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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDED JANUARY 8, 1926.

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Date
	Admitted to Membership:	
	None.	
	Merger Between Members:	
2	The Buffalo Trust Company, Buffalo, N. Y., and the Marine Trust Company, Buffalo, N. Y., both members, have merged.	12-31-25
	Closed:	
7	Jefferson Savings Bank, Jefferson, Iowa	1- 4-26
	Voluntary Withdrawals:	
4	Citizens State Bank Co., West Milton, Ohio	1- 8-26
10	Nebraska State Bank, Ord, Nebr.	1- 2-26
	Voluntary Liquidation:	
12	Farmers State Bank, Tetonia, Idaho	12-31-25

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

1	National Exchange Bank, Providence, R. I.	1- 7-26
2	Citizens First National Bank, Frankfort, N. Y.	1- 5-26
2	First National Bank, Olean, N. Y.	1- 5-26
6	Britton and Koontz National Bank, Natchez, Miss.	1- 5-26
8	Alton National Bank, Alton, Ill.	1- 5-26

FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDED JANUARY 15, 1926.

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Date
	Admitted to Membership:	
	None.	
	Merger Between Member and Nonmember:	
5	The Union Bank of Richmond, Va., a member, has merged with the Federal Trust Co., Richmond, Va., a nonmember, under the title "Union Bank and Federal Trust Co.", which remains a member.	11-30-25
	Absorption of Nonmember:	
7	The Monticello State Bank, Monticello, Iowa, a member, has absorbed the Jones County Trust & Savings Bank, Monticello, Iowa, a nonmember.	12-31-25
	Succeeded by Nonmember:	
11	The First State Bank, Celina, Texas, a member, has been succeeded by First State Bank of Celina, a nonmember.	12-10-25
	Voluntary Withdrawal:	
11	Gilmer State Bank, Gilmer, Texas.	1- 9-26
	Change of Title:	
11	The First Guaranty State Bank, Cross Plains, Texas, has changed its title to "The First State Bank".	12- 4-25

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

1	Citizens National Bank, Putnam, Conn.	1-11-26
1	Methuen National Bank, Methuen, Mass.	1-11-26
7	First National Bank, Boone, Iowa	1-11-26
8	Citizens National Bank, Lebanon, Ky.	1-11-26
10	Central National Bank, Enid, Okla.	1-11-26
11	North Texas National Bank in Dallas, Texas	1-11-26

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDED JANUARY 22, 1926

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Capital	Surplus	Total resources	Date
	Admitted to Membership:				
10	Central Savings Bank and Trust Co., Denver, Colo.	$500,000	$100,000	$6,265,027	1-20-26
	Absorbed by National Bank:				
6	The Barnesville Bank, Barnesville, Ga. (absorbed by Citizens National Bank, Barnesville, Ga.)				1-20-26
8	Merchants and Planters Bank, Texarkana, Ark. (absorbed by State National Bank, Texarkana, Ark.)				1-12-26
	Closed:				
6	Pointe Coupee Trust & Savings Bank, New Roads, La.				1-16-26
11	Guaranty State Bank, Emory, Texas				1-19-26
	Absorption of National Bank:				
8	Federal Bank and Trust Co., Little Rock, Ark., has absorbed the First National Bank, North Little Rock, Ark.				1-18-26

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

2	Merchants National Bank,	Poughkeepsie, N. Y.	1-19-26
2	Babylon National Bank,	Babylon, N. Y.	1-19-26
2	First National Bank,	Amityville, N. Y.	1-19-26
4	Liberty National Bank,	Covington, Ky.	1-16-26
5	Virginia National Bank,	Norfolk, Va.	1-19-26
7	First National Bank,	Oconomowoc, Wis.	1-19-26
12	United States National Bank,	Salem, Ore.	1-19-26

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDED JANUARY 29, 1926.

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Date
	Admitted to Membership:	
	None.	
	Absorption of National Bank:	
2	The Manufacturers & Traders Trust Co., Buffalo, N. Y., a member, has absorbed the Riverside National Bank, Buffalo, N. Y.	1-22-26
	Absorption of Nonmember:	
8	The Citizens Bank of Festus, Mo., a member, has absorbed the Festus State Bank, Festus, Mo., a nonmember.	
	Voluntary Withdrawal:	
12	Trout Creek State Bank, Trout Creek, Mich.	1-27-26

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

2	Montclair National Bank, Montclair, N. J.	1-25-26
2	American National Bank, Passaic, N. J.	1-25-26
3	Camden National Bank, Camden, N. J.	1-25-26
5	First National Bank, Martinsville, Va.	1-28-26
5	McDowell County National Bank, Welch, W. Va.	1-28-26
7	First National Bank, Michigan City, Ind.	1-28-26
7	Orange City National Bank, Orange City, Iowa	1-25-26
10	First National Bank, Grand Island, Nebr.	1-25-26
11	El Paso National Bank, El Paso, Texas	1-28-26

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDED FEBRUARY 5, 1926

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Capital	Surplus	Total resources	Date
	Admitted to Membership:				
2	Coal & Iron Bank of the City of New York, N. Y. (succeeds Coal & Iron National Bank)	$1,500,000	$1,000,000	$28,746,810	2- 1-26
	Withdrawn:				
6	Peoples Bank & Trust Co., Bell Buckle, Tenn.				2- 1-26
	Absorbed by State Member:				
12	Bank of Alameda, Alameda, Calif., a member, has been absorbed by the American Bank, San Francisco, Calif., a member.				2- 2-26
2	The Flatbush State Bank, Brooklyn, N. Y., a nonmember, has been absorbed by the Mechanics Bank, Brooklyn, a member.				1-22-26
5	First National Bank, Hartsville, S. C., has been absorbed by Bank of Hartsville, Hartsville, S. C., a member.				1-28-26
7	First National Bank, Cowden, Ill., has been absorbed by State Bank of Cowden, Cowden, Ill., a member.				2- 3-26
7	First National Bank, Hammond, Ind., has been absorbed by First Trust & Savings Bank, Hammond, Ind., a member.				1- 2-26
	Succeeded by a Nonmember:				
8	The Crittenden County Bank, Marion, Ark., a member bank, has been succeeded by the Bank of Crittenden County, Marion, Ark., a nonmember.				2- 3-26
	Change of Title:				
6	The Canal-Commercial Trust & Savings Bank, New Orleans, La., has changed its title to "Canal Bank and Trust Company".				1- 4-26

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

1	Falmouth National Bank, Falmouth, Mass.	2- 4-26
2	Silver Creek National Bank, Silver Creek, N. Y.	2- 4-26
2	First National Bank, Mamaroneck, N. Y.	2- 4-26
2	North Ward National Bank, Newark, N. J. (supplemental)	2- 4-26

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDED FEBRUARY 12, 1926

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Capital	Surplus	Total resources	Date
	Admitted to Membership:				
2	Municipal Bank, Brooklyn, N. Y.	$2,000,000	$600,000	$24,447,288	2- 9-26
6	Farmers & Merchants Bank, Samson, Ala.	60,000	15,000	374,317	2- 8-26
	Closed:				
9	Rock County Bank, Luverne, Minn.				1-23-26
	Absorbed by Nonmember:				
8	Merchants and Farmers Bank, Baldwyn, Miss., has been absorbed by the Bank of Baldwyn, Baldwyn, Miss., a nonmember.				1-15-26
	Voluntary Withdrawals:				
7	Farmers Savings Bank, Remsen, Iowa				2- 8-26
12	First State Bank, Teton City, Idaho				2-10-26

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

2	Farmers National Bank,	Granville, N. Y.	2- 9-26
6	City National Bank,	Bessemer, Ala.	2- 9-26
6	First National Bank,	DeLand, Fla.	2- 9-26
7	First National Bank,	Lapeer, Mich.	2- 9-26

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDED FEBRUARY 19, 1926

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Capital	Surplus	Total resources	Date
	Admitted to Membership:				
8	Bank of Crittenden County, Marion, Ark. (succeeded Crittenden County Bank, a member)	$100,000	- -	$1,327,072	2-13-26
11	Mimbres Valley Bank, Deming, N. Mex.	50,000	- -	231,379	2-15-26
	Closed:				
6	Peoples Bank of Calhoun, Calhoun, Ga.				2-11-26
	Voluntary Withdrawals:				
6	The Peoples Bank, Crystal Springs, Miss.				2-17-26
9	Security Savings Bank, Jamestown, N. Dak.				2-19-26

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

2	First National Bank, Albany, N. Y.	2-15-26
2	Flemington National Bank, Flemington, N. J.	2-15-26
3	National Bank of Chester Valley, Coatesville, Pa.	2-16-26
6	First National Bank, Sanford, Fla.	2-16-26
8	Old National Bank, Centralia, Ill.	2-16-26
9	Citizens National Bank, Watertown, S. Dak.	2-16-26
12	Seattle National Bank, Seattle, Wash. (supplemental)	2-16-26

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDED FEBRUARY 26, 1926

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.	Admitted to Membership:	Date
	None.	
	Closed:	
8	Dardanelle Bank & Trust Co., Dardanelle, Ark.	2-23-26
	Voluntary Withdrawal:	
9	Security Bank & Trust Co., Webster, S. Dak.	2-23-26

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

7	Havana National Bank,	Havana, Ill.	2-24-26
8	First National Bank,	Effingham, Ill.	2-24-26

FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDED MARCH 5, 1926.

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Capital	Surplus	Total resources	Date
	Admitted to Membership:				
6	Citizens State Bank, Reynolds, Ga.	$25,000	$1,250	$64,102	3- 1-26
9	Peoples State Bank, Plainview, Minn.	20,000	4,000	204,963	3- 3-26
	Reopened:				
9	Rock County Bank, Luverne, Minn.				2-27-26
	Merged with National Bank:				
2	Peoples Trust Co., Brooklyn, N. Y. (merged with the National City Bank, New York, N. Y.)				3- 4-26
	Merged with State Member:				
2	Coal and Iron Bank of the City of New York (merged with the Fidelity International Trust Co., New York, N. Y., which changed its title to Fidelity Trust Company)				2-27-26
	Absorption of National Bank:				
5	The State & City Bank & Trust Co., Richmond, Va., a member, has absorbed the Planters National Bank, Richmond, Va., and changed its title to State-Planters Bank and Trust Co.				2-27-26
	Absorbed by Nonmember:				
7	State Savings Bank, Marlette, Mich. (absorbed by Commercial State Bank, Marlette, Mich., a nonmember)				1-30-26
	Absorption of Nonmember:				
9	First Security State Bank, Red Wing, Minn., a member, has absorbed the Security Loan & Trust Co., Red Wing, Minn., a nonmember, and changed its title to Security Bank & Trust Co.				
	Voluntary Withdrawals:				
11	First State Bank, Wylie, Texas				2-27-26
12	Victor State Bank, Victor, Idaho				3- 4-26

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

2	National Ulster County Bank, Kingston, N. Y.	3- 4-26
8	Farmers and Merchants National Bank, Fort Branch, Ind.	3- 4-26

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDED MARCH 12, 1926.

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Admitted to Membership: Capital	Surplus	Total resources	Date
11	The First State Bank, Celina, Texas.	$25,000	- -	$213,505	3- 6-26

Voluntary Withdrawal:

7	First Commercial Savings Bank, Constantine, Mich.	3-10-26

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

2	First National Bank, Floral Park, N. Y.	3-12-26
3	First National Bank, Kane, Penna.	3- 9-26
5	First National Bank, Reidsville, N. C.	3- 9-26
6	Exchange National Bank, Montgomery, Ala.	3-12-26
7	First National Bank, Hartford City, Ind.	3- 9-26
8	First National Bank, Millstadt, Ill.	3- 9-26
12	National Bank of Commerce, Ogden, Utah	3- 9-26

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDED MARCH 19, 1926.

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.	Admitted to Membership:	Date
	None	

Absorption of National Bank:

5	The Bank of Lunenburg, Inc., Kenbridge, Va., a member, has absorbed the First National Bank, Kenbridge, Va.	3-10-26

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

None

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDED MARCH 26, 1926.

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Capital	Surplus	Total resources	Date
	Admitted to Membership:				
3	Dime Savings & Trust Co., Allentown, Pa.	$231,530	$81,530	$1,590,052	3-22-26
7	Wilmette State Bank, Wilmette, Ill.	100,000	100,000	2,854,202	3-25-26
	National Bank absorbed by State Member:				
6	The Citizens Bank, West Point, Ga., a member, has absorbed the First National Bank of West Point, Ga.				3-23-26
	Voluntary Liquidation:				
9	Mercantile State Bank, Minneapolis, Minn.				2-24-26
	Voluntary Withdrawal:				
11	First State Bank, Estancia, N. Mex.				3-26-26

PERMISSION GRANTED TO EXERCISE TRUST POWERS.

2	National Bank of Haverstraw, Haverstraw, N. Y.	3-23-26
3	Peoples National Bank, Edwardsville, Pa.	3-23-26
3	Franklin National Bank, Philadelphia, Pa.	3-23-26
3	Farmers National Bank, Watsontown, Pa.	3-23-26
5	First National Bank, Snow Hill, Md.	3-23-26
5	First National Bank, Asheboro, N. C.	3-23-26
6	City National Bank, Miami, Fla.	3-23-26

CHANGES IN STATE BANK MEMBERSHIP.

Dist. No.		Capital	Surplus	Total resources	Date
	Admitted to Membership:				
2	Mid-City Trust Co., Plainfield, N. J.	$200,000	$85,973	$512,437	4- 2-26
	Absorption of National Bank.				
3	The Columbia County Trust Co., Bloomsburg, Pa., has absorbed the Bloomsburg National Bank, Bloomsburg, Pa., and has changed its title to: Bloomsburg Bank-Columbia Trust Co.				2- 1-26
	Closed:				
7	The State Bank of Thompson, Thompson, Iowa.				3-29-26
	Voluntary Withdrawal:				
9	The South Shore Bank, South Shore, S. Dak.				4- 1-26
	Change of Title:				
11	The Farmers Guaranty State Bank, Brady, Texas, has changed its title to: Farmers & Merchants State Bank.				3-22-26
	Merger of State Members:				
12	The Citizens State Bank, Sawtelle, Calif., has merged with the Security Trust & Savings Bank, Los Angeles, Calif.				4- 1-26

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

12	The Crocker First National Bank, San Francisco, Calif.	3-29-26

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

2	First National Bank,	Freeport, N. Y.	3-29-26
2	American National Bank,	Mount Vernon, N. Y.	3-29-26
2	Port Richmond National Bank,	Port Richmond, N. Y.	3-27-26
2	First National Bank,	Red Hook, N. Y.	3-31-26
2	Merchants National Bank,	Syracuse, N. Y.	3-29-26
3	First National Bank,	Newville, Pa.	4- 2-26
6	First National Bank,	Bristol, Tenn.	3-31-26
7	Mutual National Bank,	Chicago, Ill.	4- 2-26
7	First National Bank,	Brillion, Wisc.	3-29-26
8	First National Bank,	Bunker Hill, Ill.	4- 2-26
8	Tell City National Bank,	Tell City, Ind.	4- 2-26
9	First National Bank,	Hancock, Mich.	3-31-26
9	First National Bank of Alger County,	Munising, Mich.	3-31-26
9	National Bank of Lewistown,	Lewistown, Mont.	4- 2-26
10	First National Bank,	Broken Arrow, Okla.	4- 2-26
12	First National Bank,	Longview, Wash.	4- 2-26

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDED APRIL 9, 1926.

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Date
	Admitted to Membership:	
	N o n e.	
	Voluntary Withdrawals:	
7	Farmers State Bank, Bargersville, Ind.	4- 7-26
7	Taylor County State Bank, Clearfield, Iowa	4- 7-26
	Succeeded by Nonmember Bank:	
8	Broadway Savings Trust Co., St. Louis, Mo.	4- 5-26
	PERMISSION GRANTED TO EXERCISE TRUST POWERS:	
5	First National Bank, Farmville, Va.	4- 8-26

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDED APRIL 16, 1926.

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Date
	Admitted to Membership:	
	N o n e.	
	Closed:	
7	Marshalltown State Bank, Marshalltown, Iowa.	4-15-26
	Voluntery Withdrawal:	
8	Bank of Crockett, Bells, Tenn.	4-16-26
	Insolvent:	
11	First State Bank & Trust Co., Cuero, Texas.	3-25-26

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

2	First National Bank, Union City, N. J.	4-14-26
1	Framingham National Bank, Framingham, Mass.	4- 9-26

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED APRIL 23, 1926.

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership:

Dist. No.		Capital	Surplus	Total resources	Date
2	Trust Company of Northern Westchester, Mt. Kisco, N.Y.	$100,000	$15,000	$216,133	4-20-26

Voluntary Withdrawal:

11	Central Trust Co., San Antonio, Tex.	4-18-26

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

1	First National Bank,	Boothbay Harbor, Me.	4-21-26
1	Medomak National Bank,	Waldoboro, Me.	4-23-26
2	Lincoln National Bank,	Newark, N. J.	4-23-26
2	First National Bank,	Camden, N. Y.	4-23-26
3	Pitman National Bank,	Pitman, N. J.	4-23-26
3	Luzerne National Bank,	Luzerne, Pa.	4-21-26
3	First National Bank,	Orwigsburg, Pa.	4-23-26
4	Citizens National Bank,	Mansfield, O. (Supplemental)	4-23-26
4	Merchants and Manufacturers National Bank,	Sharon, Pa.	4-23-26
5	Towson National Bank,	Towson, Md.	4-21-26
6	Delta National Bank,	Yazoo City, Miss.	4-23-26
7	First National Bank,	Blue Island, Ill.	4-23-26
7	Jefferson Park National Bank,	Chicago, Ill.	4-21-26
7	Lake County National Bank,	Libertyville, Ill.	4-23-26
7	First National Bank,	Taylorville, Ill.	4-21-26
7	American National Bank,	Marshfield, Wis.	4-23-26
8	Boatmens National Bank,	St. Louis, Mo.	4-23-26
9	United States National Bank,	Iron Mountain, Mich.	4-23-26

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED APRIL 30, 1926.

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership:

Dist. No.		Capital	Surplus	Total resources	Date
2	Trade Bank of New York, New York, N. Y.	$500,000	$250,000	$3,729,538	4-26-26
8	Broadway Trust Co., St. Louis, Mo. (succeeded Broadway Savings Trust Co., a member)	200,000	20,000	2,357,358	4-27-26

Voluntary Withdrawals:

4	Farmers & Merchants Bank Co., Sylvania, O.	4-27-26
6	Plains Bank, Plains, Ga.	4-30-26
12	Genesee Exchange Bank, Genesee, Ida.	4-26-26

Change of Title:

8	The Shaw State Bank, St. Louis, Mo., has changed its title to "Shaw Bank".	4-23-26
11	The Guaranty State Bank, Hedley, Tex., has changed its title to "Security State Bank".	4-23-26
11	The Guaranty State Bank, Mt. Pleasant, Tex., has changed its title to "Guaranty Bond State Bank".	4-23-26

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

7	First National Bank, Akron, Ia.	4-30-26

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED MAY 7, 1926.

CHANGES IN STATE BANK MEMBERSHIP.

Admitted to Membership:

Dist. No.		Capital	Surplus	Total resources	Date
2	Morsemere Trust Co., Morsemere, N. J.	$100,000	$25,000	$125,000	5- 3-26

Absorbed by a State Member:

4 The State Banking and Trust Co., Cleveland, Ohio, a member, has been absorbed by the Union Trust Co., Cleveland, Ohio, also a member. 4-17-26

Absorption of Nonmembers:

8 The First State Bank, Palmyra, Ill., a member, has absorbed the Palmyra State Bank, Palmyra, Ill., a nonmember. 1-15-26

9 The Belgrade State Bank, Belgrade, Mont., a member, has absorbed the Farmers Bank, Belgrade, Mont., a nonmember. 4- 5-26

Converted into National Banks:

11 First State Bank, George West, Texas. 4-21-26

11 First State Bank, Ralls, Texas. 5- 3-26

Change of Title:

2 The Bank of Europe, New York, N. Y., has changed its title to "Bank of Europe Trust Company". 3-17-26

2 The Federation Bank of New York, N. Y., has changed its title to "Federation Bank and Trust Company". 5- 1-26

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED MAY 14, 1926.

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Capital	Surplus	Total resources	Date
	Admitted to Membership:				
2	First Trust & Deposit Co., Oriskany Falls, N. Y.	$100,000	$20,000	$1,221,407	5-13-26
	Change of Title:				
6	The Citizens Bank, West Point, Ga., has changed its title to "Citizens Bank & Trust Company".				4-3-26
8	The Kentucky Title Bank and Trust Co., Louisville, Ky., has changed its title to "Kentucky Title Trust Company".				4-20-26

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

5	Peoples-First National Bank,	Charleston, S. C.	5-11-26
7	Coldwater National Bank,	Coldwater, Mich.	5-11-26
9	First National Bank,	Negaunee, Mich.	5-11-26
12	First National Bank,	Logan, Utah.	5-11-26

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED MAY 21, 1926.

CHANGES IN STATE BANK MEMBERSHIP.

Dist. No.		Capital	Surplus	Total resources	Date
	Admitted to Membership:				
2	Erasmus State Bank, Brooklyn, N. Y.	$200,000	$59,454	$418,192	5-18-26
4	Windber Trust Co., Windber, Pa.	250,000	350,000	3,950,978	5-20-26
	Voluntary Withdrawals:				
11	First State Bank & Trust Co., Waco, Tex.				5-19-26
12	Blackfoot City Bank, Blackfoot, Ida.				5-19-26
	PERMISSION GRANTED TO EXERCISE TRUST POWERS:				
2	Peoples Trust Company of Brooklyn, N.B.A., Brooklyn, N.Y.				5-21-26
5	First National Bank, Crewe, Va.				5-18-26

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED MAY 28, 1926.

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Capital	Surplus	Total resources	Date
	Admitted to Membership:				
12	Hillsboro Commercial Bank, Hillsboro, Oreg.	$50,000	$25,000	$511,574	5-27-26
	Closed:				
11	The First State Bank, Paris, Texas				5-26-26

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

1	Howard National Bank, Burlington, Vt.	5-24-26
2	Bloomfield National Bank, Bloomfield, N. J.	5-24-26
3	Broad Street National Bank, Trenton, N. J.	5-24-26
3	First National Bank, Altoona, Pa.	5-24-26
3	Philadelphia-Girard National Bank, Philadelphia, Pa.	5-24-26
5	South Carolina National Bank, Charleston, S. C.	5-24-26
6	Albertville National Bank, Albertville, Ala.	5-24-26
7	Citizens National Bank, Knightstown, Ind.	5-24-26
7	Southern Michigan National Bank, Coldwater, Mich.	5-27-26
7	First National Bank, Neillsville, Wis.	5-24-26
9	First National Bank, Winona, Minn.	5-24-26
11	American National Bank, Beaumont, Texas	5-24-26
11	American National Bank, Terrell, Texas	5-24-26
12	First National Bank, San Diego, Calif.	5-27-26

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JUNE 4, 1926.

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Capital	Surplus	Total resources	Date
	Admitted to Membership:				
2	Bank of Farmingdale, Farmingdale, N. Y.	$25,000	$20,000	$937,549	6- 1-26
	Voluntary Withdrawal:				
6	Central Bank & Trust Co., Jasper, Ala.				6- 4-26
6	Commerce Bank & Trust Co., Commerce, Ga.				6- 1-26
	PERMISSION GRANTED TO EXERCISE TRUST POWERS:				
3	Liberty National Bank, Pittston, Pa.				6- 2-26
5	National Bank of Sumter, Sumter, S. C.				6- 2-26
6	Fourth National Bank, Montgomery, Ala.				6- 2-26
6	Farmers and Merchants National Bank, Troy, Ala.				6- 2-26

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JUNE 11, 1926.

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Capital	Surplus	Total resources	Date
	Admitted to Membership:				
2	International Acceptance Securities & Trust Co., New York, N. Y.	$500,000	$500,000	$3,977,522	6- 7-26
	Voluntary Withdrawal:				
7	Lovell State Bank, Monticello, Iowa				6-11-26
	Closed:				
7	Hudson Savings Bank, Hudson, Iowa				6- 7-26

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

8	Marion National Bank, Lebanon, Ky.	6- 9-26
10	First National Bank, Plattsburg, Mo.	6- 9-26

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JUNE 18, 1926.

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Date
	Admitted to Membership:	
	N o n e.	
	Absorption of National Bank:	
11	The Cochise County State Bank, Tombstone, Ariz., a member, has absorbed the First National Bank, Tombstone, Ariz.	5-21-26

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

1	York National Bank, Saco, Maine	6-15-26
6	Farmers National Bank, Opelika, Ala.	6-15-26
7	Third National Bank, Greensburg, Ind.	6-15-26

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JUNE 25, 1926.

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Capital	Surplus	Total resources	Date
	Admitted to Membership:				
6	Brotherhood of Locomotive Engineers Bank & Trust Co., Birmingham, Ala.	$500,000	$55,000	$1,958,963	6-22-26
	Closed:				
8	Bank of Versailles, Versailles, Mo.				6-24-26
	Absorbed by National Bank:				
6	The Commercial Bank & Trust Co., Miami, Fla., a member, has been absorbed by the City National Bank & Trust Co., Miami, Fla.				6-22-26

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

7	First National Bank, Cresco, Iowa.	6-22-26

USE OF WORDS "FEDERAL" AND "RESERVE" BY BANKS, CORPORATIONS, ETC., OTHER THAN FEDERAL RESERVE BANKS.

The following is a brief statement of the circumstances of each case which has been called to the attention of the Federal Reserve Board in which the word "Federal", the word "Reserve", or a combination of the two has been used as part of the name of a bank, corporation, or firm other than a Federal reserve bank or in the advertising of such a bank, corporation or firm or where such use of these words has been attempted.

FEDERAL BANK AND TRUST COMPANY.

Under dates of September 4 and October 4, 1915, respectively, the Board received complaints from the presidents of two different banks in San Antonio, Texas, complaining of the fact that an advertisement was being published in local papers to the effect that a bank was being organized for the purpose of engaging in the general banking and trust business under the name of "Federal Bank and Trust Company". One of the letters stated that although no official action had been taken by the local clearing house authorities, it was the impression of the writer from conversations with the various members of the Clearing House Association that they felt very strongly that such use of the word "Federal" would be misleading to the public and that many of the public would believe that such bank was connected with the Federal Reserve Banks.

FEDERAL RESERVE ASSOCIATION.

The Board received a letter from a national bank in Pennsylvania, dated November 22, 1915, calling attention to the use by a life insurance company of the name "Federal Reserve Association". The Board referred this matter to the Postmaster General as a probable violation of the postal laws, but it is not advised as to what action was taken by the Post Office Department. Under date of September 25, 1919, this case was again called to the attention of the Board by Mr. R. L. Austin, Federal Reserve Agent at the Federal Reserve Bank of Philadelphia. Mr. Austin enclosed in his letter a letter received from a member bank in Wilkes Barre, Pennsylvania, stating that the Federal Reserve Association was incorporated under the laws of Delaware on September 6, 1914, as a fraternal order with no specified capital stock, that it was soliciting insurance on the survivorship payment plan, but that no statement of its assets or liabilities could be obtained.

FEDERAL STATE BANK.

Under date of February 11, 1916, Mr. John H. Rich, Federal Reserve Agent at the Federal Reserve Bank of Minneapolis, advised the Board that a party of men who were organizing a State bank in Minneapolis had inquired of him whether there was any objection to their

using the title "Federal State Bank". In reply, the Board stated that while it knew of no statute prohibiting the use of the word "Federal" by national or state banks, it was considering the desirability of asking Congress to enact a provision prohibiting such use of the word "Federal", and suggested that in view of this situation the parties in question probably would not desire to select that name for their proposed bank.

RESERVE TRADING COMPANY.

Under date of August 4, 1916, the late Honorable M. T. Helgesen, Congressman from North Dakota, transmitted to the Secretary of the Treasury a letter from the Cashier of a state bank in North Dakota, complaining of the use of the name "Reserve Trading Company" by a company giving its address as "739 Reserve Bank Building, Kansas City, Missouri". Congressman Helgesen stated that, "It occurs to me that the point made by Mr. - - - is well taken and that if a way is open to you to put a stop to this form of misrepresentation and fraudulent advertising, it should be taken forthwith." The Secretary of the Treasury referred this letter to the Federal Reserve Board, and the Board called Mr. Helgesen's attention to the fact that a bill to prohibit such use of the words "Federal" and "Reserve" was then pending in the House of Representatives.

The Board also called this matter to the attention of the Governor of the Federal Reserve Bank of Kansas City, who advised the Board that the building of the Federal Reserve Bank of Kansas City was not called the "Federal Reserve Bank Building" but that there was an office building in the city called "The Reserve Bank Building" which was so named from the fact that the National Reserve Bank of Kansas City once occupied it. He stated that he was unable to obtain any information about the company in question and suggested that there should be a law preventing all concerns, as well as banks, from using the words "Federal" and "Reserve", except with the approval of the Federal Reserve Board. The Board also called this matter to the attention of the Postmaster General who replied that it would be given consideration in "connection with a similar complaint alleging the use of the mails for fraudulent purposes by the above named concern now under investigation by this service."

FEDERAL RESERVE STATE BANK.

Under date of June 29, 1917, Mr. Charles M. Sawyer, then Federal Reserve Agent at the Federal Reserve Bank of Kansas City, advised the Board that he had received an inquiry from the State Bank Commissioner of Kansas as to whether or not there was any objection to State banks which become members of the Federal Reserve System using the words "Federal Reserve" as part of their names. It appeared that a State bank had applied for an amendment to its charter changing its title to "Federal Reserve State Bank". The Board replied that while there was no specific law prohibiting the use of those words, it was of the opinion that their use by State and national banks should be discouraged.

FEDERAL-AMERICAN SAVINGS BANK.

Under date of July 19, 1917, Mr. W. A. Heath, Federal Reserve Agent at the Federal Reserve Bank of Chicago, advised the Board that the German-American Savings Bank of Port Huron, Michigan, which was about to apply for membership in the Federal Reserve System, was contemplating changing its name to the "Federal-American Savings Bank". The Board replied that it was decidedly against its policy to encourage the use of the word "Federal" as part of the title of member banks.

FEDERAL CATTLE LOAN SOCIETY.

Under date of November 7, 1919, the Governor of the Federal Reserve Bank of Kansas City transmitted to the Board a copy of a letter received from a State bank in Kansas inquiring whether paper offered by the "Federal Cattle Loan Society" of Des Moines, Iowa, was accepted and approved by the Federal Reserve Board. The writer explained that it was the desire of his bank to have its securities at all times such as are acceptable under the Federal Reserve Act, from which it appears that the name "Federal Cattle Loan Society" caused him to think that probably that society was in some way connected with the Federal Reserve System.

The Board also received a letter from a member State bank in Des Moines, Iowa, stating that some of their citizens were organizing a "Federal Cattle Loan Society" and inquiring whether there was any law against such use of the word "Federal". The Board replied that, although it had always been very much against its policy to encourage the use of the word "Federal" in the title of any banking corporation, it was not advised of any law prohibiting its use for that purpose.

FEDERAL RESERVE LIFE INSURANCE COMPANY.

Under date of October 15, 1919, the Governor of the Federal Reserve Bank of Kansas City transmitted to the Board a clipping from the Kansas City Times of October 14, 1919, announcing the organization of the "Federal Reserve Life Insurance Company" in Kansas. Governor Miller stated that the organizers of this company were officers and directors of state banks in Kansas none of which had joined the Federal Reserve System, and inquired whether there was not some way to prevent promoters from using the title "Federal Reserve", even for a life insurance company. The Board transmitted a copy of this letter to the Chairman of the Banking and Currency Committee of the House.

FIRST FEDERAL BANK OF WILLIAMSON.

Under date of March 24, 1920, Mr. Caldwell Hardy, Federal Reserve Agent at the Federal Reserve Bank of Richmond, called the Board's attention to the fact that a state bank in Williamson, West Virginia, was contemplating changing its name to "First Federal Bank of Williamson",

and applying for membership in the Federal Reserve System. Mr. Hardy inquired whether there was any law prohibiting the use of the word "Federal". The Board replied that, while it was not aware of any statute of the United States prohibiting the use of the word "Federal" in the corporate title of any State institution, it had consistently tried to discourage the use of that word in such a manner and on several occasions had recommended to Congress the enactment of a law prohibiting a State corporation from including the word "Federal" in its title, but that Congress had not taken any action in the matter.

FEDERAL RESERVE SECURITIES COMPANY.

Under date of August 10, 1920, Mr. Charles B. Powell, Counsel for the Federal Reserve Bank of Chicago, advised the Board that the officials of the Federal reserve bank had recently called to his attention the fact that a corporation was about to be organized under the laws of Illinois to be called "Federal Reserve Securities Company", and had requested him to take steps, if possible, to prevent the adoption of that name by the proposed corporation. Mr. Powell stated that he had taken the matter up with the attorneys who were organizing the proposed corporation and that they had agreed not to use the words "Federal Reserve" as part of the title of this corporation. He suggested, however, that legislation ought to be obtained from Congress prohibiting such use of those words, just as the use of the word "national" is prohibited by Section 5243 of the Revised Statutes.

FEDERAL RESERVE CORPORATION.

One of the most flagrant attempts to use the words "Federal Reserve" in an improper manner was made by the organizers of a proposed corporation intended to compete with the Federal reserve banks. It was first called to the attention of the Board Mr. L. C. Adelson, Deputy Governor of the Federal Reserve Bank of Atlanta, under date of May 15, 1920, who stated that he had been approached by one C. D. Altman who said that he was organizing a corporation along Federal reserve bank lines with the title "Federal Reserve Corporation", to rediscount real estate paper for banks. His purpose was to interest Mr. Adelson in taking some of the stock of the proposed corporation, to get him to serve as a director, and to ascertain if it would be possible for directors of the Federal Reserve Bank of Atlanta to serve as directors of the proposed corporation. Mr. Adelson declined the invitation to purchase stock and accept a directorship in the proposed corporation, and tried to persuade Mr. Altman not to use the title "Federal Reserve Corporation" on the ground that it would cause such corporation to be confused with the Federal reserve bank. In a few days Mr. Adelson's fear that the use of this or a similar title would cause confusion was substantiated by the fact that the Post Office Department returned to the Federal Reserve Bank of Atlanta a letter sent out by Mr. Altman, under the name "Federal Trust Company".

Under date of June 1, 1920, Governor Harding received a letter

from Mr. Altman written on plain stationery, in which, without referring in any way to the name of the proposed corporation, Mr. Altman stated that he was organizing a "bankers' bank" to provide for the banks comprising its membership a service similar in many respects to that of the Federal Reserve System but operated in a strictly private capacity, that many of the banks feared that membership in such a corporation would interfere with their membership in the Federal Reserve System, and that in order to offset this feeling he would greatly appreciate a line from Governor Harding endorsing the idea, if properly carried out, and stating that membership with the proposed corporation would not interfere with membership in the Federal Reserve System. Governor Harding replied that State banks which are members of the Federal Reserve System are permitted under the provisions of Section 9 of the Federal Reserve Act, subject to other provisions of the Act and of the regulations of the Board pursuant thereto, to retain their full charter and statutory rights and may continue to exercise all corporate powers granted them by the States in which they were created, and, therefore, if the law authorizes a State member bank to hold stock in another corporation this right is not impaired by reason of its membership in the Federal Reserve System. Governor Harding called attention to the fact, however, that the National Bank Act forbids national banks to purchase stock in corporations other than Federal reserve banks, except that they may purchase stock held as collateral to loans previously made in good faith, in which case they are required to dispose of such stock within a reasonable time.

The Board next received a letter from Mr. Frederic H. Curtiss, Federal Reserve Agent at the Federal Reserve Bank of Boston, enclosing a circular which Altman was sending to banks and clearing houses soliciting subscriptions to stock of the Federal Reserve Corporation. This circular stated that the Federal Reserve Corporation was being organized for the purpose of rediscounting paper which Federal reserve banks could not rediscount; that it would not serve individuals but only banks, and that its "underlying purpose is to afford member banks relief for long and short-time paper along the same lines as those embodied in the FEDERAL RESERVE ACT for early maturing paper only." This circular contained a paragraph headed, "Advantages over Federal Reserve System", in which it was argued that membership in the proposed corporation was better than membership in the Federal Reserve System. It also contained a paragraph quoting a part of Governor Harding's letter to Altman to the effect that if State member banks are authorized by law to hold stock in other corporations, this right is not impaired by reason of their membership in the Federal Reserve System, which paragraph was so worded as to give the impression that Governor Harding intended to encourage banks which are members of the Federal Reserve System to become members of the "Federal Reserve Corporation".

The Board referred this matter to the Attorney General, who in turn referred it to the District Attorney at Atlanta, who, through negotiations

with the attorneys for the proposed Federal Reserve Corporation, finally succeeded in preventing the use of that name by such corporation.

FEDERAL RESERVE PRODUCING COMPANY.

Between January 17, and September 16, 1920, the Board received several complaints from the Federal Reserve Bank of Kansas City about the use of the words "Federal Reserve" by an alleged "fake" oil company. This company was using in its advertising a trade mark or symbol in the shape of a shield resembling the shield of the United States bearing the words "Federal Reserve Producing Company". The Board called this matter to the attention of the Chairman of the Committee on Banking and Currency of the Senate with the suggestion that legislation prohibiting such use of the words "Federal Reserve" was badly needed. It also referred the matter to the Attorney General for such action as he deemed advisable; but is not advised as to what action, if any, was taken by the Attorney General.

FEDERAL RESERVE CHATTEL MORTGAGE.

In March, 1921, the Board's attention was called to a form of chattel mortgage prepared by a printing and stationery company which bore the legend "Federal Reserve Chattel Mortgage". The Board promptly expressed its disapproval of the use of any phrase containing the words "Federal Reserve" to designate a document of this character for the reason that it might be taken as signifying that paper secured by an instrument in this form is entitled to special privileges under the provisions of the Federal Reserve Act. Subsequently, the Board was advised by the printing company that the form was substantially identical with a form which had been prepared previously and circulated by a Federal reserve bank. The Board replied to the company, however, that the mere fact that this form or a similar form had been approved and distributed by a Federal reserve bank would not eliminate the Board's objection to the use of the words "Federal Reserve" to designate it, and the Board repeated its request that such words be not used in designating the form.

FEDERAL SAVINGS BANK AND TRUST COMPANY.

Under date of March 22, 1921, the promoters of a State bank in Wilkes Barre, Pennsylvania, advised Honorable W. J. Fowler, Deputy Comptroller of the Currency, that they were contemplating adopting the title, "Federal Savings Bank and Trust Company", that they had been informed by the Secretary of the Commonwealth of Pennsylvania that there was no objection to this title, but that before making a final decision in the matter they wished to be advised whether the Comptroller's office would raise any objection. This letter was referred to the Federal Reserve Board, which advised the promoters that, while there was no statute of the United States prohibiting the use of the word "Federal" in the corporate title of any State banking institution, the Board did not look with favor upon the use of that word in such connection. In

deference to the Board's objection, the promoters abandoned the idea of using such name.

FEDERAL STATE BANK.

Under date of April 28, 1922, a national bank in Idaho complained to the Comptroller of the Currency that there was a State banking institution in its city doing business under the name "Federal State Bank", and that it considered such name to be deceptive to the public. The national bank said that when its customers came in to liquidate or renew notes which it had rediscounted with the Federal Reserve Bank and it advised them that it would take 2 or 3 days to get the notes returned they sometimes inquired why it took so long to get the notes, "as the Federal Bank is right here in our city". The national bank further said that when it explained to its customers that the Federal State Bank was in no way connected with the Federal Reserve System they were somewhat surprised and stated that most people of the community were of the same opinion as they.

This matter was referred to the Federal Reserve Board, and the Board suggested that if the national bank which filed the complaint should call the matter to the attention of the Idaho Banking authorities, they might take steps to induce the Federal State Bank to change its corporate title. The Board also explained that while it appreciated the fact that the use of the word "Federal" by a State banking institution in its corporate name is undesirable and that its policy had been to discourage such use of this word, there was no Federal statute prohibiting the use of the word "Federal" in the corporate title of any State institution.

FEDERAL RESERVE LOAN COMPANY.

The case about which there has been the most complaint is that of the Federal Reserve Loan Company, which appeared to be an unincorporated association operating under a declaration of trust and engaged in a form of real estate loan business similar in some respects to the business customarily transacted by building and loan associations. Circulars issued by this company indicated that it solicits deposits purporting to entitle depositors to loans on real estate at some later date. This scheme seemed to be somewhat widespread, as the Board's attention has been called to companies operating under this name in Little Rock, Arkansas, and also in various different points in Florida.

The Board's attention was first called to the Federal Reserve Loan Company of Little Rock, Arkansas, by the Federal Reserve Bank of St. Louis, under date of December 7, 1921. The Board suggested that the Federal Reserve Bank of St. Louis call the attention of the Federal Reserve Loan Company to the impropriety of its using the words "Federal

Reserve" as part of its title and inform it that if it persisted in its plan the Federal reserve bank would publish a statement giving the public notice that the Federal Reserve Loan Company is not connected in any way with the Federal reserve bank.

The Department of Justice has also received an anonymous letter about the Federal Reserve Loan Company of Little Rock, Arkansas, the writer of which states that there were the names of two men connected with that company who certainly should not handle funds for the public and that he considered the company unworthy of the name "Federal Reserve", as it is no doubt used to mislead.

Under date of June 1, 1922, Honorable Lew Wallace, Jr., director of the United States Government Savings System, advised the Board that he had received a letter from the editor of a newspaper in Ocala, Florida, referring to a company engaged in business under the name "Federal Reserve Loan Company of Ocala, Florida", as a "swindling firm", maintaining that it had no reliable standing, and questioning its right to use the words "Federal Reserve."

The Federal Reserve Bank of Atlanta received and transmitted to the Board several complaints about the Federal Reserve Loan Company of Gainesville, Florida, which appeared to be operating not only in Gainesville, Florida, but also in other places in Florida. The Federal Reserve Bank of Atlanta also received a letter written on the stationery of a business firm in West Palm Beach, Florida, stating that the Federal Reserve Loan Company of Gainesville, Florida, was advertising that it would grant loans at 3% and that the writer was informed that such company was stating that it was a branch of the Federal Reserve System. The writer then inquired as to the connection of that company with the Federal Reserve System and as to whether he could make arrangements for real estate loans along the same lines. Another complaint was received from a member of a firm of real estate brokers in Gainesville, Florida, who was of the opinion that the title of the company was misleading and evidently was used for the purpose of conveying the impression that the company was in some way connected with the Federal reserve banks, and a similar complaint was received from a national bank in Gainesville, Florida.

At the suggestion of the Federal Reserve Board, Mr. Joseph A. McCord, Federal Reserve Agent at the Federal Reserve Bank of Atlanta, addressed a letter to Mr. B. D. Hiers, President of the Federal Reserve Loan Company of Gainesville, Florida, advising him that it was the opinion of quite a number of citizens of Florida that the circular issued by the Federal Reserve Loan Company would lead people to believe that it was operating under a Federal charter and is under Federal Governmental control or that it was operating under the control of the Federal Reserve Board or the Federal Reserve Bank of Atlanta, and requesting that he change the name of his company so as not in any way

to lead people to believe that it is under Federal control or the control of the Federal Reserve Bank of Atlanta. In reply Mr. Hiers expressed regret that the Federal Reserve Bank of Atlanta should object to the name of his company and stated that they certainly had no thought of any infringement nor did it occur to them that the use of the name would be in any way misleading. He then suggested that it would be expensive for them to change the name of their company and that they did not feel that they ought to be called upon to do so, "unless it appears to be our plain duty under the law to do so." He concluded by promising that "in the event it can be shown that we are violating any Federal rule or law or coming close enough to make it reasonably doubtful whether or not we are doing so, we will take whatever action may be necessary to meet the requirements of the law." Mr. McCord states that he is informed that Mr. Hiers stands well in his community; but, in view of the obvious misleading character of the name adopted by the Federal Reserve Loan Company, it was hard to believe that the Company acted innocently and in good faith in selecting such a name, or that it sincerely desired to act in harmony with the wishes of the Federal Reserve Board and the Federal reserve bank, especially in view of the fact that it apparently intended to continue to do business under that name in the absence of a Federal statute forbidding it to do so.

Mr. McCord also called this matter to the attention of the Comptroller of the State of Florida, who replied that he would have stopped this company from doing business in Florida, but that there is no law in that State which affords protection against such concerns.

The Board then referred this matter to the Attorney General who through the local United States Attorney finally succeeded in arranging with the officers of the company to change the title of the Federal Reserve Loan Company.

FEDERAL RESERVE HOME BUILDERS ASSOCIATION.

On September 26, 1922, the Department of Justice advised the Federal Reserve Board that it had received an inquiry as to whether the words "Federal Reserve" in connection with the name of a home building association to be called "The Federal Reserve Home Builders Association of New York" contravened any provision of the Federal statutes. The Department of Justice was advised that there was no statute prohibiting the use of these words but that there was a bill then pending in Congress which would have this effect, if passed. It was also stated that the Board has consistently taken the position that the use of these words in the title of any corporation, other than a Federal reserve bank, is fraudulent and unfair and that such a practice should be prevented if possible.

FEDERAL RESERVE ASSOCIATION.

Under date of April 23, 1923, the Federal reserve agent of the Federal Reserve Bank of Philadelphia called the attention of the Board

to the name of a certain corporation in Wilkes-Barre, Pennsylvania, whose title was "Federal Reserve Association". This company was also using a letterhead bearing a cut of the United States Treasury Building. This matter was referred by the Federal Reserve Board to the Attorney General and also to the Federal Trade Commission. A reply received from the Federal Trade Commission stated that it had no jurisdiction in the case because the corporation in question was engaged in life insurance business.

RESERVE DEPOSIT COMPANY.

One of the Federal reserve examiners early in September, 1923, called the attention of the Board to a certain advertisement appearing in a South Carolina newspaper. This advertisement which was signed by the "Reserve Deposit Company" of Cincinnati, Ohio, stated that this company made loans at six per cent on city or farm property under the Federal Reserve System. This advertisement which is, of course, most unfair and misleading, was called to the attention of the Federal reserve agent of the Federal Reserve Bank of Cleveland with the request that he endeavor tactfully to have this company change its name and discontinue the use of such improper advertisement.

ADVERTISEMENTS OF SHOSHONI STATE BANK.

Under date of July 13, 1923, the Federal Reserve Agent of the Federal Reserve Bank of Kansas City addressed a letter to the Board stating that the Shoshoni State Bank of Shoshoni, Wyoming, a nonmember bank, was making use of checks bearing the phrase "Federal Reserve Bank Protection". In reply to this letter the Federal Reserve Agent was requested to communicate with this bank in an attempt to have the use of this phrase on its checks discontinued. The attempt was made but no reply was received by the Federal Reserve Agent although he twice wrote to the Shoshoni State Bank in this regard. On September 18 this matter was referred to the Attorney General and the Federal Trade Commission by the Federal Reserve Board. The Federal Trade Commission has advised the Board that it has no jurisdiction in any case involving banks. The Attorney General advised the Board that he had succeeded in obtaining a statement from the bank that the improper phraseology would be omitted from the next supply of blank checks purchased by it. The Board at a later date was advised that this same bank had distributed calendars on which were printed "Federal Reserve Bank Protection". This matter the Board also called to the attention of the Attorney General and he advised the Board that the District Attorney at Cheyenne had been instructed to notify the bank to discontinue the use of any advertising matter containing the words "Federal Reserve Bank Protection".

FEDERAL RESERVE BUILDING AND LOAN ASSOCIATION.

On October 9, 1923, the attention of the Board was called to the fact that a corporation located in Philadelphia, Pennsylvania, was operating under the title "The Federal Reserve Building and Loan Association". The Board advised its informant that it had always taken

the position that the use of the words "Federal Reserve" by any corporations other than a Federal reserve bank was misleading to the public and unfair to the Federal reserve banks and member banks of the Federal Reserve System and that every effort should be made to prevent such improper practices by private corporations. The Board stated, however, that there was no Federal statute prohibiting the use of these words as part of the name of a private corporation. The Board also requested the Federal Reserve Agent at Philadelphia to take this matter up with the Federal Reserve Building and Loan Association and endeavor to obtain a change in the title of that corporation. After some correspondence with the corporation its officers stated that they were willing to adopt the name "Federal Building and Loan Association" if this were agreeable to the Board. The Board agreed to this suggestion, but it was found that there already existed in the State of Pennsylvania a Federal Building and Loan Association and also a Reserve Building and Loan Association, thus making it impossible for the Federal Reserve Building and Loan Association to adopt either of these names. As it was impossible for the Federal Reserve Building and Loan Association to adopt either the name "Federal Building and Loan Association" or "Reserve Building and Loan Association" and as this association had been in operation for a number of years before the fact was known to the Board it was decided not to insist upon a change in its name, but the Federal Reserve Agent at Philadelphia was requested to advertise in the Philadelphia papers that the Federal Reserve Building and Loan Association had no connection with the Federal Reserve Bank of Philadelphia or the Federal Reserve System and this was done.

FEDERAL SAVINGS AND LOAN ASSOCIATION.

On January 24, 1924, a corporation inquired of the Comptroller of the Currency whether there would be any objection to organizing a savings and loan association in the State of Washington under the name "Federal Savings and Loan Association" and whether there was any Federal legislation which would prohibit the use of such name. This inquiry was referred to the Board and it advised the corporation that there were no statutes prohibiting the use of the word "Federal" by private corporations but that the Federal Reserve Board seriously objected to its use because of the misleading effect and the unfair competition involved therein.

THE FEDERAL COMMERCE TRUST COMPANY.

The Federal Reserve Agent of the Federal Reserve Bank of St. Louis, on January 28, 1924, advised the Board that a trust company had been organized in Missouri under the title of "The Federal Commerce Trust Company." The Board addressed a letter to Mr. Lonsdale, the organizer of this trust company, stating that it felt strongly that the use of the word "Federal" in the titles of State banks was likely to prove misleading to the public and that it had always discouraged this practice in every possible way. The Board also stated that a bill was then pending in Congress to prohibit the use of the words "Federal", "Reserve"

or "United States" or any combination of them in the titles of any banks or similar corporations except corporations chartered by the Federal government and the Board requested Mr. Lonsdale to consider some change in the title of the Federal Commerce Trust Company by which the word "Federal" might be eliminated. Mr. Lonsdale advised the Board that he had applied to the Commissioner of Finance of Missouri for permission to use the title "Commerce Trust Company" but that since that title was already in use by another trust company in Missouri it was decided to apply for the title of "Federal Commerce Trust Company" and this title had been approved by the Commissioner of Finance. Mr. Lonsdale also stated that at the time the title was approved he had no knowledge of any objection to the use of the word "Federal" in State bank titles nor had he heard of the bill then pending in Congress, and he was not inclined to make a change in the title of the trust company. The Board advised Mr. Lonsdale that notwithstanding the facts which he presented it was still of the opinion that it was improper for State banking corporations to include the word "Federal" in their corporate titles and again requested him to eliminate the word "Federal" from the title of the Federal Commerce Trust Company. Other correspondence ensued and the Board finally took the matter up with the Commissioner of Banking of Missouri but nothing was accomplished.

FEDERAL SAVINGS AND LOAN ASSOCIATION.

On April 17, 1924, a folder published by the Federal Savings and Loan Association of Oklahoma City was sent to the Comptroller of the Currency and the sender inquired whether it was proper for such corporation to use the word "Federal" in its title. The inquiry was referred to the Federal Reserve Board and it advised the inquirer that it had consistently taken the position that the use of the word "Federal" as a part of the title of a private corporation was improper and should be prohibited, but that there was no statute which prevented the use of this word in the title of any corporation.

PEOPLES RESERVE SYSTEM.

The Federal Reserve Agent at the Federal Reserve Bank of Chicago, on June 3, 1924, sent to the Board a copy of a letter from a corporation known as the Peoples Reserve System. It appeared that this corporation authorizes certain retail dealers to use price discounts as a means of saving for their customers, the amount of the discounts being forwarded by these retail dealers to certain banks designated as depositaries of the system where they were held for the account of the customer in whose favor the discount was made. The banks designated as depositaries were authorized to display a sign reading "Member Peoples Reserve System". Forms used by the retail dealers also bore the words "Member Peoples Reserve System". The Board took the matter up with the Attorney General and the Postmaster General for such action as they deemed advisable to prevent the Peoples Reserve System from competing unfairly with the Federal reserve banks and their members by the use of the word "Reserve"

and the advertisement "Member Peoples Reserve System". The Postmaster General advised the Board that it appeared that the only way in which the company could be restricted from using the name adopted by it was to obtain an injunction in a court of competent jurisdiction and if such action was to be taken the injunction should be requested by the Federal Reserve Board and not by the Post Office Department. The Attorney General's Office advised the Board that his department was inclined to believe that sufficient grounds were not shown which would give any assurance that a court of equity would be likely to issue a writ of injunction restricting the Peoples Reserve System from utilizing the words "reserve system" and it was stated that it was believed that this case was one that could be cured only by the enactment of legislation. The Federal Reserve Agent at Chicago took the matter up with the Peoples Reserve System and it agreed not to permit banks to use the sign "Member Peoples Reserve System." The form used by the retail dealers, however, continued to bear this inscription.

FEDERAL BOND AND MORTGAGE COMPANY.

In September, 1924, the Board's attention was directed to a news item to the effect that the Federal Trade Commission had prohibited the Federal Bond and Mortgage Company of Detroit from using the phrase "federal bonds are better bonds", and also from using the word "Federal" alone in connection with the word bond or bonds and from using the word "Federal" alone in designating or referring to any place of issuing or marketing securities dealt in by such company.

FEDERAL COMMERCIAL AND SAVINGS BANK.

The Board was advised on December 29, 1924, that the Federal Commercial and Savings Bank of Port Huron, Michigan, was displaying advertisements referring to itself as the "Federal Bank". The Board advised its informant that it was opposed to the use of the word "Federal" by a state banking institution and that its policy had been to discourage the use of this word by such banks, but that there was no federal statute prohibiting its use. The Board also requested the Federal Reserve Agent at Chicago to take the matter up with the Federal Commercial and Savings Bank. He did so and that bank assured him that there would be no further improper advertising on its part.

FEDERAL FINANCE AND CREDIT COMPANY.

