)

1. Bills and Notes - Banks and Banking - Payment - Cashier's Check - Collection - Negligence - Burden of Proof.

Where the defense to an action by a bank upon an unpaid check given for a partial payment upon one of a series of mortgage notes is the negligence of the plaintiff bank in not having used a course of collection wherein the check would have been promptly presented to the drawee bank and paid, the burden is on the defendant relying thereon.

2. Same-Evidence - Nonsuit - Questions for Jury.

In an action by plaintiff land bank to recover upon certain notes given by a borrower, secured by mortgage on the amortization plan for default in payment of one of its notes in the series wherein, under the terms of the transaction, all of the notes become due and payable, there was evidence tending to show that under instructions of the plaintiff the defendants obtained a cashier's check for the full amount of the payment of the note then due, which the plaintiff was to accept as payment, and, owing to the plaintiff's negligence, the check reached the bank of its issuance after it had suspended payment: Held, two issues of fact were raised for the jury - one, whether the plaintiff had agreed to accept the cashier's check in absolute payment; and the other, whether the plaintiff had negligently selected for the cashier's check a delayed course of collection that prevented the check reaching the bank of its issuance before payment had been there suspended; and a motion as of nonsuit was properly denied.

3. Courts - Discretion - Motion to Set Aside Verdict - Appeal and Error.

A motion to set the verdict aside as being against the weight or credibility of the evidence is to the sound discretion of the trial judge; and in the absence of an abuse of this discretion, is not reviewable on appeal.

Appeal by plaintiff from Midyette, J., at September Term, 1924, of Craven.

On the 9 October, 1919, plaintiff loaned to defendants, J. B. Barrow and wife, the sum of $5,400, and defendants on same day executed and delivered to plaintiff, their note by which they promised to pay to plaintiff the principal sum of $5,400, with interest at 5½ per cent, in 34 annual installments, each in the sum of $351 due on 1 December, of each succeeding year, thereby providing for the payment of principal sum and interest on the amortization plan. In order to secure payment of said note, by installments as provided therein, defendants on said day, by mortgage, duly executed and recorded, conveyed to plaintiff a tract of land, situate in Craven County, N.C., fully described therein. It is provided in both note and mortgage that upon default in the payment of any one of the annual installments, by which said note was payable, the whole principal sum with accrued interest, shall become due and payable at once.

Plaintiff alleges that the installment due on 1 December, 1923, was not paid, and that because of such default, the whole principal, with accrued in-

terest became due and payable, at date of such default; that plaintiff is the owner and holder of said note and there is now due on the same the sum of $5,165.10, with interest at 5½ per cent from 1 December, 1922. Plaintiff demands judgment that it recover of defendants, J. B. Barrow and wife the sum of $5,165.10 with interest from 1 December, 1922, and prays that the court appoint a commissioner to sell the land conveyed in the mortgage and that out of the proceeds of said sale, the indebtedness due by said defendants to plaintiff be paid.

Defendants deny that there was default by them in the payment of said installment, and that the note, secured by said mortgage is now due; they allege that said installment has been paid. Defendants allege that prior to 1 December, 1923, they were instructed by plaintiff to purchase a cashier's check or money order for the amount due on said installment and to remit same in payment of said installment; that complying with said instructions, defendants, on 30 November, 1923, purchased of the Bank of Vanceboro, at Vanceboro, N.C., its cashier's check for $351, payable to the Federal Land Bank of Columbia, and forwarded same at once by registered letter to plaintiff in payment of installment due on 1 December, 1923; that plaintiff received said cashier's check in payment of said installment and thereafter sent to defendants, through the mail, a receipt acknowledging payment of amount due on said installment.

Defendants further allege that plaintiff negligently failed to send said cashier's check promptly to Bank of Vanceboro, for payment; that if plaintiff had promptly sent said cashier's check which was in its hands on 3 December, 1923, to Bank of Vanceboro it would have been paid.

Defendants further allege that plaintiff negligently sent said cashier's check to the Murchison National Bank of Wilmington, N.C., on 4 December, 1923; that said Murchison National Bank on 6 December, 1923, forwarded said check to the Federal Reserve Bank at Richmond, Va., and that said Federal Reserve Bank on 7 December, 1923, sent said check to Bank of Vanceboro, at Vanceboro, N.C., at which bank it was received by mail, on Saturday, 8 December, 1923, that on Monday, 10 December, 1923, Bank of Vanceboro sent its draft on the National Bank of New Bern, N.C., to the Federal Reserve Bank at Richmond, Va., in payment of said cashier's check which was thereupon marked "Paid" by the said Bank of Vanceboro, the drawee of said check. This draft was forwarded by Federal Reserve Bank to National Bank of New Bern, which refused payment of same. A receiver for Bank of Vanceboro was appointed on 13 December, 1923. Defendants allege that if plaintiff had sent the cashier's check direct to Federal Reserve Bank at Richmond, instead of the Murchison National Bank at Wilmington, it would have been presented to Bank of Vanceboro in time for the draft on the National Bank of New Bern to Federal Reserve Bank at Richmond in payment of same, to have reached National Bank of New Bern on 9 December, 1923, when it would have been paid out of the deposits of the Bank of Vanceboro with said National Bank of New Bern.

Plaintiff in its reply, denied the allegations contained in the answer, in defense of plaintiff's cause of action.

The issues submitted to the jury, with the answers thereto, were as follows:

1. Was plaintiff's failure to get the $351 installment payable to it by defendant, Barrow, 1 December, 1923, due to its own negligence? Answer: yes.

2. Did the plaintiff bank instruct the defendant, Barrow, to send them a cashier's check or money order in payment of the indebtedness? Answer: Yes.

From judgment in accordance with the verdict of the jury in favor of defendants, plaintiff appealed, assigning errors based upon exceptions - first, to the refusal of the court to allow plaintiff's motion for judgment at the close of all the evidence; second, to the court's refusal to charge the jury as requested by the plaintiff; third, to the submission of the second issue; and fourth, to the refusal of the court to set aside the verdict and grant a new trial.

R. A. Nunn for plaintiff
D. L. Ward for defendants.

Connor, J. Defendants admit in their answer the execution of the note as alleged in the complaint. As a defense to plaintiff's cause of action, upon this note, defendants plead payment of the installment due on 1 December, 1923. They thereby assumed the burden upon the issuesraised by the pleadings and submitted to the jury. Ellison v. Rix, 85 N. C. 80. At the conclusion of the evidence offered by defendants, plaintiffs moved for judgment upon the admissionsin the pleadings, contending that the evidence offered by defendants was not sufficient to sustain affirmative answers to the issues. The motion was denied, and plaintiff excepted. Plaintiff then offered evidence, and at the conclusion of all the evidence renewed its motion for judgment. The motion was again denied by the court, and plaintiff excepted. Assignments of error, based upon these exceptions, are discussed together in the brief filed for plaintiff. These assignments of error present for review by this court his Honor's holding that there was sufficient evidence to be submitted to the jury upon the issues.

It is admitted that on 3 December, 1923, plaintiff received, at Columbia, S.C., through the mail, a letter from defendant, J. B. Barrow, enclosing a cashier's check, dated 30 November, 1923, for $351, issued by the cashier of the Bank of Vanceboro, N.C., and payable to the order of Federal Land Bank of Columbia; that said cashier's check was sent by defendants to plaintiff in payment of installment due on said note 1 December, 1923, and was accepted by plaintiff; that the letter from defendant, with which the cashier's check was enclosed, was returned to defendant, stamped with the words, "Federal Land Bank, Paid, December 3, 1923, Columbia, S.C."; that the letter, enclosing remittance, stamped, showing the date of its receipt by plaintiff, and payment by the remittance, is the only receipt which plaintiff sends to its customers for payments made on notes; that this letter, so stamped, was received by defendants at Vanceboro, N.C., on 4 December, 1923.

Defendant J. B. Barrow testified that he received a letter from plaintiff a few days prior to 30 November, 1923, instructing him to send cashier's check or money order in payment of installment to be due on 1 December, 1923, and that in compliance with this instruction he purchased and sent to plaintiff, by registered letter, a cashier's check for the amount due. Defendants offered in evidence the cashier's check of the Bank of Vanceboro, dated 30 November, 1923, for $351, payable to Federal Land Bank of Columbia, marked "Paid, December 10, 1923."

There was evidence that the cashier's check was received by plaintiff at Columbia, S.C., on 3 December, 1923, and presented for payment to Bank of Vanceboro, N.C., on Saturday, 8 December, 1923; that check was sent by plaintiff to the Murchison National Bank of Wilmington, N.C., by mail, and received by said Murchison National Bank on Thursday, 6 December, 1923; that check was sent by Murchison National Bank to the Federal Reserve Bank at Richmond, Va., and received by said Federal Reserve Bank on Friday, 7 December, 1923; that check was sent by said Federal Reserve Bank to Bank of Vanceboro, N.C., and received by said Bank of Vanceboro on Saturday, 8 December, 1923; that on Monday, 10 December, 1923, Bank of Vanceboro sent its draft, including the amount of said cashier's check, and in payment of same, on the National Bank of New Bern, N.C., to Federal Reserve Bank at Richmond, Va., and thereupon marked said cashier's check "Paid, December 10, 1923"; that Federal Reserve Bank sent the draft of Bank of Vanceboro, which it had received in payment of the cashier's check, to the National Bank of New Bern on 11 December, 1923; that payment of this draft was refused by National Bank of New Bern, and that on 13 December, 1923, a receiver was appointed for Bank of Vanceboro, and that the draft of Bank of Vanceboro, payable to Federal Reserve Bank of Richmond, on National Bank of New Bern, has not been paid; that plaintiff has not received payment of said cashier's check.

There was evidence that from 3 December to 13 December, 1923, the Bank of Vanceboro had on deposit with the National Bank of New Bern, each day, a sum of money largely in excess of the amount of the cashier's check; that if cashier's check had been presented on either of these days to Bank of Vanceboro it would have been paid; and that Bank of Vanceboro, up until 11 or 12 o'clock of the morning of 13 December, 1923, paid all checks or drafts presented to it for payment.

There was evidence that if plaintiff had sent cashier's check direct to Bank of Vanceboro for payment, or had sent it direct to Federal Reserve Bank at Richmond for collection, or if Murchison National Bank had sent the cashier's check direct to Bank of Vanceboro for payment, it would have been paid in cash or by draft which would have been paid, and that plaintiff would thus have received payment for said cashier's check.

There was evidence to the contrary, offered by plaintiff, but upon this assignment of error, only evidence sustaining the affirmative of the issues is to be considered. The assignments of error are not sustained. There was no error in refusing the motion of plaintiff.

In apt time, plaintiff, in writing, requested the court to charge the jury upon the first issue as follows:

That if the jury should find by the greater weight of the evidence that the Federal Land Bank of Columbia received the check of the cashier of the Bank of Vanceboro, 3 December, 1923, and sent it to the Murchison National Bank of Wilmington, 4 December, and the Murchison National Bank sent it to the Federal Reserve Bank of Richmond, 6 December, and the Federal Reserve Bank sent it to the Bank of Vanceboro, 7 December, and the Bank of Vanceboro sent its draft to the Federal Reserve Bank, 10 December, and the Federal Reserve Bank sent the draft to the National Bank of New Bern, 11 December, the first issue should be answered 'No.'"

This request for special instruction was refused by the court, and plaintiff excepted. Plaintiff assigns refusal to give this instruction as error.

The acceptance by plaintiff of the cashier's check, sent by defendants in payment of the installment due on 1 December, 1923, although not in itself a discharge of defendants' liability unless and until same had been actually paid by the Bank of Vanceboro, imposed upon plaintiff the duty of exercising due diligence in presenting the cashier's check for payment to the Bank of Vanceboro. If the check was not paid when presented to the Bank of Vanceboro, and the giving of a worthless check was not payment, the loss does not fall upon defendants unless plaintiff fully performed this duty and exercised due diligence in presenting the check. The loss resulting from failure to perform this duty must fall on plaintiff if the failure of plaintiff to secure payment of said check was due to negligence of plaintiff. 21 R. C. L. 66, sec. 65.

"It is well settled that in the absence of an agreement to the contrary, a check or promissory note of either the debtor or a third person, received for a debt, is merely conditional payment - that is, satisfaction of the debt if and when paid; but that acceptance of such check or note implies an undertaking of due diligence in presenting it for payment. And if he from whom it is received sustains loss by want of such diligence, it will be held to operate as actual payment." Dille v. White, note 10 L.R.A. (N.S.) 541.

When plaintiff received the cashier's check, on Monday, 3 December, 1923, in payment of defendants' indebtedness, it elected to send same to Murchison National Bank, at Wilmington N.C., for presentation to Bank of Vanceboro, with knowledge that the Murchison National Bank would, according to its custom, send same to Federal Reserve Bank at Richmond, Va., and that said Federal Reserve Bank would send same by mail to Bank of Vanceboro for presentation; this course was pursued, according to the evidence, because it saved trouble and expense. If plaintiff had sent check direct to Bank of Vanceboro for presentation and payment, it would have received a "quicker response." There is evidence from which the jury could find that if the cashier's check had been sent direct, either by plaintiff or by Murchison National Bank, it would have been paid. Whether it was due diligence to adopt the course which plaintiff did adopt, was for the jury, upon all the evidence, to determine, and there was no error in the refusal of the court to instruct the jury that as a matter of law the course adopted was due diligence, although there was no delay due to negligence in presenting the check for payment according to the course adopted.

If plaintiff, or the Murchison National Bank of Wilmington, N.C., had sent the cashier's check, drawn upon the Bank of Vanceboro, direct to said drawee bank for payment, this would have been "due diligence". Public Laws 1921, ch. 4, sec. 39. The holding of this Court, in Bank v. Floyd, 142 N. C., 187, and in Bank v. Trust Co., 172 N.C., 345, that "It is negligence in a bank having a draft or check for collection to send it directly to the drawee, and this is true, though the drawee is the only bank at the place of payment;" is thus abrogated by the express provisions of this statute. See Malloy v. Fed. Reserve Bank, 261 Fed., 1003. "The failure of the payer bank, because of its insolvency or other default, to account for the proceeds thereof, shall not render the forwarding bank liable therefor, provided such forwarding bank shall have used due diligence in other respects in connection with the collection of such instrument."

Where there are two or more courses which a bank may pursue in presenting for collection a check or draft upon another bank, and there is evidence from which a jury may find that the selection of one course caused loss or damage to the owner of the check or draft, or to one who is interested in the presentation of said check or draft because of liability therefor which would not have been sustained if another course open to said bank had been pursued, it is for the jury to determine, upon all the facts and circumstances which they may find from the evidence, whether the course pursued was negligent or not, in accordance with the standard of the prudent man.

The second issue submits to the jury the facts upon which defendants rely in their answer for a defense to plaintiff's cause of action. The allegation that defendants were instructed by plaintiff to purchase a cashier's check or money order for the purpose of remitting the amount due on the installment is denied in the reply. There was no error in submitting the second issue.

Upon this issue the court charged the jury as follows: "If the jury is satisfied by the greater weight of the evidence, with the burden on the defendant, that the plaintiff bank entered into a contract with the defendant Barrow, under the terms and conditions of which it was expressly agreed that the defendant Barrow should send the plaintiff bank a cashier's check for $351 in full payment of the instrument then due, and that the plaintiff bank would accept said cashier's check in full payment thereof, whether paid or not paid, and should further find that the defendant Barrow sent the plaintiff bank a cashier's check for $351, which was received by them and accepted by them in full payment and discharge of the installment then due, you will answer the second issue 'Yes'; otherwise, you will answer it 'No'".

There was no exception to this instruction. It is a clear and full statement of the law applicable to the facts, which the jury might find from the evidence. "The fact that a check or draft was received in absolute payment may be established by showing an express agreement to that effect, or by showing such circumstances as will satisfy the mind that such was the understanding of the parties at the time the check was taken. Whether a check is given and accepted as absolute payment is a question of fact to be determined by the jury on the evidence presented." 21 R. C. L, p. 64, sec. 63.

The refusal by the court of the motion to set aside the verdict, assigned as error, was within the discretion vested in it by law, and is not reviewable in this Court, upon the facts appearing in this record.

The Federal Reserve Bank of Richmond, to which the cashier's check was sent for presentation to Bank of Vanceboro, accepted the draft of the Bank of Vanceboro on the National Bank of New Bern in payment. This draft was not paid. In Malloy v. Federal Reserve Bank, 281 Fed., 997, 291 Fed., 763; 264 U. S., 160; 68 L. Ed., 617, it is held that "a Federal reserve bank, to which a check was forwarded for collection, and which accepted from drawee bank in payment of check the drawee bank's worthless check on a third bank, was liable to payee for losses sustained, since the bank had no authority to accept the draft instead of money in payment of the check, and since the acceptance of the draft as payment released the drawer." It is also held that "banks must be presumed to have dealt with each other with respect to a statute of the State in which a check was deposited for collection, defining the rights and liabilities of banks to which checks are forwarded for collection." The question as to whether and, if so, to what extent the law as thus declared has been modified or altered in this State by Public Laws

1921, ch. 4, sec. 39, and Public Laws 1921, ch. 20, is not presented in this case. Under the first statute cited, the sending of the cashier's check by the Federal Reserve Bank of Richmond, Va., to the drawee bank for collection was "due diligence", and the failure of the drawee bank to account for same did not render the forwarding bank liable to the owner of the check, the forwarding bank having used due diligence in other respects.

Under the second statute cited, the cashier's check, forwarded to the bank on which it was drawn for collection, by the Federal Reserve Bank of Richmond, was payable, at the option of the drawee bank, in exchange drawn on the reserve deposits of drawee bank, and the Federal Reserve Bank could not require payment in any other medium than such exchange. The validity of this latter statute has been sustained by the Supreme Court of the United States in Farmers & Merchants Bank v. Federal Reserve Bank, 262 U. S., 649; 67 L. Ed., 1157. See, also, same case, 183, N. C., 546.

Plaintiff cannot recover in this action, not because there was lack of due diligence on its part or on the part of the Murchison National Bank or the Federal Reserve Bank with respect to the collection of the check, but because the jury has found upon competent evidence that the course adopted by plaintiff for collection of check was, under all the facts and circumstances, negligent - that is, in violation of its duty to defendant to exercise due diligence in collecting same, and that this negligence was the proximate cause of plaintiff's loss. The jury has also found, upon competent evidence, and under instruction not excepted to, that plaintiff instructed defendants to send cashier's check in payment of the indebtedness. Defendants, having complied with this instruction, are discharged from liability for said indebtedness.

Judgment affirmed. There is
No error.

TO: The Federal Reserve Board X-4314

From: Divisions of Bank Operations and Research and Statistics.

THE MCFADDEN BILL TO REVISE THE FEDERAL RESERVE ACT

General purposes of the amendments

The amendments to the Federal Reserve Act proposed by Congressman McFadden immediately prior to the adjournment of the last Congress apparently have two purposes: (1) To reestablish a closer connection between the volume of Federal reserve notes in circulation and the currency requirements of business. With this in view the bill prohibits the use by reserve banks of gold and of acceptances purchased in the open market as collateral for Federal reserve notes, leaving discounted paper as the sole authorized collateral. (2) To reduce the lending power of the reserve banks, by permitting member banks to withdraw from the reserve banks, and to hold in their own vaults, a part of their required reserves.

Both of these objects appear to be based largely on misconceptions arising from imperfect appreciation of the experience of the system. The first of them assumes that the volume of Federal reserve notes in circulation currently depends upon the character of the paper or other collateral which may be used as cover for the notes, but experience has demonstrated that this is not the case. Notes get into general circulation only when customers of member or nonmember banks withdraw currency to meet their current needs. Member banks retain in their own vaults only such an amount of currency as they need to meet daily requirements, because it does not pay them to keep more, and it is only when these daily requirements increase, by reason of the demands of the public, that member banks find it necessary to obtain more currency from the reserve bank, using any acceptable collateral that they may have. The

elasticity of the Federal reserve note does not depend on the character of collateral that member banks use to obtain currency. Federal reserve notes issued against gold come in for retirement as promptly as notes secured by commercial paper. It is through the Federal reserve banks' meeting the currency demand when it arises that the amount of currency in circulation is constantly adjusted to the requirements of business.

The provision authorizing member banks to hold part of their reserves in their own vaults, which is apparently intended to diminish the lending power of the reserve banks, through a reduction of their reserves, would have little effect, when taken in conjunction with the other proposed amendments, because member banks would have no inducement to exercise their option to any extent. That portion of their resources which the law or experience requires the member banks to hold as reserves would remain inactive and unproductive of earnings, under the proposed amendment as it is under existing laws, and a mere transfer of reserves from reserve banks to member banks would not increase the member banks' lending power or earning capacity, but would merely reduce the lending power of the reserve banks.

Gold with the reserve agents not to count as reserves

The provision in the McFadden bill that gold held with the Federal reserve agent shall not count as part of the reserves of the reserve bank is a repeal of an amendment adopted in 1917, principally for the purpose of facilitating note issues and permitting the reserve banks to count all the gold, whether held by the agent or by the reserve bank, as part of their reserves. Notes were exchanged for gold prior to the amendment butthis was accomplished in a roundabout way, and it was thought best to authorize the direct exchange.

The effect of this proposal at the present time would be that of the $1,700,000,000 of Federal reserve notes in circulation, only about $400,000,000 could continue to be a liability of the reserve banks because this is the total amount of discounted paper held by the twelve reserve banks. Against the remainder of the notes, the Federal reserve agents now hold gold and in order to comply with the proposed amendment the reserve banks would have to follow one of two courses; either to pay this gold out into circulation in exchange for an equivalent amount of Federal reserve notes; or to impound the gold with the agent to be held by him exclusively for the redemption of notes. The reserve banks would probably adopt the procedure of letting the $1,300,000,000 of gold held by the agents as cover for notes be applied to the reduction of the banks' liability on reserve notes. Thus the gold as an asset and an equivalent amount of notes as a liability would be taken out of the reserve banks' balance sheet and would appear only in the account of the Federal reserve agents. Under present conditions the reserve banks would after this transaction still have a reserve of about 60 per cent against their combined note and deposit liability. In some of the reserve banks, however, the result would be a deficiency of reserves even at the present time.

The reserve banks could increase the volume of paper eligible as note cover at their disposal; i.e., paper eligible as cover under the amendments, by selling acceptances and securities and thereby causing member banks to discount paper with the reserve banks. While technically this would be a method of increasing the volume of paper eligible for note cover, it would involve a complete withdrawing of Federal reserve banks from open-market operations.

Under the McFadden proposal the note-issuing power of the reserve banks,

which is now limited by reserve requirements, will be limited in addition by the amount of eligible paper available as collateral for note issue. As pointed out earlier, this additional limitation does not increase the elasticity of the reserve note but merely erects a cumbersome piece of machinery that might under certain conditions prevent the smooth performance of their functions by the reserve banks. A situation might even arise, under the proposed amendment, where reserve banks, by reason of low reserves and shortage of eligible paper, could not issue Federal reserve notes to member banks unless these banks borrowed $3.00 from the reserve banks, and kept $2.00 of this on deposit with the reserve banks, in order to obtain $1.00 of Federal reserve notes. Under conditions of unusual credit and currency demand, therefore, the McFadden amendment would cause unnecessary difficulties to our banking system, and since the test of the soundness of a banking system is the way it would stand up under a strain - this is a serious argument against the proposal.

In considering the possible effect of these amendments in decreasing the gold reserves of the reserve banks through further increases of gold in circulation, the fact should not be overlooked that the gold now held by the reserve banks for the most part was not withdrawn from domestic circulation but was imported from abroad. As the result of paying out gold certificates the volume of gold in circulation at the present time is nearly as large as before the system was established, and the reserve banks in recent months have also met out of their reserves a considerable demand for gold for export.

The chief effect of the proposed amendment relating to gold cover appears to be to lower the reserve ratio of the reserve banks by impounding a part of their reserves with the Federal reserve agents. At a time when reserves are ample, as at present, the impounding of the gold would not bring the reserve ratio near the legal minimum, but under conditions of exceptionally large demand for credit and currency the amendment would interfere with the smooth operation of the reserve banks and might make necessary a suspension of reserve requirements.

Acceptances ineligible as collateral against notes

In prohibiting the use of acceptances as cover for Federal reserve notes, the amendment places acceptances in regard to ineligibility as cover for notes on the same footing with United States securities, the other class of open-market purchases of the reserve banks. Acceptances, however, are as directly connected with the financing of current business as are promissory notes, and reflect the underlying commercial transactions in contrast to paper secured by United States obligations which is now eligible and would continue to be eligible under the amendment, to serve as cover for Federal reserve notes. It is probable that the object of this amendment is not so much to increase the elasticity of the Federal reserve note as to limit the reserve banks' open-market operations.

Authority to hold part of reserves in members' vaults

The proposal to authorize member banks to hold part of their required reserves in their own vaults would in its present form permit member banks to count as part of their reserves the vault cash which they now carry as till money. If the amendment were adopted without increasing the reserve requirements of member banks, it would make available to the member banks about $500,000,000 which they could use either as a basis for additional lending or to reduce indebtedness at the reserve banks. When in 1917 reserve requirements changed so as to make only balances at the reserve banks count as legal reserves for member banks, at the same time required reserve percentages were reduced in recognition of the fact that the cash which member banks would continue to carry in their vaults would no longer count as reserves. The present proposal to permit the vault cash of member banks to be counted as reserves without correspondingly increasing the legal reserve requirements would result in reduced borrowing at the reserve banks and in member banks seeking increased investment for their released funds.

If the proponents of the bill would upon consideration decide to include in the amendment an increase in reserve requirements equal to the amount of cash in vault, the proposal would have relatively little effect on the credit situation.

Existing provisions not emergency measures

The McFadden proposal has been generally understood to have the object of restoring the Federal Reserve Act to its original form through repeal of war time amendments. Experience indicates that the 1917 amendments, though their passage may have been expedited by the war emergency, are not in the nature of emergency provisions, but are a logical rounding out of the reserve system. In effect the McFadden proposal would have the system return to the ideas and theories of the framers of the Federal Reserve Act prior to the system's establishment, and would thus sacrifice the lessons of practical experience acquired during the decade of its operation.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4317

April 11, 1925

SUBJECT: Changes in postal rates.

Dear Sir:

There is enclosed herewith copy of a letter addressed by the Third Assistant Postmaster General to the Assistant Secretary of the Treasury which is self-explanatory and is being forwarded to you for your information.

The Board understands that the postmasters in the Federal reserve and branch bank cities are able to fully advise the reserve banks and branches of the effect which the recent postal legislation will have on the costs of currency shipments and other registered mail matter.

Very truly yours,

Vice Governor.

Enclosure:

To all Governors.

COPY X-4317-a 265

April 2, 1925.

Hon. Charles S. Dewey,
Assistant Secretary, Treasury Department,
Washington, D.C.

My dear Sir:

The act of February 28, 1925, making modifications in postage rates, which becomes effective on April 15, 1925, provides that in addition to the postage at the pound rates according to zone there shall be a service charge of two cents for each parcel of fourth-class matter, except upon parcels collected on rural delivery routes, which is the equivalent of two cents additional on the first pound of such parcels.

I am bringing this to your attention for the reason that parcels of coin and currency, mutilated currency, bonds, and other matter, accepted at the fourth-class or parcel post rates when mailed by the Treasury Department and the Federal reserve banks and their branches will, in addition to the postage at the pound rates according to zone, be subject, on and after April 15, 1925, to the two-cent service charge.

The fees, which are in addition to the postage and service charge, will remain the same as heretofore.

When the matter exceeds 70 or 50 pounds, according to the parcel post zone to which the shipments are addressed, the postage, service charge and fee will, as heretofore, be based on each unit of 70 or 50 pounds or fraction thereof, as the case may be.

The postmasters at the post offices affected will be advised accordingly.

Sincerely yours,

W. Irving Glover
Third Assistant Postmaster General.

TREASURY DEPARTMENT
Office of the Secretary
WASHINGTON

April 8, 1925.

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, 1925, amounting to $144,375.00, as follows,-

	Federal Reserve Notes, 1914					
	$5	$10	$20	$50	$100	Total
Boston	300,000	348,000	50,000	—	—	698,000
New York	750,000	—	—	—	—	750,000
Philadelphia	548,000	35,000	15,000	12,000	—	610,000
Cleveland	160,000	—	—	—	7,000	167,000
Richmond	190,000	—	—	—	—	190,000
Atlanta	415,000	30,000	—	—	—	445,000
Chicago	280,000	—	—	—	—	280,000
Kansas City	200,000	—	—	—	—	200,000
San Francisco	320,000	40,000	50,000	—	—	410,000
	3,163,000	453,000	115,000	12,000	7,000	3,750,000

3,750,000 sheets at $38.50 per M $144,375.00

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

	Sheets	Compensation	Plate Printing	Materials	Total
Boston	698,000	$12,389.50	$5,709.64	$8,773.86	$26,873.00
New York	750,000	13,312.50	6,135.00	9,427.50	28,875.00
Philadelphia	610,000	10,827.50	4,989.80	7,667.70	23,485.00
Cleveland	167,000	2,964.25	1,366.06	2,099.19	6,429.50
Richmond	190,000	3,372.50	1,554.20	2,388.30	7,315.00
Atlanta	445,000	7,898.75	3,640.10	5,593.65	17,132.50
Chicago	280,000	4,970.00	2,290.40	3,519.60	10,780.00
Kansas City	200,000	3,550.00	1,636.00	2,514.00	7,700.00
San Francisco	410,000	7,277.50	3,353.80	5,153.70	15,785.00
	3,750,000	$66,562.50	30,675.00	47,137.50	$144,375.00

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.

COPY

FEDERAL RESERVE BANK
OF
SAN FRANCISCO

X-4319

April 6, 1925.

In re: National City Bank of Seattle
vs. Federal Reserve Bank of
San Francisco.

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

Dear Mr. Wyatt:

I think you might be interested in receiving an outline of a rather interesting case which I recently tried before Judge Cushman in the United States District Court at Seattle. The case was tried before a jury and owing to the outcome hereinafter stated, it will not be reported and I believe will not be appealed.

The National City Bank of Seattle, for some time prior to July 1921, had been transacting business with a firm of stock and bond brokers known as Irving Whitehouse Company, which company maintained its head office in Spokane with branches in Seattle and New York. It had become the daily custom of the Irving Whitehouse Company to deposit with the National City Bank of Seattle checks drawn by the Company on its account with the Fidelity National Bank of Spokane, accompanying such deposits with a request that the funds represented by the checks be immediately wired by the National City Bank for the credit of Irving Whitehouse Company in New York. This course of dealing had been continued for over a year. The National City Bank would then forward the Whitehouse checks in a direct routed cash letter, together with other miscellaneous cash items, to our Spokane Branch for collection and credit. Under the deferred availability schedule, the Seattle Branch would automatically give the National City Bank credit for the gross amount of such direct routed letters the day after their transmittal from Seattle to Spokane.

On July 30, 1921, the Irving Whitehouse Company failed and the President of the company subsequently went to the penitentiary for embezzlement. It appeared that on July 27, the Whitehouse Company had deposited with the National City Bank checks aggregating $7,200, this amount being immediately wiredto New York. These checks were sent by the National City Bank from Seattle to Spokane the day of their deposit, arriving in Spokane on July 28 too late for the morning clearings. In accordance with the usual practice prevailing in Spokane they were held over until the next day's clearings and were returned to our Spokane Branch the afternoon of the 29th, dishonored on account of insufficient funds. The Spokane Branch dispatched a wire to our Seattle Branch, notifying that branch of the dishonor of the items the afternoon of the

29th and on account of the lateness of the hour at which the wire reached Seattle, the information contained therein was not communicated to the National City Bank until the morning of July 30.

In the meantime, following its usual practice, the National City bank had accepted items from the Whitehouse Company on the same basis on the afternoons of July 28 and 29. The Whitehouse Company carried with the National City Bank a deposit sufficient to cover only the loss on the items of July 27 and the National City Bank, therefore, brought suit against us for $14,400, claiming that through our negligence in handling the items of July 27, the Bank had been lulled into a sense of security and had for that reason continued to do business with the Whitehouse Company on July 28 and 29.

The negligence charged against us was twofold: first, in that we did not present the items of July 27 direct to the drawee upon their arrival in Spokane on July 28 too late for the clearings of that day; and second, that our Spokane Branch was dilatory in dispatching the telegram advising the Seattle Branch of the non-payment of the items of the 27th and our Seattle Branch was grossly negligent in not notifying the National City Bank of the contents of the telegram on the afternoon of July 29.

The evidence showed that there was no negligence on the first point, owing to the existence of a uniform custom in both Seattle and Spokane of holding collection items over when they arrive at the place of payment too late for the clearings of the date of their arrival. The evidence did show, however, that our Seattle Branch did not follow the usual custom and practice of collecting banks in notifying the prior indorser of non-payment immediately upon receipt of advice.

Upon the conclusion of the testimony, feeling that if the case went to the jury we ran a serious risk, I moved for a directed verdict upon the theory that the alleged damage was in no way connected with the alleged negligence; that a collecting agent's liability is limited to the face of the paper which the agent undertakes to collect and that, granting for the sake of argument that the defendant had been negligent in not giving more prompt advice of the non-payment of the items of July 27, the damage alleged to have been incurred through the acceptance by the plaintiff of similar items of July 28 and 29 was too remote. Our argument was predicated upon the theory that a bank is never justified in relying upon the fact that it has not received advice of non-payment on previous items in extending additional credit; that the only safe and proper method of handling such items is to send them for collection with a request for advice of fate, and that in relying upon the fact that it had not received advice of non-payment on the items of the 27th by the afternoon of the 28th or the afternoon of the 29th, and in making additional advances on the latter dates, the plaintiff had itself been guilty of negligence which was the proximate cause of the loss.

I stated to the Court, citing authorities, that it would be just as logical for the plaintiff to say that owing to the fact that it had

not received advice of non-payment on the items of the 27th, it had gone on the bond of the Irving Whitehouse Company for One Hundred Thousand Dollars on the 28th and had loaned another One Hundred Thousand Dollars to that Company on the 29th and that, therefore, we were to be held liable for the Two Hundred Thousand Dollars loss. In spite of the vehement argument of counsel for plaintiff, the Court agreed with my contention and instructed the jury to bring in a verdict for the defendant. Judgment has been entered on the verdict, and I believe the case is closed.

If you or counsel for the other banks are interested in this question, I shall be glad to supply you with a copy of my trial brief.

Yours very truly,

(Signed) A. C. AGNEW

Counsel.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4321
April 17, 1925.

SUBJECT: Expense Main Line, Leased Wire System, March, 1925.

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-4321-a and X-4321-b, covering in detail operations of the main line, Leased Wire System, during the month of March, 1925.

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.

Yours very truly,

Fiscal Agent.

(Enclosures)

TO GOVERNORS OF ALL BANKS EXCEPT CHICAGO.

X-4321-a

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINE OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF MARCH, 1925.

From	Fed. Res. Bank Business	Percent of Total Bank Business(*)	Treasury Dept. Business	War Finance Corp. Business	Total
Boston	25,218	3.10	6,406	-	31,624
New York	162,474	19.96	10,846	-	173,320
Philadelphia	33,885	4.17	7,044	-	40,929
Cleveland	66,002	8.12	8,860	-	74,862
Richmond	43,429	5.34	7,217	-	50,646
Atlanta	53,826	6.62	9,241	-	63,067
Chicago	94,078	11.57	10,673	-	104,751
St. Louis	70,102	8.62	10,255	-	80,357
Minneapolis	32,426	3.99	5,829	-	38,255
Kansas City	65,007	7.99	8,189	76	73,272
Dallas	59,574	7.33	5,407	-	64,981
San Francisco	107,289	13.19	17,461	-	124,750
TOTAL	813,310	100.00	107,428	76	920,814
Board	270,208		108,742	82	379,032
Total	1,083,518		216,170	158	1,299,846
Percent of Total	83.36%		16.63%	.01%	

Bank Business	1,083,518	words	or 83.37%
Treasury Dept.	216,170	"	" 16.63%
Total	1,299,688	"	"100.00%

(*) These percentages used in calculating the pro rata share of leased wire expenses as shown on the accompanying statement (X-4321-b)

X-4321-b

REPORT OF EXPENSE
MAIN LINE
FEDERAL RESERVE LEASED WIRE SYSTEM, March, 1925.

Name of Bank	Operators' Salaries	Operators' Overtime	Wire Rental	Total Expenses	Pro Rata Share of Total Expenses	Credits	Payable to Federal Reserve Board
Boston	$ 250.00	$ 1.00	$ -	$ 251.00	$ 583.57	$ 251.00	$ 332.57
New York	933.32	-	-	933.32	3,757.42	933.32	2,824.10
Philadelphia	216.66	-	-	216.66	784.99	216.66	568.33
Cleveland	276.33	-	-	276.33	1,528.57	276.33	1,252.24
Richmond	170.00	-	-	170.00	1,005.24	170.00	(#)1,039.91
Atlanta	255.00	-	-	255.00	1,246.20	255.00	991.20
Chicago	(*)3,838.70	-	-	3,838.70	2,178.02	3,838.70	(&)1,660.68
St. Louis	212.00	-	-	212.00	1,622.69	212.00	1,410.69
Minneapolis	183.34	-	-	183.34	751.11	183.34	567.77
Kansas City	275.64	-	-	275.64	1,504.10	275.64	1,228.46
Dallas	251.00	-	-	251.00	1,379.85	251.00	1,128.85
San Francisco	380.00	-	-	380.00	2,482.99	380.00	2,102.99
Federal Reserve Board			15,340.59	15,340.59			
TOTAL	$7,241.99	$ 1.00	$15,340.59	$22,583.58	$18,824.75	$7,242.99	$13,447.11
			(a)	3,758.83			(b)1,660.68
				$18,824.75			$11,786.43

(#) Includes $204.67 for branch line business transmitted over main line circuit.
(*) Includes salaries of Washington Operators.
(&) Credit
(a) Received $3.09 from War Finance Corp. and $3,755.74 from Treasury Department covering business for month March, 1925.
(b) Amount reimbursable to Chicago.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4322

April 17, 1925

Subject: Payment of Unearned Dividends to Liquidating or Insolvent Member Banks.

Dear Sir:

The Chairman of one of the Federal Reserve Banks has raised a question as to whether a liquidating or insolvent member bank is entitled to receive one half of one per cent per month on Federal Reserve bank stock which is cancelled during a period in which the Federal Reserve bank is not earning the amount required to pay such dividend.

Sections 5 and 6 of the Federal Reserve Act, treating of the surrender of Federal Reserve bank stock by liquidating and insolvent member banks, provide that in addition to the cash paid subscriptions on stock such member banks shall be entitled to one half of one per centum per month from the period of the last dividend, not to exceed the book value of the stock. Under this definite requirement the Board is of the opinion that a Federal Reserve bank must pay to a liquidating or insolvent member bank one half of one per cent per month from the period of the last dividend, regardless of whether the earnings for the current dividend period are sufficient to make such payment, with the one condition that the amount paid to the member bank shall not exceed the book value of the stock. If the book value of the stock is sufficient, then one half of one per cent per month must be paid to the liquidating or insolvent member bank.

Very truly yours,

D. R. Crissinger,
Governor.

TO THE CHAIRMEN OF ALL FEDERAL
RESERVE BANKS EXCEPT KANSAS CITY.

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

STATEMENT FOR THE PRESS X-4324

For Release in Morning Papers,
Monday, April 27, 1925.

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 in basic industries was smaller in March than in the two preceding months but was as large as at any time in 1924. Distribution of merchandise both at retail and wholesale was in greater volume than a year ago. Wholesaleprices, after increasing since the middle of 1924, remained in March at about the same level as in February.

Production. - The Federal Reserve Board's index of production in basic industries declined in March to a level 5 per cent below the high point reached in January. Iron and steel production and cotton consumption showed less than the usual seasonal increase during March and activity in the woolen industry declined. There was a further decrease in the output of bituminous coal. Increased activity in the automobile industry was reflected in larger output, employment, and payrolls. In general, factory employment and payrolls increased during the month. Value of building contracts awarded in March was the largest on record, notwithstanding the recent considerable reduction in awards in New York City.

Trade. - Wholesale trade in all principal lines increased in March and the total was larger than a year ago. Sales at department stores and by mail order houses increased less than is usual at this time of the year. Stocks of shoes and groceries carried by wholesale dealers were smaller at the end of March than a month earlier, and stocks of dry goods, shoes, and hardware were smaller than last year. Stocks of merchandise at department stores showed more than the usual seasonal increase and were somewhat larger than last year.

Prices. - Wholesale prices of most groups of commodities included in the index of the Bureau of Labor Statistics declined somewhat in March but owing to an advance of food prices, particularly of meats, the general level of prices remained practically unchanged. Prices of many basic commodities, however, were lower at the middle of April than a month earlier.

Bank Credit. - Volume of loans and investments at member banks in principal cities continued at a high level during the five-week period ending on April 15. Total loans declined, reflecting chiefly a reduction in loans on stocks and bonds, and also some decrease in loans for commercial purposes. Investment holdings, which early in March had been nearly $300,000,000 below the high point of last autumn, increased by the middle of April by about half this amount. Demand deposits, after declining rapidly between the middle of January and March 25, increased during the following weeks, but on April 15 were still $633,000,000 below the maximum reached in January.

At the reserve banks the volume of earning assets on April 22 was about $75,000,000 below the high point at the end of February, but continued above the level of a year ago. Discounts for member banks were about twice as large in April as at the exceptionally low point in the middle of January, while total United States securities and acceptances held were in smaller volume than at any time during the year.

Somewhat easier money conditions in April were indicated by a decline of one-eighth of one per cent in the open-market rate on 90-day acceptances to 3 1/8 per cent and by sales of prime commercial paper at below 4 per cent.

FEDERAL RESERVE BOARD X-4325

STATEMENT FOR THE PRESS

For immediate release. April 25, 1925.

CONDITION OF ACCEPTANCE MARKET

March 19, 1925 to April 15, 1925.

During the first week of the period from March 19 to April 15 relatively quiet conditions prevailed in the acceptance market with the supply of bills somewhat in excess of the demand. Later both the supply and demand for bills slackened in New York although Boston reported an increasing demand from out of town banks. On April 1 some New York dealers reduced their rates on 30 and 60-day bills and on April 2 on 90 day bills by 1/8 per cent. Their portfolios increased to the highest point for the year on April 8, however, and similar increases were reported from Boston, Philadelphia, and Chicago in spite of a seasonal falling off in the volume of new bills in the market. This reduction in the supply of bills with some uncertainty as to rates made a very quiet market in the latter part of the period. Over the whole reporting period New York dealers' purchases and sales were smaller than for any similar period since September. Their portfolios on April 15 were 70 per cent larger than a month previous. Boston dealers, on the other hand, reported only slightly smaller purchases than during the four weeks ending March 18 and larger sales, with portfolios somewhat smaller than on that date. In both cities dealers' sales to Federal reserve banks were only half as large as during the preceding period. Rates in the New York market on April 15 were 3 1/8 per cent bid and 3 per cent offered on 30 day bills, 3 1/8--3 1/4 per cent bid and 3--3 1/8 per cent offered on 60 and 90 day bills, and 3 1/2--3 5/8 per cent bid and 3 3/8--3 1/2 per cent offered on the longest maturities.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4330

May 7, 1925.

