

FEDERAL RESERVE BOARD

278

WASHINGTON

X-4578

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

April 6, 1926.

SUBJECT: Member Banks Borrowing Continuously at Federal Reserve Banks.

Dear Sir:

In order that the reports submitted in response to the Board's letter St.4645 of September 15, 1925, showing member banks which were borrowing from the Federal reserve banks continuously for one year or more, may be brought up to December 31, 1925, it will be appreciated if you will kindly furnish the Board with a statement showing the information called for by the attached form for all member banks which were borrowing continuously from your bank during 1925.

The data received in response to the Board's letter of September 15 show that for the System as a whole there were 588 member banks which on August 31, 1925, had been borrowing continuously from the Federal reserve banks for at least one year, and reports subsequently received from the reserve banks indicate that 150 of the continuous borrowing banks were in an over-extended or unsafe condition on November 1, 1925. This leaves 438 banks which were not materially over-extended, but which had been borrowing from the Federal reserve banks continuously for at least a year, and of this number 129 had been borrowing continuously since 1920.

While the Board realizes that exceptional circumstances may in some cases explain the continuous borrowing of banks for a year or more, good banking practice dictates that every member bank should obtain the capital it requires for carrying on its business from its stockholders and that normally it should resort to borrowing for seasonal purposes only. With this in mind it will be appreciated if you will kindly furnish us with information supplementing that requested above, showing (a) those banks borrowing continuously during 1925 which in the opinion of the Federal reserve bank officials will probably be able to liquidate their indebtedness during this year, (b) banks which are apparently operating with too small a capital account, thus making it necessary for them to resort to borrowing for the purpose of carrying on their normal business, and (c) banks which

carry a fairly substantial amount of United States securities or of other bonds and stocks in their portfolios, or which make substantial loans in other communities, and apparently borrow from the Federal reserve bank for the purpose of making a larger profit than would be obtained if the securities or outside loans were liquidated and the borrowings paid off. The above information may be furnished by indicating on the statement called for in the first paragraph the group to which each bank belongs by the use of symbols appended to the names of the banks.

The Board would also like to know in a general way to what extent the withdrawal of deposits has been the cause of member banks becoming continuous borrowers during the past two or three years, and especially whether the withdrawal of public deposits, that were used in making loans to local customers, has been an important factor therein.

By direction of the Federal Reserve Board.

Very truly yours,

J. C. Noell,
Assistant Secretary.

LETTER TO CHAIRMEN OF ALL F.R.BANKS.

Enclosure:

MEMBER BANKS BORROWING CONTINUOUSLY DURING 1925 FROM THE FEDERAL RESERVE BANK OF _____

Name and location of bank	Capital and Surplus Dec. 31, 1925	Net demand and time deposits on date of		Borrowings from F. R. bank during 1925		Date of	
		Maximum borrowing	Minimum borrowing	Maximum borrowing	Minimum borrowing	Maximum borrowing	Minimum borrowing