Mr. Mason, the Counsel of the Federal Reserve Bank of New York, on May 25, 1925, sent the Board a copy of a letter sent out by the Federal Finance and Credit Company of Baltimore, Maryland. This letter stated that it was to its customers what the Federal reserve bank was to its member banks. The Board sent a copy of the letter to the Federal Reserve Agent at Richmond and requested him to take the matter up with the officers of the Federal Finance and Credit Company with the request that they eliminate the word "Federal" from the title of the company and

in the future refrain from stating that it was performing the same service as that performed by Federal reserve banks for their member banks. The president of the Federal Finance and Credit Company advised the Federal Reserve Agent that it was not the intention of the company to mislead the public or to benefit from the similarity between the names of the Federal Finance and Credit Company and the Federal reserve bank. He stated that the instance which had come to the Board's attention was the only one in which the objectionable statement had been used by his company and he was instructing all departments to use extreme care to prevent any reference in the future which might possibly give rise to the inference that the Federal Finance and Credit Company was connected with the Federal reserve bank. Upon receipt of this advice from the Federal Reserve Agent the Board advised him that in view of the absence of any statute prohibiting the use of the word "Federal" by private corporations there seemed to be nothing further that could be done toward obtaining a change in the title of the Federal Finance and Credit Company.

FEDERAL RESERVE LIFE INSURANCE COMPANY.

On June 20, 1925, and November 6, 1925, the attention of the Board was directed to the fact that a corporation was operating in Kansas under the title"Federal Reserve Life Insurance Company of Kansas City." The Board advised its informant that the use of the words "Federal" or "Reserve" in the corporate name of private institutions not connected with the Federal Reserve System was misleading to the public and that the Board was strongly opposed to such practice. The Board also stated that there have been several bills pending in Congress which would prohibit the use of these words by private corporations, but that as yet none of these had become law.

X-4490

January 4, 1926. 40

To Federal Reserve Board

From Mr. Wyatt, General Counsel.

Subject: Preliminary rough draft of letter to Mr. McFadden re H.R. 2.

Pursuant to the action taken at the Board meeting on December 15, I have prepared and respectfully submit herewith a preliminary rough draft of a letter to Hon. Louis T. McFadden, Chairman of the Banking & Currency Committee of the House of Representatives, with reference to H.R.2, the latest draft of his bill to amend the National Bank Act and the Federal Reserve Act.

This letter contains a revised draft in proper legal form of Professor Sprague's proposed revision of Section 5200 of the Revised Statutes as tentatively approved by the Board and also drafts in proper legal form of the other amendments to the National Bank Act and the Federal Reserve Act recommended by Professor Sprague and tentatively approved by the Board. It also expresses the Board's approval or disapproval of various sections of H.R.2 as tentatively agreed upon at the Board meeting on December 15 as shown by the minutes of that meeting. It contains no further comments or discussion except such as are based upon the brief comments contained in Professor Sprague's memorandum of November 21, 1925. In preparing this draft, I have only attempted to state the action tentatively agreed upon by the Board; and I wish to make it clear that it contains no expression of my own views and does not necessarily represent my views with reference to this bill.

I have not yet received Professor Sprague's comments on this proposed letter or on the revised draft of Section 5200; but I am sending a copy of it to him and expect to go over it with him before the Board meeting on Thursday, January 7. I shall also furnish a copy to each individual member of the Board in order that he may have an opportunity to study it carefully in advance of the Board meeting.

The attached letter states that the Board approves Section 15 of the bill, which would amend the fourth paragraph of Section 13 of the Federal Reserve Act so as to permit Federal Reserve banks to rediscount for member banks the eligible paper of any one borrower in an amount equal to that which may be borrowed lawfully from any national banking association under the terms of Section 5200 of the Revised Statutes as amended; and I wish to call attention to the fact that this section of the bill was not specifically approved at the Board meeting. The minutes show, however, that the Board approved paragraph 2 (a) of Professor Sprague's draft of Section 5200 "on condition that a correlated provision be included in the Federal Reserve Act", and this is such a correlated provision.

I also wish to call attention to the fact that the Board has taken no action on the following portions of this bill and therefore the attached letter contains no comment on those provisions:

1. Section 10, which would amend Section 9 of the Federal Reserve Act in such a manner as to restrict the Board's power to impose conditions of membership. (This has nothing to do with branch banking but was inserted in the bill in an effort to meet the views of the National Association of Supervisors of State Banks. When the representatives of that Association met with the Board last week, they indicated that this amendment would not satisfy them and that they wanted the bill changed so as to take away the Board's power to impose any conditions of membership except such as are made pursuant to an express provision of the law.)

2. Section 12, which would merely correct a clerical error in that section of the Agricultural Credits Act of 1923 which attempted to amend Section 5202 of the Revised Statutes so as to exclude from the limitations of that section liabilities incurred by national banks in rediscounting agricultural paper with Federal Intermediate Credit Banks.

3. Sections 7, 8 and 9 relating to branch banking and that portion of Section 1 which relates to branches of State banks which consolidate with national banks.

There are attached hereto for the further information of the Board a copy of H.R.2 and a copy of Professor Sprague's memorandum of November 21, 1925. Inasmuch as this is only a preliminary report, I am holding the remainder of the file on this subject for discussion with Professor Sprague.

Respectfully,

Walter Wyatt,
General Counsel.

Attached:
Preliminary draft of letter to McFadden
Copy of H.R.2
Copy of Professor Sprague's memorandum

WW -sad

(PRELIMINARY ROUGH DRAFT) January 4,1926.

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

My dear Congressman:

In accordance with the request contained in your letter of December 11, 1925, the Federal Reserve Board has carefully considered your Bill, H.R.2, to amend the National Bank Act and the Federal Reserve Act, and I desire to submit herewith the Board's views thereon.

The Board unqualifiedly approves the following provisions of H.R.2 in their present form:

Section 2 (a), amending subsection 2 of Section 5136 of the Revised Statutes so as to give national banks indeterminate charters in lieu of charters for a term of 99 years.

Section 2 (b), amending subsection 7 of Section 5136 of the Revised Statutes so as to regulate the safe deposit business and the business of buying and selling investment securities when transacted by national banks.

Section 3, amending Section 5137 of the Revised Statutes so as to permit the purchase by national banks of such real estate as shall be necessary for their accommodation in the transaction of their business rather than merely such as may be necessary for

their immediate use.

Section 4, amending Section 5138 of the Revised Statutes so as to authorize the chartering of national banks in outlying sections of large cities with a capital of $100,000.

Section 5, amending Section 5142 of the Revised Statutues so as expressly to authorize national banks to increase their capital by means of stock dividends.

Section 6, amending Section 5150 of the Revised Statutes so as to authorize the board of directors of a national bank to designate a director in lieu of the president to be chairman of the board of directors.

Section 13, amending Section 5208 of the Revised Statutes relating to the certification of checks by officers, directors, agents or employees of Federal reserve banks and member banks of the Federal Reserve System.

Section 14, amending Section 5211 of the Revised Statutes so as to permit reports of condition of national banks to the Comptroller of the Currency to be signed by the vice president or assistant cashier.

Section 15, amending the fourth paragraph of Section 13 of the Federal Reserve Act so as to permit Federal reserve banks to rediscount for member banks the eligible paper of any one borrower in an amount equal to that which may be borrowed lawfully from any national banking association under the terms of Section 5200 of the Revised Statutes as amended.

Section 16, amending Section 22 of the Federal Reserve Act, so as to make thefts by any bank examiner or assistant bank examiner from any member bank of the Federal Reserve System a Federal offense.

The Board approves of that portion of Section 17 of your Bill which would amend Section 24 of the Federal Reserve Act so as to broaden the power of national banks to make loans on real estate and increase the aggregate amount of such loans which may be made by any national bank from 33 1/3 per cent to 50 per cent of the national bank's savings deposits; but the Board is opposed to that portion of this section of the Bill (page 27, lines4 to 9, inclusive) which would provide that the rate of interest which national banks may pay upon time deposits, savings deposits or other deposits shall not exceed the maximum rate authorized to be paid upon such deposits by State banks or trust companies.

Upon consideration of Section 1 of your Bill, which would amend the Consolidation Act of November 7, 1918, by the addition thereto of a new section simplifying the procedure involved in the consolidation of State banks with national banks, the Board voted to approve all of such proposed new section except that portion thereof which relates to branch banking.

The Board recommends that the following be substituted for Section 11 of your Bill, which would amend and reenact Section 5200 of the Revised Statutes:

"Sec.11. That Section 5200 of the Revised Statutes of the United States, as amended, be amended to read as follows:

'Section 5200. The total direct liabilities to any national banking association of any person, firm, company or corporation for money borrowed 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 national banking association of any person, firm, company or corporation, to wit, the direct liabilities for moneys borrowed and the indirect liabilities as surety, endorser or guarantor, where such surety, drawer, endorser, or guarantor obtains a loan from, or discounts paper with, or sells paper under guarantee 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.

'Within the meaning of this section: (a) The liabilities of any company or firm shall include the liabilities of the several members thereof; (b) where the majority of the stock of any corporation is owned by any borrower the liabilities of such corporation as surety, drawer, endorser or guarantor shall be considered part of the aggregate liabilities of such borrower; and (c) all liabilities as maker, acceptor, surety, drawer, endorser, or guarantor on accommodation paper shall be considered direct liabilities within the meaning of this section.

'The limitations prescribed above in the first paragraph of this section shall be subject to the following exceptions:

'(1) Liabilities arising out of the discount or purchase of the following classes of paper (other than liabilities on paper in classes (a), (b), or (c) where both the drawer and drawee, or both the maker and payee, are

corporations and one of such corporations is affiliated with, or a subsidiary of, the other - i.e., where a majority of the stock of one of such corporations is owned by the other or by the stockholders thereof) 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 which are or have been discounted or purchased for the account of the drawer or endorser and which are 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.

'(f) Notes secured by not less than a like face amount of bonds, notes, or certificates of indebtedness of the United States.

'(2) In addition to the 10 per centum permitted under the first paragraph of this section, liabilities to any national banking association may be incurred in an amount equal to 15 per centum of the paid in and unimpaired capital and 15 per centum of the unimpaired surplus fund of such national banking association, when such liabilities are evidenced by notes secured by shipping documents, warehouse receipts, or other such documents conveying or securing title covering readily marketable nonperishable staples, the actual market value of which is not at any time less than 115 per centum of the face value of such notes, and which are fully covered by insurance if

it is customary to insure such staples; but this exception shall not apply to liabilities of any person, corporation, firm or company or the several members thereof arising from the same transactions and secured upon the identical staples for more than six months; Provided, however, That liabilities of this character may be incurred for a period ofnot more than three months in a further amount equal to 15 per centum of the paid in and unimpaired capital and 15 per centum of the unimpaired surplus fund of such national banking association, in addition to the 10 per centum permitted under the first paragraph of this section and the 15 per centum hereinbefore permitted under this paragraph.

'(3) In addition to the 10 per centum permitted under the first paragraph of this section, liabilities to any national banking association may be incurred in an amount equal to 15 per centum of the paid in and unimpaired capital and 15 per centum of the unimpaired surplus fund of such national banking association, when evidenced by notes secured by documents conveying or securing title to live stock which is being prepared for market during the period of the loan evidenced by such notes, and the market value of which is not at any time less than 115 per centum of the face amount of such notes; but this exception shall not apply to the liabilities of any person, corporation, firm, or company, or the several members thereof, for more than nine months; Provided, however, That exceptions (2) and (3) are not cumulative but only alternative exceptions - i.e., only one of the two shall be available to the same borrower and not both at the same time.' "

This proposed revision of Section 5200 is a result of a thorough study which the Board has caused to be made by a committee of experts. In the opinion of the Federal Reserve Board, it combines the best features of the various drafts of Section 5200 incorporated in the bills on this subject heretofore introduced in Congress, together with certain new provisions which the Board believes to be desirable. Those features of this proposed revision which are taken from drafts heretofore considered by Congress require no comment; but I shall comment briefly on certain of the proposed new features.

Subdivisions (b) and (c) of the first paragraph of the above draft are new and are intended definitely to exclude from the greater limitation on indirect liabilities allowed under the first paragraph the liabilities of affiliated corporations and all liabilities on accommodation paper.

The first paragraph of the first exception is broadened so as to apply to liabilities arising out of the purchase of paper as well as the discount paper. A parenthetical clause is also inserted excluding from the exception paper in classes (a), (b) and (c) where the drawer and drawee, or the maker and payee, are affiliated corporations. The purpose of this provision is to exclude some portion of those notes and bills of exchange which are in substance nothing more than the obligations of a single interest.

Certain language is inserted in subdivision (d) of the first exception to exclude the holding of accepted demand obligations for an indefinite period of time by a bank, - a practice which involves

making what is substantially an unsecured loan on single name paper.

A new subdivision (f) is added to the first exception, excluding from any limitation notes secured by not less than a like face amount of bonds, notes or certificates of indebtedness of the United States. This is based on the theory that, since a bank may purchase an unlimited amount of these securities, it would seem logical to permit them to make loans in unlimited amounts on notes collateraled by such securities.

The second exception, which relates to liabilities on notes secured by shipping documents, warehouse receipts, or other such documents conveying or securing title covering readily marketable non-perishable staples, would permit such loans to be made in an amount equal to 15 per cent of the bank's capital and surplus in addition to the basic 10 per cent for periods of six months, and in a further amount equal to 15 per cent of the bank's capital and surplus for a period of not more than three months. The provision requiring such staples to be insured is qualified in such a way as not to apply to staples like pig iron, which are not customarily insured. The above draft of this exception is believed to be a fair compromise between the corresponding provisions of the various other drafts of this bill which have heretofore been introduced in Congress; and the Board believes that it will enable the banks to supply all proper financial facilities for the marketing of such staples.

The Board also desires to recommend the following additional amendments to the National Bank Act and the Federal Reserve Act and requests that these proposed amendments be incorporated in your bill:

1. That Section 5202 of the Revised Statutes as amended be further amended by adding at the end thereof a new paragraph to read as follows:

> "All obligations of every nature both direct and indirect arising out of the sale, pledge, or hypothecation of any of its assets by a national banking association shall be definitely recorded upon its books at the time such assets are sold, pledged, or hypothecated. For each failure to comply with this requirement a national banking association shall be subject to a fine of Five Hundred Dollars, to be imposed by the Comptroller of the Currency."

This proposal is designed to cover the rather common practice of the assumption of obligations by banks in an informal fashion, often in correspondence between bank officials. These obligations frequently escape the notice of bank examiners because they are not definitely recorded on the books of the banks.

2. That Section 5240 of the Revised Statutes of the United States, as amended, be further amended by adding at the end thereof a new paragraph reading as follows:

> "Whenever an officer or director of a national banking association is also an officer or director of any other bank, banking association, trust company, securities company or investment company, and in the judgment of the Comptroller of the Currency such national banking association is so closely related in management and operation to such other bank, banking association, trust company, securities company or investment company that an examination of such national banking association fails to disclose its true condition in the absence of detailed information regarding such other related institution, such national banking association shall (a) obtain from such related institution and furnish to the Comptroller of the Currency a copy of a report of an examination of such related institution made by the State authorities simultaneously with an examination of such national banking association made by examiners appointed by the Comptroller of the

> Currency, or (b) through such other arrangements as may be deemed satisfactory by the Comptroller of the Currency, furnish to the Comptroller of the Currency detailed information regarding the condition and operation of such affiliated institution. In such cases the Comptroller of the Currency may, upon request, furnish the State Supervisor of Banking, or other similar officers, copies of reports of examination of such affiliated national banking association. Upon the failure of any national banking association to comply with the requirements of this paragraph, any officer or director of such national banking association who is also an officer or director of such other related institution shall be disqualified to serve as an officer or director of such national banking association after the next annual meeting of the stockholders thereof."

This proposal is designed to secure adequate information regarding national banks which are closely affiliated with other institutions and in particular to afford some check upon certain abuses frequently engaged in by chains of banks. During the last few years a number of such chains have collapsed, and investigation shows that when a national bank is in such a chain an examination of it often fails to indicate its true condition, due to the shifting of assets back and forth between the various institutions which make up the chain.

3. That Section 9 of the Federal Reserve Act as amended be further amended by inserting therein, immediately after the sixth paragraph thereof, a new paragraph reading as follows:

> "Whenever an officer or director of a member bank is also an officer or director of any other bank, banking association, trust company, securities company or investment company and in the judgment of the Federal Reserve Board such member bank is so closely related in management and operation to such other bank, banking association, trust company, securities company or investment company that an examination of such member bank fails to disclose its true condition in the absence of detailed information regarding such other related institution, such member banks shall (a) obtain from such related institution and furnish to the Federal Reserve Board a copy of a report of an examination of such related institution made by the State authorities simultaneously with an

> examination of such member bank, or (b) through such other arrangements as may be deemed satisfactory by the Federal Reserve Board, furnish to the Federal Reserve Board detailed information regarding the condition and operations of such affiliated institution. In such cases the Federal Reserve Board may, upon request, furnish the State Supervisor of Banking, or other similar officers, copies of reports of any examination of such affiliated member bank which has been made by direction of the Federal Reserve Board or of the Federal reserve bank by examiners selected or approved by the Federal Reserve Board."

This proposal is similar to the preceding and is intended to apply to state banks and trust companies which are members of the Federal Reserve System. The penalty for non-compliance with this provision is already provided for in the seventh paragraph of Section 9 of the Federal Reserve Act which authorizes the Federal Reserve Board to expel from the Federal Reserve System any State member bank which fails to comply with the provisions of that Section.

4. That Section 5146 of the Revised Statutes of the United States, as amended, be further amended to read as follows:

> "Sec. 5146. Every director must, during his whole term of service, be a citizen of the United States, and at least three-fourths of the directors must have resided in the State, Territory, or District in which the association is located, or within fifty miles of the location of the office of the association, for at least one year immediately preceding their election, and must be residents of such State or within a fifty-mile territory of the location of the association during their continuance in office. Every director must own in his own right at least ten shares of the capital stock of the association of which he is a director, unless the capital of the bank shall not exceed $25,000, in which case he must own in his own right at least five shares of such capital stock. Any director who ceases to be

the owner of the required number of shares of the stock, or who pledges or hypothecates the same, or who becomes in any other manner disqualified, shall thereby vacate his place.

"No national banking association shall make a loan or loans aggregating more than Five Hundred Dollars to any salaried officer of such national banking association or to any corporation in which such officer or any director of such national banking association owns or controls a majority of the stock or of which he is an officer or director, unless (a) such loan is fully secured by readily marketable collateral, or (b) such officer or director has first submitted to the board of directors of such national banking association in approved form a financial statement of such officer or of such corporation, as the case may be. A violation of this provision shall disqualify any such officer or director from serving as such and vacate his place."

This would amend Section 5146 in two respects: (1) The last sentence of that section as it now reads would be amended so as to disqualify a director who pledges or hypothecates his stock. This is intended merely to meet an apparent oversight in the law. (2) A new paragraph would be added relating to loans to officers of national banks and to corporations the majority of the stock of which is owned or controlled by officers or directors of national banks.

5. That Section 5205 of the Revised Statutes of the United States, as amended, be further amended to read as follows:

"Sec. 5205. Every association which shall have failed to pay up its capital stock, as required by law, and every association whose capital stock shall have become impaired by losses or otherwise, shall, within two months after receiving notice thereof from the Comptroller of the Currency, pay the deficiency in the capital stock, by assessment upon the shareholders pro rata for the amount of capital stock held by each; and the Treasurer of the United States shall withold the interest upon all bonds held by him in trust for any such association, upon notification from the Comptroller of the Currency, until otherwise notified by him. If any such association shall fail to pay up its capital stock, and shall refuse to go into liquidation, as provided by law, for two months after receiving notice from the Comptroller, a receiver may be appointed to close up the business of the association, according to the provisions of section fifty-two hundred and thirty-four: And provided, That if any shareholder or shareholders of such bank shall neglect or refuse, after two months' notice, to pay the assessment, as provided in this section, it shall be the duty of the board of directors to cause a sufficient amount of the capital stock of such shareholder or shareholders to be sold at public auction (after thirty days' notice shall be given by posting such notice of sale in the office of the bank, and by publishing such notice in a newspaper of the city or town in which the bank is located, or in a newspaper published nearest thereto), to make good the deficiency, and the balance, if any, shall be returned to such delinquent shareholder or shareholders; Provided, however, That the Comptroller of the Currency may extend the time for payment of such assessment whenever in his judgment it may be deemed advisable."

The only effect of this amendment would be to shorten from three months to two months the period allowed for the payment of assessments to restore the capital of a national bank which has become impaired, with a provision authorizing the Comptroller of the Currency to extend the time for the payment of such assessment when in his judgment it

may be deemed advisable.

The Board has taken no definite action upon those provisions of your Bill which are not specifically mentioned above, but if it does so I shall advise you promptly of the action taken.

If there is anything further that the Board can do to be of any assistance to you in this or in any other matter, please do not hesitate to call upon us.

Very truly yours,

D. R. Crissinger,
Governor.

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

STATEMENT FOR THE PRESS X-4491

For Immediate Release. January 4, 1926.

Gross earnings of the Federal reserve banks during 1925 were $41,800,000, or about $3,500,000 more than in the preceding year, while current expenses amounted to $27,500,000 or $900,000 less than in 1924. Net deductions from current net earnings to cover depreciation charges, reserves for losses on paper of failed banks, etc., amounted to $4,800,000 as compared with $6,200,000 the year before, and net earnings to $9,400,000 as against $3,700,000 in 1924.

Earnings of the Atlanta and St. Louis banks were not sufficient to fully cover expense and dividend requirements, and these two banks were authorized by the Federal Reserve Board to pay dividends, totaling approximately $557,000, out of accumulated surplus.

The Federal Reserve Banks of Minneapolis and Kansas City were the only ones to pay a franchise tax to the United States Treasury. The amount of the tax aggregated $59,300.37, and the balance of the net earnings of these two banks, $6,588.93, was transferred to their surplus accounts in accordance with Section 7 of the Federal Reserve Act. As the subscribed capital of all other reserve banks is materially in excess of accumulated surplus, the balance of their net earnings ($3,118,000), remaining after the payment of dividends, was transferred to surplus account. The surplus account of all Federal reserve banks now aggregates $220,311,000 or $2,474,000 more than last year.

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.

January 5, 1926.

To: Federal Reserve Board

From: Mr. Wyatt, General Counsel

Subject: Mr. Platt's Proposed Bill regarding Branch Banking.

The opinion of this office has been requested with reference to the effect on existing law and the regulations of the Board if the attached draft of a bill to amend Section 5190 of the Revised Statutes is enacted.

In my opinion the effect would be:

1. To confirm by implication the Board's power to prescribe regulations and restrictions with reference to the establishment of branches, additional offices or agencies by State banks and trust companies which are members of the Federal Reserve System.

2. To enable the Comptroller of the Currency in his discretion to authorize national banks to open and operate one or more branches, additional offices or agencies under the following conditions:

(a) The Comptroller could authorize national banks to open and operate such branches, additional offices or agencies in any State where State banks are "authorized or permitted" to do so;

(b) The Comptroller could not authorize national banks to open or operate any branch, additional office or agency in any State where State banks are not "authorized or permitted" to do so;

(c) The establishment and operation of such branches, additional offices or agencies by national banks would be subject to such regulations and restrictions as the Federal Reserve Board might from time to time prescribe with reference to the establishment of branches, additional offices or agencies by State banks or trust companies which are members of the Federal Reserve System;

(d) The establishment of such branches, additional offices or agencies by national banks would not be subject to the requirements of the State law as to capital, public convenience, etc., unless required by the regulations of the Federal Reserve Board;

(e) The Federal Reserve Board could make the establishment of such branches, additional offices or agencies by national banks subject to such provisions of the State law by prescribing that State banks which are members of the Federal Reserve System may establish branches, additional offices or agencies only after complying in all respects with the State law on the subject.

I may add that the words "authorized or permitted" are of special significance when used together in this way. The word "authorized" would apply to States in which State banks are expressly authorized by statute to open and operate branches, and the word "permitted" would apply to States where State banks are not expressly authorized by statute to open and operate branches but are permitted to do so through administrative rulings or through administrative acquiescence in the practice, where the State law does not expressly prohibit it.

The enactment of this proposed bill would not effect the Board's regulations in any way except to confirm the Board's power to prescribe such regulations regarding branches and impliedly to authorize the Board to prescribe regulations and restrictions governing this subject independently of conditions of membership prescribed by the Board and accepted by State banks prior to their admission to the Federal Reserve System.

I trust that this will give the Board all the information it desires. If not, I shall be very glad to elaborate this opinion or discuss the subject further.

Respectfully,

Walter Wyatt
General Counsel.

Draft of bill
attached.

X-4492a

(COPY)

A B I L L

To amend Section 5190 of the Revised Statutes of the United States, relating to branches of national banking associations and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 5190 of the Revised Statutes of the United States be, and the same is hereby, amended so as to read as follows:

"Sec. 5190. The usual business of each national banking association shall be transacted at an office or banking house located in the place specified in its organization certificate: Provided, That subject to such regulations and restrictions as the Federal Reserve Board may from time to time prescribe with reference to the establishment of branches, additional offices or agencies by State banks or trust companies which are members of the Federal Reserve System, the Comptroller of the Currency may in his discretion authorize the opening and operation of one or more branches, additional offices, or agencies by a national banking association in any State where State banks or trust companies are authorized or permitted to open and operate branches, additional offices, or agencies, and not elsewhere."

FEDERAL RESERVE BOARD

WASHINGTON

X-4493

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 5, 1926.

SUBJECT: Procedure at Reserve Banks on Rates.

Dear Sir:

In order to give greater uniformity to the procedure in the matter of fixing discount and open-market rates and to provide for a consideration of these questions at each meeting of the Boards of Directors of the Federal Reserve Banks, the Board requests that each Federal Reserve Agent, in his capacity as Chairman, present to his Board of Directors a complete schedule of the rates prevailing at the bank for their consideration and action.

The schedule of rates should include the following:

1. Discount rate.
2. Minimum buying rates by maturities for bankers' acceptances.
3. Rates at which bankers' acceptances may be purchased, with agreement to resell (so-called repurchase agreements).
4. Rates at which Government securities may be purchased with agreement to resell.

Following each meeting of the Board of Directors the Board desires to be advised by telegraph of the action taken by the Directors, either in approving the existing schedule of rates, or in recommending change in any one of the rates.

Very truly yours,

D. R. Crissinger,
Governor.

TO ALL FEDERAL RESERVE AGENTS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4494

January 6, 1926.

SUBJECT: Officers and Employees of Federal Reserve Banks Authorized to Examine Member Banks.

Dear Sir:

In order to check the Board's records, it will be appreciated if you will furnish the following information at your convenience:

1. Names of examiners designated by your bank and approved by the Federal Reserve Board.

2. List of other officers or employees who have been designated as special examiners with the approval of the Federal Reserve Board, and who are now authorized to examine or to assist in the examination of State member banks and banks applying for membership, or to make special credit investigations or examinations of National or State member banks.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO ALL CHAIRMEN OF F. R. BANKS EXCEPT ATLANTA.

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

STATEMENT FOR THE PRESS.

X-4498
4:00 o'clock p.m.,
January 7, 1926.

For Immediate Release

The Federal Reserve Board announces that it has approved an application of the Federal Reserve Bank of New York for permission to establish a rediscount rate of 4 per cent on all classes of paper of all maturities, effective January 8, 1926. The Board has also approved the New York bank increasing by 1/4 of 1 per cent all rates at which it purchases acceptances in the open market.

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

STATEMENT FOR THE PRESS

For Immediate Release. X-4499
January 8, 1926.

Mr. John Perrin, who has served as Class "C" Director, Federal Reserve Agent and Chairman of the Board of Directors of the Federal Reserve Bank of San Francisco since the establishment of that institution, has tendered his resignation, which has been accepted by the Federal Reserve Board effective March 1, 1926.

The Board has appointed Mr. I. B. Newton, of Los Angeles, as Class "C" Director of the San Francisco Bank for the unexpired term of Mr. Perrin, which ends December 31, 1926, and has designated him as Federal Reserve Agent and Chairman of the Board of Directors of the Bank.

(COPY) X-4500

January 8, 1926.

Honorable Louis T. McFadden, Chairman,
Committee on Banking and Currency,
House of Representatives,
Washington, D. C.

My dear Congressman:

The Federal Reserve Board welcomes the opportunity afforded by the request conveyed in your letter of December 11, 1925, to express its opinion on your Bill, H.R. 2, amending the National Bank Act and the Federal Reserve Act.

The urgent importance of liberalizing the law so as to enable national banks to compete more effectively with State institutions has long been recognized by the Board, and appropriate legislation for this purpose has been under consideration during the last year by a special committee of officers of various Federal reserve banks assisted by the Board's Division of Research and Statistics. The opinions herewith submitted are based in large measure upon the work of this Committee after consultation with the Federal Advisory Council.

Many of the provisions of the bill as introduced are approved without change, but the Board ventures to suggest considerable changes in Section 5200 designed in part to clarify that very complicated section and in part to limit certain somewhat hazardous classes of loans. While strongly in favor of liberalizing the statute, the Board feels also that it is highly desirable to introduce additional safeguards, especially in view of the numerous bank failures in recent years. The Board, therefore, submits a limited number of suggestions with this object in view. They are designed mainly to secure more adequate data regarding the conditions of the banks through examination and it is not believed that they would hamper in any way the conduct of its business by any well managed bank.

SECTIONS APPROVED WITHOUT ANY SUGGESTED CHANGES.

The Board approves the following provisions of H.R. 2 in their present form:

Section 2(a), amending subsection 2 of Section 5136 of the Revised Statutes so as to give national banks indeterminate charters in lieu of charters for a term of 99 years.

Section 2(b), amending subsection 7 of Section 5136 of the Revised Statutes so as to regulate the safe deposit business and the business of buying and selling investment securities when transacted by national banks.

Section 3, amending Section 5137 of the Revised Statutes so as to permit the purchase by national banks of such real estate as shall be necessary for their accommodation in the transaction of their business rather than merely such as may be necessary for their immediate use.

Section 4, amending Section 5138 of the Revised Statutes so as to authorize the chartering of national banks in outlying sections of large cities with a capital of $100,000.

Section 5, amending Section 5142 of the Revised Statutes so as expressly to authorize national banks to increase their capital by means of stock dividends.

Section 6, amending Section 5150 of the Revised Statutes so as to authorize the board of directors of a national bank to designate a director in lieu of the president to be chairman of the board of directors.

Section 13, amending Section 5208 of the Revised Statutes relating to the certification of checks by officers, directors, agents or employees of Federal reserve banks and member banks of the Federal Reserve System.

Section 14, amending Section 5211 of the Revised Statutes so as to permit reports of condition of national banks to the Comptroller of the Currency to be signed by the vice president or assistant cashier.

Section 15, amending the fourth paragraph of Section 13 of the Federal Reserve Act so as to permit Federal reserve banks to rediscount for member banks the eligible paper of any one borrower in an amount equal to that which may be borrowed lawfully from any national banking association under the terms of Section 5200 of the Revised Statutes as amended.

Section 16, amending Section 22 of the Federal Reserve Act, so as to make thefts by any bank examiner or assistant bank examiner from any member bank of the Federal Reserve System a Federal offense.

REAL ESTATE LOANS.

The Board approves of that portion of Section 17 of your Bill which would amend Section 24 of the Federal Reserve Act so as to broaden the power of national banks to make loans on real estate and increase the aggregate amount of such loans which may be made by any national bank from 33 1/3 per cent of its time deposits to 50 per cent of the national bank's savings deposits; but the Board is opposed to that portion of this section of the Bill (page 27, lines 4 to 9, inclusive) which would provide that the rate of interest which national banks may pay upon time deposits, savings deposits or other deposits shall not exceed the maximum rate authorized to be paid upon such deposits by State banks or trust companies.

CONSOLIDATION OF NATIONAL BANKS.

Upon consideration of Section 1 of your Bill, which would amend the Consolidation Act of November 7, 1918, by the addition thereto of a new section simplifying the procedure involved in the consolidation of State banks with national banks, the Board voted to approve all of such proposed new section except that portion thereof which relates to branch banking.

SECTION 5200 OF THE REVISED STATUTES.

The Board recommends that the following be substituted for Section 11 of your Bill, which would amend and reenact Section 5200 of the Revised Statutes:

"Sec. 11. That Section 5200 of the Revised Statutes of the United States, as amended, be amended to read as follows:

'Section 5200. The total direct liabilities to any national banking association of any person, firm, company or corporation for money borrowed 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 national banking association of any person, firm, company or corporation, to wit, the direct liabilities for moneys borrowed and the indirect liabilities as surety, endorser or guarantor, where such surety, drawer, endorser, or guarantor obtains a loan from, or discounts paper with, or sells paper under guarantee 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.

'Within the meaning of this section: (a) The liabilities of any company or firm shall include the liabilities of the several members thereof; (b) where the majority of the stock of any corporation is owned by any borrower the liabilities of such corporation as surety, drawer, endorser or guarantor shall be considered part of the aggregate liabilities of such borrower; and (c) all liabilities of the actual borrower on accommodation paper, whether in the form of liabilities as maker, acceptor, surety, drawer, endorser, or guarantor shall be considered direct liabilities within the meaning of this section.

'The limitations prescribed above in the first paragraph of this section shall be subject to the following exceptions:

'(1) Liabilities arising out of the discount or purchase of the following classes of paper shall be subject to no limitation based upon the amount of such capital and surplus except where both the drawer and drawee, or both the maker and payee, are corporations and one of such corporations is affiliated with, or a subsidiary of, the other - i.e., where a majority of the stock of one of such corporations is owned by the other or by the stockholders thereof:

(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.

'(2) Liabilities arising out of the discount or purchase of the following classes of paper shall be subject to no limitation based upon the amount of such capital and surplus:

(a) Demand obligations which are or have been discounted or purchased for the account of the drawer or endorser and which are secured by documents covering commodities in actual process of shipment.

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

(c) Notes secured by not less than a like face amount of bonds, notes, or certificates of indebtedness of the United States.

'(3) In addition to the 10 per centum permitted under the first paragraph of this section, liabilities to any national banking association may be incurred in an amount equal to 15 per centum of the paid in and unimpaired capital and 15 per centum of the unimpaired surplus fund of such national banking association, when such liabilities are evidenced by notes secured by shipping documents, warehouse receipts, or other such documents conveying or securing title covering readily marketable nonperishable staples, the actual market value of which is not at any time less than 115 per centum of the face value of such notes, and which are fully covered by insurance if it is customary to insure such staples; but this exception shall not apply to liabilities of any person, corporation, firm or company or the several members thereof arising from the same transactions and secured upon the identical staples for more than six months; Provided, however, That liabilities of this character may be incurred for a period of not more than three months in an additional amount equal to 15 per centum of the paid in and unimpaired capital and 15 per centum of the unimpaired surplus fund of such national banking association, in addition to the 10 per centum permitted under the first paragraph of this section and the 15 per centum hereinbefore permitted under this paragraph.

'(4) In addition to the 10 per centum permitted under the first paragraph of this section, liabilities to any national banking association may be incurred in an amount equal to 15 per centum of the paid in and unimpaired capital and 15 per centum of the unimpaired surplus fund of such national banking association, when evidenced by notes secured by documents conveying or securing title to live stock which is being prepared for market during the period of the loan evidenced by such notes, and the market value of which is not at any time less than 115 per centum of the face amount of such notes; but this exception shall not apply to the liabilities of any person, corporation, firm, or company, or the several members thereof, for more than nine months; Provided, however, That exceptions (3) and (4) are not cumulative but only alternative exceptions - i.e., only one of the two shall be available to the same borrower and not both at the same time.'"

This proposed revision of Section 5200 is a result of a thorough study which the Board has caused to be made by a committee of officers of the Federal Reserve System aided by the Board's Division of Research and Statistics. The recommendations of this committee were also considered by the Federal Advisory Council. In the opinion of the Federal Reserve Board, this revision combines the best features of the various drafts of Section 5200 incorporated in the bills on this subject heretofore introduced in Congress, together with certain new provisions which the Board believes to be desirable. Those features of this proposed revision which are taken from drafts heretofore considered by Congress require no comment; but I shall comment briefly on certain of the proposed new features.

Subdivisions (b) and (c) of the second paragraph of the above draft are new and are intended to bring under the 10% limitation of the first paragraph the indirect liabilities of affiliated corporations and liabilities of the borrower on accommodation paper. The Board believes this is necessary in order to cover cases where the drawer and drawee or the maker and indorser are in effect a single interest.

The first and second exceptions are broadened so as to apply to liabilities arising out of the purchase of paper as well as the discount of paper. A provision is also inserted in the first exception excluding from the benefits of that exception paper on which the drawer and drawee, or the maker and payee, are affiliated corporations. The purpose of this provision is to exclude some portion of those notes and bills of exchange which are in substance nothing more than the obligations of a single interest.

Certain language is inserted in subdivision (a) of the second exception to exclude the holding of accepted demand obligations for an indefinite period of time by a bank,-a practice which involves making what is substantially an unsecured loan on single name paper.

A new subdivision (c) is added to the second exception, excluding from any limitation notes secured by not less than a like face amount of bonds, notes or certificates of indebtedness of the United States. This is based on the theory that, since banks may purchase an unlimited amount of these securities, it would seem logical to permit them to make loans in unlimited amounts on notes collateraled by such securities.

The third exception, which relates to liabilities on notes secured by shipping documents, warehouse receipts, or other such documents conveying or securing title covering readily marketable non-perishable staples, would permit such loans to be made in an amount equal to 15 per centum of the bank's capital and surplus in addition to the basic 10 per cent for periods not in excess of six months, and in an additional amount equal to 15 per cent of the bank's capital and surplus for a period of not more than three months. The provision requiring such staples to be insured is qualified in such a way as not to apply to such staples as pig iron, lead, zinc, etc., which are not customarily insured. The above draft of this exception is believed to be a fair compromise between the corresponding provisions of the various other drafts of this bill which have heretofore been introduced in Congress; and the Board believes that it will enable the banks to supply all proper financial facilities for the marketing of such staples.

The fourth exception, which relates to loans on live stock is changed so as not to apply to loans on dairy or breeder herds nor to the liabilities of any one borrower for more than nine months.

SUGGESTED AMENDMENTS DESIGNED TO STRENGTHEN THE BANKS.

The Board also desires to recommend the following additional amendments to the National Bank Act and the Federal Reserve Act and requests that these proposed amendments be incorporated in your bill:

1. That Section 5202 of the Revised Statutes as amended be further amended by adding at the end thereof a new paragraph to read as follows:

> "All obligations of every nature both direct and indirect arising out of the sale, pledge, or hypothecation of any one of its assets by a national banking association shall be definitely recorded upon its books at the time such assets are sold, pledged, or hypothecated. For each failure to comply with this requirement a national banking association shall be subject to a fine of Five Hundred Dollars, to be imposed by the Comptroller of the Currency."

This proposal is designed to cover the rather common practice of the assumption of obligations by banks in an informal fashion, often in correspondence between bank officials. These obligations

frequently escape the notice of bank examiners because they are not definitely recorded on the books of the banks.

2. That Section 5240 of the Revised Statutes of the United States, as amended, be further amended by adding at the end thereof a new paragraph reading as follows:

> "Whenever in the judgment of the Comptroller of the Currency any national banking association is so closely related in management, operation or interest to any other bank, banking association, trust company, securities company or investment company that an examination of such national banking association fails to disclose its true condition in the absence of detailed information regarding such other related institution, such national banking association shall (a) obtain from such related institution and furnish to the Comptroller of the Currency a copy of a report of an examination of such related institution made by the State authorities simultaneously with an examination of such national banking association made by examiners appointed by the Comptroller of the Currency, or (b) by such other means as may be deemed satisfactory by the Comptroller of the Currency, furnish to the Comptroller of the Currency detailed information regarding the condition and operation of such related institution. In such cases the Comptroller of the Currency may, upon request, furnish the State Supervisor of Banking, or other similar officers, copies of reports of examination of such related national banking association. If any national banking association shall fail to comply with the requirements of this paragraph after a demand for such compliance has been made by the Comptroller of the Currency, the Comptroller shall report the facts in the case to the Federal Reserve Board, which may, after a hearing, issue an order depriving such national banking association of the privilege of receiving any discounts, advancements or accommodations from the Federal reserve bank of which it is a member until it has complied fully with all demands made by the Comptroller of the Currency pursuant to the provisions of this paragraph. The Federal Reserve Board shall send a copy of such order by registered mail to such national banking association and a copy to the Federal reserve bank of which it is a member; and, after receipt of said order, such Federal reserve bank shall not rediscount any paper for, or make any loan, advancement, or other extension of credit to, such national banking association until said Federal reserve bank has been notified by the Federal Reserve Board that such national banking association has complied fully with the requirements of this paragraph."

This proposal is designed to secure adequate information regarding national banks which are related to other institutions and in particular to afford some check upon certain abuses frequently engaged in by chains of banks. During the last few years a number of such chains have collapsed,

and investigation shows that when a national bank is in such a chain an examination of it fails to disclose its true condition, due to the shifting of assets back and forth between the various institutions which make up the chain.

3. That Section 9 of the Federal Reserve Act as amended be further amended by inserting therein, immediately after the sixth paragraph thereof, a new paragraph reading as follows:

"Whenever in the judgment of the Federal Reserve Board any member bank is so closely related in management, operation and interest to any other bank, banking association, trust company, securities company or investment company that an examination of such member bank fails to disclose its true condition in the absence of detailed information regarding such other related institution, such member bank shall (a) obtain from such related institution and furnish to the Federal Reserve Board a copy of a report of an examination of such related institution made by the State authorities simultaneously with an examination of such member bank, or (b) by such other means as may be deemed satisfactory by the Federal Reserve Board, furnish to the Federal Reserve Board detailed information regarding the condition and operations of such related institution. In such cases the Federal Reserve Board may, upon request, furnish the State Supervisor of Banking, or other similar officers, copies of reports of any examination of such related member bank which has been made by direction of the Federal Reserve Board or of the Federal reserve bank by examiners selected or approved by the Federal Reserve Board. If any member bank shall fail to comply with the requirements of this paragraph after a demand for such compliance has been made by the Federal Reserve Board, said Board may, after a hearing, issue an order depriving such member bank of the privilege of receiving any discounts, advancements or accommodations from the Federal reserve bank of which it is a member until it has complied fully with all demands made by the Federal Reserve Board pursuant to the provisions of this paragraph. The Federal Reserve Board shall send a copy of such order by registered mail to such member bank and a copy to the Federal reserve bank of which it is a member, and, after receipt of said order, such Federal reserve bank shall not rediscount any paper for, or make any loan, advancement, or other extension of credit to, such member bank until said Federal reserve bank has been notified by the Federal Reserve Board that such member bank has complied fully with the requirements of this paragraph."

This proposal is similar to the preceding and is intended to apply to State banks and trust companies which are members of the Federal Reserve System. At present the only penalty for non-compliance with any provision of the Federal Reserve Act by State member banks is that provided for in the seventh paragraph of Section 9 of the Federal Reserve Act, which authorizes the Federal Reserve Board to expel from the Federal Reserve System any State member bank which fails to comply with the provisions of that Section. The penalty suggested above is less drastic but is nevertheless thought to be sufficient.

4. That Section 5146 of the Revised Statutes of the United States, as amended, be further amended to read as follows:

"Sec.5146. Every director must, during his whole term of service, be a citizen of the United States, and at least three-fourths of the directors must have resided in the State, Territory, or District in which the association is located, or within fifty miles of the location of the office of the association, for at least one year immediately preceding their election, and must be residents of such State or within a fifty-mile territory of the location of the association during their continuance in office. Every director must own in his own right at least ten shares of the capital stock of the association of which he is a director, unless the capital of the bank shall not exceed $25,000, in which case he must own in his own right at least five shares of such capital stock. Any director who ceases to be the owner of the required number of shares of the stock, or who pledges or hypothecates the same, or who becomes in any other manner disqualified, shall thereby vacate his place.

"No national banking association shall make a loan or loans aggregating more than Five Hundred Dollars to any salaried officer of such national banking association or to any corporation in which such officer or any director of such national banking association owns or controls a majority of the stock or of which he is an officer or director, unless (a) such loan is fully secured by readily marketable collateral, or (b) such officer or director has first made available to the board of directors of such national banking association by filing with such national banking association in approved form a financial statement of such officer or of such corporation, as the case may be, which financial statement shall accurately show the financial condition of such officer or corporation at the close of the last fiscal or calendar year preceding the loan. A violation of this provision shall disqualify any such officer or director from serving as such and vacate his place."

This would amend Section 5146 in two respects: (1) The last sentence of that section as it now reads would be amended so as to disqualify a director who pledges or hypothecates his stock. This is intended merely to meet an apparent oversight in the law. (2) A new paragraph would be added relating to loans to officers of national banks and to corporations the majority of the stock of which is owned or controlled by officers or directors of national banks.

5. That Section 5205 of the Revised Statutes of the United States, as amended, be further amended to read as follows:

> "Sec.5205. Every association which shall have failed to pay up its capital stock, as required by law, and every association whose capital stock shall have become impaired by losses or otherwise, shall, within two months after receiving notice thereof from the Comptroller of the Currency, pay the deficiency in the capital stock, by assessment upon the shareholders pro rata for the amount of capital stock held by each; and the Treasurer of the United States shall withhold the interest upon all bonds held by him in trust for any such association, upon notification from the Comptroller of the Currency, until otherwise notified by him. If any such association shall fail to pay up its capital stock, and shall refuse to go into liquidation, as provided by law, for two months after receiving notice from the Comptroller, a receiver may be appointed to close up the business of the association, according to the provisions of section fifty-two hundred and thirty-four: And provided, That if any shareholder or shareholders of such bank shall neglect or refuse, after two months' notice, to pay the assessment, as provided in this section, it shall be the duty of the board of directors to cause a sufficient amount of the capital stock of such shareholder or shareholders to be sold at public auction (after thirty days' notice shall be given by posting such notice of sale in the office of the bank, and by publishing such notice in a newspaper of the city or town in which the bank is located, or in a newspaper published nearest thereto), to make good the deficiency, and the balance, if any, shall be returned to such delinquent shareholder or shareholders: Provided, however, That the Comptroller of the Currency may extend the time for payment of such assessment whenever in his judgment it may be deemed advisable."

The only effect of this amendment would be to shorten from three months to two months the period allowed for the payment of assessments to restore the capital of a national bank which has become impaired, with a provision authorizing the Comptroller of the Currency

to extend the time for the payment of such assessment when in his judgment it may be deemed advisable.

The Board has taken no definite action upon those provisions of your Bill which are not specifically mentioned above, but if it does so I shall advise you promptly of the action taken. The Board is also considering the advisability of recommending the enactment of certain other amendments to the National Bank Act and the Federal Reserve Act, but has not yet taken definite action upon the matter. If it decides to recommend any further amendments, I shall advise you at a later date.

It may be of interest to your Committee to know that this letter was considered in detail at a meeting of the Federal Reserve Board at which all members except the Secretary of the Treasury and the Comptroller of the Currency were present and was approved by all those members who were present.

If there is anything further that the Board can do to be of any assistance to you in this or in any other matter, please do not hesitate to call upon us.

Very truly yours,

D. R. Crissinger,
G o v e r n o r.

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P.S. If you so desire the Board will be very glad to furnish you with additional copies of this letter for the use of the other members of your Committee.

X-4502

TREASURY DEPARTMENT
Office of the Secretary
WASHINGTON

January 9, 1926.

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, 1925, amounting to $118,440.

Federal Reserve Notes, Series 1914

	$5	$10	$20	$100	Total
Boston	200,000				200,000
New York	500,000				500,000
Philadelphia	340,000				340,000
Cleveland	200,000			10,000	210,000
Richmond	200,000	100,000	100,000		400,000
Atlanta	300,000	200,000	100,000		600,000
Chicago	450,000				450,000
San Francisco	200,000	150,000	100,000		450,000
	2,390,000	450,000	300,000	10,000	3,150,000

3,150,000 sheets at $37.60 per M $118,440.00

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

	Sheets	Compensation	Plate Printing	Materials	Total
Boston	200,000	$ 3,540.	$1,640.	$ 2,340.	$ 7,520.00
New York	500,000	8,850.	4,100.	5,850.	18,800.00
Philadelphia	340,000	6,018.	2,788.	3,978.	12,784.00
Cleveland	210,000	3,717	1,722.	2,457.	7,896.00
Richmond	400,000	7,080.	3,280.	4,680.	15,040.00
Atlanta	600,000	10,620.	4,920.	7,020.	22,560.00
Chicago	450,000	7,965.	3,690.	5,265.	16,920.00
San Francisco	450,000	7,965.	3,690.	5,265.	16,920.00
Total,	3,150,000	$ 55,755.	$25,830.	$ 36,855.	$118,440.00

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.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4503.

January 18, 1926.

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

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-4503-a and X-4503-b, covering in detail operations of the main line, Leased Wire System, during the month of December, 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.

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

From	Fed.Res. Bank Business	Percent of Total Bank Business(*)	Treasury Dept. Business	War Finance Corporation Business	Words sent By New York chargeable to other F.R.Banks(1)	Business Reported by Banks	Total
Boston	33,550	3.78	5,751	-	767	38,534	39,301
New York	145,289	16.36	10,382	-	-	155,671	155,671
Philadelphia	38,596	4.35	5,558	-	723	43,431	44,154
Cleveland	75,114	8.46	7,623	-	749	81,988	82,737
Richmond	47,468	5.35	6,068	-	726	52,810	53,536
Atlanta	66,276	7.46	7,305	-	5,067	68,514	73,581
Chicago	105,433	11.87	10,059	-	2,351	113,141	115,492
St. Louis	77,897	8.77	6,808	-	1,735	82,970	84,705
Minneapolis	37,467	4.22	4,908	-	1,726	40,649	42,375
Kansas City	85,563	9.64	7,654	135	2,422	90,930	93,352
Dallas	68,244	7,69	3,760	-	5,194	66,810	72,004
San Francisco	106,946	12.05	11,956	57	2,692	116,267	118,959
Total	887,843	100.00	87,832	192	24,152	951,715	975,867
Board	288,189		86,277	241			374,707
Total	1,176,032		174,109	433			1,350,574
Per cent of total	87.08%		12.89%	.03%			100.00%

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-4503-b).

(1) Number of words sent by New York to other F. R. Banks for their sole benefit charged to banks indicated, in accordance with action taken at Governors' Conference Nov. 2-4, 1925.

REPORT OF EXPENSE MAIN LINE
FEDERAL RESERVE LEASED WIRE SYSTEM, DECEMBER 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	$ 740.55	$ 251.00	$ 489.55
New York	933.48	-	-	933.48	3,205.11	933.48	2,271.63
Philadelphia	216.66	--	-	216.66	852.21	216.66	635.55
Cleveland	280.33	-	-	280.33	1,657.41	280.33	1,377.08
Richmond	175.00	-	-	175.00	1,048.13	175.00	& 1,077.80
Atlanta	225.00	-	-	225.00	1,461.50	225.00	1,236.50
Chicago	# 3,768.96	2.00	-	3,770.96	2,325.47	3,770.96	* 1,445.49
St. Louis	200.00	-	-	200.00	1,718.14	200.00	1,518.14
Minneapolis	183.34	-	-	183.34	826.75	183.34	643.41
Kansas City	275.64	-	-	275.64	1,888.59	275.64	1,612.95
Dallas	251.00	-	-	251.00	1,506.56	251.00	1,255.56
San Francisco	380.00	-	-	380.00	2,360.73	380.00	1,980.73
Federal Reserve Board	-	-	15,359.83	15,359.83	-	-	-
Total	$7,139.41	$3.00	$15,359.83	$22,502.24	$19,591.15	$7,142.41	$14,098.90
				(a)2,911.09			(b)1,445.49
				$19,591.15			$12,653.41

(&) Includes $204.67 for branch line business transmitted over main line circuit.
(#) Includes salaries of Washington Operators.
(*) Credit.
(a) Received $10.22 from War Finance Corp. and $2,900.87 from Treasury Department covering business for the month of December 1925.
(b) Amount reimbursable to Chicago.