SUBJECT: Holiday, May 30th, Memorial Day.

Dear Sir:

On Saturday, May 30th, there will be no Gold Settlement nor Federal Reserve Note Clearing, on account of observance of Memorial Day, and the Board's books will be closed. All banks and branches, with the exception of the following, will be closed on that day:

Atlanta, New Orleans, Birmingham, Jacksonville and Little Rock.

The Board's weekly press statement showing debits to individual accounts, will be issued on Monday, June 1st, instead of on Saturday, and released for publication in morning papers, Tuesday, June 2nd, but it will, as usual, cover the week ending Wednesday, May 27th.

Very truly yours,

J. C. Noell,
Assistant Secretary.

To Governors of all F. R. Banks.

TREASURY DEPARTMENT
Office of the Secretary
WASHINGTON

May 5, 1925.

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, 1925, amounting to $146,338.50, as follows,-

	Federal Reserve Notes, 1914			
	$5	$10	$20	Total
Boston	300,000	300,000	50,000	650,000
New York	600,000	- -	- -	600,000
Philadelphia	400,000	100,000	70,000	570,000
Cleveland	300,000	- -	- -	300,000
Richmond	300,000	- -	- -	300,000
Atlanta	300,000	- -	- -	300,000
Chicago	327,000	- -	- -	327,000
Kansas City	186,000	- -	- -	186,000
San Francisco	288,000	200,000	80,000	568,000
	3,001,000	600,000	200,000	3,801,000

3,801,000 sheets at $38.50 per M $146,338.50

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

	Sheets	Compensation	Plate Printing	Materials	Total
Boston	650,000	$11,537.50	$5,317.00	$8,170.50	$25,025.00
New York	600,000	10,650.00	4,908.00	7,542.00	23,100.00
Philadelphia	570,000	10,117.50	4,662.60	7,164.90	21,945.00
Cleveland ..	300,000	5,325.00	2,454.00	3,771.00	11,550.00
Richmond ...	300,000	5,325.00	2,454.00	3,771.00	11,550.00
Atlanta	300,000	5,325.00	2,454.00	3,771.00	11,550.00
Chicago	327,000	5,804.25	2,674.86	4,110.39	12,589.50
Kansas City	186,000	3,301.50	1,521.48	2,338.02	7,161.00
San Francisco	568,000	10,082.00	4,646.24	7,139.76	21,868.00
	3,801,000	$67,467.75	31,092.18	47,778.57	146,338.50

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-4332a

TREASURY DEPARTMENT
Office of the Secretary
WASHINGTON

May 5, 1925.

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, 1925, amounting to $38.50, as follows,-

Federal Reserve Notes, 1918.

	Denomination	Sheets
Cleveland	$500	1,000

1,000 sheets at $38.50 per M $38.50

The charges against the Federal Reserve Bank of Cleveland are as follows,-

Sheets	Compensation	Plate Printing	Materials	Total
1,000	$17.75	$8.18	$12.57	$38.50

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

X-4334

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

May 15, 1925.

SUBJECT: Expense Main Line, Leased Wire System,
April, 1925.

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-4334-a and X-4334-b, covering in detail operations of the main line, Leased Wire System, during the month of April, 1925.

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.

Yours very truly,

Fiscal Agent.

(Enclosures)

TO GOVERNORS OF ALL BANKS EXCEPT CHICAGO.

X-4334-a

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINE OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF APRIL, 1925.

From	Fed. Res. Bank Business	Percent of Total Bank Business(*)	Treasury Dept. Business	War Finance Corp. Business	Total
Boston	24,394	3.16	3,821	-	28,215
New York	149,239	19.33	7,556	-	156,795
Philadelphia	31,780	4.12	3,679	-	35,459
Cleveland	63,393	8.21	3,500	-	66,893
Richmond	39,439	5.11	2,728	-	42,167
Atlanta	54,004	7.00	4,306	-	58,310
Chicago	94,666	12.26	6,456	-	101,122
St. Louis	65,841	8.53	3,731	-	69,572
Minneapolis	32,618	4.23	1,975	41	34,634
Kansas City	62,026	8.03	4,018	-	66,044
Dallas	52,916	6.85	2,037	-	54,953
San Francisco	101,660	13.17	7,678	-	109,338
TOTAL	771,976	100.00	51,485	41	823,502
Board	272,162		30,162	142	302,466
Total	1,044,138		81,647	183	1,125,968
Percent of Total	92.73%		7.25%	.02%	

Bank Business	1,044,138	words or	92.75%
Treas.Dept.	81,647	" "	7.25%
Total	1,125,785	" "	100.00%

(*) These percentages used in calculating the pro rata share of leased wire expenses as shown on the accompanying statement (X-4334-b)

REPORT OF EXPENSE
MAIN LINE
FEDERAL RESERVE LEASED WIRE SYSTEM, APRIL, 1925.

Name of Bank	Operators' Salaries	Operators' Overtime	Wire Rental	Total Expenses	Pro Rata Share of Total Expenses	Credits	Payable to Federal Reserve Board
Boston	$ 250.00	$ 5.00	$ -	$ 255.00	$ 660.28	$ 255.00	$ 405.28
New York	933.32	-	-	933.32	4,038.97	933.32	3,105.65
Philadelphia	216.66	-	-	216.66	860.87	216.66	644.21
Cleveland	276.33	-	-	276.33	1,715.47	276.33	1,439.14
Richmond	170.00	-	-	170.00	1,067.72	170.00	(#)1,102.39
Atlanta	255.00	-	-	255.00	1,462.64	255.00	1,207.64
Chicago	(*)3,785.65	-	-	3,785.65	2,561.71	3,785.65	(&)1,223.94
St.Louis	200.00	-	-	200.00	1,782.33	200.00	1,582.33
Minneapolis	184.47	-	-	184.47	883.85	184.47	699.38
Kansas City	275.64	-	-	275.64	1,677.85	275.64	1,402.21
Dallas	251.00	-	-	251.00	1,431.29	251.00	1,180.29
San Francisco	380	-	-	380.00	2,751.85	380.00	2,371.85
Federal Reserve Board			15,349.86	15,349.86			
TOTAL	$7,178.07	$ 5.00	$15,349.86	$22,532.93	$20,894.83	$7,183.07	$15,140.37
				(a) 1,638.10			(b) 1,223.94
				$20,894.83			13,916.43

(#) Includes $204.67 for branch line business transmitted over main line circuit.
(*) Includes salaries of Washington Operators
(&) Credit
(a) Received $4.18from the War Finance Corp. and $1,633.92 from Treasury Department covering business for the month of April 1925.
(b) Amount reimbursable to Chicago.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4335

May 19, 1925

SUBJECT: F. R. Bank Holidays, June, 1925.

Dear Sir:

On Wednesday, June 3rd, the following Banks and Branches will be closed in observance of Jefferson Davis' birthday:

Richmond	Memphis
Atlanta	Dallas
New Orleans	El Paso
Birmingham	Houston
Nashville	
Jacksonville	

Therefore, those offices will not participate in the customary Clearings as of that date. Please include your credits in the Gold Fund Clearing for June 3rd with those for the following day, and make no shipment of Federal Reserve notes, fit or unfit, to Head Offices or to Washington on the holiday mentioned.

Kindly notify Branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL ADVISORY COUNCIL

Statement for the Press

For Release in morning papers,
Monday, May 25th.

A regular statutory meeting of the Advisory Council to the Federal Reserve Board was held in Washington on Friday, May 22nd, at which the various Federal reserve districts were represented. General business and financial conditions throughout the country were discussed, as well as the recent arrangements between the Federal reserve banks and the Bank of England regarding a revolving credit to the latter institution of $200,000,000. In this connection, the Council issued the following statement:

"Since the last meeting of the Advisory Council, Great Britain has taken the long expected step of removing the embargo on the exportation of gold, and by reestablishing a free gold market in London, has once more anchored herself unreservedly to the gold standard.

This event marks an epoch in the financial history of the post war period. It means that the time has definitely come to an end when the world seemed to waver between monetary systems frankly bottomed upon gold on the one hand, and fluctuating exchanges and so-called "managed currencies" on the other. With the United States, England, the Dominions, Sweden, Holland, Germany, Austria, Hungary, and other countries now returned to a gold basis, or to gold exchange bases, the sway of gold over the world's leading financial systems once more has become an unchallenged fact.

For the United States this development is of the vastest importance. First, because we own approximately one-half of the world's monetary gold; second, because in order to preserve for ourselves conditions of a well balanced prosperity, foreign markets absorbing our surplus production are an imperative necessity and it is idle to expect that without exchange stability the purchasing power of foreign countries may regain its full capacity; third, in present world conditions the sale of our vast excess production to foreign buyers can only be maintained on anything like the present scale as long as we continue freely to absorb foreign securities. Our ability to do so, however, will depend upon the degree of credit these foreign countries will command here. We have, therefore, a vital interest in seeing the credit of our customers placed on the strongest possible basis.

While it would seem unnecessary to add to the weight of these three points, a true picture of the outlook is gained only if one considers what might have happened had England decided to continue the embargo on gold exports instead of restoring a free gold market. It would not seem an overstatement to assume

that in such a case the world might have suffered another exchange collapse with all the uncertainty to trade which that implies; that private and public credit in foreign lands would have been impaired and that instead of making efforts to balance budgets by taxation, the temptation for debasement of currencies in many countries would have continued indefinitely. In such circumstances true wages, and with that, living standards, in competing countries would have been further reduced. We are familiar with the social consequences that would result from such conditions and it is safe to conclude that we ourselves could not have escaped the effects of such a development which, amongst other things, would have involved a further great addition to our gold holdings.

The Advisory Council, with these thoughts in mind, has over and again expressed the view that America should take every opportunity, that consistently and safely could be grasped to aid foreign countries in their struggles towards regaining exchange stability, and that when the time came to do so with confidence and safety, the Federal Reserve System should do its part.

It is with the deepest satisfaction, therefore, that the Council has noted the arrangements now made, with the approval of the Federal Reserve Board, between the Bank of England, on the one hand, and the several Federal Reserve Banks under the auspices of the Federal Reserve Bank of New York on the other.

These arrangements in the view of the Council will benefit not only the two countries directly involved, but they will enure to the advantage of the entire world. The Council feels confident that in the annals of the Federal Reserve System these arrangements will be written down as one of its

proudest and most constructive achievements.

It is an impressive demonstration of the efficiency of the Federal Reserve Act, as at present constituted, that we are able to render assistance on a liberal scale without fear of adverse effect upon our own financial conditions.

Concentration of reserves and an elastic note issue planned on broad lines enabled us during these last years to absorb a flood of gold in such a manner as to deprive it of the inflationary effects which some of our European friends had expected it inevitably to produce. Conversely, we may now envisage with equanimity the possibility of an outgo of hundreds of millions of dollars of our surplus gold. The same process that enabled us to deprive the inflow of gold of its potential ill effects places us now in a position to lose vast amounts of it without entailing the necessity of a marked contraction of circulation or of forced deflation."

X-4337

The attached article has been prepared in response to a request by the Associated Press for a statement concerning the significance of the restoration of the gold standard in Great Britain.

I understand the Associated Press will use it for publication in morning papers of May 24th.

A. C. Miller

May 23, 1925.

RESTORATION OF BRITISH GOLD STANDARD: WHAT IT MEANS.

(A. C. Miller, Federal Reserve Board.)

Sterling exchange is at gold par! What does this mean? In a merely technical sense it means that the English paper pound has a value in the exchange markets of the world equivalent to the English sovereign. In terms of American gold currency this means that it is worth $4.866. In other words, the English pound now and henceforth has a definite gold value by reason of its interchangeability at the Bank of England with the gold sovereign. But the attainment of par by the English pound has much more than a technical significance. It is in itself one of the most important steps achieved since the Armistice toward world economic restoration. More even than that, it is an illuminating and gratifying sign of how far toward completion the whole process of post-war readjustment has run its course.

Ever since the Armistice agriculture, trade and industry the whole world over - in the United States as well as elsewhere, in one degree or another have been struggling against the handicap of currency disorganization and exchange derangement. "Back to normal" has been a longing of the distraught mind of the peoples of Europe, and to them the restoration of their currency to a gold basis has become the symbol and the goal of "normal". How to get their affairs securely back on a gold basis has not, however, been clear to all of them. Such has been the mental confusion and moral devastation produced by the war! Time has, however, made it clear that there are no short and easy cuts. History has repeated itself

again in this instance. Mere man-made laws may sometimes be successfully interfered with, but economic law is as inexorable as fate and exacts its strict fulfillment. Germany learned this when, after a debauch of her printing press currency to a degree unparallelled in the history of great trading nations, her currency became literally worthless and she decided by a stroke of the pen to wipe it all out at whatever sacrifice and make a fresh start. Under the Dawes Plan and with the assistance of American gold the gold standard has been restored in Germany. And with its restoration Germany is going forward with firm and steady steps to economic recovery and financial solvency.

For six years England has been working to put herself on a gold basis. From a low of $3.19 the pound has now risen to a par of $4.866. This has been accomplished not by devaluing or wiping out her currency notes but by steadily building up the gold value of her currency in the markets of the world. Adhering to banking and monetary tradition and never forgetting the lessons of experience, England with dogged persistence has held to her course and today sees her reward in the achievement of par for her exchange.

The importance of this achievement, whether it be looked at from the point of view of the world's interest or of our national American interest, cannot easily be exaggerated. The action recently taken by the British Parliament in ordering a restoration of the gold standard and the reestablishment of London as a free gold

market was promptly followed by similar action in the self-governing commonwealths of the British Empire and by countries in Europe that were awaiting England's decision. The result is that there are now only three of the larger nations, to wit - France, Italy and Russia, that have still to swing into line in making the gold standard practically universal and restoring it to the primary position it occupied before the war as an international regulator of money and exchange.

Before the war the gold standard was well-nigh universal among the trading nations of the world, and London was the most important of the world's free gold markets and financial centers. Its position was unique. The pound sterling had attained a position of primacy as a monetary unit of international accounting and payment. It is not too much to say that the successful maintenance and the effective operation of the gold standard in pre-war days was largely due to the skill and the success with which London conducted her monetary and banking affairs in maintaining a free gold market and thus buttressing the gold standard in other gold-using or gold-exchange-standard countries.

By reason of the great changes that have come about in the world of commerce and finance in the past ten years the United States has become the world's greatest gold center and the world's leading free gold market. But events have demonstrated pretty conclusively that the United States could never expect to get the

full benefits of the steadying influence on her affairs of the gold standard until international gold flows resumed a normal course through the reestablishment of London as the most important outside free gold market.

This position has now been virtually attained. The gold standard is now in effect in four-fifths or more of the commercial world. The fantastic vagaries which a certain school of economists on both sides of the Atlantic have embraced in their efforts to find a substitute for the gold standard have given way before the world's resolution to tie its fate in monetary matters in the future, as in the past, to something more objective and less capricious than fallible human discretion. However interesting the various artificial devices, such as "managed currency," "price stabilization," etc., through credit manipulation might be as enterprises in celestial economics, they offered little practical comfort to a world wearied with sufferings from wobbling exchanges. They brought stones to a world crying for bread. The clouds of uncertainty and confusion which have rested over the world's monetary horizon for a decade were not to be lifted by such devices.

With the gold standard in practical operation international trade and finance can again be conducted without the uncertainties and risks attending fluctuating monetary units. Few things add more to the hazards of trade or give it more of a speculative character than fluctuating exchanges. Exchange derangement discourages and diminishes trade. The reestablishment of the pound sterling as a

dependable monetary unit of international payment may, therefore, beexpected to give a substantial boost to international trade from which we in the United States may expect to be great gainers. International trade can now proceed in a more orderly and normal fashion and have less of the speculative character it has had in recent years. Anything that promotes the trade of the world by giving it a safe and stable basis in the foreign exchanges will emure to our advantage, for ours is the greatest foreign trade of any country. Everyone in the United States, whether engaged in agriculture, commerce, industry or finance, will in time feel, though he may not be aware of it, the stimulation that will come with the restoration of the world's international machinery of exchange to the firm and secure basis assured by the restoration of the gold standard.

It may also be expected that, with the removal of the dams which have obstructed the natural flow of gold from country to country, credit will be loosened and afford stimulation in healthful and safe ways to trade among the nations and industry within them.

With such an undoubted and important interest at stake in the restoration of the gold standard, the United States clearly has an interest in promoting and assisting its reestablishment. And as the largest single holder of the world's stock of monetary gold, we in the United States not only have an interest in the

restoration of the gold standard but a duty to assist in its restoration and maintenance wherever conditions give definite promise of success. It is for this reason that our Federal Reserve Banks have arranged to let the Bank of England have some of their gold, should it be needed by the Bank of England in the first stages of England's resumption of gold payments and the practices of a free gold market. It does not seem likely at this time that the Bank of England will have much or frequent occasion to draw on our gold supply, but past experience shows that difficulties may be encountered in the early stages of gold resumption and that it is, therefore, inadvisable not to be prepared to meet them. The Bank of England and the British Government have, therefore, acted wisely in arranging for American gold credits to be drawn upon in case of need. It was particularly thought advisable to have an American credit of impressive amount for the purpose of discouraging in advance and beating off and defeating any speculative drives that might be made by operators anywhere in the world against sterling exchange, if such drives should be attempted.

By cooperating with England in her endeavor to put the gold standard into effect in her money market the United States has again supplied a constructive factor of the greatest consequence in helping to place the economic and financial affairs of the world on a solid and safe basis.

May 23, 1925.

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS X-4738

For release in morning papers,
Wednesday, May 27, 1925.

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

Production in basic industries and factory employment continued at approximately the same level during April as in March. Factory pay rolls were smaller, and wholesale prices declined sharply. Distribution of commodities was maintained at higher levels than a year ago.

Production.- The output in basic industries declined less than one per cent in April. Decreased production of iron and steel, flour, and copper was largely offset in the Federal Reserve Board's production index by increases in mill consumption of cotton and in the production of newsprint and petroleum. The output of automobiles, which are not included in the index, has increased rapidly since December and in April was the largest ever recorded. Automobile tire production was maintained at the high level reached in March. Number of men employed at industrial establishments remained practically the same in April as in March, but owing to less full time operation, particularly in the textile, leather, and food industries, total factory pay rolls decreased about 2 per cent. Building contracts awarded during April were the largest on record both in value and in square feet.

Estimates by the Department of Agriculture on May 1 indicated a reduction of 6 per cent from the April forecast in the yields of winter wheat and rye. The winter wheat crop is expected to be 25 per cent smaller than last year and the indicated yield of rye is 9 per cent less.

Trade.- Wholesale trade was smaller in all lines except hardware during April

than in March. Compared with a year ago sales of groceries and shoes were less but sales of meats, dry goods, and drugs were larger. Sales at department stores and by mail order houses showed more than the usual seasonal increase in April and were larger than during April.1924. Wholesale stocks of groceries, shoes, and hardware were smaller at the end of April than a month earlier, while dry goods were larger. Merchandise stocks at department stores showed less than the usual seasonal increase in April but were in about the same volume as a year ago. Freight-car loadings of merchandise were greater than in March and larger than in any previous April.

Prices.- Wholesale prices, according to the index of the Bureau of Labor Statistics, declined three per cent in April, following an almost uninterrupted rise since the middle of 1924. All groups of commodities shared in the decline of prices except house furnishings and the miscellaneous group. The largest declines were in farm products and foods, which had shown the most rapid increases. During the first three weeks in May prices of grains, beef, hogs, flour, and rubber advanced, while declines occurred in cotton, wool, lumber, and iron prices.

Bank Credit.- At the middle of May total loans and investments of member banks in leading cities were near the level which has prevailed, with only minor fluctuations, since the first of the year. Loans chiefly for commercial purposes declined slightly between the middle of April and the middle of May, while loans on securities rose to a high point at the end of April and decreased somewhat during the first two weeks of May. Total investment holdings which increased considerably during the first half of March have declined somewhat since that time. Net demand deposits increased considerably from the low point at the end of March, but were still $500,000,000 less than at the middle of January.

At the reserve banks there was a marked decline in the volume of member bank

borrowing after the first week in May and total earning assets of the reserve banks on May 20th were less than $1,000,000,000 for the first time since January. Acceptances and holdings of United States securities on that date were in about the same volume as a month earlier.

Money conditions continued relatively easy during the latter part of April and the first part of May. At 3 3/4 - 4 per cent the open market rate for prime commercial paper was slightly below the level for the preceding month.

STATEMENT FOR THE PRESS

For immediate release. May 27, 1925.

CONDITION OF ACCEPTANCE MARKET
April 15, 1925, to May 20, 1925.

Acceptance market.- During the period from April 15 to May 20, relatively quiet conditions prevailed in the acceptance market with the supply of bills somewhat in excess of the demand. During the first week of the period offering rates on 60 and 90 day unindorsed bills which had been temporarily lowered to 3 per cent by some dealers were again advanced to 3 1/8 per cent. During the following four weeks until May 20 when some dealers advanced rates in New York and Chicago a further 1/8, rates in all districts were steady at 3 per cent for 30 day bills and 3 1/8 per cent for those of 60 and 90 day maturities. In the New York market a larger supply of bills was in excess of demand and as a result dealers portfolios reached their peak of the year during the first week of May. Easier money conditions stimulated both local and out-of-town demand to some extent, but offerings to the Federal reserve bank nevertheless showed marked increase over the preceding period. In the Chicago market demand was light and in spite of only a moderate supply of bills dealers' purchases increased over the preceding period while sales fell off. A further development of this situation in both markets was the increase in rates reported by some dealers at the close of the period. In Boston and Philadelphia the market was comparatively inactive.

Rates in the New York market on May 20 were 3 1/8 to 3 1/4 per cent bid and 3 to 3 1/8 per cent offered on 30-day bills, 3 1/4 to 3 3/8 per cent bid and 3 1/8 to 3 1/4 per cent offered on 60-day bills, 3 3/8 per cent bid and 3 1/4 per cent offered on 90-day bills, with 3 5/8 to 3 3/4 per cent bid and 3 1/2 per cent offered on the longest maturities.

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

For release in morning papers,
Monday, June 1, 1925.

The June, 1925, issue of the Federal Reserve Bulletin will carry the following statement concerning the return of Great Britain to the gold standard.

Restoration of the gold standard.

Restoration of a free gold market in London after a period of ten years has put Great Britain once more on the gold standard. At the time of England's return to a gold basis several other countries took similar action and this, together with the fact that many other European currencies have been stabilized with reference to gold for more than a year, removes from the major part of the world's commerce and finance the uncertainties arising from wide and abrupt fluctuations of exchanges.

Free gold movements between countries that have reestablished the gold standard will not only limit fluctuations of exchange rates but will again relate changes in the gold holdings of central banks to credit conditions at home and abroad and thus make changes in their reserve positions important factors in their credit policies. With the principal money markets of the world once more free gold markets and the exchanges between them stable, the flow of funds between these markets will respond more freely to differences in money rates and credit conditions. Credits in countries on the gold standard become interchangeable practically at par with dollar credits, which have been continuously equivalent to gold, and short-time funds will thus tend to be distributed more nearly in response to current demands as reflected in higher rates. With the removal of barriers arising from the risks of exchange, borrowing particularly for purposes of financing international trade will be drawn to the markets where money is cheapest. Thus the resumption of gold payments by the chief trading countries of the world furnishes a basis for the functioning of those forces which before

the war operated to maintain a close contact between the money markets of the world.

Great Britain's gold standard act.

The decision of the British Government to remove the embargo on the exportation of gold was announced by the Chancellor of the Exchequer on April 28 when he stated that the law of 1920 prohibiting gold exports for a period of five years, except under special license, would be permitted to lapse on December 31, 1925, and that for the remainder of this year the Bank of England would be given a general license to export gold. Control of gold exports in Great Britain, which from the outbreak of the war until the legal prohibition in 1920, was by informal methods, has applied since that time to all gold except to newly mined gold produced in the British Dominions and imported into England.

In removing restrictions upon gold exports the British Government adopted certain safeguards against the dissipation of the gold reserves through the reintroduction of gold coins into circulation and against the speculative hazards to which the pound sterling might be exposed in the period immediately following resumption. These safeguards were incorporated in a bill "to facilitate the return to a gold standard and for purposes connected therewith" to be known as the Gold Standard Act, 1925, which became law on May 13. It was recognized that a return to the use of gold currency in domestic circulation was not necessary for the purpose of the operation of the international gold standard and the Chancellor of the Exchequer said that this use of gold would be an unwarrantable extravagance which the present financial stringency does not permit England to indulge in. In order to prevent the loss of gold into circulation the bill relieves the Bank of England of the obligation to redeem its own notes and currency notes in gold coin and relieves the Mint of the obligation to coin gold bullion presented to it by anyone except the Bank of England. The Bank, however, is required to sell

gold in bars containing approximately 400 ounces to any person at the price of £3 17s 10½d per ounce gold of standard fineness, that is, in units of about £1700. Thus, while the Bank is protected against a demand for gold coin for domestic circulation, it stands ready to meet all demands for gold bullion for export purposes. The provision of the Bank Act of 1844, under which the Bank of England is obliged to purchase at a fixed price all gold offered remains in force.

As a means of supporting sterling exchange in case of speculative pressure the gold standard bill furthermore authorizes the Treasury to "issue, either within or without the United Kingdom and either in British or in any other currency such securities bearing such rate of interest and subject to such conditions as to repayment, redemption, or otherwise as they think fit", and to "guarantee in such manner and on such terms and conditions as they think proper the payment of interest and principal of any loan which may be raised for such purpose." All loans raised under this provision must be repaid within two years and guarantees given by the Treasury will also expire in two years from the date upon which it is given. In furtherance of the objects of these provisions American credits aggregating $300,000,000 have been established, the details of which are discussed later in this review.

Report of Committee of Experts.

In reaching a decision to return to the gold standard at this time the British Government was guided by the recommendations of a committee which, in addition to considering whether the time had come to amalgamate the Treasury note issue with the Bank of England note issue, also entered into the question whether a return to the gold standard on the basis of the pre-war sovereign was desirable and if so how and when the steps required to achieve it should be taken.

In its report the committee expresses its agreement with the principles laid down in 1918 by the Cunliffe Committee and after considering various alternatives reached the conclusion that the gold standard must be reestablished in England on the basis of the pre-war gold content of the sovereign. Neither devaluation nor the substitution of the commodity price level for gold as the regulating principle of the currency appeared to the committee to be desirable. The committee's analysis of England's position in foreign trade indicated that the existing volume of exports, visible and invisible, together with the income derived from foreign investments, was undoubtedly sufficient to meet England's foreign debts, to pay for necessary imports, leaving a moderate balance for foreign investments. "In these circumstances," the committee continues, "a free gold market could readily be established and maintained at the pre-war parity, provided that by control of credit we adjusted the internal purchasing power of the pound to its exchange parity, and restricted our foreign investments to our normal export surplus." While the committee believed that the price level in England was still too high relative to the level in the United States, it was its opinion that the adjustment could be accomplished without serious disturbance, particularly in view of the fact that sterling exchange at the time of the report in February was only 1½ per cent below parity.

On the subject of the amalgamation of the two kinds of note issue, the Bank of England note, issued only in exchange for gold, and the currency note, issued by the Treasury and secured largely by Government obligations, the committee recommended that no action be taken for the present, that the limit of the currency issue, by which the actual maximum for one year becomes the legal maximum for the next year, be maintained and that the Bank of England take over the currency notes at such a time in the future when experience will have demonstrated what amount can be kept in circulation without resulting in a drain on the Bank's

gold reserves. As an immediate step the committee recommended that the £27,-000,000 of gold held against currency notes be transferred to the Bank and an equal amount of Bank notes be substituted in the currency note account. This recommendation has been adopted and carried out.

Financial policy prior to resumption.

Important factors placing Great Britain in a position to reestablish the gold standard have been the balancing of the budget, reduction in the floating debt, funding of the indebtedness to the United States, rigid adherence to the limitation upon note issue, and a policy of credit control. The budget not only has been balanced, but there has been a surplus which enabled the government to reduce the floating debt held in large part by the banks. Between the end of 1920 and the end of 1924 this debt was reduced by nearly 40 per cent, or £560,-000,000, and the reduction was accompanied by substantial declines, especially during 1921 and the early part of 1922, in the investments, bill holdings, and deposits of the joint stock banks. With the decline in their holdings of Treasury bills, the banks were in a position to meet the increased credit demands of commerce and industry without increasing the total volume of bank credit in use. The policy of maintaining relatively high money rates, especially during the past year, and of discouraging excessive foreign lending contributed to the advance of sterling exchange toward parity. As a consequence of these developments the extent of further necessary adjustment in the exchange rate and in financial conditions following the announcement of the removal of the gold embargo was greatly diminished, and the ability of Great Britain to maintain an effective gold standard greatly increased.

Course of sterling exchange.

Sterling exchange in the New York market since 1919, when the pegging of the exchanges was discontinued, has undergone wide fluctuations. The most rapid

and continuous advance in sterling occurred between the middle of 1921 and the spring of 1923, when owing partly to the operation of the factors already mentioned and to trade conditions prices in Great Britain declined considerably, while prices in the United States advanced. From less than 4 per cent below par sterling exchange declined during the remainder of 1923 to a low point in January, 1924, more than 12 per cent below par. An almost uninterrupted rise during 1924 and the early part of 1925 brought sterling to within one per cent of parity at the time of the announcement of the resumption of gold payments.

In order to relieve the exchange market during the remainder of this year from demands for dollar exchange by the Treasury, particularly in the autumn when Great Britain's purchases of agricultural products abroad are heaviest, the Chancellor of the Exchequer announced that a sufficient amount of dollar exchange had been acquired to meet all payments on the American debt not only in June but also in December.

Provisions for supporting exchange.

It was recognized by the committee advising the government on the problems connected with resumption that the advance of the pound sterling since last summer may have been partly due to speculative buying and that when parity was reached profit taking by speculators might throw a strain on the exchange. Against this danger the committee regarded as a proper safeguard the existence of adequate gold reserves and a resolute use of those reserves for the purpose for which they had been accumulated. The available reserves were in the committee's opinion amply sufficient, but if it were deemed wise to acquire also a foreign credit, the credit should be used only after a considerable amount of gold had actually been exported, and the use of this credit should be considered from the point of view of the Bank of England's monetary policy as equivalent to a corresponding loss from its own reserves. "Unless these precautions are taken,

borrowing abroad will, as has again and again happened, when it has been resorted to as a remedy for exchange difficulties, merely aggravate the mischief which it has been applied to cure." In announcing the establishment of the credits in America the Chancellor of the Exchequer said: "These great credits across the Atlantic Ocean have been obtained and built up as a solemn warning to speculators of every kind and of every hue and in every country, of the resistance which they will encounter and of the reserves with which they will be confronted, if they attempt to disturb the gold parity which Great Britain has now established."

American credits.

Two separate credits have been established in the United States, one by the British Government and one by the Bank of England. A credit of $100,000,000 was arranged by the British Government with J. P. Morgan and Company and a credit of $200,000,000 by the Bank of England with the Federal Reserve Bank of New York in participation with other Federal reserve banks and with the approval of the Federal Reserve Board.

Under its arrangement with the Bank of England the Federal Reserve Bank of New York undertakes to sell gold on credit to the Bank of England from time to time during the next two years, but not to exceed $200,000,000 outstanding at any one time. The credit is to bear interest to the extent that it is actually used at a rate of one per cent above the New York reserve bank's discount rate, with a minimum of 4 per cent and a maximum of 6 per cent, or, if the Federal reserve discount rate exceeds 6 per cent, then at the rediscount rate of the bank. The rate of interest to be paid by the British Government on the credit which it has established is to be determined in a similar manner. Upon the purchase of gold the Bank of England will place on its books to the credit of the Federal Reserve Bank of New York an equivalent deposit in pounds sterling. This deposit may be used from time to time by arrangement with the Bank of England in the purchase of

eligible sterling commercial bills which shall be guaranteed by the Bank of England, and in that case discount earned on the bills will be applied to the payment of interest.

If occasion arises for the use of this credit, support can be given to sterling exchange either through the purchase of sterling bills in New York or abroad, or gold can be shipped to other countries on British account. Thus the Bank of England could meet a foreign demand for gold without reducing its own reserves, or it could replenish its reserves by withdrawing gold from this country or by earmarking it in New York. The form in which the credit would be used would depend upon the circumstances at the time.

In making these arrangements with the Bank of England, the Federal Reserve Bank of New York proceeded under authority of the Federal Reserve Act, which in addition to granting the reserve banks power to make contracts, authorizes them under rules and regulations prescribed by the Federal Reserve Board to deal in gold coin or bullion at home or abroad, to purchase and sell in the open market, at home or abroad, cable transfers or bankers' acceptances and bills of exchange of the kinds and maturities eligible for rediscount; and with the consent, or upon the order and direction of the Federal Reserve Board, to open and maintain accounts in foreign countries, appoint correspondents and establish agencies in such countries wheresoever it may be deemed best for the purpose of purchasing, selling, and collecting bills of exchange, and with the consent of the Federal Reserve Board to open and maintain banking accounts for such foreign correspondents or agencies.

In January of this year the Federal Reserve Bank of New York was authorized by the Federal Reserve Board to make the arrangements with the Bank of England which have been described. After the passage of the Gold Standard Act by the

British Parliament in May, the Federal Reserve Board approved in detail the arrangements made by the New York Federal Reserve Bank. In giving approval the Board believed that the arrangement would be an effective aid toward general resumption of gold payments.

Comments of Advisory Council.

Commenting upon the participation of the Federal reserve system in the arrangements made to facilitate the return of Great Britain to the gold standard the Federal Advisory Council, which held a regular meeting in Washington on May 22, said in part: "It is with the deepest satisfaction that the Council has noted the arrangements now made, with the approval of the Federal Reserve Board, between the Bank of England, on the one hand, and the several Federal reserve banks under the auspices of the Federal Reserve Bank of New York on the other. These arrangements in the view of the Council will benefit not only the two countries directly involved, but they will enure to the advantage of the entire world. The Council feels confident that in the annals of the Federal reserve system these arrangements will be written down as one of its proudest and most constructive achievements. It is an impressive demonstration of the efficiency of the Federal Reserve Act, as at present constituted, that we are able to render assistance on a liberal scale without fear of adverse effect upon our own financial conditions."

International trade and the gold standard.

Restoration of the gold standard in Great Britain was accompanied by similar action by Australia, New Zealand, the Netherlands, and the Dutch East Indies. Gold payments had been resumed in Sweden a year earlier and on June 1 South Africa removed restrictions on gold exports. The return to a gold basis over so wide an area was preceded by a continuous advance toward gold parity for about a

year in most of the principal exchanges and by a narrowing of fluctuations in the value of other currencies. Furthermore, a number of European countries, though not in a position to restore freedom of gold movements, have maintained the foreign value of their currencies at a fixed relationship to gold and consequently have conducted their foreign trade on a gold value basis. This growth in the area, though not world wide, in which gold has once more been restored to its role as a standard, provides a broader and more stable basis for international trade than has prevailed at any time since the disorganization of the world's currencies which set in with the war. Reestablishment of the gold standard removes from commerce between nations that element of risk which arose from the uncertainties of fluctuating exchange rates and free gold movements will exert an influence toward closer adjustment between price levels in different countries. The significance of the restoration of the international gold standard should be measured not only by the benefits that will result from greater stability, but also by contrast with the declines and fluctuations in exchange that would have followed further postponement of the decisions to resume gold payments. These decisions give assurance that the exchanges of those countries which have returned to the gold basis will not be subject to sharp advances and declines and that trade with these countries, which include the largest purchasers of our agricultural products, can be conducted and financed with greater confidence and on a more secure basis.

Restoration of an effective international gold standard from the viewpoint of the banking situation in the United States is of particular importance because for the first time since the Federal reserve system was established gold movements, which for a decade have exerted an abnormal influence upon the position of the reserve banks, will be more largely controlled by the traditional influences which regulated the flow of gold under normal conditions.

FEDERAL RESERVE BOARD

X-4343

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

May 29, 1925.

Dear Sir:

In the absence of Mr. Wyatt, I am enclosing for your information a copy of the opinion rendered May 25th by the Supreme Court of the United States affirming the decision of the United States Circuit Court of Appeals in the case of D. S. Sowell v. Federal Reserve Bank of Dallas. I think you will find this decision particularly interesting because it involves the following points, all of which are of special interest to the Federal reserve banks:

1. Applicability of the "assignee clause" on Section 24 of the Judicial Code to a suit arising under the laws of the United States.

2. Effect of a provision in a promissory note that the maker waives protest, notice thereof and diligence in collecting.

3. Whether a suit by a Federal reserve bank to enforce a note held by it as "collateral security" to secure the indebtedness of a member bank to it must be stayed until it can be determined whether the other collateral held by the Federal reserve bank is sufficient to pay the indebtedness of the member bank.

Very truly yours,

George B. Vest,
Assistant Counsel.

Enclosure:

OFFICE CORRESPONDENCE. (COPY) May 26, 1925.

To The Federal Reserve Board. SUBJECT: Proof of Claims against in-

From Mr. Wyatt - General Counsel. solvent national banks.

The attached letter addressed by Governor Harding to Mr. Hamlin calls attention to an apparent lack of uniformity in the requirements of the Comptroller's office with regard to the matter of proving claims against insolvent national banks.

At Mr. Hamlin's request, this office made a preliminary investigation of the subject from which it appeared that formerly the usual practice was for a Federal reserve bank holding rediscounted paper on which an insolvent national bank was liable as endorser to file a single claim with the receiver covering the aggregate amount of such rediscounted paper and that all dividends paid by the receiver were based on the total amount so proved. It appears, however, that late in 1924 the Comptroller's office inaugurated a new method based on a comparatively recent opinion of the United States District Court for the Northern District of North Dakota in the case of Federal Reserve Bank of Minneapolis v. First National Bank of Eureka, 277 Fed.300, whereby a Federal reserve bank holding a number of rediscounted items on which an insolvent national bank is liable as endorser is not permitted to file a single claim against the insolvent bank covering the entire amount of such rediscounted items, but is required to file a separate claim for each and every item. Furthermore, if at the time a dividend is declared a particular rediscounted item has been paid in full, no dividends are allowed under the new practice on the claim based on that particular rediscounted item.

The Board considered our preliminary report to Mr. Hamlin and requested this office to take the matter up with counsel to all Federal reserve banks and obtain from them an expression of their opinions on the questions involved. The letters from Counsel to all the Federal reserve banks discussing the subject in more or less detail are respectfully submitted herewith.

Eight of the Counsel for the Federal reserve banks agree with the position of the Comptroller or to the principle underlying his new requirement, that is, that a rediscounted item which has been paid in full should not be entitled to participate in any subsequent dividends paid by the insolvent bank. Only two of the Counsel express themselves as disagreeing with this principle. A number of those who believe that the position of the Comptroller's office is well founded suggest or contend that the purpose of the Comptroller may be accomplished by the filing of one claim covering all the rediscounts but treating them separately. Such an arrangement would be much simpler and would avoid much trouble both for the Federal reserve bank and for the receiver.

The view of the majority of the Counsel seems to be that each of several rediscounted items held by a Federal reserve bank are

distinct and separate items of indebtedness and when any one of these rediscounts has been paid in full or otherwise extinguished, it should no longer be considered an existing claim for the purpose of procuring greater dividends on other rediscounts not yet satisfied. To do so would, of course, benefit the Federal reserve bank but would prejudice the other creditors of the insolvent bank pro tanto. It does not seem equitable to ask or expect any dividend upon an item of indebtedness which has been paid in full merely because the creditor happens to have other separate and distinct claims against the insolvent bank. On this point, then, in my opinion, the position of the Comptroller is correct and rediscounts which have been paid in full should not participate in or be made the basis of any dividends subsequently declared by the insolvent bank. I feel, however, that in the interests of simplification of procedure and to avoid much clerical inconvenience Federal reserve banks should be permitted to file one claim covering all rediscounts, each rediscount so covered to be described and treated separately for all purposes.

Up to this point, the discussion has been confined to the proof of claims involving rediscounts. The case is somewhat different, however, as to indebtedness secured by collateral. It is well settled by cases in the Supreme Court of the United States, chiefly the case of Merrill v. National Bank of Jacksonville, 173 U. S. 131, that a secured creditor of an insolvent national bank may prove and receive dividends upon the face of his claim as it stood at the time of the declaration of insolvency, without crediting either his collaterals, or collections made therefrom after such declaration, subject to the proviso that dividends must cease when from them and from collateral realized, the claim has been paid in full.

On account of this well established principle, the question arises whether Federal reserve bank stock outstanding in the name of the insolvent member bank is to be treated by the Federal reserve bank as collateral, or as a set off to be applied against the indebtedness of the insolvent bank, claim being made for the net difference only. Under the recent instructions of the Comptroller, Federal reserve bank stock is required to be treated as a set off and not as collateral. This regulation is based on a portion of the opinion in the case of Federal Reserve Bank of Minneapolis v. First National Bank of Eureka, above referred to: but it does not appear that this was one of the contested points in the case. On the contrary it seems to have been conceded. The opinion, therefore, cannot be considered as of much importance on this point.

Most of the Counsel who expressed an opinion on this point feel that Federal reserve bank stock should be treated as collateral and not as a set off. Section 6 of the Federal Reserve Act provides that upon the insolvency of a member bank the Federal reserve bank stock held by it shall be cancelled and the proceeds applied first to the debts of the insolvent bank and the balance, if any, paid to the receiver. Prior to insolvency the member bank has no claim against the Federal reserve bank on the stock; it merely has an interest in the Federal reserve bank as represented by the stock. On the date

of insolvency also there is no debt due the member bank from the Federal reserve bank on the stock because the stock has not been cancelled. Certainly up to the time of cancellation, there is no debt due the member bank on such stock, and since the claims are proven as of the date of insolvency it does not seem that the proceeds of Federal reserve bank stock is a proper item for set off. Furthermore, it seems to be the intention of Section 6 of the Federal Reserve Act that the proceeds of Federal reserve bank stock shall be used to save the Federal reserve bank from loss, as far as possible in cases of insolvency, only the remainder after paying the debts of the insolvent bank being paid to the receiver. It is apparently the intention that the Federal reserve bank shall not account to the receiver for anything due on the stock until all the claims of the Federal reserve bank against the insolvent bank have first been satisfied.

