January 16, 1926.

Dear Mr. McFadden:

Reference is made to your letter of October 31st in which it is suggested that the maximum maturity of advances made by Federal reserve banks to member banks on their promissory notes be increased from fifteen days to ninety days.

After careful consideration of this suggestion, and after consultation with the Federal Reserve Agents and the Governors of the several Federal reserve banks, the Federal Reserve Board is of the opinion that an amendment to thelaw increasing the maximum maturity of such notes when secured by paper eligible for rediscount or for purchase by Federal reserve banks should be adopted. The Board does not believe, however, that this increase in maturity of such notes should apply when they are secured by bonds or notes of the United States or by bonds of the War Finance Corporation. I am enclosing herewith a draft of an amendment to Section 13 of the Federal Reserve Act which embodies the views of the Federal Reserve Board, which are concurred in by the Federal Reserve Agents and the Governors of the several Federal reserve banks.

The proposed amendment would permit Federal reserve banks to extend credit to their member banks for any period of time not exceeding ninety days on the security of eligible paper, whereas under the present law the length of the period of any such credit in excess of fifteen days is determined necessarily by the maturity dates of the notes which are offered for discount at the Federal reserve banks. The Federal Reserve Board believes that it would be of distinct advantage to member banks to be able to obtain credit for any desired period up to ninety days, regardless of the maturity dates of the notes in its portfolio. Especially is this true in those sections of the country where seasonal credit is greatly demanded.

It is also believed that the enactment of the amendment proposed will be a means of saving country banks much inconvenience. Member banks' notes with fifteen-day maturities are in many cases frequently renewed and the proposed amendment would eliminate the necessity and inconvenience of such frequent renewals. This would be of especial assistance to those member banks which are so situated that more than one day is necessary for the mails to pass to or from the Federal reserve bank by which they are served.

The Federal Reserve Board feels that the increase in maturity for member banks' notes should be limited to those notes secured by paper eligible for discount or purchase by Federal reserve banks because, in the opinion of the Board, it is unsound banking to permit the issue of Federal Reserve Notes against promissory notes secured by Government bonds as collateral. For this reason the Board believes that the present law is sufficiently liberal as respects advances to member banks on notes secured by Government bonds.

The foregoing recommendation is made by a majority vote of the Board.

Very truly yours,

D. R. Crissinger,
Governor.

Hon. Louis T. McFadden, Chairman,
Committee on Banking and Currency,
Washington, D. C.

A B I L L

To Amend Section 13 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 seventh paragraph of Section 13 of the Federal Reserve Act as amended be amended and reenacted to read as follows:

"Any Federal reserve bank may make advances for periods not exceeding fifteen days to its member banks on their promissory notes secured by the deposit or pledge of bonds or notes of the United States or of bonds of the War Finance Corporation, or when authorized by the Federal Reserve Board and subject to such conditions, regulations, limitations and restrictions as the said Board may prescribe, may make advances for periods not exceeding ninety days to its member banks on their promissory notes secured by such notes, drafts, bills of exchange or bankers' acceptances as are eligible for rediscount or for purchase by Federal reserve banks under the provisions of this Act. All such advances shall be made at rates of interest to be established by such Federal reserve banks subject to the review and determination of the Federal Reserve Board."