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:			
Alfred L. Ripley	Boston, Mass.	Pres. Merchants Nat'l Bank	1926
Edward S. Kennard	Rumford, Maine	V-P & Cashier Rumford Nat'l Bank	1927
Frederick S.Chamberlain	New Britain, Conn.	V-P.-Cash.,New Britain Nat'l Bank	1928
Class B:			
Philip R. Allen	E.Walpole, Mass.	V-P. Bird & Son Inc.Paper Co.	1926
Charles G. Washburn	Worcester, Mass.	Director, The Washburn Co.	1927
Albert C. Bowman	Springfield, Vt.	Pres.The John T.Slack Corp'n	1928
Class C:			
Frederic H.Curtiss	Boston, Mass.		1926
Allen Hollis	Concord, N.H.	Lawyer	1927
Chas.H.Manchester	Providence, R.I.	Public Utilities	1928

District No. 2 - Federal Reserve Bank of New York

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

Class A:			
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
Jackson E. Reynolds	New York, N.Y.	Pres.First Nat'l Bank	1928
Class B:			
Theodore F. Whitmarsh	New York,N.Y.	Pres.Francis H. Leggett & Co.	1926
Samuel W.Reyburn	New York,N.Y.	Pres.Lord & Taylor	1927
Owen D. Young	New York,N.Y.	Chrm.General Electric Co.	1928
Class C:			
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
Pierre Jay	New York,N.Y.		1928

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:			
Jos. Wayne, Jr.	Philadelphia, Pa.	Pres.Philadelphia-Girard Nat.Bank	1926
Francis Douglas	Wilkes-Barre, Pa.	Cashier, First Nat. Bank	1927
John C. Cosgrove	Johnstown, Pa.	Dir. United States Trust Co.	1928
Class B:			
Edwin S. Stuart	Philadelphia, Pa.	Merchant	1926
Charles K. Haddon	Philadelphia, Pa.	Merchant, and V-P Lumbermen's Ins.Co.	1927
Alba B. Johnson	Philadelphia, Pa.	Chrm,Southwark Foundry & Mach.Co.	1928
Class C:			
R. L. Austin	Philadelphia, Pa.		1926
Chas. C. Harrison	Philadelphia, Pa.	Banker	1927
H. L. Cannon	Bridgeville, Del.	Canner, - Farmer	1928
District No.4 - Federal Reserve Bank of Cleveland (George De Camp, Chairman and Federal Reserve Agent; Lewis Blair Williams, Deputy Chairman; E. R. Fancher, Governor)			
Class A:			
Robert Wardrop	Pittsburgh, Pa.	Chrm. First National Bank	1926
O. N. Sams	Hillsboro, Ohio	Pres. Merchants National Bank	1927
Chess Lamberton	Franklin, Pa.	V-P Lamberton National Bank	1928
Class B:			
Geo. D. Crabbs	Cincinnati, Ohio	Philip Carey Manufacturing Co.	1926
John Stambaugh	Youngstown, Ohio	Iron & Steel Manufacturer	1927
R. P. Wright	Erie, Pa.	Reed Manufacturing Company	1928
Class C:			
George De Camp	Cleveland, Ohio		1926
W. W. Knight	Toledo, Ohio	V-P Bostwick-Braun Company	1927
L. B. Williams	Cleveland, Ohio	Haydon, Miller & Company	1928

DIRECTOR	RESIDENCE	BUSINESS AFFILIATION	TERM EXPIRES Dec. 31
District No. 5 - Federal Reserve Bank of Richmond			
(William W. Hoxton, Chairman and Federal Reserve Agent; Frederic A. Delano, Deputy Chairman; George J. Seay, Governor)			
Class A:			
L. E. Johnson	Alderson, W. Va.	Pres. First Nat'l Bank	1926
Charles E. Rieman	Baltimore, Md.	Pres. Western Nat'l Bank	1927
Jas. C. Braswell	Rocky Mount, N. C.	Pres. Planters Nat'l Bank	1928
Class B:			
D. R. Coker	Hartsville, S. C.	Merchant & Planter	1926
Edmund Strudwick	Richmond, Va.	Pres. Atlantic Life Insurance Co.	1927
Edwin C. Graham	Washington, D. C.	Pres. Nat'l Electric Supply Co.	1928
Class C:			
Wm. W. Hoxton	Richmond, Va.		1926
Frederic A. Delano	Washington, D. C.	Receiver	1927
Robert Lassiter	Charlotte, N. C.	Textiles	1928
District No. 6 - Federal Reserve Bank of Atlanta			
(Oscar Newton, Chairman and Federal Reserve Agent; W. H. Kettig, Deputy Chairman; M. D. Wellborn, Governor)			
Class A:			
G. G. Ware	Leesburg, Fla.	Pres. First Nat'l Bank	1926
Eugene R. Black	Atlanta, Ga.	Pres. Atlanta Trust Co.	1927
E. C. Melvin	Selma, Ala.	Pres. Selma Nat'l Bank	1928
Class B:			
Leon C. Simon	New Orleans, La.	Pres. Kohn, Weil & Simon, Inc.	1926
J. A. McCrary	Decatur, Ga.	Contractor and Engineer	1927
W. H. Hartford	Nashville, Tenn.	Hartford Hosiery Mills	1928
Class C:			
Oscar Newton	Atlanta, Ga.		1926
Lindsey Hopkins	Atlanta, Ga.	Investment Banker	1927
W. H. Kettig	Birmingham, Ala.	Southern Rep. Crane Co.	1928

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:			
E. L. Johnson	Waterloo, Iowa	Pres.Leavitt & Johnson Trust Co.	1926
George M. Reynolds	Chicago, Ill.	Chrm. Con. & Com'l Nat'l Bank	1927
Charles H. McNider	Mason City, Iowa	Pres. First Nat'l Bank	1928
Class B:			
Robert Mueller	Decatur, Ill.	Mueller Manufacturing Co.	1926
A. H. Vogel	Milwaukee, Wis.	Pres.Pfister & Vogel Leather Co.	1927
S. T. Crapo	Detroit, Mich.	Sec.& Treas.Huron Portland Cement Co.	1928
Class C:			
James Simpson	Chicago, Ill.	Pres. Marshall Field & Co.	1926
Wm. A. Heath	Chicago, Ill.		1927
F. C. Ball	Muncie, Ind.	Pres. Ball Brothers Mfg. Co.	1928
District No. 8 - Federal Reserve Bank of St. Louis			
(William McC. Martin, Chairman and Federal Reserve Agent; John W. Doehne, Deputy Chairman; David C. Biggs, Governor)			
Class A:			
John G. Lonsdale	St. Louis, Mo.	Pres. Nat'l Bank of Commerce	1926
J. C. Utterback	Paducah, Ky.	Pres. City Nat'l Bank	1927
John C. Martin	Salem, Ill	V-P-Cashier, Salem Nat'l Bank	1928
Class B:			
LeRoy Percy	Greenville, Miss.	Attorney-at-Law	1926
Rolla Wells	St. Louis, Mo.	Pres. Wells Realty & Investm'tCo.	1927
W. D. Plunkett	Little Rock, Ark.	Pres.Plunkett-Jarrell Grocery Co.	1928
Class C:			
John W. Doehne	Evansville, Ind.	Retired Capitalist	1926
Wm. McC. Martin	St. Louis, Mo.		1927
C. P. J. Mooney	Memphis, Tenn.	Editor "Commercial Appeal"	1928

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:

Jo C. Bassett	Aberdeen, S. D.	Pres. Aberdeen Nat'l Bank	1926
Wesley C. McDowell	Marion, N. D.		1927
Paul J. Leeman	Minneapolis, Minn.	V-P First Nat'l Bank	1928

Class B:

N. B. Holter	Helena, Mont.	Holter & Company, Hardware	1926
John S. Owen	Eau Claire, Wis.	John S. Owen Lumber Co.	1927
Paul N. Myers	St. Paul, Minn.	V-P Waldorf Paper Products Co.	1928

Class C:

John R. Mitchell	Minneapolis, Minn.		1926
Homer P. Clark	St. Paul, Minn.	Pres. West Publishing Co.	1927
George W. McCormick	Menominee, Mich	Gen. Mgr. Menominee Sugar Co.	1928

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:

E. E. Mullaney	Hill City, Kans.	Pres. Farmers & Merchants Bank	1926
C. C. Parks	Denver, Colo.	V-P First Nat'l Bank	1927
Frank W. Sponable	Paola, Kan.	Pres. Miami County Nat'l Bank	1928

Class B:

Harry W. Gibson	Muskogee, Okla.	Retired	1926
Thos. C. Byrne	Omaha, Nebr.	Byrne & Hamner Dry Goods Co.	1927
J. M. Bernardin	Kansas City, Mo.	J. M. Bernardin Lumber Co.	1928

Class C:

M. L. McClure	Kansas City, Mo.		1926
Heber Hord	Central City, Nebr.	Stockman - Farmer	1927
W. S. Bulkley	Oklahoma City, Okla.	Pres. Kerr Dry Goods Co.	1928

DIRECTOR	RESIDENCE	BUSINESS AFFILIATION	TERM EXPIRES Dec. 31
District No. 11 - Federal Reserve Bank of Dallas			
(C. C. Walsh, Chairman and Federal Reserve Agent; Clarence E. Linz, Deputy Chairman; Lynn P. Talley, Governor)			
Class A:			
Howell E. Smith	McKinney, Texas	Pres. First Nat'l Bank	1926
J. H. Frost	San Antonio, Tex.	V-P Frost Nat'l Bank	1927
W. H. Patrick	Clarendon, Texas	Pres. First Nat'l Bank	1928
Class B:			
J. J. Culbertson	Paris, Texas	Cotton Oil Mills	1926
Frank Kell	Wichita Falls, Tex.	Pres. & Gen.Mgr., Wichita Falls & Southern Railroad Co.	1927
J. H. Nail	Forth Worth, Tex.	Cattleman	1928
Class C:			
Clarence E. Linz	Dallas, Texas	V-P & Treas. Southland Life Ins. Co.	1926
S. B. Perkins	Dallas, Texas	Perkins Dry Goods Co.	1927
C. C. Walsh	Dallas, Texas		1928
District No. 12 - Federal Reserve Bank of San Francisco			
(Isaac B. Newton, Chairman and Federal Reserve Agent; Walton N. Moore, Deputy Chairman; J. U. Calkins, Governor)			
Class A:			
J. S. Macdonnell	Pasadena, Cal.	Pres. First Nat'l Bank	1926
Howard Whipple	Turlock, Cal.	Pres. First Nat'l Bank	1927
C. K. McIntosh	San Francisco, Cal.	Pres. The Bank of California N.A.	1928
Class B:			
A. B. C. Dohrmann	San Francisco, Cal.	Pres. Dohrmann Comm'l Co.	1926
Wm. T. Sesnon	Soquel, Cal.	Agriculturist	1927
E. H. Cox	Madera, Cal.	V-P & Gen.Mgr. Madera Sugar Pine Co.	1928
Class C:			
Isaac B. Newton	San Francisco, Calif.		1926
Walton N. Moore	San Francisco, Cal.	Pres. Walton N. Moore Dry Goods Co. Inc.	1927
Wm. Sproule	San Francisco, Cal.	Pres. Southern Pacific Co.	1928

OFFICERS AND DIRECTORS OF FEDERAL RESERVE BRANCH BANKS

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

DIRECTOR	RESIDENCE	BUSINESS AFFILIATION	TERM EXPIRES Dec. 31
W. W. Schneckenburger	Buffalo, N.Y.		1926
J. H. McNulty # Chrm.	Buffalo, N.Y.	Pres. Pratt & Lambert Co.	1926
Harry T. Ramsdell	Buffalo, N.Y.	Chrm. Mfgrs.& Traders Nat. Bank	1926
Elliott C. McDougal	Buffalo, N.Y.	Chrm. Marine Trust Company	1927
Arthur Hough #	Batavia, N.Y.	Pres. Wiard Plow Company	1927
John A. Kloepfer #	Buffalo, N.Y.	Pres. Liberty Bank	1928
Frank W. Crandall	Westfield, N.Y.	Pres. Nat. Bank of Westfield.	1928

District No. 4 - Cincinnati Branch of the Federal Reserve Bank of Cleveland (C. F. McCombs, Managing Director)

C. F. McCombs	Cincinnati,Ohio		1926
Charles W. DuPuis	Cincinnati,Ohio	Pres.Citizens Nat.Bank & Tr.Co.	1926
John Omwake # Chrm.	Cincinnati,Ohio	Pres.U. S. Playing Card Co.	1926
B. H. Kroger	Cincinnati,Ohio	Pres.Provident Savings & Tr.Co.	1927
George M. Verity #	Middletown,Ohio	Chrm.American Rolling Mill Co.	1927
E. S. Lee	Covington, Ky.	Pres.First Nat. Bank	1928
			1928

District No. 4 - Pittsburgh Branch of the Federal Reserve Bank of Cleveland (J. C. Nevin, Managing Director)

J. C. Nevin	Pittsburgh, Pa.		1926
Joseph R. Eisaman	Greensburg, Pa.	V-P First National Bank	1926
Jas.D.Callery # Chrm.	Pittsburgh, Pa.	V-P Philadelphia Co.(Pittsburgh)	1926
R. B. Mellon	Pittsburgh, Pa.	Pres.Mellon National Bank	1927
Joseph R. Naylor #	Wheeling, W.Va.	John S. Naylor & Co.	1927
A. E. Braun	Pittsburgh, Pa.	Pres.Farmers Deposit Nat.Bank	1928
Chas. W. Brown #	Pittsburgh, Pa.	Pres.Pittsburgh Plate Glass Co.	1928

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

Albert H. Dudley	Baltimore, Md.		1926
Carter G. Osburn	Baltimore, Md.	Chrm.& Pres.Frmrs.& Mrchnts.Nat.Bk.	1926
Edmund P.Cohill # Chrm.	Hancock, Md.	Pres.& Treas.Tonoloway Orchard Co.	1926
Henry B. Wilcox	Baltimore, Md.	V-Chrm.Merchant's Nat. Bank	1927
John G. Rouse #	Baltimore, Md.	Pres.Rouse, Hempstone & Co.	1927
Levi B. Phillips	Cambridge, Md.	Pres.Nat.Bank of Cambridge	1928
Wm. H. Matthai #	Baltimore, Md.	V-P Nat.Enameling & Stamping Co.	1928

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.		1926
F. W. Foote	Hattiesburg, Miss.	Pres.First Nat'l Bank	1926
L. C. Simon # Chrm.	New Orleans, La.	Pres.Kohn,Weil & Simon,Inc.	1926
R. S. Hecht	New Orleans, La.	Pres.Hibernia Bank & Tr.Co.	1927
Albert P.Bush #	Mobile, Ala.	Pres.T.G.Bush Grocery Co.	1927
J. P. Butler, Jr.	New Orleans, La.	Pres.Canal Bank & Trust Co.	1928
P. H. Saunders #	New Orleans, La.	V-P.Newman,Saunders & Co., Inc.	1928

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

A. E. Walker	Birmingham, Ala.		1926
W. W. Crawford	Birmingham, Ala.	Pres.American Trust & Svgs.Bank	1926
Oscar Wells #	Birmingham, Ala.	Pres.First Nat'l Bank	1926
Walter E. Henley	Birmingham, Ala.	Pres.Birmingham Tr.& Svgs.Co.	1927
John P. Kohn #	Montgomery, Ala.	Real Estate and Insurance	1927
John H. Frye	Birmingham, Ala.	Pres.Traders Nat'l Bank	1928
W. H. Kettig # Chrm.	Birmingham, Ala.	Southern Rep., Crane Company	1928

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

George R. DeSaussure	Jacksonville, Fla.		1926
Edward W. Lane	Jacksonville, Fla.	Pres.Atlantic Nat'l Bank	1926
Fulton Saussy # Chrm.	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
G. G. Ware	Leesburg, Fla.	Pres.First Nat'l Bank	1928
J. C. Cooper #	Jacksonville, Fla.	Attorney at Law	1928

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

Joel B. Fort, Jr.	Nashville, Tenn.		1926
E. A. Lindsey	Nashville, Tenn.	Pres.Tenn.Hermitage Nat'l Bank	1926
P. M. Davis #	Nashville, Tenn.	V-P. American Nat'l Bank	1926
J. E. Caldwell	Nashville, Tenn.	Pres.Fourth & First Bank & Tr.Co.	1927
Wm. P. Ridley #	Columbia, Tenn.	Farmer	1927
T. A. Embrey	Winchester, Tenn.	Pres.Farmers Nat'l Bank	1928
W. H. Hartford # Chrm.	Nashville, Tenn.	Pres.Hartford Hosiery Mills	1928

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.		1926
John W. Staley	Detroit, Mich.	Pres.Peoples State Bank	1926
N. P. Hull # Chrm.	Lansing, Mich.	Pres.Grange Life Ins.Co.	1926
George B. Morley	Saginaw, Mich.	Pres.Second National Bank	1927
Harry H. Bassett #	Flint, Mich.	Pres.Buick Motor Co.	1927
James Inglis #	Detroit, Mich.	Pres.American Blower Co.	1928
William J. Gray	Detroit, Mich.	Pres.First National Bank	1928

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

W. P. Kincheloe	Louisville, Ky.		19[illegible]
Eugene E. Hoge	Frankfort, Ky.	Pres.State National Bank	19[illegible]
Wm. Black # Chrm.	Louisville, Ky.	Pres.B.F.Avery & Sons,Inc.	1[illegible]
Max B. Nahm	Bowling Green,Ky.	V-P. Citizens National Bank	192[illegible]
E. H. Woods #	Lucas, Ky.	Farmer & Live Stock Grower	1927
Attilla Cox	Louisville, Ky.	Attorney	1928
E. L. Swearingen #	Louisville, Ky.	Pres.First National Bank	1928

District No.8 - Memphis Branch of the Federal Reserve Bank of St. Louis (W.H.Glasgow, Managing Director)

W. H. Glasgow	Memphis, Tenn.		1926
Jno. D. McDowell	Memphis, Tenn.	Pres.Fidelity Bank & Trust Co.	1926
S. E. Ragland # Chrm.	Memphis, Tenn.	Pres.First Nat. Bank	1926
R. Brinkley Snowden	Memphis, Tenn.	V-P. Bank of Commerce & Trust Co.	1927
E. M. Allen #	Helena, Ark.	Planter & Real Estate	1927
J. W. Vanden	Jackson, Tenn.	Pres.First National Bank	1928
T. K. Riddick #	Memphis, Tenn.	Attorney	1928

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.		1926
Stuart Wilson	Texarkana, Ark.	V-P. State National Bank	1926
G. H. Campbell # Chrm.	Little Rock,Ark.	V-P. Bankers Trust Company	1926
John M. Davis	Little Rock,Ark.	Pres.Exchange National Bank	1927
Hamp Williams #	Hot Springs, Ark.	Pres.Hamp Williams Hardware Co.	1927
W. A. Hicks	Little Rock,Ark.	V-P. American Southern Trust Company	192[illegible]
Moorhead Wright #	Little Rock,Ark.	Pres.Union Trust Co.	192[illegible]

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.		1926
R. O. Kaufman	Helena, Mont.	V-P & Cash.,Union Bank & Trust Co.	1926
C. J. Kelly # Chrm.	Butte, Mont.	Hanson Packing Co.	1926
T. A. Marlow	Helena, Mont.	Pres.National Bank of Montana	1927
Henry Sieben #	Helena, Mont.	Pres.Sieben Live Stock Co.	1927
Lee M. Ford	Great Falls,Mont.	Pres.Great Falls National Bank	1928
			1928

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

J. E. Olson	Denver, Colo.		1926
A. C. Foster	Denver, Colo.	V-P United States National Bank	1926
R. H. Davis # Chrm.	Denver, Colo.	Merchant, Wholesale Drug Business	1926
Wm. L. Petriken #	Denver, Colo.	Pres.Great Western Sugar Co.	1927
Harold Kountze	Denver, Colo.	Chrm.& V-P Colorado National Bank	1927
Harry W. Farr	Greeley,Colo.	V-P. Farr Produce Company	1928
Murdo MacKenzie #	Denver, Colo.	The Matador Land & Cattle Co.,Ltd.	1928

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

L. H. Earhart	Omaha, Nebr.		1926
T. L. Davis	Omaha, Nebr.	V-P First National Bank	1926
J. E. Miller, # Chrm.	Lincoln,Nebr.	Miller & Paine Dept. Stores	1926
R. O. Marnell	Nebraska City,Nebr.	Cashier, Merchants National Bank	1927
A. J. Weaver #	Falls City,Nebr.	V-P First National Bank	1927
A. H. Marble	Cheyenne, Wyo.	Pres.Stock Growers National Bank	1928
Wm. Diesing #	Omaha, Nebr.	Cudahy Packing Co.	1928

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.		1926
Walter Ferguson	Oklahoma City, Okla.	V-P First National Bank	1926
Frank Buttram # Chrm.	Oklahoma City, Okla.		1926
William Mee	Oklahoma City, Okla.	Pres.Security National Bank	1927
E. J. Murphy #	Clinton, Okla.	V-P Security National Bank	1927
Ned Holman	Guthrie, Okla.	Pres.First National Bank	1928
W. F. Nichols #	Tulsa, Okla.	Pres.Nichols Hardware Co.	1928

District No.11 - El Paso Branch of the Federal Reserve Bank of Dallas (M. Crump, Managing Director)

DIRECTOR	RESIDENCE	BUSINESS AFFILIATION	TERM EXPIRES Dec. 31
M. Crump	El Paso, Tex.		1926
E. A. Cahoon	Roswell, N.Mex.	Pres.First Nat'l Bank of Roswell	1926
A. P. Coles # Chrm.	El Paso, Tex.	Investments	1926
Geo. D. Flory	El Paso, Tex	V-P. The State National Bank	1927
H. L. Kokernot #	Alpine, Tex.	Cattleman	1927
E. M. Hurd	El Paso, Tex.	The H. Lesinsky Company	1928
C. M. Newman #	El Paso, Tex.	Pres.Newman Investment Co.	1928

District No.11 - Houston Branch of the Federal Reserve Bank of Dallas (D. P. Reordan, Managing Director)

D. P. Reordan	Houston, Tex.		1926
E. F. Gossett	Houston, Tex.	V-P. South Texas Com'l Nat'l Bank	1926
J. Cooke Wilson # Chrm.	Beaumont, Tex.	Pres.The Wilson Broach Co.	1926
Fred W. Catterall	Galveston, Tex.	Cash.First Nat'l Bk.of Galveston	1927
E. A. Peden #	Houston, Tex.	Pres.Peden Iron & Steel Co.	1927
Guy M. Bryan	Houston, Tex.	V-P. Second National Bank	1928
R. M. Farrar #	Houston, Tex.	Pres.Farrar Lumber Co.	1928

District No.12 - Portland Branch of the Federal Reserve Bank of San Francisco (R.B. West, Managing Director)

R. B. West	Portland, Ore.		1926
J. C. Ainsworth	Portland, Ore.	Pres.United States Nat'l Bank	1926
Nathan Strauss # Chrm.	Portland, Ore.	Gen.Mgr.Fleischner,Mayer & Co.	1926
Wm. 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
John F. Daly	Portland, Ore.	Pres.Hibernia Com.& Svgs.Bank	1928
Edward G. Pease #	The Dalles, Ore.	Edward C. Pease, Co., Inc.	1928

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

C. R. Shaw	Seattle, Wash.		1926
M. A. Arnold	Seattle, Wash.	Pres.First National Bank	1926
Chas. H. Clarke # Chrm.	Seattle, Wash.	Pres.Kelly Clarke Company	1926
E. W. Purdy	Bellingham, Wash.	Pres.First National Bank	1927
Chas. E. Gaches #	Mt.Vernon, Wash.	Farmer	1927
Henry A. Rhodes #	Tacoma, Wash.	Rhodes Bros. Department Store	1928
M. F. Backus	Seattle, Wash.	Pres.National Bank of Commerce	1928

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

DIRECTOR	RESIDENCE	BUSINESS AFFILIATION	TERM EXPIRES Dec. 31
D. L. Davis	Spokane, Wash.		1926
C. E. McBroom	Spokane, Wash.	Pres.Exchange National Bank	1926
G. I. Toevs # Chrm.	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
William Duling #	Garfield, Wash.		1928
R. L. Rutter	Spokane, Wash.	Pres.Spokane & Eastern Trust Co.	1928

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

W. L. Partner	Salt Lake City,Utah		1926
Charles H. Barton	Ogden, Utah	Pres.National Bank of Commerce	1926
Lafayette Hanchett #Chrm.	Salt Lake City "	Pres.Utah Power & Light Co.	1926
J. S. Bussell	Pocatello,Idaho	Pres.Citizens Bk & Trust Co.	1927
Chapin A. Day #	Ogden, Utah	Pres.Ogden Portland Cement Co.	1927
L. H. Farnsworth	Salt Lake City,Utah,	Chrm.Walker Brothers,Bankers,	1928
F. J. Hagenbarth #	Spencer, Idaho	Pres.Wood Livestock Co.	1928

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

R. B. Motherwell	Los Angeles,Calif.		1926
J. F. Sartori	Los Angeles,Calif.	Pres.Security Trust & Svgs.Bank	1926
W. L. Valentine # Chrm.	Fullerton, Calif.	Pres.Fullerton Oil Co.	1926
F. J. Belcher, Jr.	San Diego, Calif.	Pres.First National Bank	1927
E. M. Lyon #	Redlands, Calif.	Horticulturist	1927
Henry M. Robinson	Los Angeles,Calif.	Pres.First National Bank	1928
			1928

Appointed by Board

Corrected to October 9, 1926.

FEDERAL RESERVE BOARD

WASHINGTON

92

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4505

January 19, 1926.

SUBJECT: Participation of liquidating member banks in election of Class A and B directors.

Dear Sir:

In answer to an inquiry made by the Chairman of one of the Federal reserve banks, the Federal Reserve Board ruled that member banks in process of liquidation, either under voluntary or involuntary proceedings, may not participate in the election of Class A and B directors of Federal reserve banks.

Very truly yours,

D. R. Crissinger,
Governor.

TO ALL CHAIRMEN OF F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4506

January 19,1926.

SUBJECT: Code Words Covering Rate Schedules.

Dear Sir:

Referring to the Board's circular letter X-4493, dated January 5,1926, on the subject "Procedure at Reserve Banks on Rates", it has been decided, effective February 1st, in the interest of safety and economy, to designate the following new code words which are to be used in all messages exchanged between the Federal reserve banks and the Federal Reserve Board with regard to rate changes:

Discount rate -(see X-4140, dated Aug. 22,1924).

MAYMOON - Minimum buying rate for bankers' acceptances within 45 days (percent)

MAYONNAISE - Minimum buying rate for bankers' acceptances within from 46 to 90 days (percent)

MAYORALTY - Minimum buying rate for bankers' acceptances within from 91 to 120 days (percent)

MAYORESS - Minimum buying rate for bankers' acceptances within from 121 to 180 days (percent)

MAYPOLE - Rates at which bankers' acceptances may be purchased, with agreement to resell (so-called repurchase agreements) (percent)

MAYQUEEN - Rates at which Government securities may be purchased with agreement to resell (percent)

MAZURKA - No change in existing schedule of rates.

It is requested that the above code words be added to the bottom of page 145 of the Federal Reserve Telegraphic Code to follow the code word "MAYGAME".

Yours very truly,

Walter L. Eddy,
Secretary.

TO ALL F.R.AGENTS.

FEDERAL RESERVE BOARD

WASHINGTON

94

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4507

January 21, 1926.

SUBJECT: Letters to Committee on Banking and Currency re Legislation.

Dear Sir:

The Federal Reserve Board has recently addressed three letters to the Chairman of the Committee on Banking and Currency of the House of Representatives, copies of which are enclosed for your information, as follows:

(1) Expressing the Board's views on and recommending certain amendments to H. R. 2, the so-called McFadden Bill;
(2) Recommending an amendment to Section 13 of the Federal Reserve Act extending the maximum maturity of advances by Federal reserve banks to member banks on their promissory notes when such notes are secured by eligible paper; and
(3) Recommending the enactment of legislation to prohibit the use of the words "Federal", "Reserve" and "United States" by banking associations, etc.

Very truly yours,

Walter L. Eddy,
Secretary.

(Enclosures)

TO CHAIRMEN AND GOVERNORS OF ALL F. R. BANKS

(COPY) X-4508

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."

January 16, 1926.

Honorable Louis T. McFadden, Chairman,
Committee on Banking and Currency,
House of Representatives,
Washington, D. C.

My dear Congressman:

The Federal Reserve Board has received many complaints about the use of the words "Federal" or "Reserve", or a combination of the two as part of the title of banks, corporations and firms other than Federal reserve banks. In most of these instances it is obvious that such words have been used in an attempt to take advantage of the prestige enjoyed by the Federal reserve banks and to arrogate to the firms or corporations using such words part of the benefits accruing from this prestige, and the Board has felt that not only is this purpose in itself objectionable but also that such use of these words is likely to mislead the public and to cause confusion. Indeed, in several instances it has been found that the use of such words by firms or corporations other than Federal reserve banks actually has led to confusion. The Board has always opposed such use of these words and feels that legislation to remedy the situation is very badly needed.

Under date of September 2, 1922, the Board called this matter to your attention with a request that you endeavor to secure the passage of a law which would prevent this objectionable practice as far as possible; and you introduced at the first session of the 68th Congress a Bill (H.R. 6145) for this purpose, a copy of which is enclosed herewith. This bill, however, was never reported out by the Banking and Currency Committee, and the Board desires to renew its recommendation that this bill, or some other bill having substantially the same effect, be enacted into law at the present session of Congress and to express its hope that you will exert your best efforts to this end.

It will be noted that the first provision of the enclosed bill would prohibit offering for sale as Farm Loan bonds any securities not issued under the terms of the Federal Farm Loan Act. This provision was included in the bill, at the time it was being prepared, at the request of the Farm Loan Board, but the Federal Reserve Board is not advised whether the Farm Loan Board is still desirous of securing the enactment of such legislation.

A precedent for the enactment of a law of this kind is found in Section 5243 of the Revised Statutes which prohibits the

use of the word "national" as part of the title of any bank not organized under the National Bank Act. While the validity of that provision has never been passed upon by the courts, it has been on the statute books since 1873 and its validity has never been questioned. It is well recognized that the good name or reputation of a bank is one of its most valuable possessions and it would seem clear that the same is true of any banking system. Any device or scheme the natural result of which would be to cause banks, corporations or firms of questionable standing to be confused with the Federal reserve banks or which is likely to mislead the public into believing that such banks, corporations or firms are affiliated in some way with the Federal Reserve System endangers the good name and reputation of the Federal Reserve System. It is believed, therefore, that the enactment of legislation to prevent such abuses is necessary to protect the Federal reserve banks and the Federal Reserve System. The Supreme Court of the United States has recognized the principle that the power to create national banks carries with it the power to preserve them,(See First National Bank v. Fellows, 244 U.S. 416 and cases cited), and the same must be true as to the Federal reserve banks. There would seem to be no doubt, therefore, as to the constitutionality of a bill designed to protect the reputation of the Federal reserve banks.

For your information there is also enclosed herewith a copy of a memorandum prepared for the information of the Federal Reserve Board containing a brief statement of the circumstances of each case which has been called to the attention of the Board in which the word "Federal" or the word "Reserve" or a combination of the two has been used as a part of the name of a bank, corporation or firm other than a Federal reserve bank or in the advertising of such a bank, corporation or firm or where such use of these words has been attempted. It is believed that a reading of the facts set forth in this memorandum will convince any one of the necessity for some legislation to prevent such abuses.

As you will note from the memorandum, the Board has sought various ways of preventing the objectionable practices, but usually with little success. The Board has several times requested the aid of the Federal Trade Commission in these matters, but as this body is without jurisdiction over banks or insurance companies its power to render material assistance has necessarily been greatly restricted.

The Federal Reserve Board hopes that you will do all that is possible to secure the introduction and enactment into law of a bill which will provide an effective remedy for this situation.

If agreeable to you, the Board will be glad to furnish a copy of this letter and the enclosed documents to each member of your committee in order that they may study them at their leisure.

Very truly yours,

Enclosures
WW OMC

D. R. Crissinger
Governor

68th Congress, 1st Session.

(COPY)

X-4509-a

H. R. 6145

100

IN THE HOUSE OF REPRESENTATIVES.

January 24, 1924.

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

A BILL

To prohibit offering for sale as Federal farm loan bonds any securities not issued under the terms of the Farm Loan Act, to limit the use of the words "Federal", "United States", or "reserve", or a combination of such words, to prohibit false advertising, and for other purposes.

BE IT ENACTED BY THE SENATE AND HOUSE OF REPRESENTATIVES OF THE UNITED STATES OF AMERICA IN CONGRESS ASSEMBLED, That no bank, banking association, trust company, corporation, association, firm, partnership, or person not organized under the provisions of the Act of July 17, 1916, known as the Federal Farm Loan Act, as amended, shall advertise or represent that it makes Federal farm loans or advertise or offer for sale as Federal farm loan bonds any bond not issued under the provisions of the Federal Farm Loan Act or make use of the word "Federal" or the words "United States" or any other word or words implying Government ownership, obligation, or supervision in advertising or offering for sale any bond, note, mortgage, or other security not issued by the Government of the United States or under the provisions of the said Federal Farm Loan Act or some other Act of Congress.

SEC. 2. That no bank, banking association, trust company, corporation, association, firm, partnership, or person engaged in the banking, loan, building and loan, brokerage, factorage, insurance, indemnity, or trust business shall use the word "Federal", the words "United States", or the word "reserve", or any combination of such words, as a portion of its corporate, firm, or trade name or title or of the name under which it does business: Provided, however, That the provisions of this section shall not apply to the Federal Reserve Board, the Federal Farm Loan Board, the Federal Trade Commission, or any other department, bureau or independent establishment of the Government of the United States, nor to any Federal reserve bank, Federal land bank, or Federal reserve agent, nor to the Federal Advisory Council, nor to any corporation organized under the laws of the United States,

ner to any bank, banking association, trust company, corporation, association, firm partnership, or person actually engaged in business under such name or title prior to the passage of this Act.

SEC. 3. That no bank, banking association, or trust company which is not a member of the Federal reserve system shall advertise or represent in any way that it is a member of such system or publish or display any sign, symbol, or advertisement reasonably calculated to convey the impression that it is a member of such system.

SEC. 4. That any bank, banking association, trust company, corporation, association, firm or partnership violating any of the provisions of this Act shall be guilty of a misdemeanor and shall be subject to a fine of not exceeding $1,000. Any person violating any of the provisions of this Act, or any officer of any bank, banking association, trust company, corporation or association, or member of any firm or partnership violating any of the provisions of this Act who participates in, or knowingly acquiesces in, such violation shall be guilty of a misdemeanor and shall be subject to a fine of not exceeding $1,000 or imprisonment not exceeding oneyear, or both. Any such illegal use of such word or words, or any combination of such words, or any other violation of any of the provisions of this Act, may be enjoined by the United States district court having jurisdiction, at the instance of any United States district attorney, any Federal land bank, joint-stock land bank, Federal reserve bank, or the Federal Farm Loan Board or the Federal Reserve Board.

SEC. 5. That if any clause, sentence, paragraph, or part of this Act shall for any reason be adjudged by any court of competent jurisdiction to be invalid, such judgment shall not affect, impair or invalidate the remainder of this Act, but shall be confined in its operation to the clause, sentence, paragraph, or part thereof directly involved in the controversy in which such judgment shall have been rendered.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4510

January 20, 1926.

SUBJECT: Federal Reserve Bank of San Francisco v.
Idaho Grimm Alfalfa Seed Growers Association.

Dear Sir:

There is enclosed for your information a copy of a letter addressed to the Board by Mr. Perrin transmitting a copy of the opinion rendered by the Circuit Court of Appeals in the above entitled case, which was decided adversely to the Federal Reserve Bank by the United States District Court and the Circuit Court of Appeals. After discussing the case at some length, Mr. Perrin states that the Executive Committee of the Federal Reserve Bank of San Francisco feel that the case involves a question of vital importance not only to the Federal Reserve Bank of San Francisco, but to all other Federal reserve banks, and has authorized the employment of Honorable Newton D. Baker to assist in handling the case before the Supreme Court of the United States. Mr. Perrin suggests that the case be brought to the attention of the other Federal reserve banks and that, if agreeable to them, Mr. Baker's fee be prorated among all of the Federal reserve banks, as has been done in the past in relation to other cases of system-wide interest.

The Board understands that Mr. Baker actually has been employed by the Federal Reserve Bank of San Francisco and has filed with the Supreme Court a petition for a writ of certiorari. The Board desires to make no recommendation in this matter, but requests that you advise it whether or not your bank would be willing to bear a pro rata share of the expenses of Mr. Baker's employment in this case.

Yours very truly,

D. R. Crissinger,
Governor

TO GOVERNORS OF ALL F.R.BANKS

Enclosure.

C O P Y

IN THE UNITED STATES CIRCUIT COURT OF APPEALS

For the Ninth Circuit.

FEDERAL RESERVE BANK OF SAN FRANCISCO, a corporation,	)	
Plaintiff in Error	)	
vs.	)	No. 4560
IDAHO GRIMM ALFALFA SEED GROWERS ASSOCIATION, a corporation,	)	
Defendant in Error.	)	

Upon Writ of Error to the United States District Court for the District of Idaho, Eastern Division.

Before GILBERT, HUNT, and RUDKIN, Circuit Judges.

RUDKIN, Circuit Judge: During the period herein mentioned, the Idaho Grimm Alfalfa Seed Growers Association was a farm marketing association organized under the laws of that State and was engaged in the business of cleaning and marketing alfalfa seed produced by its members. When alfalfa seed was sold, a draft was drawn on the buyer for the purchase price with a bill of lading attached. Up to about a year prior to November 28, 1923, all drafts thus drawn were deposited with D. W. Standrod and Company Bankers, for collection only, and the Association was not permitted to draw against the amount of the drafts until payment was actually made to the Standrod Bank. But in the fall of 1922, this arrangement was changed through an agreement between the Association and the Standrod Bank, and thereafter the Association was given immediate credit for the amount of the

drafts when deposited, and was permitted to draw against them to the full amount, if it so desired. If a draft was not paid when presented, the amount was charged back to the account of the Association, and if paid, the Association was charged with interest on the amounts checked out before the draft was actually paid. On November 23, 1923, the Association drew a sight draft in the sum of $10,848.80 on Teweles and Company for the purchase price of a carload of alfalfa seed shipped to that company. The draft was made payable to the Standrod Bank, had attached thereto a bill of lading for the shipment, and was accompanied by a letter of instructions, stating that payment might be deferred until the arrival of the car. The draft was then forwarded by the Standrod Bank to the Federal Reserve Bank at Salt Lake for discount and was there discounted and the amount placed to the credit of the Standrod Bank. Two similar drafts were drawn by the Association on November 26, 1923, for substantially similar amounts and these drafts took the same course. It might be said in this connection, however, that the general manager of the Association neglected to sign one of the last mentioned drafts and the defect was not discovered until the draft reached the Federal Reserve Bank at Salt Lake. The Standrod Bank was then notified of the defect over the telephone and another draft was substituted in its place.

The Standrod Bank was open for the transaction of business for the last time on November 28, 1923, and on November 30, 1923, its affairs were taken over by the Banking Officers of the State. On the latter date the Standrod Bank had an overdraft with the Federal Reserve Bank in the sum of $47.96, and the Association had a balance to its checking account, on the books of the Standrod Bank, in the sum of $32,295.20. On December 1, 1923, the Association notified the Banking Officers of the State that the Standrod

Bank was insolvent at the time of the receipt of the drafts and that its officers and agents knew or had cause to believe that it was so insolvent, and the Association made claim to the drafts or, if collected, to the proceeds thereof. A copy of this notice was mailed to the Federal Reserve Bank on the same day.

The present action was then instituted by the Association against the Federal Reserve Bank, the Standrod Bank, and the Banking Officers of the States to recover the amount of the three drafts or their value. The complaint contains six causes of action in all, or two causes of action based on each of the three drafts. The causes of action on each of the three drafts were identical in form however, so that for persent purposes reference need only be made to the first and second causes of action based on the draft of November 23, 1923. Speaking generally, it was alleged in the first cause of action that for upwards of a year prior to the date of the receipt of the draft in question the Standrod Bank was insolvent; that its directors and managing officers, and the managing officers of the Federal Reserve Bank were at all times fully aware of its insolvent condition; that the draft was forwarded to the Federal Reserve Bank for collection; that the amount thereof was collected by the Federal Reserve Bank after the close of the Standrod Bank, and that the Federal Reserve Bank refused to account for the proceeds thereof. In the second cause of action it was alleged that the draft was deposited with the Standrod Bank under an agreement between the Association and the Bank that the draft and the proceeds thereof should be and remain the property of the Association, and that the title thereto, or to the proceeds thereof, should not become the property of the Standrod Bank. At the commencement of the trial the Federal Reserve Bank moved the court to require

the plaintiff to elect whether it would proceed on the first, third and fifth causes of action, which it claimed were of equitable cognizance, or on the second, fourth and sixth causes of action which it claimed were cognizable at law. This motion was denied. The motion was renewed at the close of the testimony on the part of the plaintiff but was again denied. A motion for a nonsuit was then granted to the second, fourth and sixth causes of action, but denied as to the remaining causes of action. The Federal Reserve Bank then moved the court to discharge the jury and transfer the cause to the equity side of the court. The court took this motion under advisement and directed the trial to proceed in the meantime. The cause was thereafter submitted to the jury under instructions to which no exceptionswere taken, and the jury returned a verdict in favor of the plaintiff in the sum of $32,692.12. Sometime after the verdict was returned the court filed a memorandum on the motion to discharge the jury and transfer the cause to the equity side of the court in which it said:

> "While the point is not entirely free from doubt, upon consideration I have concluded that the complaint was properly entertained upon the law side of the court.
>
> "The further question of whether or not, if the verdict be taken as advisory only, it should be approved and adopted, I answer in the affirmative."

The court then added:

> "Counsel for the plaintiff will prepare a judgment in the ordinary form of a judgment upon the verdict, incorporating therein, at the proper place, the additional clause, in substance, 'which finding of the jury is approved and adopted.'"

Judgment was thereafter entered upon the verdict, as directed by the court, after making certain deductions for moneys checked out by the plaintiff before the close of the Standrod Bank. The judgment thus entered has been brought here for review by writ of error.

The first assignment of error is based on the refusal of the court to require the defendant in error to elect whether it would proceed on the even or odd numbered causes of action. In answer to this assignment we need only say that the granting of the nonsuit as to the even numbered causes of action necessarily compelled the defendant in error to proceed on the remaining causes of action and, conceding for the purposes of this case only, that it was error not to require an election at an earlier stage of the trial, the error was plainly and manifestly without prejudice.

The next assignment of error is based on the refusal of the court to discharge the jury and transfer the cause to the equity side of the court after the nonsuit had been granted as to the even numbered causes of action. Again, if we concede that the action or actions were of equitable cognizance, no error can be predicated upon the action of the court in submitting the issues to a jury in an advisory capacity because that practice is always permissible and its adoption is a matter of discretion with the court. And when the court treated the verdict as advisory only and approved the findings of the jury it asserted all the powers and assumed all the responsibilities of a Chancellor. This was the utmost consideration to which the plaintiff in error was entitled and it is in no position to complain of mere matters of procedure resting in the sound discretion of the court. We might say in this connection, however, that it does not appear to us that the defendant in error was seeking to enforce a trust or to follow trust funds. It proceeded upon the theory that the diversion of the proceeds of the drafts by the Federal Reserve Bank, with knowledge that the Standrod Bank was insolvent, and with knowledge that the drafts were not the property of the Standrod Bank, was a tort or wrong for which a court of law has always afforded a full, complete and adequate remedy.

Numerous errors have been assigned on the admission of testimony over objection. The defendant in error offered in evidence a compilation made by one of the witnesses from the books of the Bank, showing in detail the resources and liabilities of the Bank at the close of business on November 28, 1923. This compilation or summary was taken from books already in evidence; its correctness was at no time questioned and is not questioned now. There was no error in this ruling. San Pedro Lumber Co. v. Reynolds, 53 Pac. 410; Jordan v. Warner's Estate, 83 N.W. 946; State v. Brady, 69 N.W. 290.

The liquidating officer of the State, who had charge of the affairs of the Standrod Bank since its close, was permitted to give the amount collected or realized from the assets in his charge during the preceding ten months, and to state whether, in his opinion, any equity remained in the pledged bills receivable of the Bank after payment of the loans secured by the pledges. As already stated, the witness had been in charge of the affairs of the Bank for about ten months; it was his duty to collect and distribute the assets in his charge and he had devoted his entire time and attention to that object. He had consulted with the collecting agent of the Federal Reserve Bank and was more familiar with the assets of the Bank and their probable value than any other person, except perhaps the managing officers of the Bank. He was competent therefore to express an opinion on the question submitted, and the fact that his opinion was based on the value of the securities some time after the close of the Bank would go to the weight of his testimony, not to its competency. State v. Cadwell, 44 N.W. 700; Campbell v. Park, 101 N.W. 861.

The plaintiff in error moved to strike the testimony of one of the witnesses, based on a compilation prepared from the books of the Standrod Bank in evidence, showing the number of overdue notes held by the Standrod

Bank and how long overdue, and the deficiency or excess of reserve on deposit with the Federal Reserve Bank on different dates. There was no error in this ruling for reasons already stated.

Under date of November 10, 1923, or eighteen days before the close of the Bank, the vice-president and manager of the Standrod Bank addressed a letter to the managing officer of the Federal Reserve Bank stating that he had found it necessary to take advantage of the offer of the latter to handle a note of $10,000; that he was enclosing the note therewith, payable ten days from November 13, adding: "This will tide us over." The manager of the Federal Reserve Bank answered this letter under date of November 14, 1923, stating that the discount committee of the Federal Reserve Bank had declined to accept the note for discount, and further that the directors of the Federal Reserve Bank were of opinion that the Federal Reserve branch had advanced a sufficient sum to provide for the ordinary needs of the Standrod Bank, and that considering all the features entering into the security pledged as collateral to its obligation now owing to the Federal Reserve Bank, it was only proper that the directors and stockholders of the Standrod Bank should provide funds out of their personal resources of a sufficient amount to properly rehabilitate the Bank and furnish it with a large enough amount of working capital to have the bank function in a proper manner. Error is assigned in the admission of these two letters, but the assignment is without merit. The letters clearly tended to show the desperate condition of the Standrod Bank on that date and knowledge of that condition on the part of the Federal Reserve Bank.

Under date of September 9, 1922, the assistant manager of the Federal Reserve Bank addressed a letter to the president of the Standrod Bank stating that the harvest season was on; that he desired to impress upon the officers of the bank the necessity of shaping their affairs so that after the

period of liquidation was over the bank would show a decided improvement in its condition; that at that time the loans of the institution approximated $1,700,000, while the deposits were less than one half that amount, or in the neighborhood of $785,000; that these figures spoke for themselves and called for no comment; that if the Standrod Bank expected to continue to receive assistance from the Federal Reserve Bank, a determined effort must be put forth by its officers to the end that a proper ratio between loans and deposits might be shown; and the president of the Standrod Bank was directed to bring the letter to the attention of the board of directors and furnish the Federal Reserve Bank with a letter over the signature of each, outlining what the Federal Reserve Bank might expect in that regard. This letter was answered by the president of the Standrod Bank under date of September 11, 1922. In this letter he stated that they expected to reduce their loans to $1,200,000 that season; that with this reduction there would no doubt be a corresponding increase in deposits; that the officers of the Standrod Bank realized that it would take another year to put everything in shape, where there would be no borrowed money; that in a great many cases they had loaned money to farmers and stockmen and it was absolutely necessary to make further advances in order to secure liquidation on their present indebtedness. This letter was answered under date of September 12, by the assistant manager of the Federal Reserve Bank, by a second letter, stating that the letter of the president of the Standrod Bank was unsatisfactory for two reasons: First, because a communication over the signature of each of the directors setting forth what might thenceforth be expected from the bank was not furnished as requested, and second, while the Federal Reserve Bank was not in a position to know how great a reduction in loans should be made, it believed that the policy of the Standrod Bank should be to bring about the greatest possible liquidation, to the end that it might again resume a position more nearly bordering on the

sound and normal. These letters were objected to for the like reasons as the letters already considered, but, in our opinion, they were competent for the same reasons. They tended to show the condition of the Standrod Bank and knowledge of that condition on the part of the Federal Reserve Bank. True, the letters were written a little more than a year before the bank closed, but other testimony in the case shows that there was no substantial change in the condition of the bank from that date until the time it closed, except perhaps for the worse, as the disparity between loans and deposits was even greater when the bank closed than when these letters were written.

It only remains to consider the question of the insolvency of the Standrod Bank; knowledge of that insolvency on the part of its officers and the officers of the Federal Reserve Bank, and the effect of such insolvency and knowledge, if proven. A bank is said to be solvent when it has enough assets to pay, within a reasonable time, all of its liabilities through its own agencies, and is insolvent when unable to meet its liabilities as they become due in the ordinary course of business, or, in shorter terms, when it cannot pay its deposits on demand in accordance with its promise. 7 C.J. 727. Measured by this rule we think the court and jury were amply justified in finding that the bank was insolvent, if indeed it was not wholly and hopelessly so.

When the Bank closed, its deposits were approximately $500,000, and its loans and discounts approximately $1,300,000. It had borrowed from the plaintiff in error the sum of approximately $700,000; from the United States National Bank of Portland approximately $85,000; and from the National Bank at Pocatello, Idaho, $20,000. It had pledged with the plaintiff in error, as security for its loan, bills receivable of the face value of approximately $900,000; with the United States National Bank of Portland bills receivable

of the face value of approximately $175,000; and with the bank of Pocatello bills receivable of the face value of approximately $30,000. And we think it fairly appears from the testimony that there was no equity in the bills receivable thus pledged, after the payment of the loans which they were pledged to secure. There was left with the bank to meet its ordinary demands from day to day and to pay its depositors, bills receivable of the face value of approximately $275,000 and a small amount in stocks, bonds, warrants and overdrafts. During the ten months which had elapsed since the bank closed its doors, the liquidating officer of the State had been able to realize but $40,000 or $50,000 from the assets and resources that came into his hands. In the summer of 1923, the board of directors considered the proposition of forming a holding company to take over three, four, or five hundred thousand dollars in face value of the uncollectible paper of the bank, but the vice-president and manager did not think that this would suffice.

During July and August, 1923, the Pacific Joint Stock Land Bank forwarded two checks to the Standrod Bank aggregating the sum of $11,000, with instructions to obtain releases of liens against property and turn the proceeds over to borrowers from the Joint Stock Land Bank. The releases were not returned and several letters passed without satisfaction. A representative of the Joint Stock Land Bank was then sent to the Standrod Bank to inquire into the matter. He there discovered that the money had been misapplied and was informed by the vice-president and manager that the demands upon the bank were rather large and unusual, and that owing to low reserves he was not in a position to repay the money. He asked for further time, but this was refused. Several meetings of the board of directors followed and finally, about two days later, the representative of the Land Bank received a draft on the Walker Brothers Bank at Salt Lake City for the amount.

We have already referred to the refusal of the loan of $10,000 a few days before the close of the bank to tide it over. As against this the only testimony offered by the plaintiff in error was some testimony tending to show that the officers of the Standrod Bank had no knowledge of its insolvent condition. While the testimony had that tendency, if credited by the court and jury, it likewise had a strong tendency to show that the bank was in fact insolvent. It appeared from the testimony of one of the directors that nearly all the loans had been outstanding since the close of the war; that there was no money in the country; that the bank was unable to make collections; that its deposits had decreased from a million and a half to about half a million dollars; that the directors of the bank had pledged their personal credit to raise money for the bank, in short, that the condition of the bank was all but desperate. Under these circumstances it is idle to claim that the finding of the court and jury on the question of insolvency was not justified by the testimony.

The claim that the directors and managing officers of the Standrod Bank had no notice or knowledge of the existing condition is equally unfounded. The directors, called as witnesses, derived their knowledge of the condition of the bank, in most part, from reports made to them by other officers of the bank, and it is a significant fact that such other officers were not called as witnesses. True, they might have been called by the defendant in error, but officers who receive deposits in an insolvent bank are guilty of a fraud, if not a crime, and a third party who undertakes to prove the fact of insolvency cannot be expected to call the perpetrators of the fraud as witnesses. Furthermore, the insolvent condition of the bank had so long continued and was manifested in so many different ways, that a finding of knowledge of insolvency on the part of the managing officers of

both banks was fully justified. If this be true, all the authorities agree that the receipt of a deposit by an insolvent bank is a fraud on the depositor; that title to the deposit does not pass, and that the deposit may be followed so long as it can be identified. A fraud was thus perpetrated on the defendant in error by the officers of the Standrod Bank, and, wittingly or unwittingly, the Federal Reserve Bank became a party to the fraud.

It is lastly contended that the plaintiff in error is a bona fide purchaser before maturity and that its title cannot be assailed. But the Federal Reserve Bank had notice that the drafts were not the property of the Standrod Bank, in two ways: First, because it was apparent that the Standrod Bank had no funds with which to purchase the drafts; and second, because the applications for discount stated on their face that the drafts were the property of a depositor. With this knowledge, a finding of mala fides on the part of the plaintiff in error was justified, and the plea of bona fide purchaser cannot prevail.

The judgment is affirmed.

(ENDORSED:) Opinion. Filed Nov. 9, 1925
F. D. Monckton, Clerk, by Paul P. O'Brien, Deputy Clerk.

(C O P Y) X-4464-a

F E D E R A L R E S E R V E B A N K 115

Of San Francisco

John Perrin, November 18, 1925.
Chairman of the Board
and Federal Reserve Agent.

Federal Reserve Board
Washington,
D.C.

Sirs:

During 1924 the Idaho Grimm Alfalfa Seed Growers Association, an organization of farmers engaged in the production and sale of alfalfa seed, brought an action against the Federal Reserve Bank in the state courts of Idaho for the recovery of $32,692, loss alleged to have been sustained through the failure of D. W. Standrod & Co., Bankers, Blackfoot, Idaho. This case was removed by the Federal Reserve Bank from the State Court to the United States District Court sitting in Idaho. Plaintiff's claim was predicated upon the following facts:

The Seed Growers Association, for some time prior to the failure of the Standrod Bank on November 30, 1923, had been a depositor in that bank. They had entered into a special arrangement with the Standrod Bank whereby they were privileged to deliver to the Standrod Bank sight drafts drawn to the order of the bank, with order bill of lading attached, representing the purchase price of seed sold by them to eastern customers, and for these drafts the Standrod Bank gave the Association full and immediate credit. The Association was then allowed to treat the proceeds as part of their general checking account and to use the funds represented by the drafts without restriction, even before the drafts could possibly have been collected. For some time prior to November, 1923, the Standrod Bank had been in an extended condition and this fact was known to the Federal Reserve Bank and to the officers of the Standrod Bank. During the early part of November, 1923, the condition of the Standrod Bank was such that the Federal Reserve Bank of San Francisco felt that it was not warranted in making any further advances to the Standrod Bank and so notified that bank. During the last week that the bank was open for business, the Seed Growers Association deposited with the Standrod Bank three sight drafts with bills of lading attached, aggregating over $30,000, receiving immediate credit therefor, and against the credit thus created the Seed Growers Association immediately commenced to draw. These drafts were negotiable in form and bore no evidence of any attempt on the part of the Association to restrict their negotiation. Immediately upon their receipt by the Standrod Bank, that bank transmitted them to the Salt Lake City Branch of this bank, accompanied by the usual form of application for discount. Credit of the Association being good, and the paper being eligible and entirely acceptable, the drafts were immediately discounted

by this bank and the proceeds thereof passed to the reserve account of the Standrod Bank. That bank immediately proceeded to avail itself of the reserve credit thus established and between the date of the credit and the date on which the bank closed its doors used all of its reserve funds and failed with an overdraft of a small amount. Upon the delivery of the drafts to the Federal Reserve Bank they were immediately forwarded to the eastern points at which they were payable for collection. Proceeds from the collections had not come into the possession of the Federal Reserve Bank when the Standrod Bank closed its doors. As soon as the Association received notice that the Standrod Bank had placed its affairs in the hands of the State Commissioner of Finance, the Association notified the Standrod Bank and the Commissioner of Finance that the drafts had been deposited for collection only, that title thereto had not passed to the Standrod Bank and that the Association would claim as its own any funds representing the collection of said drafts. The Association also claimed at this time that a fraud had been committed upon it through the receipt of the drafts by the Standrod Bank at a time when it was insolvent and when such insolvency was known to the officers of the Standrod Bank. A copy of this notice was served upon the Federal Reserve Bank after the Standrod Bank had closed. Subsequently, long after collection of the drafts had been made, the Association demanded that the Reserve bank reimburse it for the amount of its deposit in the Standrod Bank at the time of failure, aggregating over $30,000. This demand was refused and the action above referred to was commenced.

The case was tried in the United States District Court at Pocatello before a jury consisting of eleven farmers and one ex-policeman. The complaint consisted of six causes of action, two on each of the drafts involved. The first cause of action as to each draft was predicated upon the theory that the Standrod Bank was insolvent when the drafts were received, that this insolvency was known to its officers and to the Federal Reserve Bank and that the failed bank, as well as the Federal Reserve Bank, was liable to the Association for the unused portion of the deposit representing the face value of the drafts. The second cause of action in each instance was predicated upon the theory that the drafts had been deposited for collection only and that, title having been retained by the Seed Growers Association, no purchaser of the drafts could acquire title good as against the Association. Upon the trial this bank contended that there was no evidence to support the theory that the drafts had been deposited for collection only and that inasmuch as the Federal Reserve Bank did not know and had no means of knowing the status of accounts as between the Association and the Standrod Bank, it patently could not be charged as a party to the alleged fraud resulting from the receipt of deposits. The Court granted a motion for nonsuit on the three causes of action, predicated upon the theory that the drafts had been deposited for collection only, but allowed the case to proceed on the insolvency theory. The case was voluntarily dismissed as against the Commissioner of Finance, the Standrod Bank and the liquidating agent, leaving this bank as the sole defendant. A verdict was rendered for the full amount of the drafts, without any allowance for the amount thereof actually used by the Association. The Court subsequently required a deduction of the amount checked out by the Association

and entered judgment for the balance.