Summarizing the conclusions of the majority of the Counsel of the Federal reserve banks, with which conclusions I concur, it may be said:

(1) That the position of the Comptroller of the Currency is correct in that no rediscount which has been paid in full or otherwise satisfied should be permitted to participate in dividends subsequent to the satisfaction of the rediscount; but that this purpose may be accomplished much more conveniently and with less trouble to all parties concerned by the filing of one claim for all rediscounts but treating and describing each separately.

(2) The proceeds of Federal reserve bank stock should not be considered as a set-off to be applied against the indebtedness of the insolvent national bank to the Federal reserve bank, but should be considered in the same category as collateral; and the Federal reserve bank should be permitted to file its claim for the entire amount of indebtedness and to receive dividends thereon without deducting anything for the proceeds of the Federal reserve bank stock with the proviso, of course, that the total amount of dividends plus the proceeds of such stock shall not exceed the amount of the claim of the Federal reserve bank.

Under date of May 15th the Comptroller's office issued a circular letter to all Federal reserve banks outlining a uniform practice with respect to claims by Federal reserve banks against insolvent national banks which the Comptroller's office proposed to put into effect. A copy of this circular letter is respectfully submitted herewith. It re-affirms the Comptroller's view that separate claims must be filed with regard to each rediscounted item; and that the Federal reserve bank stock held by an insolvent bank should be offset against the claims held by that bank. The circular also states that a Federal reserve bank is entitled to interest on its claims only at a rate equivalent to its current discount rate,

and it is believed that this is not strictly correct, though it is understood that Federal reserve banks frequently have waived their right to any interest on such claims in excess of their going rediscount rates. The circular goes into much detail, is not entirely clear, and may be incorrect in other respects also.

In view of all these circumstances, and in order that a complete understanding may be arrived at between the Federal reserve banks and the Comptroller's office with regard to this entire subject, it is respectfully recommended that a conference be arranged between the Comptroller's office and Counsel to all interested Federal reserve banks to discuss the Comptroller's circular of May 15th, and if possible to agree upon such modifications and clarifications thereof as may be necessary.

A draft of a letter to the Governors of all Federal reserve banks suggesting that such conference be arranged and transmitting a copy of this memorandum together with copies of letters received from Counsel to all Federal reserve banks is respectfully submitted herewith.

Respectfully,

Walter Wyatt,
General Counsel.

Papers attached.

WW OMC

E X C E R P T S

from the

JUNE, 1925

Issue of the

F E D E R A L R E S E R V E B U L L E T I N

American credits.

Two separate credits have been established in the United States, one by the British Government and one by the Bank of England. A credit of $100,000,000 was arranged by the British Government with J. P. Morgan and Company and a credit of $200,000,000 by the Bank of England with the Federal Reserve Bank of New York in participation with other Federal reserve banks and with the approval of the Federal Reserve Board.

Under its arrangement with the Bank of England the Federal Reserve Bank of New York undertakes to sell gold on credit to the Bank of England from time to time during the next two years, but not to exceed $200,000,000 outstanding at any one time. The credit is to bear interest to the extent that it is actually used at a rate of one per cent above the New York reserve bank's discount rate, with a minimum of 4 per cent and a maximum of 6 per cent, or, if the Federal reserve discount rate exceeds 6 per cent, then at the rediscount rate of the bank. The rate of interest to be paid by the British Government on the credit which it has established is to be determined in a similar manner. Upon the purchase of gold the Bank of England will place on its books to the credit of the Federal Reserve Bank of New York an equivalent deposit in pounds sterling. This deposit may be used from time to time by arrangement with the Bank of England in the purchase of eligible sterling commercial bills which shall be guaranteed by the Bank of England, and

in that case discount earned on the bills will be applied to the payment of interest.

If occasion arises for the use of this credit, support can be given to sterling exchange either through the purchase of sterling bills in New York or abroad, or gold can be shipped to other countries on British account. Thus the Bank of England could meet a foreign demand for gold without reducing its own reserves, or it could replenish its reserves by withdrawing gold from this country or by earmarking it in New York. The form in which the credit would be used would depend upon the circumstances at the time.

In making these arrangements with the Bank of England, the Federal Reserve Bank of New York proceeded under authority of the Federal Reserve Act, which in addition to granting the reserve banks power to make contracts, authorizes them under rules and regulations prescribed by the Federal Reserve Board to deal in gold coin or bullion at home or abroad, to purchase and sell in the open market, at home or abroad, cable transfers or bankers' acceptances and bills of exchange of the kinds and maturities eligible for rediscount; and with the consent, or upon the order and direction of the Federal Reserve Board, to open and maintain accounts in foreign countries, appoint correspondents and establish agencies in such countries wheresoever it may be deemed best for the purpose of purchasing, selling, and collecting bills of exchange, and with the consent of the Federal Reserve Board to open and maintain banking accounts for such foreign correspondents or agencies.

In January of this year the Federal Reserve Bank of New York was authorized by the Federal Reserve Board to make the arrangements with the Bank of England which have been described. After the passage of the Gold Standard Act by the British Parliament in May, the Federal Reserve Board approved in detail the arrangements made by the New York Federal Reserve Bank. In giving approval the Board believed that the arrangement would be an effective aid toward general resumption of gold payments.

X-4347

316

TREASURY DEPARTMENT
Office of the Secretary
WASHINGTON

June 8, 1925.

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, 1925, to May 29, 1925, amounting to $144,375.00, as follows,-

Federal Reserve Notes,- 1914

	$5	$10	$20	$50	Total
Boston	500,000	400,000	200,000	—	1,100,000
New York	1,000,000	—	—	—	1,000,000
Philadelphia	500,000	—	—	25,000	525,000
Cleveland	- -	—	50,000	25,000	75,000
Richmond	300,000	200,000	—	—	500,000
Atlanta	100,000	—	—	—	100,000
Minneapolis	100,000	—	—	—	100,000
Kansas City	100,000	—	—	—	100,000
San Francisco	200,000	—	50,000	—	250,000
	2,800,000	600,000	300,000	50,000	3,750,000

3,750,000 sheets at $38.50 per M $144,375.00

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

	Sheets	Compensation	Plate Printing	Materials	Total
Boston	1,100,000	$19,525.00	$ 8,998.00	$13,827.00	$42,350.00
New York	1,000,000	17,750.00	8,180.00	12,570.00	38,500.00
Philadelphia.	525,000	9,318.75	4,294.50	6,599.25	20,212.50
Cleveland	75,000	1,331.25	613.50	942.75	2,887.50
Richmond	500,000	8,875.00	4,090.00	6,285.00	19,250.00
Atlanta	100,000	1,775.00	818.00	1,257.00	3,850.00
Minneapolis	100,000	1,775.00	818.00	1,257.00	3,850.00
Kansas City	100,000	1,775.00	818.00	1,257.00	3,850.00
San Francisco	250,000	4,437.50	2,045.00	3,142.50	9,625.00
	3,750,000	$ 66,562.50	$30,675.00	$47,137.50	$144,375.00

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,

S. R. Jacobs,
Deputy Commissioner.

TREASURY DEPARTMENT
Office of the Secretary
WASHINGTON

June 8, 1925.

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 on May 4, 1925, amounting to $19.25, as follows,-

Federal Reserve Notes, 1918

	Denomination	Sheets
Cleveland	$1,000	500

500 sheets at $38.50 per M $19.25

The charges against the Federal Reserve Bank of Cleveland are as follows,-

Compensation	$ 8.88
Plate Printing	4.09
Materials	6.28
	19.25

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

Respectfully,

S. R. Jacobs,
Deputy Commissioner.

FEDERAL RESERVE BOARD

X-4348

318

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 10, 1925.

SUBJECT: Code word to cover new issue of Certificates of Indebtedness, Series TJ 1926, in telegraphic transactions.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal Reserve Banks, the code word "Befuddled" has been designated to cover the new issue of Certificates of Indebtedness dated June 15, 1925, Series TJ 1926.

This word should be inserted in the Federal Reserve Telegraphic Code Book, following the supplemental code word "Befringe" at the bottom of page 24.

Yours very truly,

J. C. Noell,
Assistant Secretary.

To Governors of all F.R.Banks.

X-4349

A D D R E S S

Delivered by

E. H. Cunningham

at the

SOUTH DAKOTA BANKERS' CONVENTION
BROOKINGS, SOUTH DAKOTA
June 15th, 1925.

Released for the Press
12:00 M., June 15th, 1925.

I really do not feel as though I had followed orders very strictly in preparing what I have to say to you for I have not followed closely the text that your committeeman assigned to me. I have wandered far from what might be considered as a proper interpretation of the subject "Financing the Business of Farming". I have, however, undertaken to bring to your attention the fundamentals underlying the principles of collectively financing the farmer. I know that the American Public is about fed up on ideas and policies for this, that and the other thing, until it would seem that the patience of all must be nearly exhausted. So much has been said during the past few years about the embarrassing financial status of those engaged in the business of farming, that one begins to wonder how it is possible that farming still survives. Certain it is that the financial extinction of the farmer has been predicted more often in the past five years than that of any other class. The outstanding peculiarity of the business is the amount of misrepresentation that it can function under and still remain solvent. No business within the range of my knowledge has been so consistently misrepresented as has been the business of farming in the past few years. It is true that Agriculture, as an industry, has probably had more cause for complaint and has probably met with more economic embarrassment during the period of readjustment, than has any other going business. Those of you who are engaged in other kinds of business, and especially that of banking, will, I am sure, recognize the harm that comes from such unwarranted publicity.

An industry that depends entirely upon the natural processes of production encouraged as it is by the thrifty habits of the people engaged therein, can never become insolvent; and I believe the time is at hand when the people of this country who are engaged in farming should undertake to remove the impression that has become so general throughout the country with regard to the shortcomings of the industry in which they are engaged. I can think of no other business that could prosper or even thrive for a period of one season under like circumstances. Certain it is that Agriculture has had its cross to carry during the past few years and it will always be subject more or less to the many vicissitudes of nature that surround the industry, but, it should not be obliged to carry the discredit that attaches to it at this time by reason of the indiscreet expressions of those who thoughtlessly misrepresent it.

Agriculture, when recognized as being basic in its relationship to every other activity of the country, becomes more fundamentally vital when we consider it from the standpoint of its being the only industry that is primarily engaged in the production of the necessities of life. If the business is unsatisfactory, it is proper to inquire as to the cause of the trouble and in what direction relief is to be found. Certain it is that we need to be aroused to a more thorough study of the important factors that are contributing to the present uncertainty. Many industries have been stimulated to the point where they have become top-heavy. The casual observermight get the impression that the foundation of business has been neglected in favor of the frills and non-essentials. In our highly complex social system it is difficult to discriminate

between the essential and non-essential industries; but of one thing we are certain and that is that Agriculture is the hub about which all else revolves. The farmer is dependent upon some phases of manufacturing to supply his needs, but absolutely everyone is dependent upon the farmer. And when the prices that the farmer receives for his products are stabilized at a figure that will enable him to compete with the manufacturer for labor, and at the same time leave a fair margin of profit, then America can feel that her food problem is secure, but when the farmer can not see the possibility of a reasonable profit, he loses heart which results in smaller crops and increased prices. This is recognized as a short-sighted policy that will defeat itself in the end; but the individual farmer, however, is only human and he is quite naturally more interested in his own immediate welfare than in any abstruse problem of world economics. Before farm life can be made attractive and satisfying, it must be made profitable.

In the foregoing I am not undertaking to draw a picture of agricultural conditions in any way foreign to the State of South Dakota.

In any attempt to analyze the present condition of agriculture one can not do better than study the things that have taken place since 1910. This period is exceptionally favorable for study or analysis since it includes about five years before the war, the war period, when all economic activities were used in the production of war materials and the years of readjustment after the cessation of hostilities. In 1909 the value of all crops produced in the United States was $5,200,000,000 and in 1919, the year in which farm prices were at their highest levels,

the value was $14,750,000,000. In 1920 as a result of the decline in prices, the value of farm products declined to $10,200,000,000 and in 1921 both production and prices fell off and the value of farm production was about $6,500,000,000. Since 1921 Agriculture has been recovering rapidly from the depression and in 1924 the value of crops reached $10,327,000,000 - approximately twice as large as before the war.

Another way of measuring the more important changes that have occurred since 1909 is made possible by comparing the number of people living on farms and in the smaller towns that are dependent on agriculture or primarily agricultural in character. During the decade of 1910 and 1920 the number of our rural population increased from 49,806,000 to 51,406,000 or a little more than three per cent. At the same time the number of our urban population increased from 42,166,000 to 54,305,000, or about 29 per cent. There has been an increase of about 18 per cent in the physical volume of crops produced before and since the war and the value of these crops in 1924 was about twice as great as before the war.

The crop in the State of South Dakota in 1909 was valued at $126,000,000 and in 1919 it was about $357,000,000, the highest level in history. During the following two years the value of these crops declined and was lower in 1921 than before the war. Every year since 1921 has seen an increase in the value of crops grown in the State and in 1924

all crops were valued at $239,000,000 - a little less than twice the pre-war values. Fewer people were engaged in Agriculture in the State in 1920 than in 1910, but people occupied in other industries were in slightly larger number than before the war. As in the entire country, fewer people were engaged in Agriculture in the State than before the war, but they were able to produce crops worth about twice the pre-war value.

Analysis of the returns from the important crops in the State shows that all have had a rapid recovery since the depression of 1921.

VALUE OF DIFFERENT CROPS IN SOUTH DAKOTA
(In thousands of dollars)

	1921	1922	1923	1924
Corn	32,664	55,019	75,492	79,992
Wheat	22,603	36,811	22,287	42,672
Oats	11,660	23,808	24,284	39,220
Hay	24,091	31,694	38,325	30,123
Barley	5,522	8,510	8,010	14,354
Flax	1,952	3,093	5,021	9,587
Rye	1,772	5,283	1,713	3,015
Potatoes	5,874	3,775	3,407	2,795
Total 8 crops	106,138	167,993	178,539	221,758
Total all crops	114,603	181,190	193,498	238,916

Problems, however, are arising which are going to require the deepest thought on the part of the farmer and all others who are concerned with the welfare of American Agriculture. Throughout history the American farmer has been an individualist. He, apparently, has been perfectly contented to grow his crop and market it independently. He was not concerned primarily with what his neighbors, or even those who were growing similar crops, were doing. During the past twenty-five years, however, as our industrial and economic organizations have become more complex, the effectiveness of this individualistic policy has become less and less. In so far as production is concerned, by the application of the most scientific methods accompanied by modern equipment, the farmer can afford in some cases to conduct his operations in an independent manner; but, when we consider such questions as marketing and distribution, the farmer is necessarily subjected to many factors over which he, as an individual, has no control.

My one object and desire in coming here at this time is to renew my pleadings to the farmers of South Dakota to undertake the organization and carrying out of more efficient policies of finance and cooperative marketing and to endeavor, if possible to help him to realize his responsibilities in working out a solution.

During the past three years organizations for the cooperative marketing of agricultural commodities have grown rapidly in all sections of the country and with the growth of these institutions, methods of handling and financing the crops have been evolved which are different in many respects from those used by the old established agencies.

In the cotton growing regions the growth of cooperative marketing has been particularly significant but since the time required for cotton to pass through the channels of distribution is considerably greater than the more highly perishable products, the problems of financing are somewhat different.

As the cotton growers have become more efficient in the functioning of their cooperative associations, I refer especially to them as an illustration of what can be done through a well organized cooperative association both in the questions of finance and distribution. The problem of financing the cotton association arises when the growers deliver their products to the association for marketing. Funds are needed by the farmer to liquidate his indebtedness incurred in the production of the crop and to provide for necessary expenditures until the whole crop is finally sold. To meet this demand the cooperative associations generally have agreed to advance to the farmer at the time he delivers his crop, about 50 to 60 per cent of its market value or to make a direct advance of a definite amount. Since the associations are organized without capital stock, it is necessary for them to borrow heavily to make the big advances to the producers at the harvest season, and to raise the necessary funds to make the advances, the associations pledge the commodities delivered by the farmer as security with banks and other loaning institutions throughout the United States.

The Cotton Associations have used three principal sources for credit: 1st, the War Finance Corporation; 2nd, the Federal Intermediate

Credit Banks; 3rd, Commercial Banks. From September 1921 to the end of 1924, approximately $38,500,000 were advanced by the War Finance Corporation to Cooperative Marketing Associations a considerable percentage of which it is reasonable to state was advanced to Cotton Associations. As the Associations have developed they have found it less difficult to borrow from banking institutions and also since early in 1923 they have been borrowing substantial amounts from the Federal Intermediate Credit Banks, principally on straight loans secured by Warehouse Receipts covering the commodity that is being marketed. In order to facilitate the marketing and handling of the crop, the Intermediate Credit Bank usually enters into an agreement with a bank or some other institution located near the head office of the Marketing Association to act as custodian of the documents, warehouse receipts or bills of lading which have been pledged as collateral to secure the loans.

In financing their operations, the associations have used two methods of securing bank credit: 1st, direct borrowing with banks on promissory notes secured by warehouse receipts; 2nd, by acceptances. Since the method of borrowing from banks on collateral notes is not essentially different from that followed by other customers of those institutions, it is not necessary to describe in detail the arrangements that the associations have made with banks to secure credit of this type. There are certain advantages in financing such operations by using bankers' acceptances and associations have turned to this medium for obtaining funds and most satisfactory results have been had. As the associations have become

established, it has been relatively easier for them to arrange acceptance credits in the central money markets of the country. Before analysing the acceptance plan in detail it is necessary to discuss briefly to what extent it has been used by the Cotton Associations. The Associations from which data are available and the volume of acceptances used for the marketing season of 1923 and 1924 are shown in the following table:

Alabama	- $ 4,250,000	South Carolina	- 11,655,500
Arizona	- 120,000	Texas	- 5,000,000
Georgia	- 800,000		
North Carolina	- 12,900,000		

Making a total of $34,725,500.

In arranging acceptance credits with a bank, each association enters into an agreement with the bank covering the aggregate amount of credit that it expects to use during the marketing season. The association then draws drafts on the bank from time to time as funds are needed during the marketing season. All drafts must mature and be paid in full by July 30th of the year following that in which the commodity is produced. In the case of the Intermediate Credit Banks it is usual to appoint a trustee or custodian near the office of the association to handle the documents for the association and the accepting bank and each draft that the association draws on the accepting bank must be secured by the following documents placed with the trustee: 1st, negotiable warehouse or compress receipts rating specific bales of cotton or negotiable railroad bills of lading.

2nd. Insurance policies covering the cotton pledged.

3rd. A statement by licensed classifier of cotton that the cotton is classed and graded in accordance with standards set up by the U. S. Department of Agriculture.

While only a few of the associations have attempted to sell their acceptances at open market rates, the asscciations which are still borrowing at a flat rate including a commission for accepting, have been able to obtain funds at a much cheaper rate, usually between 4 and 5 per cent, than the individual producers could secure in their respective marketing centers. All drafts drawn by the association under the terms of the acceptance agreement are required to conform with the Rules and Regulations of the Federal Reserve Board which makes them eligible for rediscount or purchase in the Open Market by the Federal Reserve Banks.

Any prejudice that may have existed in the minds of the public generally against farmers organizations, and especially cooperative organizations, has largely disappeared, and they are looked upon today as the one strong farm influence that can be met in general council upon any important problem in the relationships of life and it is felt that they will consider such important problems with a due regard for the interests and welfare of all the people. The farmers of America do not organize to destroy good government as the farmer is, by the nature of his business, both capitalist and laboring man, and as such, is the one element in society that will be found in the front ranks of those

fostering America and American institutions.

Never in the history of the country has there been such a desire shown on the part of the public to help the farmer in every way possible through legislation as during the past few years. To mention everything that has been accomplished would lead into a too lengthy discussion so we will confine ourselves on this occasion to the few specific enactments that were intended to be of particular value to Agriculture:

In 1920, the farmer through his organizations made a universal demand for the enactment of a special tariff law which was favorably responded to by the Congress.

The farmer, through his organizations, demanded legislation that would permit him to act in the marketing of his products, cooperatively in a lawful manner, which request was granted by the Congress.

The farmer also made a demand for an increase in the loan limit in the Federal Farm Loan Act from $10,000 to $25,000; which was also approved by Congress.

Through an almost unanimous request on the part of the farmer, the War Finance Corporation was renewed by Congress in 1921.

In reply to a demand from the farmer, the Congress of the United States enacted the so-called Packer and Stockyards Act by which the Administration exercises certain supervisory control over the terminal stockyards and large packing industries of the country.

Legislation was also passed at the request of the farmer which seeks to regulate and supervise the Grain Exchanges of the country.

The farmer made a demand for the enactment of a law which would extend him liberal credit in the operation of his business. The result was the passage of the Federal Intermediate Credit Act.

The farmer made a demand for access to the credits of the Federal Reserve System and Congress liberalized the Federal Reserve Act by giving the farmer greater access to the credit facilities extended through that system.

During the last session of Congress, the demands of the farmers for

legislation which would be helpful to their business, and which the Administration encouraged in every helpful way, were not properly coordinated and this together with the rivalry between farm leaders for the honor of being the originator of the plan for such helpful legislation, resulted in complete confusion in the minds of the farm elements in Congress as to what was the most desirable thing to be done in order to be of real help to the man who actually tills the soil and produces the crops.

If I were asked the question at this moment as to what benefit had come to the farmers from all of this so-called farmer legislation, undoubtedly, I would have to answer that at best it was somewhat questionable in value. Personally, I can see that ultimately it will be very helpful. When you go to your homes, do me the favor of looking over the list carefully and I hope you will give most serious consideration to the possibilities apparent therein, always providing, that the farmer will act in a cooperative spirit and put his own house in order. I insist that all of the legislation in existence can not of itself create a market. The value to the farmer of legislation is to come when he is in a position to function through his organization with a definitely established legal status which will insure the greatest integrity in his business and protect him from outside interference. All the regulations devised for the supervision of the Boards of Trade or the packing industries, do not mean cooperative marketing. One million dollars worth of indiscriminate marketing of farm products through a number of independent dealers, does not approach from any angle - cooperative marketing. The sum of it all is that legislation, by itself, means nothing to the producer unless it can be accompanied by good business practice, intelligent production and sound financing.

The problem of orderly marketing is the problem of the producer for

all time to come - at least until he recognizes the disadvantages in not being organized. The farmer, in many instances, is the man who must assume the blame for the present time inefficient methods of marketing and he apparently fails to understand that everything outlined as helpful legislation deals largely, if not entirely, with the mechanics of his business. It should be understood that the privilege to set up a cooperative association, fully protected by law, does not result in any sense in cooperative marketing. It is merely permissive legislation in that it clears the way for him to bring about cooperative marketing without embarrassment from outsiders. The mechanics of cooperation, through which the farmers function, is a piece of machinery that must be put in motion and operated by or through the farmer himself. In the light of legislation that has been passed, it would not be an unjust question to ask why this has not been done. I appreciate that it might be called a leading question, but, nevertheless, on this occasion when we are making a true analysis of our present status, it becomes pertinent to ask: Can cooperation in its true sense, become a practical thing in this day of individual initiative in America? Far be it from me to speak lightly or disparagingly of the individuals who wish to continue to carry on without sacrificing their individual initiative. This attribute is peculiarly adapted to and largely characteristic of the American people. American opportunities and privileges are, in the main, so responsive to individual activity that even the person born under old-world conditions and environments, most speedily recognizes its value and adapts himself to it. It is fitting and proper that we, as a people, guard that attribute with jealousy and look well to its perpetuation in the future. It must be admitted,

however, that there comes a time in the economics of business progress and individual success when the interests of the producer can be more efficiently and economically served through cooperative effort on the part of all producers of a given commodity, than through individual effort. This is one fundamental problem in your business recognition of which has, in no sense, kept pace with the changes of time. It is a problem you must solve before you will be able to receive full value for the products you sell and before you will be able to take advantage of the privileges that are yours of adequate financing, intelligent production and orderly marketing; all of which are recognized as very potent factors in the future success of Agriculture. Cooperation is the thing that enables you to control and receive for your own benefit the full market value of the product. You argue, and justly so, that various cooperative marketing plans are now in effect. This can be admitted only to some slight degree as they are effective in such a small proportion of cases that you are able to offer but slight benefit to your members. We are constantly reminded of the efficiency of cooperation as it exists in some foreign countries. I am willing to give due credit to statements as to the efficiency that exists in other countries, but I am not ready to admit that the people of the United States, living under its splendid privileges for individual success and representing such a large proportion of producing property owners, have yet come to the point where they are willing to accept cooperation as it exists in other countries where the citizen is more on a common status than we are here in America. My experience and observation in this matter have convinced me that our farmers take particular pleasure in listening to the statements that are sometimes extravagantly made with regard to the great benefits

that have been obtained in other countries through cooperation; but cannot be sold to any great extent to the idea of its practicability in America. The American farmer has been, and is yet, an individualist. He is, however, rapidly coming to the point where he realizes that there is something radically wrong in his methods and that his individualism to which he holds so tenaciously, will have to be submerged into other customs that will work more favorably toward his success. It is a very slow process of evolution that is going to bring this about. I do not think that the developments, so far, are at all discouraging; but, there is nothing in practice to warrant the statement that we are generally cooperating in the marketing and distributing of our farm products. Personal observation would almost lead one to believe that the question of cooperation as it is practiced at this time is a game of "Heads-I win; Tails-you lose". We follow the plan of cooperation when it is to our particular advantage to do so, but we do not seriously commit ourselves to any plan that is so truly cooperative that we are, as producers, willing to accept both the profit and the loss as they come in the average course of business and be satisfied with the general average of returns for all.

The thought I wish to leave with you in closing is that adequate financing of the farmer at reasonably low interest rates, can best be secured through cooperative organizations; and that no amount of legislation can improve the position of the farmer with respect to the financing of his crops unless he takes active steps to promote the growth of cooperative effort in his industry along sound business lines.

FEDERAL RESERVE BOARD

X-4351 3:16

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 12, 1925.

SUBJECT: Right of member bank in computing its reserve to deduct balances due from foreign branches of domestic banks from balances due to other banks.

Dear Sir:

The Federal Reserve Board has recently been requested to rule on the question whether balances due from foreign branches of banks located in this country can be treated as a part of the item "due from banks" to be deducted from the item "due to banks" in computing reserves of member banks under Section 19 of the Federal Reserve Act.

The Board has heretofore ruled that balances due from foreign banks could not be deducted by a member bank in computing its reserve. In accord with this position the Board now rules that a balance due from a foreign branch of a domestic bank may not be deducted from balances due to banks by a member bank in computing its reserve when the balance due from the foreign branch is payable in foreign currency. The Board believes that the phrase "the net difference of amounts due to and from other banks" contained in Section 19 of the Act has reference only to balances payable in dollars and does not include balances payable in foreign currency. If, however, the balance due from a foreign branch of a domestic bank is payable in dollars instead of in foreign currency, such balance may properly be deducted by a member bank from balances due to other banks. The foreign branch of a domestic bank and the domestic bank itself constitute but one legal entity and a balance payable in dollars due from any part of that legal entity regardless of where located is believed to be a proper deduction from balances due to other banks in computing reserves under the provisions of Section 19.

The Board also considered another question very closely related to that just discussed, namely whether a member bank in calculating its own reserve requirements may deduct balances due from its own foreign branch. The Board has frequently held that a bank and its branches constitute but one legal entity and since Section 19 refers to balances due to and from other banks the Board rules that balances due from a foreign branch of a member bank to its home office are not properly deductible from balances due to other banks in computing the reserves of the member bank.

The Board's rulings may be set out in brief form as follows:

1. Balances payable in foreign currency due from a foreign branch of a domestic bank may not be deducted by a member bank in computing its reserve from balances due to other banks.

2. Balances payable in dollars due from a foreign branch of a domestic bank may be deducted by a member bank in computing its reserve from balances due to other banks.

3. Balances payable either in dollars or in foreign currency due to a member bank from its own foreign branch may not be deducted from balances due to other banks by the member bank in computing its reserve.

By order of the Federal Reserve Board.

Walter L. Eddy,
Secretary.

TO THE GOVERNORS OF ALL F. R. BANKS EXCEPT KANSAS CITY.

The first meeting of the Special Legislative Committee appointed by the Federal Reserve Board upon the recommendation of the recent Conference of Governors, was held in Washington on Monday, June 8, 1925, at 10:30 A.M.

Present: Governor Harding
Governor Strong
Governor Seay
Mr. Wills
Mr. Talley
Members of the Committee

Also Present: Governor Crissinger
Dr. Stewart, Director of the Board's Division of Research and Statistics.
Professor Sprague, Special Research Assistant.

The meeting was called to order by Governor Crissinger, and the first business of the Committee was to elect Governor Seay as its permanent Chairman.

Thereupon ensued a full discussion of the second McFadden Bill (H. R. 12453). The various members of the Committee expressed their opinions on the principal amendments to the Federal Reserve Act provided in the bill, namely, (1) to prohibit the use of gold as collateral for Federal Reserve note issues; (2) to eliminate purchased acceptances from the collateral eligible against Federal Reserve notes; and (3) to permit member banks to maintain up to 40 per cent of their required reserves in vault. It was the general opinion that the provision that a portion of member banks reserves be carried in vault is unwise and dangerous, and would increase the possibilities of inflation. It was also brought out that it is essential at times for the Federal Reserve banks to exercise the right to issue Federal Reserve notes against the deposit or purchase of gold, which is prohibited in the bill, and further

that the bill, in eliminating purchased bankers acceptances from the collateral eligible for Federal Reserve notes, is a discrimination against one of the strongest recent developments of American banking. Particular emphasis was laid upon the effect of the proposed amendments on the Federal Reserve banks located in the agricultural districts, particularly those at Atlanta, Minneapolis and Dallas.

Governor Strong then moved that the Committee adopt the expressions contained in the letter addressed by the Federal Reserve Board to Congressman McFadden, under date of May 27, 1925, as follows:

> "Your letter asking the Board for its opinion of the bill which you introduced prior to the adjournment of Congress proposing certain amendments to the Federal Reserve Act has been carefully considered by the Board. In general, the two lines of modification proposed by the bill relate to the nature of the collateral to be eligible against Federal Reserve note issues, and to the manner in which member banks shall be permitted to hold their legally required reserves.
>
> "The Board is not in favor of the proposal prohibiting the use of gold as collateral for Federal Reserve notes, because this proposal without increasing the elasticity of the Federal Reserve note would introduce complications making it more difficult for the reserve banks to meet the country's currency requirements. The proposed elimination of purchased acceptances from the collateral eligible against Federal Reserve notes would also be undesirable in the Board's opinion because it would constitute a discrimination against one of the most liquid forms of credit and would be contrary to the reserve system's policy of encouraging the development of an acceptance market in the United States. Bankers' acceptances are not only being used to a large and increasing extent to finance our foreign trade more cheaply than was formerly possible, but also have an important place in the reserve system's open market policy.
>
> "Authority for member banks to keep up to 40 per cent of their reserves in vault, as proposed in the bill, would have the effect of counting as reserves the currency which the banks carry as till money and would make available as reserves an additional amount of from $400,000,000 to $500,000,000. Such an increase in reserve funds would greatly enlarge the lending and investing power of member banks and would, therefore, be an influence toward credit inflation. A committee of Federal Reserve agents

has been for more than a year making a study of member bank reserves and has given careful consideration to the question of what, if any, modifications in the present law or practice would be desirable from the point of view of the banking system as a whole. This committee is expected to make a report to the Board on this subject in the near future.

"The Federal Reserve Board would welcome the opportunity of presenting to the Banking and Currency Committee in detail any information that the Committee may desire when proposed amendments to the Federal Reserve Act are under consideration."

Governor Strong's motion, duly seconded, was put by the Chair and unanimously carried.

The Chair then presented draft, dated May 12, 1925, of the final report to the Federal Reserve Board of the Federal Reserve Agents Committee on Member Bank Reserves.

After discussion, upon motion by Governor Strong, duly seconded, it was voted that members of the Committee be furnished with a copy of the report of the Committee on Reserves, and that they forward to Dr. Stewart or Professor Sprague an individual opinion in writing upon the different phases of the report and its conclusions in general, and that each member of the Committee should furnish a copy of such comments to each other member.

Governor Harding then suggested that later in the day the Committee, as a whole, again take up the report of the Committee on Reserves, and after discussion, the report was laid aside with that understanding.

The discussion then reverted to the second McFadden Bill and the steps which should be taken to formulate in an argumentative way the various objections to the bill. Governor Strong stated that he would like to know what effect the bill would have on the positions of the Atlanta, Minneapolis and Dallas banks, what effect it would have on the Atlanta bank with reference to the issuance of currency in Cuba,

and also what the position of the Federal Reserve System would have been under the bill in 1919-1920, when gold was being withdrawn from the Federal Reserve banks for export. Dr. Stewart suggested that Professor Sprague and himself could draw up, for submission to the members of the Committee, a skeleton outline of the various statements and analyses which each Federal Reserve bank might be requested to furnish to the Committee.

Upon motion, the above suggestion was unanimously adopted.

Discussion then ensued of the first McFadden bill (H.R.8887) which passed the House of Representatives at the last session of Congress.

Governor Harding briefly advised the Committee of the position of Senator Glass with reference to the first McFadden bill, as stated by him before a recent convention of the Massachusetts Bankers Association.

Governor Strong moved that it is the view of the Committee that any legislation on the subject of branch banking should be expressed in a bill separate from that proposing general amendments to the National Bank Act or the Federal Reserve Act.

Governor Strong's motion, duly seconded, was unanimously adopted.

The Comptroller of the Currency then entered the meeting and joined with the Committee in a discussion of the present status of the bill. It was agreed that at the afternoon meeting of the Committee consideration would be given to the bill in its present form in an effort to see to what extent the Committee could agree with the various amendments of the National Bank Act and Federal Reserve Act proposed, leaving out of consideration matters relating to branch banking.

The Committee then took under consideration a memorandum dated May 14, 1925, prepared by Professor Sprague, containing suggestions as to investigations which might prove helpful in formulating changes in the present law and commenting upon the various provisions of the present H.R.8887. Professor Sprague outlined in a general way his ideas on the subject, stating that in his opinion, after considering the number of bank failures, the question of safe-guarding depositors needs to be considered along with any proposals for liberalization of banking laws. He reviewed the various suggestions for such safe-guards listed in his memorandum, stressing particularly that which provides for the segregation of assets against time deposits. He stated that savings depositors are now at a distinct disadvantage compared with those having demand deposits. Governor Strong also expressed the opinion that the savings depositor, who may be called upon to give 30 or 60 days' notice prior to withdrawal, has a most inequitable position in that the choice assets of the bank are often liquidated for the benefit of the demand depositor, while the savings depositor must await the slow realization on remaining odds and ends.

During the above discussion, Governor Young, a member of the Committee, entered the meeting.

At 1:05 P.M., the meeting recessed for luncheon.

At 2:45 P.M., the Committee reconvened, the same members being in attendance as were present at the conclusion of the morning session.

The Chairman then read from the report of the Federal Reserve Agents Committee on Member Banks Reserves the following four major recommendations for amendments in the reserve requirements of member banks:

> "1. Permit the deduction from demand deposits of (a) exchanges for clearing house, (b) checks on other banks in the same place and (c) checks in process of collection (whether with Federal Reserve banks or correspondent banks) according to Federal Reserve schedule of time required for collection of checks.
>
> "2. Retain the present provision of the law that 'the net difference of amounts due to and from other banks' shall be taken as the basis of ascertaining the net amount of balance due to banks.
>
> "3. Provide that the reserve required to be held against net balances due to banks be 10 per cent. for all member banks except those in New York City and Chicago. This involves an increase from the present requirement of 7 per cent. for country banks.
>
> "4. Provide that reserve shall be carried against government deposits at the same rate as against demand deposits."

Governors Strong and Harding pointed out that Recommendation No. 4 relating to reserves against Government deposits was adopted by the Committee on Reserves with the understanding that it would be taken up with the Secretary of the Treasury before being formally presented to the Federal Reserve Board.

> After discussion of the above recommendations, Governor Strong moved that the Legislative Committee adopt in principle the recommendations of the Committee on Reserves, each member reserving the right to file exceptions to any particular point with Dr. Stewart or Professor Sprague, and that the Committee proceed upon the theory that in general the report represents the ideas of the Legislative Committee as to modifications in reserve requirements.
>
> Governor Strong's motion, being put by the Chair, was carried.

Governor Seay stated that he would like to have it understood that his reservation relates to Paragraph 1, and Governor Harding advised that his objection was to Paragraph 4, which he thought to be unnecessary.

Attention was called to the fact that no definite action was taken at the morning session with regard to the suggestions contained in Professor Sprague's memorandum, dated May 14, 1925, for investigations as to the necessity of changes in the National Bank law looking toward the safe-guarding of depositors.

Governor Strong moved that the Committee record itself as believing in the principle of affording better protection to savings depositors of member banks, and recommend that steps be taken at once looking to such protection, by the segregation of assets or otherwise.

Governor Strong's motion, duly seconded, was put by the Chair and unanimously carried.

The Committee then proceeded to consider various amendments contained in the first McFadden bill (H.R.8887) as follows:

1. The amendment to Section 5150 of the Revised Statutes providing that the board of directors of a National bank may designate a director in lieu of the President to be Chairman of the Board.

Upon motion by Governor Strong, the above amendment was unanimously approved.

2. The amendment to Section 5136 of the Revised Statutues providing for indeterminate charters for National banks, rather than for 99 year charters.

Upon motion by Mr. Wills, the above amendment was approved.

In this connection Governor Harding stated that in his opinion an amendment should be introduced to the bill to provide also for indeterminate

charters for Federal Reserve banks.

3. The amendment to Section 3 of the Consolidation Act of November 7, 1918, simplifying the procedure in the consolidation of State and National banks.

Upon motion of Governor Strong, it was voted to approve the above amendment, with the exception of those provisions relating to branch banking.

4. The amendment to Section 5137 of the Revised Statutes providing for the purchase of real estate by a National bank such as shall be necessary for its accommodation in the transaction of business rather than for immediate use as at present provided.

Upon motion by Governor Strong, it was voted to approve the above amendment.

5. The amendment to Section 5142 of the Revised Statutes providing for simplification of the process of capital increase by stock dividends.

Upon motion by Mr. Wills, it was voted to approve the above amendment.

6. Amendment to Section 5138 of the Revised Statutes authorizing the chartering of National banks in outlying sections of large cities with a capital of $100,000.

Upon motion by Governor Young, it was voted to approve the above amendment.

7. The amendment to Section 22 of the Federal Reserve Act relating to thefts by National bank examiners.

Upon motion by Governor Strong, it was voted to approve the above amendment.

8. The amendment to Section 5211 of the Revised Statutes granting authority for the signing of reports of condition by the vice president or assistant cashier.

Upon motion by Governor Strong, it was voted to approve the above amendment.

9. The amendment to Section 5208 of the Revised Statutes relating to the certification of checks.

Upon motion by Governor Strong, it was voted to approve this amendment in principle, with the thought that improved phraseology might be suggested.

10. The amendment to Section 13 of the Federal Reserve Act providing that National banking associations may engage in safe deposit business.

Upon motion by Governor Harding, it was voted to approve the above amendment.

11. The amendment to Section 24 of the Federal Reserve Act to authorize any National banking association to engage in the business of purchasing and selling investment securities.

After discussion, Mr. Talley moved that Governor Strong and Mr. Wills be appointed a sub-committee to make an investigation of this matter, embracing comparisons of the provisions of the amendment with good state bank laws on the subject, the sub-committee to collaborate with Professor Sprague in the study.

Mr. Talley's motion, duly seconded, was unanimously carried.

12. Discussion then ensued of the practice of certain National banks of receiving securities for safe-keeping, following which Mr. Wills made the following motion:

That the Committee recommend to the Comptroller of the Currency that he consider whether regulations should not be promulgated in his office governing safe-keeping by National banks, or whether legislation should not be requested covering this matter.

Mr. Wills' motion, duly seconded, was unanimously adopted.

13. The amendment to Section 24 of the Federal Reserve Act lengthening the maturity period of city real estate loans by National banks from 1 to 5 years, allowing such loans anywhere within the Federal Reserve district, as well as within a 100 mile radius as at present, opening this business to the banks of central reserve cities, and increasing the amount to which such loans may be made from 33 1/3 per cent to 50 per cent of the National bank's time deposits.

Mr. Wills moved approval of the amendment, except the provision increasing the amount of such loans which may be made, and that it is

the view of the Committee that such amount should remain at 33 1/3 per cent of time deposits.

Mr. Wills' motion, duly seconded, was put by the Chair and carried, Mr. Talley voting "no".

14. The amendment to Section 24 of the Federal Reserve Act providing that the rate of interest which National banks may pay upon time deposits, or upon savings or other deposits, shall not exceed the maximum rate authorized for State banks or trust companies organized under the laws of the State in which the National bank is located.

After discussion, Governor Young moved that it is the sense of the Committee that it is not prepared to pass upon the amendment referred to.

Governor Young's motion, duly seconded, was put by the Chair and unanimously carried.

The amendments to Section 5200 of the Revised Statutes were not considered by the Committee for the reason that it was understood they would be the subject of further investigation by Professor Sprague.

The meeting adjourned at 5:30 P. M.

Secretary.

Chairman

FEDERAL RESERVE BOARD

WASHINGTON

X-4355

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 13, 1925.

SUBJECT: Proof of Claims Against Insolvent National Banks.

Dear Sir:

There are enclosed herewith for your information copies of certain letters received from the Counsel of the several Federal reserve banks together with a copy of a memorandum by Counsel of the Federal Reserve Board, all of which discuss the question of proof of claims by Federal reserve banks against insolvent national banks.

You will note that the Board's Counsel recommends that a conference be arranged between the Comptroller's Office and all interested Federal reserve banks to discuss the Comptroller's circular letter of May 15 and if possible, to agree upon such modifications and clarifications thereof as may be necessary. The Board has taken up the matter with the Comptroller of the Currency and he has requested that the Board arrange such a conference between his office and the various Federal reserve bank attorneys or officers in charge of insolvent bank matters at as early a date as is convenient. Please advise the Board promptly whether or not you desire to have your bank represented at such a conference and if so, what is the earliest date that will be convenient for your representative to attend.

Very truly yours,

Edmund Platt,
Vice Governor.

TO THE GOVERNORS OF ALL F. R. BANKS.

Enclosure:

OFFICE CORRESPONDENCE. (COPY) May 26, 1925.

To The Federal Reserve Board. SUBJECT: Proof of Claims against in-

From Mr. Wyatt - General Counsel. solvent national banks.

The attached letter addressed by Governor Harding to Mr. Hamlin calls attention to an apparent lack of uniformity in the requirements of the Comptroller's office with regard to the matter of proving claims against insolvent national banks.

At Mr. Hamlin's request, this office made a preliminary investigation of the subject from which it appeared that formerly the usual practice was for a Federal reserve bank holding rediscounted paper on which an insolvent national bank was liable as endorser to file a single claim with the receiver covering the aggregate amount of such rediscounted paper and that all dividends paid by the receiver were based on the total amount so proved. It appears, however, that late in 1924 the Comptroller's office inaugurated a new method based on a comparatively recent opinion of the United States District Court for the Northern District of North Dakota in the case of Federal Reserve Bank of Minneapolis v. First National Bank of Eureka, 277 Fed.300, whereby a Federal reserve bank holding a number of rediscounted items on which an insolvent national bank is liable as endorser is not permitted to file a single claim against the insolvent bank covering the entire amount of such rediscounted items, but is required to file a separate claim for each and every item. Furthermore, if at the time a dividend is declared a particular rediscounted item has been paid in full, no dividends are allowed under the new practice on the claim based on that particular rediscounted item.

The Board considered our preliminary report to Mr. Hamlin and requested this office to take the matter up with counsel to all Federal reserve banks and obtain from them an expression of their opinions on the questions involved. The letters from Counsel to all the Federal reserve banks discussing the subject in more or less detail are respectfully submitted herewith.

Eight of the Counsel for the Federal reserve banks agree with the position of the Comptroller or to the principle underlying his new requirement, that is, that a rediscounted item which has been paid in full should not be entitled to participate in any subsequent dividends paid by the insolvent bank. Only two of the Counsel express themselves as disagreeing with this principle. A number of those who believe that the position of the Comptroller's office is well founded suggest or contend that the purpose of the Comptroller may be accomplished by the filing of one claim covering all the rediscounts but treating them separately. Such an arrangement would be much simpler and would avoid much trouble both for the Federal reserve bank and for the receiver.

The view of the majority of the Counsel seems to be that each of several rediscounted items held by a Federal reserve bank are

distinct and separate items of indebtedness and when any one of these rediscounts has been paid in full or otherwise extinguished, it should no longer be considered an existing claim for the purpose of procuring greater dividends on other rediscounts not yet satisfied. To do so would, of course, benefit the Federal reserve bank but would prejudice the other creditors of the insolvent bank pro tanto. It does not seem equitable to ask or expect any dividend upon an item of indebtedness which has been paid in full merely because the creditor happens to have other separate and distinct claims against the insolvent bank. On this point, then, in my opinion, the position of the Comptroller is correct and rediscounts which have been paid in full should not participate in or be made the basis of any dividends subsequently declared by the insolvent bank. I feel, however, that in the interests of simplification of procedure and to avoid much clerical inconvenience Federal reserve banks should be permitted to file one claim covering all rediscounts, each rediscount so covered to be described and treated separately for all purposes.

Up to this point, the discussion has been confined to the proof of claims involving rediscounts. The case is somewhat different, however, as to indebtedness secured by collateral. It is well settled by cases in the Supreme Court of the United States, chiefly the case of Merrill v. National Bank of Jacksonville, 173 U. S. 131, that a secured creditor of an insolvent national bank may prove and receive dividends upon the face of his claim as it stood at the time of the declaration of insolvency, without crediting either his collaterals, or collections made therefrom after such declaration, subject to the proviso that dividends must cease when from them and from collateral realized, the claim has been paid in full.

On account of this well established principle, the question arises whether Federal reserve bank stock outstanding in the name of the insolvent member bank is to be treated by the Federal reserve bank as collateral, or as a set off to be applied against the indebtedness of the insolvent bank, claim being made for the net difference only. Under the recent instructions of the Comptroller, Federal reserve bank stock is required to be treated as a set off and not as collateral. This regulation is based on a portion of the opinion in the case of Federal Reserve Bank of Minneapolis v. First National Bank of Eureka, above referred to: but it does not appear that this was one of the contested points in the case. On the contrary it seems to have been conceded. The opinion, therefore, cannot be considered as of much importance on this point.

Most of the Counsel who expressed an opinion on this point feel that Federal reserve bank stock should be treated as collateral and not as a set off. Section 6 of the Federal Reserve Act provides that upon the insolvency of a member bank the Federal reserve bank stock held by it shall be cancelled and the proceeds applied first to the debts of the insolvent bank and the balance, if any, paid to the receiver. Prior to insolvency the member bank has no claim against the Federal reserve bank on the stock; it merely has an interest in the Federal reserve bank as represented by the stock. On the date

of insolvency also there is no debt due the member bank from the Federal reserve bank on the stock because the stock has not been cancelled. Certainly up to the time of cancellation, there is no debt due the member bank on such stock, and since the claims are proven as of the date of insolvency it does not seem that the proceeds of Federal reserve bank stock is a proper item for set off. Furthermore, it seems to be the intention of Section 6 of the Federal Reserve Act that the proceeds of Federal reserve bank stock shall be used to save the Federal reserve bank from loss, as far as possible in cases of insolvency, only the remainder after paying the debts of the insolvent bank being paid to the receiver. It is apparently the intention that the Federal reserve bank shall not account to the receiver for anything due on the stock until all the claims of the Federal reserve bank against the insolvent bank have first been satisfied.

Summarizing the conclusions of the majority of the Counsel of the Federal reserve banks, with which conclusions I concur, it may be said:

(1) That the position of the Comptroller of the Currency is correct in that no rediscount which has been paid in full or otherwise satisfied should be permitted to participate in dividends subsequent to the satisfaction of the rediscount; but that this purpose may be accomplished much more conveniently and with less trouble to all parties concerned by the filing of one claim for all rediscounts but treating and describing each separately.

(2) The proceeds of Federal reserve bank stock should not be considered as a set-off to be applied against the indebtedness of the insolvent national bank to the Federal reserve bank, but should be considered in the same category as collateral; and the Federal reserve bank should be permitted to file its claim for the entire amount of indebtedness and to receive dividends thereon without deducting anything for the proceeds of the Federal reserve bank stock with the proviso, of course, that the total amount of dividends plus the proceeds of such stock shall not exceed the amount of the claim of the Federal reserve bank.

Under date of May 15th the Comptroller's office issued a circular letter to all Federal reserve banks outlining a uniform practice with respect to claims by Federal reserve banks against insolvent national banks which the Comptroller's office proposed to put into effect. A copy of this circular letter is respectfully submitted herewith. It re-affirms the Comptroller's view that separate claims must be filed with regard to each rediscounted item; and that the Federal reserve bank stock held by an insolvent bank should be offset against the claims held by that bank. The circular also states that a Federal reserve bank is entitled to interest on its claims only at a rate equivalent to its current discount rate,

and it is believed that this is not strictly correct, though it is understood that Federal reserve banks frequently have waived their right to any interest on such claims in excess of their going rediscount rates. The circular goes into much detail, is not entirely clear, and may be incorrect in other respects also.

In view of all these circumstances, and in order that a complete understanding may be arrived at between the Federal reserve banks and the Comptroller's office with regard to this entire subject, it is respectfully recommended that a conference be arranged between the Comptroller's office and Counsel to all interested Federal reserve banks to discuss the Comptroller's circular of May 15th, and if possible to agree upon such modifications and clarifications thereof as may be necessary.

A draft of a letter to the Governors of all Federal reserve banks suggesting that such conference be arranged and transmitting a copy of this memorandum together with copies of letters received from Counsel to all Federal reserve banks is respectfully submitted herewith.

Respectfully,

Walter Wyatt,
General Counsel.

Papers attached.

WW OMC

COPY

X-4339-a

353

HERRICK, SMITH, DONALD & FARLEY

BOSTON

January 14, 1925.

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

Dear Mr. Wyatt:

I have your letter of January 10. You ask me to inform you just what has been the experience of the Federal Reserve Bank in this district in the matter of filing claims against insolvent national banks. You further ask me to give you the benefit of my opinion as to the legality of the present position of the office of the Comptroller of the Currency.

So far as the experience of the Federal Reserve Bank of Boston is concerned, you undoubtedly know that we have been very fortunate in this district. I recall only one material case where the question of a proof of claim against an insolvent national bank has been raised. I refer to the case of the First National Bank of Putnam, Connecticut, which is still pending. So far as this pending case is concerned, I think it more than likely that the Reserve Bank of Boston will receive full payment of its claim or claims regardless of what theory is applied relative to the payment of dividends. The matter so far as this district is concerned, therefore, may be entirely academic.

In the Putnam Bank case the original claim filed by the Federal Reserve Bank of Boston was based on the theory that the Reserve Bank might file one claim for the entire amount due regardless of the number of rediscounts and that dividends would be paid on the basis of

the full amount of the claim. Governor Harding had correspondence with the Comptroller of the Currency as set forth in letters dated respectively December 16 and December 19, copies of which you have. The matter, in other words, is not as yet finally adjusted.

So far as my own opinion is concerned, I beg the opportunity to give the matter further consideration. Prior to the conference of counsel in Washington on December 5 and 6 I was in doubt on this point. I confess that even after the conference I was still in doubt. Therefore, I will write to you at a later date.

Very truly yours,

(signed) A. H. WEED

COPY X-4339-b

FEDERAL RESERVE BANK OF NEW YORK

January 26, 1925.

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

Dear Mr. Wyatt:

Reference is made to your letter of January 10, on the subject of claims of Federal reserve banks against insolvent national banks and the recent attempted ruling of the Comptroller of the Currency in the matter.

I note that in a letter to Governor Harding of December 19, 1924, which you enclosed with your letter, the Deputy Comptroller states that his conclusions in the matter are supported by the opinion of attorneys for Federal reserve banks at the recent conference in Washington. I was not in the room when the discussion of this question took place and so am not familiar with the views expressed by counsel. In this district we have had practically no experience in filing claims against failed banks. In fact, I think only one such claim has been filed in the entire history of the bank.

From such an examination of the authorities as we have been able to make here, I think that the Comptroller's attempted ruling that Federal reserve banks must present a separate claim on each and every rediscount held by them on the date of failure, has no authority of law. It is my opinion that there is a right in the reserve banks to prove the entire amount of existing indebtedness at the time of the proof of claim, provided, of course, that the reserve bank shall not receive, through payments on rediscounted

paper after suspension of business by the failed bank and through dividends allowed by the receiver, more than 100 per cent. of its claim against the failed bank. This view appears to be supported by the case of Merrill v. National Bank of Jacksonville, 173 U.S., 131. I think the authority of this case is not questioned by the case of the Federal Reserve Bank of Minneapolis v. First National Bank of Eureka, 277 Fed., 300.

I wanted to get before writing to you the benefit of Mr. Wallace's views on the subject, as I know that he has had considerable experience in filing these claims, but have so far not received a reply to my letter to him. I have therefore concluded to give you my own views, though I do so with great deference to counsel who have been through this mill many times.

Very truly yours,

(signed)
L. R. Mason
General Counsel.

COPY X-4339-c

WILLIAMS AND SINKLER

Attorneys at Law

Philadelphia

January 21st, 1925.

Walter Wyatt, Esq., General Counsel,
Federal Reserve Bank,
Washington, D. C.

Dear Mr. Wyatt:

I apologize for my delay in replying to your letter of the 10th instant on the subject of the recent changes in the requirements of the Comptroller of the Currency respecting proof of claims by Federal Reserve Banks against insolvent national banks.

I am unable to advise you as to what "has been the experience of the Federal Reserve Bank of Philadelphia in the matter of filing such claims." I seem consistently to be in the position of contributing little to Federal Reserve Bank problems by way of experience because of the continuously uneventful character of conditions in the Third District. Actually there has been in this district but one case in which a receiver has been appointed to administer the affairs of an insolvent national bank. This was the case of the Parkesburg National Bank which failed only a few weeks ago. I understand that the amount of its deposits with the Federal Reserve Bank and the value of its capital stock are more than sufficient to meet its indebtedness to the Federal Reserve Bank.

In view of the fact that we have not had to face the situation of filing such claims, and have not, therefore, been called upon to consider such questions as have counsel for other districts, I am afraid that my views on the subject may not be of particular value . The question is an extremely interesting one and obviously one that it is important to have settled in a

manner that is satisfactory from the standpoint of the Federal Reserve Banks. My impression is that the question is not so much to determine the correctness of the legal views of the Comptroller of the Currency, or even of the courts, but rather to determine what practice should be followed in order that such matters may be disposed of fairly from the standpoint of the Federal Reserve Banks and, if necessary, secure legislation to make the same effective. It may be that I do not have the proper view of the situation, but it does seem, having in mind the purpose of the Federal Reserve System and the fact that Federal Reserve Banks are not to be regarded as ordinary commercial institutions, that it is entirely proper that such a practice should be adopted as will reduce the possibility of loss to Federal Reserve Banks to a minimum. I refer to this consideration as it undoubtedly influences my views on the subject.

It seems to me entirely proper that a Federal Reserve Bank should be permitted to file but one proof of claim covering all rediscounts held by it. Generally speaking, if two parties have been dealing with each other with respect to a large number of transactions, and if one becomes insolvent, the other would consider that it had but one claim against the insolvent party in the total amount of the balance due it, and would not consider that it had as many claims as there have been transactions between the parties not finally closed. I do not consider that decisions of the state courts with respect to insolvency and similar matters would be more than persuasive if the present question were to be determined by the courts, but a statement in the course of the decision by the Supreme Court of Pennsylvania concerning the effect of an assignment for creditors, Graeff's Appeal 79 Pa. 146, seems pertinent. In that case the court said:

"The assignment was in trust for all his creditors then existing, pro rata, without regard to the nature of the securities they held. So far as regards the assigned estate, they were no longer creditors, but equitable owners. Graeff was not an equitable owner of as many separate shares as he had distinct debts. His interest was to the extent of his whole claim on the estate. The payment in full of one judgment no more changed his position than would the payment of one item of a book account. It cannot alter the case that the real estate on which the judgments were liens was first resorted to . . . . It is true the judgments were satisfied- the debts were paid in full; but that did not pro tanto extinguish his title as one of the original cestui qui trustent, until his entire interest was extinguished."

I cannot see any proper basis for holding that the indebtedness of an insolvent national bank to a Federal Reserve Bank should be divided into as many claims as there are items of rediscount. While, of course, the Federal Reserve Bank can never receive more than 100% of its debt, the mere fact that certain of the items may be taken care of through other channels should not constitute a reason for requiring that dividends thereafter payable shall be computed on the reduced amount.

I was interested to note the suggestion in the concluding paragraph of Governor Harding's letter that the capital stock holdings of an insolvent national bank are not off-sets against rediscount indebtedness, but are to be considered as general collateral. It seems to me that this position is logical. If a Federal Reserve Bank is required to set off the capital stock against rediscount indebtedness and receive a dividend on the balance it might readily suffer a loss. On the other hand, if it receives a dividend on the claim without allowing such a set off, the amount of the capital stock holding might very well be sufficient to make up any balance not paid in dividends, so that there would be no loss to the Federal Reserve Bank. I feel it must have been intended in drafting the Federal Reserve Act that Federal Reserve Banks

should be subject to the least possible risk of loss, and that the capital stock holding was intended as a special security against losses. From this view it would follow that the capital stock holdings should be held as special security and not be applied in accordance with the usual rules governing the disposition of collateral security. Incidentally, apart from any such view, a doubt might arise as to whether the funds held as security need be allowed as set offs. See statement in Michie On Banks and Banking, Vol. I, p. 587, 80 (3c) and in Peckham's Assigned Estate, 35 Penna. Superior Court 330 (1908), see page 335.

I do not regard the decision in Federal Reserve Bank of Minneapolis vs. First National Bank of Eureka, 277 Fed. 300, as particularly satisfactory. From the published report it does not clearly appear whether certain points were the subject of argument or whether for the purpose of the case could be taken as admitted. No doubt Judge Ueland's comment will be enlightening in this respect.

Perhaps I should apologize for expressing opinions based so largely on principle, particularly, when as I have already confessed, we do not have the benefit of practical experience. I am inclined to believe that if the courts pass on the questions we have been discussing, decisions relating to practice upon insolvency of commercial institutions need not necessarily be expected to govern. Furthermore, as I have indicated, I should believe that if the practice established is not fair to the Federal Reserve Banks, legislation should be secured to remedy the situation.

Has any question been raised as to the manner of proving claims based on collection items? Such cases would apparently differ from those involving claims based on rediscounts, as the Federal Reserve Banks, as to any claims they might present, would be ordinarily acting as agent.

I assume that after you have heard from all districts we may expect to be advised as to the general conclusions reached. I shall be much interested to receive this information.

With my best regards, I am,

Very truly yours,

(signed) PARKER S. WILLIAMS

COPY X-4339-d

SQUIRE, SANDERS & DEMPSEY

COUNSELLORS AT LAW

CLEVELAND

February 14, 1925

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

Dear Sir:

We have considered carefully the question as to the proof of claims by Federal Reserve Banks against insolvent National Banks, and are of the following opinion with respect thereto:

In Frederick vs. Citizens National Bank, 231 Fed., 667, at page 672, the Circuit Court of Appeals for the Third Circuit say:

> "The record shows that the notes were separately proved before the referee, in accordance with a practice that is said to prevail in the County of Greene, where the bankruptcy proceeding was carried on. No reason appears for thus dividing such a claim in the hands of a single creditor, and we think the practice is objectionable. Clearly, the debt due the bank was the aggregate of both notes, and the claim should have been so proved. The motion to quash is therefore refused."

No reason is apparent why the rule in bankruptcy should differ from the rule obtaining with reference to the proof of claims against insolvent National Banks. If the rule stated in the foregoing case is correct, the rule announced in Federal Reserve Bank of Minneapolis vs. First National Bank of Eureka, 277 Fed., 300, is wrong, as we understand the Court's opinion in that case.

In Merrill vs. National Bank of Jacksonville, 173 U. S. 131, the Supreme Court of the United States affirms the action of the Circuit Court of Appeals, report in 75 Fed. 148, in requiring that a creditor of an in-

solvent National Bank shall prove a secured claim separately from an unsecured claim. While the facts in this case are confused by conflicting statements as to the nature of the claims as set forth in the Federal Reporter at page 178, and in the Supreme Court report at page 131, it is to be presumed that the latter statement is correct, and that the claim in fact consisted of unsecured indebtedness on sundry drafts, and one certificate of deposit, secured by collateral.

In the opinion of the Circuit Court of Appeals, 75 Fed., 151, any questions arising with respect to the unsecured claims are eliminated from the case, and the sole question left for determination is the basis upon which allowance of the secured claim should be made. Under the rule established by the Circuit Court of Appeals and affirmed by the Supreme Court, it is held that the secured creditor is entitled to prove his claim for the full amount due him at the time insolvency is declared, and the basis of dividends paid to the secured creditor is this amount, regardless of subsequent realization upon the collateral, subject to the limitation that no dividend shall be paid after the creditor has received the full amount of his secured claim.

In the Merrill case, the decree of the Circuit Court of Appeals, affirmed by the Supreme Court, reversed the decree of the trial court, which provided:

> "that the complainant is entitled to receive from the assets a * * * * distributive share and dividend * * * * based upon and to be calculated upon the whole amount of the indebtedness due said complainant from said bank."

Even though the Circuit Court of Appeals expressly eliminates consideration of any question with respect to the unsecured claims, the decision of this Court necessarily involves the determination that the proof of claim for the entire amount of secured and unsecured indebtedness on the basis al-

lowed by the trial court is erroneous, and therefore the case stands as authority for the proposition that a proof of the total amount of the indebtedness, secured and unsecured, held by a creditor, and declaration of dividends thereon as one item, is improper. It is true that the opinion of the Court is chiefly directed to the question as to when the amount of indebtedness on secured claims is fixed for the purpose of declaration of dividends, but the result reached, both in the Circuit Court of Appeals and in the Supreme Court, necessarily involves the decision that it is improper to prove the total amount of the indebtedness constituting several items as one debt. The statement of facts in the report of the Circuit Court of Appeals and in the Supreme Court shows that the unsecured indebtedness was composed of several items, and that the propriety of proving this unsecured indebtedness was not questioned is to be explained, we believe, by the language of the Circuit Court of Appeals' opinion, eliminating consideration of the unsecured indebtedness from the case.

Our view is that the basic fact that each of the several items of indebtedness held by a Federal Bank against an insolvent National Bank are distinct and separate, cannot be changed by the act of the Federal Bank. Whether these several claims are proved in the aggregate or individually, each has a separate existence, and when any one has been extinguished in any manner whatsoever, it cannot be given a specious validity for the purpose of procuring a greater percentage of payment on those which have not been satisfied, for the benefit of the creditor the Federal Reserve Bank, and to the prejudice of other creditors of the insolvent National Bank. It seems to us that the

clerical inconvenience of having physically separate claims on each item can easily be avoided by a requirement that before dividends are declared the Federal Reserve Banks shall be required to furnish a certificate as to the amount realized on any of the items included in a single claim filed by it, and until payments received from all sources, plus dividends to be declared, exceed the face amount of each individual item in the claim, the amount on which dividends are actually paid remains constant. As soon as any individual item has been fully paid it should under this procedure be eliminated from the total amount on which the dividend is paid.

Respectfully submitted,

(signed) SQUIRE, SANDERS & DEMPSEY

SN:D

COPY X-4339-e

366

FEDERAL RESERVE BANK OF RICHMOND

February 13, 1925

Federal Reserve Board,
Washington, D. C.

Attention of Mr. Walter Wyatt,
General Counsel.

My dear Mr. Wyatt:

After writing you my letter, dated January 14, 1925, upon the subject of proving claims against the estates of failed banks, and the allowance which should be made for payments received from makers or other parties prior to the failed bank on rediscounted notes, I undertook to look further into the question as the result of an exchange of letters between myself and Mr. Mason of the Federal Reserve Bank of New York.

My examination of the authorities disclosed that they do not support the views that I expressed in my letter to you. I enclose herewith a copy of a letter, which I am today sending to Mr. Mason from which you will see that I think that we are entitled to prove a claim for the aggregate amount of rediscounts unpaid at the time that the claim is proven, and to receive dividends until our claim upon the rediscounted notes is completely wiped out. I found no authority bearing upon the particular question, but I still remain convinced that each note must be considered as a separate claim.

When you have completed your study of this question and have heard

from the Counsel for the other banks, I will be greatly interested in knowing the conclusion which was reached by you and them.

Very truly yours,

(signed) M. G. Wallace,
Counsel.

COPY

X-4339-e-1

February 13, 1925.

Mr. L. R. Mason,
General Counsel,
Federal Reserve Bank,
New York.

My dear Mr. Mason:

Since the receipt of your letter of February 2nd, I have gone into the question of the effect of part payments received upon discounted notes after the insolvency of the member bank upon the endorsement of which the notes were discounted.

I believe you will recall that at the conference at Washington, I stated rather positively that in my opinion a part payment by the maker of the note, whether before or after the proof of claim against the endorser, absolutely obliterated the right of action.

I based this upon what seemed to be the necessary effect of the uniform negotiable instrument law.

Section 119 provides that "a negotiable instrument is discharged by payment in due course by or on behalf of the principal debtor"; and section 121 provides "where the instrument is paid by a party secondarily liable thereon, it is not discharged by the party so paying it; but the party so paying it is remitted to his former rights as regards all prior parties".

It seemed to me that under these provisions a part payment by the principal debtor destroyed pro tanto the right of action upon the instrument for all purposes regardless of when the payment was made, but a part payment by a party secondarily liable was not a discharge of the instrument, but was the purchase by this party of an equitable right in the instrument, which still remained enforceable for the full amount against the party primarily liable.

After examining the authorities, I am forced to the conclusion that I spoke hastily, and that my view is not supported by the authorities; at least when the part payments are in the nature of dividends from an insolvent estate.

It seems that so long as both parties remain solvent, a part payment by any person primarily liable discharges the instrument pro tanto and the holder has no right of action against any party upon the instrument except for the balance. Frost v. Martin, 26 N. H. 422, 59 Am. Dec. 353. Part payment by an endorser does not discharge the instrument, but the holder may proceed for the full amount against the maker, but is regarded as a trustee for the endorser to the extent of any surplus which may be recovered and remain after the holder has been paid in full. Granite National Bank v. Fitch, 145 Mass. 567, 14 N.E. 650, 1 A.S.R.484. Madison Square Bank v. Pierce, 137 N.Y. 44, 33 N. E. 557, 20 L.R.A. 335, 33 A.S.R. 751. As I stated these cases refer to part payment made voluntarily by parties to the instrument, and it seems that the same rule is applicable when part payments are made by a person primarily liable before a claim is proved and allowed against the estate of an insolvent endorser. Sohier v. Loring, 6 Cush. 539; National Mount Wallaston Bank v. Chas. F. Porter, et al, 122 Mass. 308, and First National Bank v. Alexander 85 North Carolina 353, 39 Am.S.R. 702.

In making allowances for dividends which are received after a claim has been proved and filed a very different rule appears to have been adopted by the courts. As I stated previously it seems to me there can be no distinction between a dividend received from an insolvent estate and a payment made by the insolvent, and there can be no distinction between a payment received from one party to the instrument after a claim is proved against the estate of another party, and payment made before the claim is proved. The courts, however, do not take my view, but appear to hold that the proof and allowance of the claim

has about it an element of finalty which precludes the consideration of anything which happens after the claim is filed, and the courts consistently hold that a claim may be proven against the estate of either an insolvent maker or an insolvent endorser for the full amount due at the time that the claim is proven, and that payments received afterthis, whether by way of dividends or otherwise, have no effect until the entire debt is paid. The cases to this effect are Citizens Bank of Paris v. Patterson, 78 Kentucky 291; Brown v. Merchants Bank, 79 N. C. 244; Southern Michigan National Bank v. Byles, 67 Mich. 296; in re. Meyer 78 Wisc. 615, 45 Northwestern 523, 23 A.S.R. 435, 11 L.R.A. 841; in re. Miller, 82 Pa. St. 113, 22 Am. Rep. 754; Citizens Bank v. Kendrick, Pettus & Co., 92 Tenn. 437. 21 S.W. 1070. 36 A.S.R.96. There is a single case to the contrary, which to my view appears exceedingly well reasoned, but which is certainly against the decided weight of authority. This is Mercantile National Bank v. MacFarlane, 71 Minn 497, 74 N. W. 287, 70 A. S. R. 352.

It seems to me that from the above, it appears that a Federal Reserve Bank should be permitted to prove against the estate a claim upon a rediscounted note for the amount due on that note at the time that the claim is filed, and can then receive dividends upon this amount until the dividends together with all payments made upon the note by parties prior to the insolvent bank, and allamounts realized from security, equal to the face of the note. I believe that it has hitherto been the practice for a Federal Reserve Bank to prove for the entire amount of all rediscounted notes, but I cannot think that we can possibly sustain the position that we are entitled to lump all of our claims against the failed bank, although they represent rights of action upon separate and distinct notes, and receive dividends

upon the aggregate amount of all claims, notwithstanding the fact that many of the claims have been completely discharged. It is also worthy of note that payments received before we file the claim are under weight of authority credits on the claim, but that payments received afterwards are not; consequently, it is to the interest of Federal Reserve Banks to file their claims at the first possible opportunity.

Of course, in considering the above, I have considered only the rediscounted notes. When we have made an advance to a member bank upon the bank's own note, secured by collateral, it seems clear that we may prove for the full amount of the collateral note without any credit for any sum that may have been received, either before or after filing the claim upon the collateral.

I am sending Mr. Wyatt a copy of this letter, and stating to him I am retracting so much of my opinion expressed in my letter of January 14, 1925, as is in conflict with the views which I have expressed above.

I would, of course, be greatly interested in knowing what conclusions were reached by you and Mr. Philbin in investigating this subject, and in receiving a copy of any opinion you might give, and a memorandum of the authorities in support of it.

With best wishes, I remain

Very truly yours,

M. G. Wallace,
Counsel.

COPY

372
X-4339-e-2

FEDERAL RESERVE BANK OF RICHMOND

January 15, 1925.

Federal Reserve Board,
Washington, D. C.

Attention of Mr. Walter Wyatt,
General Counsel.

My dear Mr. Wyatt:

In my letter to you, dated January 14th, upon the subject of the application of the paid up subscription of an insolvent member bank to its indebtedness to a Federal Reserve Bank, I neglected to consider the possible effect of section 2-b of regulation I.

It may well be that when the Federal Reserve Board has directed the stock of the member bank to be cancelled and applied to the indebtedness of the member bank, that it would then become necessary for the Federal Reserve Bank to make a final election, and to apply the amount due on account of the surrendered stock to the indebtedness of the insolvent member bank. I feel confident, however, that the receiver cannot require the election to be made until the Federal Reserve Board has approved the application for the surrender of the stock, because until the approval is given, the member bank is an owner of the stock and not a creditor for the amount due upon the surrender of it, and I am strongly inclined to think that the act contemplated that the approval of the Board would not be given, except upon the final settlement of accounts between the insolvent member bank and the Federal Reserve Bank, because the act clearly appears to contemplate that when the approval is given it will be apparent whether or not there is any balance which should be paid to the receiver of the insolvent member bank.

Very truly yours,

M. G. Wallace
Counsel.

COPY

373

X-4339-e-3

FEDERAL RESERVE BANK OF RICHMOND

January 14, 1925.

Federal Reserve Board,
Washington, D. C.

Attention of Mr. Walter Wyatt,
General Counsel.

My dear Mr. Wyatt:

I have your letter of January 10th, and have read carefully the letter to Honorable W. P. G. Harding, dated December 19th, from Mr. Charles W. Collins, Deputy Comptroller, and the letter dated December 16th from Governor Harding to the Comptroller of the Currency.

I am inclined to agree with the Comptroller, except as to the refund on our stock.

It seems to me that if a Federal Reserve Bank holds a note under rediscount, the bank is merely the holder under the Negotiable Instrument Law of a note upon which a failed bank is liable as endorser. This gives us a right to prove a claim against the estate of the failed bank. Some doubt might exist as to whether or not we could prove this claim prior to the maturity of the note, because until the note has been presented and dishonored, and the due steps upon dishonor have been taken, it might be questioned as to whether or not our claim against the failed bank is not merely a conditional claim. However, in view of the fact that the endorsement of a member bank under the terms of the Federal Reserve Act is a waiver of presentation and protest as to its own endorsement only, I believe that the reasoning of the court in Federal Reserve Bank of Minneapolis v. First National Bank of Eureka 277 Fed. 300, is eminently sound, and that we should be allowed to prove a claim upon the full amount of our rediscounts, as of the date on which the bank closed.

However, it seems to me if one of these rediscounted notes is later paid, either by the maker or by some person prior to the failed bank, then our claim upon this note is to the extent of the payment absolutely discharged.

Although, I have found no case bearing upon the exact point, it seems to me it would be almost elementary that a receiver should not pay a dividend upon any claim which does not exist at the time that the dividend is paid. The fact that an insolvent was indebted to us at the time of his failure cannot entitle us to a dividend if we have received payment in full of the obligation from some person other than the insolvent bank.

If we now consider the application of the reserve balance, we must I think treat it as a debt due from us to the insolvent bank. The courts sometimes speak of a lending bank as having a lien upon the general deposit balance of one of its depositors. This phraseology is, however, obviously inaccurate. A debtor cannot have a lien upon a debt due by himself. The confusion in phraseology has doubtless arisen from the fact that both bankers and courts in referring to general deposits frequently use words that describe bailments rather than debts. However, I believe that all courts which have carefully considered the question have agreed that a lending bank has an equitable right to set off a general balance against the unmatured obligation of an insolvent borrower. Some question might be made of our right to take advantage of this form of equitable offset when the obligation of the borrower is merely that of an endorser, and, therefore, a conditional obligation, which does not become fixed and certain until the endorsed note is dishonored. I believe, however, that the reasons given in the case cited above are sufficient to show that our claim against a member bank should in

equity, at least, be treated as a direct claim rather than a contingent or conditional one.

It seems to me if we have a right to set off our deposit balance against the liability of the failed bank to us, it is clear that we may select anyparticular liability of that bank upon which to apply the balance. The right to have the setoff applies to any and all liabilities until we have made a selection, and we may select any particular claim which we choose, or may elect to pro-rate the balance among all claims, because if the receiver brought suit against us, we could select any claim which we had to plead as an offset. However, it seems to me that we must make our selection when or before our claim is established and allowed by the receiver, and if we file a claim for the full amount due to us, and make no allowance for the deposit balance, we are, it seems to me waiving our right to claim a setoff just as we would be forced to plead an offset before judgment, and if we did not plead it would waive it.

I am inclined to disagree with the Comptroller insofar as he appears to consider that the amount due to the estate of the member bank on account of the cancellation or surrender of stock in the Federal Reserve Bank is to be treated as a balance due to the member bank in its reserve account. The member bank as a holder of stock in the Federal Reserve Bank is in no sense of the word a creditor of the Federal Reserve Bank. Here again I think perhaps some confusion has arisen because of the habitual misuse of terms. Accountants and bankers so univerally speak of the entries which show the estimated value of the capital stock of a bank as liabilities, that all of us are likely to lose sight of the fact that outstanding capital stock represents in no sense a debt due by the corporation to the stockholders, but is a mere evidence of the fact that the stockholders own an inter-

est in the corporation, and the so-called "capital", "surplus" and "profits" are mere accounting terms showing an estimate of the amount which would be available for distribution to stockholders in the event of liquidation. The receiver of a failed bank has no right to demand a return of the paid up subscription of the member bank, except in accordance with section 6 of the Federal Reserve Act, and it seems to me that this section contemplates that when the stock is surrendered the proceeds should be first applied to all debts of the insolvent member bank, and the balance, if any, shall be paid to the receiver of the insolvent bank. It seems to me that in this case the obligation of the Federal Reserve Bank is conditional. It is not compelled to account to the receiver for anything until all debts of the insolvent member bank to the Federal Reserve Bank have been satisfied; consequently it seems to me that the Federal Reserve Bank may refuse to credit the amount payable on the surrender of the stock to the receiver until the time for a final accounting.

I notice that the letter of the Deputy Comptroller of the Currency does not appear to have touched upon the method of applying collections made upon marginal or additional collateral held to secure rediscounts. It seems to me that it might be well to make it clear to him that money received from such source is very different from money received as part payment on the rediscounts themselves. Any controversy between a Federal Reserve Bank and the Receiver of an insolvent National bank must of necessity be governed by the rules of the Federal courts. In the Federal courts it is well established that the holder of a secured claim against an insolvent may prove for the full amount of the claim as it existed at the time that a receiver was appointed, and may receive dividends upon the amount of the claim thus proved and allowed, notwithstanding the fact that the claimant has realized upon the col-

lateral security either before the claim was proven and allowed or after it, but the claimant may have dividends on the entire face of his claim as it existed at the date the receiver was appointed until the dividends on the claim, and the proceeds of the security amounted to a sum sufficient to satisfy the entire claim, with interest.

I note particularly your request for a statement of my experience in dealing with the office of the Comptroller.

My own experience has been so limited that nothing worth considering has arisen in it. In filing claims against National banks I have always taken the position which I outlined above. No serious question has arisen, except on one occasion one receiver was inclined to dispute my position with respect to collections upon marginal collateral, but he withdrew his objection as soon as he had communicated with the office of the Comptroller.

I have always treated the amount due upon the surrender of stock in the Federal Reserve Bank as though it were a collection upon marginal collateral, and no objection has been made to this. There have been some minor questions arising with respect to interest. We, of course, charge interest on each rediscount at the rate provided by law, but if we collect more than 6%, we take 6% ourselves, and give the insolvent bank the benefit of the surplus, treating it as a collection upon marginal collateral. Also in a final settlement, we allow interest on amount collected on marginal collateral from the time that we received it.

I may add that in every case which I have hitherto handled, the receiver has settled with us in full before we had collected all of our rediscounts or exhausted all of our marginal collateral; consequently in no case has it every been necessary for the receiver and myself to press any

differences which we might have had to a final decision, and this letter is, therefore, only a statement of what my position has been.

I remain

Very truly yours,

M. G. Wallace,
Counsel.

(COPY)

FEDERAL RESERVE BANK OF ATLANTA

X-4339-f

January 12, 1925.

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

Dear Mr. Wyatt:

We have your letter of January 10th, in which you request us to advise as to the experience of the Federal Reserve Bank of Atlanta in the matter of filing claims against insolvent national banks, and to give you our views as to the legality of the present position of the office of the Comptroller of the Currency with respect to proof of claims by Federal Reserve Banks against insolvent national banks.

The Federal Reserve Bank of Atlanta has had very little upon which to base a statement of its experience in the matter of proof of claims against insolvent national banks.

In the early days of the System we undertook to file with the receiver of the Wartrace National Bank of Wartrace, Tennessee, a proof of claim based upon the aggregate amount due upon rediscounts. At that time we took the position that the endorsement of the member bank upon rediscounted paper represented what was, in legal effect, under the Federal Reserve Act, a direct primary obligation, and that the obligations of the other parties liable on the paper were, in legal effect, collateral security for the bank's obligation. We therefore took the position that we could file one proof of claim for the aggregate amount of the liability, and that we should be paid dividends in liquidation based upon the aggregate amount for which proof of claim was filed, applying the dividends in pro rata extinguishment of the papers held as of the time when each dividend was paid, and accounting to the receiver for any

collateral which might remain in our hands after the claim had been extinguished in full through collections made on the collateral, and/or by the payment of dividends in liquidation.

The receiver refused to allow the claim to be filed in this manner, citing, in support of his contention, the then ruling of the Comptroller of the Currency. While the matter was being discussed, the claim of the Reserve Bank was satisfied in full, either by the payment of the discounts or by redemption of the same by the receiver, or in some other manner the details of which we have forgotten.

The First National Bank of Toccoa closed its doors during the war. It is our recollection that the receiver allowed us to file one proof of claim for the aggregate of liabilities. In that case, also, the Reserve Bank was paid in full, leaving a surplus of collateral which was turned back to the receiver.

Recently we have had two failed national banks, one the First National Bank of Colquitt, Georgia, and the other a national bank in Seale, Alabama. In the Colquitt case we made a deal in which the Reserve Bank sold to a committee of stockholders all of the claims against the failed bank, and therefore we filed no proof of claim with the receiver.

In the case of the Seale Bank, the matter of filing a proof of claim was a matter of academic interest only, there being no unpledged assets of any substantial value - not enough, in fact, to pay the expense of liquidation.

From what study we have given the question, we are inclined to believe that each separate item of indebtedness due by the failed national bank to the Reserve Bank, represents a separate and distinct claim, that is to say,

after insolvency and pending the payment of dividends, if amounts are realized through collections made on the collaterals, such collections would operate to extinguish or (as the case may be) reduce the particular item of indebtedness on which collections were made. We believe, also, that while the Reserve Bank would have the right to apply both deposits in its hands at the time of failure and amounts realized from the surrender and cancellation of stock in the Reserve Bank to the payment of such discounts as it might see fit, the discounts thus extinguished should be turned back to the receiver and thereby reduce the aggregate amount of all outstanding demands. Thereafter, when and as dividends be paid by the receiver, they should be paid to the Reserve Bank in amounts based on the then outstanding items of indebtedness, that is, on the amounts determinable by the original amounts of indebtedness as reduced by collections made thereon.

This would in effect mean a method of arriving at the amount of each dividend payable to the Reserve Bank on the same basis as if each item were proved separately.

The matter of proving on each item is of course burdensome, and it seems to us that in practice a simpler procedure might be adopted. In principle, however, the ruling of the Comptroller's office would seem to be sound.

Very truly yours,

(Signed) Randolph & Parker

General Counsel.

RSP-G

COPY FEDERAL RESERVE BANK OF CHICAGO. X-4339-g

January 12, 1925.

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

My dear Mr. Wyatt:

Re: Proof of Claims against failed national banks.

Your letter of the 10th inst. containing copy of letter from Governor Harding of the Boston Bank to the Comptroller of date December 16, 1924, and copy of the Comptroller's reply of date December 19, 1924, came duly to hand and has had my attention.

My experience with failed national banks in the Seventh District has been very limited and the questions discussed in your letter and in the case in 277 Federal Reporter, 300 and in the correspondence between Governor Harding and the Comptroller have really never been thrashed out by me with any receiver of a failed national bank in this District.

When a failure occurred some years ago out in Iowa, I did not file my claim until after I had collected a very substantial amount from the makers of the discounted notes; and when I did file the claim the receiver notified me that the claim must be filed as of the time of the closing of the bank irrespective of whether or not the makers of some of the paper had paid us; and accordingly, an amended claim was filed, showing the situation at the time the bank closed and without regard to the fact that certain discounted bills had been paid by the makers. This claim was finally paid out of collateral and otherwise and as I recall it, we never had any dividends on the claim as allowed. In fact, I think no dividends were paid by the receiver until after our claim had been taken up by the receiver.

In other cases I filed a single claim on the aggregate amount of the re-discounts as of the date of the failure which, of course, is contrary to the ruling now put out by the Comptroller; and doubtless these claims as thus filed and prepared will be disallowed.

At the time I was instructed to file the claim in the manner above indicated I was of the opinion and I am now of the opinion that the position taken by the Receiver under what I understand to have been directions from the Comptroller was erroneous and unjustified for the reason that the maker of the notes is primarily liable therefor and if he discharges this liability, the secondary liability of the failed bank is absolutely discharged and could not be made the basis of a claim against the failed bank, even though this secondary liability did exist at the time the bank closed its doors.

And in this you will observe that I disagree with the reasoning of Judge Elliott in the case 277 Fed. where he says on page 302 that it was intended that there should be a primary liability on the member bank when it discounts notes with the Federal Reserve Bank. I can see no justification for any conclusion that there is a primary liability; but whether the liability is primary or secondary is of no importance in this case because a secondary liability may be just as strong a foundation for a claim against a failed bank as a primary liability, provided, of course, that the one primarily liable does not discharge that liability.

I am in accord therefor with the position now taken by the Comptroller that where the maker of a note held by a Federal Reserve Bank under rediscount discharges the note, the secondary liability which theretofore rested on the member bank can no longer stand as a basis for a claim against the failed

bank; and from this it probably follows that each re-discounted note is to be made the basis of a separate claim against the failed bank; but from this it does not follow necessarily that more than one claim should be filed as it seems to me a single claim could be filed and certificate of the Receiver issued and thereafter from time to time credit be placed on the certificate whenever the maker of a note discharged his liability thereon. This, of course, is an administrative matter peculiarly within the province of the Comptroller and should he insist that a separate claim be filed on each individual note, it strikes me that he is within his rights in so holding and there is nothing for Federal Reserve Banks to do but follow his ruling in that regard however much difficulty there will be in following the rule.

I might illustrate my thought in this regard by reference to a national bank at Denison, Iowa, which closed its doors on December 31, 1924. The Federal Reserve Bank of Chicago held under re-discount at that time 127 notes of the aggregate face amount of $219,052.20. I can see no reason why one claim for the face amount of these notes might not be filed containing a list of the notes re-discounted on which claim the Receiver could issue his certificate and then from time to time as a note was discharged by the maker the amount of such payment made by the maker could be credited on the certificate and for dividend purposes the certificate would be diminished by the amount of the credit so made. It certainly will be a very burdensome matter for the banks to file and the receivers to handle a separate claim on each one of these notes.