The case was appealed by us to the Circuit Court of Appeals for the Ninth Circuit and was recently argued before that court. The judgment of the lower court was affirmed and it is the present intention of this bank to ask for a rehearing before the Circuit Court of Appeals and if this is denied to take the matter to the Supreme Court of the United States.

There are many facts in connection with the case, favorable to our position, which it is difficult to set forth in this letter. It may be said, however, that there is absolutely no evidence in the record which even remotely tends to show that the Federal Reserve Bank had any knowledge whatever that the Seed Growers Association had not received a full, adequate and present consideration from the Standrod Bank for the drafts. No attempt was made to prove that the Reserve Bank knew that the proceeds of the drafts had been left on deposit with the Standrod Bank. It was shown that the Association might have withdrawn the full amount of the drafts in cash over the counter of the bank, might have accepted exchange on the Standrod Bank's correspondents for the amount thereof, or might have used the proceeds to pay a preexisting indebtedness to the Standrod Bank and that no knowledge of which of these three courses had been followed was brought home to the Federal Reserve Bank. It was further shown that the Association itself was so well acquainted with the condition of the Standrod Bank that about a month prior to the date when it closed the manager of the Association demanded from the Standrod Bank a prerequisite to further deposits that the bank should give the Association a bond to protect its account similar to bonds furnished to indemnify public deposits. The manager of the Association also admitted that he had known the Standrod Bank was in an extended condition for two years prior to its failure. The Directors of the Standrod Bank all testified that they had no knowledge whatever that the bank was insolvent until it was taken in charge by the Commissioner of Finance. Practically the only evidence of insolvency introduced was that gained from an examination of the books of the bank after it had closed and from an appraisal of the value of its assets by the Deputy Commissioner of Finance who took charge of the bank in November, 1923. The existence of a condition of insolvency is predicated solely upon inference and not upon positive testimony.

Yesterday the Executive Committee of this bank, feeling that this case involves a question of such vital importance not only to this bank but to all other Federal reserve banks and banks generally, authorized the employment of Hon. Newton D. Baker to assist in handling the case before the Supreme Court of the United States, provided Mr. Baker was available. From the brief summary of the facts which I have given it can be plainly seen that if the judgment of the lower court, sustained by the Circuit Court of Appeals, is to stand, neither this bank nor any bank can safely discount for another institution, which it knows or has reason to believe is in an extended condition. Banks do not usually discount their customers' paper unless they are in need of funds and the Court has said in effect that if the bank is in that condition, the discounting agency is placed on notice that there may be equities enforceable against innocent third parties purchasing paper for value. The decision of the Circuit Court of Appeals was evidently hastily prepared and is not supported by any citation of authorities. A copy of the opinion prepared by Judge Rudkin

is attached hereto, as well as a copy of our closing brief.

I have taken the liberty of calling this case to your attention, not only for the purpose of acquainting you with the situation in relation thereto, but also for the purpose of suggesting that the case and its importance be brought to the attention of the other Federal reserve banks and, if agreeable to them, that Mr. Baker's fee be prorated among all of the banks, as has been done in the past in relation to several other cases no more important and of no more universal interest than this.

I am informed that counsel for the Federal Reserve Board has been advised as to progress in this case and has been supplied with copies of the briefs. A copy of the Opinion of the Circuit Court of Appeals is being forwarded to Mr. Wyatt.

Very truly yours,

(signed) JOHN PERRIN

Chairman of the Board.

Enclosures.

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

STATEMENT FOR THE PRESS

For Release in Morning Papers,
Thursday, January 28, 1926.

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 distribution of commodities was in larger volume in December than in November, and the volume of retail trade was larger than in any previous month. Wholesale prices declined to the level prevailing last spring, which was the low point for the year.

Production.- The Federal Reserve Board's index of production in basic industries advanced 6 per cent in December to the highest level in ten months. The rise in this index has been nearly continuous since last August, when the volume of production was at the low point for 1925. In December the production of iron and steel and bituminous coal and factory consumption of cotton increased considerably, and the production of lumber, cement, and copper was maintained at relatively high levels. The volume of factory employment and pay rolls, after increasing during the late summer and autumn months, continued practically unchanged in November and December, with increases in some important industries offsetting seasonal declines in others. Building contracts awarded during December were the largest recorded for that month and exceeded in value those awarded in November, although a seasonal decrease in building activity usually occurs at that time of the year.

Trade.- Sales at department stores, chain stores, and mail order houses in December indicated the largest volume of Christmas trade on record. Trade at wholesale declined seasonally, but continued larger than last year. Stocks at department stores showed less than the usual decline in December and were 4 per cent

larger at the end of 1925 than a year earlier. Freight car loadings continued large during December with shipments of merchandise and miscellaneous commodities, coke and coal particularly heavy.

Prices.- The general level of prices, as measured by the wholesale price index of the Bureau of Labor Statistics, declined by about 1 per cent in December and was at the end of the year somewhat lower than a year earlier. The average of wholesale prices for the year 1925 as a whole, however, was the highest in five years and the changes in the price level during the year were smaller than in any year in more than a decade. Among agricultural commodities, the prices of livestock and dairy products declined in December, while grain prices advanced. Among non-agricultural commodities the principal declines were in the prices of cotton goods, paper, and rubber, while somewhat higher prices were shown for silk, coal and lumber. In the first three weeks of January quotations on hogs, coke, and hardwood lumber advanced, while prices of corn, cattle, and rubber declined.

Bank credit.- Changes in the demand for currency have been the principal factor influencing the volume of reserve bank credit in use since the middle of November. During the five weeks between November 18 and December 23 the reserve banks paid out into domestic circulation a net amount of about $320,000,000 of currency in the form of gold and gold certificates, Federal reserve notes, and other kinds of money, and during the following four weeks the return flow of currency from circulation amounted to about $430,000,000. These currency movements were reflected in corresponding changes in the volume of reserve bank discounts for member banks.

At member banks in leading cities total loans and investments, which had increased almost continuously during 1925, reached the highest level on record at the end of December, but declined by about $200,000,000 during the first two weeks of the new year. Both the increase in bank loans in the latter part of December and the decline after the turn of the year were largely in loans on securities,

particularly at member banks in New York City. These changes in the demand for loans at member banks were related both to the changes in customers' currency requirements and to end-of-year disbursements by many industrial and financial institutions.

Conditions in the money market, which had become firmer in the last half of December, were easier in January. Rates on bankers' acceptances increased following the advance in the buying rate of the New York Federal Reserve Bank effective January 8, while rates on commercial paper showed little change during the period.

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

STATEMENT FOR THE PRESS X-4514

For Immediate Release. January 28, 1926.

CONDITION OF ACCEPTANCE MARKET.
December 17th to January 20th.

Accompanying firmer money conditions toward the end of the year, the supply of acceptances in the New York and Boston markets increased and the demand was also more active, with large foreign orders reported at New York. The Chicago and Philadelphia markets remained quiet. The Federal Reserve Bank of New York, after the increase in its rediscount rate on January 7, advanced its buying rates on acceptances and dealers' rates were also increased. Thereafter the offerings of bills decreased and the demand increased, especially for 90 day bills. Rates were consequently reported as unsettled and New York and Chicago dealers' portfolios were about 15 per cent smaller at the end than at the beginning of the reporting period, December 17 to January 20. In Boston where dealers' sales as well as purchases were reduced toward the end of the period, their portfolios showed an increase. On January 20, rates were quoted in New York as 3 5/8 per cent bid and 3 1/2 per cent offered for 30 day bills, 3 3/4 bid and 3 5/8 offered for 60 day bills, 3 3/4 to 3 7/8 bid and 3 5/8 to 3 3/4 offered for 90 day bills, 3 7/8 to 4 bid and 3 3/4 to 3 7/8 offered for 120 day bills, with 4 1/8 to 4 1/4 per cent bid and 4 to 4 1/8 per cent offered for longer maturities.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4516

January 29, 1926.

SUBJECT: Revision of Regulations re Directors of Branch Federal Reserve Banks.

Dear Sir:

The Federal Reserve Board has amended its rules and regulations with respect to the appointment of directors of branch Federal reserve banks, which became effective as of January 1, 1925 (see Board's letter X-3956, January 25, 1924), so as to read as follows:

1st. Boards of Directors of Federal Reserve Branch Banks shall consist either of seven members or of five members, as may be determined by the Federal reserve bank of the district concerned, subject to the approval of the Federal Reserve Board. Where the Boards of Directors of Federal Reserve Branch Banks consist of seven members, four shall be appointed by the Federal Reserve Banks and three by the Federal Reserve Board; where the Boards consist of five members, three shall be appointed by the Federal Reserve Banks and two by the Federal Reserve Board.

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

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

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

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

6th. The full term for other Directors shall be three years where Branch Boards consist of seven members and two years where Branch Boards consist of five members.

In order to make practicable an orderly rotation of Branch Directorships, the terms of Directors, other than the Managing Director, shall be so arranged that two will expire each year - one, the term of a Director appointed by the Federal Reserve Board, the other, that of a Director appointed by the Federal Reserve Bank. (While the Federal Reserve Board feels it to be desirable to have rotation in office of Branch Directors the rule is not mandatory).

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

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

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

These revised rules and regulations are to become effective on and after January 1, 1927.

Very truly yours,

Walter L. Eddy,
Secretary.

TO CHAIRMEN OF ALL F.R.BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4517

January 29, 1926.

SUBJECT: Financial Statements of Subsidiaries.

Dear Sir:

It has been pointed out by one of the Federal reserve banks that the ruling contained in the Board's letter of December 30, 1925 (X-4484), with respect to the eligibility for rediscount of notes of corporations representing borrowings to be advanced to subsidiaries, appears to abrogate the requirement contained in the Board's Regulation A that - "Whenever the borrower has closely affiliated or subsidiary corporations or firms, the borrower's financial statement shall be accompanied by separate financial statements of such affiliated or subsidiary corporations or firms,***".

The ruling made by the Board and expressed in its letter of December 30, 1925, was not intended to qualify or amend in any way this provision of its regulation. The ruling had reference only to the legal eligibility for rediscount of notes of the kind described and there was no intention to affect the existing requirement in the regulation as to separate financial statements of corporations or firms closely affiliated with the borrower.

This requirement was added to the Board's Regulation A in order that Federal reserve banks might have more complete information regarding the condition of borrowers having closely affiliated or subsidiary corporations or firms, and also that they might determine whether the paper of such borrowers is desirable and eligible for rediscount. As provided in the Board's regulation, if the statement of the borrower clearly indicates that the note is both eligible from a legal standpoint and acceptable from a credit standpoint, separate statements of affiliated or subsidiary corporations or firms are not required.

The regulations of the Board on this subject have been in no way modified by the Board's ruling of December 30, 1925, and it is requested that you endeavor to correct any misunderstanding which may have arisen as to the proper interpretation to be placed upon this ruling.

Very truly yours,

Edmund Platt,
Vice Governor.

TO GOVS. OF ALL F.R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4520

February 1, 1926.

SUBJECT: Holidays during February, 1926.

Dear Sir:

There will be no Gold Settlement Fund or Federal Reserve Note Clearing on Friday, February 12th, Lincoln's birthday, and the books of the Board will be closed. For your information, the offices of the Board and the following Federal Reserve Banks and Branches will remain open for business as usual:

Boston

Richmond
Baltimore

Atlanta
New Orleans
Birmingham
Jacksonville

St. Louis
Little Rock

Kansas City
Oklahoma City

Portland

On Tuesday, February 16th, the Birmingham and New Orleans Branches of the Federal Reserve Bank of Atlanta will be closed in observance of Mardi Gras. Please include your Gold Fund Clearing credits of February 16th for New Orleans Branch with those of the following business day.

On Monday, February 22nd, Washington's birthday, there will be no Gold Settlement Fund or Federal Reserve Note Clearing, and the offices of the Federal Reserve Board will be closed.

Kindly notify branches.

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-4521

February 3, 1926.

Dear Sir:

There are enclosed herewith, for your information, copies of letters exchanged by the Board with the Chairman of the Committee on Banking and Currency of the House of Representatives, relative to a proposal to amend Section 9 of the Federal Reserve Act with respect to the conditions of membership which the Board may impose upon State banks joining the Federal Reserve System.

Very truly yours,

J. C. Noell,
Assistant Secretary.

(Enclosures)

TO CHAIRMEN OF ALL F. R. BANKS.

(COPY) X-4521-a

February 2,
1 9 2 6.

Honorable Louis T. McFadden, Chairman,
Committee on Banking and Currency,
House of Representatives,
Washington, D. C.

My dear Congressman:

Receipt is acknowledged of your letter of January 25th referring to the appearance before the Federal Reserve Board on December 30, 1925, of the Committee representing the National Association of Supervisors of State Banks, for the purpose of discussing a proposed amendment to the Federal Reserve Act which would change the last sentence of the first paragraph of Section 9 thereof to read as follows, the words underlined being added:

> "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; Provided, however, that such conditions or rules or regulations prescribed shall not limit or impair the charter or statutory rights and powers of such banks nor shall the Federal Reserve Board impose any conditions or restrictions other than those under which national banks shall operate."

While the above mentioned conference was entirely informal and no formal vote was taken by the Federal Reserve Board, the discussion showed very clearly that the Board is strongly opposed to this proposed amendment and also developed the fact that the advocacy of this amendment by the National Association of Supervisors of State Banks is based upon a misunderstanding of the facts regarding the Board's policy and practice in prescribing conditions of membership for State banks prior to their admission to the Federal Reserve System.

In view of these facts the Board has not heretofore considered it necessary to take any formal action with reference to this amendment. You now desire a formal expression of the Board's views, and the Board has no hesitancy in expressing its unqualified disapproval of this proposed amendment.

LEGAL EFFECT OF PROPOSED AMENDMENT.

Before discussing the practical objections to this amendment, it is believed advisable to call attention to the legal phases of the subject. The first two paragraphs of Section 9 of the Federal Reserve Act now read as follows:

> "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. * * * The Federal Reserve Board, subject to such conditions as it may prescribe, may permit the applying bank to become a stockholder of such Federal reserve bank.
>
> "In acting upon such application the Federal Reserve Board shall consider the financial condition of the applying bank, the general character of its management, and whether or not the corporate powers exercised are consistent with the purposes of this Act."

In acting upon an application of a State bank for membership in the Federal Reserve System, the Board is thus required by law to consider (1) the financial condition of the applying bank, (2) the general character of its management, and (3) whether or not the corporate powers exercised by it are consistent with the purposes of the Federal Reserve Act, and before admitting a bank to membership in the Federal Reserve System the Board is authorized to prescribe such reasonable conditions of membership as may be necessary to provide for the maintenance of a high standard of membership. Such conditions of membership, however, can be prescribed only at the time a bank applies for membership in the Federal Reserve System and cannot become binding upon any bank unless and until such bank voluntarily accepts such conditions. Moreover, when certain conditions of membership have once been agreed upon between the Board and a particular bank applying for membership and when that bank has once been admitted to membership subject to such conditions, these conditions cannot thereafter be changed nor can any additional conditions be prescribed by the Board, except by the mutual consent of the Board and the particular bank involved.

The amendment proposed by the National Association of Supervisors of State Banks would have the following legal effect :

(1) If strictly construed, it would take away the power of the Federal Reserve Board to prescribe any condition of membership except such as is made pursuant to some specific provision of the Federal Reserve Act; so that the Board could not prescribe any condition covering a particular situation which has not been foreseen in advance by Congress and provided for in some specific provision of the Federal Reserve Act.

(2) It would forbid the Federal Reserve Board to prescribe any condition, rule or regulation which would limit or impair the charter or statutory rights or powers of any State member bank; so that, even if the Board should find that the corporate powers of a State bank applying for membership were inconsistent with the purposes of the Federal Reserve Act it could not admit that bank subject to a condition that the bank would not exercise such powers but could do only one of two things: (a) Permit the bank to come into the Federal Reserve System and exercise powers inconsistent with membership in the Federal Reserve System, or (b) exclude such bank from membership in the Federal Reserve System altogether.

(3) The proposed amendment would forbid the Federal Reserve Board to impose any condition or restriction upon any State bank other than those under which national banks shall operate. (This is unnecessary and unimportant, because the Board never has prescribed any conditions of membership restricting a State bank to any greater extent than national banks are restricted by law.)

PRACTICAL EFFECT OF PROPOSED AMENDMENT.

The Federal Reserve Board is strongly opposed to this amendment because it would deprive the Board of a power which it believes to be necessary to enable the Board to maintain a high standard of membership in the Federal Reserve System and which it has always exercised temperately and reasonably. The wisdom of the possession of this power by the Federal Reserve Board and the fairness with which it has been exercised have been generally recognized by the banking fraternity and until recently there has been no opposition to it. Moreover, as will be shown below, such opposition as now exists is based upon a misconception of the facts regarding the scope and exercise of this power.

Most of the conditions of membership prescribed by the Board are designed to carry out the purpose of that provision of Section 9 of the Federal Reserve Act which provides that in acting upon applications of State banks for membership in the Federal Reserve System, the Federal Reserve Board shall consider the financial condition of the applying bank, the general character of its management, and whether or not the corporate powers exercised are consistent with the purposes of the Federal Reserve Act. In other words, they are designed to require the member bank to keep its management and financial condition sound after admission to the System and not to acquire and exercise additional corporate powers which might be inconsistent with the purposes of the Act.

Other conditions are designed to cover peculiar situations affecting particular banks, which situations are not, and could not be covered by general provisions of law applicable to all State member banks. Thus, where a bank has too large a proportion of its funds tied up in non-liquid real estate loans, the Board may prescribe as a condition of

membership it shall reduce the amount of such loans to a certain percentage of its capital and surplus within a definite time. Similarly, where the applying bank has no surplus fund against which losses could be charged off, the Board may prescribe as a condition of membership that it shall put a certain percentage of its net earnings each year in its surplus fund until such fund reaches a given amount. If the applying bank has certain corporate powers inconsistent with membership in the Federal Reserve System, the Board may approve its application subject to a condition that it shall not exercise such powers while it is a member of the Federal Reserve System.

Cases like these not infrequently arise in which a bank applying for membership is in all respects eligible and desirable for inclusion in the ranks of the members of the Federal Reserve System except that in one or two respects its condition is not entirely satisfactory or its practices do not accord with the best banking policy. The bank itself desires to come in and is willing to agree to improve its condition or correct its practices in these respects by an agreement with the Federal Reserve Board. The Board and the Federal reserve bank, on the other hand, are desirous of having this particular institution as a member if these differences of practice can be ironed out. In such cases the Board feels that it is better to admit the bank subject to appropriate conditions of membership than to exclude it altogether from the System.

There are many members of the System today which are in all respects loyal and desirable members which the Board could not, in the exercise of a sound discretion, have admitted to membership if it had not possessed the power to prescribe appropriate conditions of membership to fit their peculiar situations. The obstacles in the way of admission were such that the Board felt that it could not properly admit such banks to membership without some promise or assurance against the continued existence of practices then being engaged in by the applicant banks. The difficulty was overcome in all these cases by prescribing conditions of membership which were voluntarily accepted by the member banks prior to admission. If the authority of the Federal Reserve Board to prescribe such conditions of membership is taken away from it, there will be many cases in the future in which the Board will have to refuse to admit banks to membership because of the absence of authority to require adequate assurances from the applicants as to their future conduct, although if these assurances could be given the applicants would in all probability prove to be very satisfactory and helpful members of the System.

The Board has sought in the regulations governing the admission of State banks and trust companies and in these conditions of membership to establish only such reasonable standards of admission as are necessary to protect the member banks, both State and national, against the admission of any bank which would be a source of weakness rather than of strength, and also to prescribe such regulations governing their conduct as will insure a reasonable conformity to fundamental principles deemed essential to the continued success of the Federal Reserve System. It has been with these purposes in mind that the Board has from time to time prescribed for State banks joining the System certain conditions of membership which

seem to be dictated by sound banking policy and has recently published the more usual of these conditions in its Regulation H. Conditions which have been prescribed for State banks and trust companies coming into this System have been found by the Board to be effective in serving the purpose desired, and on the basis of the results obtained in the past the Board believes that its policy of prescribing such conditions of membership is entirely sound and one which it seems advisable to continue in the future. The wisdom and necessity of the practice has long been recognized and acquiesced in by the banking fraternity; and, as will be shown below, Congress has impliedly approved it by amending the law so as expressly to authorize it.

HISTORY OF THIS SUBJECT.

It is believed that a better and clearer understanding of this subject will result from a chronological discussion of its history.

Original Statute and Practice Thereunder.

Section 9 of the Federal Reserve Act as originally enacted provided, in part, as follows:

> "The Organization Committee or the Federal Reserve Board under such rules and regulations as it may prescribe, subject to the provisions of this section, may permit the applying bank to become a stockholder in the Federal Reserve Bank of the district in which the applying bank is located."

Acting under authority of this provision, the Board has always understood that it has the power to prescribe for State banks admitted to membership such conditions as in its discretion it deems necessary or advisable. It acted on the theory that, even if this power were not included in the power to prescribe rules and regulations, it was an incident of the power to approve or reject the application of any particular State bank, in the Board's discretion. In other words, it acted on the theory that the discretionary power to approve or reject any application included the power to approve any application subject to such reasonable and proper conditions as the Board might prescribe.

The Federal Reserve Board's circular letter published with its first regulations with reference to membership of State banks (Regulation M, Series of 1915) contained the following statements which indicate the Board's understanding of the scope of its power as well as the spirit in which it approached this problem :

> "A unified banking system, embracng in its membership the well-managed banks of the country, small and large, State and National, is the aim of the Federal Reserve Act. There can be but one American credit system of nation-wide extent, and it will fall short of satisfying

"the business judgment and expectation of the country and fail of attaining its full potentialities if it rests upon an incomplete foundation and leaves out of its membership any considerable part of the banking strength of the country. The way must be opened for State banking institutions to contribute their share to the capital and resources of the Federal reserve banks, in harmony with the intent of the Federal Reserve Act and in accordance with its provisions. State banks, trust companies, and national banks have their distinctive characters and places in the American banking organization, and these should be respected in coordinating them in the Federal Reserve System. The problem presented is to find a basis upon which these different types of banking institutions may thus be associated which shall be fair to each and which will not require greater uniformity of operation than may be necessary to the attainment of the purposes of the Federal Reserve Act.

"Appreciating fully that the strength of the Federal Reserve System is to be measured by the quality and character of its members, rather than by their number, the Federal Reserve Board is prepared to use the broad discretionary power vested in it by the Federal Reserve Act to bring about this coordination on the basis of equity and practicability. The Board has sought in the regulations governing the admission of state banks and trust companies hereto appended, first, to establish only such reasonable standards of admission as will be generally recognized as necessary to protect the Federal Reserve System and the national banks, whose membership in the System is obligatory, against the admission of any bank which would be a source of weakness rather than of strength, and second, to prescribe such regulations governing their conduct as will insure a reasonable conformity to fundamental principles deemed essential to the success of the new banking system.

* * * * *

"The conditions of membership of State institutions are, furthermore, prescribed only in general terms in the Act, the further and final elaboration of them being left to the Federal Reserve Board, which is vested with the necessary discretionary authority."

The text of the regulation (Regulation M, Series of 1915) provided, in part, as follows:

> "In passing upon an application the Federal Reserve Board will consider especially -
>
> "(1) The financial condition of the applying bank or trust company and the general character of its management.
>
> "(2) Whether the nature of the powers exercised by the said bank or trust company and its charter provisions are consistent with the proper conduct of the business of banking and with membership in the Federal Reserve Bank.
>
> "(3) Whether the laws of the State or district in which the applying bank or trust company is located contain provisions likely to interfere with the proper regulation and supervision of member banks.
>
> " * * * Whenever the Board may deem it necessary, it will impose such conditions as will insure compliance with the act and these regulations. When the certificate of approval and any conditions contained therein have been accepted by the applying bank or trust company, stock in the Federal Reserve Bank of the district in which the applying bank or trust company is located shall be issued and paid for under the regulations of the Federal Reserve Act provided for national banks which become stockholders in the Federal Reserve Banks.
>
> * * * * * * *
>
> "Every State bank or trust company while a member of the Federal Reserve System -
>
> "(1) Shall retain its full charter and statutory rights as a State bank or trust company, and may continue to exercise the same functions as before admission, except as provided in the Federal Reserve Act and the regulations of the Federal Reserve Board, including any conditions embodied in the certificate of approval.

Amendment of June 21, 1917.

On June 21, 1917, there was enacted into the law a bill which had been drafted and submitted to Congress by the Federal Reserve Board for the purpose of making a number of amendments to various provisions of the Federal Reserve Act. One of the principal purposes of

those amendments was to make the Federal Reserve System more attractive to State banks, and this result was sought in two ways: (1) By assuring them that the liberal interpretation of the law previously adopted by the Board would not be changed and that the Board would not amend those portions of its regulations which assured to State member banks the continued exercise of the rights enjoyed by them under State law, subject to such conditions as the Board might prescribe prior to their admission to membership: and (2) by repealing a number of provisions of the Federal Reserve Act which subjected State member banks to examination by the Comptroller of the Currency and to various provisions of the National Bank Act.

The last sentence of the first paragraph of Section 9 was amended by the Act of June 21, 1917, to read as follows:

> "The Federal Reserve Board, subject to such conditions as it may prescribe, may permit the applying bank to become a stockholder of such Federal Reserve Bank."

The substitution of the word "conditions" for the words "rules and regulations" which appeared in the corresponding portion of the original act was intended to sanction and expressly to authorize the Board's established practice of prescribing conditions of membership before admitting State banks and trust companies to the Federal Reserve System.

Immediately after the clause above quoted a new paragraph was added, reading as follows:

> "In acting upon such application the Federal Reserve Board shall consider the financial condition of the applying bank, the general character of its management, and whether or not the corporate powers exercised are consistent with the purposes of this act."

This simply adopted and wrote into the law the principles previously announced by the Board in its Regulations as a basis for its action on the applications of State banks for membership.

The following new language was also inserted in Section 9:

> "Subject to the provisions of this act and to the regulations of the Board made pursuant thereto, any bank becoming a member of the Federal Reserve System shall retain its full charter and statutory rights as a State bank or trust company, and may continue to exercise all corporate powers granted it by the State in which it was created and shall be entitled to all privileges of member banks: * * * "

This new provision was also an adoption by Congress of a portion of the Board's regulation, and simply wrote into the law the assurance previously given in the Board's regulation that State banks joining the Federal Reserve System should retain their full charter and statutory rights and might continue to exercise the same functions as before admission, except as provided in the Federal Reserve Act, the regulations of the Federal Reserve Board and the conditions of membership agreed upon prior to admission to the Federal Reserve System.

It is obvious, therefore, that all of these changes in the language of Section 9 were made for the purpose of clarifying the law and writing into it the liberal interpretation which the Board had given it and the liberal principles which the Board had previously incorporated in its regulations.

The State banks had represented to the Board that before coming into the Federal Reserve System they wished to know exactly what terms, conditions, and regulations they would be required to comply with and they wished to be assured before being admitted to membership that the Board would not thereafter amend its regulations in such a way as to change the terms and conditions on which they had entered the System. This desire was fully met by the amendment of June 21, 1917. Inasmuch as the Board's regulations regarding State member banks must be based upon the provisions of the Act, the banks know in advance what such provisions are, and they can not be substantially changed without an amendment to the law. As to conditions of membership, they are equally protected, because such conditions must be submitted to, and accepted by, such banks before they become members.

PUBLICATION OF CERTAIN CONDITIONS OF MEMBERSHIP IN BOARD'S REGULATIONS.

Many of the conditions of membership prescribed by the Board from time to time are designed especially to meet peculiar conditions effecting a particular bank applying for membership, and such conditions cannot be standardized or incorporated in any set of regulations or statutes, nor can they all be foreseen in advance and provided for in a statute. Certain other conditions, however, had become quite well standardized and were generally prescribed by the Board for all banks admitted to membership in the Federal Reserve System; and the Board decided that, in order that any State bank or trust company which might contemplate applying for membership in the Federal Reserve System could know in advance what conditions of membership of a general nature, as distinguished from a special nature, it would be required to agree to, published some nine of these general conditions in Section IV of its Regulation H, Series of 1924. This section of the regulation , however, is not really in the nature of a regulation but is merely a statement of what the Board intends to do in the future in the way of prescribing conditions of membership for banks thereafter admitted to membership. It is not retroactive but simply states that hereafter the Board will prescribe certain conditions of membership for all State banks

or trust companies admitted to the Federal Reserve System and that hereafter all such banks applying for membership would be required to agree to such conditions and any other conditions which the Board might prescribe prior to the admission of such bank or trust company to the Federal Reserve System.

The publication of these general conditions of membership in the Board's Regulations has been misunderstood and probably is the cause of the opposition of the National Association of Supervisors of State Banks to the Board's practice of prescribing conditions of membership for State banks and trust companies applying for admission to the Federal Reserve System. This opposition originated with a speech delivered by Honorable George V. McLaughlin, then Superintendent of Banks of the State of New York, at the 23rd Annual Convention of the National Association of Supervisors of State Banks, held at Buffalo, New York, on July 21-23, 1924, which resulted in the adoption of a resolution by that convention advocating certain amendments to Section 9 of the Federal Reserve Act which would, among other things, take away the Board's power to prescribe conditions of membership. The text of Mr. McLaughlin's speech, together with a statement analyzing it and answering the various points made therein, were published at your instance in the Congressional Record for January 8, 1925, at pages 1500 to 1511, inclusive. There was also published at the same time and place a copy of the Board's Regulation H and the text of Mr. McLaughlin's original proposal to amend the Federal Reserve Act.

OPPOSITION BASED ON MISUNDERSTANDING.

The resolution of the National Association of Supervisors of State Banks criticises the Board's new Regulation H, principally because of the conditions of membership set forth therein and certain other provisions designed for their proper administration, and recommends that Congress repeal the Board's power to prescribe such conditions of membership. That resolution, however, is based upon three assumptions, all of which are totally erroneous:

1. That the conditions of membership set forth in Section IV of the Board's Regulation H, Series of 1924, are something entirely new and constitute a departure from the Board's previous practice:

2. That the Board has the right to change these conditions of membership at any time, and that, therefore, State banks are utterly at the mercy of the Federal Reserve Board with regard to such conditions of membership; and

3. That the conditions of membership prescribed by the Federal Reserve Board would discriminate against State banks and in favor of national banks, because the Board does not attempt to prescribe conditions of membership for national banks.

Each of these propositions will be discussed briefly in order:

1. As shown above, these conditions of membership are not at all new, but are conditions which the Federal Reserve Board has for years customarily prescribed for State banks upon their admission to the Federal Reserve System. The only thing new about the situation is that for the first time the Board has set forth these conditions in its printed regulations for the information of the State banks, so that they may know and understand in advance of applying for membership what conditions they will be required to agree to if they are admitted to the Federal Reserve System.

2. The assumption that the Board has, or thinks it has, the right to change its conditions of membership at any time is also equally erroneous. The Board always has considered conditions of membership analogous to contracts or agreements between the Board and each individual State bank admitted to membership in the Federal Reserve System, and has always adhered to the view that they are not subject to change except, of course, by the mutual consent of both parties. When an application for membership is received from a State bank and the Board is inclined to approve it, the Board notifies the bank that it is willing to approve the application provided it will agree to be bound by certain definite conditions of membership set forth in the notice. If the bank is willing to accept these conditions of membership, it so notifies the Board, whereupon the Board's conditional approval of the bank's application for membership becomes effective, and the bank is admitted to the System. The conditions of membership applicable to that bank are thereby fixed for all time and cannot be changed except by the mutual consent of the Board and the bank. The Board does not have, nor has it ever claimed to have, the right to change a condition of membership subsequent to the admission of a bank without the consent of such Bank. In practice, there have rarely been any changes in the conditions prescribed upon the admission of a bank; and in the few cases where such conditions have been changed, they have almost invariably been changed at the request of the member bank.

3. The assumption that conditions of membership prescribed by the Federal Reserve Board discriminate against State banks and in favor of national banks is equally erroneous. The Board never has prescribed any condition of membership for a State bank which restricts the operations of such bank to a greater extent than national banks are restricted by the provisions of the National Bank Act. On the contrary, the Board always has endeavored to permit State bank members of the Federal Reserve System as much freedom as is consistent with membership in the Federal Reserve System, even though this results in their exercising much more liberal powers than those enjoyed by national banks. It is the policy of the Federal Reserve Board to make the System as attractive as possible to State banks and not to restrict their operations within the System to any greater extent than is absolutely necessary for the preservation of a high standard of membership.

State banks, however, operate under the laws of forty-eight different states, many of which are more or less inadequate to provide for

a proper supervision and regulation of the banking business; and in many instances it is absolutely necessary to prescribe conditions of membership for State banks in order to maintain a high standard of membership in the Federal Reserve System. The only other alternatives would be to exclude such State banks from the Federal Reserve System or lower the standard of membership. When a State bank has once been admitted to membership in the Federal Reserve System it cannot be required to withdraw from the System unless it violates some condition of membership or some specific provision of the Federal Reserve Act.

NO VIOLATION OF STATE RIGHTS.

It has been argued that when the Federal Reserve Board prescribes a condition of membership requiring a State bank to agree not to exercise a certain one of its corporate powers while it remains a member of the Federal Reserve System, this violates the public policy of the State under whose laws that bank was incorporated and infringes the rights of the State; but this is not so. The Board does not attempt to say to any State what corporate powers it shall or shall not confer on banks created by it. It only says that if a State bank applies for membership in the Federal Reserve System and has certain powers inconsistent with membership in the Federal Reserve System, it must agree not to exercise those powers while it is in the System.

The fact that a particular State grants unusual powers to banks created by it does not necessarily mean that the policy of the State requires the exercise of such powers by State banks, nor that such powers actually will be exercised. The State laws do not require but merely permit the organization of banks and trust companies; and even when they are organized State banks and trust companies are perfectly free to abstain from exercising certain powers granted to them by the laws of their creation. Thus, the laws of Pennsylvania authorize all trust companies organized thereunder to transact a title insurance, fidelity insurance, and surety business; but many of the trust companies of Pennsylvania have never exercised this power. It is no violation of the policy of the State of Pennsylvania, therefore, for the Board to require a Pennsylvania trust company which never has and never will wish to exercise these powers to agree that it will not do so as long as it remains a member of the Federal Reserve System.

PROPOSED AMENDMENT HARMFUL TO STATE BANKS AND TRUST COMPANIES.

The general banking laws of a number of the States confer on every bank or trust company organized thereunder certain unusual powers which are inconsistent with membership in the Federal Reserve System and the inevitable result of the enactment of this proposed amendment would be to exclude every such bank or trust company from membership in the Federal Reserve System, even though they should have no desire whatever to exercise these unusual powers.

At present such banks are admitted to membership in the Federal Reserve System on condition that they will not exercise the objectionable powers so long as they remain members of the System. If the power to prescribe such conditions of membership is taken away from it, the Board will have no alternative but to deny membership in the Federal Reserve System to all State banks or trust companies possessing such powers, because there will be no way in which the Board can assure itself that they will not undertake the exercise of such powers.

Even where banks applying for membership in the Federal Reserve System have no corporate powers inconsistent with membership, it is often found that their management or financial condition is such that they cannot properly be admitted to the Federal Reserve System unless they will agree as a condition of membership to improve the character of their management or their financial condition within a specified time. In such cases the applying banks will have to be denied membership in the Federal Reserve System if the Board is deprived of the power to admit them subject to appropriate conditions designed to bring them up to the proper standard of members of the Federal Reserve System. Instead of benefitting the State banks and trust companies, therefore, the enactment of the amendment proposed by the National Association of Supervisors of State banks will in many cases work an actual hardship on them.

CONCLUSION.

In conclusion I wish to say that the Board has no desire to be autocratic or unreasonable in this matter and is always willing to hear and give due weight to the views of State banks and State banking authorities with reference to the expediency and reasonableness of its regulations and the conditions of membership prescribed by it. The Board, however, has found by experience that the power to prescribe conditions of membership governing State banks organized under the divergent laws of forty-eight different States is absolutely essential to the preservation of a high standard of membership in the Federal Reserve System; and for this reason, the Board is strongly opposed to the amendment proposed by the National Association of Supervisors of State Banks or any other amendment which would take away or seriously impair the exercise of this power. The Board, however, has no objection to an amendment such as that contained in Section 10 of your Bill, H.R.2, as originally introduced, which would provide that the Board "shall not prescribe any condition of membership which will prevent the applying bank from competing with national banks on a basis of substantial equality or which will subject the applying bank to any greater limitations or restrictions than those under which national banks shall operate"; because the Board never has and never would prescribe any such discriminatory condition of membership.

Respectfully,

Edmund Platt,
Vice-Governor.

HOUSE OF REPRESENTATIVES
Committee on Banking and Currency
WASHINGTON

January 25, 1926.

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

Dear Governor Crissinger:

Referring to the appearance of the committee representing the Association of State Bank Supervisors of the United States before the Federal Reserve Board on December 30 last, the purpose of this meeting was to discuss a proposed amendment to Section 9 of H. R. 2, on Line 21, as follows:

> "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; Provided, however, that such conditions or rules or regulations prescribed shall not limit or impair the charter or statutory rights and powers of such banks nor shall the Federal Reserve Board impose any conditions or restrictions other than those under which national banks shall operate."

The matter underlined is new.

I gained the impression during the discussion of this subject that it was the view of the Federal Reserve Board that such a provision was undesirable, but apparently the committee representing the Association of State Bank Supervisors was not convinced of the soundness of the views presented to them by the individual members of your Board who were present at this meeting, because their insistence on pressing their amendment is manifest.

The purpose of this letter is to ask you if you will not kindly write me the Board's objections tothis amendment that I may present these views to the Members of the House in such opposition as I shall make to this proposal when it is offered on the floor of the House during the consideration of H. R. 2.

I expect now that the consideration of this measure will be taken up by the House next Wednesday, January 27, and I believe that debate will be concluded on this bill and vote had on the following Wednesday. I am, therefore, hoping to have as early a reply from you as possible.

Very truly yours,

LTM:b (signed) L. T. McFadden.

FEDERAL RESERVE BOARD

142

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4522

February 3, 1926.

SUBJECT: Stocks of Unissued F. R. Notes.

Dear Sir:

You are requested to prepare and submit to the Federal Reserve Board, at your early convenience, an estimate of the amount of each denomination of the Federal Reserve notes of your bank you may be called upon to issue during the calendar year 1926. This information is desired for the purpose of regulating the production of Federal Reserve notes during the coming year.

For your guidance, I would state that the Board is of the opinion that its stock of unissued Federal Reserve notes should at all times include approximately a twelve months' supply of each denomination of the notes of each bank, and that not more than a six months' supply of each denomination of unissued notes should be in the custody of the Federal Reserve Agents.

By direction of the Federal Reserve Board,

Yours very truly,

Walter L. Eddy,
Secretary.

TO ALL F. R. AGENTS.

FEDERAL RESERVE BOARD

143

WASHINGTON

X-4524.

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

February 4, 1926.

SUBJECT: Canned food products as nonperishable readily marketable staple agricultural products.

Dear Sir:

This is to advise you that in the opinion of the Federal Reserve Board canned corn and other canned food products should not be considered nonperishable readily marketable staple agricultural products which may be made the basis of sight or demand bills of exchange eligible for discount or purchase at a Federal reserve bank under the third paragraph of Section 13 of the Federal Reserve Act.

Very truly yours,

Edmund Platt.
Vice Governor.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS.

TREASURY DEPARTMENT
Office of the Secretary
WASHINGTON

February 8, 1926.

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 30, 1926, amounting to $117,500.00.

Federal Reserve Notes, Series 1914

	$5	$10	$20	Total
Boston	200,000	150,000		350,000
New York	625,000			625,000
Philadelphia	400,000	100,000	100,000	600,000
Cleveland	100,000		100,000	200,000
Richmond	200,000			200,000
Atlanta	200,000	50,000	50,000	300,000
Chicago	400,000			400,000
Minneapolis	100,000	50,000	50,000	200,000
Kansas City	100,000	100,000	50,000	250,000
	2,325,000	450,000	350,000	3,125,000

3,125,000 sheets @ $37.60 per M $117,500.00

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

	Sheets	Compensation	Plate Printing	Materials	Total
Boston	350,000	$ 6,195.00	$2,870.00	$4,095.00	$13,160.00
New York	625,000	11,062.50	5,125.00	7,312.50	23,500.00
Philadelphia	600,000	10,620.00	4,920.00	7,020.00	22,560.00
Cleveland	200,000	3,540.00	1,640.00	2,340.00	7,520.00
Richmond	200,000	3,540.00	1,640.00	2,340.00	7,520.00
Atlanta	300,000	5,310.00	2,460.00	3,510.00	11,280.00
Chicago	400,000	7,080.00	3,280.00	4,680.00	15,040.00
Minneapolis	200,000	3,540.00	1,640.00	2,340.00	7,520.00
Kansas City	250,000	4,425.00	2,050.00	2,925.00	9,400.00
Total	3,125,000	$55,312.50	$25,625.00	$36,562.50	$117,500.00

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
of the Public Debt.

L.G.C.

(C O P Y)

X-4528

FEDERAL RESERVE BANK
OF DALLAS

145

February 8, 1926

The Federal Reserve Board,
Washington, D.C.

Attention Mr. Walter Wyatt

Dear Mr. Wyatt:

On last Saturday, we obtained an instructed verdict in the case styled "Vacuum Oil Company vs The Federal Reserve Bank of Dallas".

This case involved the alleged negligence of the Federal Reserve Bank of Dallas and the Mercantile National Bank of Dallas in the collection of a check in the sum of $357.02. The facts were substantially these:

The Vacuum Oil Company received a check from one of its debtors in payment of an account. They deposited the check in the Mercantile National Bank for collection. At the time of the deposit, the Mercantile National Bank had no agreement on its deposit slips or otherwise with reference to the handling of checks for collection. The check was transmitted by the Mercantile National Bank to the Federal Reserve Bank of Dallas, and by the latter forwarded direct to the drawee bank, the Citizens Bank of Desdemona. The drawee bank received the check and charged the same to its depositor's account, and remitted the Federal Reserve Bank of Dallas exchange on a correspondent bank for this and several other items included in the Federal Reserve Bank's cash letter. Before the remittance draft could be presented for payment, the Citizens Bank of Desdemona closed, and the remittance draft was therefore uncollected. The Vacuum Oil Company filed suit against the drawer of the check, the Citizens Bank of Desdemona - which was a co-partnership - the Mercantile National Bank of Dallas, and the Federal Reserve Bank of Dallas.

The drawer of the check was discharged upon instructions of the court at the end of the plaintiff's testimony, upon the theory that the check was paid, and the drawer discharged from liability. Before the case was presented for trial, an interlocutory judgment by default was taken against the co-partnership.

In the trial of the case, we plead and introduced in evidence Regulation "J", Series of 1920, of the Federal Reserve Board, and also our circular letter No.13, Series of 1922, on transit operations. Our circular No. 13 contained provisions placing liability practically the same as those which are now incorporated in all the circulars of Federal Reserve Banks. We also plead and attempted to prove certain other defences which are not material at this time.

At the conclusion of all the evidence, the court directed a verdict for the Federal Reserve Bank of Dallas on the theory that the Mercantile Bank was the agent of the Vacuum Oil Company, and that its knowledge

of the terms and conditions under which the Federal Reserve Bank of Dallas accepted the check for collection was binding upon its principal. The court also took the view that under the Massachusetts rule, which prevails in Texas, the Mercantile Bank was the agent of the Vacuum Oil Company for the purpose of selecting a sub-agent in the collection of this check, and that its contract with the Federal Reserve Bank of Dallas as evidenced by Circular No.13, Series of 1922, was binding upon its principal.

After disposing of the parties other than the Mercantile National Bank as aforesaid, the court submitted the case on special issues to the jury. It developed that the Mercantile National Bank held the check for two days before sending the same to the Federal Reserve Bank for collection. The first issue was predicated on this fact, and was in substance whether or not the Mercantile National Bank was guilty of negligence in holding the check in question for two days. The jury answered this question affirmatively. The succeeding question was whether or not this act was the proximate cause of the loss, and this question was answered by the jury in the negative. The next question submitted was whether or not the Mercantile National Bank was negligent in authorizing the Federal Reserve Bank of Dallas to collect the check in cash or by bank draft, and this question was answered by the jury in the negative.

Thus from the answers of the jury to the questions submitted, the Mercantile National Bank is entitled to judgment. In presenting our testimony, eleven witnesses were introduced on the question of custom among banks with reference to the accepting of remittance drafts in settlement of cash letters. Two of these witnesses were from the Federal Reserve Bank of Dallas, and nine from the various commercial banks in this City. All testified substantially that it had been the general custom among all banks in this district for many years to settle for out-of-town items through the medium of remittance drafts; and I am inclined to believe that the jury answered the question relating to the liability of the Mercantile National Bank favorably due to this testimony.

Mr. Dreibelbis tried the case, and I am very much pleased with the result which he obtained, as I think he not only succeeded in obtaining an instructed verdict for us, but was also largely instrumental in securing a favorable decision for the Mercantile National Bank.

The case, of course, involves such a small amount that it is doubtful whether the same will be appealed, but if it should be, I think the record is in such a shape that it will give us a very favorable opportunity to establish a precedent which will be of some value in this question of remittance.

Yours very truly,

(Signed) E. B. Stroud, Jr.

Office Counsel.

EBS:fh

X-4530-a

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

February 16, 1926.

SUBJECT: Opinion of U. S. Circuit Court of Appeals in Pascagoula Case.

Dear Sir:

There is enclosed for your information a copy of an opinion rendered February 11th by the United States Circuit Court of Appeals for the Fifth Circuit confirming the decision of the United States District Court in the case of Pascagoula National Bank v. Federal Reserve Bank of Atlanta, and also a copy of a dissenting opinion rendered by Judge Foster.

It is expected that the plaintiff will petition the Supreme Court for a writ of certiorari bringing this case again before that Court for review, but the granting of such a writ is discretionary with the Supreme Court and if the writ is denied the decision of the Circuit Court of Appeals will be final.

Yours very truly,

Walter L. Eddy,
Secretary.

TO GOVERNORS OF ALL F.R.BANKS AND TO ALL AGENTS.

Enclosure:

IN THE UNITED STATES CIRCUIT COURT OF APPEALS FOR

THE FIFTH CIRCUIT.

- - - - - -

NO. 4721.

- - - -

PASCAGOULA NATIONAL BANK OF MOSS POINT AND PASCAGOULA, MISSISSIPPI.

Appellant,

Versus

FEDERAL RESERVE BANK OF ATLANTA AND OSCAR NEWTON AS FEDERAL RESERVE AGENT, ETC.,

Appellees.

- - - - - -

Appeal from the District Court of the United States for the

Northern District of

Georgia.

- - -

Alex W. Smith, Jr., (Alex W. Smith, Jr., Smith, Hammond & Smith, and Denny & Heidelberg on the bricf), for Appellant,

Newton D. Baker, Hollins N. Randolph and Robert S. Parker, (Hollins N. Randolph, Robert S. Parker, Newton D. Baker, Walter Wyatt and Montgomery B. Angell on the brief), for Appellees.

- - - - - -

Before WALKER, BRYAN and FOSTER, Circuit Judges.

WALKER, Circuit Judge:-

This is an appeal from a decree dismissing a bill filed by the appellant, a national bank

located in Mississippi. The questions raised are well stated as follows in the opinion rendered by the District Judge:

> "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 (Comp. St. Secs. 9796, 9799), 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 each reserve bank will receive at par, checks which can be collected at par, and only such, whether they be sent it 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 (section 4, c. 32, 40 Stat. 234,) (Comp. St. Ann. Supp. 1919, Sec. 9796) 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." Pascagoula National Bank v. Federal Reserve Bank of Atlanta, 3 F. (2d). 465.

The claim that for checks drawn upon any of the depositors of the Federal Reserve Bank of Atlanta (herein referred to as appellee), sent or delivered by appellant to appellee for deposit, appellant was entitled to immediate credit at par as deposits subject to be checked or drawn on is based upon the provision of section 16 of the Federal Reserve Act (38 Stat. 26, U. S. Comp. St. 1918, S9799, Par. 12) that "Every Federal Reserve Bank shall receive on deposit at par from member banks * * * * checks and drafts drawn upon any of its depositors." That provision is explicit in imposing on a Federal reserve bank the duty of receiving on deposit from member banks checks and drafts drawn upon any of its depositors, and in requiring that such checks be so received at par. The amount of the credit to be given the depositor is prescribed, but not the time of giving it, unless the language used means that the amount called for by such a check, upon the receipt of it by the reserve bank, at once becomes subject to be withdrawn on the depositor's checks. In the absence of a statute otherwise providing, the express or implied agreement or understanding of the parties determines whether a bank accepting from a depositor a check on another bank is required to give credit therefor at the time of the acceptance or at a subsequent time, the bank not being required to give imme-

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diate credit for the check as for cash if it clearly manifests its intention not to do so. National Bank v. Burkhardt, 100 U.S. 686; Burton v. United States, 196 U.S. 283; St. Louis & S. F. Ry. Co., 27 Fed. 243. The opinion in the first cited case shows that it was distinctly recognized that where a bank takes from a depositor a check on another bank the depositor is not entitled to credit for the check at the time of its delivery if at that time he has notice that the giving of credit therefor would be deferred to a time in the future. The following is from the opinion in the last cited case: "It is quite certain that bankers do not invariably credit their customers for sight paper as for cash, but are generally influenced by the financial responsibility of the customer, or the drawee of the paper, or both. If a bank does not wish to assume the relation of debtor for the paper to the depositor, this intention may be manifested in a very explicit manner by crediting the paper as paper". The relation between a bank and a customer having a checking account with it does not necessarily imply that for checks on other banks sent or delivered for deposit the customer is entitled to be credited as for cash prior to the presentation and collection of such checks. The receipt by a bank of checks on other banks for collection and credit and making the amount to be credited therefor subject to withdrawal by the depositor only after collection are ordinary incidents of such a relation. It could not well be said that banks so receiving checks on other banks do not thereby engage in receiving on deposit checks. Appellee's above mentioned regulation disclosed its intention as to the time the amount of a check required to be received by it on deposit would become a part

of the customer's checking deposit. That regulation is not inconsistent with the requirement that appellee "shall receive on deposit at par" such a check unless that requirement gave appellant the right to be credited for such sight paper as for cash. As above indicated, the duty of a bank, whether imposed by statute or by agreement, to receive on deposit checks on other banks does not necessarily imply that the amount to be credited for a check becomes, immediately upon the bank's receipt of it, part of the depositor's balance subject to be checked against and withdrawn. Uncontroverted evidence in this case showed that there is a general custom among banks to refuse to pay checks drawn against uncollected funds. The provision in question is to be construed in the light of customs affecting the relations of banks and their customers. Furthermore, if that provision has the meaning attributed to it in behalf of the appellant, practically it has the effect of requiring a reserve bank to buy from member banks checks on its depositors and to pay in cash therefor the amount they call for, or to lend without interest that amount on such checks for whatever time may elapse between the bank's receipt of them and the presentation of them to the drawees for payment, the obligation incurred by the member bank in such a transaction being to repay to the reserve bank the amount of checks not paid by the drawees. That the lawmakers did not intend the provision in question to have that effect is persuasively indicated by other provisions of the Federal Reserve Act. A member bank's checking deposit in a reserve bank constitutes also its reserve balance provided for by section 19 of the Act. That reserve balance is required to be "an actual net balance" equal to not less than a

prescribed percentum of the aggregate amount of its demand deposits and a prescribed percentum of its time deposits. So far as a balance is represented by uncollected checks on other banks received from a depositor it could not well be considered to be either actual or net. The value of such paper may consist wholly in the depositor's obligation to repay the amount credited therefor or advanced thereon. Evidently it was not intended to permit the depositor's promises to make good to be counted in determining the amount of its "actual net balance." Section 13 of the Act prescribes the character of paper which a reserve bank may discount for, or make advances on to, its member banks. Neither the provision of that section nor any other provision of the Act indicates an intention to authorize a reserve bank to invest its funds in uncollected checks on other banks presented by a member bank. If under the provision in question a reserve bank is required, upon the receipt by it for deposit from a member bank of checks drawn on any of its depositors located where there is no office of a reserve bank, to credit the amount thereof in the reserve account of such member bank, it is apparent that the reserve banks would constantly have many millions of dollars of their resources invested in non-interest bearing paper in transit. That result is not consistent with due effect being given to the provision as to what a member bank may obtain advances on from a reserve bank. For reasons above indicated, we conclude that the provision in question does not require the appellee, upon its receipt from appellant for deposit of checks drawn upon any of the appellee's depositors and prior to the payment of such checks,

to credit the amount thereof as for cash, thereby making such amount at once subject to be withdrawn by appellant.

In view of the unequivocal language of Paragraph 1 of Amended Section 13 of the Federal Reserve Act as to collection charges against Federal reserve banks and of the decisions in the cases of American Bank v. Federal Reserve Bank, 262 U. S. 643, and Farmers Bank v. Federal Reserve Bank, 262 U. S. 649, we think it would be superfluous to add anything to what was said in the opinion rendered by the District Judge in support of the conclusion that appellant was not entitled to make exchange or remitting charges on checks on itself received from appellee, whether appellee was the owner of those checks or held them for collection pursuant to authority conferred by the Federal Reserve Act.

The decree is

AFFIRMED.

(ORIGINAL FILED FEBRUARY 11th, 1926.)

Foster, Circuit Judge, dissenting.

Section 16 of the Federal Reserve Act provides that every Federal Reserve Bank shall receive on deposit at par from member banks checks and drafts drawn upon any of its depositors. Section 13 of the Act provides that any Federal Reserve Bank may receive such deposits from member banks but does not specify at par, and further provides that both member and non-member banks may make reasonable charges, for collection or payment of checks and drafts and remission thereof by exchange or otherwise, provided no such charges shall be made against the Federal Reserve Banks.

In this case it appears that the appellee does not give immediate credit for checks deposited by member banks, drawn on other member banks. Regulation J provides for holding such checks in suspense for a period sufficiently long to allow for collection in the ordinary course of events before credit is given. This is a plain violation of section 16 of the Act. Receiving checks for collection is not receiving them on deposit.

It is idle to say that to give immediate credit to checks deposited would require the Reserve Bank to lend millions of its money without interest. In nearly all cases a crediting of the check and subsequent collection would be a mere matter of book-

keeping. If the Reserve Bank applied clearing house methods as they are authorized to do, probably most of the items could be handled in the bank.