Under Section 6 of the Federal Reserve Act it is provided that where a bank becomes insolvent the value of its stock in the Federal Reserve Bank "shall be first applied to all debts of the insolvent member banks to the Federal Reserve Bank."

I have treated the value of the stock of the insolvent member bank as collateral security instead of as a set-off; and the right to do so has never been questioned, but I have never had any distinctive ruling on the matter. Of course, it might be very important to a Federal Reserve Bank as to how this stock should be applied. Judge Elliott seems to have treated it as a set-off just like the reserve balance in the case in 277 Fed. The importance arises out of the application of the rule announced in Merrill v. National Bank of Jacksonville, 173 U. S. 131. I am of the view that the value of this stock can be "applied" under the statute by treating it as collateral security instead of treating it as a set-off; and I think that is the manner in which the statute should be interpreted, though I can give no very strong reason for this conclusion.

Yours very truly,

(Signed)

Chas. L. Powell,
Counsel.

COPY X-4339-h

In Re: Experience of The Federal Reserve Bank of St. Louis in filing claims against insolvent banks and comments on the questions raised in the correspondence passing between The Federal Reserve Bank of Boston and the Comptroller's office relative to the filing of claims with Receivers of insolvent national banks.

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In this district, within the time for filing claims, we file a claim on the rediscount indebtedness and if there are any unremitted collections on transit items involved we file (as agent for the owners of the items) a separate and distinct claim. The claim on the rediscount matters is filed for the entire indebtedness at the time of the closing of the insolvent bank, which claim shows the amount of balances at the time of closing, including the canceled stock subscription. While the claim is filed for the total rediscount operation indebtedness, a list making up the indebtedness is attached. This list shows the name of the maker of each note, the date of the note, any payments made thereon, the due date, the amount of interest due at date of closing and the amount of interest due at the time of filing claim. When any note is paid in part or in full, we advise the Receiver and credit the claim with the collection, less the interest earned since the date of closing. The interest collected is held in a suspense account until final settlement is made. On final settlement the Receiver is charged the going rediscount rate from the date of closing to date of filing claim, and we credit the Receiver with the difference between the interest collected and the going rediscount rate at the date of closing.

This method I might add is one of agreement rather than by the operation of law; for, under the strict construction of law, we could not require the insolvent bank to pay any interest on any rediscount after closing

until all claims had been paid in full. Then before any distribution to stockholders, the claimants would be entitled to share ratably on the interest indebtedness. I believe under the law that while we would not be allowed to charge the insolvent bank with interest earned on the rediscount after the insolvency, we would be allowed to retain the full interest collected on the rediscounts.

We were afraid of the unfavorable comments that the Federal Reserve Bank was charging the borrower the seven, eight or ten per cent, the interest rate agreed to on the face of the note, and felt that if the Receiver would agree to continue liable for the interest after the closing of the bank, we could, in turn, give the insolvent bank the benefit of the difference between the rates collected and the going rediscount rate at time of closing. By following this method we will be able to escape any unfavorable comments on the interest rate question.

In the First National Bank of Judsonia, Arkansas, failure, like the Federal Reserve Bank of Minneapolis case, there were two classes of claims which could have been filed; one on rediscounts and one on items handled through the transit department where the failed bank had made collections but failed to remit the funds so collected. In this case the president and cashier left with all the money in the vaults, including collections made for us on transit items. Before leaving they debited the failed bank's account with us for the collections so made. This debit created an overdraft with us and we refused to recognize the debit. At the time the bank closed, we held in our rediscounts four forged notes, aggregating a little more than the balance, as shown on our books. I took the position that we had the alternative of proving up on our claim as it stood at the time the bank closed and could apply the balance either on the rediscount obligation or the transit

item obligation and accordingly applied the balance on the forged notes. Mr. R. P. Garrett, the Receiver (now with the Comptroller's office) objected to this and claimed the balance should be applied on the transit matter items. He took the matter up with the Comptroller's Office and the credit on the forged notes was allowed to stand. The bank originally handling the items was in an adjoining town and filed direct on the transit items. I then prepared and filed a claim on the rediscount indebtedness existing at the time the bank closed, less the balance theretofore applied on the forged notes. Mr. Garret then suggested that we go ahead and collect all we could on the notes as they matured and he would permit us to withdraw the original claim and file a claim on the balance due at the time he was ready to make a final settlement - he, in the meantime, would withhold sufficient funds to pay us the same rate on our final indebtedness as that paid to others. We collected all but about $2,800. and were paid the regular dividend of 75 or 80 per cent of this amount.

In the case of the First National Bank, Rosedale, Mississippi, the balances and stock were credited on the bank's general indebtedness and the eligible rediscounts were sold to a reorganized bank in the same town. We charged off the forged notes and continued to collect on the unsold rediscounts. The insolvent bank was released from its endorsement liability under the terms of the sale of the eligible rediscounts; consequently, no claim was filed in this case.

In the Corydon National Bank, Corydon, Indiana, failure there were no transit items involved. At the time we were required to file claims the Corydon

National Bank's indebtedness on rediscounts amounted to.....	$121,805.88
At that time we held in reserve account proceeds from Capital stock, excess from sale of Liberty Bonds and collections made on collateral loan notes.....	67,534.48
leaving a net indebtedness to us of.....	$ 54,271.40

We filed on the entire indebtedness and listed the notes going to make up the claim we then held - all of which is fully set out in the copy of claim I am herewith enclosing. In order to get possession of the assets we held, (including the balances and extra collateral) a liquidating committee took over our paper and paid the balance then due us, as per the recommendation I made to our committee, copy of which is also enclosed.

In this case we applied the funds held in our hands against the general indebtedness of the Corydon National Bank instead of applying it against the separate notes which went to make up the total indebtedness and no objection was offered to such procedure by Mr. Garrett, who represented the Comptroller's office in the transfer.

In the case of the Drovers National Bank, East St. Louis, Illinois, the balance we held at the time of closing, together with the canceled stock subscription, was applied on the general indebtedness to us. The liquidating agent then paid us off and took up the extra collateral.

STATE MEMBER BANKS

We have had several State Member Bank failures. I am enclosing copy of claim filed in the Bank of Waynesville, Waynesville, Missouri, failure, which is typical of the others. As you will see we filed on the total rediscount indebtedness as of date of closing, and we set out in the claim the balances we held, as well as a list showing the collateral pledged. We continue to collect both on the rediscounts and pledged collateral and advise the liquidating agent as collection is made. The collections made on principal of rediscounts are credited on the general indebtedness. The interest collected is set aside in a suspense account. The collections made on pledged collateral are held with the pledged collateral. When the first dividend is declared,

we are paid the rate declared on the indebtedness at the time the dividend is declared and so on for each successive dividend. On final settlement we credit the insolvent bank with the interest collected, less the rediscount rate at the time of closing. We are then paid the final rate on the balance due us and we then apply the collateral and the excess interest collected on the balance due us.

In some instances the demand has been made by the liquidating agent that before we will be allowed to file claim, we must apply the balances and stock subscription on the indebtedness and return the pledged collateral. We have never in a single case returned the pledged collateral as a condition precedent to being allowed to file the claim.

Coming now to the questions contained in your letter: I think the Comptroller is right in principle in that dividends can only be paid on the amount due at the date of declaration of dividend, that is, if at the time of filing the claims on January 1 the aggregate due on all the rediscounts were $100,000. and if between that date and July 1, the bank collected $25,000 on the principal of the paper so held under rediscount and on the first day of July a 10% rate were ordered paid, I believe the Federal Reserve Bank would only be entitled to 10% on $75,000., the then indebtedness, and if another $25,000. were collected on the principal between July and next January and a second dividend of 10% were ordered paid on the first of January, then the Federal Reserve Bank would only be entitled to a 10% on $50,000. and so on for each successive dividend.

On the other hand, the liability of the insolvent bank becomes fixed on the total indebtedness, as contra-distinguished from its separate

indebtedness on the individual rediscounts, and I believe the Federal Reserve Bank would be entitled to have any collections made apply to the general indebtedness rather than to the insolvent bank's liability on the particular piece of paper collected. In practice it would make no difference whether the particular paid note were eliminated from the claim or whether the entire indebtedness was credited with the collection so long as no collateral security was involved.

Prior to the establishment of the Federal Reserve System, banks borrowed from their correspondents on their notes secured by Bills Receivable. In the event of the insolvency of the borrowing bank, the only one from whom collections could be made was from the liquidating agent, and collections made on the bills receivable which had been pledged as collateral. Under these circumstances, the indebtedness of the insolvent bank was a continuing amount and dividends were declared on the amount due at the time of insolvency. Whatever collections were made on the pledged collateral were held by the claimant, and after it had collected all that could be collected from the insolvent bank by way of dividends, it could, as a secured creditor, to the extent of the balance of its claim, apply the amounts collected on the collateral and return the balance and the uncollected collateral to the liquidating agent for distribution to the unsecured creditors.

Now, since the Federal Reserve Banks were created, instead of loaning on the borrowing bank's note, secured by collateral, the principal borrowing is done by indorsing and rediscounting individual notes, which, by the terms of the notes, are not due until after the date the borrowing bank has been declared insolvent; consequently, it does not appear to me that the Federal Reserve Bank could hold these collections on the rediscounted paper as

pledged collateral and be entitled to its dividend on the amount due at the time of the insolvency and then use the collections to meet the balance due on its claim as the lending bank could under the old correspondent bank borrowing rule, where it held the insolvent bank's note secured by Bills Receivable as collateral.

I believe, however, that as to collections made on any collateral pledged with the Federal Reserve Bank and on any 15 day note of the insolvent bank secured by Bills Receivable, as collateral, the proceeds collected on such collateral need not be credited before the dividend is calculated.

Since the decision in the case of the Chemical National Bank vs Armstrong, 59 Fed. Report 372, followed in the case of Merrell vs First National Bank of Jacksonville, Fla., 75 Fed. Reporter 148
173 U. S. Ct. 131:

> "Creditors of an insolvent national bank cannot be required, in proving their claims, to allow credit for collections made after the date of the declared insolvency from collateral securities held by them."

To the same effect Merrill vs First National Bank, Jackson, Fla.
75 Fed. Rep. 148
173 U.S. L.C. 131

New York Security Trust Co. vs Lombard Inv. Co.
73 Fed. Rep. 537 L.C. 554

In the Merrill case, the Court, after stating the several rules followed in the different states:

> Rule (1) The creditor, desiring to participate in the funds, is required to (1) exhaust his security and credit the proceeds on his claim or to credit its value upon his claim and prove for the balance - it being optional with him to surrender his security and prove for his full claim.

Rule (2) The creditor can prove for the full amount but shall receive dividends only on the amount due him at the time of distribution of the fund; that he is required to credit on his claim, as approved, all sums received from his security and may receive dividends only on the balance due him.

Rule (3) The creditor shall be allowed to prove for and receive dividends upon the amount due him at the time of proving and sending in his claim to the official liquidator, being required to credit as payments all sums received from his security prior thereto.

Rule (4) The creditor can prove for and receive dividends upon the full amount of his claim regardless of any sums received from his collateral after the transfer of the assets from the debtor in insolvency; provided, that he shall not receive more than the full amount due him."

holds the 4th rule applicable in the liquidation of national banks, using the following language:

"L.C. 141. We think the collateral is security for the whole debt and every part of it, and is applicable to any balance that remains after payment from other sources as the original amount due and that the assumption is unreasonable; that the creditor does rely on the responsibility of his debtor according to his promise.

"L.C. 147. Our conclusion is that the claims of creditors are to be determined as of the date of the declaration of insolvency, irrespective of the question whether particular creditors have security or not. When secured creditors have received payment in full, their rights to dividends and their rights to return the other securities cease, but collections therefrom are not otherwise material. Insolvency gives unsecured creditors no greater rights than they had before though through redemption or subrogation or the realization of a surplus they may be benefited."

Justice White wrote a dissenting opinion, concurred in by Justice Harlan and McKenna. Justice Gray wrote still another dissenting opinion. Justice Harlan, who joined in the dissenting opinion in the Merrill vs National Bank of Jacksonville case, wrote the opinion in the case of Aldrich vs

Chemical National Bank, reported in 176, U. S. 618, says at L. C. 638, referring to the Merrill case:

> "The secured creditor cannot be charged with the estimated value of the collateral or be compelled to exhaust it before enforcing his direct remedies against the debtor, or to surrender it as a condition thereto though the Receiver may redeem or be subrogated, as circumstances may require. When secured creditors have received payment in full, their rights to dividends and their right to retain their securities ceases, but collections therefrom are not otherwise material. Insolvency gives unsecured creditors no greater right than they had before though through redemption or subrogation or the realization of the surplus they may be benefited."

As late as July, 1924, in the case of Thompson, a bankruptcy case, the Court, referring to the Merrill case, says: 300 Fed. Rep. 215 L.C. 217

> "For this reason and this alone, it has been established that a creditor with collateral on which he has realized may prove his full claim against the insolvent estate. It is true his debt is to that extent extinguished, but he is entitled to distribution - not strictly as a creditor but as part owner of the assets of the trust fund and the extent of such ownership is limited to the amount of the debt which was fixed at the date of the insolvency. Therefore, his right to dividends on such debt has no effect."

From the foregoing, it would appear that the proceeds received from pledged collateral need not be applied until the secured creditor has received his pro rata share out of the dividend distribution. Then to the extent of his entire claim he can apply the proceeds derived from the collateral. This is the main contention I have had to battle for with the State liquidating agents. They all think the bankruptcy rule applies.

Now when it comes to reserve balances and the proceeds derived from canceled stock subscriptions, I do not believe they could be construed to be pledged collateral; neither would it appear that the $68,050 rediscount paper tendered the Boston Bank for rediscount, but not rediscounted, constitutes

pledged collateral and entitled to be treated as such. Not having the facts before me, it would appear that the Putman Bank had forwarded the rediscounts to the Boston Bank for the purpose of having them rediscounted and the funds placed to the credit of the Putman Bank. This was not done, and if such are the facts, there was never any intention on the part of the Putman Bank to deposit them with the Boston Bank as pledged collateral.

Can the proceeds from the cancellation of the stock and the bank balances be considered as pledged collateral? I think not.

Section 6 of the Federal Reserve Act provides that all cash paid on stock of an insolvent member shall be first applied on the indebtedness of the insolvent bank to the Federal Reserve Bank, and the balance, if any, be paid to the liquidating agent of the insolvent bank. The indebtedness of the insolvent bank becomes fixed at the date of closing and it would appear that this credit should be applied as of that date. The same reason- I think would apply to the balances and they would have to be credited against the indebtedness as of the date of closing.

I trust the foregoing answers the questions suggested.

Respectfully submitted,

(signed) Jas. G. McConkey

Counsel.

(COPY)

X-4339-i 396

FEDERAL RESERVE BANK OF MINNEAPOLIS

NINTH DISTRICT

January 13, 1925.

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

Dear Sir:

I have your letter of the 10th with copy of correspondence between Mr. Harding and the Deputy Comptroller on the practice of proving claims against insolvent banks. To show what I consider the proper practice I will state how we have proceeded in the Ninth District where such a large number of banks have failed during the last four years.

We make claim for principal of rediscounts and other items, whether due or not, plus interest accrued to the date the receiver is appointed, minus interest prepaid after that date, credit the amount of the debtor bank's deposit account and the credit it is entitled to under the Act for its canceled stock. No claim is made on a rediscount which is paid in full between the receiver's appointment and the date the claim is made, but no credit is given or deduction made for partial payments or for money realized on collaterals during that time. We think that under Section 6 of the Act the stock should be canceled and credited as soon as the receiver is appointed, even if the certificate is not sent in for cancellation. We don't think it was intended that stock after that should stand uncancelled and draw the half-of-a-per cent per month interest. We claim the right to apply credits on any item of indebtedness. In a case cited below, we applied the credits on all the items of indebtedness pro rata as a concession to the receiver, only because it made no difference

to
/the Bank in that particular case.

We maintain the right to dividehds on the claim as allowed regardless of subsequent partial payments, or money realized on collaterals until the claim is paid in full with interest. We recognize no right on the part of the receiver upon any collateral as long as any part of the indebtedness remainsunpaid. We make one claim on all the rediscounts. If the receiver gives a certificate allowing it as one claim, it is with the understanding that the Bank will not insist on the interest specified in the rediscounts, but claim interest only at the discount rate. The receiver and Comptroller often agree to this as it is generally to the advantage of the other creditors. But we concede the receiver's right to eliminate from participation in dividends any rediscount as soon as it becomes paid in full, and if dividends have contributed to the payments, we of course concede his right to have the paper surrendered to him for enforcement against the parties primarily liable. Accordingly, if the receiver elects to treat a claim on several rediscounts as separate claim on
re-
each/discount, and issues a certificate of allowance for each, we don't question his right to do so. It is considered a convenient and proper way of keeping account with each rediscount so as to know when it is no longer entitled to participate in dividends, and subject to the receiver's demand for its surrender. No receiver has as yet insisted upon a separate statement and verification on each rediscount. We see no reason for a separate statement and verification on each rediscount. It would involve here much work for mere form.

We have sustained the correctness of this practice on the

authority of Chemical National Bank v. Armstrong, 16 U. S. App. 465; Merrill v. National Bank, 173 U.S. 131, and Aldrich v. Chemical National Bank, 176 U.S. 618, 638. As these cases relate to the administration of the assets of insolvent national banks, they might not have application to insolvent state banks if their administration were regulated by state legislation so as to make the distribution of their assets statutory and not in equity. In this district we have not encountered any such state legislation, and have succeeded in getting receivers of state banks to recognize and follow the rule in the cases cited, with only one exception in Montana. In that instance we shall probably have to bring suit to establish the claim on the basis we contend for, as we had to do in two national bank receiverships, one in the United States District Court for South Dakota (Federal Reserve Bank of Minneapolis vs. First National Bank of Eureka, 277 Fed. 300), the other in the United States District Court for North Dakota (Federal Reserve Bank of Minneapolis vs. First National Bank of Medina, not reported).

At the recent conference of counsel for the Federal reserve banks I gave our experience in the matter of claims substantially as above. Shall be glad if you find it of any use.

Yours very truly,

(signed) A. Ueland

A. UELAND.

FEDERAL RESERVE BANK
of
KANSAS CITY

February
14th
1 9 2 5

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

Dear Mr. Wyatt:

I have delayed answering your recent letter with reference to the manner of filing claims against insolvent national banks, and particularly concerning the recent requirement of the office of the Comptroller of Currency that separate claim be filed on each rediscounted note, in the hope that I would be able to write you in the light of answer to a communication I had directed to the Comptroller's office a short time before the receipt of your letter. I find now that I shall be unable to do this without waiting longer, for I am in receipt of acknowledgment of my letter stating that full reply will not be made until Counsel to the Department has had the opportunity of preparing a general statement of the rights of those holding secured claims.

It has heretofore been the practice of the Federal Reserve Bank of Kansas City to file one claim on all rediscounted notes, and to name in the claim the aggregate amount owing on all of the notes as of the date of closing of the bank. Each claim, however, has contained a recital that each note constituted a separate claim against the bank, and has had attached to it a schedule describing each note separately, showing the maker thereof, the date and maturity and principal amount thereof, the amount of unearned interest at the rate discounted, and the

amount owing as of the date of the bank's closing. With this information any claim which has been filed could have been allowed on the basis of the amounts owing of each rediscount separately, and the statement to the effect that the claim was made on each item would have been ample authority to the Receiver or to the Comptroller's office for so doing. Notwithstanding such fact, the claims which have been allowed, I am advised, have been on the basis of the aggregate amount of the discounts named in the claims, and the dividends that have been paid have been without reference to the separate items which have gone to make up the total of the claims.

As I recall it, this form of proof was prepared after the decision in the case of the Federal Reserve Bank of Minneapolis vs. First National Bank of Eureka, S.D., 277 Fed. 300, was handed down, and was drafted with that decision in mind. Up to that time there had been no occasion, to my knowledge, to file a claim on rediscounts. I have given considerable thought to that decision, and am frank to say that in so far as the rule which it announces, as to the character of the separable liability of a bank on its rediscounts, is concerned, I am not prepared to find any fault with it. In saying this it does not follow at all, in my opinion, that it is necessary that as many separate claims be filed as there are rediscounted notes held. On the contrary, it occurs to me that one claim which clearly sets forth the basis on which it is entitled to allowance, and contains the same information with reference to each of the rediscounts as if separate claims were filed thereon, is not only legally sufficient for all purposes but is preferable from the standpoint of convenience, economy and easy handling, both for the Federal reserve bank and the Receiver. It was for the purpose of making these suggestions that I

addressed the letter to the Comptroller's office to which I have referred, and in order that you may be informed exactly as to what I had in mind I am sending you herewith copy of my letter, together with the copy of the form of claim which accompanied it.

You will observe in my letter that I have made objection to the cancelled stock of the Federal reserve bank being applied as a set-off. In most instances I realize this would be a matter of minor importance, but in cases where no collateral whatever is held it might make some considerable difference. The requirement I assume arises out of the language used in the First National Bank of Eureka decision to the effect that the balance to the account of the failed bank representing its reserve account and proceeds of cancelled stock should be applied as a credit. I understand that no contest was made in that case with reference to the manner of treatment of the proceeds of the cancelled stock, but that it was conceded that the whole amount standing to the credit of the failed bank might be applied without distinguishing the sources from which the same arose. That case accordingly, it would seem, cannot be said to have passed on the question. It is my intention to write my views concerning the matter more fully to the Comptroller's office, and I shall of course be glad to furnish you with copy thereof.

I regret very much the delay which has occurred in replying to your letter, but I have been expecting some definite reply from day to day from the Comptroller's Office, as I have indicated. I shall be greatly interested in knowing of the views of the other Counsel, and particularly the conclusions which you reach concerning the matter. If you find it convenient to do so, I shall appreciate it greatly if you will advise me of the same at your convenience.

With kindest personal regards, I am,
Very cordially yours,
(signed) H. G. Leedy.

COPY

X-4339-j-1 402

January
9th,
1 9 2 5.

Mr. Hebert D. Garrett,
Supervising Receiver,
Division of Insolvent National Banks,
Office Comptroller of the Currency,
Washington, D. C.

Dear Mr. Garrett:

Mr. J. H. McMorrow, Receiver of the First National Bank of Poteau, Oklahoma, has sent to Mr. G. E. Barley, Assistant Cashier of this Bank, copy of your recent letter to him with reference to the manner in which the Federal Reserve Bank of Kansas City is requested to file its claim against the trust estate which Mr. McMorrow is administering. Mr. Barley in turn has referred the letter to me, inasmuch as I had made some suggestions to him which do not entirely coincide with all that you have said.

You advise Mr. McMorrow that the Federal Reserve Bank should file a separate claim on each rediscounted note of the failed bank which it holds. I have no desire to differ with you in this requirement, but feel that the result which you seek to accomplish can be brought about in a manner which will be equally as satisfactory as filing a separate claim, and at the same time will save a great deal of unnecessary detail work both to the Receiver and to the Federal Reserve Bank.

If you have a copy of the form of proof of claim which the Federal Reserve Bank of Kansas City has heretofore been using, you will observe therefrom that it, in effect, asks for allowance on each of the rediscounted notes as if separate claim were in fact filed for them. From your viewpoint, however, the form might be objectionable, inasmuch as it sets forth the aggregate amount of the rediscounts as of the date of

insolvency, with the recital that that amount is owing claimant, without referring to credits which you state should be applied as set-offs. This, I think, is the only recital which could be at all confusing to a receiver, and if the form is continued to be used it should doubtless be eliminated. There is attached to the form a schedule which contains a description of each rediscounted note, showing among other things the amount of unearned interest on each, at the date of closing of the bank, and the amount owing on that date after deducting such unearned interest. By an addition to this schedule showing the amounts of set-off against the separate rediscounts, and the balance owing after the application of such set-offs, I feel that the form would in all respects accomplish the result which you desire. It would present a claim in a form which could be more easily handled by a receiver than by having as many different instruments as there are notes, and permit both him and the Federal Reserve Bank to see at a glance the true status of the whole indebtedness.

In order that you may have clearly before you what I have in mind, I am sending you herewith form of proof which I have prepared along the lines here suggested. It is, in effect, as I have indicated, a separate claim on each rediscounted note, but instead of identifying each rediscount in a separate schedule attached to a form, such identification is accomplished by listing all of the notes in one schedule attached to the same form.

I understand, of course, that in any event a receiver would expect to be advised of proceeds of collections made either on the rediscounted notes themselves, or from collateral held as security therefor, so that dividends on a rediscount would not exceed the balance owing thereon.

You state in your letter to Mr. McMorrow that proceeds of the Federal Reserve Bank stock should be applied the same as any balance to the credit of the failed bank in its reserve account. I assume that you mean by this that these proceeds should be treated as a set-off so as to reduce the balance due on the date of insolvency by that amount. You will doubtless recall that the writer talked with you recently in Washington with reference to this subject. I was hopeful, and believed at that time that you would agree with me in my position that stock of the Federal Reserve Bank is not properly the subject of set-off, especially in view of the provisions of Section 6 of the Federal Reserve Act to the effect that such proceeds shall be applied towards the indebtedness of the failed bank to the Federal Reserve Bank without impairment of its liability. Unless the Department has announced its final position in the matter, I should like very much the opportunity of going further into the question with you, as I feel very strongly that the requirement that these proceeds be so applied is not justified by law.

Permit me to take this occasion to express my pleasure at having made your acquaintance at the time of my recent visit to Washington, and to assure you that I shall greatly appreciate your careful consideration of my suggestion.

Yours very truly,

HGL-CG

COPY

X-4339-j-2

405

NATIONAL BANK OF

Proof of Claim
Of
Federal Reserve Bank of Kansas City.

UNITED STATES OF AMERICA,

STATE OF MISSOURI, SS.

COUNTY OF JACKSON.

To _____, Receiver of the _____
National Bank of _____:

On this _____ day of _____, 192__, before me, the undersigned, a Notary Public in and for said County of Jackson and State of Missouri, at Kansas City therein, personally appeared W. J. Bailey, who, being by me duly sworn, made oath and says:

That he is the Governor of the Federal Reserve Bank of Kansas City, and as such has authority to make this affidavit and proof of claim for and in behalf of said Federal Reserve Bank of Kansas City;

That said Federal Reserve Bank of Kansas City, hereinafter called the "claimant", is a corporation organized and existing under and by virtue of the laws of the United States, with its principal office and place of business in Kansas City, Missouri, and is now and was at all times herein mentioned engaged in exercising and performing the functions and powers given and granted to it by the acts of Congress of the United States pertaining to Federal Reserve banks;

That the _____ National Bank of _____, hereinafter for brevity called "National Bank", is now, and was at all times herein mentioned a national banking corporation organized under the laws of the United States, having its principal place of business at _____;

That on the _____day of _____, 19___, pursuant to proceedings duly taken, said National Bank was declared to be insolvent and its affairs taken over by the Comptroller of Currency of the United States; and that thereafter the _____ was appointed Receiver thereof, and has ever since been, and now is, engaged in the discharge of his duties as such receiver;

That on said _____ day of _____, 19__, said National Bank was justly indebted to claimant growing out of transactions hereinafter detailed, which were had under the circumstances hereinafter set forth, to-wit:

That at divers and sundry times prior to _____ claimant, pursuant to the authority vested in it by law, and in the exercise of the functions for which it was created, for value received, rediscounted for said National Bank sundry notes and bills receivable, which were at the several dates of their respective negotiations by said National Bank to said claimant duly endorsed in blank by said National Bank, acting by and through its duly authorized officers and agents; that each of said notes bore on its face, or as a part of the endorsement so made by said National Bank, a waiver of demand, notice and protest; that a full and complete list of said notes so discounted is hereto attached, marked "Exhibit A" and hereby made a part hereof:

That said Exhibit A sets forth the dates of maturity of the respective notes so discounted, the names of the makers, respectively, thereof, the rates at which the same were respectively discounted by claimant, the principal amounts thereof, the amounts of the unearned discount thereon on said _____, 19__, after deducting the amount of such unearned discount thereon to maturity thereof at the rate at which said notes

were respectively negotiated, the amounts applied thereon by claimant as credits or set-offs, and the amounts remaining owing thereon on said _____ _____;

That claimant is endeavoring to collect said notes from the makers thereof, and has received partial payments thereon from time to time, which partial payments it is ready and willing to account for to said Receiver, to the end that the same may be applied as partial payments toward the satisfaction of the aforesaid claim;

That said National Bank, for the purpose of affording additional security for its obligations created as aforesaid to claimant, pledged to and deposited with claimant divers and sundry notes, duly endorsed by said National Bank, and that claimant is now endeavoring to collect and realize on the same, and has heretofore collected therefrom certain sums of money, for which sums of money, less reasonable and proper expense by it incurred in the collection thereof, it is willing to account to said Receiver, to the end that the surplus arising therefrom may be applied toward the partial satisfaction of its said claim.

Affiant further says that each of the items set forth in said Schedule A constitutes a separate and independent claim, and that claimant is entitled to have allowed a claim in its favor against said National Bank for each of the same for the amount shown due thereon upon said _____ _____, after allowing said National Bank all just credits and set-offs; that it is entitled to receive interest on the said separate items at the respective rates of interest at which the same were discounted, as shown in said Schedule A from _____, to the respective maturities thereof and thereafter at the rate of _____ per annum, as

provided by the terms of the respective notes so purchased and discounted, until the same shall be fully paid.

Affiant further states that in making this claim it is not the intention and purpose of claimant in any manner to waive, surrender or relinquish its right to collect said notes so purchased and discounted from the makers thereof, or any other person liable thereon, or to waive, surrender, or relinquish its rights to hold and enforce the collateral which it holds, or is entitled to hold, as security therefor, but on the contrary reserves and retains all of its rights to hold, realize and enforce all of said notes so discounted, and all said collateral thereto, as fully as if this claim had not been made, it being the purpose of claimant to present this claim as a secured claim, with all of its rights to fully resort to all such security.

Affiant further says that the full amount of the aforesaid claim is due and payable to claimant alone, it having given no endorsements or assignments of the same, or any part thereof; and affiant further says that he knows of no set-offs or other legal or equitable defense to said claim, or any part thereof.

_____

Subscribed and sworn to before me this _____ day of _____, 192_.

My commission expires _____

_____

Notary Public in and for
Jackson County, Missouri.

COPY

X-4339-j-3

EXHIBIT "A"

REDISCOUNTS OF THE _____ NATIONAL BANK OF _____

HELD BY THE FEDERAL RESERVE BANK OF KANSAS CITY AS OF THE CLOSE OF BUSINESS ON

_____

Maker	Amount	Rate	Maturity	Days to Maturity	Amount Rebate	Credits Value on

(COPY) X-4339-k

FEDERAL RESERVE BANK

OF DALLAS

January 15, 1925.

Attention Mr. Walter Wyatt

Federal Reserve Board,
Washington, D. C.

Gentlemen:

Your letter of January 10th has just been received. I am leaving for El Paso this afternoon for the purpose of trying a law suit, and although I am so pressed for time that I can not give your letter full consideration, I am giving you these hurried observations for what they may be worth. Upon my return, if you desire, I will go more fully into the contents of your letter and give you my further views.

I was not present when the subject of filing claims against insolvent member banks was discussed at the Conference of Counsel in December.

We have never had any difficulty in arriving at the proper manner in which to file claims when the indebtedness of the insolvent member bank is evidenced by a promissory note secured by collateral. The law on this character of claim is fully discussed in the case of Merrill vs. National Bank of Jacksonville, 173 U.S. 131. When the indebtedness of an insolvent member bank is evidenced by rediscounts, we have had quite a variety of experiences, and the question has never been definitely and satisfactorily settled. When the first claim of this kind arose, I took the position that in borrowing transactions between the member banks and the Federal Reserve Bank evidenced by rediscounts, the intention of the parties was to loan and borrow a certain sum of money, the indebtedness being evidenced by the

several rediscounted notes, but in truth and in fact being a loan of the aggregate amount; that thus there was but one debt, the same being evidenced by the several rediscounted notes. I also took the position that the rediscounted loan as a whole, being secured by collateral, was a further indication of this intent. Upon this theory, I filed claim for the full amount of the indebtedness, and it was the practice of the Comptroller's office for a considerable length of time to allow the claim as a whole and pay dividends upon the total amount until such time as the dividends, plus the collections made on collateral and rediscounted notes, should equal one hundred per cent of the indebtedness.

Some time ago, I was informed that the Comptroller's office was not satisfied with the practice which it had followed in this regard. I thereupon made a right diligent search of the authorities, and found that the question of filing claims on rediscounted notes under the facts common to claims of Federal Reserve Banks was not definitely decided by any court. However, I did find the authorities which are referred to in my office memorandum, which I am enclosing herewith. It is my opinion that the case of Board of Commissioners of Shawnee County, Kansas, vs. Hurley, 169 Fed. 92, announced the correct principle; and from the other authorities cited in this brief. I finally came to the conclusion which is fairly accurately stated on page three of my office memorandum. In view of these authorities and the elemental principles applicable to rediscount transactions, I have about arrived at the conclusion that my original theory - that is, that there is but one transaction, is erroneous, and that the proper method to pursue in filing claims on rediscounted paper is to file separate claim for each rediscounted note.

Although the case of the Federal Reserve Bank of Minneapolis vs. First National Bank of Eureka seems to hold to the contrary. I can not help but believe that the correct principle is to file claim for the amount of the rediscounted note unpaid at its maturity. However, in view of the doctrine announced in the Minneapolis case to the effect that an equitable estate is created immediately upon the insolvency of a national bank, in which estate all creditors participate under the provisions of the Federal Reserve Act referred to in the Minneapolis case, I am not sure but that that case is properly decided and the claim should be filed for the amount due on each rediscounted note on the date of insolvency. This question has never made a very practical difference in so far as we are concerned. In view of the fact that the recent ruling of the Comptroller's office to the effect that the claim should be filed for the amount due on the date of insolvency works to our advantage, I am inclined to accept this rule in so far as our claims are concerned without controversy.

The question of the proper application of capital stock refund due a member bank is also uncertain. I am of the opinion that this is in the nature of collateral, although I have uniformly permitted it to be treated as an off-set, due to the fact that the Comptroller's office has insisted upon this application; and, as a practical matter, the dividend which we would receive from the insolvent bank would not be materially increased should we treat the capital stock refund as a collateral item.

I am of the opinion that the reserve balance is an offset item, although the common law right to use the same is ordinarily referred to as a banker's lien. I think this term originated, however, due to loose expressions of our courts, and it seems to me clearly a mutual debt, subject to offset. In

this connection, practically every insolvent bank has executed one of our collateral agreements, and you will note that by the terms thereof a contractual lien is established against the reserve balance of the member bank. Under this contract, it might be well argued that the common law right to use this money is superseded by an expressed contractual undertaking, and that therefore the same should be held as collateral, rather than used as an offset. I think that the Federal Reserve Bank has the right to apply the offset in any manner it deems advisable. Any collections made on collateral may, in my judgment, be held by the Federal Reserve Bank pending the final settlement of its claim against the insolvent bank, and may, at such time, be applied to the particular indebtedness which the Federal Reserve Bank holding said collateral deems advisable.

Please treat this letter as personal rather than official, as I have dictated it in about three minutes and would be rather ashamed for it to go into the files of the Federal Reserve Board.

Very truly yours,

(signed) E. B. Stroud, Jr.
By Secretary

Office Counsel.

COPY -1-

Brief of authorities on the amount of allowance of claims:

Where indebtedness secured by collateral the Supreme Court of the United States has laid down the rule that where a person has a claim against an insolvent national bank, which claim is secured by collateral, that the claimant has the right to prove and have his claim allowed for the full amount of the indebtedness at the time the bank is closed, regardless of collections made on collateral held to secure the indebtedness, but with the proviso that where the dividends paid on the full amount of the claim, plus the collections made on the collateral, equal to 100% of the amount of the indebtedness, the claimant is entitled no longer to receive dividends, and must surrender any uncollected collateral to the Receiver of the insolvent bank.

Merrill vs National Bank of Jacksonville, 173 U.S., 131; 43 L. Ed. 640:

In this case the National Bank of Jacksonville was a creditor of the First National Bank of Palatka, Florida, to the extent of $10,000, for money borrowed, which indebtedness was evidenced by a certificate of deposit secured by sundry notes belonging to the First National Bank of Palatka. The Palatka Bank became insolvent and T. B. Merrill was appointed receiver thereof by the Comptroller of Currency. The National Bank of Jacksonville attempted to prove its claim for the full amount of the indebtedness, plus interest, and the Receiver, acting upon the instructions of the Comptroller of Currency, required the claimant to exhaust its collateral before its claim should be allowed. The Claimant, acting under this ruling of the Comptroller of Currency, realized upon the collateral enough moneys to reduce the indebtedness to the sum of $4,496.44, for which amount its claim

was allowed and dividends paid. Some two years after the filing of the original claim the National Bank of Jacksonville became dissatisfied with the ruling as above set forth, and brought suit to require the Receiver to allow its claim for the full amount of the original indebtedness, i.e., $10,000 plus interest, and to pay dividends to it on the basis of the claim in such amount.

The Supreme Court of the United States, after a very full discussion of the principles involved, and after holding that the lapse of two years did not bar the National Bank of Jacksonville from proving its claim in the manner attempted, held:

> "We repeat that it appears to us that the secured creditor is a creditor to the full amount due him when the insolvency is declared, just as much as the unsecured creditor is, and cannot be subjected to a different ruling, and as the basis on which all creditors are to draw dividends is the amount of their claims at the time of the declaration of insolvency it necessarily results, for the purpose of fixing that bais, that it is immaterial what collateral any particular creditor may have. The secured creditor cannot be charged with the estimated value of the collateral, or be compelled to exhaust the same before enforcing his direct remedies against the debtor, or to surrender it as a condition thereto, though the Receiver may redeem or be subrogated as circumstances may require.
>
> "Our conclusion is that the claims of creditors are to be determined as of the date of the declaration of insolvency, irrespective of the question whether particular creditors have security or not. When secured creditors have received payment in full their right to dividends and their right to retain their securities ceases, but collections therefrom are not otherwise material. Insolvency gives secured creditors no greater rights than they had before, though through redemption or subrogation or the realization of a surplus, they may be benefited."

This rule was reannounced by the Supreme Court of the United States in the case of Aldriche vs Chemical National Bank, 176, U.S., 618; 44 L. Ed., 611. In this case the Supreme Court of the United States says:

> "It is assigned for error that the collections from collaterals securing the alleged loan prior to the declaration of dividends by the Receiver were not deducted from the amount of such loan in determining the sum on which dividends should be paid to the Chemical

Bank, and that the Chemical Bank was not required, first, to exhaust its collateral security and apply the proceeds on its claim before proving it against the Receiver for dividends. This assignment of error was prepared by Counsel prior to the decision of this Court in Merrill vs National Bank, 173 U.S., 131, in which case this Court said that the inquiry on the merits of whether a secured creditor of an insolvent national bank may prove and receive dividends upon the face of his claim as it stood at the time of the declaration of insolvency, without crediting either his collateral or collections made therefrom after such declaration, subject always to the proviso that dividends must cease when from them and from collaterals realized the claim has been paid in full. It was held that in the distribution of insolvent estates 'the secured creditor is a creditor to the full amount due him when the insolvency is declared, just as much as the unsecured creditor is, and cannot be subjected to a different rule. And as the basis upon which all creditors are to draw dividends is the amount of their claims at the time of the declaration of insolvency, it necessarily results, for the purpose of fixing that basis, that it is immaterial what collateral any particular creditor may have. The secured creditor cannot be charged with the estimated value of the collateral, or be compelled to exhaust it before enforcing his direct remedies against the debtor, or to surrender it as a condition thereto, though the Receiver may redeem or be subrogated as circumstances may require. When secured creditors have received payment in full their right to dividends and their right to retain their security ceases, but collections therefrom are not otherwise material. Insolvency gives unsecured creditors no greater rights than they had before, though through redemption or subrogation or the realization of a surplus they may be benefited.'"

This rule of law was further reaffirmed by the Supreme Court of the United States in a case of Lawrence E. Sexton vs Leopold Lewis Dreyfus, 219 U. S., 339; 55 L. Ed. 244, in which case the Supreme Court of the United States, in a case involving a point of law deriving under Bankrupt Statute, cites with approval the last two cases and reaffirms the doctrine of law therein announced.

The Federal Courts have followed this principle in a great many cases, to wit:

Inre Crystal Spring Bottling Company, 96 Fed. 945; Inre Sweetser 128 Fed. 165; Inre Board of Commissioners of Shawnee County, Kansas vs Hurley, et al, 169 Fed. 92; Beachy and Company, 170 Fed. 825; Hitnerus Diamond State Steel Company, 176 Fed. 390 and 406; Commercial and Saving

Bank vs Robert H. Jenks Lumber Company, 194 Fed., 732; Young vs Gordon et al, 291 Fed. 168; Inre Foster Motor Company, 219 Fed. 170; Equitable Trust Company of New York vs Great Shoshone and Twin Falls Water Power Company et al 228 Fed. 516; Shatz, 251 Fed. 351; Todd vs Lippincott et al, 258 Fed., 205; Washington-Alaska Bank et al vs Dexter Horton National Bank of Seattle, Wash., 263 Fed. 304.

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Rule applicable to the allowance of claims where the liability of the insolvent bank is that of an endorser:

The rule of law applicable in cases of the above kind is that the claimant owning discounted paper may prove his claim against the insolvent bank which was liable as the endorser thereon for the full amount of the indebtedness at the time of maturity, and receive dividends on such amount until such time as the indebtedness is fully discharged, regardless of any payments which might be made by the maker of such paper or the party primarily liable thereon. In cases where the paper has not matured upon which the insolvent bank is the endorser at the time of insolvency, then the receiver of the insolvent bank should allow the claim for the full amount of the indebtedness due on the date of the maturity of the paper. In the case of Board of Commissioners of Shawnee County, Kansas vs Hurley, et al, 169 Fed. 92, opinion delivered by Judge Sanburn, Circuit Judge, the following facts existed;

The First National Bank of Topeka, Kansas, as principal, and Chas. J. Devlin and others as sureties, gave a bond to the County of Shawnee in the State of Kansas, conditioned, among other things, that the bank should repay the money deposited with it by the County on demand. The First

National Bank of Topeka, the principal on such bond, became insolvent and a receiver was appointed by the Comptroller of Currency. Several days later Devlin, one of the sureties on said bond, was adjudged a bankrupt. At the time of the insolvency of the bank the County of Shawnee had on deposit with it $32,731.05, for which amount the county filed claim with the Receiver of such bank. The county also filed claim in bankruptcy against the Estate of Devlin for the full amount of its deposit, to wit, $32,731.05. The Receiver of the bank allowed the claim, and paid to the county a dividend amounting to $26,839.46 before the Referee in Bankruptcy had passed upon the claim filed against the bankrupt estate of Devlin. When the claim in bankruptcy came up to be heard before the Referee, it being brought to the Referee's attention that the insolvent bank had paid a dividend of $26,839.46, the Referee allowed the claim against the bankrupt estate for the balance still remaining unpaid in the sum of $5,891.59, from which decision of the Referee in Bankruptcy the County appealed, contending that the claim should have been allowed for the amount of the original indebtedness, and dividends paid on such amount until such time as the county might be paid in full. In passing upon this case Judge Sanburn says:

> "A single question remains: Is the claim of a creditor against the estate of a surety in bankruptcy upon which the principal has made partial payments after the date of the filing of the petition in bankruptcy, entitled to allowance of, and to dividends upon the amount owing it when the petition was filed, or upon the amount remaining unpaid when the final allowance of it is made, or when the respective dividends are paid?"
>
> "In the discussion of this question, preferences, securities consisting of pledged or mortgaged property, such as are required to be surrendered or applied upon claims by the bankrupt law, are laid out of consideration, and what is said has no reference to rights under them because no such rights are in issue here. Laying out of view, then, such preferences and securities, the statutes of claims at the time of filing of the petition in bankruptcy and not at any subsequent time, fixes the rights of their owners to share in the distribution of the estate of the bankrupt***. On that date the

property of the bankrupt passes from his control to the Court, or to its Receiver, and thence to the Trustee, in trust for the creditors of the bankrupt in proportion to the amounts of their claims at that time. On that date there vests in each creditor, as a cestui que trust, an equitable estate in such a part of the property of the bankrupt as the amount of his provable claim at that time bears to the entire amount of the provable claims against the estate. On that date the bankruptcy law deprives the creditor of all his common law remedies to collect his debt out of the property of his debtor and to collect subsequent interest on his claim against that property, and gives him in lieu thereof this equitable estate in the property of the bankrupt***.