The danger of loss to the Reserve Bank is also infinitesimal. The member banks are stockholders of the Reserve Bank in proportion to their own capital and surplus. In the event of the failure of a member bank the Reserve Bank has a first lien on its stock. The member bank is also required to keep a certain percentage of its total deposits on deposit with the Reserve Bank, in this instance three per cent of time deposits and seven per cent of its general deposits. If the check deposited were not in fact paid, the Reserve Bank could immediately charge it against the deposit. If that reduced the deposit below the legal requirement, the penalty provided by the act could be applied. The penalty usually enforced for a reduction of the required deposit below the minimum is to charge the discount rate and two per cent additional on the deficit until repaid. The Reserve Bank has the right to make frequent examinations of the member banks and to call for statements of their affairs whenever thought necessary. So they have ample opportunity to judge of the solvency of the member banks. The minimum deposit required by the act is subject to check so no violation of the law would occur if occasionally these deposits were reduced below the

minimum. Of course, the statute should not be construed to require the Reserve Bank to give immediate credit regardless of the solvency of the depositor and the payee of the check, nor to give credit if there be cause to suspect that the check is not genuine or for any other reason will not be paid when presented.

If it be conceded arguendo that by construing the two sections together discretion is vested in the appellee to take checks from member banks drawn on other member banks in the same reserve district merely for collection, then it seems to me the appellee is on the other horn of the dilemma. It can hardly be said the charge made for payment or collection of such checks is a charge made against the Federal Reserve Bank.

It is contended that although the Federal Reserve Bank receives checks in the manner above indicated, that is to say, for collection, they receive them on deposit for collection, and must credit them at par when collected; consequently, a collection charge would still be made against the Reserve Bank, which would be illegal.

The Supreme Court, in Farmers Bank vs. Federal Reserve Bank, 262 U. S. at page 653, said this:

"Par clearance does not mean that the payee of a check who deposits it with his bank for collection will be credited in his account with the face of the check if it is collected. His bank may, despite par clearance, make a charge to him

for its service in collecting the check from the drawee bank. It may make such a charge although both it and the drawee bank are members of the federal reserve system; and some third bank which aids in the process of collection may likewise make a charge for the service it renders."

The argument that the Reserve Bank must inevitably credit the face of the check when collected is not sound. Section 13 does not require it nor does a reasonable construction of section 16. It seems to me to be clearly the intention of Congress that the Federal Reserve Banks shall give to its member banks immediate credit for checks drawn on other member banks in the same district.

If I am wrong in this conclusion, then it inevitably follows that the member banks have the right to make collection and exchange charges on such checks as the charge can not be said to be made against the Reserve Bank when the check is merely held for collection.

For these reasons I respectfully dissent.

(ORIGINAL FILED FEBRUARY 11th, 1926.)

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4531

February 15, 1926.

SUBJECT: Compensation of Attorneys Employed by Federal Reserve Banks other than Regular Counsel.

Dear Sir:

The Federal Reserve Board has ruled, as an administrative matter, that the compensation paid by the Federal reserve banks to attorneys employed to assist the banks' regular counsel should have its approval.

Before employing a special attorney whose services are likely to involve an expenditure by the reserve bank in excess of $1,000, the matter should be submitted to the Federal Reserve Board with a request that the Board approve of the payment of compensation to the attorney up to a stated amount. This may be done by telegraph and will receive prompt attention by the Board.

Where the employment of a special attorney will not, in the opinion of the officers of the reserve bank, involve payment of compensation in excess of $1,000, the matter need not be submitted to the Board before the services of the attorney are engaged, or before he is compensated in full for services rendered.

By direction of the Federal Reserve Board.

Very truly yours,

Walter L. Eddy,
Secretary.

TO ALL CHAIRMEN OF F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4533

February 19, 1926.

(CONFIDENTIAL)

Dear Sir:

The Department of Justice is endeavoring to locate the possessor or possessors of certain Liberty bonds and has asked the Federal Reserve Board to request each Federal reserve bank to be on the lookout for coupons from the bonds in question which may be presented for payment through the Federal reserve banks, and to notify the Department of Justice promptly upon receipt of the coupons and to advise from whom received. The serial numbers of the bonds, the denomination of each and the issue are as follows:

J-00091169,	$10,000.	4¼%	Fourth	Permanent	Liberty Loan
K-00091170,	$10,000.	4¼%	"	"	" "
A-00091171,	$10,000.	4¼%	"	"	" "
C-00091173,	$10,000.	4¼%	"	"	" "
E-00091175,	$10,000.	4¼%	"	"	" "
F-00091176,	$10,000.	4¼%	"	"	" "
G-00091177,	$10,000.	4¼%	"	"	" "
J-00091179,	$10,000.	4¼%	"	"	" "
H-00091188,	$10,000.	4¼%	"	"	" "
A-00091191,	$10,000.	4¼%	"	"	" "
B-00091192,	$10,000.	4¼%	"	"	" "

The Board requests your compliance with the wishes of the Department of Justice in this matter.

Very truly yours,

Edmund Platt,
Vice Governor.

TO ALL CHAIRMEN OF F.R. BANKS EXCEPT CLEVELAND.

X-4534

STATEMENT FOR THE PRESS

For Release in Papers
Saturday, February 20, 1926.

The first and organization meeting of the Federal Advisory Council for 1926 with the Federal Reserve Board at which general business and financial conditions were discussed was held Thursday, February 18. The members of the Council are:

Federal Reserve District No.1, Boston, C. A. Morss
No.2, New York, James S. Alexander
No.3, Philadelphia, L. L. Rue
No.4, Cleveland, George A. Coulton
No.5, Richmond, Col. John F. Bruton
No.6, Atlanta, P. D. Houston
No.7, Chicago, Frank O.Wetmore
No.8, St.Louis, Breckinridge Jones
No.9, Minneapolis, Theodore Wold
No.10,Kansas City, Peter W. Goebel
No.11,Dallas, B. A. McKinney
No.12,San Francisco, Henry S. McKee

Frank O. Wetmore of Chicago,was elected President, and Chas. A. Morss of Boston, Vice President. These officers as ex-officio members and Messrs. Alexander, Rue, Coulton and Jones will comprise the Executive Committee.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4535

February 20, 1926.

SUBJECT: Expense Main Line, Leased Wire System, January, 1926.

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-4535-a and X-4535-b, covering in detail operations of the main line, Leased Wire System, during the month of January, 1926.

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-4535-a

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINE OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF JANUARY, 1926.

From	Business reported by banks	Words sent by New York chargeable to other F.R. Banks (1)	Total	Treasury Dept. Business	War Finance Corporation Business	F.R. Bank Business	Percent of total bank Business (*)
Boston	30,882	978	31,860	2,998	-	28,862	3.60
New York	128,105	-	128,105	3,459	-	124,646	15.54
Philadelphia	36,530	421	36,951	2,920	-	34,031	4.24
Cleveland	71,644	2,734	74,378	3,196	-	71,182	8.87
Richmond	46,333	2,143	48,476	2,041	-	46,435	5.79
Atlanta	53,181	3,410	56,591	2,737	-	53,854	6.71
Chicago	97,313	1,350	98,663	4,169	-	94,494	11.78
St. Louis	73,602	2,609	76,211	2,950	-	73,261	9.13
Minneapolis	34,647	2,274	36,921	1,579	-	35,342	4.41
Kansas City	72,932	2,582	75,514	2,886	68	72,560	9.04
Dallas	57,582	4,457	62,039	1,141	-	60,898	7.59
San Francisco	109,188	2,598	111,786	5,046	-	106,740	13.30
Total	811,939	25,556	837,495	35,122	68	802,305	100.00
Board			295,309	28,546	202	266,561	
Total			1,132,804	63,668	270	1,068,866	
Percent of Total			100%	5.62%	.02%	94.36%	

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-4535-b)

(1) Number of words sent by New York to other F. R. Banks for their sole benefit charged to banks indicated, in accordance with action taken at Governors' Conference Nov. 2-4, 1925.

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REPORT OF EXPENSE MAIN LINE
FEDERAL RESERVE LEASED WIRE SYSTEM, JANUARY, 1926.

Name of Bank	Operators' Salaries	Operators' Overtime	Wire Rental	Total Expenses	Pro rata Share of Total Expenses	Credits	Payable to Federal Reserve Board
Boston	$ 260.00	$ -	$ -	$ 260.00	$ 761.06	$ 260.00	$ 501.06
New York	979.66	-	-	979.66	3,285.25	979.66	2,305.59
Philadelphia	216.66	-	-	216.66	896.36	216.66	679.70
Cleveland	284.50	-	-	284.50	1,875.17	284.50	1,590.67
Richmond	180.00	-	-	180.00	1,224.04	180.00	(&)1,248.71
Atlanta	225.00	-	-	225.00	1,418.54	225.00	1,193.54
Chicago	(#)3,583.61	-	-	3,583.61	2,490.37	3,583.61	(*)1,093.24
St. Louis	238.50	-	-	238.50	1,930.14	238.50	1,691.64
Minneapolis	183.34	-	-	183.34	932.30	183.34	748.96
Kansas City	275.64	-	-	275.64	1,911.11	275.64	1,635.47
Dallas	251.00	-	-	251.00	1,604.57	251.00	1,353.57
San Francisco	380.00	-	-	380.00	2,811.71	380.00	2,431.71
Federal Reserve Board	-	-	15,347.21	15,347.21			
Total	$7,057.91	-	$15,347.21	$22,405.12	$21,140.62	$7,057.91	$15,380.62
				(a)1,264.50			(b)1,093.24
				$21,140.62			$14,287.38

(&) Includes $204.67 for branch line business transmitted over main line circuit.
(#) Includes salaries of Washington operators.
(*) Credit.
(a) Received $5.24 from War Finance Corp. and $1,259.26 from Treasury Dept. covering business for the month of January, 1926.
(b) Amount reimbursable to Chicago.

FEDERAL ADVISORY COUNCIL
1926

Officers:

Frank O. Wetmore, President.
Charles A. Morss, Vice President.
Walter Lichtenstein, Secretary

Executive Committee:

Frank O. Wetmore — Levi L. Rue
Charles A. Morss — Geo. A. Coulton
James S. Alexander — Breckinridge Jones

MEMBERS

District		Address
No. 1	Charles A. Morss	Simplex Wire & Cable Co., 201 Devonshire Street, Boston, Mass.
No. 2	James S. Alexander	National Bank of Commerce, New York, N. Y.
No. 3	Levi L. Rue	The Philadelphia Natl. Bank, 421 Chestnut Street, Philadelphia, Pa.
No. 4	George A. Coulton	Union Trust Company, Cleveland, Ohio.
No. 5	John F. Bruton	First National Bank, Wilson, N. C.
No. 6	P. D. Houston	American National Bank, Nashville, Tenn.
No. 7	Frank O. Wetmore	First National Bank, Chicago, Illinois.
No. 8	Breckinridge Jones	Mississippi Valley Tr. Co., St. Louis, Mo.
No. 9	Theodore Wold	Northwestern Natl. Bank, Minneapolis, Minn.
No. 10	P. W. Goebel	Liberty National Bank, Kansas City, Mo.
No. 11	B. A. McKinney	American Exch. Natl. Bank, Dallas, Texas.
No. 12	Henry S. McKee	Barker Brothers, Los Angeles, Calif.

Address of Mr. Lichtenstein, First National Bank, Chicago, Illinois.

February 20, 1926.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4537

February 23, 1926.

SUBJECT: Bank Holidays during March, 1926.

Dear Sir:

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

The Baltimore Branch of the Federal Reserve Bank of Richmond will be closed on Thursday, March 25th, in 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 and Branches mentioned on each of the holidays with your credits of 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 on March 2nd.

Kindly notify Branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

For Release in Morning Papers,
Saturday, February 27, 1926.

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.

Industrial activity in January was in slightly smaller volume than in December, and the distribution of commodities showed a seasonal decline. The level of prices remained practically unchanged.

Production.-

The Federal Reserve Board's index of production in selected basic industries was about one per cent lower in January than in December. The output of iron and steel, copper, and zinc increased, while activity in the woolen and petroleum industries declined, and mill consumption of cotton, the cut of lumber, and bituminous coal production increased less than is usual at this season of the year. Automobile production, not included in the index, was slightly smaller than in December, but considerably larger than in January, 1925. Factory employment changed but little in January, but the earnings of workers decreased considerably owing to the closing of plants in most industries at the opening of the year for inventory-taking and repairs. The volume of building contracts awarded in January, although seasonally less than in December, exceeded that of any previous January on record. Contracts awarded were particularly large in the New York and Atlanta districts.

Trade.-

Sales of department stores and mail order houses showed more than the

usual seasonal decline in January, but were larger than in January of last year. Wholesale trade declined considerably and was in smaller volume than a year ago. Stocks at department stores showed more than the usual increase in January and were about 11 per cent larger than at the end of January, 1925. Freight car loadings declined in January and the daily average for the month was approximately the same as a year earlier.

Prices.-

Wholesale prices, as measured by the index number of the Bureau of Labor Statistics, remained practically unchanged from December to January. By groups of commodities, prices of grains, coke, and paper and pulp increased, while dairy products, cotton goods, bituminous coal, and rubber declined. In the first three weeks of February there was a decline in the prices of grains, and following the settlement of the strike in the anthracite region, a drop in the prices of bituminous coal and coke. Price advances were shown for refined sugar, copper, and petroleum.

Bank Credit.-

At member banks in leading cities the seasonal decline in the demand for credit, which began at the turn of the year, came to an end toward the close of January, and in the early part of February the volume of loans and investments at these banks increased considerably. The increase was largely in loans for commercial purposes, which after declining almost continuously from their seasonal peak early in October, advanced by more than $50,000,000 in February.

The growth in the commercial demand for credit throughout the country, together with some increase in currency requirements, was reflected in a withdrawal of funds from the New York money market and was a factor in the

increase in the demand for reserve bank credit after the end of January. Reserve banks' holdings of bills and securities increased by about $66,000,000 between January 27 and February 17.

As the result of the withdrawal of funds from New York the rates on call loans became somewhat firmer in February, but commercial paper rates were slightly lower.

FEDERAL RESERVE BOARD

X-4541

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

February 26, 1926.

SUBJECT: Code words for use between the Federal Reserve Bank of New York and other Federal reserve banks in connection with certain telegraphic transactions in U.S. Government securities.

Dear Sir:

Referring to the code word for use between the Federal Reserve Bank of New York and other Federal reserve banks in connection with certain telegraphic transactions in U. S. Government securities, the Board's letter X-4111 dated July 12, 1924, authorizes the use of the code word "MOANING", covering the placing of subscriptions with the Treasury for Government securities to replace maturing issues held in the Special Investment Account.

It is now requested that the code word referred to above be cancelled in the Federal Reserve Telegraphic Code and in lieu thereof, effective March 15, 1926, the following new code word be used between the Federal Reserve Bank of New York and other Federal reserve banks to cover the corresponding transaction:

> "MOLLIFY" Have arranged with Treasury for subscription by reserve banks to new issue to replace maturing issues held in Special Investment Account. Will you, therefore, place subscription for $_____ representing your proportion of new securities advising Treasury that payment will be made by $_____ maturing certificates and $_____ maturing notes. Please wire us amount of your allotment on this exchange subscription, and on payment due date credit Treasurer with amount of allotment and debit Treasurer with same amount as transfer of funds to New York. Also as soon as allotment is received request Commissioner of the Public Debt to authorize the Federal Reserve Bank of New York to make delivery for your allotment account of the amount of your allotment on System investment subscription.

A code word has also been designated to cover an additional transaction as submitted by the Federal Reserve Bank of New York and is as follows:

"MOLLUSKS" Referring to your MOLLIFY telegram Treasury has allotted this bank $_____ of subscription for Special Investment Account. On payment due date we will credit and debit Treasurer's account as arranged and have requested Commissioner of the Public Debt to authorize your bank to make delivery for our allotment account of the amount stated herein.

The code words indicated should be inserted in the Federal Reserve Telegraphic Code at the end of page 154 following the code word "MOLLIFIED".

Yours very truly,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F.R.BANKS.

(COPY) X-4542

FEDERAL RESERVE BANK

OF SAN FRANCISCO

February 17, 1926.

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

Dear Mr. Wyatt:

I have received your letter of February 12, 1926, enclosing copy of Mr. Stroud's letter to you dated February 8, 1926, outlining the proceedings in the case of Vacuum Oil Co. v. Federal Reserve Bank of Dallas, et al. Mr. Stroud's letter is very interesting and I believe he is to be congratulated upon the result obtained.

I have had the same question presented in a little different form in the case of Denning against the Federal Reserve Bank of San Francisco, filed in the District Court of the State of Idaho. In this case the Federal Reserve Bank was the only party sued. The plaintiff was the payee of a check drawn by Fred Rush in the sum of $593. The check was deposited by Rush in the Burley National Bank of Burley, Idaho, and credited to his account. It was forwarded by the Burley National Bank to the Continental National Bank of Salt Lake City and by that bank delivered to us in the ordinary form of cash letter. The check was sent by us direct to the drawee, Paul State Bank, of Paul, Idaho, upon the day of its receipt and a remittance draft for this and other items was received in purported payment. The draft upon presentation was dishonored by reason of the prior failure of the Paul State Bank.

To the complaint in this action I interposed a demurrer, general and special. In argument upon the demurrer, which I handled personally, we contended for the adoption in Idaho of the so-called "New York rule," the courts of that state not being definitely committed to either rule. The argument necessarily was largely academic and in making it I attempted to stress the fact that the New York rule was that adopted by the Federal courts, that it had not been departed from in the Malloy decision and that, in the absence of any controlling decision, it was the one which should be applied in this case. In a very brief memorandum decision, copy of which I enclose, Judge Lee adopts this position. Plaintiff having refused to amend or plead further, judgment of dismissal has been entered. I am informed that this case will be appealed to the Supreme Court of Idaho on the ruling

upon the demurrer, in which event we will have the opportunity of a definite decision as to the right of action on the part of the owner of the item against the last collecting bank.

I have several similar cases pending in Idaho and Utah, in one of which the facts alleged were similar to those alleged in the Denning case. A general demurrer was also interposed in this other case and the matter argued by me upon the same brief as that used in the Denning case. The trial court in the other case overruled the demurrer and we will proceed to trial on the merits. As Mr. Stroud seems to have done in the Vacuum Oil Co. case, it is our intention to stress the question of custom.

Chapter 165 of the Idaho Session Laws, 1921, to which Judge Lee refers, in his memorandum decision, is a statute expressly authorizing the direct routing of items by collecting banks and we shall also contend that the enactment of this statute carries with it by implication the right of the collecting bank to accept the drawee's draft in payment.

Very truly yours,

(signed) Albert C. Agnew

Counsel.

Enclosure.

(COPY) X-4542a

T. BAILEY LEE
Judge Eleventh Judicial District
Burley, Idaho

Jan. 14, 1926

District Court
- - - - - - - -
Denning vs Fed. Reserve

Mr. John S. Codding,
Burley, Idaho.
Hon. H. A. Baker,
Rupert, Idaho.

Gentlemen:-

An exhaustive study of this problem constrains me to sustain defendant's general demurrer.

I am impelled to this conclusion by the holdings of the U. S. Supreme Court in Bank vs Malloy, 68 L Ed --- and Exchange Bank vs Third Nat. Bank 28 L Ed 722 where the New York rule is expressly upheld.

Also by Chapter 165 of the Idaho Session Laws of 1921 which seems to exempt the initial bank from liability only where with due diligence it has attempted to collect by sending the item to the drawee bank.

Defendant's Counsel will kindly prepare the proper order

Very truly yours,
T. BAILEY LEE

X-4543

LIST OF CONTROLLERS AND MANAGERS OF THE FEDERAL RESERVE BANKS OF NEW YORK AND CHICAGO.

C O N T R O L L E R S.

NEW YORK

Gilbart, A. W., Cash & Collections Dept.
Gidney, R. M., Loans Dept.
Hendricks, L. H., Fiscal Agency Dept.
Jones, J. W., Administration Dept.
Rounds, L. R., Accounts Dept.

CHICAGO

Bachman, W. C., Collections Dept.
Childs, K. C., Loans & Credit Dept.
Dillard, J. H., Administration.
Jones, D. A., Fiscal Agency Dept.
Netterstrom, O. J., Cash & Custody Dept.

M A N A G E R S

Barrows, D. H., Administration Dept.
Coe, C. H., Check Dept.
Crane, J. E., Foreign Dept.
French, E. C., Cash Dept.
Jefferson, H. M., Personnel Development Dept.
Lins, A. J., Credit & Discount Dept.
Matteson, W. B., Securities & C. of I. Dept.
O'Hara, R. M., Bill Dept.
Rice, J. M., Accounting Dept.
Vansant, S. S., Safekeeping Dept.
Waters, I. W., Collection Dept.

Bateman, F., Securities Dept.
Buss, R. H., Loans Dept.
Callahan, J. C., Member Bank Accounts Dept.
Coulter, R. E., Cash Custody Dept.
Dazey, A. W., Investments Dept.
Delaney, E. A., Credit Dept.
Fischer, Irving., Check Dept.-Collections.
Hargreaves, R. J., Personnel Dept.
Huelsman, R. C., Planning Dept.
Huston, F. M., Research & Statistics Dept.
LeRoy, A. R., Loans Dept.
Lindsten, F. A., Disbursing Dept.
Meyer, L. G., Service Dept.
Pavey, L. G., Collections Dept.
Roberts, J. G., Cash Dept.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

February 27, 1926.

SUBJECT: Designation on applications for rediscount of person from whom member banks acquired paper offered for rediscount.

Dear Sir:

There are enclosed for your information copies of certain correspondence between the Federal Reserve Board and the Governor of the Federal Reserve Bank of San Francisco, and a copy of a memorandum by the Board's General Counsel on the above subject.

You will note that, for the present, and until further notice, the Board will waive compliance with that provision of Section IV(b) of Regulation A which provides that in applying for the rediscount of promissory notes, "The member bank shall certify in its application whether the note offered for discount has been discounted for a depositor other than a bank or for a nondepositor and, if discounted for a bank, whether for a member or nonmember bank"; provided, that the application for rediscount shall require member banks to designate which paper offered for rediscount, if any, was acquired from nonmember banks and shall contain a certificate that none of the paper offered for rediscount except that so designated was acquired from a nonmember bank.

The Board is considering the advisability of amending the above provision of its Regulation A in accordance with the suggestion contained in the memorandum of the Board's General Counsel; but, before taking any definite action on the subject, it desires to have the matter discussed at the next Governors' Conference with a view of determining whether there is any practical reason why member banks should be required to specify on applications for rediscount the persons from whom they acquired the paper offered for rediscount, except in the case of paper acquired from nonmember banks. This subject, therefore, will be made a topic for discussion at the next Governors' Conference.

Very truly yours,

Walter L. Eddy,
Secretary.

TO ALL GOVERNORS.

Enclosure:

(C O P Y)

X-4544-a

February 24, 1926.

Mr. J. U. Calkins, Governor,
Federal Reserve Bank of San Francisco,
San Francisco, California.

Dear Governor Calkins:

The Board has carefully considered your letter of December 22nd and the enclosed memorandum by Deputy Governor Clerk, and has voted that, for the present and until further notice, it will waive compliance with that provision of Section IV(b) of Regulation A which provides that in applying for the rediscount of promissory notes, "The member bank shall certify in its application whether the note offered for discount has been discounted for a depositor other than a bank or for a nondepositor and, if discounted for a bank, whether for a member or a nonmember bank"; provided, that the application for rediscount shall require member banks to designate which paper offered for rediscount, if any, was acquired from nonmember banks and shall contain a certificate that none of the paper offered for rediscount except that so designated was acquired from a nonmember bank.

The Board is considering the advisability of amending this portion of its regulations; but in view of the fact that the practical situation in other Federal reserve districts may be different from that in your district as described by Mr. Clerk's memorandum, the Board will defer any action on a definite amendment to its regulations until after the matter has been discussed at the Governors' Conference.

Very truly yours,

Edmund Platt
Vice Governor.

WW OMC

(COPY)

X-4544-b 178

Federal Reserve Board

OFFICE CORRESPONDENCE

Date February 16, 1926

To The Federal Reserve Board

From Mr. Wyatt - General Counsel

Subject: Designation on applications for rediscount of the party from whom the member bank acquired the paper offered for rediscount.

The attached letter from Governor Calkins requests the Board's permission to discontinue the practice of requiring member banks to designate on their applications for rediscount the parties from whom such member banks acquired the paper offered for rediscount, except in cases where the paper was acquired from nonmember banks.

Section IV(b) of Regulation A, which pertains to the rediscount by member banks of promissory notes, provides that, "The member banks shall certify on its application (for rediscount) whether the note offered for discount has been discounted for a depositor other than a member bank or for a non-depositor and, if discounted for a bank, whether for a member or a non-member bank". Governor Calkins' request, therefore, is in effect that the Board waive this requirement of its Regulation A except that part of it which requires member banks to designate which paper was acquired from nonmember banks.

RECOMMENDATION.

I respectfully recommend that:

(1) Until further notice, the Board waive this requirement of its Regulation; provided that the application for rediscount requires member banks to designate which paper offered for rediscount, if any, was acquired from nonmember banks and contains a certificate that none of the paper offered for rediscount except that so designated was acquired from a nonmember bank.

(2) That the Board make this subject a topic for discussion at the next Governors' Conference with a view of considering the desirability of an amendment to this portion of its Regulation; and

(3) That a copy of this correspondence be sent to all Federal reserve banks for their information.

DISCUSSION.

This suggestion of Governor Calkins arose out of the decision of the Circuit Court of Appeals in the case of Idaho-Grimm Alfalfa Seed Growers Association v. Federal Reserve Bank of San Francisco, wherein the Court held in effect that if a member bank which is known by its officers to be insolvent receives commercial paper on deposit such action constitutes a fraud on the depositor and the bank acquires no title to such

paper; and if the member bank rediscounts such paper with a Federal reserve bank and the Federal reserve bank has knowledge of the insolvency of the member bank and also of the fact that the paper offered for rediscount was received on deposit by the member bank, the Federal reserve bank is charged with notice of the fraud and acquires no title to the paper and is, therefore, accountable to the depositor for the proceeds of the paper upon the insolvency of the member bank.

In that case the only evidence of the fact that the paper was received on deposit was that such paper was designated by the letter "D" on the application for rediscount, which required member banks to designate "Depositor's Paper" by the letter "D". The court evidently construed this designation to mean that the paper was the property of the depositor or was received on deposit, whereas the designation was really intended to mean that the paper was acquired from a depositor as distinguished from paper acquired from non-depositors. Governor Calkins fears that this designation on the application for rediscount may be embarrassing in the future and may in other cases enable depositors to defeat the title of the Federal reserve bank to paper acquired under such circumstances. Hence his recommendation.

Governor Calkins encloses a memorandum on this subject from Deputy Governor Clerk which contains the following statement:

> "In our revised form of application for discount, we have used the following terms to designate the source from which paper is received:
>
> Write "D" for paper title to which has been acquired from a depositor.
>
> Write "P" for paper purchased without endorsement or guaranty of seller.
>
> Write "R" for paper title to which has been acquired from another member bank.
>
> Write "N" for paper title to which has been acquired from a nonmember bank.
>
> Although we feel that these designations fully clear the title to a bill accepted under discount, item "D" is susceptible to the interpretation that a deposit is created by the discount of the bill by the offering bank, and subjects us to the claim that we thereby were placed on notice that the bank discounting the paper with the Federal Reserve Bank was receiving deposits at a time when its condition was such as to constitute the receipt of deposits a fraud on the depositor."

I think the revised form is a great improvement over the one formerly used by the San Francisco Bank, since it is much clearer and eliminates the use of the possessive expression "Depositors' Paper". In view of the fact that paper discounted for a depositor is usually credited to his account as a deposit, and is, in effect, received on deposit, however, I fear that even the designation contained in the new form might be held by the courts to justify a jury in finding that the Federal reserve bank had knowledge of the fact that such paper was received on deposit. I believe, therefore, it would be desirable to eliminate all of these designations except the designation of paper acquired from nonmember banks, unless there is some important practical reason why this should not be done.

I do not know of any practical reason why member banks should be required by the Board's regulations to specify on applications for rediscount the person from whom they acquired the paper offered for rediscount, except in the case of paper acquired from nonmember banks; and I am unable to find in the files of the Board anything which will throw any light on the reason for the above quoted requirement, which has been in the Board's regulations since 1915.

On this point Mr. Clerk says:

> "The primary purpose of designating the source from which paper is acquired is to inform the Federal Reserve Bank whether the member bank is using the facilities of the Federal Reserve Bank to accommodate nondepositors or nonmember banks, etc. In the early stages of the organization of the Federal Reserve Bank, this form of designation may have been very essential but today we are so intimately in touch with the affairs of our member banks that if a bank is borrowing to any considerable extent it is not difficult for us to detect whether it is using its credit to grant accommodations to nondepositors even though it uses only depositor's paper for discount purposes. Moreover, every bill offered for discount is supported by a financial statement of the borrower and such supplemental information which clearly would show whether or not the borrower was a regular customer of the bank."

If Mr. Clerk is correct as to the original reason for this requirement and the lack of practical necessity for it now, I see no reason why this requirement of the Board's regulations should not be eliminated altogether and a requirement substituted that member banks shall designate which paper offered for rediscount has been acquired from nonmember banks and shall certify that none of the paper offered for rediscount except that so designated

was acquired from nonmember banks. I hesitate to recommend that the regulations be amended in this respect, however, until the subject has been considered more thoroughly and the Board has been thoroughly convinced that there is no practical value in the existing requirement of its regulation on this subject. While Mr. Clerk may be entirely right as to the practical situation in his District, the situation in other Districts may be materially different. Hence my recommendation that the matter be discussed at the next Governors' Conference.

In this connection I desire to suggest that the substance of the Board's ruling in the Federal Reserve Bulletin with reference to the rediscount of paper acquired from nonmember banks should be incorporated in Regulation A. If the McFadden Bill becomes a law, however, it will be necessary for the Board to get out a complete new edition of its regulations, and I do not believe the Board should at this time attempt to make any piece-meal amendments to its regulations.

The above mentioned requirement of the Board's regulations is not contained in the law, but is merely a matter of regulation which the Board can waive if it so desires. I believe, therefore, that the situation discussed by Governor Calkins will be sufficiently met for the present if the Board adopts the recommendations which I have made above.

I respectfully submit herewith a proposed draft of a letter to Governor Calkins.

Respectfully,

(Signed) Walter Wyatt,

Walter Wyatt,
General Counsel.

Letter attached

(C O P Y)

X-4544-c

F E D E R A L R E S E R V E B A N K

OF SAN FRANCISCO.

December 22, 1925.

Federal Reserve Board,
Washington, D.C.

Dear Sirs:

We recently sent to the Board's Counsel, Mr. Wyatt, copy of briefs, petitions for rehearing and all pleadings in the action of Idaho Grimm Alfalfa Seed Growers' Association vs. Federal Reserve Bank of San Francisco.

You will recall that one of the points at issue was that the Federal Reserve Bank was on notice that the bill submitted for discount was not the property of the discounting member bank, because the application specifically stated that it was depositor's paper, the use of the possessive implying that the paper belonged to the depositor and not to the bank.

There is attached a memorandum prepared by Deputy Governor Clerk, and it would be appreciated if the Board would inform us whether or not we may follow the suggestion contained therein and require the member banks to use in their applications for discount merely the designation

"N" indicating that the title to the paper had been acquired from a non-member bank.

As we desire to recall the outstanding stock of applications for discount now held by discounting member banks and distribute a revised form, it will be appreciated if the Board will telegraph us whether or not we may make the change recommended.

Yours very truly,

(Signed) Jno.U.Calkins

Governor.

(C O P Y)

X-4544-c 1 183

December 22, 1925.

MEMORANDUM TO MR. CALKINS

FROM MR. CLERK.

Federal Reserve Board Regulation A, Series of 1924, Section IV, B, provides as follows:

> "The member bank shall certify in its application whether the note offered for discount has been discounted for
> a depositor other than a bank,
> or for a non-depositor, and
> if discounted for a bank, whether for a member or non-member bank."

As a consequence of the following paragraph of Regulation B, Series of 1915,

> "Member banks shall certify in their letters of application for rediscount whether the paper offered for rediscount is depositor's or purchased paper, or paper rediscounted for other member banks," etc.,

which in effect is practically the same as the 1924 Regulation, the Federal Reserve Banks quite generally designate, in their applications for discount, paper acquired from a customer as "depositor's paper." Your attention is drawn to the use of the possessive.

In the case of Idaho Grimm Alfalfa Seed Growers' Association vs. Federal Reserve Bank of San Francisco, plaintiff claimed that the Federal Reserve Bank of San Francisco had no title to a certain negotiable draft secured by bill-of-lading because the member bank offering the bill for discount to the Federal Reserve Bank designated in its application that the bill was depositor's paper. Although our Counsel attempted to show that the designation was intended to mean the source from which title to the paper was acquired, the Court was persistent in its ruling that the use of the possessive settled the question that the bill-of-lading draft belonged to a depositor of the bank and that the Federal Reserve Bank took it with knowledge thereof.

In our revised form of application for discount, we have used the following terms to designate the source from which paper is received:

Write "D" for paper title to which has been acquired from a depositor
Write "P" for paper purchased without endorsement or guaranty of seller
Write "R" for paper title to which has been acquired from another memberbank
Write "N" for paper title to which has been acquired from a non-member bank.

Although we feel that these designations fully clear the title to a bill accepted under discount, item "D" is susceptible to the interpretation that

a deposit is created by the discount of the bill by the offering bank, and subjects us to the claim that we thereby were placed on notice that the bank discounting the paper with the Federal Reserve Bank was receiving deposits at a time when its condition was such as to constitute the receipt of deposits a fraud on the depositor.

The primary purpose of designating the source from which paper is acquired is to inform the Federal Reserve Bank whether the member bank is using the facilities of the Federal Reserve Bank to accommodate non-depositors or non-member banks, etc. In the early stages of the organization of the Federal Reserve Bank, this form of designation may have been very essential but today we are so intimately in touch with the affairs of our member banks that if a bank is borrowing to any considerable extent it is not difficult for us to detect whether it is using its credit to grant accommodations to non-depositors even though it uses only depositor's paper for discount purposes. Moreover, every bill offered for discount is supported by a financial statement of the borrower and such supplemental information which clearly would show whether or not the borrower was a regular customer of the bank.

Would it not be desirable to suggest to the Board that we be permitted to discontinue these designations except

"N" for paper title to which has been acquired from a non-member bank?

The only reason this one designation is suggested is so that a Federal Reserve Bank would not discount paper actually acquired from a non-member bank without its knowledge.

Respectfully submitted,

(Signed) Ira Clerk

Deputy Governor.

FEDERAL RESERVE BOARD X-4546

STATEMENT FOR THE PRESS

For immediate release February 27, 1926.

CONDITION OF ACCEPTANCE MARKET
January 21, 1926 to February 17, 1926.

Acceptances.

The acceptance market was unusually quiet during the period from January 21 to February 17, reports from dealers in New York, Boston, and Chicago showing the smallest volume of transactions since last summer. The supply of bills was generally larger than the demand for them and dealers' portfolios increased to the highest point in over a year. Coffee, silk, and cotton bills were most in evidence and foreign funds provided the chief investment demand. Rates, which were unsettled during the last half of January, became stabilized around the end of the month with 90 day and longer bills offered at 1/8 per cent less than immediately after the rise in rates on January 8th, but still 1/8 per cent more than at the first of the year. On February 17 rates in the New York market were as follows: 3 3/4 per cent bid and 3 5/8 offered for 60 and 90 day bills; 3 7/8 per cent bid and 3 3/4 offered for 120 day bills; 4 per cent bid and 3 7/8 offered for 150 day bills; and 4 1/8 per cent bid and 4 per cent offered for the longest maturities.

COMMITTEES OF FEDERAL RESERVE BOARD
Effective, March 1st, 1926.

EXECUTIVE COMMITTEE:
Gov. Crissinger
Mr. Platt
Mr. (term expires

LAW:
Mr. Hamlin, Chairman,
Mr. McIntosh

EXAMINATIONS:
Mr. Platt, Chairman,
Mr. Cunningham

RESEARCH & STATISTICS:
Mr. Miller, Chairman,
Mr. Cunningham

SALARIES AND EXPENDITURES OF FEDERAL RESERVE BANKS:
Mr. James, Chairman,
Mr. Platt

DISTRICT COMMITTEES:

Boston:
Mr. Hamlin, Chairman,
Mr. Platt

New York:
Mr. Platt, Chairman,
Mr. Crissinger

Philadelphia:
Mr. Miller, Chairman,
Mr. Platt

Cleveland:
Mr. Crissinger, Chairman,
Mr. Hamlin

Richmond:
Mr. Hamlin, Chairman,
Mr. James

Atlanta:
Mr. James, Chairman,
Mr. Hamlin

Chicago:
Mr. McIntosh, Chairman,
Mr. Cunningham

St. Louis:
Mr. James, Chairman,
Mr. McIntosh

Minneapolis:
Mr. Cunningham, Chairman,
Mr. Miller

Kansas City:
Mr. Cunningham, Chairman,
Mr. Miller

Dallas:
Mr. Platt, Chairman,
Mr. Cunningham

San Francisco:
Mr. Miller, Chairman,
Mr. James

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4550

March 9, 1926.

Dear Sir:

There is enclosed herewith, for your information, copy of a letter received from the Governor of the Federal Reserve Bank of Dallas, in which the suggestion is renewed that there be employed permanently at a fixed retainer special counsel of outstanding ability to assist in litigation of system-wide interest, and to act as a clearing house for the legal departments of all Federal reserve banks.

The suggestion was made a topic for consideration at the last Governors' conference, and the conference voted to concur in the opinion of the Counsel of the Federal reserve banks voted at the joint meeting of those counsel on July 13, 1925 to the effect that it is not essential to the proper administration of the Federal reserve banks to employ advisory counsel for general supervision of legal matters affecting the System, and that the banks continue as heretofore to employ special counsel to assist in litigation of system-wide interest when in the judgment of counsel concerned the occasion requires it and the banks are agreeable.

In view of the statements contained in the enclosed letter from the Governor of the Federal Reserve Bank of Dallas, the Board requests that this matter be again made a subject of discussion at the forthcoming Governors' Conference.

Very truly yours,

D. R. Crissinger,
Governor.

(Enclosure)

TO GOVERNORS OF ALL F. R. BANKS.

(COPY) X-4550-a

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FEDERAL RESERVE BANK

OF DALLAS

January 28, 1926.

My dear Governor Crissinger:

This will acknowledge receipt of the Board's X letter 4510; and I wish to advise you that the Federal Reserve Bank of Dallas is willing to share in Mr. Baker's fee pro rata with the other Federal Reserve banks, provided the majority of the other banks concur in the view that it is proper for the expense to be pro rated.

In this connection, however, I wish to advise the Board that in our opinion the practice of employing outside counsel under such circumstances as the San Francisco case is not sound in principle. We agree to share in the expense pro rata because of our desire to cooperate with the majority view of the Federal Reserve banks.

You will recall that some time ago I submitted as a topic for discussion the proposition of all Federal Reserve banks employing a consulting attorney, but the matter met with the disapproval of the Conference of Counsels held last July in Washington. The Board seemed to be somewhat impressed with the views which I expressed on this subject in a previous letter and placed the topic on the program of the last Governors' Conference. When it was reached I was so aware that I was in a hopeless minority of one that I did not even attempt to defend it! The other Governors appeared to have been largely influenced by the action of the Counsels' Conference.

The matter of employing outside Counsel after a case has gone beyond the stages of the trial court has come up again in the San Francisco case which is now under review, and it seems to me more or less probable that some of the Governors may have changed their view. At the risk of appearing to discuss an issue which may be considered as having been definately passed, I am outlining below a little more in detail than I have heretofore, the reasons underlying our previous reference to the subject.

My idea of making this suggestion was to obtain the services of some capable lawyer who could coordinate the litigation of the various Federal Reserve banks through the medium of suggestions, his services being available only in the event a particular Federal Reserve bank desired to call upon him for information and advice. It was my idea that such an attorney would bear the same relation to the Federal Reserve Board as the other attorneys employed by the Federal Reserve banks, and that he would have no control over the legal departments of respective Federal Reserve banks, but would merely be available for use in those cases where a matter of general importance was presented, and a particular bank desired to use every precaution to insure the proper presentation of matters of general interest. He could also serve as a clearing house for legal information among the various banks.

The idea which led to my original suggestion was obtained from the practice prevailing among railroads in Texas and perhaps elsewhere, where each road has its own general attorney, but they all pro rate the expense of a consulting attorney whose services are used in much the same manner as above suggested.

We feel that the practice of employing outside counsel after a case has been taken to an appellate court is expensive, and probably insures no better presentation of the case than could be made by the general counsel of the bank involved, who has been familiar with the litigation from its inception. We also feel that there are many cases - such as the San Francisco case - which turn on facts peculiar to that particular case alone, but which involve principles of general importance. In such cases, we think it very valuable to know of similar experiences and litigation of other Federal Reserve banks at the beginning; but we very seriously doubt the wisdom of employing outside counsel after such a case has reached an appellate court.

If, after having obtained some later views of some of the other Governors, if you so desire, you think it would be worth while to place the topic on the program of the Governors' spring conference, I would be willing to lead the discussion and defend the merits of my proposal.

Yours very truly,

(signed) Lynn P. Talley

Governor

The Federal Reserve Board,
Washington, D. C.

Attention Mr. D. R. Crissinger, Governor.

X-4552

FEDERAL RESERVE BOARD

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WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

March 10, 1926.

SUBJECT: Opinion of Attorney General on question whether a trustee, officer or employee of a mutual savings bank may serve as a Class B or Class C Director of a Federal reserve bank.

Dear Sir:

Upon request of the Federal Reserve Board, the question whether a trustee, officer or employee of a mutual savings bank is eligible to serve as a Class B or Class C director of a Federal reserve bank was recently referred to the Attorney General for an opinion. There is enclosed herewith for your information a copy of the opinion rendered by the Attorney General on this question in which he holds that mutual savings banks are banks within the meaning of Section 4 of the Federal Reserve Act prohibiting directors of Class B and Class C from being officers, directors or employees of any bank.

Very truly yours,

Walter L. Eddy,
Secretary.

TO ALL FEDERAL RESERVE CHAIRMEN.

Enclosure:

(C O P Y)

DEPARTMENT OF JUSTICE
Washington

191

X-4553

March 4, 1926.

Sir:

I have the honor to reply to your letter of January 12, 1926, transmitting one from the Governor of the Federal Reserve Board, and submitting for my consideration and opinion the question whether a trustee, officer or employee of a mutual savings bank is eligible for appointment as a class B or class C director of a Federal reserve bank.

Section 4(5) of the Federal Reserve Act (Act of December 23, 1913, c. 6, 38 Stat. 254) provides that the board of directors of Federal reserve banks shall consist of nine members divided into three classes designated as classes A, B and C. It is further provided that:

> No director of class B shall be an officer, director or employee of any bank.
> No director of class C shall be an officer, director, employee or stockholder of any bank.

It has been contended that a mutual savings bank, having no capital stock, and not engaged in a general banking business, is not such a bank as is contemplated by the statute, and that, therefore, an officer of such mutual savings bank is not prohibited from serving as a class B or class C director of a Federal reserve bank.

The real question presented for my consideration, therefore, is whether a mutual savings bank of the character above

described, is to be considered a "bank", as that term is used in section 4(5) of the Federal Reserve Act, prescribing the qualifications of class B and class C directors.

The word "bank" is inclusive and cannot be restricted to institutions transacting all of the business usually transacted by commercial banking institutions. A mutual savings bank, although having no capital stock, accepts deposits, makes loans, and invests its money in securities, paying over to its depositors the principal of their deposits and accrued net earnings. To that extent it is engaged in the banking business. Bouvier defines a bank as "A place for the deposit of money".

The Supreme Court of the United States, in Smith v. Kansas City Title Company, 255 U.S., 180, 210 said: "Generally speaking, a bank is a moneyed institution to facilitate the borrowing, lending and caring for money". In Bank of Savings v. The Collector, 70 U.S. 495, the Supreme Court of the United States had under consideration the status of mutual savings banks operating without capital stock, such as those referred to in your communication. At pages 512-513 the Court said:

> Banks, in the commercial sense, are of three kinds, towit: 1, of deposit; 2, of discount; 3, of circulation. All or any two of these functions may, and frequently are, exercised by the same association; but there are still banks of deposit, without authority to make discounts or issue a circulating medium.

Savings banks which receive deposits and loan the same for the benefit of their depositors, although they may have no capital stock, and neither make discounts nor perform other functions usually performed by commercial banks, are, nevertheless, engaged in the business of banking and are, therefore, banks within the

meaning of section 4(5) of the Federal Reserve Act, supra.

I have the honor, therefore, to advise you that mutual savings banks are banks within the meaning of section 4(5) of the Federal Reserve Act, prohibiting directors of class B and class C from being officers, directors or employees of "any bank".

Respectfully,

(Signed) Jno. G. Sargent

Attorney General.

The Honorable,

The Secretary of the Treasury.

FEDERAL RESERVE BOARD

X-4554

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

March 10, 1926.

SUBJECT: Substitution of code word in Federal Reserve Telegraphic Code.

Dear Sir:

A number of errors in the transmission of currency telegrams have been recorded due to the similarity of the code words "UNLIVELY" and "UNLOVELY", shown on page 194 of the Federal Reserve Telegraphic Code. Effective March 20th, therefore, it is requested, in order to minimize the possibility of error in the transmission of such telegrams, that the code word "UNLIVELY" be cancelled and that it be superseded by the code word "UNLIST".

Kindly make the necessary adjustment on page 194 of your copies of the code book.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO CHAIRMEN AND GOVERNORS OF F.R.BANKS.

TREASURY DEPARTMENT
Office of the Secretary
Washington

X-4555

March 4, 1926.

The Governor,
Federal Reserve Board.

Sir:

You are hereby advised that the Department has referred to the Disbursing Clerk, Treasury Department, for payment, the account of the Bureau of Engraving and Printing for preparing Federal reserve notes during the period February 1 to February 27, 1926, amounting to $108,100.00.

Federal Reserve Notes, Series 1914

	$5	$10	$20	$50	$100	Total
Boston	300,000	150,000	-	-	-	450,000
New York	850,000	-	-	-	-	850,000
Philadelphia	200,000	100,000	100,000	10,000	-	410,000
Cleveland	200,000	-	100,000	10,000	-	310,000
Richmond	100,000	-	-	-	-	100,000
Atlanta	100,000	-	-	-	-	100,000
Chicago	300,000	-	-	-	-	300,000
Minneapolis	-	50,000	50,000	-	-	100,000
Kansas City	100,000	100,000	50,000	-	-	250,000
San Francisco	-	-	-	-	5,000	5,000
	2,150,000	400,000	300,000	20,000	5,000	2,875,000

2,875,000 sheets @ $37.60 per M $108,100.00

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

	Sheets	Compensation	Plate Printing	Materials	Total
Boston	450,000	$7,965.00	$ 3,690.00	$5,265.00	$16,920.00
New York	850,000	15,045.00	6,970.00	9,945.00	31,960.00
Philadelphia	410,000	7,257.00	3,362.00	4,797.00	15,416.00
Cleveland	310,000	5,487.00	2,542.00	3,627.00	11,656.00
Richmond	100,000	1,770.00	820.00	1,170.00	3,760.00
Atlanta	100,000	1,770.00	820.00	1,170.00	3,760.00
Chicago	300,000	5,310.00	2,460.00	3,510.00	11,280.00
Minneapolis	100,000	1,770.00	820.00	1,170.00	3,760.00
Kansas City	250,000	4,425.00	2,050.00	2,925.00	9,400.00
San Francisco	5,000	88.50	41.00	58.50	188.00
Total,	2,875,000	$ 50,887.50	$23,575.00	$ 33,637.50	108,100.00

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,
R. W. Barr,
Acting Deputy Commissioner
of the Public Debt.

FEDERAL RESERVE BOARD

WASHINGTON

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ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4557

March 12, 1926.

SUBJECT: Expense Main Line, Leased Wire System,
February, 1926.

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-4557-a and X-4557-b, covering in detail operations of the main line, Leased Wire System, during the month of February, 1926.

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 F. R. BANKS EXCEPT CHICAGO.

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINE OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF FEBRUARY, 1926.

From	Business reported by banks	Words sent by New York chargeable to other F.R. Banks (1)	Total	Treasury Dept, Business	War Finance Corporation Business	Net Fed. Reserve Bank Business	Per cent of total bank Business (*)
Boston	26,685	394	27,079	2,587	-	24,492	3.54
New York	120,613	-	120,613	4,185	-	116,428	16.81
Philadelphia	30,745	488	31,233	2,385	-	28,848	4.17
Cleveland	59,526	1,204	60,730	1,960	-	58,770	8.49
Richmond	37,932	2,156	40,088	1,679	-	38,409	5.55
Atlanta	49,125	2,454	51,579	2,122	-	49,457	7.14
Chicago	85,093	2,408	87,501	3,990	-	83,511	12.06
St. Louis	64,481	2,164	66,645	2,735	-	63,910	9.23
Minneapolis	31,476	1,726	33,202	1,280	-	31,922	4.61
Kansas City	52,707	1,720	54,427	2,115	25	52,287	7.55
Dallas	48,700	3,489	52,189	908	-	51,281	7.40
San Francisco	95,331	1,977	97,308	4,186	-	93,122	13.45
Total	702,414	20,180	722,594	30,132	25	692,437	100.00
Board Total			265,480 988,074	28,376 58,508	47 72	237,057 929,494	
Percent of Total			100%	5.92%	.01%	94.07%	

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-4557-b)

(1) Number of words sent by New York to other F. R. Banks for their sole benefit charged to banks indicated, in accordance with action taken at Governors' Conference Nov. 2-4, 1925.

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REPORT OF EXPENSE MAIN LINE
FEDERAL RESERVE LEASED WIRE SYSTEM, FEBRUARY, 1926.

Name of Bank	Operators' Salaries	Operators' Overtime	Wire Rental	Total Expenses	Pro rata Share of Total Expenses	Credits	Payable to Federal Reserve Board
Boston	$ 260.00	$ -	$ -	$ 260.00	$ 749.74	$ 260.00	$ 489.74
New York	861.66	-	-	861.66	3,560.21	861.66	2,698.55
Philadelphia	216.66	-	-	216.66	883.17	216.66	666.51
Cleveland	284.50	-	-	284.50	1,798.11	284.50	1,513.61
Richmond	180.00	-	-	180.00	1,175.44	180.00	(&)1,200.11
Atlanta	225.00	-	-	225.00	1,512.19	225.00	1,287.19
Chicago	(#)3,816.94	1.00	-	3,817.94	2,554.20	3,817.94	(*)1,263.74
St. Louis	225.00	-	-	225.00	1,954.84	225.00	1,729.84
Minneapolis	183.34	-	-	183.34	976.36	183.34	793.02
Kansas City	275.64	-	-	275.64	1,599.03	275.64	1,323.39
Dallas	251.00	-	-	251.00	1,567.26	251.00	1,316.26
San Francisco	380.00	-	-	380.00	2,848.59	380.00	2,468.59
Federal Reserve Board	-	-	15,353.53	15,353.53			
Total	$7,159.74	$ 1.00	$15,353.53	$22,514.27	$21,179.14	$7,160.74	$15,486.81
				(a)1,335.13			(b)1,263.74
				$21,179.14			$14,223.07

(&) Includes $204.67 for branch line business over main line circuit.
(#) Includes salaries of Washington operators.
(*) Credit
(a) Received $1.97 from War Finance Corp. and $1,333.16 from Treasury Department covering business for the month of February, 1926.
(b) Amount reimbursable to Chicago.

FEDERAL RESERVE BOARD

X-4558

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

March 11, 1926.

SUBJECT: Additional Topic for Governors' Conference.

Dear Sir:

The Board has voted to add to the program for discussion at the forthcoming Governors' Conference the question of the advisability of seeking an amendment to the law to restore to Federal Courts jurisdiction over suits by and against Federal reserve banks. For your information, there is enclosed herewith a copy of a memorandum from the Counsel to the Federal Reserve Board on this question.

Very truly yours,

Walter L. Eddy,
Secretary.

TO GOVERNORS OF ALL F.R.BANKS

Enclosure:

X-4551

March 9, 1926.

To: Federal Reserve Board

From: Mr. Wyatt - General Counsel.

Subject: Topic for Governors' Conference - Advisability of seeking amendment to restore to Federal courts jurisdiction over suits by and against Federal reserve banks.

It is respectfully recommended that the above subject be placed on the program for discussion at the forthcoming Governors' Conference and that copies of this memorandum be sent immediately to the Governors of all Federal reserve banks in order that they may study the subject and consult with their counsel prior to the Conference.

Prior to the Act of February 13, 1925, the Federal courts had jurisdiction of suits brought by or against Federal reserve banks which involved as much as $3,000, because of the fact that they were Federal corporations. American Bank and Trust Company v. Federal Reserve Bank of Atlanta, 256 U. S. 530. A suit brought by or against a Federal reserve bank, therefore, which involved as much as $3,000 could be brought originally in a United States District Court, and a suit brought against a Federal reserve bank in a State court could be removed to a United States District Court if it involved as much as $3,000.

The Act of February 13, 1925, however, which was recommended by the American Bar Association and by the Supreme Court of the United States and which dealt primarily with the appellate jurisdiction of the Federal courts, contained the following provision:

> "SEC. 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."

This amendment has the effect of depriving Federal courts of jurisdiction of all suits by or against Federal reserve banks unless the pleadings of the plaintiff on their faces actually raise some question necessarily involving the interpretation of the Constitution of the United States or some Federal statute. It is not sufficient for the pleadings of the defendant to raise a Federal question.

Moreover, Federal reserve banks cannot get into the Federal

courts on the ground of diversity of citizenship, because the Supreme Court has held that a Federal corporation is not a citizen of any State. Bankers Trust Company v. Texas and Pacific Railway, 241 U.S. 295. The Federal reserve banks, therefore, have not even as much rights in the Federal courts as have national banks. Section 24(16) of the Judicial Code specifically provides that, for jurisdictional purposes, national banks shall be deemed citizens of the States in which they are located and this enables them to bring suits in the Federal courts or remove suits brought against them to the Federal courts on the grounds of diversity of citizenship where the other parties are citizens of States other than that in which the head office of the national bank is located. There is no law, however, giving Federal reserve banks a similar status.

The present situation is of serious disadvantage to the Federal reserve banks, because they can sue or be sued in the Federal courts only when the initial pleadings show on their faces that the suits necessarily involve the construction of the Constitution of the United States or of some Federal statute; and suits brought against them in the State courts can be removed to the Federal courts only when the pleadings of the plaintiffs show on their faces that the suits necessarily involve the construction of the Constitution of the United States or some Federal statute, and this is rarely the case. It is not sufficient for the Federal reserve bank to plead in defence some provision of the Federal Reserve Act or some Regulation of the Federal Reserve Board (e.g., Regulation J upon which they rely for protection in collecting checks.) Moreover, counsel for a number of the Federal reserve banks advise me that they frequently find both the judges and the juries in the State courts to be unreasonably prejudiced against, and hostile to, the Federal reserve banks; so that it is very difficult for them to get a fair trial in the State courts. For these reasons, counsel for most of the Federal reserve banks feel very strongly that the Federal Reserve System should seek an amendment to the Judicial Code restoring the jurisdiction of Federal courts over suits by and against Federal reserve banks.