"Counsel for the Trustees argues, however, that the claimant should be limited to a dividend on the unpaid balance of its claim:

(1) Because Devlin was liable on the bond for the damages which the County sustained from the failure of the bank to repay the deposit only, and these damages were but $5,891.59, since the estate of the bankrupt paid $26,839.41 after the bankruptcy of Devlin.

(2) Because at the time of the final allowance of the appellants claim a judgment could not have been recovered against Devlin, if living, for more than the unpaid balance and interest.

(3) Because the estate of the bank and the estate of Devlin are both under administration of the Court below and that Court had the right, and it was its duty, to require the estate of the principal debtor to exonerate the estate of the surety and to protect the latter against the obligation of the bond.

"To the first reason presented there are two answers:

"First, there vested in the county, when the petition in bankruptcy was filed, an equitable estate in such a portion of the property of Devlin as $32,731.05, the amount then owing by Devlin on its claim bore to the amount of all the provable claims against the estate, and the County is entitled to the same proportion of the proceeds and dividends from the property until its claim is fully paid, because its equitable estate in this property is not diminished or changed by payments which it subsequently obtains upon its claim from other sources. Merrill vs National Bank of Jacksonville, 173 U. S. 171; Chemical National Bank vs Armstrong, 59 Fed., 372.

"Second, the obligation of Devlin was to pay all of the damages which the County sustained by the failure of the bank to repay the deposit, and when the petition in bankruptcy was filed and the rights of the creditors of Devlin were fixed, the damages were $32,731.05, for the bank had then failed to pay any of the deposit. Neither Devlin nor any of his other creditors had any legal or equitable right to take from the county any moneys subsequently paid to it by the bank upon the County's claim, and they had no better right to take out or to derive any benefit from his property on account of such subsequent payments, for the obligation and the trust in favor of the county's claim rested on Devlin, and on his property, and not upon the County. The amount of the damages when the petition was filed was $32,731.50. 82% of this amount was subsequently paid by the estate of the bank. Suppose that the estate of Devlin will pay a dividend of 10% on the provable claims

of the creditors. If that dividend is paid on the claim of the County as it stood when the petition was filed, the county will receive $3,273.10. If it is paid on the unpaid balance of that claim the County will receive $589.16. Who will receive the difference of $2,463.94? The other creditors of Devlin. They will take out of the estate of the surety, by whose right alone they are entitled to any of his property, $2,463.94 which the County would otherwise receive solely because the County, after the filing of the petition in bankruptcy, collected $26,839.41 out of the estate of the principal debtor. No principle of law or equity occurs to us that will sustain such a result. Devlin, the surety, and his other creditors were alike estopped, by the obligation of the bond he signed and by his agreement therein to see that the bank paid the claim of the county, from deriving any benefits from the payments made by the principal debtor until the entire claim which Devlin had guaranteed was paid. Schwartz vs Fourth National Bank, 117 Fed. 1 and 12."

After disposing of the other points urged by the Counsel for the Trustee in Bankruptcy, the Court continues:

"The obligee in a bond, or the holder of a claim upon which several parties are principally liable, may prove his claim against the estate of those who become bankrupt, and may at any time pursue the others at law, and notwithstanding partial payments after the bankruptcy by the other obligators or their estates, he may recover dividends from each estate in bankruptcy upon the full amount of his claim at the time the petition in bankruptcy was filed therein, until, from all sources, he has received full payment of his claim, but no longer."

In the case of Commercial Saving Bank vs Robert H. Jenks Lumber Company, 194 Fed. 739, the following facts existed:

A note made by the Port Huron Lumber Company, payable to Robert H. Jenks Lumber Company, for $350.84, and endorsed by the payee and discounted by the Antwerp Exchange Bank of Antwerp, Ohio, now owner and holder of the note, no part of which had been paid up to the time of the appointment of Receiver, nor until after the claim filed herein. After the appointment of a Receiver for the Robert H. Jenks Lumber Company, the endorser of said note, the maker thereof, to wit, the Port Huron Lumber Company, called a meeting of its creditors and paid 60% of the face value of the notes. The question arising, therefore, is whether or not on a claim filed by the owner and holder of this note, the Receiver should allow the claim

for the full face value of the note, or for the 40% thereof which was unpaid by the maker, In passing upon this question the Court says:

> "Much reliance is placed upon the case of the Commissioners of Shawnee County vs Hurley, 169 Fed. 96. In that case is involved the relationship of principal and surety, and after a very careful consideration I can not see how it can be distinguished from the matter before the Court for consideration. Judge Sanborn in delivering the opinion of the court proceeds upon the theory which is applicable here, namely, that the filing of a petition in bankruptcy vests in each creditor of the bankrupt an equitable estate in such a proportion of his property as the creditors' claim bears to the entire amount of the provable claim.***
>
> "Now, when the receiver was appointed in this case, at the time of the appointment of the receiver, the Robert H. Jenks Lumber Company, as endorser, was liable for the entire amount expressed on the face of this note, when the holder of the note exercised due diligence in the requisites of demand, presentation, pretest, etc. In other words, at the time this receiver was appointed, there vested in the Antwerp Bank an equitable estate in such a proportion of the property of the Robert H. Jenks Lumber Company as the amount expressed in the note, the amount then owing on this note bears to the entire amount of all the provable claims against the estate of the Robert H. Jenks Lumber Company, and it appears to me that the bank is entitled to the same proportion of the proceeds and dividends from that property as any other creditors, until this claim is paid in full, because its equitable estate in this property is not diminished or changed by the settlement of payment which it received from the Port Huron Lumber Company."

In the case of Young vs Gordon, et al, 219 Fed. 168, quoting from the syllabus:

> "Where a creditor of a bankrupt held the bankrupt's note, endorsed by Y., for a part of the indebtedness, it was entitled to a dividend on the full amount of the claim, though after the proofs of claims were filed Y. paid the note, and Y. was not entitled to a dividend on the amount paid."

In the case of Simon, 197 Fed. 105, the question presented was whether or not claims against the estate of a bankrupt endorser could be proven for the amount of the original indebtedness, or for the balance, after amounts paid by the makers subsequent to the filing of the petition in bankruptcy, had been deducted. The referee allowed the claim only for such balance and upon appeal the ruling was reversed by the Court and the claim allowed for the original sum due. The same rule was followed in the

case of In re Commercial Company, 233 Fed. 906.

In the case of In Re Shatz, 251 Fed. 351, an Insolvent was liable as an endorser on a note which did not mature for some months after the date of insolvency. Before the maturity of the note the maker thereof made a partial payment thereon, and after the maturity of the note made a subsequent payment thereon. The question presented was as to what amount the Receiver of the insolvent endorser should allow a claim. After very lengthy discussion the Court holds that where the paper had not matured at the time of insolvency of the endorser that the claim should be allowed for the amount due on the indebtedness at the maturity thereof, and hence in this case the sum which was paid prior to the maturity of the note was deducted from the amount of the claim, while the sum paid after the maturity of the note was not deducted.

(COPY) X-4339-L 423

FEDERAL RESERVE BANK

OF SAN FRANCISCO

February 5, 1925

Water Wyatt, Esq.,
General Counsel,
Federal Reserve Board,
Washington, D. C.

Dear Mr. Wyatt:

Upon my return to San Francisco, I find your letter of January 10, 1925, relative to the Comptroller's recent ruling on the matter of claims against insolvent national banks. This letter was acknowledged by Mr. Phillips on January 14, and I am sorry that I have not been able to give it earlier attention.

I have noted with interest the contents of your letter as well as the correspondence between Governor Harding and the Comptroller.

It has been our uniform practice to file one claim for the entire amount due the Federal Reserve Bank of San Francisco, regardless of the number of rediscounts included therein. In those cases where the failed bank was placed on a "bills payable" basis, collaterally secured before insolvency, it has been our uniform practice to file one claim for the entire amount of the bills payable, stating that those obligations were collaterally secured by miscellaneous customers' notes. In every instance of claims so filed, the claim has been allowed for the entire amount and we have been authorized to liquidate such claim, first, by application to the entire claim of any credit balance and the amount due for cancelled Federal reserve stock; second, by collections on rediscounts or collateral, and third, by dividends from the failed bank. In other words, the Comptroller's office in its dealings with us has followed the general rule laid down by the Supreme Court of the United States in the matter of claims against insolvent national banks.

(Merrill v. National Bank of Jacksonville, 133 U.S. 131; 19 Sup.Ct. 360; Chemical National Bank v. Armstrong, 59 Fed. Rep. 372, and analogous cases.)

I am sorry to know that the Comptroller of the Currency has adopted the uniform rule of requiring the reserve banks to prove separate claims for each individual rediscount and has held that no dividend may be allowed upon any rediscount which has been paid atthe tine such dividend is declared. This will considerably complicate the procedure both as to filing claims and as to book-keeping. I am anxious to know whether this or a similar rule will apply in the case of national banks which, prior to insolvency, have been placed upon a bills payable basis. I do not see how it could very well be applied in such cases and it seems to me that any attempt to so apply it would be at direct variance with the rule stated by the Supreme Court in the Merrill case.

So far as this bank is concerned, it will be my advice that the Comptroller's ruling be not acceded to without discussion and perhaps not without a contest; that is, unless the FederalReserve Board and your office feel that we should accede to the rule voluntarily.

I shall be glad to hear from you further upon this subject.

Yours very truly,

(signed) Albert C.Agnew

Counsel

FEDERAL RESERVE BOARD

WASHINGTON

X-4356

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 17, 1925.

SUBJECT: Expense Main Line, Leased Wire System,
May, 1925.

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-4356-a and X-4356-b, covering in detail operations of the main line, Leased Wire System, during the month of May, 1925.

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.

Yours very truly,

Fiscal Agent.

Enclosures:

TO GOVERNORS OF ALL BANKS EXCEPT CHICAGO.

X-4356-a

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINE OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF MAY, 1925.

From	Fed Res. Bank Business	Percent of Total Bank Business (*)	Treasury Dept. Business	War Finance Corp Business	Total
Boston	23,735	3.10	2,865	-	26,600
New York	145,584	19.05	4,573	-	150,157
Philadelphia	30,549	4.00	2,950	-	33,499
Cleveland	61,573	8.06	3,084	-	64,657
Richmond	41,860	5.48	2,430	-	44,290
Atlanta	53,317	6.98	3,992	-	57,309
Chicago	92,968	12.16	4,741	-	97,709
St.Louis	65,881	8.62	3,680	-	69,561
Minneapolis	32,043	4.19	1,749	-	33,792
Kansas City	64,677	8.46	3,576	-	68,253
Dallas	54,323	7.11	1,919	-	56,242
San Francisco	97,731	12.79	6,540	-	104,271
TOTAL	764,241	100.00%	42,099	-	806,340
Board	262,131		29,200	103	291,434
Total	1,026,372		71,299	103	1,097,774
Percent of Total	93.50%		6.49%	.01%	

Bank Business	1,026,372	words	or 93.50%
Treas.Dept.	71,299	"	" 6.50%
Total	1,097,671	"	" 100.00%

(*) These percentages used in calculating the pro rata share of leased wire expenses as shown on the accompanying statement (X-4356-b)

REPORT OF EXPENSE
MAIN LINE
FEDERAL RESERVE LEASED WIRE SYSTEM, MAY, 1925

X-4356-b

Name of Bank	Operators' Salaries	Operators' Overtime	Wire Rental	Total Expenses	Pro Rata Share of Total Expenses	Credits	Payable to Federal Reserve Board
Boston	$ 250.00	$ -	$ -	$ 250.00	$ 654.57	$ 250.00	$ 404.57
New York	933.32	1.00	-	934.32	4,022.41	934.32	3,088.09
Philadelphia	216.66	-	-	216.66	844.60	216.66	627.94
Cleveland	280.33	-	-	280.33	1,701.87	280.33	1,421,54
Richmond	170.00	-	-	170.00	1,157.10	170.00	(#)1,191.77
Atlanta	255.00	-	-	255.00	1,473.83	255.00	1,218.83
Chicago	(*) 3,756.67	-	-	3,756.67	2,567.59	3,756.67	(&)1,189.08
St.Louis	274.00	-	-	274.00	1,820.12	274.00	1,546.12
Minneapolis	183.34	-	-	183.34	884.72	183.34	701.38
Kansas City	275.64	-	-	275.64	1,786.33	275.64	1,510.69
Dallas	251.00	-	-	251.00	1,501.28	251.00	1,250.28
San Francisco	380.00	-	-	380.00	2,700.61	380.00	2,320.61
Federal Reserve Board			15,357.61	15,357.61			
TOTAL	$7,225.96	$ 1.00	$15,357.61	$22,584.57	$21,115.03	7,226.96	$15,281.82
				(a) 1,469.54			(b) 1,189.08
				$21,115.03			$14,092.74

(#) Includes $204.67 for branch line business transmitted over main line circuit.
(*) Includes salaries of Washington operators
(&) Credit
(a) Received $2.71 from War Finance Corporation, and $1,466.83 from Treasury Department covering business for the month of May, 1925.
(b) Amount reimbursable to Chicago.

427

(C O P Y)

X-4357

FEDERAL RESERVE BANK
OF DALLAS.

428

June 10, 1925.

Federal Reserve Board,
Washington, D.C.

Gentlemen: Attention Mr. Walter Wyatt, General Counsel.

I have your letter of May 28 with inclosures, which I have carefully considered with Mr. R. B. Coleman, our Deputy Governor in charge of insolvent bank matters, and Mr. T. E. Parks, the chief of our insolvent bank department. We have given careful consideration to the letters from the various attorneys of the Federal reserve banks and also the letter from the office of the Comptroller of Currency of date May 15, 1925.

You have asked me to call your attention to any points in addition to those covered in the Comptroller's letter of May 15, and also to any points mentioned in that letter which I consider ambiguous or incorrectly stated. I am departing somewhat from your request and have prepared and am submitting you herewith suggestions for topics to be discussed at the proposed conference.

While many of the topics suggested in this outline are simple and will be relatively easy to dispose of, I think that in order to have a complete and harmonious understanding it would be well to discuss each and all of them even though only perfunctorily. I have also included in these topics a good many questions which do not technically come within the scope which you have outlined for this conference. Many of these topics have reference to the liquidation of an insolvent bank's affairs but they are so interwoven with the general question of claims against insolvent banks, especially when considered in connection with final settlement of these claims, that I do not think any conference would be complete without including a discussion of these things.

There are many problems in connection with claims against insolvent banks which are more problems of accounting than law. It is often easy to arrive at a correct legal determination of the question but when putting same into operation the system of accounting

used by the various Federal reserve banks and receivers often makes it impractical to handle things exactly according to law.

As an illustration, I call your attention to the question of expense. Theoretically and legally, where certain expense has been incurred in the collection of a collateral note, this expense should be deducted from the total amount collected and the receiver credited with the net amount. As a practical matter of accounting, however, should this be attempted it would lead to endless trouble in correcting book entries and arriving at agreements with the receivers in each particular instance as to the proper expense chargeable. It has been considered by us, therefore, to be the better practice to credit the insolvent bank with the gross amount of each collection, maintaining in our bank complete records as to all expense incurred, this item being taken care of at one time upon final settlement with the receiver. I mention this illustration and could point out others.

For this reason I am of the opinion that in addition to the attorneys for the various Federal reserve banks it would not be a bad idea to have as many banks as seem proper send along with their attorney some officer fully acquainted with the practical method of accounting so that in the event any question should be raised along this line the same could be properly disposed of at the conference which you contemplate having.

I have been informed that there is to be a conference in Washington some time around the middle of July between representatives of the various Federal reserve banks and the Treasury Department concerning the currency program. Our Deputy Governor in charge of insolvent banks expects to attend this conference, and doubtless other Federal reserve banks will have representatives there who occupy similar relation to insolvent bank work as Mr. Coleman. It has occurred to me, therefore, that if your conference could be arranged so as to follow the conference to which I have referred, possibly we might have the benefit of the experience of some of the operating officers of the various Federal reserve banks. I merely mention this because it has occurred to me that it might add to the successful results of the conference.

I have taken the liberty, in the list which I submit, of giving a brief statement of our views in connection with each topic in order that you may fully understand the scope thereof.

With kindest regards, I am,

Very truly yours,

(Signed) E. B. Stroud, Jr.

EBS-cc Office Counsel.

Suggested Topics for Discussion

at Joint Conference of Counsel for Federal Reserve Banks

and Representatives of the Comptroller of Currency

In Connection with Claims against Insolvent National Banks

I.

CLAIMS EVIDENCED BY MEMBER BANK PROMISSORY NOTES

A. Amount of Claim

(1) Time of determining amount.

(It is our view that this question has been finally decided by the Supreme Court of the United States and that the claim should be filed for the amount of the indebtedness on the date of insolvency.)

(2) Interest.

(This topic raises two questions. First, interest which should be included in the amount of the claim filed. As to this it is our view that unearned interest should be deducted from the amount of claim and that past due interest should be included at the going discount rate rather than at the contractual rate specified in the note. Of course in those cases where the note has been endorsed and it is necessary to sue endorsers, if the receiver is a necessary party to such suit, interest should be asked for at the same rate as claimed against endorsers.

(The second part of this topic refers to interest charged insolvent bank upon claim in final settlement. While we hold to the view that the promissory note is a written contract enforcible as against the receiver, we do not feel that it would be good policy, in arriving at a final settlement, to charge a greater rate of interest to the insolvent bank than our going discount rate, and as an offset against this interest we feel that a credit should be allowed the receiver at the same rate upon all collections made upon collateral notes from the date of each respective collection.)

(3) Attorney's fees.

(Where a member bank's promissory note provides for payment of attorney's fees if placed in the hands of an attorney for collection, we are of the opinion that this item should be remitted except when it is necessary to actually institute suit in order to effect collection of the note.

(4) Offsets.

a. Is the refund of capital stock and accrued dividends an item of offset?

(It is our view that these sums are not items of offset but on the contrary are held in the nature of collateral.)

b. Ledger balance.

(We are of the opinion that ledger balance is an item of offset, although by express contractual agreement the same might be converted to collateral.)

B. Dividends

(1) Amount upon which dividend should be paid.

(It is our view that every dividend paid by the receiver should be based upon the amount of the claim as originally filed and allowed, and that no deductions should be made for collections received upon collateral, or otherwise, between the payment of any two dividends.)

(2) When Federal reserve bank no longer entitled to dividends.

(It is our view that we are entitled to dividends upon the full amount of the claim as originally filed and allowed until such time as the dividends, plus collections on collateral and offsets, equal one hundred per cent of the indebtedness, together with interest thereon, and also until we have been fully reimbursed for the expense to which we have been incident in the collection of the paper.)

II.

CLAIMS EVIDENCED BY REDISCOUNTED NOTES:

A. Whether proven collectively or singly.

(It is our view that claims on rediscounted notes should be filed singly; that is, a separate claim upon each rediscounted note. We think it is merely a matter of convenience as to whether separate claims are filed on each note or all claims are included on one general claim. As a matter of our own personal convenience, we feel it is much simpler to file a separate claim upon each rediscounted note.)

B. Amount of claim.

(1) Time of determining amount.

(It is our view that the amount of claim should be determined at the date of the maturity of the note for the reason that the secondary liability of the endorsing bank does not become fixed until the maturity of the note. However there is a great deal of weight in the contention that the amount of claim should be determined on the date of insolvency, and we are quite agreeable to determining the amount of our claims on rediscounted notes at this time.)

(2) Interest.

(It is our view that if the time of fixing claim is at the maturity of the note no rebate should be made for unaccrued interest. If the time is to be fixed as of the date of insolvency, then on notes which have not matured at that time interest should be rebated, and on those that are past due it should be added in at the current rediscount rate. We think that after claim has been established it should draw interest thereafterwards at our current rediscount rate. While, as a matter of law, no contention could possibly be raised that we were not entitled to past due interest collected from the maker in accordance with the contract specified in the note, still as a matter of policy we believe it is well to take the after-maturity interest collected

from the maker, placing an amount thereof equivalent to the amount which would have been collected had we charged him only our current rediscount rate in our profit account, holding balance as a collateral item to be applied against the indebtedness of the receiver.)

(3) Attorney's fees.

(This topic brings up a very interesting question for consideration. We do not believe, as an ordinary proposition, that attorney's fees should be included in the claim upon a rediscounted note. However in many instances it becomes necessary to sue the maker in order to effect collection of the note, and frequently a sufficient sum is not collected from the maker to pay a Federal reserve bank the principal, interest, and attorney's fees. Consequently in such cases it is often difficult to determine the amount to be credited the insolvent bank. We think this question can be avoided by proper agreements with member banks constituting expense of collecting rediscounted notes an indebtedness of the member bank, thus fixing an obligation against which collateral can be applied.

(It has been our practice in those cases involving litigation with the makers, where the collection is less than the principal and interest of the note, to always deduct the attorney's fees actually incurred from the amount collected and credit the insolvent bank with only the difference.)

(4) Offsets.

a. How applied.

(It is our view that Federal reserve banks have the right to apply offsets as they deem advisable.)

b. Capital stock and accrued dividends thereon.

(We believe this item to be an item of collateral and not of offset.)

c. Ledger balance.

(We consider this item an item of offset which may be applied in any manner deemed advisable by the Federal reserve banks, although we think that by express contractual agreement ledger balance might be made collateral item.

C. Dividends

(1) Amount upon which dividends should be paid.

(It is our opinion that dividends should be paid on the amount of the claim as originally filed and allowed without deducting collections on collateral or partial payments made by parties liable on the note.)

(2) When no longer entitled to dividends.

(We are of the opinion that we are entitled to dividends upon each of the rediscounted notes for the full amount of claim as originally filed and allowed until such time as the dividends, plus collections made from parties liable upon the rediscounted note, equal one hundred per cent thereof with interest and expense of collection.)

a. Do payments made subsequent to the maturity of the note or date of insolvency effect the amount of dividends?

(It is our view that a claim once having been filed and allowed subsequent payments made by parties liable on the note should not be deducted from the amount of the claim when dividends are paid. In other words, the claim once having been filed and established, we think we are entitled to dividends on the full amount of the claim until such time as those dividends, plus payments, equal to one hundred per cent of the note.)

D. Compromises and Settlements.

(1) Right to make.

(It is our view that before any compromise or settlement is made upon a rediscounted note that the consent and acquiescence of the receiver should be obtained. In the event the receiver refuses to give his consent or acquiescence to the settlement, then he should be given an opportunity to take the rediscounted note up for the amount offered in settlement, permitting the claim to stand and continuing to pay dividends on the amount as originally filed and allowed until such time as it is fully paid.)

(If the receiver does not care to take the note up and the Federal reserve bank is still of the opinion that the settlement is a good one, we think it has the right to make such settlement with the parties prior to the insolvent bank, provided that when doing so recourse is expressly reserved on said note against the receiver of the insolvent bank.)

(2) In cases of compromises and settlements of rediscounted notes, what authority needed by the receiver?

(It is our view that whenever a receiver consents to the settlement of a rediscounted note, he should obtain an order of a court of competent jurisdiction permitting same.)

E. Expenses of Preservation and Collection of Rediscounted Notes.

(It is our view that proper contractual agreement with member banks will make such expenses indebtednesses of the bank and, therefore, collectible from collateral which might be held.)

III.

COLLATERAL:

A. Right of Compromise and Settlement.

(It is our view that a Federal reserve bank has no right to settle or compromise notes held as collateral. However they would be liable only for the value of each collateral note, and if a settlement or compromise should be effected whereby the Federal reserve bank obtained the full value of the note, there would be no liability upon its part. Hence, we think that when such settlements are made without reserving right of recourse against party secondary liable, consent of receiver should be obtained.)

B. Authority needed by Receiver to Compromise Settlement of Collateral Note.

(It is our view that it is not necessary for the receiver to have court order in connection with settlements of notes pledged as collateral. Where the receiver consents to the settlement, this is prima facie evidence that the pledgee has received full value for the note, and even though unauthorized to make the settlement the trust would have no legal rights against the pledgee. Where convenient, it might be better practice for the receiver to obtain court order.)

C. How and When Applied.

(1) Collateral to member bank's promissory note.

(In the Comptroller's letter of May 15 he states that collections made on notes held as collateral to bills payable should be applied immediately upon collection. Theoretically this is true. The difficulty comes, however, in determining the amount to be credited on account of expense, etc. We think it is the better practice to make these credits with the understanding and agreement between the receiver, the Comptroller's office, and the Federal reserve bank involved that such credits shall in no wise prejudice the right to recover legitimate expense incurred.)

(2) Collateral to Rediscounts.

(We are of the opinion that collections on collateral to rediscounts should not be applied until final settlement with the receiver.)

(3) Where insolvent bank's indebtedness consists of both rediscounts and collateral.

(We are of the opinion that collections should be applied, first, to member bank's promissory notes with the agreement and understanding referred to in subparagraph (1) above. After the indebtedness evidenced thereby has been fully discharged, together with interest and expense, the balance, if any, should be used upon final settlement toward retiring rediscounts.)

(4) Expense of preservation and collection.

(We are of the opinion that the legitimate expense incurred by Federal reserve banks in the preservation and collection of collateral notes is a recoverable expense and can best be handled upon final settlement rather than as each note is collected.)

(5) Special advances necessary for collection of collateral notes.

(We think, in most instances, the receivership is primarily interested in working out as large a sum as possible upon collateral notes. Especially is this true where the line of indebtedness is amply margined. Therefore it follows that where special advances are called for, these advances should be made by the receiver with proper subrogation agreement entitling the receiver to reimbursement out of the first proceeds of the collection.)

IV.

CLAIMS ON ACCOUNT OF UNPAID CASH OR COLLECTION LETTERS:

A. Amount of Claim

(This topic necessarily depends upon the facts of each individual case, but it is suggested primarily because frequently a claim is filed which does not include certain items afterwards requested to be included. Sometimes the receivers indicate an unwillingness to increase the amount of the claim. It is our view that in such instances the original claim should be increased rather than a separate claim filed.)

B. Proof Required

(We are of the opinion that the affidavit of the Federal reserve bank in connection with the claim is sufficient proof. However some receivers are disposed to be technical in this regard, and we think a full discussion of the matter would be of interest.)

C. Duplicate Claims

(It frequently happens that a certain check will be included in the claim of the Federal reserve bank upon authorizations furnished it. The drawer of the check will also file a claim. In such instances the receiver frequently advises the Federal reserve bank that he cannot allow its claim for the amount of this check due to the other claim having been filed. It occurs to us that the better practice would be to advise the Federal reserve bank that a duplicate claim has been filed covering this amount, and request the Federal reserve bank to trace the item back and determine whether the Federal reserve bank is entitled to file the claim or the drawer of the check. In this way all conflicting interests can usually be adjusted. Whereas if the receiver arbitrarily takes the position that the drawer's claim is the proper one to be allowed, uncertainty and confusion results, and in some cases unnecessary litigation might ensue.)

D. Offsets

(Under this topic we think an interesting discussion could be had as to the proper action of Federal reserve banks with reference to using capital stock refund and ledger balances as an offset against cash letter claims. It might be that this would not be a proper question for general discussion in view of the fact that each Federal reserve bank might prefer to handle these matters as they arise rather than along uniform line.)

E. Application of Collateral

(The remarks in the topic next preceding are applicable here.)

F. Whether General or Preferred Claims

(We think a general discussion of this question would be of material benefit and interest due to the fact that some of the later decisions by state courts have departed from the rigid rule of tracing trust funds--notably the case of Federal Reserve Bank of Richmond vs Peters.

V.

MISCELLANEOUS CLAIMS

A. Claims on account of rediscounted or Collateral Notes sent for Collection and remittance which are collected but not remitted for.

(We suggest a general discussion of this question.)

B. Claims on behalf of makers of notes who pay amount thereof to insolvent bank not knowing the note has been rediscounted or pledged as collateral.

(We think in such cases where it is thought necessary to enforce collection of such notes as against the maker, the Federal reserve banks should first advise the makers of their rights and attempt to assist them in establishing preferred claims if the facts so justified. We think a general discussion of this topic would be of interest.

C. Claims on behalf of the United States.

(We think a discussion of the various claims of this character which have been filed by the several Federal reserve banks would be of general interest.)

D. Renewal Notes in hands of Receiver evidencing same indebtedness as notes held by Federal reserve bank under rediscount or as collateral.

(It not infrequently happens that a bank, before its failure, takes a renewal note covering a certain indebtedness, telling the maker that his old note will be mailed him later. The bank fails before the old note has been obtained from the Federal reserve bank. In such cases, the receiver not infrequently takes the position that his note is a valid note and as a result much trouble is experienced. We think in such cases as these the receiver should be instructed that after he has satisfied himself that the note in his possession really evidences the same indebtedness as the note in the possession of the Federal reserve bank he should turn over to the Federal reserve bank the renewal note.)

E. Claims for Forgeries.

(Under the blanket bonds carried by all Federal reserve banks, forged notes taken under rediscount or as collateral are covered. In the event of such a contingency, where a Federal reserve bank has collected from the bonding company, it is our view that no collateral should be surrendered to the receiver until sufficient amount has been collected therefrom to fully reimburse the bonding company as well as the Federal reserve bank. We think a discussion of the proper method of handling such a transaction would be of general interest.)

VI.

FINAL SETTLEMENTS WITH RECEIVERS

A. General Discussion

(COPY) X-4358

Mr. George J. Seay, Governor, May 26, 1925.

M. G. Wallace, Counsel.

Letter of Comptroller of the Currency, Dated May 15th, upon the Subject of the Method of Settlement of Claims, which We Have Against Failed Banks.

My dear Governor Seay:

Heretofore there has been no definite rules laid down by the Comptroller for the guidance of Receivers in handling claims presented by Federal Reserve Banks. The positions taken by various Federal Reserve Banks have not been uniform, and the Comptroller in this letter seeks to establish a uniform rule.

Hitherto we have been proving against a failed bank a claim for the entire face amount of rediscounts held by us at the date of failure, and have been receiving dividends upon the face amount until the amount of the dividends, plus collections on rediscounts and marginal collateral equalled to the full face amount of our claim. However, in every estate which has been previously wound up it has been very obvious that we would receive on account of dividends and collections upon rediscounts and collateral a sum sufficient to pay us in full, and no controversy has ever arisen as to the correctness of our position. The letter of the Comptroller to which I refer you makes some changes in our position; in some of which I believe he is amply justified, and in some he is not.

EACH NOTE TO BE PROVEN AS A SEPARATE CLAIM.

1. The Comptroller now requests that a separate claim be proven upon each M. B. C. Note, and upon each rediscount, and that the amount of this claim as of the date of the insolvency of the closed bank be determined by adding interest if the note held by us was past due at the time of insolvency,

and rebating interest if the note was not yet due. This requirement that our rediscounts be proven separately, and that an adjustment be made on account of interest rather than that a claim be filed for the face amount of the note may occasion some accounting difficulties, but I believe that the Comptroller is justified in requiring a separate proof of each claim; because each note individually represents a distinct cause of action against the failed bank, and if any note were paid in full by the maker, unquestionably our claim upon that note would be completely obliterated, and it should not be taken into account in the payment of dividends distributed after the note had been paid in full. Since the insolvency of a member bank is in law considered to work an equitable acceleration of the maturities of all claims against it, making each claim for the purpose of dividends due as of the date of insolvency, I think that it is equitable and in line with the best authority that the amount of the claims, as of the date of insolvency shall be determined by computing the present value of all claims as of the date of insolvency. This is done, of course, by adding interest to those that are past due, and deducting an allowance for unearned interest upon those that are not yet due. The Comptroller requires that this allowance for the rebate of interest be in all cases at the rediscount rate. He does not specify whether this is to be the rediscount rate on the day of insolvency, or at the time of discount, if there has been a change in the rediscount rate. I assume that he considered that the probability of there being any substantial difference on this point would be too small to require consideration.

In rebating interest upon claims not due, I think it clear that the rebate should be allowed at the rediscount rate prevailing when the

discount was made. In computing the present value of a rediscount which is past due at the time of insolvency, I incline to think that the allowance should not be made at the rediscount rate at all, but at the legal rate of interest chargeable upon debts past due, according to the laws of various States. I discuss this more fully below, and since we seldom, if ever, carry a rediscounted note, or a M. B. C. Note for any appreciable time after its maturity, the rate of interest which is to control if the note is past due and before the insolvency of the bank is not important to us.

APPLICATION OF RESERVE BALANCES, AND OF BALANCES DUE ON ACCOUNT OF SURRENDER OF STOCK.

2. Hitherto, we have never applied a reserve balance to any particular rediscount at the time of proving a claim, but have waited until the time for a final settlement, and have applied the reserve balance. No receiver has hitherto objected to this course. We have also taken the position that the amount due on the surrender of the stock held by a failed member bank should be treated as a collection upon marginal collateral. The Comptroller in his letter takes the position that at the time of proving claims, we must apply the money due to the failed bank in its reserve account and the money due on account of the surrender of its stock to our claims against the failed bank. The Federal Reserve Banks are to have an option of applying the funds above mentioned to any selected amount of rediscounts, or of distributing pro rata among all rediscounts.

In my opinion, the position of the Comptroller is correct insofar as it deals with the reserve balance. When a bank becomes insolvent, it is indebted to us as the maker of M. B. C. notes, and as the endorser of rediscounted notes. We are indebted to it on account of its reserve balance.

It is well established, at least, in the Federal Courts that in proving claims against the estate of an insolvent, the claimant is entitled to set off any money due from himself to the insolvent, even though the claim due by the insolvent was as an endorser, and was not presently due, and the money due to the insolvent was presently due. This balancing of counter-claims is an equitable setoff. I think, therefore, that like any other right of setoff, the claimant may be required in proving his claim to take a final and irrevocable position, and to apply his setoff to any portion of his claim, which he prefers, but having once made the application, he cannot afterwards alter his position. He cannot refuse to make his application until after he can determine what will be the probable result of the liquidation of the insolvent estate; because if he files a claim and does not apply his setoff, he then gives the receiver of the failed bank the right to make the application as he sees fit. I do not agree, however, with the Comptroller with respect to the money due on account of the surrender of stock. He apparently proceeds upon the assumption that this money is a simple debt. I do not agree with him. It is well established that the relation of a corporation to one of its stockholders is not that of a debtor. In the absence of an express statute, we would have no lien upon the stock of the member bank, but it would simply be one of its assets to be sold or transferred by its receivers, irrespective of any claim which we might have. Our lien upon the stock, therefore, is dependent entirely upon the provisions of the Federal Reserve Act. The Act reads as follows:

> "If any member bank shall be declared insolvent and a receiver appointed therefor, the stock held by it in said Federal reserve bank shall be canceled, without impairment of its liability, and all cash-paid subscriptions on said stock, with one-half of one per centum per month from the period of last dividend, not to

exceed the book value thereof, shall be first applied to all debts of the insolvent member bank to the Federal reserve bank, and the balance, if any, shall be paid to the receiver of the insolvent bank."

You will observe that the Act is clear upon two points. The provision that the book value of the stock shall be first applied to all debts of the insolvent member bank, and then the balance, if any, shall be paid to the receiver of the insolvent bank. The receiver has no right to demand an accounting from us on account of the stock of the insolvent member bank until all debts of the insolvent bank have been paid. His right to receive anything on account of the stock is dependent upon the payment of all debts. This provision, therefore, to me clearly indicates that we have a lien upon the stock as general security for all debts, and that money becoming due on account of the surrender of the stock should be treated as a collection upon marginal collateral, and not as an offset.

COLLECTIONS UPON MARGINAL COLLATERAL AND PART PAYMENTS UPON REDISCOUNTS.

3. It is well established in the Federal Courts that the holder of a claim against an insolvent estate secured by the pledge of collateral is entitled to prove his claim for the full amount, and to have dividends paid upon this amount until the dividends and the collections on account of collateral are sufficient to discharge the claim, with interest. The Comptroller recognizes this rule, and accepts it as applying either to collateral especially pledged for M. B. C. Notes or general collateral, applicable for all the indebtedness of the failed member bank. The Comptroller's letter is not clear as to the application of part payments received on account of rediscounts. I think that he intends that when any rediscount is paid in full all dividends on account of that particular claim shall cease. As I state, I believe that he is correct in this. He seems to contemplate that

in proving a claim upon rediscounts credit will be allowed for any part payment which has been received before the claim is proven. In this position, he is sustained by many authorities, and in my judgment he is also sustained by the better reason when the insolvent is the endorser upon an obligation upon which part payment has been made by the maker or a prior endorser. There are some authorities, however, which appear to sustain the contention that a part payment made after insolvency, but before proof of claim, should not be credited in proving the claim, but that the claim should be proven for the amount due on the date of insolvency, and dividends paid upon this amount until the dividends received from the insolvent estate, plus the partial payments made by the other parties to the obligation are sufficient to discharge the obligation, with interest.

The great weight of authority is to the effect that part payments made by other parties after claim is proven against the insolvent should not be taken into consideration in computing future dividends, unless the claim has been entirely discharged by the dividends and the part payments. The Comptroller does not make it clear what position he intends to take with respect to part payments made after proving the claim. In my opinion by the great weight of authority, dividends should still be paid upon the amount due when the claim was proven.

INTEREST RATE ON CLAIMS AGAINST THE BANK AND SURPLUS INTEREST ON CLAIMS COLLECTED.

The Comptroller applicably points out that the amount due upon any claim should be determined as of the date of insolvency, and that accruals of interest after insolvency should not be taken into consideration in determining the amount of dividends, unless the estate of the insolvent is

ample to pay all claims against it with interest, in which case, a special dividend on account of accrued interest should be paid to all claimants. In this , he is, in my opinion, correct, but it is well established that if any security is held for the claim, the claimant is entitled to receive dividends on the original amount proven until dividends and collections upon collateral equal to the face of the claim with interest. In all cases, in which I have examined, this interest was as a matter of course reckoned at the legal rate, and it seems clear that in the case of a claim filed by any other correspondent bank against an insolvent bank, the interest would in a final settlement be reckoned at the legal rate. The Comptroller takes the position that in a settlement with us, interest should only be reckoned at the rediscount rate (he does not specify whether he means the rediscount rate at the time of discount; at the time of insolvency; or at the time of settlement). I do not understand the reasoning which has led the Comptroller to select the rediscount rate as the legal rate of interest collectible by Federal Reserve Banks upon past due claims. It is thoroughly established, as a matter of law, that if a note be given bearing interest at a rate less than the legal rate, this provision is to be construed as applicable only up to maturity. After maturity the debt bears interest at the legal rate. The reason which the Courts have given for this rule of construction is that the lender usually agrees to a rate of interest less than the usual rate, because he thinks that in the particular case, the loan would be promptly and certainly paid. If the borrower defaults in payment, he cannot expect to continue to enjoy the benefit of the low rate of interest after having destroyed the lender in his expectation of certain and prompt payment. This rule is well established by authority, and it appears to command itself as reasonable. I can see no reason why it should

not be applied with even greater force in the case of a rediscount at a rate less than the legal rate than it does in the case of a loan, which by express agreement bears interest from date at less than the legal rate.

It is true that State laws concerning interest do not apply to banking corporations created by Congress, if such laws in any way conflict with the Federal laws applicable, but I believe if the Federal law is silent, it shows that by necessary implication the State law applies. It might be that the power given to the Federal Reserve Board to determine rediscount rates may be construed as giving it power to fix the rates of interest chargeable upon past due notes, but the Federal Reserve Board has never attempted to fix such rates of interest, and the rates as established apply only to discounts; consequently it seems to me that the Federal law is silent upon the rate of interest which a note in our hands bears after maturity; and that consequently we are entitled to consider it as bearing interest at the rate lawful in the State in which it is payable and to collect such rate either from the maker or endorser.

I, therefore, disagree with the Comptroller in his position with respect to the rate at which interest is to be computed.

The Comptroller has not only provided that in a final settlement between ourselves and the failed bank interest on our claims is to be computed at the rediscount rate, but he has also provided that in case a rediscounted note is collected from the maker or some endorser prior to the insolvent bank, we are to treat the amount of interest collected over and above the rediscount rate as a collection on account of marginal collateral. I fail to see any line of reasoning which could possibly lead to this result. If, as I stated above, we consider that there is in the Federal Reserve Act

an implied limitation upon the rate of interest which Federal Reserve Banks may collect, it would seem that this limitation would prevent our collecting from the makers or prior endorsers any interest above the rediscount rate. If we may lawfully collect the interest (and in my judgment, as I state above, I think that we lawfully may) I can conceive of no theory of law which requires us to credit this interest to the insolvent endorser, and to apply it upon other claims which we may have against that endorser.

When we rediscount a note, we become the holder of it - entitled to enforce it against all the parties thereto by all the remedies of law. The right to enforce the note to my mind necessarily implies the right to collect such interest as the note may lawfully bear after maturity. If the holder of a note collects from the maker the amount of the note with lawful interest after maturity, there seems to be no principle of law which can be invoked to justify a claim by the endorser that he is entitled to require the holder to account to him for any part of the interest accruing after maturity.

ALLOWANCE FOR ATTORNEYS' FEES, COSTS, ETC.

The letter of the Comptroller deals to some extent with the question of the payment of attorneys' fees, costs, etc. incurred by Federal Reserve Banks in collecting marginal collateral and rediscounts. He deals with this phase of the question, however, only in cases in which the collateral held by Federal Reserve Banks provides for reimbursement by the member bank for attorneys' fees, costs, etc. thus incurred. We have never obtained from member banks an express pledge covering marginal collateral, but have relied upon our general bankers lien. In reliance upon this lien, I think that in crediting collections made on marginal collateral, we are

entitled to deduct attorneys' fees, and other costs and expenses incurred in collecting such marginal collateral, because we hold marginal collateral as in some sense a trustee, and it is generally established that a trustee may charge a trust fund in his hands with any expenses reasonably incurred in the hands of it, and need account only for the net proceeds. If we incur attorneys' fees, or other costs or expenses in collecting rediscounts, in my opinion, we could not charge such expenses to the estate of the insolvent bank; because in collecting a rediscounted note, we are merely enforcing a claim of which we are the holder in our own right, and we have no right to look to any other person for indemnity against an expense incurred in enforcing a claim which is solely our own. We have usually met this situation by telling the Receivers that in view of this situation, we would not bring suits upon rediscounted notes, but would hold them past due, awaiting the payment of dividends upon them, and would first endeavor to collect on the marginal collateral notes, unless the receiver was willing to agree that all expenses incurred in bringing suits upon rediscounts could be charged against the proceeds of the marginal collateral notes. It is obvious that it is usually expedient for the receiver to make this arrangement with us, and hitherto it has always been done. The Comptroller's letter does not cover this point, and if we have any correspondence with him, it might be advisable to take it up.

You will see from the above discussion that I think that we may accept the System proposed by the Comptroller as substantially correct upon all points, except the application of the amount due on account of the surrender of stock in a Federal Reserve Bank held by an insolvent member bank, and the rate at which interest is to be computed on claims against an in-

solvent member bank, and the distribution to be made of interest collected from the makers of rediscounted notes.

We should call to the attention of the Comptroller the question of the application of part payments made on rediscounts after a claim is proven and before we receive full payment of it, and we should call his attention to the necessity for some arrangement concerning the costs and expenses incurred in suits brought to enforce rediscounted notes.

I remain

Very truly yours,

M. G. Wallace,
Counsel.

MGW:IB.

(COPY) X-4359

"BRANCH BANKING BEFORE THE CIVIL WAR"

Address to be Delivered by Edmund Platt, Vice Governor of the Federal Reserve Board, Before the National Bank Section, New York State Bankers Association at Ithaca, New York, June 22, 1925.

Branch banking has sometimes been called un-American, and it is of course true that in every other commercial nation, including Canada and Australia, branch banking is the rule while in the United States it is the exception. It may be interesting to take a look into the history of the early days of banking in the United States to see whether this has always been true. Apart from the two United States banks which were each in existence for 20 years, and the second of which went out of existence as a national institution in 1836, banking before the Civil War was carried on by state banks and by a few private banks. Lists of incorporated banks were published from time to time, and one needs only to glance at them to see that in some sections of the country, particularly in the West and South - sections which have always prided themselves on their Americanism - branch banking was very much in evidence, was in several the states the rule, rather than the exception.

The Bankers' Magazine for February 1848 has a list of "Banks of the United States" from which we find that in Ohio out of 48 banks, 29 were branches of the Ohio State Bank. Indiana lists 17 branches of the State Bank of Indiana and no independent banks, Missouri had one bank and 5 branches, Kentucky 3 banks and 13 branches, Tennessee 3 banks and 17 branches, Virginia 6 banks and 30 branches, North Carolina 4 banks and 14 branches, South Carolina 12 banks and 2 branches, Georgia 13 banks and 7 branches, Delaware 5 banks and 3 branches and Alabama 2 banks and 4 branches.

Illinois, Iowa, Mississippi, Florida and Arkansas came under a special

heading as "States and Territories without Banks", while Wisconsin had one bank and Michigan four. It may therefore be said that so far as banking had been developed in the West branch banking was the rule, and was general also in the South. No branches were listed in the eastern states, excepting two in the State of New York - The Bank of Utica is listed as having a branch at Canandaigua, and the Ontario Bank of Canandaigua had a branch in Utica. There were two branches in Maryland - branches of an Annapolis bank, and appear to have been two in New Jersey, though they are not listed as branches.

The list of banks of the United States in June 1860, published in the Bankers Magazine of that year makes a similar showing, though Illinois appears with 75 banks (only one of which was in Chicago), Iowa with 13, all of which were branches of the State Bank of Iowa, and not only Mississippi, and Florida, but Kansas, Nebraska and Minnesota come on the scene with a few banks. Missouri at this time had 42 banks, of which 33 were classed as branches.

New York's two branch banks shown in the 1848 list had disappeared in 1860, and in fact the Legislature of New York had on April 12, 1848, passed an amendment to the Free Banking Act which has been generally regarded as prohibiting branch banking. Pennsylvania had passed a similar amendment in 1850 and legislation against branch banking had been passed atabout the same time in Massachusetts and in Connecticut.

One thing that has puzzled me considerably is the question - Why did these eastern states prohibit branch banking? What motives prompted the amendments? Dr. Davis R. Dewey in his "State Banking Before the Civil War" (p.143) makes the statement that the New York amendment of 1848 was "due to a fear that banks in large cities might monopolize the profits of note issue by organizing branches in small inaccessible towns and thus throw obstacles

in the way of easy redemption of bills", but the evidence he gives in a foot-note supports a very different view - that country banks, sometimes organized in small inaccessible towns, issued their notes and transacted such other business as came in their way through branches or agents in the important cities, evading redemption of their notes in the cities by referring holders to the remote towns where the so-called principal offices were located.

The word "branch" does not appear in the New York amendment, which provides that "all banking associations or individual bankers, organized under the provisions of the act passed April 18, 1838 * * * shall be banks of discount and deposit as well as of circulation and the usual business of banking of said associations or individual banker shall be transacted at the place where such banking association, or individual banker shall be located." Millard Fillmore was at that time Comptroller of the State of New York and in a circular dated May 2, 1848, announcing that the amendment was now the law and would be enforced, says:

> "A practice had grown up under the general banking law, of establishing banks in obscure places, in remote parts of the state where little or no business was done, with a view of obtaining a circulation merely, and doing no other business. This circulation was then redeemed in New York or Albany by the agents of the bank, at one-half of one per cent. discount, and again put in circulation without being returned to the bank, thereby enabling the bank to redeem its own paper at a discount, and then again put in circulation in the same place where it was redeemed. The object of the present law appears to be to break up that practice, and to ensure obedience to its requirements, the legislature have enacted that the president and cashier shall in every report made to this office, state that their business has been transacted at the place required by that act, and that such report shall be verified by their oaths". Bankers' Magazine, June 1848, Vol. 2, page 744.

This explains the amendment, and shows that it was directed not against genuine branch banking, but against wild cat circulation banking. The amendment required that every bank organized under the general banking law must be "a bank of <u>discount and deposit</u> as well as of circulation", and that its usual business - its loans as well as its note issues - must be made in the place

specified in its certificate.

I have not been able to find the slightest evidence that the large well-established banks in New York City had ever attempted to "organize branches in small inaccessible towns", as Dr. Dewey implies, and I think it is reasonably clear that the city banks not only did not oppose the amendment, but were in favor of it. Certainly there was no agitation of the subject of branch banking before the passage of the amendment, such as would surely have been the case if it had been passed at the instance of the country banks, or through fear of the monopolization of note issues by city banks. It is difficult to find any reference to the amendment in any of the publications of the day.

It should furthermore be noted that this so-called anti-branch/bank amendment applied only to the "free banks" and not to the Safety Fund Banks, of which there were about 80 in operation at that time, including several large city banks. An amendment to the Safety Fund Act, passed on the same date as the so-called anti-branch amendment to the Free Banking Act, expressly mentions branches. "But in all cases where a bank has a branch located at another place". The fact that the right of Safety Fund Banks to operate branches was confirmed at the same time that free banks were prohibited from transacting their usual business in any other place than that named in their certificate is direct evidence that there was no opposition of consequence to branch banking, and no fear of banking monopoly through branches.

Branch banking nevertheless scarcely existed in New York in 1848, and it does not appear from the lists published that any of the Safety Fund banks had branches at that time. The lists are doubtless not complete and are not conclusive evidence as to the existence of branches. There had been some branch banking in New York State at an earlier date, mostly by country banks. Not much

information is obtainable about it from banking histories, but I know that the Middle District Bank, one of the early banks in Poughkeepsie, had a branch in Kingston, and through local histories some references can be obtained to branches of other country banks. These were apparently found unprofitable and were nearly all given up long before 1848.

Only one bank in New York City ever had a branch outside the city, so far as I can find out, and that was the Bank of the Manhattan Company, which in 1811 had a branch in Poughkeepsie and one in Utica. There appears to be no record as to just when these branches were given up, but it was almost certainly long before 1848 and before the Manhattan Bank became a Safety Fund Bank.

Banking except in the largest cities was in the early days mostly note issue banking, and the efforts of the legislatures were directed towards the enactment of laws to secure the redemption of notes. Every imaginable expedient was tried somewhere in the United States. The State of New York, out of the turmoil, produced two laws which were destined to be widely copied - one of them in the National Banking Act. These were of course the Safety Fund Act of 1829 and the so-called Free Banking Act of 1838. Certain of the Western and Southern States developed equally sound and perhaps rather better systems through branch banking. The effort was to produce systems which would make the note issues sound, and the notes of the Bank of Indiana, of which Hugh McCulloch was the President, were as sound as those of any of the big banks of New York City. The same was true of the Bank of Ohio.

Certain elements of sound banking seem to have been recognized in such systems which were lost sight of when all the State banks were reorganized as National banks with notes secured by United States bonds. The feeling was that all essential banking problems had been solved when a uniform and sound system of

bank notes had been secured. The note holder was protected by specially segregated assets. Depositors were for the time forgotten, and had less protection than before.

The Bank of Indiana and similar institutions obtained security for their notes through good management and through a wide spread of risks so that they could not be vitally affected by disaster in any one community. These are as essential for the security of depositors today as they were for note holders in the old days. Banks to be safe must be large enough to afford good management and must have opportunity to loan their funds over a territory wide enough to include persons engaged in a variety of industries.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4361

June 18, 1925.

SUBJECT: Holidays during July, 1925.

Dear Sir:

There will be no Gold Settlement Fund or Federal Reserve Note Clearing on Saturday, July 4th, 1925, on account of observance of Independence Day, and the Board's books will be closed.

On Monday, July 13th, the Nashville Branch of the Federal Reserve Bank of Atlanta and the Memphis Branch of the Federal Reserve Bank of St. Louis will be closed. Please include your credits of July 13th for the Memphis Branch with those of the following day in your Gold Settlement Fund Clearing telegram.

The Board's weekly press statement showing debits to individual accounts, will be issued on Monday, July 6th, instead of on Saturday, and released for publication in morning papers, Tuesday, July 7th, but it will, as usual, cover the week ending Wednesday, July 1st.

Please advise Branches.

Very truly yours,

Walter L. Eddy,
Secretary.

TO GOVERNORS OF ALL F. R. BANKS

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4362

June 19, 1925.

SUBJECT: Increasing Limit Federal Reserve Exchange Draft.

Dear Sir:

The Federal Reserve Board has approved the action of the recent Governors' conference in voting to raise the limit on the Federal reserve exchange draft from $5,000 to $50,000. This privilege afforded to member banks becomes effective August 1, 1925.

The reserve banks are expected to exercise care in checking up the permits extended to member banks to draw exchange drafts before passing credit on any such draft and to make telegraphic inquiry in any questionable case. The Board understands that whenever a Federal reserve bank withdraws a permit it will immediately advise all other Federal reserve banks.

Very truly yours,

Vice Governor.

To Governors of all F.R.Banks.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4363

SUBJECT: ASSESSMENT FOR GENERAL EXPENSES OF THE FEDERAL RESERVE BOARD, JULY 1 TO DECEMBER 31, 1925.

June 24, 1925.

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 24, 1925, levying an assessment upon the several Federal reserve banks of an amount equal to one tenth of one per cent of the total paid in capital stock and surplus of such banks as at close of business June 30, 1925, to defray the estimated general expenses of the Federal Reserve Board from July 1 to December 31, 1925.

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, 1925, and one-half September 1, 1925, 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)

X-4363-a

RESOLUTION LEVYING ASSESSMENT

Whereas, under Section 10 of the act approved December 23, 1913, and known as the Federal Reserve Act, the Federal Reserve Board is empowered to levy semi-annually upon the Federal reserve banks in proportion to their capital stock and surplus an assessment sufficient to pay its estimated expenses, including the salaries of its members, assistants, attorneys, experts and employees for the half-year succeeding the levying of such assessment, together with any deficit carried forward from the preceding half-year; and

Whereas, it appears from estimates submitted and considered that it is necessary that a fund equal to one-tenth of one per cent of the total paid-in capital stock and surplus of the Federal reserve banks be created for the purpose hereinbefore described, exclusive of the cost of engraving and printing of Federal reserve notes; Now, therefore,

Be it resolved, That pursuant to the authority vested in it by law, the Federal Reserve Board hereby levies an assessment upon the several Federal reserve banks of an amount equal to one-tenth of one per cent of the total paid-in capital and surplus of such banks as of June 30, 1925, 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 July 1, 1925, and the second half on September 1, 1925.

X-4363-b

ESTIMATE FOR JULY 1925 ASSESSMENT

Average monthly encumbrance for period January 1, 1925, to June 30, 1925:		
Personal services	$45,203.73	
Nonpersonal services	12,881.25	
		$58,084.98
Estimated monthly requirements, July to December, 1925, based upon budget figures:		
Personal services	$48,992.36	
Nonpersonal services	13,640.94	
		$62,633.30
Total estimated requirements, July to December, 1925:		
To cover above estimate,	$375,800.00	
To provide for contingencies,	3,000.00	
		$378,800.00
Estimated unencumbered balance, June 30, 1925,		45,000.00
Amount to be raised by assessment,		$333,800.00
Estimated paid-in Capital and surplus of Federal Reserve Banks as of June 30, 1925,		$333,400,000.00
An assessment of one-tenth of one per cent (.001) will produce,		333,400.00

FEDERAL RESERVE BOARD

WASHINGTON

X-4365

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 25, 1925.

SUBJECT: Claims against Insolvent National Banks.

Dear Sir:

Referring to our previous correspondence with reference to a conference between representatives of the Federal reserve banks and the Office of the Comptroller of the Currency on the above subject, you are advised that, after hearing from all the banks, the Federal Reserve Board has fixed Monday, July 13, as the date for the commencement of the conference. This not only seems to be the most convenient early date for all counsel who expect to attend but will also serve the convenience of certain operating officers of the bank who wish to attend this conference and also a conference with the Treasury Department regarding currency problems, which will commence on or about July 15. The conference with the Comptroller's Office, therefore, will be held in the Board's offices in the Treasury Building at Washington, commencing at 10 a.m., on Monday, July 13, 1925.

It is believed that the Comptroller's circular letter of May 15, Mr. Wallace's memorandum of May 26, and Mr. Stroud's memorandum of June 10 constitute a sufficient basis for discussion at the conference, and that it will be unnecessary to prepare a formal program for the conference. If you have any topics in mind, however, which are not covered by any one of these documents, it is suggested that you write me a memorandum on the same, which I may furnish to counsel for the other banks and also to the representatives of the Comptroller's Office for study in advance of the conference.

I understand that, in addition to Mr. Garrett, Supervising Receiver, the Comptroller's Office will be represented by Messrs. Stearns and Collins, Deputy Comptrollers of the Currency.

Looking forward with much pleasure to seeing you here at the conference, and with all best wishes, I am.

Cordially yours,

Walter Wyatt,
General Counsel.

To Counsel of all F. R. Banks.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4366

June 25, 1925.

Subject: Proof of Claims against Insolvent National Banks.

Dear Sir:

Referring to your reply to the Board's letter of June 13 (X-4355), with reference to the conference between representatives of the Federal reserve banks and the Comptroller's Office on the above subject, you are advised that July 13 appears to be the most convenient date for such conference. The conference, therefore, will be held in the Board's offices in the Treasury Building at Washington, commencing at 10 a.m., on Monday, July 13.

Very truly yours,

J. C. Noell
Assistant Secretary

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS EXCEPT BOSTON.

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

For Release in Morning Papers,
Saturday, June 27, 1925.

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 in basic industries and factory employment continued to decline in May and there was a further recession in wholesale prices. Distribution of commodities was in greater volume than at this time last year, but slightly less than in April.

Production

The Federal Reserve Board's index of production in basic industries declined 6 per cent in May to a level 12 per cent below the high point in January. There were further considerable decreases in the output of the iron and steel and woolen industries, and declines also occurred in the mill consumption of cotton and in copper, sole leather, and newsprint production. The number of automobiles manufactured during May fell slightly below the record figure of April. Employment at industrial establishments was slightly less in May than in the month before, with decreases, partly seasonal, in the clothing, boot and shoe, and iron and steel industries and increases in the industries producing automobiles, tobacco products, and certain building materials. Building contracts awarded during May were smaller in value and in square feet than those for April, but were larger than for any other month on record.

Trade.

Department store sales in May were smaller than in April but somewhat larger than a year ago, and mail order sales were 5 per cent larger than in May, 1924. Department store stocks declined in May and were at the same level as

a year ago. Wholesale trade was in about the same volume as the month before and about 3 per cent larger than a year ago, increases over last year in sales of meats and dry goods offsetting decreases in sales of groceries, shoes, hardware, and drugs. Wholesale stocks of groceries in dollar values were larger than a year ago, while stocks of dry goods and shoes were substantially smaller. Car loadings of miscellaneous products and merchandise decreased slightly during May, but were greater than a year ago.

Prices.

Wholesale prices continued to decline in May, but the decrease was considerably smaller than for the preceding month. All groups of prices represented in the Bureau of Labor Statistics index declined except the house-furnishings and miscellaneous groups. In the first three weeks of June prices of wheat, corn, flour, cotton goods, and pig iron declined, while quotations on sheep, hogs, gasoline, hides, and rubber advanced.

Bank Credit.

Borrowing for commercial purposes at member banks in leading cities declined further between the middle of May and the middle of June to a level lower than at any time this year, while loans on securities increased and reached a new high level in June. Investment holdings of these banks also increased, and total loans and investments at the middle of June were near the high point for the year.

At the reserve banks there was an increase in member bank borrowing between May 20 and June 24 and on that date discounts for member banks were in larger volume than at any time since the opening of the year. Further decreases in the holdings of acceptances and of United States securities brought the volume of open-market holdings in June to the lowest level since last summer.

Conditions in the money market remained relatively steady during the latter part of May and first three weeks of June, notwithstanding the heavy Treasury operations in the middle of June.

FEDERAL RESERVE BOARD X-4368

STATEMENT FOR THE PRESS

For immediate release June 26, 1925.

CONDITION OF ACCEPTANCE MARKET
May 21, 1925 to June 17, 1925.

Acceptances.

An increased demand for acceptances of longer maturities, together with a falling off in the supply of new bills followed the rise on May 20 from 3 1/8 to 3 1/4 per cent in the offering rate on 60-90 day acceptances in Chicago and New York. The result of this situation was that during the period from May 21 to June 17 demand was on the whole more nearly equal to supply and rates on 90-day maturities remained unchanged. Short bills at the end of the period were somewhat easier and longer maturities slightly firmer. The strongest demand was for 90-day bills, an actual scarcity of which was reported toward the end of the period, while 30-60 day bills remained in fair supply and composed the bulk of the dealers' portfolios. In the New York market after the rise in rate the excess supply noted in May was gradually reduced and at the end of the period dealers' portfolios were reduced to a new low point for the year, and offerings to the reserve banks were moderate. On June 12 in New York and on June 15 in Boston the buying rate of the Federal Reserve Bank was raised 1/8 per cent on 90-day bills. In Boston the supply continued in excess of demand through the first week in June, accompanied by heavy offerings to the reserve banks, a situation which was subsequently relieved by the improved demand during the latter part of the period. In Philadelphia the market was reported as relatively inactive. In Chicago supply was moderate, while demand showed considerable improvement over the preceding period.

Rates in the New York market on June 17 were 3 1/8 bid and 3 per cent offered on 30-day bills, 3 1/4 bid and 3 1/8 per cent offered on 60-day bills, 3 3/8 bid and 3 1/4 per cent offered on 90-day bills, with 3 5/8 to 3 3/4 bid and 3 1/2 to 3 5/8 per cent offered on the longest maturities.

X-4369

TREASURY DEPARTMENT
Office of the Secretary
WASHINGTON

June 23, 1925.

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, 1925, to June 20, 1925, amounting to $102,718.00, as follows,-

Federal Reserve Notes, 1914

	$5	$10	$20	$50	Total
Boston	247,000	249,000	155,000	-	651,000
New York	747,000	-	-	-	747,000
Philadelphia	389,000	-	50,000	25,000	464,000
Cleveland	-	-	100,000	25,000	125,000
Atlanta	100,000	-	-	-	100,000
Chicago	131,000	-	-	-	131,000
Minneapolis	100,000	-	-	-	100,000
Kansas City	100,000	-	-	-	100,000
San Francisco	200,000	-	50,000	-	250,000
	2,014,000	249,000	355,000	50,000	2,668,000

2,668,000 sheets at $38.50 per M $102,718.00

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

	Sheets	Compensation	Plate Printing	Materials	Total
Boston	651,000	$11,555.25	$5,325.18	$8,183.07	$ 25,063.50
New York	747,000	13,259.25	6,110.46	9,389.79	28,759.50
Philadelphia	464,000	8,236.00	3,795.52	5,832.48	17,864.00
Cleveland	125,000	2,218.75	1,022.50	1,571.25	4,812.50
Atlanta	100,000	1,775.00	818.00	1,257.00	3,850.00
Chicago	131,000	2,325.25	1,071.58	1,646.67	5,043.50
Minneapolis	100,000	1,775.00	818.00	1,257.00	3,850.00
Kansas City	100,000	1,775.00	818.00	1,257.00	3,850.00
San Francisco ...	250,000	4,437.50	2,045.00	3,142.50	9,625.00
	2,668,000	$47,357.00	21,824.24	33,536.76	$102,718.00

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,

S. R. Jacobs,
Deputy Commissioner.

X-4369

TREASURY DEPARTMENT
Office of the Secretary
WASHINGTON

July 3, 1925.

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 22 to June 30, 1925, amounting to $39,308.50, as follows:-

Federal Reserve Notes, 1924

	$5	$10	$20	Total
Boston.....	153,000	191,000	45,000	389,000
New York.....	153,000	-	-	153,000
Philadelphia.....	211,000	-	-	211,000
Chicago.....	169,000	-	-	169,000
San Francisco.....	99,000	-	-	99,000
	785,000	191,000	45,000	1,021,000

1,021,000 sheets at $38.50 per M. $39,308.50

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

	Sheets	Compensation	Plate Printing	Materials	Total
Boston.....	389,000	$6,904.75	$3,182.02	$4,889.73	$14,976.50
New York.....	153,000	2,715.75	1,251.54	1,923.21	5,890.50
Philadelphia.....	211,000	3,745.25	1,725.98	2,652.27	8,123.50
Chicago.....	169,000	2,999.75	1,382.42	2,124.33	6,506.50
San Francisco.....	99,000	1,757.25	809.82	1,244.43	3,811.50
	1,021,000	$18,122.75	$8,351.78	$12,833.97	$39,308.50

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

Respectfully,

S. R. JACOBS,
Deputy Commissioner.

FEDERAL RESERVE BOARD

WASHINGTON

X-4370

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 30, 1925.

SUBJECT: Opinion of Circuit Court of Appeals in First National Bank of Denver v. Federal Reserve Bank of Kansas City.

Dear Sir:

Through the courtesy of Mr. Leedy, Counsel for the Federal Reserve Bank of Kansas City, I enclose for your information an opinion rendered recently by the United States Circuit Court of Appeals for the Eighth Circuit in the above entitled case.

This was a suit similar to the Malloy case for a loss on certain checks handled by the Federal Reserve Bank under Regulation J, Series of 1920. The Federal Reserve Bank sent the checks direct to the drawee bank which remitted by means of an exchange draft and then failed before the exchange draft could be collected. The plaintiff alleged that the Federal Reserve Bank was negligent in accepting an exchange draft in lieu of cash. The Federal Reserve Bank demurred to the complaint and contended that it did not state a cause of action because there was no privity of contract between the Federal Reserve Bank and the plaintiff. The District Court sustained the demurrer; but the Circuit Court of Appeals reversed this holding, on the ground that the contract printed on the deposit slip imported the Massachusetts rule into the transaction and, therefore, there was a privity of contract between the plaintiff and the Federal Reserve Bank.

Your attention is especially called to the concurring opinion of Judge Trieber, which discusses the question whether or not Regulation J and the check collection circular of the Federal Reserve Bank have the force and effect of law and will be judicially noticed or whether they must be introduced in evidence. While I doubt that the Federal Reserve Bank's collection circular has the force and effect of law, I am confident that Regulation J does. See United States v. Grimaud, 220 U.S. 506 and numerous cases cited therein; also United States v. Sacks, 257 U.S. 37; and United States v. Janowitz, 257 U.S.42.

Very truly yours,

Walter Wyatt,
General Counsel.

To Counsel for all F.R.Banks except Kansas City.

Enclosure:

X-4370-a

UNITED STATES CIRCUIT COURT OF APPEALS
Eighth Circuit.

No. 6859 - May Term, A.D.1925.

The First National Bank of Denver, Plaintiff in Error,	)	
vs.	)	In Error to the District Court of the United States for the District of Colorado.
Federal Reserve Bank of Kansas City, Missouri, Defendant in Error,	)	

Mr. Horace Phelps (Mr. Gerald Hughes, Mr. Clayton C. Dorsey and Mr. James D. Benedict were with him on the brief), for plaintiff in error.

Mr. Mason A. Lewis (Mr. James B. Grant, Mr. Robert L. Stearns, Mr. James E. Goodrich and Mr. H. G. Leedy were with him on the brief), for defendant in error.

Before KENYON, Circuit Judge, and TRIEBER and PHILLIPS, District Judges.

PHILLIPS, District Judge, delivered the opinion of the Court.

The First National Bank of Denver, hereinafter called plaintiff, brought this action against the Federal Reserve Bank of Kansas City, hereinafter called defendant, to recover the sum of $8,851.46, damages alleged to have been caused by the negligence of the defendant in the collection of nine checks.

The second amended complaint of plaintiff in substance alleges:

That the plaintiff is a national banking corporation organized and existing under the national banking laws of the United States; that the defendant is a federal reserve bank organized and existing under the Federal Reserve Act: and that the Citizens State Bank of Ordway, Colorado, (hereinafter called Citizens Bank) was a state bank organized and existing under the laws of the State of Colorado.

"That on, to-wit, the 27th day of September, 1921, and both prior and subsequent thereto, John Amicon Brother and Company, (hereinafter called Amicon Company) of Ordway, Colorado, was the owner of a commercial or checking account in the said The Citizens * * * Bank * * *, the balance therein to the credit of said depositor being in excess of the sum of Eight Thousand Eight Hundred Fifty-one Dollars Forty-six Cents ($8,851.46); that prior to said date, the * * * Amicon * * * Company, for value, made, executed and delivered to the Hallack and Howard Lumber Company, (hereinafter called Lumber Company) of Denver, Colorado, nine (9) certain checks drawn by the * * * Amicon * * * Company to the order of the * * * Lumber Company for the aggregate sum of Eight Thousand Eight Hundred Fifty-one Dollars Forty-six Cents ($8,851.46). * * *

"That on the 27th day of September, 1921, the * * * Lumber Company endorsed said nine checks and deposited the same with the plaintiff * * * to transmit for collection; that the deposit slip accompanied by said deposit made by said * * * Lumber Company, contained the following provisions:

'This bank will observe due diligence in its endeavor to select responsible agents, but will not be liable in case of their failure or negligence or for loss of items in the mail. Checks on this bank will be credited conditionally; if not found good at the close of business on day deposited they will be charged back to the depositor and the latter notified. All items are credited subject to final cash payment and are handled at risk of depositor.'

"That on said date, to-wit, the 27th day of September, 1921, said plaintiff * * * did credit the amount of said checks at face to the checking or commercial account of said * * * Lumber Company with said plaintiff, and did, in the usual course of business, endorse

and deliver said checks and other checks for collection to the defendant,Federal Reserve Bank of Kansas City, Denver Branch,"

That thereafter the defendant endorsed each of said checks on the back thereof as follows:

"Pay to the order of any bank or trust company. All previous endorsements guaranteed. September 28, 1921. Denver Branch, Federal Reserve Bank Kansas City, Denver Colorado.",

and thereupon transmitted said checks directly to the Citizens Bank for payment. That on October 5, 1921, the Citizens Bank issued for said nine checks and other checks, its draft drawn on the Central Savings Bank & Trust Company of Denver, in favor of the defendant, for the sum of $9,928.19, stamped said nine checks "paid", debited the account of Amicon Company with the amount thereof, and returned the checks to the Amicon Company. That on October 5, 1921, the Citizens Bank transmitted said draft by mail to the defendant, and on October 6, 1921, the defendant received and accepted the same.

That on October 8, 1921, the Citizens Bank was closed by the order of the State Bank Commissioner of Colorado; that on October 6, 1921, the defendant presented said draft to the drawee bank, and payment was refused; that on October 25, 1921, defendant notified plaintiff by letter that said checks had not been collected, and that the defendant was holding said unpaid draft therefor.

That prior to the commencement of this action, the Lumber Company assigned to the plaintiff all its right, title and interest in and to said checks and its claim and cause of action against the defendant, on account of the matters and things alleged in the second amended complaint.

That the plaintiff in acting as the collecting agent of said checks was negligent and violated its duty in the following respects:

" * * * * *

"(c) In failing to collect from said drawee bank the amount of said checks in cash.

"(d) In accepting for said checks a draft to its order in payment thereof.

"(e) In transmitting and delivering to said drawee bank said checks without receiving therefor in cash the amount thereof and in placing itself in a position of inability to restore said checks to the plaintiff.

* * * * *

"(g) In failing to use ordinary diligence in requiring said drawee bank to promptly pay said checks or return the same."

To this second amended complaint, the defendant demurred upon the ground that it did not state facts sufficient to constitute a cause of action. The lower court sustained the demurrer. The plaintiff elected to stand on its second amended complaint, and thereupon judgment was entered dismissing the action at the cost of plaintiff. From this judgment, the plaintiff sued out a writ of error to this court.

At the hearing on the demurrer plaintiff announced that it sought recovery, not upon any liability directly from defendant to plaintiff but solely upon the assigned cause of action.

The assignments of error raise one principal question: Does the second amended complaint state facts sufficient to constitute a cause of action against the defendant? The defendant contends that there was no privity of contract between the Lumber Company and the defendant, and that therefore the foregoing question should be answered in the negative.

Although the checks were endorsed in blank, they were endorsed and deposited to be transmitted for collection, and the credit given therefor in the account of the Lumber Company with the plaintiff bank was subject to the right to charge the checks back to such account if payment therefor in cash was not received. Such being the facts the endorsement did not transfer the title to the checks to the plaintiff. First National Bank of Eads v. Fleming State Bank, 74 Colo.309,221 Pac.891; Burton v. U.S., 196 U.S. 283,303; Note 7 L. R. A. (N.S.) 694; 3 R. C. L. Sec. 152, p. 524; 7 C. J. Sec. 245, p. 597, Sec. 246, p. 600.

There exist two rules among the state courts touching the responsibility of banks undertaking collections at a distance. One known as the New York rule, is that where a bank undertakes to

collect a check or other bill of exchange, it is liable for neglect of duty in its collection arising from the default either of its own officers or any sub-agent employed to assist in collecting the paper, in the absence of contract or statute varying such liability. The other rule known as the Massachusetts rule, is that the initial bank is liable only for the selection of a suitable local agent with whom to entrust the collection and for the transmission of the paper to such agent with proper instructions. Exchange National Bank v. Third National Bank, 112 U. S. 276, 281; Federal Reserve Bank of Richmond v. Malloy, et al. 264, U. S. 160, 164.

Under the New York rule there is no privity of contract between the owner and the sub-agent. Under the Massachusetts rule, the bank to which the initial bank forwards the paper for collection becomes the agent of the owner. Bank v. Malloy, supra.

The New York rule has been adopted and followed by the national courts. Bank v. Malloy, supra; Exchange National Bank v. Third National Bank, supra; Cal. National Bank v. Utah National Bank, (C. C. A.8) 190 Fed. 318; Smith v. National Bank of D.O. Mills & Co., 191 Fed. 226; City of Douglas v. Federal Reserve Bank of Dallas, (C. C. A.5) 2 F. (2d) 818.

The underlying principle of the New York rule is that the initial bank, in the absence of statute or contract to the contrary, undertakes the collection of the paper as an independent contractor.

In Exchange National Bank of Pittsburgh v. Third National Bank of New York, supra, the Exchange National Bank having discounted before acceptance eleven drafts, drawn by Rogers and Burchfield, at Pittsburgh, in favor of J. D. Baldwin, on Walter M. Conger, Sec'y Newark Tea Tray Company, Newark, New Jersey, transmitted them to the Third National Bank for collection. The latter sent them to its correspondent, the First National Bank of Newark. The Exchange National Bank sought to hold the Third National Bank for the defaults of the Newark bank. The court in part said:

"The agreement of the defendant in this case was to collect the drafts, not merely to transmit them to the Newark Bank for collection. This distinction is manifest; and the question presented is, whether the New York bank, first receiving these drafts for collection, is responsible for the loss or damage resulting from the de-

fault of its Newark agent. There is no statute or usage or special contract in this case, to qualify or vary the obligation resulting from the deposit of the drafts with the New York bank for collection. On its receipt of the drafts, under these circumstances, an implied undertaking by it arose, to take all necessary measures to make the demands of acceptance necessary to protect the rights of the holder against previous parties to the paper. * * * The contract, then, becomes one to perform certain duties necessary for the collection of the paper and the protection of the holder. The bank is not merely appointed an attorney, authorized to select other agents to collect the paper. Its undertaking is to do the thing, and not merely to procure it to be done. In such case, the bank is held to agree to answer for any default in the performance of its contract; and, whether the paper is to be collected in the place where the bank is situated, or at a distance, the contract is to use the proper means to collect the paper, and the bank, by employing sub-agents to perform a part of what it has contracted to do, becomes responsible to its customer. This general principle applies to all who contract to perform a service. * * *

"The distinction between the liability of one who contracts to do a thing and that of one who merely receives a delegation of authority to act for another is a fundamental one, applicable to the present case. If the agency is an undertaking to do the business, the original principal may look to the immediate contractor with himself, and is not obliged to look to inferior or distant undercontractors or sub-agents, when defaults occur injurious to his interest.

"Whether a draft is payable in the place where the bank receiving it for collection is situated, or in another place, the holder is aware that the collection must be made by a competent agent. In either case, there is an implied contract of the bank that the proper measures shall be used to collect the draft, and a right, on the part of its owner, to presume that proper agents will be employed, he having no knowledge of the agents. There is, therefore, no reason for liability or exemption from liability in the one case which does not apply to the other. And, while the rule of law is thus general, the liability of the bank may be varied by consent, or the bank may refuse to undertake the collection. It may agree to receive the pa-

per only for transmission to its correspondent, and thus make a different contract, and become responsible only for good faith and due discretion in the choice of an agent. If this is not done, or there is no implied understanding to that effect, the same responsibility is assumed in the undertaking to collect foreign paper and in that to collect paper payable at home. On any other rule, no principal contractor would be liable for the default of his own agent, where from the nature of the business, it was evident he must employ sub-agents. The distinction recurs, between the rule of merely personal representative agency and the responsibility imposed by the law of commercial contracts. This solves the difficulty and reconciles the apparent conflict of decision in many cases. The nature of the contract is the test. If the contract be only for the immediate services of the agent, and for his faithful conduct as representing his principal, the responsibility ceases with the limits of the personal services undertaken. But where the contract looks mainly to the thing to be done, and the undertaking is for the due use of all proper means to performance, the responsibility extends to all necessary and proper means to accomplish the object, by whomsoever used."

From the foregoing it will be observed that the duties and responsibilities of the initial bank depend upon the contract made between it and the owner. Instead of contracting to undertake the collection of the item the initial bank "may agree to receive the paper only for transmission to its correspondent, and thus make a different contract, and become responsible only for good faith and due discretion in the choice of an agent."

What was the agreement in the instant case? Under the express allegations of the second amended complaint, which for the purposes of the demurrer stand as admitted, the checks were endorsed and delivered to the plaintiff, not to collect but "to transmit for collection" under a contract expressly limiting the liability of plaintiff, the initial bank. As said by the Supreme Court, in Exchange National Bank v. Third National Bank, supra, the distinction between an agreement to collect and an agreement to transmit for collection is manifest. In the former, the initial bank undertakes as an independent contractor to collect the paper, "the contract looks mainly to the thing to be done, the undertaking is for the due use of

all proper means to performance", and "the responsibility extends to all necessary and proper means to accomplish the object, by whomsoever used". In the latter, the agreement is to transmit for collection and the sole responsibility of the initial bank is to select and transmit to a competent agent with proper instructions. Clearly, under the contract plaintiff limited its liability to transmit the checks to a competent agent with proper instructions.

The right of the initial bank to so limit its liability by contract is clearly recognized by those jurisdictions which follow the New York rule. They say the Massachusetts rule may be imported into the contract by statute or by agreement, express or implied. Bank v. Malloy, supra; Exchange National Bank v. Third National Bank, supra; Cal. National Bank v. Utah National Bank, supra; Capital Grain & Feed Co. v. Federal Reserve Bank of Atlanta, 3 F. (2nd) 614, 615; Note 52 L. R. A. (N.S.) 634.

The plaintiff endorsed and transmitted the checks to the defendant "for collection" and the defendant received and accepted them for collection. Where the owner of a bill of exchange endorses and delivers the same to a bank, not to collect but as the agent of the owner to transmit for collection, the first bank, accepting the paper for collection, becomes the agent of and liable to the owner. McBride v. Ill. Nat. Bank, 148 N. Y. S. 654, 121 N.Y.S. 1041; Columbia Overseas Corp. v. Banco Nacional Ultra-Marino, 191 N. Y. S. 85, 87; Kelly v. Phoenix National Bank, 45 N. Y. S. 533; Bank of Washington v. Triplett and Neale, 26 U. S. (1 Pet.) 25.

In McBride v. Bank, supra, the facts were substantially these: On May 10, 1907, the Western Tool Works of Galesburg, Illinois, made its promissory note, due September 10, 1907, to the order of the Goodyear Tire and Rubber Company of Akron, Ohio, for $6,432.44, payable at the Galesburg National Bank, Galesburg, Illinois. The Rubber Company endorsed the note for discount to the National City Bank of Akron, Ohio. Shortly before the maturity of the note, the National City Bank sent it to its correspondent, the First National Bank of Cleveland, Ohio, for collection. The latter acknowledged receipt of the same in a letter containing the following:

"In receiving and forwarding paper outside of this city, this bank acts only as your agent, using its best efforts in selecting its

correspondents, and will assume no responsibility except for its own acts."

The Cleveland bank forwarded the note to the Commercial National Bank of Chicago, Illinois. The latter acknowledged the same on a postal card upon which was printed the following:

"All items not payable in Chicago received by this bank for collection or credit, are taken at owners risk. This bank, as agent for owner, will forward such items to banks out of this city, and assumes no responsibility for neglect, default or failure of such banks, nor for losses occurring in the mail. Should any bank convert the proceeds or remit therefor in checks or drafts, which are dishonored, the amount for which credit has been given will be charged back and dishonored paper returned."

The Chicago bank transmitted the note to the Illinois National Bank, for collection, and the latter bank accepted the note for collection. The Illinois National Bank forwarded the note to the Peoples Trust & Savings Bank of Galesburg, Illinois. McBride, as assignee of the National City Bank, sought to hold the Illinois National Bank for the neglect of the People's Trust & Savings Bank in failing to properly present the note for payment, whereby an endorser was discharged from liability. The court held that the undertaking of the Cleveland and Chicago banks were not to collect but to transmit for collection, that the Peoria bank was the first bank to undertake without qualification or limitation of liability the collection of the note, and that the Peoria bank became the agent of the National City Bank for the collection of the note and was liable for the negligence of its correspondent.

In the recent case of Capital Grain & Feed Co. v. Federal Reserve Bank of Atlanta, (D. C.) 3 F. (2d) 614, where a check was deposited in the bank for collection and credit subject to an agreement that "This bank acts only as collecting agent and assumes no liability on account of delay or loss while items are in transit, or until it receives final actual payment from its correspondents" the court held that the correspondents through which the initial bank sent the check for collection were not the agents of the initial bank but agents of the depositor, and that any right of action against the correspondents for delay or default was in the depositor.

But counsel for defendant contend that, notwithstanding the checks were endorsed and delivered by the Lumber Company to the plaintiff solely to be transmitted for collection and the defendant received the checks from the plaintiff for collection, still there was no privity of contract between the Lumber Company and defendant. They say this is true because the checks were endorsed by the Lumber Company in blank, the defendant had no knowledge that the plaintiff had so limited its duties and liabilities by contract, and plaintiff did not in employing defendant to collect the checks advise the latter that plaintiff was acting as the agent of the Lumber Company.

Under the facts now disclosed by the pleadings we cannot see how want of knowledge of the contract and the agency should make any difference. The presumption is that the defendant accepted the checks for collection without agreement express or implied limiting its liability. The burden is upon it to show the contrary. National Revere Bank v. National Bank of Republic, 172 N. Y. 102, 108, 64 N. E. 799; McBride v. Illinois National Bank, supra. Therefore, its duties in the premises were exactly the same whether it was acting as the agent of the plaintiff or of the Lumber Company, and it can make no difference to defendant whether it is called upon to answer for its neglect of duty to the plaintiff or to the Lumber Company, as its principal.

Furthermore, it is well settled that, where an agent, acting within his authority as such, enters into a simple contract in his own name with a third person for the benefit of his undisclosed principal, the contract inures to the benefit of the principal, and such principal may appear, claim the benefits of such contract, and sue in his own name for a breach of the contract or of a legal duty growing out of the same. New Jersey Steam Navigation Co. v. Merchants Bank of Boston, 47 U. S. (6 How.) 343, 378, 379, 380; Block, et al. v. Mayor, etc. of City of Meridian, Miss., (C. C. A. 5) 169 Fed. 516, 521; Morris v. Chesapeake & O. S. S. Co., (D. C.) 125 Fed. 62, 66, 148 Fed. 11; Fernandina Shipbuilding & Dry Dock Co. v. Peters, et al., (D. C.) 283 Fed. 621, 626; Ford v. Williams, 62 U. S. (21 How.) 287; Baldwin v. Bank of Newbury, 68 U. S. (1 Wall.) 234; 2 C. J. 873; 21 R. C. L. Sec. 72, p. 897.