I have not brought this question up before, because I was advised informally that a bill probably would be introduced at this session of Congress to amend the Judicial Code in several particulars and I had hoped that it would be possible to have a provision restoring the Federal jurisdiction over suits by and against Federal reserve banks incorporated in such a general statute. This I believe would be much better than to ask for special legislation in a separate statute benefitting the Federal reserve banks alone. I am now advised, however, that the demand for a further amendment to the Judicial Code which was expected to develop has not yet developed and that there seems to be no prospect for such legislation

at the present session of Congress. It becomes important to consider, therefore, whether the Federal reserve banks should seek to obtain the enactment of a special statute restoring the jurisdiction of the Federal courts over suits brought by and against them.

There are a number of ways in which the present situation could be improved by a special amendment to the law:

1. An amendment might be sought either to the Judicial Code or to the Federal Reserve Act providing that, for jurisdictional purposes, Federal reserve banks shall be deemed to be citizens of the States in which their head offices are located, thus placing them upon an equality with national banks and enabling them to get into the Federal courts on the ground of diversity of citizenship when the other party is a citizen of a different State from that in which the head office of the Federal reserve bank is located. Inasmuch as this would only give the Federal reserve banks such privileges as national banks and any ordinary citizen or corporation would have it ought to be comparatively easy to get such an amendment; but such an amendment would grant only partial relief.

2. An amendment might be sought changing that provision of Section 4 of the Federal Reserve Act which authorizes Federal reserve banks "to sue and be sued, complain and defend, in any court of law or equity" so as to authorize them "to sue and be sued, complain and defend, in any United States District Court." This would be similar to a provision contained in the charter of the Bank of the United States which was held by the Supreme Court to be sufficient to confer upon the Federal circuit courts jurisdiction of suits by and against the Bank of the United States. Osborn v. United States Bank, 9 Wheat. (22 U.S.) 737.

3. An amendment might be sought to the above quoted provision of the Act of February 13, 1925, changing the proviso to read somewhat as follows:

> "Provided that this section shall not apply to any suit, action, or proceeding brought by or against a Federal Land Bank, Joint Stock Land Bank, Federal reserve bank or any 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."

Such an amendment would simply extend the proviso to cover a few specific classes of corporations, the majority of the stock of which is not owned by the Government but in which the Government obviously has an interest and which obviously ought to be protected to the same extent as corporations in which the Government merely owns one-half of the capital stock. This I believe would be the best kind of

an amendment to seek if any special legislation is sought. It could be supported by unanswerable logic; and, by including the Joint Stock Land Banks, the Federal Land Banks and possibly some other Federal corporations whose position is analogous to that of Federal reserve banks, it might be possible to obtain additional support for the bill and to avoid the appearance of seeking special privileges for Federal reserve banks.

The principle which led Congress to exclude from the provisions of Section 12 of the Act of February 13, 1925, any Federal corporation wherein the Government of the United States is the owner of more than one-half of its capital stock would seem to apply with equal force to Federal reserve banks for the following reasons:

1. Although none of the stock of Federal reserve banks is owned by the United States Government, the Government has a reversionary interest in the surplus of the Federal reserve banks, which amounts to approximately twice as much as the capital of the Federal reserve banks.

2. The Federal reserve banks have taken over the functions of the sub-treasuries and perform many very important services as depositaries and fiscal agents of the Government.

3. While Federal reserve banks are private corporations, nevertheless they are corporations created for public and semi-governmental purposes and are under the supervision of a Board composed of officers of the United States.

4. They were created and actually function as important instrumentalities of the Federal Government, acting not only as depositaries and fiscal agents and performing the functions previously performed by the sub-treasuries but acting also as the media through which the great bulk of our currency is issued.

5. All the net earnings of the Federal reserve banks, after providing for expenses, limited dividends, and the surplus authorized by the Act, go to the Government as a franchise tax; so that the Government has an actual interest in the protection of Federal reserve banks against losses resulting from unfair treatment in the State courts.

The above merely indicates some of the grounds that might be urged as bringing the Federal reserve banks within the principles of the proviso to Section 12 of the Act of February 13, 1925. It is believed that if these were amplified and supported by statistics showing the volume of Governmental operations performed by the Federal reserve banks in their capacities as depositaries, fiscal agents and sub-treasuries of the Government, an unanswerable argument could be built up in support of such an amendment.

In view of the reluctance of the Federal courts to have their jurisdiction enlarged and in view of the prejudice existing against Federal reserve banks in many quarters, however, it is a close question whether it would be desirable or expedient to attempt to seek a special amendment for the relief of the Federal reserve banks even on this obviously sound basis. It is for this reason that I believe it highly desirable to have this subject discussed at length by the Governors of all Federal reserve banks in conjunction with the Board before any attempt is made to obtain legislation.

It has also been suggested that an amendment should be sought exempting Federal reserve banks from the process of attachment and garnishment before final judgment in any case, as national banks are now exempted under the provisions of Section 5242 of the Revised Statutes. I have not given much thought to this question, because I believe the other question discussed above is far more important and should be dealt with first; but it would seem obvious that if Congress has seen fit to exempt national banks from the process of attachment and garnishment pending the rendition of final judgments, it should also exempt Federal reserve banks, which are much more important from a public standpoint and which perform much more important functions as instrumentalities of the Government. For the further information of the Board, I attach a copy of a letter from Judge Ueland, Counsel to the Federal Reserve Bank of Minneapolis suggesting an amendment along this line.

In view of the short time remaining before the Governors' Conference, it is respectfully recommended that a copy of this memorandum and the attached letter from Judge Ueland be sent direct to the Governors of each Federal reserve bank at the earliest possible date and that a copy be sent to the Secretary of the Governors' Conference with advice that the Board has voted to add this topic to the program for discussion at the forthcoming Governors' Conference and has already sent copies of this memorandum direct to the Federal reserve banks in order to save time.

Respectfully

Walter Wyatt
General Counsel.

Copy of letter
attached.

WW SAD

(COPY)

FEDERAL RESERVE BANK
OF MINNEAPOLIS

X-4551-a

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February 23, 1926.

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

My dear Wyatt:

Congress being now in session I venture to suggest the importance of an amendment to the Federal Reserve Act exempting Federal reserve banks from the process of attachment and garnishment, the same as National banks. In this, the Ninth District, I have been vexed a good deal by a suit started against this bank in a North Dakota state court, with garnishment as basis of jurisdiction, and, of course, for judgment in rem in case of no appearance on the part of the defendant. Without such an amendment as that suggested, it seems to me there can scarcely be any limit to annoyance of that sort, for in the absence of a clear provision in the act exempting Federal reserve banks from attachment and garnishment a claim that they are exempt by implication cannot be maintained so clearly as to have the State courts sustain it.

The Federal reserve banks are also much concerned in having the Act of February 13, 1925 with respect to the jurisdiction of the district courts of the United States amended, for, as you know, Section 12 provides that incorporation under an act of Congress is no longer to give those courts jurisdiction, and the Federal reserve banks having not been given the status of citizenship of any state, the same as national banks, the present situation seems to be that a Federal reserve bank can neither sue in a Federal court or have a suit against it removed from a State to a Federal court unless the suit arises under the Constitution or Laws of the United States, aside from that of being a Federal corporation. It is of course entirely unnecessary to point out to you the practical importance of giving Federal reserve banks the right to litigate their controversies in the Federal courts.

Yours very truly,

(Signed) A. Ueland

A. UELAND
Counsel.

P.S. As to a Federal reserve bank being able to remove a suit against it from a State to a Federal court on the ground that the suit arises under the Constitution or Laws of the United States, please remember the rule that this cannot be done unless the fact of the suit arising under the Constitution or Laws of the United States appears on the face of the complaint. This is hardly ever the case.

WASHINGTON

March 12, 1926.

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

SUBJECT: Eligibility for discount of factors notes covering advances to producers of eggs, poultry and butter.

Dear Sir:

The Board has recently been requested to rule upon certain questions arising under that provision of the second paragraph of Section 13 of the Federal Reserve Act which makes eligible for discount at a Federal reserve bank the notes, drafts and bills of exchange "of factors issued as such making advances exclusively to producers of staple agricultural products in their raw state". It appears that a certain cold storage and warehouse company which is engaged in business as a factor makes advances to farmers who consign to the company, chickens, eggs and butter to be stored in the company's warehouse. The advances are made pending the sale of these products by the company for the account of the farmers. The question presented is whether or not the notes of this warehouse company issued in its capacity as factor for the purpose of making advances exclusively to producers of eggs, poultry and butter should be considered eligible for discount at a Federal reserve bank.

Inasmuch as the warehouse company in this case is a factor, the only question to be decided is whether the notes of the company covering the advances to its customers are notes covering advances to "producers of staple agricultural products in their raw state". In considering this question it is important to note that the test of eligibility of paper of this kind is to be found in the character of the person to whom the advances are made rather than in the kind of products securing these advances. If the advances are made to any person of the class described by the term "producers of staple agricultural products in their raw state", the notes given by the factor may be eligible for discount, regardless of whether the productsby which particular advances are secured are or are not agricultural products in their raw state or whether the advances are secured at all. Broadly speaking, the term "producers of staple agricultural products in their raw state" is synonymous with farmers, dairymen and livestock growers and therefore, the notes of factors issued as such covering advances exclusively to this class of producers will be eligible for rediscount at a Federal reserve bank; and this is true even though these farmers, dairymen or livestock growers may also be engaged in producing products which cannot properly be considered agricultural products in their raw state and regardless of the kinds of products securing the advances made by the factors.

Applying these principles to the facts of the present inquiry, the Board holds that the notes of this cold storage and warehouse company issued in its capacity as factor making advances exclusively to producers of eggs and poultry or other staple agricultural products in their raw state, will be eligible for discount at a Federal reserve bank, provided that these notes comply in all other respects with the relevant provisions of the law and the Board's regulations.

In the opinion of the Board butter is not a staple agricultural product in its raw state; but this does not affect the eligibility of notes of factors covering advances to farmers, dairymen or live stock growers who produce butter, because any member of this class is of course engaged in the production of some agricultural products in their raw state even though he also produces butter. The Board holds, however, that the notes of a factor covering advances to those engaged in the commercial production of butter with cream purchased from others, are ineligible for rediscount, unless the persons so engaged are also producers of some staple agricultural products in their raw state. The paper of a factor issued as such for the purpose of making advances exclusively to creameries or dairies, therefore, would ordinarily be ineligible for rediscount under this provision of the law.

In this connection it also seems appropriate to mention a ruling made by the Board prior to the date of the amendment to the law regarding factors paper which holds that while the notes of a cold storage company itself are ineligible for rediscount because the proceeds are used to make loans to third parties, the notes of the customers of the cold storage company representing loans made to them by the company, when endorsed and discounted by the company, would be eligible for rediscount by a member bank at a Federal reserve bank, provided that the customers have used or are to use the proceeds for agricultural or commercial purposes and provided also that the notes comply in other respects with the provisions of the law and the regulations of the Federal Reserve Board. (See 1921 Bulletin, page 308.) Under this ruling, of course, the notes of the customers of a factor may be eligible for rediscount without regard to the provisions of the second paragraph of Section 13 of the Federal Reserve Act providing for the rediscount of factors' paper.

Very truly yours,

Edmund Platt,
Vice Governor.

TO GOVERNORS OF ALL F.R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4560

March 12, 1926.

SUBJECT: Additional Topic for Governors' Conference.

Dear Sir:

The Board has voted to place upon the program of the forthcoming Conference of Governors for their consideration certain questions which have arisen with regard to the Board's recent ruling upon the eligibility for rediscount of notes of a corporation representing borrowings of funds to be advanced to subsidiaries, which was contained in the Board's letter of December 30 (X-4484). These questions are discussed in a letter from Governor Fancher and in a memorandum from Counsel to the Board, both of which are enclosed herewith for your information in this matter.

Yours very truly,

Walter L. Eddy,
Secretary.

(Enclosures)

TO GOVERNORS OF ALL F. R. BANKS.

March 10, 1926.

To The Federal Reserve Board.

From Mr. Wyatt - General Counsel.

SUBJECT: Eligibility for rediscount of notes of corporation representing borrowings of funds to be advanced to subsidiaries.

The attached letter from Governor Fancher raises a further question with reference to the above subject which was ruled on in the Board's circular letter of December 30, 1925, (X-4484).

In a letter dated November 28, 1925, Mr. Thomas P. Beal, President of the Second National Bank of Boston, called the Board's attention to the fact that, because of a recent change in the method of financing the business of the M. A. Hanna Company and its subsidiaries, the paper of the Hanna Company has recently been declared ineligible for rediscount by the Federal Reserve Banks of Cleveland and Boston. It appeared that the former practice of the Hanna Company had been to make loans to its subsidiaries taking the notes of the subsidiaries which were then endorsed by the Hanna Company and discounted at various banks. Such notes were considered eligible for rediscount when the proceeds were used by the subsidiaries in the first instance for agricultural, industrial or commercial purposes. Believing it to be a better form of financing, however, the Hanna Company had recently inaugurated a new system whereby it borrows on its own notes backed by the consolidated financial statement of the Hanna Company and all of its subsidiaries, and from the funds thus obtained the Hanna Company makes advances to its subsidiaries. These notes of the Hanna Company had been held to be ineligible because Section II(a) and (b) of Regulation A provides that, in order for notes, drafts and bills of exchange to be eligible for rediscount the proceeds must be used "in the first instance" for an eligible purpose and must not be "advanced or loaned to some other borrower." This provision of Regulation A is based upon long established and well recognized rulings of the Board which have always been deemed of fundamental importance.

Mr. Beal's letter was discussed at an informal meeting of the Board held in Governor Crissinger's office on December 1st, 1925, at which Governors Harding, Strong and Fancher were present. The business of the Hanna Company was discussed at some length and it was the understanding of all those present that the Hanna Company made no advances except to its own subsidiaries and that the subsidiaries borrowed no money except from the Hanna Company. On the basis of the assumed facts, it was agreed that the Hanna Company and its subsidiaries could be considered together as a single borrower and that the above quoted provisions of the Board's Regulation A pertaining to "finance paper" could be interpreted as not applying to a case of this kind. With this understanding,

I left the meeting and immediately prepared a ruling on the subject and submitted it to the Board on the same day. This ruling, which was approved at the Board meeting on December 14, was to the effect that where a parent corporation owns at least 75 per cent of the stock of each of a number of subsidiary corporations the notes of such parent corporation the proceeds of which have been advanced or loaned to its subsidiary corporations will not be considered finance paper within the meaning of the Board's regulations: provided that (1) the parent corporation makes no advancesexcept to its own subsidiaries, (2) the subsidiaries borrow no money except from the parent corporation, and (3) the proceeds of such advances have been or are to be used by the subsidiary corporation for an industrial, commercial or agricultural purpose, within the meaning of the Federal Reserve Act and the Board's regulations. It is understood, of course, that in order to be eligible for rediscount such paper must also comply in all other respects with the requirements of the law and the Board's regulations.

The ruling was later incorporated in a circular letter (X-4484) approved at Board meeting on December 29th and sent to all Federal reserve banks under date of December 30th which stated the fundamental basis for the ruling as follows:

> "The Board has heretofore published several rulings to the effect that paper representing borrowings by one person, firm or corporation of funds to be advanced to an independent person, firm, or corporation, is 'finance paper' and is therefore ineligible for rediscount; and this ruling is not intended as a reversal or qualification of those rulings. There is a clear distinction, however, between cases such as those covered in the rulings above mentioned and the case here presented; because, where the borrower is a parent corporation and makes advances only to subsidiary corporations owned by it, the parent corporation and the subsidiaries are in practical effect one single organization and may with propriety be viewed as a single borrower."

It now develops, however, that the M. A. Hanna Company does not confine its advances to its own subsidiaries in which it owns 75% of the stock, but makes advances to some corporations in which it owns only a minority of the stock and to some other corporations in which it owns no stock but for which it merely acts as a factor or commission merchant. This being the fact, it is clear that the Board's ruling (X-4484) is not applicable to such paper of the Hanna Company, nor do I believe that the Board could amend the ruling in such a way as to make it applicable to such paper without practically abrogating in toto the ruling against finance paper.

Governor Fancher suggests that the first condition mentioned in the Board's ruling - i. e., that the parent corporation shall make no advances except to its own subsidiaries, be eliminated from the ruling; but if this were done the fun-

damental principle upon which that ruling was based would be eliminated and there would be no basis for the distinction between the circumstances covered by that ruling and circumstances of numerous other cases where the Board has held certain paper to be "finance paper" and, therefore, ineligible.

I am unable to recommend, therefore, that the Board attempt to amend the above mentioned ruling in such a way as to apply to the paper of the Hanna Company in the light of the facts which have developed since that ruling was made; and I can see no way in which the Board can go any further in declaring such paper to be eligible, unless it desires to abrogate entirely the ruling regarding finance paper.

I believe that the rulings heretofore made by the Board regarding finance paper are sound and reasonable constructions of the Federal Reserve Act and are calculated fairly to carry out the purpose and intent of those portions of Section 13 which define the classes of paper eligible for rediscount at Federal reserve banks.

The requirement that the proceeds of paper offered for rediscount must have been used in the first instance for an agricultural, industrial or commercial purpose, however, is not absolutely required by a strict technical construction of the language of the act; and it is conceivable that the Board might abolish that requirement if it so desires. That requirement, however, has always been considered one of fundamental importance and has long been in effect; and I believe it would be unwise to go any further in the direction of letting down the bars with respect to finance paper without first having a thorough study made of the practical effects of such a ruling and having the matter thoroughly discussed by the Governors of all Federal reserve banks at a Governors' Conference.

If, therefore, the Board is inclined to further liberalize its rulings with respect to finance paper in order to be of further assistance to the Hanna Company and other corporations similarly situated, I respectfully recommend that the Board place this subject on the program for discussion at the next Governors' Conference and send out to the Governors of all Federal reserve banks complete copies of the attached file at the earliest possible date, in order that each Governor may study the subject and come to the Conference prepared to discuss the matter and make a well considered recommendation to the Board.

Respectfully,

Walter Wyatt
General Counsel.

WW OMC
File attached.

(COPY) X-4560-b

212

FEDERAL RESERVE BANK
OF CLEVELAND

February 10, 1926.

Mr. D. R. Crissinger, Governor,
Federal Reserve Board,
Washington, D. C.

Dear Mr. Crissinger:

The M. A. Hanna Company of Cleveland, which company carries accounts with and borrows from some of our local member banks as well as some member banks in other districts, has taken up with us the question of the eligibility for rediscount of their paper.

It happens that this is the company in connection with which the recent ruling of the Federal Reserve Board (letter X-4484 dated December 30, 1925. Subject: Eligibility for Rediscount of Notes of Corporation Representing Borrowings of Funds to be Advanced to Subsidiaries) was made. This ruling set up the following conditions:

> Where the parent company owns at least seventy-five percent of the stock of each of a number of subsidiary corporations, the notes of such parent corporation, the proceeds of which have been advanced or loaned to its subsidiary corporations, will not be considered finance paper within the meaning of the Board's ruling; Provided, that -
>
> 1. The parent corporation makes no advances except those to its own subsidiaries;
>
> 2. The subsidiaries borrow no money except from the parent corporation;
>
> 3. The proceeds of such advances have been or are to be used by the subsidiary corporation for an industrial, commercial, or agricultural purpose within the meaning of the Federal Reserve Act and the Board's regulations.

These conditions can be met by the company in question, with the exception of No. 1, which (for reasons outlined later in this letter) cannot be met and which appear to the company to warrant further consideration by the Federal Reserve Board.

The company owns one hundred percent of the stock of nine different companies operating as miners and shippers of coal and ore and operators of docks and ships. They also own seventy-nine percent of the stock of a furnace company; seventy-nine percent of the stock of a coke company; eighty percent of the stock of a coal and dock company;

and in addition to this, from forty-three to sixty-seven percent of the stock of seven different companies. These seven companies are coal and ore mining companies, manufacturers of by-products, iron companies and transportation companies.

Along with these operations, the M. A. Hanna Company acts as selling agent for ore mining companies and furnace operators, and it is in this capacity that the company at certain seasons finds it necessary to make advances for the stripping and mining of ore to be sold by the company when the shipping season is opened and for the production and carrying of pig iron during slack seasons or pending orderly marketing.

Their banks prefer that the obligations for borrowed money be represented by notes of the M. A. Hanna Company and that that company only should do the borrowing for the various operations of this company and its affiliated companies.

The consolidated statement of the company, as of December 31, 1925, would show current assets of approximately $15,000,000 of which approximately $2,150,000 is advances made to companies other than those in which they own seventy-five percent or more of the stock. Their current liabilities are approximately $4,600,000. It appears that it is not possible for this company to segregate their borrowings or earmark them to any particular one of their various operations but that their borrowings are necessarily a part of their general operations as outlined above.

As we understand it, these advances are not in the nature of loans to another party evidenced by notes or other paper but are in fact advances carried in separate accounts and are eventually settled through delivery of goods or commodities to this company or to customers to whom this company sells.

If another company without subsidiaries or affiliated companies were engaged in the same kind of operations, showing a similar condition of liquidity and strength, the paper of such company would hardly be considered ineligible merely because the company showed in their statement advances made to others, but provision No. 1 of the Federal Reserve Board's ruling in letter X-4484 at least appears to preclude the eligibility of the paper of the M. A. Hanna Company.

Under the circumstances, would the fact that the company is making advances other than those outlined in No. 1 of the Board's ruling preclude the eligibility of their paper under Regulation A, Section II, which in effect states that the proceeds must have been used or borrowed to be used in the first instance in producing, purchasing, carrying, etc., and (b) that it must not be a note, draft, or bill of exchange, the proceeds of which have been or are to be advanced or loaned to some other borrower, etc.?

Very truly yours,
(signed) E. R. Fancher,
Governor.

P.S. The company in question has submitted to us tentatively separate statements of their own company and all of its subsidiary or affiliated companies.

FEDERAL RESERVE BOARD

X-4561

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

March 13, 1926

SUBJECT: Additional Topic for Governors' Conference.

Dear Sir:

In an inquiry recently received by the Board certain questions were asked regarding the requirements which will be made by the Federal Reserve Board and by the Federal reserve banks before rediscounting notes secured by adjusted service certificates under the provisions of Section 502 of the World War Adjusted Compensation Act. The specific questions asked in the inquiry received were whether the affidavit of the lending bank provided for by Section 502(h) would be required to be executed before rediscount and what proof that the required notice of transfer of the note has been given the maker would be necessary. The Board has not, of course, issued any regulations on this subject, and in its reply stated that it could not answer these questions at this time.

As a consequence of the provisions of the World War Adjusted Compensation Act no valid note of this kind can possibly be offered for rediscount prior to January 1, 1927. Before undertaking to answer any inquiries with regard to the requirements which will be made for the rediscount of notes of this kind, the Board desires to have the consideration and suggestions of the Governors as to the advisability of issuing regulations on this subject at this time and as to what requirements should be contained in such regulations, if issued. The Board has therefore directed that this matter be made an additional topic for the program of the forthcoming Governors' Conference.

For your information in this connection there is enclosed herewith a copy of Section 502 of the World War Adjusted Compensation Act.

Very truly yours,

Walter L. Eddy
Secretary.

TO GOVERNORS OF ALL F.R.BANKS.

Enclosure.

LOAN PRIVILEGES

SEC. 502. (a) A loan may be made to a veteran upon his adjusted service certificate only in accordance with the provisions of this section.

(b) Any national bank, or any bank or trust company incorporated under the laws of any State, Territory, possession, or the District of Columbia (hereinafter in this section called "bank"), is authorized, after the expiration of two years after the date of the certificate, to loan to any veteran upon his promissory note secured by his adjusted service certificate (with or without the consent of the beneficiary thereof) any amount not in excess of the loan basis (as defined in subdivision (g) of this section) of the certificate. The rate of interest charged upon the loan by the bank shall not exceed, by more than 2 per centum per annum, the rate charged at the date of the loan for the discount of 90-day commercial paper under section 13 of the Federal Reserve Act by the Federal reserve bank for the Federal reserve district in which the bank is located. Any bank holding a note for a loan under this section secured by a certificate (whether the bank originally making the loan or a bank to which the note and certificate have been transferred) may sell the note to, or discount or rediscount it with, any bank authorized to make a loan to a veteran under this section and transfer the certificate to such bank. Upon the indorsement of any bank, which shall be deemed a waiver of demand, notice, and protest by such bank as to its own indorsement exclusively, and subject to regulations to be prescribed by the Federal Reserve Board, any such note secured by a certificate and held by a bank shall be eligible for discount or rediscount by the Federal reserve bank for the Federal reserve district in which the bank is located. Such note shall be eligible for discount or rediscount whether or not the bank offering the note for discount or rediscount is a member of the Federal Reserve System and whether or not it acquired the note in the first instance from the veteran or acquired it by transfer upon the indorsement of any other bank. Such note shall not be eligible for discount or rediscount unless it has at the time of discount or rediscount a maturity not in excess of nine months exclusive of days of grace. The rate of interest charged by the Federal reserve bank shall be the same as that charged by it for the discount or rediscount of 90-day notes drawn for commercial purposes. The Federal Reserve Board is authorized to permit, or on the affirmative vote of at least five members of the Federal Reserve Board to require, a Federal reserve bank to rediscount, for any other Federal reserve bank, notes secured by a certificate. The rate of interest for such rediscounts shall be fixed by the Federal Reserve Board. In case the note is sold, discounted, or rediscounted the bank making the transfer shall promptly notify the veteran by mail at his last known post-office address.

(c) If the veteran does not pay the principal and interest of the loan upon its maturity, the bank holding the note and certificate may, at any time after maturity of the loan but not before the expiration of six months after the loan was made, present them to the Director. The Director may, in his discretion, accept the certificate and note, cancel the

note (but not the certificate), and pay the bank, in full satisfaction of its claim, the amount of the unpaid principal due it, and the unpaid interest accrued, at the rate fixed in the note, up to the date of the check issued to the bank. The Director shall restore to the veteran, at any time prior to its maturity, any certificate so accepted, upon receipt from him of an amount equal to the sum of (1) the amount paid by the United States to the bank in cancellation of his note, plus (2) interest on such amount from the time of such payment to the date of such receipt, at 6 per centum per annum, compounded annually.

(d) If the veteran fails to redeem his certificate from the Director before its maturity, or before the death of the veteran, the Director shall deduct from the face value of the certificate (as determined in section 501) an amount equal to the sum of (1) the amount paid by the United States to the bank on account of the note of the veteran, plus (2) interest on such amount from the time of such payment to the date of maturity of the certificate or of the death of the veteran, at the rate of 6 per centum per annum, compounded annually, and shall pay the remainder in accordance with the provisions of section 501.

(e) If the veteran dies before the maturity of the loan, the amount of the unpaid principal and the unpaid interest accrued up to the date of his death shall be immediately due and payable. In such case, or if the veteran dies on the day the loan matures or within six months thereafter, the bank holding the note and certificate shall, upon notice of the death, present them to the Director, who shall thereupon cancel the note (but not the certificate) and pay to the bank, in full satisfaction of its claim, the amount of the unpaid principal and unpaid interest, at the rate fixed in the note, accrued up to the date of the check issued to the bank; except that if, prior to the payment, the bank is notified of the death by the Director and fails to present the certificate and note to the Director within fifteen days after the notice, such interest shall be only up to the fifteenth day after such notice. The Director shall deduct the amount so paid from the face value (as determined under section 501) of the certificate and pay the remainder in accordance with the provisions of section 501.

(f) If the veteran has not died before the maturity of the certificate, and has failed to pay his note to the bank or the Federal reserve bank holding the note and certificate, such bank shall, at the maturity of the certificate, present the note and certificate to the Director, who shall thereupon cancel the note (but not the certificate) and pay to the bank, in full satisfaction of its claim, the amount of the unpaid principal and unpaid interest, at the rate fixed in the note, accrued up to the date of the maturity of the certificate. The Director shall deduct the amount so paid from the face value (as determined in section 501) of the certificate and pay the remainder in accordance with the provisions of section 501.

(g) The loan basis of any certificate at any time shall, for the purpose of this section, be an amount which is not in excess of 90 per centum of the reserve value of the certificate on the last day of the current certificate year. The reserve value of a certificate on the last day of any certificate year shall be the full reserve required on such certificate, based on an annual level net premium for twenty years and calculated in accordance with the American Experience Table of Mortality and interest

at 4 per centum per annum, compounded annually.

(h) No payment upon any note shall be made under this section by the Director to any bank, unless the note when presented to him is accompanied by an affidavit made by an officer of the bank which made the loan, before a notary public or other officer designated for the purpose by regulation of the Director, and stating that such bank has not charged or collected, or attempted to charge or collect, directly or indirectly, any fee or other compensation (except interest as authorized by this section) in respect of any loan made under this section by the bank to a veteran. Any bank which, or director, officer, or employee thereof who, does so charge, collect, or attempt to charge or collect any such fee or compensation, shall be liable to the veteran for a penalty of $100, to be recovered in a civil suit brought by the veteran. The Director shall upon request of any bank or veteran furnish a blank form for such affidavit.

SEC. 503. No certificate issued or right conferred under the provisions of this title shall, except as provided in section 502, be negotiable or assignable or serve as security for a loan. Any negotiation, assignment, or loan made in violation of any provision of this section shall be held void.

SEC. 504. Any certificate issued under the provisions of this title shall have printed upon its face the conditions and terms upon which it is issued and to which it is subject, including loan values under section 502.

FEDERAL RESERVE BOARD

WASHINGTON

X-4562

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

March 13, 1926.

SUBJECT: Credit Portion of Report of Sub-Committee Appointed to Study Bank Examination and Credit Functions.

Dear Sir:

On June 4, 1925, there was transmitted to all Governors a copy of a report submitted under date of April 27, 1925, by the sub-committee of deputy governors designated to make a study of the bank examination and credit functions of the Federal reserve banks (St. 4545). The Board requested from each Governor a full expression of his views on the recommendations contained in the report, particularly with regard to those relating to the credit function, and a summary of all replies was forwarded to the Governors with the Board's circular letter of September 8, 1925 (X-4416). In this letter, the Board suggested that the Governors, at their next conference, submit a statement outlining the views of the conference with reference to the report on the credit function.

The conference held in November, 1925, adopted a motion approving of the report of the sub-committee (as relates to the credit function) with the exception of the recommendation that the reserve banks no longer furnish blank forms of credit statements free of charge. The action of the Governors' conference meets with the approval of the Board.

By direction of the Federal Reserve Board.

Very truly yours,

Walter L. Eddy,
Secretary.

TO GOVERNORS OF ALL F.R.BANKS.

FEDERAL RESERVE BOARD

X-4564

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

March 19, 1926.

Dear Sir:

This is to advise you that in the opinion of the Federal Reserve Board flour and bran should not be considered nonperishable readily marketable staple agricultural products which may be made the basis of sight or demand bills of exchange eligible for discount or purchase at a Federal reserve bank under the 3rd paragraph of Section 13 of the Federal Reserve Act. As stated in the case of Getty v. C. R. Barnes Milling Company (Kans.) 19 Pac. 617, "* * * In one sense it may be said that flour is a product of agriculture, but in the common application of the term we think this is not true. A product of agriculture is that which is the direct result of husbandry and the culture of the soil; it embraces the product in its natural unmanufactured condition." As flour is essentially a product of manufacture, it is not believed that it can properly be deemed an agricultural product within the meaning of this provision of Section 13.

Very truly yours,

Edmund Platt
Vice Governor.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS.

REPORT OF THE OPEN MARKET INVESTMENT COMMITTEE TO THE GOVERNORS' CONFERENCE, March 22, 1926.

Since the last Governors' Conference the changes in the special investment account have consisted of (a) temporary readjustments to offset the effects on the money market of government financing at tax periods, (b) purchases and sales to offset seasonal changes over the turn of the year, and (c) a reduction in total caused by the repayment of March 15 maturities, which have not yet been wholly replaced.

At the December 15 tax period temporary sales of 30 million dollars were made to New York City banks, and at the March tax period temporary sales of $38,000,000 were made, of which $35,000,000 were made in New York and $3,000,000 in Chicago. The result of these sales was to exert a considerable stabilizing influence on the market at these periods.

During the latter part of December the committee purchased 50 million of short-term government securities to decrease the seasonal strain in the market, and these securities were resold in the latter part of January and early in February.

On March 15 there matured 65 million dollars of securities held in the special account, and in addition $32,500,000 held for foreign account. These amounts have been fully replaced for the foreign accounts but only partially replaced as yet by the purchase of $34,355,600 of securities for the System account. This leaves a balance of $31,411,100 to be purchased for the special account in order to re-

store it to 210 million dollars; the $88,160,000 of Treasury notes which matured December 15, 1925, were replaced by purchases of other maturities, thus causing no change in the account.

In the past few weeks, there has been some change in credit conditions, but more particularly in business and financial psychology. The stock market boom has lost its impetus and the amount of funds employed by the market has diminished by about 300 million dollars from the date when public reports were commenced. Real estate speculation has calmed down somewhat. There are also reports of business hesitation, evidence of which may be found in a weakness in commodity prices, a decline of unfilled orders of the Steel Corporation, some recession in retail trade and some decrease in the amount of building permits taken out, although the actual volume of current business transactions continues very large. But some business hesitation appears to be a not unusual accompaniment of a rather sharp arrest of stock speculation following a long extended period of activity.

Thus far it would appear that the diminution of speculative activity is wholesome. The movements which have taken place have been orderly and there has been no indication so far of untoward consequences. It is not yet clear how far liquidation will be continued and it is, of course, still possible that there might be a revival of speculation with the dangers it involves. It appears more probable, however, that the peak of this speculative and business expansion has been passed. It therefore seems appropriate in view of the above to discuss at this time what our open market policy should be in the

event a business recession calls for a revision of policy before we meet in another governors' conference.

Experience in the past has indicated that member banks when in debt at the Federal Reserve Bank of New York, and in less degree at other money centers, constantly endeavor to free themselves from that indebtedness, and as a consequence such pressure as arises is in the direction of curtailing loans. This is now accentuated over a year ago as the discount rate at New York is a full 1% higher, and 1/2% higher at four other banks. As the accompanying table of the earning assets of the System shows, the amount of credit furnished by Reserve Banks on member banks direct borrowing, just prior to the March 15th operations, was larger this year than on any corresponding date since 1923.

EARNING ASSETS - FEDERAL RESERVE SYSTEM
(In millions of dollars)

	1922 Mar. 8-	1923 Mar.7-	1924 Mar.12-	1925 Mar.11-	1926 Mar.10
Discounts					
New York (City)	14	149	53	149	103
Chicago (City)	3	22	7	2	17
Other	614	400	423	259	382
Total	631	571	483	410	502
Bankers Acceptances	102	219	243	301	285
U.S. Securities-Committee-	-	-	140	275	245
U.S. Securities-Other	444	345	72	113	115
Other Earnings Assets	-	-	-	15	12
Total	1,177	1,135	938	1,114	1,159

The total amount of borrowing undoubtedly exerts some pressure upon the business community. Should we go into a business recession while the member banks were continuing to borrow directly 500 or 600 million dollars, (if bills are included nearly 800 million dollars,) we should consider taking steps to relieve some of the pressure which this borrowing induces by purchasing government securities and thus enabling member banks to reduce their indebtedness.

It is not possible to predict to what extent member banks will continue their borrowing on the present scale in the event of a business recession. The release of funds now employed in the security markets, a decrease in currency requirements, and some decrease in bank loans for business undertakings, would likely be partly offset by increased requirements for funds to carry accumulating inventories. Perhaps the major determining factor will be the movement of gold. During the first half of March we received 30 million dollars of gold from Canada and this movement resulted in easy money rates in New York in the second week of the month. It seems possible that this gold movement may be continued somewhat further, and, if so, it would correspondingly liquidate the borrowings of member banks in New York. The usual movement of gold, however, if seasonal causes operate, would lead us to anticipate gold exports rather than imports during the summer months, with perhaps further imports in the fall. With these conflicting tendencies future changes in our loan account are especially significant as a guide and we should see that the total does not become or continue too burdensome.

Future Policy.

As a guide to the timing and extent of any purchases which might appear desirable, one of our best guides will be the amount of borrowing by member banks in principal centers, and particularly in New York and Chicago. Our experience has shown that when New York City banks are borrowing in the neighborhood of 100 million dollars or more, there is then some real pressure for reducing loans, and money rates tend to be markedly higher than the discount rate. On the other hand, when borrowings of these banks are negligible, as in 1924, the money situation tends to be less elastic and if gold imports take place, there is liable to be some credit inflation, with money rates dropping below our discount rate. When member banks are owing us about 50 million dollars or less the situation appears to be comfortable, with no marked pressure for liquidation and with the requisite elasticity. Under these circumstances no single bank tends to be in debt for any extended period and borrowings are passed around among the different banks. Call and time money rates tend to be but slightly above our discount rate. With this situation existing in New York, there is less tendency for funds to be attracted to New York (particularly since commercial rates at such times are apt to be higher than stock exchange rates for call money) and the situation has a considerable degree of stability.

The accompanying chart shows the amount of borrowing of New York City banks by weeks during the past four years. It shows borrowings to be large during 1923, when, as we all know, there was some

pressure for liquidation. Allowing for the seasonal increase and decrease in December 1923 and January 1924 borrowings were very small during 1924 and we recall that during the balance of that year while there was considerable instability in money conditions, it was accompanied by a gradual revival of business over 1923. In 1925 borrowings were sufficiently high during parts of the year to place some pressure on the New York City banks. It was in this stage that rate advances were made. In the event of business liquidation now appearing it would seem advisable to keep the New York City banks out of debt beyond something in the neighborhood of 50 million dollars. It would probably be well if some similar rule could be applied to the Chicago banks, although the amount would, of course, be smaller and the difficulties greater because of the influence of the New York money market.

In general it would appear that we should not increase or diminish the special account immediately beyond gradually replacing the issues which matured on March 15 as market conditions warrant, but that we should prepare ourselves now for the prompt purchase of some further amount of securities if and when there should be further evidence of a recession in business activity, especially if there is no further liquidation in the amount of Federal Reserve credit employed.

March 19, 1926.

FEDERAL RESERVE BOARD

X-4566

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

March 22, 1926

SUBJECT: Bank holidays during April, 1926.

Dear Sir:

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

Friday	April 2	Philadelphia Pittsburgh Baltimore New Orleans Nashville Jacksonville Memphis Minneapolis	Good Friday
Tuesday	April 13	Birmingham	Jefferson's Birthday
Thursday	April 15	Salt Lake City	Arbor Day
Monday	April 19	Boston	Patriots' Day
Wednesday	April 21	Dallas El Paso Houston	San Jacinto Day
Thursday	April 22	Omaha	Arbor Day
Monday	April 26	Atlanta Birmingham Jacksonville	Southern Memorial Day

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, for account of the Head Offices concerned, on the holidays mentioned.

Kindly notify Branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F.R.BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

X-4567-a

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

March 24, 1926.

Dear Sir:

Through the courtesy of Governor Young of the Federal Reserve Bank of Minneapolis, I enclose for your information a copy of an opinion rendered on March 13th by the Supreme Court of Montana in the case of Fergus County v. Federal Reserve Bank of Minneapolis.

As you will observe, the facts in the case were similar to those in the Malloy Case, except that the check collection circular of the Federal Reserve Bank of Minneapolis expressly authorized the Federal reserve bank "to send such items for payment in cash or bank draft direct to the bank on which they are drawn." The Court held this express authority sufficient to absolve the Federal reserve bank from liability for a loss resulting from the acceptance of an exchange draft in remittance for a check. Although the case arose under Regulation J of 1920, the decision has a very important and favorable bearing upon the legality, effectiveness and reasonableness of Regulation J, Series of 1924. The opinion also discusses a number of questions not heretofore raised in litigation of this kind, and I believe that it deserves very careful study.

Governor Young informs me that the Court reserved the right to modify this opinion within fifteen days from the time it was rendered and, of course, that time has not yet elapsed. If I learn of any modification of the opinion I shall advise you.

With all best wishes, I am,

Cordially yours,

Walter Wyatt
General Counsel

Enclosure.

No. 5873 X-4567 228

STATE OF MONTANA

In the Supreme Court, March Term, 1926.

Fergus County, a municipal corporation, by and through its Board of County Commissioners, John Quicken-den, Arthur W. Stoddard and Oscar Anderson; and H. L. Fitton, as County Treasurer of Fergus County, Montana,

Plaintiffs and Respondents,

-v-

Federal Reserve Bank of Minneapolis, a corporation of the United States, (Helena Branch).

Defendant and Appellant.

Submitted: March 1, 1926.

Decided: March 13, 1926.

Filed: March 13, 1926.

J. W. Crosly,

Clerk.

Mr. Justice Holloway delivered the Opinion of the Court.

At the times mentioned herein the First State Bank of Coffee Creek (called the Coffee Creek Bank) was a state bank which was not affiliated with the Federal Reserve System in any manner, so far as disclosed by the record. The Empire and State Bank of Lewistown (called the Lewistown Bank) was also a state bank, but it was a component part of the Federal Reserve System, - a member bank of the Federal Reserve Bank of Minneapolis (herein called the defendant). About December 1, 1923, certain persons who were indebted to Fergus county, delivered to the county treasurer checks drawn on the Coffee Creek Bank. These checks, for sums aggregating $999.64, were endorsed by the treasurer and were delivered to the Lewistown Bank for collection. The Lewistown Bank endorsed and delivered them to the defendant's Helena Branch Bank for collection, and the Helena Branch Bank transmitted the checks to the Coffee Creek Bank for payment. The Coffee Creek Bank charged the checks to the respective drawers and remitted its drafts for the amount of the checks. These drafts, drawn upon the Coffee Creek Bank's correspondents, were received by the defendant but before they could be collected, the Coffee Creek Bank failed in business and the drafts were dishonored. This action was then instituted by the county to recover the amount of the checks, together with the interest which the county would have received on that amount if the checks had been collected. It is the plaintiff's theory that the defendant rendered itself liable for the resulting loss by accepting drafts for the checks instead of demanding and collecting the money.

Every material allegation of the complaint was admitted, and the

defendant then undertook to justify its act in accepting the drafts. It alleged that about October 6, 1920, the Federal Reserve Board adopted and promulgated certain rules designated in the entirety "Regulation J, Series of 1920;" that about September 1, 1922, this defendant, with the consent and approval of the Federal Reserve Board, adopted certain other rules and promulgated them in their entirety as "Circular No. 286;" that the Lewistown Bank had full notice and knowledge of the contents of these documents at and for a long period prior to the time the checks in question were delivered to the defendant, and that defendant accepted the checks for collection under the terms and conditions imposed by Regulation J and Circular 286, and not otherwise. Each of these documents is attached to and made a part of the answer. The portions of Regulation J material here, read as follows:

"Each Federal Reserve bank shall exercise the functions of "a clearing house under the following general terms and conditions:

"(1) Each Federal reserve bank will receive at par from its "member banks and from non-member clearing banks in its district, checks "drawn on all member and non-member clearing banks and on all other non-"member banks which agree to remit at par through the Federal reserve bank "of their district. * * *

"(8) In handling items for member and non-member clearing banks, "a Federal reserve bank will act as agent only. *** Any further require-"ments that the board may deem necessary will be set forth by the Federal "reserve banks in their letters of instruction to their member and non-"member clearing banks. Each Federal reserve bank will also promulgate rules

"and regulations governing the details of its operations as a clearing "house, such rules and regulations to be binding upon all member and non- "member banks which are clearing through the Federal reserve bank."

The only provision of Circular No. 286 with which we are concerned at present, reads as follows:

"Every bank sending checks to this (defendant) bank * * * will "be understood to have agreed to the terms and conditions of this circular, "and to have agreed that in receiving such items this bank will act only "as the collecting agent of the sending bank, and as such, authorized to "send such items for payment in cash or bank draft direct to the bank on "which they are drawn."

A general demurrer to the answer was sustained and the defendant, declining to plead further, suffered judgment to be rendered and entered against it and appealed.

The ultimate question for solution is: Does the answer state a defense to plaintiff's cause of action? or, stating the same proposition in different terms: Do the provisions of Regulation J and Circular 286 bind the plaintiff and relieve the defendant of liability for the loss which resulted from its act in accepting the drafts of the Coffee Creek Bank in payment for the checks it undertook to collect? If they do, the trial court erred in sustaining the demurrer; if they do not, then this case is controlled by the decision in Federal Reserve Bank of Richmond v. Malloy, 264 U.S. 160, and the decision in Jensen v. Laurel Meat Co., 71 Mont. 582, 230 Pac. 1081.

The Federal Reserve Act (38 Stat. 251, secs. 9785-9805, U. S. Comp. Stat. 1916) and the Acts amendatory thereof and supplementary thereto

constitute the charter of the Federal Reserve System. The general supervision and control of the system is lodged in the Federal Reserve Board, consisting of six members appointed by the President of the United States, by and with the advice and consent of the senate, and the Secretary of the Treasury and the Comptroller of the Currency, members ex officio. (Amendment of June 3, 1922, 42 Stat. 620; sec. 9793, U. S. Comp. Stat., 1923 Supplement.) It was this board which promulgated Regulation J and authorized the defendant to issue Circular No. 286.

The opening paragraph of Regulation J quoted above is an order of the Federal Reserve Board constituting each Federal reserve bank a clearing house for its member banks and non-member clearing banks. By the provisions of that Regulation, member banks were informed that in handling checks and drafts for collection each Federal reserve bank would act as agent only, and would exercise the functions of a clearing house under such rules and regulations as it might adopt. Regulation J assumed to confer upon this defendant the authority to adopt and promulgate the rules and regulations contained in Circular 286. However, it is alleged in the answer, and admitted to be true for the purposes of this appeal that Circular 286 was issued with the consent and approval of the Federal Reserve Board, so that in effect it emanated from that board, and its validity depends upon the power of that board to prescribe the conditions contained in the circular. If the Federal Reserve Board had authority to impose those conditions, then this defendant had authority to say that it would act as a clearing house and collect checks for member banks on the terms and conditions prescribed in the circular and not otherwise.

Circular 286 constituted a continuing offer by this defendant to perform the services of a collecting agent for the Lewistown Bank upon the conditions therein expressed, (1) that defendant might send the items for collection directly to the bank upon which they were drawn, and (2) that it might receive "payment in cash or bank draft."

When the county deposited the checks with the Lewistown Bank for collection, it thereby authorized that bank to employ a sub-agent to perform the actual service of making the collection (Jensen v. Laurel Meat Co., above) and to that end to enter into the necessary contract with the sub-agent for the service to be performed.

When the Lewistown Bank, with full knowledge of the conditions imposed by Circular 286, delivered the checks to this defendant for collection, it thereby expressed its acceptance of the offer as made, and the result was a contract by the terms of which the defendant was authorized to send the checks directly to the Coffee Creek Bank and to accept in payment "cash or bank draft;" and when that contract was entered into, defendant became the sub-agent for the county, and the county became bound by the contract to the same extent that the Lewistown Bank was bound.

It is conceded that the first condition mentioned above is not objectionable and necessarily so, for it is authorized expressly by section 6108, Revised Codes of 1921. But it is contended that neither this defendant, nor the Federal Reserve Board had power lawfully to require that defendant would accept checks for collection only on condition that it might receive either drafts or cash in payment therefor. In other words, plaintiff's counsel argue that the Federal Reserve Act imposed upon this defendant the absolute duty to receive those checks for collection and to

collect them, and therefore it was beyond the power of the defendant or the Federal Reserve Board to say that defendant would perform its public duty only upon condition that it be relieved from the liability which would otherwise attach to its act in accepting drafts in payment of the checks. In support of this argument attention is directed to sections 13 and 16 of the Federal Reserve Act. (Secs. 9796 and 9799, U. S. Comp. Stat., as amended.)

Section 13, as amended, provides: "Any Federal reserve bank "may receive from any of its member banks and from the United States, "deposits of current funds in lawful money, national bank notes, "federal reserve notes or checks and drafts payable upon presenta- "tion, and also for collection maturing notes and bills." (40 Stat. 232,234,235.) This section so far as it is involved here, merely authorizes a Federal reserve bank to receive from its members banks, checks and drafts for collection. (American Bank and Trust Co. v. Federal Reserve Bank of Atlanta, 262 U. S. 643.)

Section 16 provides: "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."

That these provisions did not compel the defendant to receive the checks or to collect them is reasonably clear from the language employed. But all discussion of the subject has been set at rest by the supreme court of the United States in Farmers and Merchants Bank v. Federal Reserve Bank of Richmond, 262 U. S. 649. With reference to the duty of a Federal reserve bank to collect checks for member banks, the

court said: "But neither section 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." In passing upon the language employed in the opening paragraph of section 15 quoted above, the court observed: "The depositors in a Federal reserve bank are the "United States, other Federal reserve banks, and member banks. It is checks "on these depositors which are to be received by the Federal reserve banks. "These checks from these depositors the Federal reserve banks must receive. "And when received they must be taken at par. There is no mention of non- "member banks in this section. When in 1916, section 13 was amended to permit "Federal reserve banks to receive from member banks solely for collection "other checks payable upon presentation within the district; and when, in "1917, section 13 was again amended to permit such receipt solely for col- "lection also from certain nonmember banks-section 16 was left in this re- "spect unchanged. In other respects section 16 was amended both by the Act "of 1916 and by the Act of 1917. The natural explanation of the omission to "amend the provision in section 16 concerning clearance is that the section "has no application to nonmember banks,-even if affiliated."

The checks here in question were drawn upon the Coffee Creek Bank, which was not a member bank nor affiliated with the Federal Reserve System in any manner; therefore, under the provisions of section 16 quoted above, the defendant was not compelled to receive them even for deposit.

But it is insisted that defendant was compelled to act as a clearing house for its member banks, including the Lewistown Bank. The only provision of the Federal Reserve Act relating to this subject, so far as we have observed, is to be found in the concluding paragraph of section 16,

as follows:

> "The Federal Reserve Board shall make and promulgate from time to time regulations governing the transfer of funds and charges therefor among Federal reserve banks and their branches, and may at its discretion exercise the functions of a clearing house for such Federal Reserve banks, or may designate a Federal Reserve Bank to exercise such functions and may also require each such Bank to exercise the functions of a clearing house for its members." banks."

This language appears to be explicit. It provides that the Federal Reserve Board may require each Federal reserve bank "to exercise the "functions of a clearing house for its member banks." If the language of section 13 above, is merely permissive, and not mandatory, as held by the supreme court, this language of the concluding paragraph of section 16 is likewise permissive, and not mandatory. In other words, while the Federal Reserve Board may require a Federal reserve bank to act as a clearing house for its member banks, it is not compelled to make such requirement. It might have refused altogether to constitute this defendant a clearing house, and in the absence of an order from the Federal Reserve Board directing it to function as a clearing house, this defendant might have refused to undertake any service with respect to these checks. It was compelled to function as a clearing house only in virtue of the order of the Federal Reserve Board directing it to do so upon the terms and conditions mentioned in Regulation J and Circular 286.

Since the Federal Reserve Board was permitted, but was not compelled, to require this defendant to function as a clearing house, it could prescribe the terms upon which the service should be rendered when undertaken.

Section 11 of the Federal Reserve Act defines generally the powers and duties of the Federal Reserve Board. Section 11 j provides: "Said board

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"shall perform the duties, functions or services specified in this Act, "and make all rules and regulations necessary to enable said Board ef- "fectively to perform the same." Section 11 j provides that the Federal "Reserve Board shall "exercise general supervision over said Federal reserve "banks." These provisions furnish ample authority to the Federal Reserve Board to make any lawful rules and regulations for the conduct of the business carried on by a Federal reserve bank in its capacity as a clearing house or collecting agent, and since the rules prescribed in Regulation J and Circular 286 are not unlawful, this plaintiff is bound by them so far as they affect the instant case.

The contention made that it is against public policy to permit this defendant to contract against liability for accepting drafts in payment of checks received by it for collection, cannot be sustained. In this jurisdiction even a public service corporation may contract against liability for its own negligence, under certain circumstances. (Nelson v. Great Northern Ry. Co., 28 Mont. 297, 321, 72 Pac. 642; John v. Northern Pacific Ry. Co., 42 Mont. 18, 35, 111 Pac. 632).

In their brief, counsel for plaintiff say: "Only in cases where "a person or corporation can refuse to perform a service, can it dictate the "terms under which it will perform the service." For the purpose of this appeal that statement may be accepted as substantially correct, but it does not aid the plaintiff, and no useful purpose would be served by discussing the public character of the services rendered by the Federal Reserve System. It is settled by the decision in Farmers and Merchants Bank v. Federal Reserve Bank of Richmond, above, that this defendant was not compelled by the Federal Reserve Act to collect the checks in question. "It is a fundamental

"rule of law, however, that what one may refuse to do entirely he may "agree to do on such terms as he pleases. Hence, one person, being under "no legal duty to perform certain services for another, may, upon agreeing "to perform such services, exempt himself from liability for his own negli- "gence, providing * * * there is no attempt to exempt himself from re- "sponsibility from any fraud or willful injury to the other person or his "property, or to exempt himself from responsibility from any violation of "the law, either willful or negligent." (6 Cal. Jur. 117; see also sec. 7554, Rev. Codes, 1921)

It is argued by counsel for plaintiff-though it nos pleaded in the complaint-that the Lewistown Bank was compelled to send the checks in question to the defendant for collection, and therefore the contract lacks the essential element-consent given freely. If it be a fact, as suggested in argument, that the Lewistown Bank was not free to collect the checks directly from the Coffee Creek Bank or through any agency other than the defendant and that it was coerced into accepting the offer, such fact is not one of which this court can take judicial notice. (sec. 10532, Rev. Codes, 1921). It is true that every member bank is required by section 19 of the Federal Reserve Act to maintain with the Federal Reserve Bank of the district a certain designated minimum reserve, and is subject to severe penalties for any impairment of that reserve but this court cannot say that those requirements furnish the means by which this defendant could or did coerce the Lewistown Bank to make all collections through the Helena Branch Bank. This is not such a case as was presented in American B. & T. Co. v. Federal Reserve Bank, 256 U. S. 350, or in Brookings State Bank v. Federal Reserve Bank

281, Fed. 222.

Again it is suggested that, assuming the validity of Circular 286, the provision therein that a Federal reserve bank receiving checks for collection, may accept bank drafts in payment, should be construed to mean "that a bank drafts is to be received only in those cases where such course "could safely be pursued." We are unable to appreciate the force of this suggestion. It may be true that if a Federal reserve bank, undertaking to collect checks drawn upon a nonmember and non-clearing bank, accepted drafts on such bank when the bank was known to be insolvent, such Federal reserve bank might be liable notwithstanding the provisions of Regulation J and Circular 286; but that is not this case. There is not a suggestion in the pleading that the Coffee Creek Bank was insolvent at the time it transmitted its drafts to the defendant, or, if it were insolvent in fact, that such fact was known or should have been known to the defendant. The mere fact that it suspended business before the drafts were collected does not argue that it was insolvent when the drafts were issued. It does not appear upon what banks the drafts were drawn or what time elapsed after the drafts were received by the defendant before the Coffee Creek Bank failed.

It is our conclusion that the contract entered into between the Lewistown Bank and this defendant is valid so far as it appears from this record; that that contract is binding upon Fergus county for whose benefit it was made, and that in virtue of its provisions defendant was relieved of liability for accepting the drafts of the Coffee Creek Bank. It follows that the answer states a defense, and that the trial court erred in sustaining the demurrer.

Under this view of the case it is not necessary to consider the

second defense pleaded.

We have treated this defendant as sub-agent for Fergus county in handling these checks for collection and we think correctly so. It is certain that plaintiff cannot maintain an action against defendant upon this cause of action, upon any other theory and this is the theory upon which the case of Federal Reserve Bank of Richmond v. Malloy above was predicated, and it is immaterial here that the theory may have been adopted merely to avoid circuity of action.

In the answer an attempt was made to deny that the checks were delivered to the Lewistown Bank for collection, but the pleader ignored the plain provisions of section 9137, Revised Codes of 1921, and the attempted denial is not effective for any purpose.

The judgment is reversed and the cause is remanded for further proceedings.

Reversed and Remanded.

WM. L. HOLLOWAY
Associate Justice.

We concur:

LEW L. CALLOWAY
Chief Justice

ALBERT J. GALEN

ALBERT P. STARK

JOHN A. MATTHEWS
Associate Justices.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4568

March 24, 1926.

SUBJECT: Eligibility for rediscount at a Federal reserve bank of notes made or endorsed by a Federal Intermediate Credit Bank when offered by a member bank.

Dear Sir:

The Federal Reserve Board has been requested to rule upon the eligibility for rediscount at a Federal reserve bank of a note of a Federal Intermediate Credit Bank and also of a note made by a cooperative marketing association and endorsed by a Federal Intermediate Credit Bank. In each case the note is offered for rediscount by a member bank which has discounted it for the Federal Intermediate Credit Bank.

It was suggested to the Board that if such paper is eligible for rediscount, the provision of the Board's Regulation A which prohibits a Federal reserve bank to discount paper for any Federal Intermediate Credit Bank when its own reserves are less than 50% of its aggregate liabilities for deposits and Federal reserve notes might be circumvented and a Federal Intermediate Credit Bank might obtain accommodation indirectly from a Federal reserve bank even though the Federal reserve bank's reserve might be less than 50%. The principle underlying this provision of the regulation, however, is that member banks are entitled to preferential treatment in the matter of receiving credit accommodations from the Federal reserve bank because they contribute to the resources of the Federal reserve banks and their credit facilities ought not to be curtailed in any way through the extension of credit to Federal Intermediate Credit Banks, which contribute nothing to the resources of the Federal Reserve System and which are not members of the System. This principle, of course, would not be applicable when a member bank offers for rediscount at a Federal reserve bank paper made or endorsed by a Federal Intermediate Credit Bank, because in such a case the member bank would be obtaining credit accommodation from the Federal reserve bank. If the paper is otherwise eligible this provision of the Board's regulations would not prevent its rediscount by a member bank.

The question whether a note made by a cooperative marketing association and endorsed by a Federal Intermediate Credit Bank is eligible for rediscount at a Federal reserve bank, when offered

by a member bank, is to be determined by the purpose for which it was issued or the use made of its proceeds and is not affected by the fact that it is endorsed by a Federal Intermediate Credit Bank (except for the prohibition contained in Section 19 which is discussed below.) As the Board has ruled, heretofore, it is the purpose of the original negotiation which is determinative of the eligibility of a note for rediscount. In the fourth paragraph of Section 13 (a) of the Act, it is provided that a note issued by a cooperative marketing association shall be deemed to have been issued for an agricultural purpose if its proceeds have been or are to be used for certain specified purposes. If, therefore, a note made by a cooperative marketing association has been issued for one of the purposes so enumerated, or may be otherwise considered agricultural paper, it is eligible for rediscount at a Federal reserve bank when offered by a member bank, regardless of the fact that it may have been discounted by the member bank for a Federal Intermediate Credit Bank. Of course, it is necessary that the note comply in all other respects with the pertinent provisions of the Federal Reserve Act and the Board's Regulations.

While in theory the general principles applicable in determining the eligibility of other paper would govern the eligibility of a note made by a Federal Intermediate Credit Bank when offered for rediscount by a member bank, as a practical matter, since Federal Intermediate Credit Banks are not ordinarily engaged in commercial, agricultural or industrial pursuits but in the business of lending money, it seems almost certain that such a note would not be issued for an eligible purpose but for the purpose of obtaining funds to be advanced or loaned to some other borrower. Under such circumstances, of course, the note made by the Federal Intermediate Credit Bank would be ineligible for rediscount under Section II(b) of the Board's Regulation A.

The eligibility for rediscount of paper made or endorsed by a Federal Intermediate Credit Bank when offered by a member bank is also affected by that provision of Section 19 which prohibits a member bank from acting as the medium or agent of a nonmember bank in discounting with a Federal reserve bank except by the Board's permission; and it is accordingly necessary, under the principles laid down in the Board's ruling published in the 1923 Bulletin at page 891, for the Board to grant its permission before paper bearing the signature or endorsement of a Federal Intermediate Credit Bank may properly be rediscounted for a member bank. Accordingly, the Federal Reserve Board hereby grants its permission for Federal reserve banks to rediscount for member banks paper bearing the signature or endorsement of Federal Intermediate Credit Banks, if such paper is otherwise eligible under the law and the regulations. In the ruling referred to it was stated that as a general rule, the Board will not grant to member banks permission to rediscount with Federal reserve banks the paper of

nonmember banks which are eligible for membership in the Federal Reserve System. Federal Intermediate Credit Banks, however, are not eligible for membership in the Federal Reserve System and, therefore, the granting of this permission is not a departure from the policy announced in that ruling.

Very truly yours,

D. R. Crissinger,
Governor.

TO ALL FEDERAL RESERVE AGENTS.

IN THE UNITED STATES CIRCUIT COURT OF APPEALS,

FIFTH CIRCUIT.

No. 4692.

DOUGLAS C. CROWELL, ET AL.,

Appellants,

Versus

FEDERAL RESERVE BANK OF DALLAS, TEXAS, ET AL.,

Appellees.

Appeal from the District Court of the United States for the Western District of Texas.

R.A.D. Morton (Dyer & Morton on the brief), for Appellant.

J.G. McGrady, A. H. Culwell, (Turney, Burges, Culwell Holliday & Pollard; Wm. H. Burges; Charles C. Huff; Ethan B. Stroud, Jr.; Lea, McGrady, Thomason & Edwards, on the brief), for Appellees.

Before WALKER, BRYAN and FOSTER, Circuit Judges.

BRYAN, Circuit Judge:

On Saturday, January 26, 1924, bank examiners completed an examination into the condition of the City National Bank of El Paso, Texas, and notified its officers that the bank would not be allowed to open its doors on the following Monday unless by that time it should have charged off $800,000 in paper

held as assets which the examiners considered to be worthless. On the following night a meeting of citizens was held for the purpose of assisting in raising $800,000 in money so as to enable the bank to continue in business. These citizens subscribed to various amounts aggregating $300,000, and signed an agreement to accept for their subscriptions notes in equal amounts which had been rejected by the bank examiners. It was provided by the subscription list which they signed that their subscriptions were subject to an agreement by the Federal Reserve Bank to take and pay for at par $500,000 of the least valuable of the rejected notes and assets held by the bank. The governor of the Reserve bank was present at the place where the meeting of the citizens was held, and stated to those who approached him that the Reserve bank could not make a donation, and that under no circumstances would he accept and pay for worthless assets, but that he would consider making an advance for the Reserve bank of $500,000, which was the amount of the capital stock of the El Paso bank, pending an assessment of 100 per cent against the shareholders. A resolution was adopted by the directors of the El Paso bank accepting an advance in that amount, agreeing to make the assessment suggested, and providing, in the event it should not be made or the El Paso bank should suspend business before it was completed and the amount necessary to take up the loan raised, that the Reserve bank should have a first and prior lien on all the assets of the El Paso bank to secure repayment. On Monday morning, January 28, the $300,000 subscribed by the citizens and the $500,000 advanced by the Reserve bank were deposited in the El Paso bank and the questionable assets were taken out

and turned over to a committee for distribution. The El Paso bank closed its doors on May 6, 1924, and in November, 1924, its receiver, with the approval of the Comptroller, and the Reserve bank entered into a contract of settlement, in which the advance of $500,000 by the Reserve bank was recognized as a loan.

Douglas C. Crowell subscribed and paid $2,000 at the citizens' meeting in January. He was not a shareholder in the El Paso bank, but was a depositor. At the time of that bank's failure in May he had on deposit with it $19,473.68. He had borrowed on his notes before the failure $23,500. It is admitted that all of these notes were negotiable, except one for $8750, which it is claimed was non-negotiable because, though it was made payable to order six months after date, it pledged as collateral certain stock with the right of the payee to call for additional security should the stock decline, in which event it became payable on demand. All these notes, including the one last mentioned, were pledged as collateral security by the El Paso bank before its failure to the Reserve bank. After the failure, the Reserve bank notified Crowell that it was the holder of the notes, and he paid the $8750 note before it was due. The representative of the Reserve bank stated to him that it could grant a short extension of time, and did not threaten to sue or to exercise the right to sell the stock pledged as collateral. Crowell stated that he was paying his notes under protest, and demanded that when the Reserve bank should be paid in full on paper discounted with it by the El Paso bank his proportion of any surplus in collateral notes or cash should be delivered to him and not

turned over to the receiver. At the date of the final hearing the receiver was still indebted to the Reserve bank to the extent of about $75,000, for which the Reserve bank held collateral notes amounting to $37,500 and rediscounted notes amounting to approximately $178,000.

Crowell filed a bill to set aside the contract of settlement between the receiver and the Reserve bank on the ground that the Reserve bank was estopped to claim that the $500,000 advanced by it in January was a loan, because the citizens who donated $300,000 did so on condition that the Reserve bank would make a donation of $500,000. The bill also prays that Crowell be decreed to have the right to set off his deposit against all his notes, or at least against the note for $8750, which he claims to be non-negotiable. The district court after hearing the evidence dismissed the bill, but without prejudice.

The evidence shows without conflict that the Reserve bank did not agree to make a donation, and it becomes unnecessary to decide whether it had the right or power to do so. The most that can be claimed by appellant is that some of the citizens who made donations were led to believe by others of their number or by officials of the El Paso bank that the Reserve bank would also make a donation of half a million dollars. It is very clear, in fact it is alleged in the bill, that the governor of the Reserve bank would deposit the amount requested of him only upon condition that he receive as security an assessment in full of the shareholders' liability. Nor is there any dispute that the Reserve bank refused to make a deposit until after the passage of a resolution by the directors of the El Paso bank pledging other assets in the event of a

failure to secure by stock assessment the full amount advanced. It was only upon the passage of that resolution that the Reserve bank undertook to bind itself to do anything. All previous suggestions and conversations were mere preliminary negotiations, and it was thoroughly understood all the while by those who dealt with the governor of the Federal Reserve Bank that he would under no circumstances make a donation, and that if he made a loan it would have to be secured. The question is not whether the liability of the shareholders could be pledged as security but whether a loan was made. The evidence without conflict answers that question in the affirmative. It is contended that the trial court should have granted appellant's request to call a jury to pass upon the question whether the amount advanced was a loan or a donation. But clearly there was no error in refusing to summon a jury, as the court would have been obliged to direct them to find against appellant on the undisputed facts. It follows that appellant must fail on his principal claim of estoppel. His claim of set off is premature. The El Paso bank was still indebted to the Reserve bank at the date of the final hearing, and it therefore had not been determined what amount, if any, would be realized from collateral notes and available to the receiver. It is contended, however, that the Reserve bank should be compelled to pay over either to appellant or to the receiver proceeds of the $8750 note on the ground that it was non-negotiable. Whether that is true or not does not seem to have been settled in the State of Texas, and we find it unnecessary to decide, because appellant made payment of that note voluntarily; he even paid it before it was due,

and was not induced to do so by any action threatened by the Reserve bank to sell or resort to the collateral pledged to secure payment of the note. The doctrine of marshaling assets has no application, for this is not a case of a junior and senior lienholder. Appellant has no lien, and the Reserve bank has the right to subject any security it holds to the satisfaction of its debt. The suggestion is finally made that it was error to dismiss the bill, because having taken jurisdiction the court should have proceeded to establish appellant's claim to his deposit. It is not averred in the bill that appellant had ever presented his claim or that it had been disallowed by the receiver. It is to be assumed that the claim would be allowed upon presentation. It would be intolerable to allow every depositor to come into court to establish his claim without first having made demand or showing that it had been disallowed. As the dismissal of the bill was without prejudice, appellant is left free to assert in appropriate proceedings any rights he may have against the receiver.

The decree is

AFFIRMED.

(ORIGINAL FILED MARCH 16, 1926).

FEDERAL RESERVE BOARD X-4571

STATEMENT FOR THE PRESS

For Release in Morning Papers,
Saturday, March 27, 1926.

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 and trade continued in February at the high level of the preceding month, while the general average of prices declined and was lower in February than at any time since the latter part of 1924.

Production.-

The Federal Reserve Board's index of production in basic industries, which is adjusted for seasonal variations, indicated a continuation of productive activity during February in about the same volume as in the preceding two months. Mill consumption of cotton and the output of flour, anthracite, copper, and newsprint showed increases in February, when allowance is made for usual seasonal changes, and the output of iron and steel and lumber remained practically unchanged. Activity in the woolen industry and the production of cement declined. Automobile production was in considerably greater volume in February and was larger than a year ago, although smaller than in the corresponding month of 1924. Employment and earnings of factory workers increased, after the seasonal recession of January, and were in February at practically the same levels as during the latter part of 1925. The volume of building contracts awarded declined both in January and in February, but remained larger than in the corresponding months of last year.

Reports by farmers to the Department of Agriculture of intentions to

plant in 1926 indicate that the acreage of spring wheat and tobacco will be slightly smaller, the acreage of corn will be about the same, and that of oats, barley, hay, and potatoes larger than that in 1925.

Trade.-

Wholesale trade in February was in about the same volume as a year ago. A smaller volume of sales was reported for groceries, dry goods, and hardware, while sales of meats, shoes, and drugs were larger. Inventories of wholesale firms dealing in groceries, dry goods, shoes, and hardware were smaller at the end of February than a year ago. Trade at department stores and at mail order houses was larger than in February of last year and department store stocks were about 5 per cent greater than on the corresponding date of 1925.

Freight car loadings continued at about the same daily rate in February as in the preceding two months. Shipments of merchandise in less-than-carload-lots and of miscellaneous commodities were particularly large.

Prices.-

The general level of wholesale prices, as measured by the Bureau of Labor Statistics index, after remaining unchanged for two months, declined in February to a point slightly below the low figure of 1925, reported for last May. The greater part of the decline since last autumn has been in prices of agricultural commodities. In February prices of all major groups of commodities, except fuels, declined and particularly large reductions occurred in the prices of grains, cotton, wool, silk, and rubber. Price advances in February were shown for petroleum, coke, and paper. During the first three weeks of March prices of grains, cotton, wool, and silk continued to decline and recessions were also reported in the prices of sugar and hardwood lumber.

Bank Credit.-

At member banks in leading cities demand for loans chiefly for commercial purposes showed an increase, partly seasonal in character, between the middle of February and the middle of March, and on March 17 the total volume of these loans was close to the high point reached last autumn. A further decline of loans on securities, which accompanied the sharp recession in security prices in March, carried the total to a point nearly $430,000,000 below that reached at the end of the year.

Following a growth during February in the volume of reserve bank credit outstanding, there was a sharp decline early in March to about the same level as a year ago. Factors contributing to the decline have been continued imports of gold and some reduction in member bank reserve requirements, as well as the temporary abundance of funds resulting from the excess of Treasury disbursements over receipts around March 15.

Open market rates on prime commercial paper, after a slight decline in February advanced in March to 4-1/4 - 4-1/2 per cent, the level which had prevailed since last October.

X-4572

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

For immediate release March 27, 1926

CONDITION OF ACCEPTANCE MARKET
February 18, 1926 to March 17, 1926

Acceptances.

The acceptance market was generally quiet during the four weeks ending March 17, although a somewhat larger volume of transactions was reported by dealers in New York, Boston, and Chicago, than during the preceding four weeks. The supply of bills offered in the market remained small except for a temporary increase at the end of February. An improvement in demand accompanying easier money conditions, around the middle of March, resulted in a reduction in dealers' portfolios from the unusually high volumes reported on February 18. Federal reserve bank purchases were moderate and those made from dealers were generally for foreign account. Bill rates in New York remained unchanged throughout the period. These rates are given in the following table:

Acceptance Rates in the New York Market, March 17, 1926.

Maturity	Bid	Offered
30 days	3 5/8 per cent	3 1/2 per cent
60 "	3 3/4 " "	3 5/8 " "
90 "	3 3/4 " "	3 5/8 " "
120 "	3 7/8 " "	3 3/4 " "
150 "	4 1/8 " "	4 " "
180 "	4 1/8 " "	4 " "

C O P Y

X-4573

March 19, 1926.

Mr. George J. Seay, Governor

M. G. Wallace, Counsel.

Additional Topics for

Governor's Conference.

My dear Governor Seay:

I have carefully read the letter of the Federal Reserve Board, X-4558, and the letter of Mr. Walter Wyatt, X-4551, which is attached.

Mr. Wyatt has discussed so thoroughly the present situation that additional discussion is largely superfluous. As he states at the present time Federal Reserve Banks may not bring suits in, or remove suits to Federal Courts upon the ground that the banks are citizens of different States from that of other parties to the suit. Also the banks may not, as formerly, bring suits in, or remove suits to Federal Courts upon the ground that any suit against the Federal Reserve Bank is one arising under the laws of the United States. The result is Federal Courts will never have jurisdiction, of litigation concerning Federal Reserve Banks, unless the suit, or action, as brought by the plaintiff shows that a question involving the construction of the constitution of the laws of the United States is involved. This would exclude us from the Federal Courts in nearly all usual litigation.

I thoroughly agree that it would be well to seek some amendment of the Acts of Congress, and I am inclined to think that the third amendment suggested by Mr. Wyatt would be the best.

If the first amendment suggested by Mr. Wyatt be adopted, Federal Reserve Banks could only remove suits to Federal Courts when the suit was brought in some State other than that in which the main office of the bank was located.

If the second suggestion were adopted, the amendment would authorize Federal Reserve Banks to institute suits in the District Courts of the United States, and would authorize other persons to bring suits against them in the District Courts of the United States. It would seem, however, that the section must be construed to mean either that Federal Reserve Banks may not sue or be sued in any State Court, or else that they may sue in any State Court or in the District Court of the United States. If the former construction be adopted, it will somewhat embarrass the banks; because proceedings in Federal Courts are as a rule more expensive than they are in State Courts, and it will be inconvenient to be compelled to resort to a Federal Court whenever we found it necessary to bring suit to collect a note, or for other slight cause. The banks might sue and be sued in the District Court of the United States, but could not remove to that Court a case brought against them in the State Court.

Mr. George J. Seay, Governor. 255

The third amendment would merely restore the status which existed prior to the Act of February 13th, which it seems to me was fair, both to the banks and to other persons, as it permitted us to remove suits in which the amount in controversy exceeded $3,000.00, but did not permit us to bring, or remove suits, to the Federal Court if the amount were less.

Mr. Wyatt and Judge Ueland in his letter of February 23rd raise other closely related but somewhat different questions which to my mind are perhaps of greater importance than the question of Federal jurisdiction - that is to say the question of the location, or domicile, of a Federal Reserve Bank. The Federal Reserve Act is not specific upon this point, and it seems to me that a Federal Reserve Bank might be regarded as domiciled only in the place in which its head office, or in any event, where some branch is located, or else it might be regarded as in contemplation of law domiciled throughout its District.

Judge Ueland points out that his opponents have usually proceeded against him upon the theory that a Federal Reserve Bank was not doing business in any State, except that in which its head office, or some Branch, was located. On the other hand, in several suits brought against this bank our opponents have taken the ground that a Federal Reserve Bank was in contemplation of law present in every State of its District, and subject to suits in such State in the same manner as a corporation duly domiciled therein. In other words, the suits mentioned by Judge Ueland proceed upon the theory that the Federal Reserve Bank is a foreign corporation and not domiciled throughout its District. The suits against us proceed upon the theory that we are quasi-domestic corporations in every State of our District. The suits against us have not been pressed to a final judgment, but are now pending. The lower Courts have held that we were doing business in every State in our District. It is impossible to predict the final outcome of these suits, but it seems to me that either Judge Ueland, or myself must lose. It seems to me that a Federal Reserve Bank is either doing business in every State in its District, and, therefore, subject to process in such State as a corporation doing business therein, or else it is not doing business in that State, and, therefore, subject to attachment as a non-resident.

It is difficult to decide which of these two alternatives would be most advantageous to the Federal Reserve Bank. If we are domiciled throughout our District, and liable to suit in every State, we are liable to the constant annoyance of suits in remote places, or the expense and inconvenience of taking depositions, or sending witnesses to testify in such places, but on the other hand, we will probably be entitled to the statutes of limitations, and certain other remedial statutes which only apply to residents of a State.

If the Courts hold that we are not doing business in any place except where we have an office, we are, I think, liable to attachment in other States. There appears to be nothing in the Federal Reserve Act which extends to Federal Reserve Banks the protection which National banks have against attachments before a judgment. While a person with a claim against us may not always be able to attach money, or property, belonging to us in the hands of a member bank, they could usually do so, and even though the property attached belonged to some member bank, as, for example, checks sent for collection, still we could by the attachment be placed in a position where we should be compelled to give great inconvenience to our member banks, or else submit to attachment.

As you will notice either decision which may be made under the present law would have many disadvantages and some advantagesto the Federal Reserve Banks. If it were possible to have a statute passed providing that Federal Reserve Banks should be considered doing business only in the places in which their head offices, or branches, were located, and should not be subject to execution or attachment before final judgment, the difficulties and expense attendant upon litigation of Federal Reserve Banks would be greatly diminished.

However, I call your attention to the fact that the above mentioned provision which would protect us would mean that any person who undertook to bring a suit against us would be compelled to submit to the expense and inconvenience which now falls upon us, and it would usually mean that a member bank, or other person with a small claim against the Federal Reserve Bank would be compelled to abandon it rather than to prosecute it to judgment, and it might be that such a condition would lead to such friction and ill-feeling that it would be better for us to stand the expense and trouble of suits than to seek a provision which would relieve us of this trouble but cast it upon those who had, or thought they had good claims against us.

I remain

Very truly yours,

M. G. Wallace,
Counsel.

MGW:IB

FEDERAL RESERVE BOARD

WASHINGTON

X-4574

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

March 31, 1926.

SUBJECT: Necessity for appointment of Assistant Federal Reserve Agents at Branches of Federal Reserve Banks.

Dear Sir:

This is to advise you that the Federal Reserve Board has approved the following resolution adopted by the Conference of Federal Reserve Agents held in Washington in November, 1925:

> "Resolved that it is not necessary that an Assistant Federal Reserve Agent be appointed in any branch at which unissued Federal Reserve notes are not carried."

Yours very truly

D. R. Crissinger,
Governor.

TO ALL GOVERNORS AND F.R.AGENTS.

Preliminary Draft.

March 31, 1926.

COMPILATION OF THE LAWS OF THE SEVERAL STATES RELATING TO SEGREGATION OF THE ASSETS OF SAVINGS DEPARTMENTS OF BANKS AND TRUST COMPANIES.

CALIFORNIA.

The laws of California authorize banks to carry on a departmental business, transacting the business of savings banks, trust companies and commercial banks.

Segregation of Capital.

> "When a bank desires to do a departmental business, it shall first obtain the consent of the superintendent of banks, and in its application therefor, file a statement making a segregation of its capital and surplus for each department. Such capital and surplus, when so apportioned and approved by the superintendent of banks, shall be considered and treated as the separate capital and surplus of such department as if each department was a separate bank. Thereafter a bank may, from time to time, with the previous consent and approval of the superintendent of banks and subject to the provisions of section nineteen of this act, change any segregation and apportionment of capital and surplus previously made and make a new segregation and apportionment of its capital and surplus.

Segregation of Reserves.

> "Every bank shall maintain for each department total reserves equal in amount to that required by this act for the respective business conducted, and shall keep separate and distinct the total reserves of any department from that of any other department; and all deposits made with other banks, whether temporary or otherwise, shall be assets of the respective departments by which they were made, and shall be so carried on the books of such other banks, and shall be repaid only upon the order of the department to whose credit they stand. No department shall receive deposits from any other department of the same corporation; except that a trust department, in proper cases, may make deposits of trust or any other funds, under its control with the savings department or the commercial department of the same corporation; provided, however, that any bank having departments shall have the right to sell and transfer any bonds, securities or loans from one department to

another upon receipt of the actual value thereof, if such bonds, securities or loans are, under the provisions of this act, a legal investment for the department purchasing the same."

Segregation of Assets.

"Every bank having different departments shall keep separate books of account for each department of its business, and shall be governed as to all deposits, reserves, investments and transactions relating to each department by the provisions in this act specifically provided for the respective kind of business.

"It shall keep all investments relating to the savings department entirely separate and apart from the investments of its other department or departments.

* * * * * * *

"Every bank shall keep entirely separate and apart in each department the cash, securities and property belonging to such department, and shall not mingle the cash, securities and property of one department with that of another.

"All money and assets belonging to each department whether on hand or with other banks, and the investments made, shall be held solely for the repayment of the depositors and other claimants of each such department, as herein provided, until all depositors and other claimants of each such department shall have been paid, and the overplus then remaining shall be applied to any other liabilities of such bank."

This Act was enacted in 1909.

The Banking Laws of 1925, Sections 23, 25, 26 and 27; Hemingway's General Laws, 1920, Act 409, Sections 23, 25, 26 and 27.

COLORADO

Segregation of Savings Deposits. Any person, co-partnership or corporation conducting a savings department in connection with banking or other business shall keep the books, funds, securities and all other assets of such savings department separate and apart, and such assets shall constitute a trust fund for the payment of savings depositors. No department of any bank shall receive deposits from another department or borrow from or loan to the same.

This law was passed in 1911.

Banking Laws of 1923, Sec. 46; Comp. Laws of 1921, Sec. 2701.

Law repealed. The act above set out was repealed by Act of March 21, 1923, so that there is now no law in Colorado requiring the segregation of savings deposits.

CONNECTICUT.

Segregation of Assets. The laws of Connecticut require all banks and trust companies receiving savings deposits to invest such deposits according to the requirements of the laws concerning investments of deposits in bonds. Said investments shall be segregated and not mingled with other assets of such bank or trust company and shall be for the exclusive protection of depositors in the savings department and shall not be held for or used to pay any other obligation of the bank or trust company until after the payment of all depositors in the savings department.

This law was passed as early as 1891.

Banking Laws of 1923, Sec. 3928; General Statutes 1918, Chap. 202, Sec. 3928.

GEORGIA.

Separate records. The laws of Georgia require banks doing both a commercial and savings business to keep separate records of its savings deposits.

This law was passed in 1919.

Banking Laws of 1923, p. 85; Park's Annotated Code of Georgia, 1922 Supp. Vol. 8, Sec. 2280 (u.u.)

ILLINOIS.

There is no provision in the laws of Illinois requiring banks receiving savings deposits to segregate the assets of its savings department from its other assets, but it is understood that the Auditor requires banks to segregate savings deposits from their commercial deposits.

KENTUCKY.

Separate Records. The laws of Kentucky require any bank combining the business of a commercial and savings bank to keep separate books for each kind of business.

This law was passed in 1909. Under special charters, however, banks were required to keep separate books at an earlier date.

Banking laws of 1924, p. 22; Ky. Code 1922, Sec. 590.

MAINE.

Segregation of Assets. Every trust company receiving savings deposits or using the term "savings" in connection with its business, shall segregate and at all times keep on hand so segregated assets at least equal to the aggregate amount of its savings deposits and in the case of a trust company which also acts as surety upon bonds or other obligations the amount of its assets so segregated shall be at least 15% in excess of the aggregate amount of its savings deposits. The Bank Commissioner may require all such assets as appear to be carried in excess of their true value to be charged down to the true value.

Assets segregated and held for security of savings Deposits. Assets so segregated shall be held in trust for the security and payment of savings deposits and shall not be mingled with other assets of the trust company, or be liable for the obligations thereof until after the savings depositors shall have been paid in full. All other assets of the company shall be held equally and ratably for the payment of all claims including any balance to savings depositors after applying to their payment the assets segregated.

How segregated assets shall be held and segregated. Assets segregated for the benefit of the savings department shall be so held and recorded as to identify them as the assets held for the security of such deposits. All securities representing such assets shall be plainly stamped "savings department", provided, however, that in lieu thereof it shall be lawful to record in the investment book a description of assets so held

sufficient to identify them.

This law was passed in 1911.

Banking Laws of 1923, pages 55 and 56; Public Laws of Maine 1923, Chap. 144, Secs. 89, 90 and 91.

MASSACHUSETTS.

Segregation of Savings Deposits of Foreign Banks.

"Every foreign banking association or corporation which was on June tenth, nineteen hundred and six, transacting business in this commonwealth and which receives any deposits or transacts any business in the manner of a savings bank, or in such a manner as might lead the public to believe that its business is that of a savings bank, shall have a savings department in which all business transacted in such manner in this commonwealth shall be done. All money received in said manner shall be a special deposit and shall be placed in said savings department, and all loans or investments thereof shall be made in accordance with the laws governing the investment of deposits in savings banks.

"Such funds and the investments or loans thereof shall be appropriated solely to the security and payment of such deposits, and shall not be mingled with the investments of the capital stock or other money or property belonging to such association or corporation or be liable for the debts or obligations thereof. The accounts and transactions of said savings departments shall be kept separate and distinct from the general business of the association or corporation."

Segregation of Deposits in Savings Departments.

"Every such corporation (trust company) soliciting or receiving deposits (a) which may be withdrawn only on presentation of the pass book or other similar form of receipt which permits successive deposits or withdrawals to be entered thereon; or (b) which at the option of such corporation may be withdrawn only at the expiration of a stated period after notice of intention to withdraw has been given; or (c) in any other way which might lead the public to believe that such deposits are received or invested under the same conditions or in the same manner as deposits in savings banks; shall have a savings department in which

"all business relating to such deposits shall be transacted. Every such corporation subject to this section shall have an investment committee of not less than three members, elected by and from the board of directors, and such committee shall hold meetings at least once in each month.

* * * * * * * * * * *

"Such deposits and the investments or loans thereof shall be appropriated solely to the security and payment of such deposits, shall not be mingled with the investments of the capital stock or other money or property belonging to or controlled by such corporation, or be liable for the debts or obligations thereof until after the deposit in said savings department have been paid in full. The accounts and transactions of said savings department shall be kept separate and distinct from the general business of the corporation."

The Law relating to Foreign Corporations was enacted in 1907 and the Law relating to Trust Companies was enacted in 1908.

Banking Law 1923, pages 13 and 29. General Laws of Mass. 1921, Ch. 167, Secs. 41, 42 and Chapter 172, Secs. 60 and 62.

MICHIGAN.

Segregation of Savings Deposits.

"Any bank combining the business of a commercial bank and a savings bank shall keep separate books of account for each kind of business: Provided, That all receipts, investments and transactions relating to each of said classes of business shall be governed by the provisions and restrictions herein specifically provided for the respective kinds of banks: Provided, further, That all the investments relating to the savings department shall be kept entirely separate and apart from the other business of the bank, and that the twelve per cent reserve required by the provisions of this act to be kept on the savings deposits, shall be kept separate and distinct on the books of the bank from the reserve required on the commercial deposits, and that such portion of said savings deposits as are on hand unloaned or deposited

"with other banks or reserve agents and the investments made with the funds deposited by savings depositors shall be held solely for the payment of the depositors of said funds."

Penalty for failure to segregate savings deposits.

"Any bank combining the business of a commercial bank and a savings bank which shall not keep separate accounts as required by the preceding section or shall not keep the investments of the savings department separate or shall not in every respect comply with the requirements of such section, shall be liable to the state in the penalty of fifty dollars for each and every failure, neglect or refusal to comply with the provisions of said section, to be recovered in a suit to be brought by the attorney general in the name of the people of the state of Michigan in the circuit court of any county in which such bank may be situated."

This law was enacted in 1887.

Banking Laws of 1925, pages 31 and 32. Compiled Laws of Michigan. Ann. Supp. 1922, sec. 7998.

MINNESOTA.

Lien on Investments. A State bank or trust company incorporated and authorized to do business under the laws of Minnesota may establish and maintain a savings department and may solicit and receive deposits in any department. Savings deposits received by such bank or trust company using the word "savings" or "savings bank" in its title shall be invested only in authorized securities as defined by the law of Minnesota and such bank or trust company shall keep on hand at all times such securities as deposits in savings banks may be invested in to an amount at least equal to the amount of such deposits and these securities shall be representative of and the fund for,

applicable first and exclusively to the payment of such deposits.

This law was passed as to trust companies in 1915 and State Banks in 1923.

Banking Law of 1925, pages 13 and 37. General Statutes of Minn. 1923, secs. 7651 and 7667.

MISSISSIPPI.

There is no law in Mississippi requiring banks receiving savings deposits to segregate such deposits from its commercial deposits, but it is understood that the Bank Commissioner requires such segregation.

NEW HAMPSHIRE.

Separate Departments. Loan and trust companies, loan and banking companies, and other similar corporations receiving savings deposits or transacting the business of a savings bank shall conduct the business as a separate department and that department shall be amenable to the laws governing savings bank.

This law was passed in 1891.

Banking laws of 1921, p. 58. Acts of 1915, Ch. 109, Sec. 20.

NEW MEXICO.

Separate Accounts. Banks are authorized to operate commercial departments and savings departments and also trust departments; and every bank having different departments is required to keep separate accounts for each department of its business.

This law was passed in 1915.

Banking Laws of 1923, p. 20; laws of 1915, Ch. 67, Sec. 53.

NEW YORK.

The laws of New York give a preference to deposits in banks and trust companies made by savings bank, savings and loan associations, State land banks and Credit Unions. Banks and trust companies, however, are not authorized to receive savings deposits as such.

Birdseye, Cummings and Gilbert's Cons. Law, 2nd Ed. Vol. 1, p. 711, Sec. 278, p. 783, sec. 414, p. 791, sec. 437, Vol. 12, p. 74, sec. 279 and p. 82, sec. 456.

OHIO.

Separate Books of Account. The laws of Ohio authorize banks to operate commercial, trust and savings departments and require a bank operating such departments to keep separate books of account for each department.

This law was passed in 1908.

Banking Laws 1925, p. 49; Acts of 1919, Vol. 108, p. 110, sec.116.

OKLAHOMA.

The laws of Oklahoma authorize trust companies to establish savings departments, but before such departments may be established a trust company is required to set aside a portion of its capital stock, the amount of which shall in no case be less than the amount of the capital stock required to organize a State bank in the city or town in which the trust company is located, as a primary protection to the depositors in its savings department.

Segregation of Assets.

> "The Capital stock set aside for the Savings Department, and all deposits and all investments and loans and securities held in the Savings Department shall be appropriated solely to the security and payment of the deposits in the Savings Department, and shall not be mingled with the investment of the remaining capital stock or other money or property be-

"longing to or controlled by such trust company, or be liable for the debts or obligations thereof until after the deposits in said Savings Department have been paid in full. The accounts and transactions of said Savings Department shall be kept separate and distinct from the general business of the corporation.

"The capital stock of said trust company appropriated to the Savings Department, together with the stockholders' liability thereunder, shall be held as security for the payment of all deposits made in the Savings Department, and in addition thereto, the persons making such deposits, or entitled to said deposits, shall have an equal claim with the other creditors of such trust company upon the remaining capital and other property of the corporation, together with the stockholders' liability thereunder."

This law was passed in 1919.

Laws of Oklahoma, (1919) p. 242.

OREGON.

Segregation of capital.

"When a bank or trust company desires to do a departmental business it shall first obtain the consent of the superintendent of banks, and in its application therefor shall file a statement making a segregation of its capital and surplus for the commercial and savings departments. Such capital and surplus, when so apportioned and approved by the superintendent of banks, shall be considered and treated as the separate capital and surplus of such department as if each department was a separate bank. Thereafter a bank or trust company may, from time to time, with the previous consent and approval of the superintendent of banks and subject to the provisions of section 40 of this act, change any segregation and apportionment of capital and surplus previously made and make a new segregation and apportionment of its capital and surplus."

Separate books to be kept.

"Any state bank or trust company combining any of the business of a commercial bank, trust company and savings bank shall keep separate books or accounts for each department of its business and shall be governed as to all deposits, reserves, investments and transactions relating to each department by the provisions of this act specifically provided for the respective kind of

"business, and shall keep all moneys received as such savings deposits and the funds and securities in which the same are invested at all times segregated from and unmingled with the other moneys and funds of such bank or trust company and treated as if such department were a separate bank, and all bonds, warrants, notes, mortgages, deeds and other securities of every nature of such savings department shall be marked, stamped or labeled 'savings department' or some similar words, and the same shall be held solely for the repayment of the depositors of such department. * * *."

Savings deposits given prior lien on savings assets. In the event of the insolvency or liquidation of a bank or trust company maintaining a savings department, the depositors of the savings department of such bank or trust company shall have a first and exclusive lien on all assets of such savings department and in the distribution of such assets the same shall be first applied to satisfy the amount due such depositors after the payment of expenses of liquidation of the savings department of such bank or trust company, and the assets of such savings department shall be held and liquidated for the exclusive benefit of such depositors and the assets of such savings department shall not be applied for the benefit of depositors or creditors of any other department of such bank or trust company; provided, that after the depositors of such savings department shall have been paid in full and the remaining assets of such department may be used for the payment of depositors of the commercial department of such bank or trust company.

This law was passed in 1911.

Banking Laws of 1925, pages 16, 51 and 57; laws of Oregon 1925, Ch. 207, Secs. 44, 133 and 143.

PENNSYLVANIA.

There is no law in Pennsylvania requiring the segregation of assets of the savings departments of banks, but it is understood that

the Bank Commissioner requires such segregation.

RHODE ISLAND.

Segregation of savings deposits. Every bank or trust company which receives savings deposits shall invest all deposits so received according to the requirements of the laws of Rhode Island and such deposits invested or uninvested shall be set apart for the exclusive protection of the savings depositors and shall not be held for or be used to pay any other obligation of the bank or trust company until after the payment of all savings deposits. Uninvested funds of the savings department of such bank or trust company shall be kept in a separate distinct deposit account in such manner that the same can be readily identified as clearly belonging to the segregated assets of the savings deposit. Every bank or trust company shall keep an accurate account wherein shall appear a complete list of the assets set apart for the exclusive protection of savings deposits held by it, showing the par value, book value and as often as a report is made to the Bank Commission shall enter into such account the fair market value of each of the investments of said assets.

This law was passed in 1908.

Banking Laws of 1925, p. 43; General Laws of 1923, Ch. 272, Sec. 4000 (Clause XVI) Sec. 1 (a) (e) and (f).

TEXAS.

Segregation of Savings Deposits. All State banks or banking and trust companies establishing or maintaining a savings department or using the words "savings" as part of its corporate title shall keep the business of such department entirely separate and distinct from

the general business of such bank or banking and trust company and shall keep all moneys received as savings deposits and securities in which the same may be invested at all times segregated from and unmingled with the other accounts and funds of the bank or banking and trust company.

Lien on Assets of Savings Department. In the case of the insolvency or liquidation of any State bank or banking and trust company which shall establish or maintain a savings department its savings depositors shall have an exclusive prior lien upon all the assets of such savings department and shall be first paid and the remainder of such assets, after they have been paid in full, shall be applied to the payment of claims of general creditors.

This law was passed in 1909.

Banking Laws of 1923, pages 21 and 23; Texas Revised Statutes 1911, p. 116, Ch. 4, Art. 431 and 437.

WASHINGTON.

Separate Books of Account. Any bank or trust company combining the business of a commercial banking and a savings bank shall keep with the separate departments separate books of account for each kind of business.

This law was passed in 1907.

Banking Laws of 1921, p. 35. Remington's Compiled Statutes of Washington 1922, Sec. 3246.

WEST VIRGINIA.

There is no provision in the laws of West Virginia specifically requiring the assets of savings departments of banks to be kept separately, but it is understood that the Commissioner of banking requires banks receiving savings deposits to keep separate books of record.

WYOMING.

Segregation of deposits. Any bank or trust company organized under the laws of Wyoming may operate a savings department, provided that such bank or trust company which maintains a savings department shall keep separate books of accounts for each kind of its business and provided further that all investments relating to the savings department shall be kept entirely separate and apart from the other business of the bank and that such portion of said savings deposits as are on hand unloaned or deposited with other banks and the investments made with the funds deposited by savings depositors shall be held solely by such bank or trust company for the payment of depositors of said funds.

This law was passed in 1915.

Laws of Wyoming, 1925, p. 212, sec. 30.

COPY X-4577 273

SALT LAKE CITY BRANCH

FEDERAL RESERVE BANK

of San Francisco

March 30, 1926.

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

RE: C. M. & St. P. Ry. Co. vs. Federal
Reserve Bank of San Francisco.

Dear Mr. Wyatt:

The above entitled case with which you are already somewhat familiar through previous correspondence was tried here last week before the Court sitting without a jury.

The check involved in this case was deposited by the Milwaukee Railway Company in the Bank of Tomah, Wisconsin. It was drawn on the Citizens State Bank of Buhl, Idaho. The bank of deposit sent it to the Marine National Bank of Milwaukee for collection and that bank sent it to the Salt Lake City Branch of the Federal Reserve Bank. It was sent by this Branch direct to the drawee and a draft in payment of this and other items was received the day before the Buhl bank failed. The draft, of course, was dishonored.

The plaintiff charged negligence in sending the item direct to the drawee and in taking the drawee's draft in settlement. Our defenses, stated as six separate defenses were; First: That by having authorized us to file a claim against the failed bank predicated upon the unpaid check there had been an election of remedies. Second: That by the provisions of our Collection Circular we were justified in sending the item direct to the drawee and that this action carried with it by implication the right to accept the drawee's draft. Third: That the custom and practice of the Federal Reserve Bank had for a long period of time been in accordance with the procedure followed in this case. Fourth: That a special statute existing in the State of Idaho at which point the collection was made expressly authorized the direct routing of cash items. Fifth: That by the custom and practice of all banks generally our procedure in this case had been justified and, Sixth: That under the terms of Regulations "J", Series of 1920 no negligence could be charged.

In an effort to overcome what has always seemed to me to be the vital weakness in the Malloy case, we produced as witnesses eight local bankers and also the depositions of seven Idaho bankers all of whom

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

March 30, 1926.

Re: C. M. & St. P. Ry Co. vs Federal Reserve Bank of San Francisco

testified positively that there was a general and unequivocal custom on the part of all banks to send items direct to the bank upon which they were drawn when the forwarding bank had no correspondent in the same town and that having sent the items direct there was a further and separate custom general in its nature to take the drawee's draft in payment.

This morning, the Court rendered its decision in which it is held that any one of the six separate defenses would have been a sufficient answer to the negligence charged. Judgment will be entered in our favor tomorrow.

I fear that on account of the relatively small amount involved ($600.00) the plaintiff will not appeal. However, there is a certain satisfaction in receiving a favorable decision even in a court of first instance where as in this case the facts were identical with those presented in the Malloy decision.

I have another case of the same kind coming on for trial at Weiser, Idaho, next week. That case will be tried before a jury and I fear very much that the outcome will not be so fortunate unless we succeed in obtaining a directed verdict. However, we will do the best we can. If we do not prevail in the lower court we will, of course, take the matter to the Supreme Court of the State of Idaho. I enclose herewith a copy of the Court's memorandum opinion in the C. M. & St. P. Ry. case.

Very truly yours,

Albert C. Agnew,

Counsel

Enclosure

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IN THE THIRD JUDICIAL DISTRICT COURT OF THE STATE OF UTAH

IN AND FOR SALT LAKE COUNTY.

- - - -

CHICAGO, MILWAUKEE & ST. PAUL RAILROAD COMPANY, a Corporation,	:	Hon. Wm. M. McCrea, Judge
Plaintiff,	:	
VS.	:	No. 34951
FEDERAL RESERVE BANK OF SAN FRANCISCO,	:	
Defendant	:	March 27, 1926.

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THE COURT: In No. 34951, Chicago, Milwaukee & St. Paul Railroad against Federal Reserve Bank of San Francisco, heretofore tried and submitted, most of the facts are undisputed, the stipulation covering an agreed statement of most of the material facts in the case. TO the extent that the facts are not covered by the stipulation and are in dispute, I find from the evidence that they are as alleged and set out in the defendant's answer. In my judgment the evidence establishes each and all of the allegations of the answer and each and all of the allegations of the several separate defenses, or affirmative portions of the answer, which leaves only one question to be determined and that is whether or not the facts so found and so established, as alleged in the answer, are sufficient to constitute a defense to the cause of action set out in the complaint. I do not care to take the time to state in great details the reasons for the conclusions that I have reached in that regard. Suffice it to say that I find the issues in favor of the defendant, the evidence sustaining the first, second, third, fourth, fifth and sixth affirmative defenses

set out in the answer, and in my judgment constituting a complete defense to the plaintiff's cause of action. I think that any one of them alone, probably, is a sufficient defense, but certainly taken collectively they constitute a complete defense. Findings and judgment may be prepared accordingly.

MR. JOHNSON; Do I understand the court finds on the issue of waiver, that to be a defense in itself?

THE COURT: Which defense do you have reference to?

MR. JOHNSON: By the filing of the claim with the Federal Reserve Bank.

THE COURT: Not upon the theory so much of a waiver as upon the theory of an election of remedies. I have more doubt about that defense than any of the others, Mr. Johnson, but I am inclined to believe that it was such an election as to constitute a defense to this action. I am not unmindful of your contention in that regard, the contention of the plaintiff that it is not in the nature of an estoppel because the defendant has not altered its position, but the facts are as pleaded in the answer. It may be, standing alone, I would not regard that as a sufficient defense, but I think that all of the other affirmative defenses, or any of them, would certainly constitute a defense to the cause of action, and the findings and conclusions may be prepared on the theory that the court finds in favor of the defendant upon each of the separate defenses.

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X-4577-b

REPORTER'S CERTIFICATE.

I, Clyde Rasmussen, do hereby certify that I am one of the official reporters of the Third Judicial District Court of the State of Utah, and was on the date indicated in the foregoing decision; that as such reporter I reported in shorthand the decision of the court in the above-entitled cause; that thereafter I transcribed into typewriting my said shorthand notes, and that the above and foregoing two typewritten pages constitute a full, true and correct transcript of the court's decision in the above-entitled cause.

Dated at Salt Lake City, Utah, this 27th day of March, A. D. 1926.

(signed) Clyde Rasmussen

FEDERAL RESERVE BOARD

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:

X-4578-a

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

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4579

April 6, 1926.

SUBJECT: Operation of Cafeterias at Federal Reserve Banks.

Dear Sir:

The Board has reviewed the action taken by the Governors at their conference in November 1925 with regard to the operation of cafeterias, and wishes to state that it has no objection to any Federal reserve bank absorbing approximately one-third of the cost, as shown on the functional expense reports form E, of operating its cafeteria. The Board's decision is based on the assumption that the experience of the Federal reserve banks has shown that the absorption of such expense will be in the interest of economy and operating efficiency, by reason of the better service rendered by the employees when a satisfactory luncheon of good food is served by the bank than is usual when employees eat in outside lunchrooms.

In order that the files of the Board may contain information as to the policy followed by the Federal reserve banks in operating their cafeterias, it will be appreciated if you will advise the Board of the methods followed by your bank (and branches if any) in making charges for meals served, whether or not charges are made for all meals served, and whether any change in the plan of operation is contemplated.

Such expenses connected with the operation of the cafeteria as are absorbed by the Federal reserve bank should hereafter be considered as a current expense rather than as a loss to be charged to profit and loss at the end of the year, and consequently, beginning with the month of April, you are requested to credit that portion of the cost of operating your cafeteria which is absorbed by the Federal reserve bank (including any cost to be absorbed for the first three months of this year) to your cafeteria expense account on form 34, and to charge the same to current expense on the last day of the month. On form 96 the amount should be reported on the reverse side as "Cafeteria - net expense." In keeping with this method of handling

the expense absorbed by the bank, the account "Cafeteria - net expense" now appearing in the Earnings and Expense section of form 34 should be discontinued, and the new account "Cafeteria" should be carried in the Miscellaneous Assets block. This new account should be charged with all cafeteria expense as outlined in the manual of instructions to form E, and credited with receipts and, at the end of the month, with the amount to be absorbed by the Federal reserve bank, i. e., with the difference between the net balance in the account and the inventory taken at the end of the month. The amount remaining in the account will then represent the inventory carried forward to the following month.

By direction of the Federal Reserve Board.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS.

FEDERAL RESERVE BOARD

X-4580

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

April 6, 1926.

SUBJECT: Weekly Condition Statement
of Reporting Member Banks.

Dear Sir:

In September 1922 the Board authorized the Federal Reserve Agents to discontinue furnishing it with detailed figures of principal assets and liabilities, as called for on form St. 51, for each reporting member bank. The Board would like to have these detailed reports resumed, and accordingly it is requested that beginning with April 7, weekly reports be furnished the Board showing separate figures for each reporting member bank. These reports should include each item for which figures are received from member banks and also the figures supplied from the books of the Federal reserve bank, and so far as practicable should follow the general style of form St. 51, i.e., the items should be shown at the top of the form and the reporting member banks, grouped by cities, should be shown in the left-hand margin with a subtotal for each city and a grand total for all reporting member banks. The summary mail reports now being furnished the Board on form St. 51 may be discontinued as of April 7, coincident with the resumption of the detailed reports.

By direction of the Federal Reserve Board.

Very truly yours,

J. C. Noell.
Assistant Secretary.

TO ALL FEDERAL RESERVE AGENTS.

TREASURY DEPARTMENT X-4582
Office of the Secretary
WASHINGTON

Commissioner of the Public Debt April 6, 1926.

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, 1926, amounting to $126,900, as follows:

	Federal Reserve Notes.			
	$5	$10	$20	Total
Boston	300,000			300,000
New York	1,000,000			1,000,000
Philadelphia	475,000			475,000
Cleveland	100,000	300,000	25,000	425,000
Richmond		150,000	25,000	175,000
Atlanta	100,000	50,000		150,000
Chicago	700,000			700,000
San Francisco	150,000			150,000
	2,825,000	500,000	50,000	3,375,000

3,375,000 sheets at $37.60 per M . . . $126,900

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

	Sheets	Compensation	Plate Printing	Materials	Total
Boston	300,000	$ 5,310.00	$2,460	$ 3,510.00	$11,280.00
New York	1,000,000	17,700.00	8,200	11,700.00	37,600.00
Philadelphia	475,000	8,407.50	3,895	5,557.50	17,860.00
Cleveland	425,000	7,522.50	3,485	4,972.50	15,980.00
Richmond	175,000	3,097.50	1,435	2,047.50	6,580.00
Atlanta	150,000	2,655.00	1,230	1,755.00	5,640.00
Chicago	700,000	12,390.00	5,740	8,190.00	26,320.00
San Francisco	150,000	2,655.00	1,230	1,755.00	5,640.00
	3,375,000	59,737.50	27,675	39,487.50	126,900.00

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.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4583

April 14, 1926

SUBJECT: Expense Main Line, Leased Wire System,
March, 1926.

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-4583-a and X-4583-b, covering in detail operations of the main line, Leased Wire System, during the month of March, 1926.

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.

TO GOVERNORS OF ALL F.R.BANKS EXCEPT CHICAGO.

Enclosures:

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINE OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF MARCH, 1926.

From	Business reported by banks	Words sent by New York chargeable to other F.R.Banks (1)	Total	Treasury Dept. Business	War Finance Corporation Business	Net Fed.Reserve Bank Business	Per cent of total bank Business (*)
Boston	34,255	759	35,014	5,616	-	29,398	3.44
New York	154,357	-	154,357	10,639	-	143,718	16.81
Philadelphia	43,251	825	44,076	5,936	-	38,140	4.46
Cleveland	81,656	1,416	83,072	7,009	-	76,063	8.90
Richmond	51,040	2,480	53,520	5,643	-	47,877	5.60
Atlanta	61,623	3,268	64,891	7,508	-	57,383	6.71
Chicago	111,132	2,336	113,468	9,131	-	104,337	12.21
St. Louis	85,568	2,835	88,403	7,530	-	80,873	9.46
Minneapolis	38,053	2,122	40,175	4,747	-	35,428	4.14
Kansas City	80,126	2,412	82,538	6,908	-	75,630	8.85
Dallas	60,232	4,670	64,902	4,241	-	60,661	7.10
San Francisco	113,518	2,786	116,304	10,749	207	105,348	12.32
Total	914,811	25,909	940,720	85,657	207	854,856	100.00
Board			356,318	79,301	37	276,980	
Total			1,297,038	164,958	244	1,131,836	
Percent of total			100%	12.72%	.02%	87.26%	

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-4583-b)

(1) Number of words sent by New York to other F.R.Banks for their sole benefit charged to banks indicated, in accordance with action taken at Governors' Conference Nov.2-4, 1925.

REPORT OF EXPENSE MAIN LINE
FEDERAL RESERVE LEASED WIRE SYSTEM, MARCH, 1926.

Name of Bank	Operators' Salaries	Operators' Overtime	Wire Rental	Total Expenses	Pro rata Share of Total Expense	Credits	Payable to Federal Reserve Board
Boston	$ 260.00	$ -	$ -	$ 260.00	$ 680.01	$ 260.00	$ 420.01
New York	944.16	-	-	944.16	3,322.95	944.16	2,378.79
Philadelphia	216.66	-	-	216.66	881.64	216.66	664.98
Cleveland	284.50	-	-	284.50	1,759.33	284.50	1,474.83
Richmond	180.00	-	-	180.00	1,106.99	180.00	(&)1,131.66
Atlanta	235.00	-	-	235.00	1,326.41	235.00	1,091.41
Chicago	(#)3,927.77	-	-	3,927.77	2,413.64	3,927.77	(*)1,514.13
St.Louis	200.00	-	-	200.00	1,870.03	200.00	1,670.03
Minneapolis	183.34	-	-	183.34	818.38	183.34	635.04
Kansas City	275.64	-	-	275.64	1,749.44	275.64	1,473.80
Dallas	251.00	-	-	251.00	1,403.51	251.00	1,152.51
San Francisco	360.00	-	-	360.00	2,435.38	360.00	2,075.38
Federal Reserve Board		-	15,339.82	15,339.82			
Total	$7,318.07	-	$15,339.82	$22,657.89	$19,767.71	$7,318.07	$14,168.44
				(a) 2,890.18			(b) 1,514.13
				$19,767.71			$12,654.31

(&) Includes $204.67 for branch line business transmitted over main line circuit.
(#) Includes salaries of Washington operators.
(*) Credit.
(a) Received $8.54 from War Finance Corporation, and $2,881.64 from Treasury Dept. covering business for the month of March 1926.
(b) Amount reimbursable to Chicago.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

April 14, 1926.