In Ford v. Williams, supra, an agent of Ford made a written contract in the agent's name for the benefit of Ford with Williams without disclosing Ford's name or interest. The court held Ford might maintain an action at law on the contract in his own name against Williams. The court said:

"The contract of the agent is the contract of the principal, and he may sue or be sued thereon, though not named therein."

In an action by the undisclosed principal against the other party to such a contract, the latter, if he entered into the contract without knowledge of the agency or of facts which charge him with notice thereof, may avail himself of any defense which existed in his favor against the agent at the time of the disclosure to him of the existence of the real principle. New Jersey Steam Navigation Co. v. Bank, supra; 2 C. J. p. 877; 21 R. C. L. Sec. 77, p. 901; Note 28 L. R. A. (N.S.) 227.

In the case of Bank of Washington v. Triplett & Neale, 26 U. S. (1 Pet.) 25, the facts were these: Triplett & Neale were the owners of an inland bill of exchange dated June 19, 1817, drawn by W. H. Briscoe, for $625.34, at four months after date, in favor of Triplett & Neale, upon Peter A. Carnes, of Washington, D. C. Triplett & Neale delivered the bill to the cashier of Mechanics Bank of Alexandria, to be transmitted to a bank in Washington for collection, and endorsed it in blank for that purpose. The cashier of the Mechanics Bank of Alexandria endorsed the bill to the order of S. Eilliott, Jr., Cashier of the Bank of Washington, and forwarded the same by mail to the Bank of Washington for collection. Triplett & Neale broughtan action against the Bank of Washington to recover damages for mal-agency in connection with the collection of the bill. At the trial, the Bank of Washington moved the court to instruct the jury to find a verdict in its favor. Two of the grounds therefor were the same as are here suggested in the contentions made by the defendant. Chief Justice Marshall, in passing on these contentions, said:

"The plaintiffs in error (Bank of Washington) insist, that the circuit court ought to have given the instructions first asked, because, 1st, no privity existed between the real holders of the bill and the Bank of Washington; that bank was not the agent of Triplett

& Neale, but was the agent of The Mechanics' Bank of Alexandria. Some cases have been cited, to show, that if an agent employed to transact a particular business, engages another person to do it, that other person is not responsible to the principal. On this point, it is sufficient to say, that these cases, however correctly they may have been decided, are inapplicable to the case at bar. The bill was not delivered to the Mechanics' Bank of Alexandria for collection, but for transmission to some bank in Washington, to be collected: that bank would, of course, become the agent of the holder. By transmitting the bill, as directed, the Mechanics' Bank performed its duty, and the whole responsibility of collection devolved on the bank which received the bill for that purpose: the Mechanics' Bank was the mere channel through which Triplett & Neale transmitted the bill to the Bank of Washington.

"The deposit of a bill in one bank, to be transmitted for collection, to another, is the common usage, of great public convenience, the effect of which is well understood. This transaction was, unquestionably, of that character: and there is no reason for suspecting that the Bank of Washington did not so understand it. The duty of that bank was precisely the same, whoever might be the owner of the bill: and if it was unwilling to undertake the collection, without precise information on the subject, that duty ought to have been declined. The custom to indorse a bill put in bank for collection, is universal: and the Bank of Washington had no more reason for supposing that Triplett & Neale had ceased to be the real holders, from their indorsement, than for supposing that the cashier of the Bank of Washington, had become the real holder, by the indorsement to them. It is the customary proceeding for collection, in such cases; and is for the advantage of the party interested."

Assuming the truth of the facts alleged in the complaint, we conclude that the defendant undertook in behalf of the Lumber Company, the collection of the checks, and is directly answerable to the Lumber Company for any breach of its legal duties in connection therewith.

So far as the record now discloses, the defendant had no authority to accept anything other than money in payment of the checks. When it surrendered the checks and accepted the draft

of the Citizens Bank in payment thereof, it became liable to the owner of the checks for any resulting loss. Federal Reserve Bank v. Malloy, 264 U. S. 160, 165.

Counsel for defendant urge that under the provisions of Regulation J. (8) Series 1920 promulgated by the Federal Reserve Board, it was authorized to accept the draft of the Citizens Bank in payment of the checks. This identical question was passed on in Bank V. Malloy, supra, and decided adversely to defendant's contention.

It follows that the second amended complaint stated a cause of action against the defendant, and that the lower court erred in sustaining the demurrer thereto. The judgment is therefore reversed, and the cause remanded for further proceedings in conformity with this opinion.

Filed May 25, 1925.

Trieber, District Judge, (concurring).

I concur in a reversal of this judgment upon the ground that the complaint alleges that the checks in controversy were deposited with the plaintiff "to transmit for collection", and upon the express agreement between it and its depositor, that: "All items are credited subject to final cash payment and are handled at risk of depositor." These allegations are admitted by the demurrer to the complaint.

The plaintiff was therefore acting only as agent of the depositor in endorsing and delivering them to the defendant for collection, and sues as assignee of the Hallock & Howard Lumber Company, its principal, although undisclosed at the time the checks were delivered to the defendant. So far as the defendant is concerned, the undisclosed principal may maintain an action against the agent selected by its agent to collect the checks as established by the authorities cited in the opinion of Judge Phillips.

But counsel for the defendant in his brief and argument insisted that Section 11 of paragraph "i" of the Federal Reserve Act authorized the Federal Reserve Board "to make all rules and regula-

tions necessaryto enable said Board effectively to perform the same, (referring to the powers granted to the Federal Reserve Bank).

That in pursuance of that authority the Federal Reserve Board by Regulation "J", Series of 1920, promulgated the following rule:

"(8). In handling items for member and nonmember clearing banks, a Federal Reserve Bank will act as agent only. The Board will require that each member and nonmember clearing bank authorize its Federal Reserve Bank to send checks for collection to banks on which checks are drawn, and, except for negligence, such Federal Reserve Bank will assume no liability. 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 to be binding upon all member and nonmember banks which are clearing through the Federal Reserve Bank."

That by that regulation each Federal Reserve Bank is authorized to promulgate rules and regulations to be binding upon all member and nonmember banks which are clearing through the Federal Reserve Bank.

That pursuant to this authority the defendant Federal Reserve Bank issued General Letter No. 223, dated November 15, 1919, containing among other regulations, the following:

"In accepting checks and drafts from member and clearing member banks, the Federal Reserve Bank of Kansas City will act as agent only, and will be liable in no case, except for negligence. The Federal Reserve Bank of Kansas City reserves the right to charge back against the member of clearing member bank's account, all unpaid items and any other items, returns for which cannot be converted into available funds. Such items will be charged back whether or not the original checks or drafts can be returned to the member or clearing member bank.

"The sending of items by member and clearing member banks to the Federal Reserve Bank of Kansas City for credit will be construed as adopting the instructions stated herein; accepting the provisions here detailed as to relationship of the Federal Reserve Bank of Kansas City in handling transit business; and authorizing the Federal Reserve Bank of Kansas City in its discretion to forward any items for payment direct to the bank on which they are drawn."

And it is claimed that these regulations of the Federal Reserve Board and the defendant Federal Reserve Bank have the same force and effect, as if a part of the Act of Congress, and the courts will take judicial notice of them, without being pleaded or established by evidence at the trial of the cause, citing Caha v. United States, 152 U. S. 211, and the many cases following it. Whether the authority to make rules and regulations applies to any other powers of the Federal Reserve Board than those specified in that paragraph "i", or applies to all the powers enumerated in Section 11 of the Act, or whether Congress can grant the power to make regulations, which are to have the force and effect of a law, to others than the President or the head of a department of the government, it is unnecessary to determine at this hearing, for there is certainly no provision in the Act of Congress authorizing the Federal Reserve Banks to make regulations, which shall have the force and effect of law and of which the courts must take judicial notice, without being pleaded and established at the trial by competent evidence.

It will be noticed that in Federal Reserve Bank v. Malloy, 264 U. S. 160, 164, the court did not determine whether the Federal Reserve Bank was negligent in sending the check direct to the drawee bank, as authorized by that regulation of the Board, saying:

"For the purpose of the case, we assume the correctness of the decision below, holding that the Richmond Bank was not negligent in sending the check directly to the bank on which it was drawn, and consider only whether the acceptance of an exchange draft, found to be worthless, instead of money, created an enforceable liability."

It then proceeded to hold that the acceptance of an exchange draft, which proves worthless, makes the collecting bank liable to the payee of the check for the resulting loss.

Neither of the regulations, that of the Federal Reserve Board, or that of the Federal Reserve Bank was taken judicial notice of by the court in its opinion.

If these regulations or either of them have not the force and effect of a law, the court cannot take judicial notice of them, but they must be pleaded and at the trial established by proper evidence. As there was no such plea, the case having been disposed of on the demurrer to the amended complaint, I concur in a reversal.

Filed May 25, 1925.

BROOKINGS STATE BANK

v.

FEDERAL RESERVE BANK OF SAN FRANCISCO.

DECISION ON MOTION TO DISMISS.

WOLVERTON, D. J. May 19, 1925.

The first question in this case arises under the new act which was approved February 13, 1925, and which is brought into requisition here for showing that this court has been deprived of its jurisdiction to entertain the cause. Two or three sections of that statute are relied upon for that contention. It is provided by section 12:

> "That no district court shall have jurisdiction of any action or suit by or against any corporation upon the ground that it was incorporated by or under an Act of Congress; Provided, that this section shall not apply to any suit, action, or proceeding brought by or against a corporation incorporated by or under an Act of Congress wherein the Government of the United States is the owner of more than one-half of its capital stock."

Section 14 is also cited, which reads:

> "That this act shall take effect three months after its approval; but it shall not affect cases then pending in the Supreme Court, nor shall it affect the right to a review, or the mode or time for exercising the same, as respects any judgment or decree entered prior to the date when it takes effect."

Now, there is the inclusion in the first case of certain corporations which own stock to exceed one-half of the capital stock. That must be read as excluding all other corporations. And in the second case, where

the statute includes the right of review, or the mode or the time of exercising the same, as respects any judgment or decree entered prior to the date when it takes effect, there is the inclusion of the judgment and decree, and we must read it as the exclusion of all other suits pending where the cases have not gone to judgment or decree. Based upon that idea, the court is of the opinion that the statute itself is not prospective, but retrospective. I have not attempted to go into the constitutional question, which has been ably argued by the plaintiff's counsel. What he has had to say is quite persuasive in my mind, but, for my present understanding and my present opinion, I believe that the statute itself is not prospective, but retrospective, and that that statute, as it applies to this case, will cut off further litigation.

The other question that is presented is whether or not the complaint shows that there is a federal question involved.

Now the complaint, in the first place, alleges;

"That the defendant, Federal Reserve Bank of San Francisco, is a corporation organized, created and existing under and by virtue of the laws of the United States, and being the Federal reserve system of the United States, the principal office of which is in the city of San Francisco, California; that said bank is doing business within the State of Oregon and has duly organized a branch bank in pursuance of the Federal Reserve Act, which said branch bank is located in Portland, Multnomah County, Oregon, and that said defendant is carrying on the business of a reserve bank and is doing business within the State of Oregon."

In addition to that, the complaint alleges:

"That the Federal Reserve Bank of San Francisco, in accordance with the policy adopted by the Federal Reserve Board and numerous other Federal Reserve Banks of the United States, has determined upon a policy of par clearance for all member banks which upon joining said system are required to agree to remit at par, and the Federal Reserve Bank of San Francisco, about the last of 1919 or the first of 1920, determined to force all banks throughout the twelfth Federal Reserve district, and particularly the plaintiff herein, to clear checks at par and determined to require the plaintiff bank to perform the services aforesaid without compensation to it."

And then it goes on to cite particular instances.

Those two clauses comprise all that is contained in the complaint touching the federal question, and the question arises whether that is sufficient to preserve the complaint as a good pleading.

Now, that it may not be said that I have overlooked the principle upon which the pleading must stand, I will quote from defendant's brief. In the case of Hull v. Burr, 234 U. S. 272, the court says:

"The general rule is firmly established that a suit does not so arise under the laws of the United States unless it really and substantially involves a dispute or controversy respecting the validity, construction, or effect of some law of the United States, upon the determination of which the result depends. And this must appear not by mere inference, but by distinct averments according to the rules of good pleading; not that matters of law must be pleaded as such, but that the essential facts averred must show, not as a matter of mere inference or argument, but clearly and distinctly, that suit arises under some federal law."

There is another case which I will read from:

"When a suit does not really and substantially involve a dispute or controversy as to the effect or construction of the Constitution or laws of the United States, upon the determination of which the result depends, it is not a suit arising under the Constitution or laws. And it must appear on the record, by a statement in legal and logical form, such as is

required in good pleading, that the suit is one which does really and substantially involve a dispute or controversy as to a right which depends on the construction of the Constitution or some law or treaty of the United States, before jurisdiction can be maintained on this ground."

That is the statement of Chief Justice Fuller in Western Union Telegraph Co. v. Ann Arbor Railroad Company, 178 U. S. 239.

A further reference is made to the rule in Farson v. City of Chicago, 138 Fed. 184. There the court says:

"The court must look to the substance of the bill to determine whether there is in fact a federal question presented, or whether the federal question, if there be one, is but incidental to the controversy.... The federal courts should be slow to assume jurisdiction, unless it appears that a federal question is necessarily involved."

What is meant there by an incidental question maybe illustrated by suit for title under a patent, where it is questioned as to whether the patent itself was legally issued. That is incidental - that does not involve a federal question.

Now, we all understand very well what a federal question is. It is a question that arises "under the Constitution or laws of the United States, or treaties made or which shall be made under their authority. This class is commonly called federal questions, and a federal question is involved not merely when the construction of a federal statute incidentally arises, but when the case necessarily turns upon the construction of the federal laws, as when the plaintiff would be defeated by one construction, or successful by another."

That is found at page 235, Hughes' Federal Procedure (2 Ed.) And it is said further, as to pleadings (p. 36): "In order for this ground of jurisdiction to exist, a mere general allegation that the plaintiff's case rests upon a construction of the federal Constitution or statutes is not sufficient. The facts in his pleadings must show this. And it must also appear that the plaintiff's own case necessarily depends upon the construction of the federal Constitution or statutes."

I have read those authorities so that it might be understood that the court is not overlooking the principles of pleading upon which a federal question must rest before the pleading can be pronounced to include a federal question.

Now, in order to determine whether or not there is a federal question in existence here, the case of Farmers and Merchants Bank of Monroe, North Carolina, et al. v. Federal Reserve Bank of Richmond, Virginia, (262 U. S. 649), or some parts of it, may be read with effect. This, I should say, is a case where the State of North Carolina had passed an act which was thought by the plaintiffs to impinge upon the Constitution of the United States, and the act itself set forth its provisions touching the matters that are here now involved. The court had under consideration that act, as to whether it was constitutional, and, after setting forth the provisions of the Federal Reserve Act, section 13, and commenting upon that, and asserting what is meant by it, the court goes on and refers to the Hardwick Amendment, which declares;

"That nothing in this or any other section of this Act shall be construed as prohibiting a member or nonmember bank from making reasonable charges, to be determined and regulated by the Federal Reserve Board, but in no case to exceed 10 cents per $100 or fraction thereof, based on the total of checks and drafts presented at any one time, for collection or payment of checks and drafts and remission therefor by exchange or otherwise; but no such charges shall be made against the Federal reserve banks."

And that is what is involved here very largely. After citing that amendment, the court cites the opinion of the Attorney General in his advice to the President, as follows:

"The Federal reserve act, however, does not command or compel these State banks to forego any right they may have under the State laws to make charges in connection with the payment of checks drawn upon them. The act merely offers the clearing and collection facilities of the Federal reserve banks upon specified conditions. If the State banks refuse to comply with the conditions by insisting upon making charges against the Federal reserve banks, the result will simply be, so far as the Federal Reserve Act is concerned, that since the Federal reserve banks can not pay these charges they cannot clear or collect checks on banks demanding such payment from them."

Thenthe court goes on to say, stating the conditions upon which this question arose and the cause for it:

"The Federal Reserve Board andthe federal reserve banks were thus advised that they were prohibited from paying an exchange charge to any bank. But they believed that it was their duty to accept for collection any check on any bank; and that Congress had imposed upon them the duty of making par clearance and collection of checks universal in the United States. So they undertook to bring about acquiescence of the remaining state banks to the system of par clearance. Some of the nonassenting state banks made stubborn resistance. To overcome it the reserve banks held themselves out as prepared to collect at par also checks on the state banks which did not assent to par clearance. This they did by publishing a list," etc. (Going on to state what was done and the efforts that were made).

Now, there was a fourth contention against the constitutionality of the North Carolina Act, and the court, in commenting upon that contention, has this to say:

"One contention is that Sec. 2 conflicts with the Federal Reserve Act because it prevents the federal reserve banks from collecting checks of such state banks as do not acquiesce in the plan for par clearance. The argument rests on the assumption that the Federal Reserve Bank of Richmond is obliged to receive for collection any check upon any North Carolina state bank, if such check is payable upon presentation; and is obliged to collect the same at par without allowing deductions for exchange or other charge. But neither Sec. 13, nor any other provision of the Federal Reserve Act, imposes upon reserve banks any obligation to receive checks for collection. The act merely confers authority to do so. **** Moreover, even if it could be held that the reserve banks are ordinarily obliged to collect checks for authorized depositors, it is clear that they are not required to do so where the drawee has refused to remit except upon allowance of exchange charges which reserve banks are not permitted to pay."

Then in answering the fifth contention of the unconstitutionality of that act, the court says:

"The further contention is made that Sec. 2 conflicts with the Federal Reserve Act because it interferes with the duty of the Federal Reserve Board to establish in the United States a universal system of par clearance and collection of checks. Congress did not in terms confer upon the Federal Reserve Board or the federal reserve banks a duty to establish universal par clearance and collection of checks; and there is nothing in the original act or in any amendment from which such duty to compel its adoption may be inferred."

And then the court discusses the matter generally:

"Moreover, the contention that Congress has imposed upon the Board the duty of establishing universal par clearance and collection of checks through the federal reserve banks is irreconcilable with the specific provision of the Hardwick Amendment which declares that even a member or an affiliated non-member may make a limited charge (except to federal reserve banks) for 'payment of checks and . . . remission therefor by exchange or otherwise.' The right to make a charge for payment of checks, thus regained by member and preserved to affiliated non-member banks, shows that it was not intended, or expected, that the federal reserve banks would become the universal agency for clearance of checks."

Now, that shows very pertinently and pointedly that the question is here, and it is a federal question, whether or not the Federal Reserve Bank may compel par clearance by state banks who are non-affiliated banks. That is the question upon which this case is founded, and it includes the attempt on the part of the Federal Reserve Bank to do an act that it was unauthorized to do - that Congress did not authorize it to do; and it persisted in that. This case that I have read from shows that, and the case I have before me shows it, - that the Federal Reserve Bank persisted upon its alleged right, power and authority to proceed to collect, and to compel the state banks, non-affiliated banks, to clear at par. It is an authority it did not have, and the court has so held. And this court has so held.

Now, the crucial test in this case, and the crucial question - and it is a federal question - is whether or not the Federal Reserve Bank can enforce such collection. It is all folly for a person to say that that question is not a question in this case. The only question is as to whether it has been sufficiently alleged so as to base a complaint upon it; that is, so as to make the complaint sufficient in its allegations. I think, taking the complaint all together, that it is sufficient. It states, first, that the Federal Reserve Bank is an organization under the Act of Congress; and then it states, second, that that organization has

entered upon a certain policy, and that it is proceeding to carry out that policy; and that specially in this case it is proceeding to enforce collection on a par basis. So there is your federal question. It is involved here. It is not stated specifically and pertinently to that end, but I think there is enough in the complaint to establish that it is good - especially at this time. If the point had been raised on demurrer to the complaint, as to whether this complaint stated a cause of action on that point, the court would probably have sustained the demurrer. But this case has gone on, an answer has been filed, it has been tried partially, and now a new trial is coming up, and the complaint is entitled to a liberal construction. I am giving it that construction now. It seems to me that, under the circumstances, this case ought not to fall simply because the jurisdiction of the court has been taken away from it to try cases on the simple ground that one of the parties is a corporation incorporated under an Act of Congress.

This is my conclusion, and I will overrule the motion.

I will say to counsel for plaintiff that, if in their advisement, they desire to amend this complaint, they may have authority to do so.

(COPY) 496

FEDERAL RESERVE BANK OF DALLAS X-4372

June 26, 1925.

My dear Governor Crissinger:

Referring to our exchange of telegrams yesterday, in discussing the matter with Mr. Gilbert and Mr. Stroud, the latter brought up a point that I think is worthy of submission to the Federal Reserve Board for its consideration.

These matters concerning which it seems desirable to employ a special counsel are not unlikely to arise from time to time and, though, like this one, they may be quite important, the importance may probably be accentuated or even over-emphasized by the action of employing special counsel of national reputation and outstanding ability at the time they arise. Our view here is that it might be well for the Board, in its own behalf and representing the twelve banks, to give consideration to employing counsel on a specified retainer so that such counsel would not only be available for cases like the Atlanta and San Francisco cases, but could also act as a sort of Clearing House for the legal departments of all the Federal Reserve Banks.

We appreciate fully that nothing specific could be done about it at this time should the suggestion appeal to the Board, but that it would probably make a live topic of discussion for a joint conference and to that end might be put on the next program as a topic suggested by the Federal Reserve Board. In the meantime it might be well for the matter to be discussed, even though informally, at the coming Counsels' Conference which I understand is to be held in Washington some time in July.

Very truly yours,

(Signed) Lynn P. Talley
Federal Reserve Agent.

Mr. D. R. Crissinger, Governor,
Federal Reserve Board,
Washington, D.C.

(COPY)

X-4372a

June 30, 1925.

Dear Mr. Talley:

Governor Crissinger brought to the attention of the Board this morning your letter of June 26th, in which you submit the suggestion that the Board employ a special counsel on a specified retainer, who would not only be available for cases such as the par clearance suits brought against the Federal Reserve Banks of Atlanta and San Francisco, but could also act as a sort of clearing house for the legal departments of all the Federal reserve banks.

This matter will be discussed by the Federal reserve bank counsel at their meeting on July 13th, and will also be made a topic for consideration at the conference of Governors and Federal reserve agents in the fall.

Very truly yours,

(signed)

Walter L. Eddy,
Secretary.

Mr. Lynn P. Talley,
Federal Reserve Agent,
Federal Reserve Bank,
Dallas, Texas.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 5, 1925,
St. 4388.

SUBJECT: Certification of Franchise Taxes paid on December 31, 1924.

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 following information:

First. Gross earnings, current expenses, and profit and loss account for the calendar year 1924, in the form of tables 73 and 74 printed on pages 167-170 of the Board's 1923 annual report, except that the amounts should be given in dollars and cents.

Second. Statement of condition (in dollars and cents) after closing of books on December 31, 1924, prepared in the form of the Board's consolidated weekly press statement of condition of Federal reserve banks. This statement should also give, as a memorandum item, the amount of the bank's subscribed capital on December 31, 1924, also the balance in your surplus account after closing of books on December 31, 1923.

On the last sheet of these statements should appear the Auditor's certification, countersigned by the Governor or a Deputy Governor, 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 1924, and the condition statement

of such bank after closing of books on December 31, 1924; 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, 1924, 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.

TO CHAIRMEN OF ALL FEDERAL RESERVE BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 29, 1925.
St. 4413.

SUBJECT: Method of Accounting, Special Investment Account, Federal Reserve System.

Dear Sir:

In order to comply with the new method of accounting in connection with the purchase and sale of United States securities by the Open Market Investment Committee, of which you have been advised by the Secretary of the Committee, Federal reserve banks should hereafter report only the total holdings of such securities on the face side of balance sheet form 34, instead of combining these investments with Liberty bonds, Treasury notes, and certificates of indebtedness, respectively, held in the regular investment account. On Wednesday, February 4, and on every Wednesday thereafter, the committee will telegraph you the classification of your participation in the special investment account so that the data may be used in the preparation of your weekly press statement, but it will not be necessary for you to telegraph this classification to the Board. It should, however, be shown on the reverse side of balance sheet form 34 against the captions provided therefor.

On the face side of form 34 your total participation in the special investment account should be reported against caption "Participation - special investment account" code word BAIT, immediately following "Treasury certificates of indebtedness." Code word LADD now shown in the maturity distribution of certificates of indebtedness on the reverse side of form 34 should be omitted from the form 34 telegrams hereafter, as the maturity distribution beginning Wednesday, February 4, will cover only certificates of indebtedness held in your regular investment account.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

LETTER TO GOVERNOR AT EACH FEDERAL RESERVE BANK.

FEDERAL RESERVE BOARD

WASHINGTON

February 18, 1925
St. 4427.

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

SUBJECT: Revised forms St. 51, St. 3501, and St. 92a.

Dear Sir:

There are attached hereto copies of revised forms St. 51 - Principal resources and liabilities of reporting member banks in selected cities, St. 3501 - Monthly report of member bank deposits, and St. 92a - Daily condensed condition statement of Federal reserve bank. A supply of each of the forms is being forwarded to you today under separate cover. The principal changes in the forms are as follows:

Form St. 51. Provision has been made for reporting the principal resources and liabilities of member banks in each of the selected cities of the district, i.e., total figures for each selected city. Code words have been provided, however, only for the district totals, since the Board's weekly member bank press statement no longer shows the totals for Federal reserve bank cities, Federal reserve branch cities, and all other selected cities. As indicated in the note on the form, the report is to be mailed so as to reach Washington not later than 9 o'clock each Wednesday morning, or if this is not practicable, the total figures for the district are to be telegraphed against the code words provided therefor and the mail report sent at your early convenience.

Form St. 3501. The new form shows three grand total items in addition to those now reported, and the note has been changed to provide that the report be mailed hereafter, providing it can be mailed in time to reach the Board's offices by the 20th of the month. Otherwise the items for which code words have been provided are to be telegraphed, and the complete report sent by mail.

Form St. 92a. The distribution of discounted bills according to paper secured by Government obligations and paper otherwise secured and unsecured has been eliminated, so that hereafter only the total amount of bills held under discount for member banks is to be reported. In addition, provision has been made for reporting separately the total holdings of United States Government securities.

Very truly yours,

Walter L. Eddy,
Secretary.

LETTER TO ALL FEDERAL RESERVE AGENTS EXCEPT NEW YORK AND CHICAGO.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

February 10, 1925.
St. 4428.

SUBJECT: Condition of Member Banks
as of December 31, 1924.

Dear Sir:

For your information there is enclosed herewith a preliminary statement regarding the condition of all member banks combined as of December 31, 1924. The Board's abstract (No. 27) 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.

Enclosure.

LETTER TO ALL FEDERAL RESERVE AGENTS.

St. 4428.

CONDITION OF MEMBER BANKS AS OF DECEMBER 31, 1924.

Loans and investments of all member banks increased $576,000,000 between October 10, and December 31, 1924, and reached another record total of $29,027,000,000 or $2,239,000,000 over the total reported on December 31, 1923. Increases in this item since October 10 are shown for all Federal reserve districts except Cleveland and Chicago, although the increase in the New York district is over 50 per cent of the total shown for all member banks. Of the increase of $576,000,000 in loans and investments, $362,000,000 was in loans and discounts, $8,000,000 in U. S. securities and $206,000,000 in other bonds, stocks and securities. The increase since December 31, 1923, was divided almost equally between loans and discounts and investments, the increase in loans and discounts amounting to $1,130,000,000, while the increase in investments was $1,159,000,000.

Total deposits aggregated $32,362,000,000 on December 31, an increase of $1,590,000,000 over the total shown on October 10 of the same year, of $3,875,000,000 over the total on December 31, 1923 and of $9,550,000,000 over the low post-war total of $22,812,000,000 reported for April 28, 1921. Of the increase of $3,875,000,000 shown for the year $1,520,000,000 was in demand deposits, $1,154,000,000 in time deposits, $1,036,000,000 in amounts due to banks, $160,000,000 in certified and cashiers' checks, and $5,000,000 in United States deposits. In the attached table are presented figures reflecting the condition of state bank and trust company members and of all member banks on December 31, 1924.

The following statement shows changes in the principal resources and liabilities of all member banks on the last call date as compared with figures for October 10, 1924, and December 31, 1923.

	Increase (+) or decrease (-) on December 31, 1924, since	
	October 10, 1924	December 31, 1923
Loans and discounts(including overdrafts)	+$362,000,000	+$1,130,000,000
United States securities	+ 8,000,000	+ 262,000,000
Other bonds, stocks and securities	+ 206,000,000	+ 897,000,000
Total loans and investments	+ 576,000,000	+ 2,289,000,000
Demand deposits (including certified and cashiers' checks)	+1,383,000,000	+ 1,680,000,000
Time deposits	+ 208,000,000	+ 1,154,000,000
Bills payable and rediscounts	+ 224,000,000	- 361,000,000
Acceptances outstanding	+ 141,000,000	+ 72,000,000

RESOURCES AND LIABILITIES OF STATE BANK AND TRUST COMPANY MEMBERS AND OF ALL MEMBER BANKS ON DECEMBER 31, 1924.

	All member banks	State bank and trust company members
Loans and discounts (including overdrafts)	$20,181,309,000	$7,855,461,000
U. S. securities	3,902,793,000	1,319,291,000
Other bonds, stocks and securities	4,942,486,000	1,867,721,000
Total loans and investments	29,026,588,000	11,042,473,000
Cash in vault	597,472,000	189,205,000
Reserve with F. R. Banks	2,227,569,000	833,183,000
Items with Federal Reserve Banks in process of collection	724,926,000	237,993,000
Due from banks and bankers	2,339,488,000	560,983,000
Exchanges for clearing house, and checks on other banks in same place	1,935,114,000	853,521,000
All other resources	2,135,710,000	900,518,000
Total resources	38,986,867,000	14,617,876,000
Demand deposits	16,684,038,000	6,325,863,000
Time deposits	9,804,738,000	4,224,966,000
U. S. deposits	242,482,000	91,441,000
Certified and cashiers' checks	1,082,431,000	483,202,000
Total deposits (other than bank)	27,813,689,000	11,125,472,000
Due to banks and bankers	4,547,963,000	1,246,083,000
Bills payable and rediscounts	656,743,000	258,043,000
Acceptances	497,705,000	235,909,000
Capital stock paid in	2,037,481,000	703,445,000
Surplus	1,707,486,000	619,266,000
All other liabilities	1,725,800,000	429,658,000

St. 4428.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

February 13, 1925.

SUBJECT: Bank Examination and Credit Work.

Dear Sir:

An examination of the outlines covering the work performed by the Bank Examinations and Credit departments of the Federal reserve banks furnished this committee in response to its letter of October 7, 1924, indicates that the policy with respect to these functions differs materially among the banks.

It is recognized that the work of these departments of the banks is of the utmost importance as it keeps the reserve banks in close touch with the condition of their members and with the financial standing of the makers of the paper that finds its way into the Federal Reserve System. In view of the similarity of the problems involved, however, it would seem practicable to work out general plans for both bank examinations and credit work, both as to scope and procedure, that would embody the results of several years' experience and would be very helpful to the Reserve banks. In order that this may be done it has been decided to appoint a committee of Federal reserve bank officers who have had direct contact with both phases of this work to review the questionnaires and to submit a report thereon. The committee named is as follows:

F.J.Zurlinden, Deputy Governor,Federal Reserve Bank of Cleveland (Chairman)
J. H. Blair, Deputy Governor,Federal Reserve Bank of Chicago
L.C. Pontious, Deputy Governor,Federal Reserve Bank of San Francisco

It is believed that if the above named committee submits a report which will be acceptable to all Federal reserve banks there should result a saving in expense and possibly an improvement in the quality of the service rendered and in the information available for the System as a whole.

Very truly yours,

Geo. R. James, Chairman,
Committee on Salaries,
Expenditures and Efficiency.

LETTER TO ALL CHAIRMEN

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

March 11, 1925.
St. 4450

Dear Sir:

The Board believes that you and the members of your Board of Directors would be interested in examining the attached statements which reflect the progress made by the Federal reserve banks during the past two years in their efforts to reduce the costs of conducting their various functions. The statements were made up primarily for the information of the members of the Federal Reserve Board, and have as their basis the quarterly functional expense reports rendered to the Board by the Federal reserve banks.

There are also being forwarded to you several copies of the formal reports made to the Board by its Committee on Economy and Efficiency, one in November, 1923, and the other in October, 1924. These reports outline the scope of the work undertaken by the Committee and discuss some of the problems with which it has been confronted. Your directors may wish to read these reports in conjunction with their examination of the statements above referred to.

Very truly yours,

D. R. Crissinger,
Governor.

Enclosures.

LETTER TO CHAIRMAN OF EACH FEDERAL RESERVE BANK.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

March 13, 1925.
St. 4464.

SUBJECT: Debits to Individual Accounts.

Dear Sir:

As you will note from the annual reports of the Federal Reserve Board, it has been our practice for a number of years to publish figures of debits to individual accounts by months. In obtaining the monthly figures we have treated each week as consisting of six business days unless it included a day generally observed throughout the country as a holiday, in which case it has been treated as consisting of five business days only. This method has not worked out in an altogether satisfactory manner, and accordingly, beginning January 1925 we are adjusting debit figures for each city on the basis of actual business days. By reference to data available at this office we find that the report weeks in 1925 which begin in one month and end in another, thus making it necessary to prorate the figures for such weeks in obtaining figures by months, contain the following days observed as holidays in the states specified:

March	2	Texas
March	4	District of Columbia
April	30	New Hampshire
May	30	Arizona, California, Colorado, Connecticut, District of Columbia, Delaware, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Maine, Maryland, Massachusetts, Michigan, Minnesota, Missouri, Montana, Nebraska, Nevada, New Hampshire, New Jersey, New Mexico, New York, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Dakota, Tennessee, Texas, Utah, Vermont, Virginia, Washington, West Virginia, Wisconsin, Wyoming.
June	3	Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, South Carolina, Tennessee, Texas, Virginia.
August	1	Colorado
August	4	Oklahoma
October	31	Nevada
November	1	Louisiana

November 3 Maryland, New Jersey, New York, Oklahoma, Pennsylvania, Virginia.
November 26 All states and the District of Columbia.
January 1, 1926 All states and the District of Columbia.

In case the above list is not correct for any of the states in your district or there are any additional holidays observed locally by cities for which debit figures are published by the Board, it will be appreciated if you will furnish the Board with a corrected list at your early convenience.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

LETTER TO ALL AGENTS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

April 18, 1925.
St. 4502.

SUBJECT: Discontinuance of report of acceptances held on last day of month.

Dear Sir:

You are hereby authorized to discontinue furnishing the Board with the statement showing bankers' acceptances held on the last day of each month, classified according to accepting institutions.

Very truly yours,

Walter L. Eddy,
Secretary.

LETTER TO ALL GOVERNORS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

May 18, 1925.
St. 4531.

SUBJECT: Condition of Member Banks
as of April 6, 1925.

Dear Sir:

For your information there is enclosed herewith a preliminary statement regarding the condition of all member banks combined as of April 6, 1925. The Board's abstract (No. 28) showing the detailed figures for State bank and Trust company members and the combined figures for all member banks will be ready for distribution in the near future.

Very truly yours,

Walter L. Eddy,
Secretary.

Enclosure.

Letter to ALL FEDERAL RESERVE AGENTS.

CONDITION OF MEMBER BANKS AS OF APRIL 6, 1925. St.453la.

Loans and investments of all member banks reached a new record total of $29,285,000,000 on April 6, 1925, the date of the latest call for reports of condition, an increase of $258,000,000 since December 31, 1924, and of $2,453,000,000 since March 31, of the same year. Increases in this item since December 31 are shown by all Federal reserve districts except New York for which a reduction of $211,000,000 is reported. Of the net increase of $258,000,000 in loans and investments, $208,000,000 was in loans and discounts, $13,000,000 in U. S. securities and $37,000,000 in other bonds, stocks and securities. The increase since March 31, 1924, was divided almost equally between loans and discounts and investments, the increase in loans and discounts amounting to $1,214,000,000, and in investments to $1,239,000,000, of which $346,000,000 was in U. S. securities.

Total deposits aggregated $31,227,000,000 on April 6, a decrease of $1,135,000,000 from the total shown on December 31, 1924, but an increase of $2,979,000,000 over the amount reported on March 31, 1924. Of this increase, $1,130,000,000 was in demand deposits, $1,237,000,000 in time deposits, $602,000,000 in amounts due to banks and $120,000,000 in United States deposits, while certified and cashiers' checks fell off $111,000,000. The decrease in deposits since December 31, 1924, is due primarily to charging depositors accounts with the reduction of $860,000,000 in items in process of collection including exchanges for clearing house which took place between December 31, and April 6 such items normally being at a high level at the close of the year. The reduction in total deposits in the New York district alone amounted to $1,048,000,000 while eight other districts report an aggregate reduction of $254,000,000. The Cleveland and Atlanta districts show increases of about $80,000,000 each and Philadelphia an increase of about $7,000,000. In the attached table are presented figures reflecting the condition of state banks and trust company members and of all member banks on April 6, 1925.

The following statement shows changes in the principal resources and liabilities of all member banks on the last call date as compared with figures for December 31, 1924, and March 31, of the same year.

	Increase (+) or decrease (-) on April 6, 1925, since	
	December 31, 1924	March 31, 1924
Loans and discounts (including overdrafts)	+$208,000,000	+$1,214,000,000
United States securities	+ 13,000,000	+ 346,000,000
Other bonds, stocks and securities	+ 37,000,000	+ 893,000,000
Total loans and investments	+ 258,000,000	+ 2,453,000,000
Demand deposits (including certified and cashiers' checks)	*-1,160,000,000	+ 1,020,000,000
Time deposits	+ 322,000,000	+ 1,237,000,000
Government deposits	+ 169,000,000	+ 120,000,000
Due to banks and bankers	- 467,000,000	+ 602,000,000
Acceptances executed for customers	+ 14,000,000	+ 99,000,000
Bills payable and rediscounts	+ 44,000,000	- 44,000,000

*Demand deposits, less exchanges for the clearing house, items with the Federal reserve banks in process of collection and checks on other banks in the same place, decreased only $300,000,000.

RESOURCES AND LIABILITIES OF STATE BANK AND TRUST COMPANY MEMBERS AND OF ALL MEMBER BANKS ON APRIL 6, 1925.

	All member banks	State bank and trust company members
Loans and discounts (including overdrafts)	$20,389,702,000	$7,913,107,000
U. S. securities	3,915,997,000	1,305,219,000
Other bonds, stocks and securities	4,979,240,000	1,841,510,000
Total loans and investments	29,284,939,000	11,059,836,000
Cash in vault	523,297,000	162,292,000
Reserve with F. R. Banks	2,091,545,000	818,271,000
Items with Federal Reserve Banks in process of collection	588,823,000	177,284,000
Due from banks and bankers	2,090,754,000	505,642,000
Exchanges for clearing house, and checks on other banks in same place	1,211,094,000	478,198,000
All other resources	2,158,813,000	927,550,000
Total resources	37,949,265,000	14,129,073,000
Demand deposits	15,849,791,000	5,931,185,000
Time deposits	10,126,980,000	4,343,643,000
U. S. deposits	411,619,000	158,858,000
Certified and cashiers' checks	756,757,000	354,925,000
Total deposits (other than bank)	27,145,147,000	10,788,611,000
Due to banks and bankers	4,081,380,000	1,065,088,000
Bills payable and rediscounts	700,196,000	254,401,000
Acceptances	517,587,000	255,324,000
Capital stock paid in	2,077,502,000	716,858,000
Surplus	1,732,076,000	626,242,000
All other liabilities	1,695,377,000	422,549,000

(St. 4531)

FEDERAL RESERVE BOARD

WASHINGTON

St. 4543

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 4, 1925

SUBJECT: Bank Examination and Credit Work.

Dear Sir:

In accordance with the program outlined in the report of the Committee on Salaries, Expenditures and Efficiency to the Federal Reserve Board, under date of October 31, 1924, a copy of which was given you at the joint conference held about that time, a sub-committee of three Deputy Governors was designated to make a study of the Bank Examination and Credit Functions.

This Committee has now filed its report, a copy of which is transmitted herewith, but before taking any action on the report the Board would like to have the composite viewpoint of the System with reference thereto, and accordingly would appreciate a full expression of your views on the recommendations contained in the report with particular regard to those relating to the Credit function. Copies of the report are also being sent to all Federal reserve agents, with a request for their comments and suggestions with particular regard to the Bank Examination function.

After all replies have been received, it is the purpose of the Board's Committee to furnish a summary thereof to each Governor and Agent and to have the report placed on the program for discussion at one of the forthcoming conferences.

By order of the Federal Reserve Board.

Very truly yours,

(Enclosure)

Walter L. Eddy,
Secretary.

DRAFT OF LETTER TO ALL GOVERNORS

FEDERAL RESERVE BOARD

St. 4544

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 4, 1925.

SUBJECT: Bank Examination and Credit Work.

Dear Sir:

In accordance with the program outlined in the report of the Committee on Salaries, Expenditures and Efficiency to the Federal Reserve Board, under date of October 31, 1924, a copy of which was given you at the joint conference held about that time, a sub-committee of three Deputy Governors was designated to make a study of the Bank Examination and Credit Functions.

This Committee has now filed its report, a copy of which is transmitted herewith, but before taking any action on the report the Board would like to have the composite viewpoint of the System with reference thereto, and accordingly would appreciate a full expression of your views on the recommendations contained in the report with particular regard to those relating to the Bank Examination function. Copies of the report are also being sent to the Governors of all Federal reserve banks, with a request for their comments and suggestions with particular regard to the Credit function.

After all replies have been received, it is the purpose of the Board's Committee to furnish a summary thereof to each Governor and Agent and to have the report placed on the program for discussion at one of the forthcoming conferences.

By order of the Federal Reserve Board.

Very truly yours,

(Enclosure)

Walter L. Eddy,
Secretary.

DRAFT OF LETTER TO ALL FEDERAL RESERVE AGENTS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 12, 1925.
St. 4560.

SUBJECT: Payment of Dividends on June 30, 1925.

Dear Sir:

Will you kindly accompany your resolution with regard to the payment of dividends on June 30 with the following statements:

1. Unpaid indebtedness of failed or suspended banks to Federal reserve bank, giving names of the banks, indebtedness of each at the end of May, character of security, if any, and estimated losses.

2. Indebtedness to Federal reserve bank of member banks that are considered to be in an unsafe condition, giving the names of the banks, indebtedness of each at the end of May, character of security, if any, and probable losses.

While the earnings of some of the Federal reserve banks will not be sufficient at the end of June to cover operating expenses, depreciation in the assets of the bank, probable losses, and dividend requirements, the Board, without deciding as a matter of principle that unearned dividends should regularly be paid out of surplus, will interpose no objection to the payment of the usual dividend on June 30.

Very truly yours,

Walter L. Eddy,
Secretary.

LETTER TO CHAIRMAN OF EACH FEDERAL RESERVE BANK.