SUBJECT: No-protest Minimum.

Dear Sir:

A poll of the Federal reserve banks taken in 1922 disclosed the fact that seven of the banks were in favor of a suggestion made at that time by the Executive Committee of the Clearing House Section of the American Bankers Association that the no-protest minimum should be increased from $10 to $20. However, at the Governors' Conference later in the year, it was unanimously voted that there should be a uniform no-protest minimum and that the Federal reserve banks should agree uniformly to adopt either the $10 or $20 limit, whichever was determined by a majority of the member banks to be preferable to them, it being the sense of the Conference that the Federal reserve banks should adapt their practice in this regard to the wishes and convenience of the majority of their members. Since that time, the records of the Board indicate that all Federal reserve banks have continued the $10 minimum.

The American Bankers Association Committee has again brought this matter to the attention of the Board, stating that it wishes to dispose of same at the spring meeting of the Clearing House Section, and requesting the views of the Board. In order that the Board may be prepared to reply to this inquiry, it is requested that on or before April 28th you communicate to it the reasons which actuated your bank in continuing the $10 minimum and your present views on the subject.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO ALL GOVERNORS.

X-4586

RESOLUTIONS APPROVED BY FEDERAL RESERVE BOARD AT MEETING ON MARCH 22, 1923.

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

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

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

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

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

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

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

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

Be It Further Resolved, That on and after April 1, 1923, the present Committee of Governors on Centralized Execution of Purchases and Sales of Government Securities be discontinued, and be superseded by a new committee known as the Open Market Investment Committee for the Federal Reserve System, said Committee to consist of five representatives from the reserve banks and to be under the general supervision of the Federal Reserve Board; and that it be the duty of this Committee to devise and recommend plans for the purchase, sale and distribution of the open market purchases of the Federal reserve banks in accordance with the above principles and such regulations as may from time to time be laid down by the Federal Reserve Board."

FEDERAL RESERVE BOARD

X-4587

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

April 16, 1926.

SUBJECT: Exercise of Trust Powers by National Banks.

Dear Sir:

There is enclosed herewith, copy of a letter received from the Chairman of the Federal Reserve Bank of Cleveland, which is self explanatory. The Board has been giving considerable thought to the question of the granting of authority to national banks to exercise fiduciary powers, the manner in which the departments in the banks are conducted and the method and extent of supervision and examination. The last mentioned phase of the question has been taken up with the Comptroller of the Currency, who likewise has been considering the matter, and it is hoped that within a short time some effective plan of examination will be worked out.

In the meantime, the Board would like to have your views and those of your directors on the suggestions contained in Mr. DeCamp's letter, which commend themselves to the Board. We would be pleased to receive in addition any other suggestions which you or your directors may care to offer.

Very truly yours,

Edmund Platt.
Vice Governor.

(Enclosure)

TO CHAIRMEN OF ALL FEDERAL RESERVE BANKS EXCEPT CLEVELAND.

FEDERAL RESERVE BANK

OF CLEVELAND

X-4587-a

April 13, 1926

Federal Reserve Board,
Washington, D. C.

Gentlemen:

Under date of April 10 we forwarded to your Board applications of the - - and the - - for permission to exercise fiduciary powers, with the favorable recommendations of our Executive Committee.

In our recommendations we suggested that the trust departments of these institutions should be under the supervision of trust committees consisting of members of the Boards of Directors of the respective banks. In making this suggestion it is not the purpose of our committee to qualify its recommendations in any way.

At each meeting of our Executive Committee we consider from one to three applications for permission to exercise fiduciary powers. The frequency with which these applications come to us suggests the thought that the applying bank may not in every instance fully appreciate the importance of the functions which it seeks or perhaps the responsibilities involved. Regardless of whether or not the applying bank is in any way subjecting itself to criticism by the Department of Examination or the Comptroller's office, we believe that the granting of fiduciary powers should carry with it an urgent suggestion to the effect that the management of a trust department should meet with especially close supervision and that the importance of this department should be impressed upon the Board of Directors of the applying bank.

Another phase of this question which we think will come under the immediate concern of the Comptroller's office and the Department of Examination is the matter of providing for proper investigation or examination of the department after it is in operation. This applies, of course, to both national and state member banks.

It is not the disposition of our committee to suggest a method of procedure on the part of the office of the Comptroller of the Currency nor to outline a policy, but we are impressed with the very important place which a trust department occupies in the general conduct of the affairs of our banks.

These matters have had serious and detailed discussion at the last several meetings of our Executive Committee, and I have been requested by the committee to place in the hands of your Board its views with respect to the granting of these powers.

Very truly yours,

(s) Geo. DeCamp,

Chairman of the Board.

SUPREME COURT OF THE UNITED STATES

No. 222 - OCTOBER TERM, 1925.

The United States of America, Plaintiff in Error, vs. The National Exchange Bank of Baltimore, Maryland.	)	In Error to the United States Circuit Court of Appeals for the Fourth Circuit.

(April 12, 1926.)

Mr. Justice Holmes delivered the opinion of the Court.

This is a suit brought by the United States to recover the difference between the amount to which a check paid by it had been fraudulently raised and the amount for which the check was drawn. The case was heard upon a demurrer to the declaration and the judgment was for the defendant both in the District Court and in the Circuit Court of Appeals, 1 F. (2d) 888. The facts alleged are as follows: A disbursing clerk drew a United States Veteran's Bureau check upon the Treasurer of the United States in favor of one Beck, for $47.50. After it was issued the check was changed so as to call for $4750. Beck endorsed it to a bank of South Carolina and received the amount of the altered check. That bank endorsed it "Pay to the order of Any Bank, Banker, or Trust Company. All prior endorsements guaranteed, June 3, 1922," negotiated it to the defendant, and received the same amount. The defendant endorsed the check "Received payment Through the Baltimore Clearing House, Endorsements Guaranteed, June 5th, 1922," delivered it to and received the same amount from the Baltimore Branch of the Federal Reserve Bank of Richmond, the agent of the plaintiff, which forwarded the check to the Treasurer of the United States and was given

credit for $4750. The Baltimore Branch had no notice of the fraudulent change.

The Government argues that acceptance or payment of a draft or check although it vouches for the signature of the drawer does not vouch for the body of the instrument, Espy v. First National Bank of Cincinnati, 18 Wall. 604; that this rule is not changed by paragraph 62 of the Uniform Negotiable Instruments Law, Article 13, section 81, Maryland Code of Public General Laws: "The acceptor, by accepting the instrument, engages that he will pay it according to the tenor of his acceptance"; that the drawer and drawee of the check were not the same in such sense as to charge the drawee with knowledge of the amount of the check, and that therefore the United States can recover as for money paid under a mistake of fact. The defendant urges several considerations on the other side, but it is enough to say that the last step in the Government's argument seems to us, as it did to the Circuit Court of Appeals, unsound. If the drawer and the drawee are the same the drawer cannot recover for an overpayment to an innocent payee because he is bound to know his own checks. Bank of United States v. Bank of Georgia, 10 Wheat. 333. In this case there is no doubt that in truth the check was drawn by the United States upon itself.

The Government attempts to escape from this conclusion by the fact that the hand that drew and the hand that was to pay were not the same, and some language of Chief Justice White as to what it is reasonable to require the Government to know in paying out millions of pension claims. The number of the present check was 48218587. United States v. National Exchange Bank, 214 U. S. 302, 317. But the Chief Justice used that

language only to fortify his conclusion that the United States could recover money paid upon a forged endorsement of a pension check. He cannot be understood to mean that great business houses are held to less responsibility than small ones. The United States does business on business terms. Cooke v. United States, 91 U. S. 389. It has been suggested that the ground of recovery for a judgment under a mistake of fact is that the fact supposed was the conventional basis or tacit condition of the transaction. Didham National Bank v. Everett National Bank, 177 Mass. 392, 395. If this be true, then when the United States issues an order upon itself it has notice of the amount and when it comes to pay to an innocent holder making a claim as of right it is at arm's length and takes the risk. We are of opinion that the United States is not excepted from the general rule by the largeness of its dealings and its having to employ agents to do what if done by a principal in person would leave no room for doubt.

Judgment affirmed.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4589

April 19, 1926.

Dear Sir:

The Board has recently received an inquiry from one of the Federal reserve banks as to whether a State member bank should surrender its certificate of membership when terminating its membership in the Federal Reserve System.

Upon consideration of this question the Board believes it desirable that State banks terminating their membership in the Federal Reserve System should surrender their certificates of membership. Cases may arise in which such certificates may be improperly displayed or otherwise used by banks which have previously been members of the System and in order to prevent any possibility of such an abuse it seems desirable in all cases hereafter to require the surrender of the membership certificate.

It is requested, therefore, that all State banks hereafter terminating their membership in your bank be required to surrender their membership certificates.

Very truly yours,

D. R. Crissinger
Governor.

TO ALL F. R. AGENTS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4590

April 20, 1926.

SUBJECT: Holidays during May, 1926.

Dear Sir:

On Friday, May 21st, the Portland Branch of the Federal Reserve Bank of San Francisco will be closed account Primary Election Day in the State of Oregon, and will not participate in the Gold Fund Clearing. Please include credits of May 21st for Portland Branch with those of the following day.

On Monday, May 31st, the offices of the Federal Reserve Board will be closed in observance of Memorial Day, and there will be no Gold Settlement Fund or Federal Reserve Note Clearing. All Federal Reserve Banks and Branches, with the exception of the following, will also be closed on that day:

Atlanta, New Orleans, Birmingham,
Jacksonville, Little Rock,
Oklahoma City.

Please notify Branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F.R.BANKS.

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS.

X-4592
April 22, 1926.
4:00 o'clock p.m.

For Immediate release.

The Federal Reserve Board announces that it has approved an application of the Federal Reserve Bank of New York for permission to establish a rediscount rate of 3 1/2 per cent on all classes of paper of all maturities, effective April 23, 1926.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4593

April 24, 1926.

SUBJECT: Payment of Counsel Fee in connection with Idaho Grimm Alfalfa Seed Growers Association Case.

Dear Sir:

Under date of January 20, 1926 the Federal Reserve Board addressed a letter (X-4510) to all Federal Reserve Banks, transmitting copy of an opinion rendered by the Circuit Court of Appeals in the above named case and requesting to be advised whether the various Reserve banks would be willing to bear a pro-rata share of the expenses of the employment of Honorable Newton D. Baker in the case. The replies to this letter indicated that all banks were willing to do so.

The Board has now received from the Federal Reserve Bank of San Francisco the enclosed statements, totaling $2,314.78, rendered by Mr. Baker's firm, which have been paid by the San Francisco bank. On the basis of capital and surplus at the close of business Wednesday, April 21st, the pro-rata shares of the respective Federal Reserve banks are as follows:

Boston	-	$174.69
New York	-	640.68
Philadelphia	-	219.54
Cleveland	-	246.33
Richmond	-	121.66
Atlanta	-	92.42
Chicago	-	317.68
St. Louis	-	100.35
Minneapolis	-	72.09
Kansas City	-	89.64
Dallas	-	80.72
San Francisco	-	158.98
Total		$2,314.78

It is requested that your bank remit direct to the Federal Reserve Bank of San Francisco its proportionate share of this expense, as set forth above.

Very truly yours,

(Enclosures)

Governor.

TO ALL GOVERNORS OF F. R. BANKS.

(COPY) X-4593-a

Baker, Hostetler and Sidlo

Counsellors at Law

Union National Bank Building

Cleveland, Ohio.

Federal Reserve Bank,
San Francisco, Calif.

December 7, 1925.

To professional services

Nov. 30 Dec. 5	Expenses to and from Salt Lake City, including Rail and pullman fare, meals, hotel bill, etc.	$225.00
	Retainer in the matter of the Idaho Grimm Alfalfa Seedgrowers Association against Federal Reserve Bank.	1,000.00
		$1,225.00

(COPY) X-4593-b

Baker, Hostetler & Sidlo

Counsellors at Law

Union National Bank Building

Cleveland, Ohio.

Federal Reserve Bank of San Francisco,
San Francisco, California.

April 8, 1926.

To professional services

In the matter of the Idaho Grimm Alfalfa Seed-Growers Association v. the Federal Reserve Bank of San Francisco.

January 7, 1926, costs in the United States Supreme Court, deposited by us, (We sent check for $30.00 and the Clerk of the Supreme Court has returned check for 20¢, unexpended balance.)	$ 29.80
January 12, 1926, Gates Legal Publishing Company, printing of petition for writ of certiorari and brief.	55.04
January 15, 1926, telegram to Pocatello,	4.94
Services in full,	1000.00
	$1089.78

F E D E R A L R E S E R V E B O A R D X4594.

STATEMENT FOR THE PRESS

For Release in Morning Papers,
Tuesday, April 27, 1926.

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.

Industrial output increased in March and the distribution of commodities continued in large volume owing to seasonal influences. The level of wholesale prices declined for the fourth consecutive month.

Production

The Federal Reserve Board's index of production in basic industries increased in March to the highest level for more than a year. Larger output was shown for steel ingots, pig iron, anthracite, copper, lumber, and newsprint, and there were also increases in the activity of textile mills. The output of automobiles increased further and was larger than in any previous month, with the exception of last October. Building contracts awarded also increased in March, as is usual at this season, and the total was near the high figure of last summer. Particularly large increases in building activity as compared with a year ago occurred in the New York, Atlanta, and Dallas Federal reserve districts. Contracts awarded continued larger during the first half of April than in the same period of last year. Condition of the winter wheat crop has improved since the turn of the year and on April 1 was estimated by the Department of Agriculture to be 84 per cent of normal, compared with 68.7 per cent last year and an average of 79.2 per cent for the same date in the past ten years.

Trade

Wholesale trade showed a seasonal increase in March and the volume of sales was larger than a year ago in all leading lines except dry goods and hardware. Sales of department stores and mail order houses increased less than is usual in March. Compared with March a year ago sales of department stores were 7 per cent and sales of mail order houses 9 per cent larger. Stocks of principal lines of merchandise carried by wholesale dealers, except groceries and shoes were larger at the end of March than a month earlier, but for most lines they were smaller than a year ago. Stocks at department stores showed slightly more than the usual increase in March and were about 3 per cent larger than last year. Freight car loadings during March continued at higher levels than in the corresponding period of previous years. Shipments of miscellaneous commodities and merchandise in less-than-carload lots were especially large. Loadings of coal, owing to the large production of anthracite, were also large, while shipments of coke decreased considerably from the high levels of preceding months.

Prices

Wholesale prices, according to the Bureau of Labor Statistics index, declined by more than 2 per cent in March to the lowest level since September, 1924. The decline was general for nearly all groups of commodities and the largest decreases were noted in grains, cotton, wool, silk, coke, and rubber. In the first two weeks of April prices of basic commodities were steadier than in March. Prices of grains, flour, and potatoes increased, while prices of cotton goods, wool, silk, bituminous coal, pig iron, and rubber declined.

Bank credit.

Commercial loans of member banks in leading cities were relatively con-

$200,000,000 higher than at the end of January and approximately equal to the high point reached last autumn. Continued liquidation of loans to brokers and dealers was reflected in a further decline in the total of loans on securities, which on April 14 were more than $500,000,000 below the high point reached at the end of last year.

At the reserve banks an increase in the volume of member bank borrowing during the last two weeks of March was followed by a marked decline in the first three weeks of April, which brought the total near the lowest levels of the year. Holdings of United States securities increased continuously during the month, while acceptances declined seasonally. Total bills and securities were in smaller volume at the end of the period than at any other time during the year and only slightly larger than a year ago.

Open market rates on commercial paper declined in April from 4 1/4 - 4 1/2 per cent to 4 - 4 1/4 per cent and rates on acceptances and on security loans were also lower in April than in March. On April 23 the discount rate at the Federal Reserve Bank of New York was reduced from 4 to 3 1/2 per cent.

ERRORS IN CODIFICATION BILL RELATING TO THE FEDERAL RESERVE ACT.

The following is a list of errors which have been found in that part of H. R. 10,000, a bill for the codification of the Federal statutes, which corresponds to the various provisions of the Federal Reserve Act and to certain other statutes related to the Federal Reserve Act and published in the appendix of the edition of the Federal Reserve Act prepared by the Federal Reserve Board.

OMISSIONS

The sixth and seventh paragraphs of Section 2 of the Federal Reserve Act providing for the forfeiture of the franchises of national banks, have been omitted from the bill. This omission was made evidently because these provisions were considered obsolete. A careful examination, however, shows that they are not obsolete but are still in full force and effect and applicable to national banks at the present time.

The first sentence of the fourth paragraph of Section 10 providing that the first meeting of the Federal Reserve Board shall be held in Washington is omitted. This was also omitted no doubt because considered obsolete but the provision is one which may have a bearing upon the location or situs of the Federal Reserve Board for purposes of suit or otherwise and should be retained.

In Section 25(a) three sentences at the end of the paragraph incorporated in the bill as Section 618 have been omitted. These sentences deal with the increase or decrease of the capital stock of foreign banking corporations organized under Federal charter, the withdrawal of the capital stock of such organizations and the investment in the capital stock of

such corporations by national banks.

The provisions of Section 26 of the Federal Reserve Act providing that the Secretary of the Treasury may borrow gold for the purpose of maintaining the parity of all forms of money has not been found. It may be that this provision is included in some other title of the codification bill.

Section 29 of the Federal Reserve Act providing that if any part of the Act is adjudged invalid such invalidity shall not extend to other parts of the Act, has been omitted.

Section 30 of the Federal Reserve Act providing that the Act may be altered, amended, or repealed, has also been omitted.

There are certain other portions of the Federal Reserve Act which have been omitted from the codification but the omissions mentioned above are the only ones found to be material. All other provisions which have been omitted are believed to be entirely obsolete.

OTHER ERRORS.

Section 82. Corresponds to Section 5202 of the Revised Statutes as amended by Section 13, Federal Reserve Act. The reference in this section to Chapter 10 of Title 15, Commerce and Trade, it has been impossible to check because the reference is not found in title 12 which is the only title available.

The 8th exception made under this section is not now law. This exception was intended to be made by Section 504 of the Agricultural Credits Act of 1923 but by mistake the amending provision referred to Section 502 of the Revised Statutes instead of 5202 of the Revised Statutes.

Section 92. Corresponds to the tenth paragraph of Section 13 of the Federal Reserve Act. In the last line of this section the word "filing" has been omitted between the words "in" and "his".

Section 221. Corresponds to Section 1 of the Federal Reserve Act. The definition of a "member bank" reads, in part, " * * a member of one of the reserve banks created by this chapter." Inasmuch as Federal reserve banks were created under the Federal Reserve Act of December 23, 1913 and the provisions for their creation are omitted from the code, it would be better to say "a member of one of the Federal reserve banks."

Section 222. Corresponds to first paragraph of Section 2 of the Federal Reserve Act. Leaves out provisions regarding reserve bank organization committee but retains provision that new districts may be from time to time created by the Federal Reserve Board not to exceed twelve in all. Inasmuch as twelve districts have already been created, this provision is obsolete and should be omitted unless it is desired to preserve all of the provisions relating to the original creation of the Federal reserve districts. The authority to readjust districts, however, should be preserved.

Section 223. Provides that, "The Federal reserve cities now in existence are continued." This is new and might be construed to forbid the changing of any Federal reserve city. The present law does not forbid the changing of a Federal reserve city; but the Attorney General has ruled that the present law does not

authorize the Federal Reserve Board to change a Federal reserve city once established.

Section 225. This contains a new provision to the effect that, "The Federal reserve banks now in existence in the various Federal reserve cities are continued". This also might be construed to prohibit the discontinuance of any Federal reserve bank but the Attorney General has ruled that the present law does not authorize the Federal Reserve Board to discontinue any Federal reserve bank once established.

Section 248 (e). This corresponds to Section 11(e) of the Federal Reserve Act and refers to the reserve requirements set forth in "Section 20 of this chapter". There is no Section 20 in the same chapter of the Code, and the proper section number should be substituted. Section 11(e) of the Federal Reserve Act refers to Section 20 of the Federal Reserve Act; but this obviously is a clerical error, and Congress obviously intended to refer to Section 19 of the Federal Reserve Act, which is covered by Sections 461-466 of the Code.

Section 248 (1). Corresponds to Section 11(1) of the Federal Reserve Act. The reference to section 632 of Title 5 it has been impossible to check because this title is not available.

Section 282. Corresponds to a portion of Section 2 of the Federal Reserve Act. While this makes certain changes in the text of the law it is not objectionable.

Section 284. Corresponds to a portion of Section 2 of the Federal Reserve Act. This contains part but not all of the corresponding paragraph of the Federal Reserve Act, all of which is practically obsolete because no stock has ever been allotted to the United States and none ever will be allotted to the United States under the present law. It would seem that the corresponding paragraph of the Federal Reserve Act should either be omitted entirely or all of it should be covered in the codification bill.

Section 324. Corresponds to a part of Section 9 of the Federal Reserve Act. The reference to "this section" should be changed to read "Sections 321 to 331."

Section 330. Corresponds to a part of Section 9 of the Federal Reserve Act. The reference to "this section" should be changed to read "Sections 321 to 331."

Section 331. Corresponds to a part of Section 9 of the Federal Reserve Act. The reference to "this section" should be changed to read "Sections 321 to 331."

Section 341. Corresponds to a part of Section 4 of the Federal Reserve Act. In the third line of this section, the words "the organization of" are superfluous and should be omitted. The preceding paragraphs of the original Federal Reserve Act providing for the organization of Federal reserve banks was omitted apparently because they are obsolete. Either these provisions should be

restored or, if the policy of the codification is to omit everything which is obsolete, the first paragraph of this section should merely provide that, "Every Federal reserve bank shall be deemed a body corporate and as such and in the name designated in its organization certificate shall have power". The last paragraph of this section provides that no Federal reserve bank shall transact any business except such as is incidental and necessarily preliminary to its organization until authorized by the Comptroller of the Currency to commence business. If it is the policy of the codification to omit all obsolete matter it would seem that this paragraph should be omitted. The reference in the parentheses following this section is to "December 23, 1913, c. 6, section 1, 38 Stat. 254". This should be changed to read "December 23, 1913 c. 6, section 4, 38 Stat. 251".

Section 342. Corresponds to a part of Section 13 of the Federal Reserve Act. The comma after the word "checks" in the first line of the second column on page 281 should be omitted as it was not in the original act and its insertion at this place might be construed to change the meaning of the law.

Section 343. Corresponds to a part of Section 13 of the Federal Reserve Act. There is a typographical error in the middle of this section; the word "or" should be inserted after the word "wares".

Section 345. Corresponds to a part of Section 13 of the Federal Reserve Act. The catch-line of this section is incorrect and misleading. The limitation contained in this section applies to the rediscount of any and all paper but the catch line would indicate that it applies only to agricultural paper. In view of the subdivision into separate sections it would seem that the word "such" in the third line of this section could well be omitted.

Section 346. Corresponds to a part of Section 13 of the Federal Reserve Act. In view of the rearrangement of the provisions of the Federal Reserve Act relating to acceptances of member banks it would seem that the phrase "of the kinds hereinafter described" should be changed to read "of the kinds described in sections 372 and 373."

Section 350. Corresponds to a part of the Agricultural Credits Act of 1923. Reference to Title I of the Federal Farm Loan Act should be changed so as to refer to the proper chapter and title of the codification.

Section 351. Corresponds to a part of the Agricultural Credits Act of 1923. The phrase "within the meaning of the three preceding sections" should be changed to read "within the meaning of Section 348."

Section 373. Corresponds to a part of Section 13 of the Federal Reserve Act. The word "or" should be inserted after the word "title" in the 19th line.

Section 375. Corresponds to a part of Section 22 of the Federal Reserve Act. The word "subsection" in tho second paragraph it would seem should be changed to "section".

Section 391. Corresponds to a part of Section 15 of the Federal Reserve Act. The word "money" should be changed to "moneys". This section is in effect amended by the Appropriation Act of 1920 approved May 29, 1920, but the amendment is not noted in the codification.

Section 412. Corresponds to a part of Section 16 of the Federal Reserve Act. The reference to Section 342 is wrong; because, under that section, notes, drafts and bills of exchange may be received only for purposes of collection and the Federal reserve bank holds them merely as agent and therefore could not pledge them with the Federal Reserve Agent as collateral security. The reference to Section 372 is incorrect because that section merely refers to the power of member banks to accept the drafts and bills of exchange drawn upon them. Reference to Sections 343-347 would be correct. Where reference is made to sections 353 to 358 it should refer to Sections 353 to 359 so as to include acceptances of Federal Intermediate Credit Banks and National Agricultural Credit Corporations endorsed by member banks and purchased by Federal reserve banks (under Section 14(f) of Federal Reserve Act). It would also seem that a reference should be made to Section 348; but this is not essential, in view of

the fact that Section 348 itself makes agricultural paper acquired thereunder eligible as collateral security for Federal reserve notes.

Section 422. Corresponds to a part of Section 16 of the Federal Reserve Act. This refers to "notes provided for by Act of May 30, 1908". Reference should be made to that section of the Code which corresponds to the Act of May 30, 1908. This section of the codification also contains a phrase "at the time of the passage of this chapter", "chapter" being substituted for the word "act" as contained in the Federal Reserve Act. It would seem that this phrase should be changed to read "at the time of the passage of the Federal Reserve Act."

Section 448. Corresponds to a part of Section 18 of the Federal Reserve Act. The word "herein" in the last line should be stricken out and the words "in Sections 441 to 448 of this chapter" added at the end of the section.

Section 467. Corresponds to a part of Section 16 of the Federal Reserve Act. The words "or any Assistant Treasurer" which are now found in the third line of the present law after the word "Treasurer" are omitted from the codification. The words "or Assistant Treasurer" now found in the eighth line of the present law after the word "Treasurer" are also omit-

ted. Inasmuch as the Subtreasuries and the office of Assistant Treasurer were abolished by the Appropriation Act of May 29, 1920, the omission of references to the Assistant Treasurers is probably correct. The word "section" found in the first and second lines of the last paragraph of this section should be changed to read "chapter."

Section 482. Corresponds to a part of Section 5240 of the Revised Statutes as amended by Section 21 of the Federal Reserve Act. The word "herein" in the fifth line should be stricken out and the words "in Section 481" inserted after the words "provided for".

Section 605. Corresponds to a part of Section 25 of the Federal Reserve Act. The reference to "Section 197, Title 15, Commerce and Trade" it has been impossible to check because this title is not available.

Section 611. Corresponds to a part of Section 25(a) of the Federal Reserve Act. The word "section" in the ninth and twelfth lines should be changed to read "subdivision of Chapter 6".

Section 613. Corresponds to a part of Section 25(a) of the Federal Reserve Act. The word "section" in the last line should be changed to read "subdivision of chapter 6".

Section 614. Corresponds to a part of Section 25(a) of the Federal Reserve Act. The second word of the text of this section, "person" should be made plural, "persons."

Section 615. Corresponds to a part of Section 25(a) of the Federal Reserve Act. The word "chapter" in the fourteenth line from the end of paragraph (a) should be "subdivision of Chapter 6". The word "section" in the ninth line from the end of paragraph (a), in the fifth line from the end of paragraph (a), in the fourth line from the end of paragraph (a), in the fourth line from the beginning of paragraph (c) and in the sixth line of the last paragraph, should be changed to "subdivision of Chapter 6."

Section 616. Corresponds to a part of Section 25 (a) of the Federal Reserve Act. The word "section" in the tenth line should be changed to "subdivision of chapter 6" and the same change should be made in the last word of this section.

Section 617. Corresponds to a part of Section 25(a) of the Federal Reserve Act. The word "section" in the fifth line should be changed to read "subdivision of chapter 6". The word "section" in the second sentence should also be so changed.

Section 618. Corresponds to a part of Section 25(a) of the Federal Reserve Act. The word "section" in the fifth line from the end of this section should be changed to "subdivision of chapter 6." The reference to section 25 of the Federal Reserve Act as amended, appearing in the fifth line from the end of this section should be changed so as to refer to Sections601 to 605 of this chapter.

Section 619. Corresponds to a part of Section 25 (a) of the Federal Reserve Act. The word "section" appearing in the 9th line from the end of this section and also as the last word of this section

should be changed to "subdivision of chapter 6." After the word "section" in the ninth line from the end of this section the word "in" which in the present law precedes the words "whose capital stock" has been omitted. This changes the meaning of the sentence entirely. The reference to Section 19 of Title 15 Commerce and Trade, found in this section it has been impossible to check because this title is not available.

Section 629. Corresponds to a part of Section 25(a) of the Federal Reserve Act . In the eighth line from the end of the section,the word "section" should be changed to "subdivision of chapter 6."

Section 630. Corresponds to a part of Section 25(a) of the Federal Reserve Act. The word "section" in the fourth line from the end should be changed to "subdivision of chapter 6."

Section 631. Corresponds to a part of Section 25(a) of the Federal Reserve Act. In the seventh line of this section the word "hereunder" should be changed to read "under this subdivision of chapter 6".

Section 943. Corresponds to a part of the Farm Loan Act. The words "subdivision (b) of" in the 5th and 6th lines should be omitted.

Section 1222. Corresponds to a part of the Agricultural Credits Act of 1923. The word "section" in the second line should be changed to read "chapter".

Section 1223. Corresponds to a part of the Agricultural Credits Act of 1923. The word "section" in the second line should be changed to read "chapter".

(Memorandum Prepared by Office of Comptroller of the Currency).

April 21, 1926.

Memorandum for the Comptroller:

I have given a hurried examination of the proposed codification of the laws with reference to sections relating to National Banks and find the following omissions and errors:

OMISSIONS.

1. The provision in the Act of June 3, 1864, incorporated in Section 380 of the Revised Statutes providing that suits and proceedings arising out of laws governing National Banking Associations should be conducted by district attorneys under the supervision of the Solicitor of the Treasury.

2. The provision in the Act of June 3, 1864, incorporated in Section 736 of the Revised Statutes providing when proceedings to enjoin the Comptroller must be brought.

3. The provision in the Act of June 3, 1864, incorporated in Section 884 of the Revised Statutes making sealed certificates of the Comptroller competent evidence.

4. The provision in the Act of June 3, 1864, incorporated in Section 885 of the Revised Statutes making a certified copy of the Organization Certificate evidence of the existence of a National Banking Association.

5. The provision in the Federal Reserve Act incorporated in Section 24 as amended September 7, 1916, authorizing National Banks to make loans on real estate. While this was passed as an amendment to the Federal Reserve Act, it relates entirely to National Banks and should be incorporated in the chapters relating to National Bank Act and not in chapters relating to the Federal Reserve Act.

6. That portion of Section 11-K of the Federal Reserve Act authorizing the Federal Reserve Board to issue permits to National Banks to exercise fiduciary powers. As this relates to National Banks it should appear in the chapters relating to National Bank Act and not to those relating to the Federal Reserve Act.

7. Section 25 of the Federal Reserve Act authorizes National Banking Associations possessing capital of a million dollars or more with the permission of the Federal Reserve Board to establish branches in foreign countries. This relates entirely to National Banks and should appear in chapters relating to the National Bank Act and not in the Federal Reserve Act.

8. The 16th paragraph of Section 24 of the Act of March 3, 1911, providing that National Banks should be deemed citizens of the states in which located should also appear in the National Bank Act.

9. Section 18 Act of December 23, 1913, authorizing National Banks to retire the whole or any part of their circulating notes by sale to Federal Reserve Banks.

10. Section 175 Act of March 4, 1909, providing penalty for imitating banks circulation.

11. Section 176 Act of March 4, 1909, providing a penalty for mutilating National Banking circulation.

12. While provision is made in the Act for reserves and where they shall be held for banks located in Alaska and Hawaii, all provisions relating to reserves for National Banks in the continental United States that are member banks of the Federal Reserve System, have been omitted from the National Bank Act. As this provision although contained in the Federal Reserve Act relates to National Banks as well as to State Banks, a section should be inserted in the National Bank Act covering the question of reserves.

13. Act of January 26, 1907, forbidding National Banks to make contributions in connection with election to political office should be inserted in the chapter relating to National Banks.

14. The provision in Section 5240 authorizing the Comptroller of the Currency, with the approval of the Secretary of the Treasury, to appoint examiners who shall examine every member bank at least twice each calendar year has been omitted. The words "member banks" in this section refer to National Banks only as the Comptroller does not appoint examiners to examine State Banks that are members of the Federal Reserve System.

15. The Act of April 12, 1900, extending National Banking laws to Porto Rica has been omitted.

16. The Act of April 30, 1900, extending National Banking laws to Hawaii has been omitted.

NOTE: It is assumed that all of these sections are given in some other part of the proposed Revised Code other than that relating to National Banks but it is believed these sections should be incorporated in the Chapter referring to National Banks.

ERRORS IN THE PROPOSED REVISION

The Numbers given are the numbers of the new sections.

25. This section is not necessary as it merely repeals the old Extension Act and provides that the preceding section shall govern. The old Extension Act will be repealed by the general repealing clause that comes with the enactment of the Revised Statutes and a specific repeal is not necessary.

38. It is not understood why this section is inserted. The Act as it at present stands is incorporated under the title "Banks and Bankers" and is in many ways different from the Act of June 3, 1864.

55. Line 25 nearest is misspelled.

57 and 58 Revised Statutes, Section 5142, provided for an increase in the capital stock of a National Bank. When provision was made therefor in the Articles of Association in Act of May 1, 1886, a new method for increasing the capital of a National Bank was provided for. A portion of Section 5142 is therefore obsolete and a new section should be provided covering those portions of Sections 57 and 58 that are valid at this time. We had one instance recently of a bank desiring to increase its capital stock under the old provisions of Section 5142 without the vote of its shareholders as is required in the Act of May 1, 1886.

Sections 63 and 64. Section 12 of the Act of June 3, 1864, incorporated in Revised Statutes as Section 5151 providing for the individual liability of shareholders, stated that the shareholders should be held individually responsible equally and ratably and not one for another, for all contracts, debts and engagements of such association, etc. This is incorporated as Section 63 of this compiling. Section 34 of the Act of December 23, 1913, provided that the stockholders of every National Banking Association shall be held individually responsible for all contract debts and engagements each to the amount of his stock therein at the par value thereof in addition to the amount invested in such stock. The remainder of this section relates to the transfer of stock in a National Banking Association within 60 days before the date of its failure. These two sections referring to the same matter should be combined in one and not reenacted as they stand because they differ as to the liability of shareholders. As the last provision of law enacted governs it is now held that the liability is fixed by provision in Section 23 of the Act of December 23, 1913, and not by Section 12 of the Act of June 3, 1864. If, however, both sections should be reenacted as proposed, there would be a question as to exactly what the liability of a shareholder of a bank would be.

82. In the fifth paragraph of this section are the words "of the Federal Reserve Act instead of Chapter 3". In the sixth paragraph are

the words "of the War Finance instead of Chapter 10 of title 15 Commerce and Trade". The eighth paragraph is entirely additional and cannot be verified from anything submitted.

84. On the fifteenth line under this number after 346 there should also be inserted "372 and 373". There originally appeared the number and words "13 of the Federal Reserve Act". As it stands today "Section" 346 alone appears.

92. Last line filing omitted between in his.

94. First line first word Suits omitted.

107. Line one eighth word procured not produced.

143. The words "reserve of" omitted before the words "lawful money" in the 18th line of this section.

145. The Treasury notes referred to in this section are those issued under the Sherman Act which has been repealed.

162. In line 7 verification is misspelled.

178. The second paragraph of this section relates entirely to circulation issued under authority of the so-called Aldrich Act passed May 30, 1908. This Act expired by limitation and there is no longer any authority for the issuance of circulating notes to National Banks on any securities other than bonds of the United States.

191. This section relates to Receivership referred to as Section 94. This should be 93.

548 (d) Second line after 6th word insert at.

570 The last clause does not refer to National Banks at all.

591. This is Revised Statutes Section 208 which has been entirely rewritten and the greater part of the section has been omitted. The early part of Section 5208 defined the crime for falsifying certified checks. The latter part provided a penalty therefor. The former part of this section has been entirely omitted in 591 the penalty alone remaining it being expressly stated that it is a penalty for the violations of the provisions of this section. This refers to the omitted part of the section.

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

For immediate release April 28, 1926.

CONDITION OF ACCEPTANCE MARKET
March 18, 1926 to April 14, 1926.

Acceptances.

During the last two weeks of March the supply of acceptances in the New York market increased slightly and the demand remained good with the continuance of foreign buying and relatively easy money conditions. Early in April the demand increased substantially and dealers, finding some difficulty in replenishing their portfolios reduced their rates on April 7 by 1/8 per cent on all except 30-day bills. Firmer money conditions soon afterwards, due in part to exports of currency to Cuba, resulted in heavy offerings of bills in both the New York and Boston markets with a practical cessation of demand, and large sales to the reserve banks, chiefly of bills with maturities of 30 days or less. The total volume of purchases reported by New York dealers during the period from March 18 to April 14 was the largest since December and their sales, excepting sales to Federal reserve banks, were the smallest. Their portfolios on April 14 were larger than on any other reporting date for the last three years. Similar conditions characterized the Chicago market where dealers reported a slight decline in purchases, a large decline in sales, and increased portfolios at the end of the period. Cotton and coffee were the commodities chiefly represented by the bills in the market, with a considerable recent increase in the number of sugar bills.

Bill rates in New York at the beginning and end of the reporting period are given in the following table:

Acceptance Rates in the New York Market.

	March 18, 1926		April 14, 1926	
Maturity	Bid	Offered	Bid	Offered
30 days	3 5/8	3 1/2	3 5/8	3 1/2
60 "	3 3/4	3 5/8	3 5/8	3 1/2
90 "	3 3/4	3 5/8	3 5/8	3 1/2
120 "	3 7/8	3 3/4	3 3/4	3 5/8
150 "	4 1/8	4	3 7/8	3 3/4
180 "	4 1/8	4	4	3 7/8

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

May 3, 1926.

Subject: Expenses in Express Rate Case.

Dear Sir:

The attached copies of letters exchanged by the Board with the Counsel for the Federal Reserve Bank of New York explain the final disposition of the complaint filed with the Interstate Commerce Commission on behalf of the Federal Reserve Bank of New York, et al. against American Railway Express Company et al., for the purpose of obtaining a revision of express rates on shipments of coin, currency, securities, etc. If any further information is desired, it is suggested that your bank communicate with the Federal Reserve Bank of New York.

All Federal Reserve Banks upon receipt of the Board's letter of August 16, 1923 (X-3812) signified their willingness to bear a pro-rata share of the expense incurred in connection with this complaint. The Federal Reserve Bank of New York has submitted a statement of expenses totaling $10,168.34, copy enclosed, and on the basis of paid-in capital and surplus as at close of business April 28th, the pro-rata shares of the several Federal Reserve Banks are as follows:

Boston	$765.86
New York	2,825.31
Philadelphia	962.59
Cleveland	1,079.85
Richmond	533.45
Atlanta	405.17
Chicago	1,396.38
St. Louis	439.89
Minneapolis	316.00
Kansas City	393.00
Dallas	353.89
San Francisco	696.95
Total	$10,168.34

You are requested to remit your proportionate share of the above expense direct to the New York bank.

Very truly yours,

D. R. Crissinger.
Governor.

TO GOVERNORS OF ALL F. R. BANKS.

C O P Y

STATEMENT OF EXPENSES X-4598-a

FEDERAL RESERVE BOARD vs AMERICAN RAILWAY EXPRESS

PAID BY FEDERAL RESERVE BANK OF NEW YORK

November 23, 1923	- James W. Carmalt	Special Counsel	$3,000.00
February 2, 1924	- L. R. Rounds	Travel Expense	13.40
March 8, 1924	- Brooks Traffic Service Company	Preparing exhibits and testifying	900.00
March 11, 1924	- F.R. Bank of N.Y.	Cost of stenographic work in preparing documents	99.66
March 26, 1924	- Brooks Traffic Service Company	Preparing exhibits and testifying	1,155.28
March 23, 1926	- James W. Carmalt	Special Counsel	3,000.00
April 29, 1926	- James W. Carmalt	Special Counsel	2,000.00
			$10,168.34

C O P Y

X-4598-b

April 27, 1926.

Dear Sir:

I acknowledge receipt of and have brought to the attention of the Federal Reserve Board your letter of April 26th advising that the Interstate Commerce Commission has issued an order denying the petition filed on behalf of the Federal reserve banks for a rehearing on the express rate case. It is noted from your letter that Mr. Carmalt concurs in the view that there is nothing to be gained by presenting the case to the courts, as there is but a remote chance that the courts would review and change the finding of the Commission that the rates charged by the express companies are in fact fair and reasonable.

In view of these facts, the Board approves of the proposal that Mr. Carmalt be paid the $2,000 balance due him on the minimum fee fixed under the agreement of October 30, 1923. If, after making this payment, you will submit to the Board a statement of the entire expenses of the New York Bank in connection with this case, the Board will be glad to arrange for prorating among all the Federal reserve banks.

Very truly yours,

(Signed) D. R. Crissinger

D. R. Crissinger,
Governor.

Mr. L. R. Mason, General Counsel,
Federal Reserve Bank of New York,
New York, N. Y.

C O P Y FEDERAL RESERVE BANK X-4598-c

OF NEW YORK

I. C. C. Docket No. 15449 April 26, 1926.
Federal Reserve Bank of New York
v.
American Railway Express Company et al.

Federal Reserve Board,

Washington, D. C.

S i r s :

Reference is made to letter addressed to me under date of February 19 by Vice Governor Platt in regard to the above case.

On April 14 the Interstate Commerce Commission published its order of April 5, denying the petition filed on behalf of the reserve banks to reopen the case. This finally disposes of the matter, so far as the Commission is concerned. Mr. Carmalt concurs in the view that there is nothing to be gained by presenting the case to the courts. It is thought we might be successful in getting the courts to interpret the Cummins amendment in accordance with our view of it, but that practically nothing would be gained by so doing, since the Commission has found in the proceedings that the rates charged by the express companies are in fact fair and reasonable. The possibility of getting the courts to review and change the finding of fact by the Commission is too remote, in our judgment, to justify resorting to the courts.

Mr. Carmalt has submitted his bill for $2,000 in final payment of his professional services before the Commission. This is the balance of the minimum amount payable to him under the fee agreement of October 30, 1923. It is proposed to make payment to him accordingly and close the case.

Respectfully,
(signed) L. R. Mason
L.R. Mason, General Counsel.

X-4598-d

C O P Y

February 19,
1926.

Mr. L. Randolph Mason, Counsel,
Federal Reserve Bank of New York,
New York City, New York.

Dear Sir:

The Federal Reserve Board has received your letter of February 9th with reference to the complaint filed with the Interstate Commerce Commission on behalf of the Federal Reserve Bank of New York, et al. against American Railway Express Company et al., for the purpose of obtaining a revision of express rates on shipments of coin, currency, securities, etc.

The Board notes that Division One of the Interstate Commerce Commission has rendered a decision adverse to the Federal reserve banks and that you propose to file a petition for a rehearing before the entire Commission. Inasmuch as there is everything to be gained and nothing to be lost by filing such a petition, the Board sees no reason why it should not be filed.

The Board also notes that you propose to pay Mr. Carmalt $3,000 on account of his fee for services before the Interstate Commerce Commission. Inasmuch as the Federal Reserve Board has heretofore approved your contract with Mr. Carmalt for a minimum fee of $8,000 for handling this matter before the Interstate Commerce Commission and understands that you have only paid $3,000 of this fee to date, the Board sees no objection to your paying him an additional $3,000 at this time, leaving $2,000 of the minimum fee to be paid when his services before the Interstate Commerce Commission are finally terminated.

The Board understands that the Federal Reserve Bank of New York will pay all the expenses incurred in this matter out of its own funds and will carry the amount in a suspense account until this matter is entirely disposed of, at which time the entire expenses of handling the matter will be prorated among all the Federal reserve banks and the other Federal reserve banks will be called upon to reimburse the Federal Reserve Bank of New York for their pro rata shares.

Very truly yours,

(Signed) Edmund Platt
Vice Governor.

WW SAD

FEDERAL RESERVE BANK OF NEW YORK

February 9, 1926.

I.C.C.Docket No.15449
Federal Reserve Bank of New York
v.
American Railway Express Co. et al.

Federal Reserve Board,

Washington, D.C.

S i r s :

On or about September 5, 1923, complaint was filed with the Interstate Commerce Commission on behalf of the Federal Reserve Bank of NewYork et al. v. American Railway Express Company et al., alleging that the rates of the express companies on property, including money, coin, currency, bank notes, securities, etc., and charges made thereunder, being based upon the value of the shipments declared by the shipper and being established without the authority of the Interstate Commerce Commission, were in violation of Section 20 of the Interstate Commerce Act known as the Cummins Amendment; that the rates were excessive and unreasonable with reference to the element of insurance; that the rates were discriminatory and were preferential to shippers of other commodities.

A hearing was held upon the issues raised by the complaint before an examiner of the commission in New York City in February and March of 1924. At this hearing the banks were represented by Mr. Carmalt and myself. We offered testimony showing the history of the rates in question and also adduced such facts as were known to the officers of the bank which tended to show that the rates were excessive. The express companies adduced testi-

mony designed to show that the rates were fair and reasonable. Under the rules of the commission the burden of proof was upon the express companies. The examiner held that the rates were not in fact unreasonable, discriminatory or prejudicial to the complainants, and in effect that the publication of rates on the basis of value declared by the shipper was not in violation of the Cummins amendment, as alleged. The finding of fact that the rates are not excessive or discriminatory was reached by the examiner notwithstanding that he found that the statement of expenses incurred by the American Railway Express Company in its money department at the Broadway office and at the railroad terminals in New York and the statement of revenue and expenses on shipments consigned to or received from the Federal Reserve Bank of New York, offered in evidence by the express company, were lacking in uniformity and thoroughness and were too narrow in scope to be of value.

Exceptions were duly filed on behalf of the bank to the findings of the examiner and in July of 1925 before Division One of the Interstate Commerce Commission these exceptions were orally argued by Mr. Carmalt and myself on behalf of the banks, briefs on behalf of both sides having been filed. The commission sustained the ruling of the examiner, both on the facts and the law. The construction now placed by the commission upon the Cummins amendment is directly contrary to rulings of the commission on this question of law, which had been rendered prior to the time the complaint was filed in this case. The questions of fact and law involved were fully argued before the commission orally and on briefs.

It is our purpose to file a petition for a rehearing before the whole commission. The finding of the commission that in fact the rates are

justified makes it doubtful that proceedings in the courts would be of any avail. However, we are desirous of getting the final ruling on our petition for/re-hearing before making a definite recommendation in this respect. A copy of the ruling of Division One of the commission is enclosed herewith.

Mr. Carmalt has sent a bill, dated February 8, in the sum of $3,000. He has already been paid $3,000 on account of the fee agreement of October 30, 1923, approved by the Board. The minimum due him for services before the commission, in case the issues were decided against the bank, is $8,000. It is now proposed to pay him $3,000, as requested in his bill of February 8.

Respectfully,

L. R. Mason,

General Counsel.

Encl.

FEDERAL RESERVE BOARD

X-4599

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

May 5, 1926.

SUBJECT: Expense of Special Counsel in Case of Brookings State Bank v. Federal Reserve Bank of San Francisco.

Dear Sir:

As reported in the Board's circular letter of August 6, 1925, X-4400, all Federal reserve banks expressed their willingness to bear a pro rata share of the expense of retaining Honorable Newton D. Baker in connection with the appeal from the decision of the United States District Court in the above named case.

The Board has now received from the Federal Reserve Bank of San Francisco the enclosed statement in the amount of $1,221.51 submitted by Mr. Baker's firm, which has been paid by the San Francisco bank. On the basis of paid-in capital and surplus as at the close of business April 28, 1926, the proportionate shares of the various Federal reserve banks in this expense are as follows:

Boston	$ 92.00
New York	339.40
Philadelphia	115.64
Cleveland	129.72
Richmond	64.08
Atlanta	48.67
Chicago	167.75
St. Louis	52.85
Minneapolis	37.96
Kansas City	47.21
Dallas	42.51
San Francisco	83.72
Total	$1,221.51

It is requested that your bank remit direct to the Federal Reserve Bank of San Francisco the amount set forth above.

Very truly yours,

(ENCLOSURE)

D. R. Crissinger,
Governor.

TO ALL GOVERNORS.

C
O
P
Y

X-4599-a

BAKER, HOSTETLER & SIDLO

Counsellors at Law

Cleveland

April 19, 1926

The Federal Reserve Bank of San Francisco,
San Francisco, California.

To Professional Services

Retainer and services in connection with Brookings State Bank v. Federal Reserve Bank of San Francisco, including conferences in Washington, examination of jurisdictional question and examination of papers and proceedings in connection with, settling bill of exceptions and prosecution of error in the Circuit Court of Appeals,- - - - - - - - - - - - - - - - -	$ 1200.00
Expenses July and September, 1924, (Trip to Washington and express charges of testimony to San Francisco),	21.51
	$ 1221.51

X-4601

331

TREASURY DEPARTMENT
Office of the Secretary
WASHINGTON

May 5, 1926.

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, 1926, amounting to $122,012, as follows:

Federal Reserve Notes, Series 1914

	$5	$10	$20	$50	Total
Boston	200,000				200,000
New York	850,000	100,000	50,000		1,000,000
Philadelphia	700,000				700,000
Cleveland	100,000	400,000		20,000	520,000
Richmond		100,000	50,000		150,000
Atlanta		100,000			100,000
Chicago	300,000				300,000
San Francisco	275,000				275,000
	2,425,000	700,000	100,000	20,000	3,245,000

3,245,000 sheets @ $37.60 per M $122,012.00

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

	Sheets	Compensation	Plate Printing	Materials	Total
Boston	200,000	$3,540.00	$ 1,640	$2,340.00	$7,520.00
New York	1,000,000	17,700.00	8,200	11,700.00	37,600.00
Philadelphia	700,000	12,390.00	5,740	8,190.00	26,320.00
Cleveland	520,000	9,204.00	4,264	6,084.00	19,552.00
Richmond	150,000	2,655.00	1,230	1,755.00	5,640.00
Atlanta	100,000	1,770.00	820	1,170.00	3,760.00
Chicago	300,000	5,310.00	2,460	3,510.00	11,280.00
San Francisco	275,000	4,867.50	2,255	3,217.50	10,340.00
	3,245,000	$57,436.50	$ 26,609	$37,966.50	$122,012.00

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.

FEDERAL RESERVE BOARD

X-4602

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

May 11, 1926.

SUBJECT: Notes of Parent Corporations Representing Borrowings to be Advanced to Subsidiaries.

Dear Sir:

Acting pursuant to the request of the recent Governors Conference the Board has voted to place upon the program for the next Conference of Governors for their consideration, certain questions which have arisen with regard to the Board's ruling upon the eligibility for rediscount of notes of a corporation representing borrowings of funds to be advanced to subsidiaries, which was contained in the Board's circular letter of December 30, 1925, X-4484. These questions were raised in a letter from the Governor of the Federal Reserve Bank of Cleveland and commented on in a memorandum from the Board's Counsel, copies of which were transmitted to all Governors with the Board's letter X-4560 of March 12, 1926.

Pending a reconsideration of these questions by the next Governors Conference and for the guidance of Federal reserve banks in the meantime, the Board holds that notes of a parent corporation representing borrowings of funds to be advanced to subsidiaries will not be eligible for rediscount at a Federal reserve bank unless they comply with all of the conditions laid down in the Board's circular letter of December 30, 1925. Accordingly, the notes of a parent corporation the proceeds of which have been advanced or loaned to its subsidiaries, will not be eligible for rediscount, if the parent corporation also makes advances to other corporations than its own subsidiaries.

Very truly yours,

D. R. Crissinger
Governor.

TO ALL GOVERNORS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4604

May 18, 1926.

SUBJECT: Expense Main Line, Leased Wire System,
April, 1926.

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-4604-a and X-4604-b, covering in detail operations of the main line, Leased Wire System, during the month of April, 1926.

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.

TO GOVERNORS OF ALL F. R. BANKS EXCEPT CHICAGO

(Enclosures)

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINE OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF APRIL, 1926.

From	Business reported by banks	Words sent by New York chargeable to other F.R.Banks (1)	Total	Treasury Dept. Business	War Finance Corporation Business	Net Fed. Reserve Bank Business	Per cent of total bank Business (*)
Boston	30,070	488	30,558	3,113	-	27,445	3.45
New York	133,737	-	133,737	3,579	-	130,158	16.35
Philadelphia	37,205	623	37,828	2,949	-	34,879	4,38
Cleveland	72,139	1,295	73,434	2,808	-	70,626	8.87
Richmond	44,137	1,917	46,054	1,835	-	44,219	5.55
Atlanta	58,166	3,001	61,167	2,362	-	58,805	7.38
Chicago	97,681	2,083	99,764	3,752	-	96,012	12.06
St. Louis	73,006	1,758	74,764	2,939	-	71,825	9.02
Minneapolis	32,642	1,743	34,385	1,271	-	33,114	4.16
Kansas City	70,357	1,779	72,136	2,576	-	69,560	8.73
Dallas	54,686	3,937	58,623	1,072	-	57,551	7.23
San Francisco	103,935	2,372	106,307	4,221	-	102,086	12.82
Total	807,761	20,996	828,757	32,477	-	796,280	100.00
Board			288,608	24,710	29	263,869	
Total			1,117,365	57,187	29	1,060,149	
Per cent of total			100%	5.12%	..	94.88%	

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-4604-b)

(1) Number of words sent by New York to other F. R. Banks for their sole benefit charged to banks indicated, in accordance with action taken at Governors' Conference Nov. 2-4, 1925.

REPORT OF EXPENSE MAIN LINE
FEDERAL RESERVE LEASED WIRE SYSTEM, APRIL, 1926.

Name of Bank	Operators' Salaries	Operators' Overtime	Wire Rental	Total Expenses	Pro rata Share of Total Expense	Credits	Payable to Federal Reserve Board
Boston	$ 260.00	$ 5.00	-	$ 265.00	$ 744.02	$ 265.00	$ 479.02
New York	944.16	-	-	944.16	3,526.03	944.16	2,581.87
Philadelphia	216.66	-	-	216.66	944.59	216.66	727.93
Cleveland	284.50	-	-	284.50	1,912.90	284.50	1,628.40
Richmond	180.00	-	-	180.00	1,196.91	180.00	(&)1,221.58
Atlanta	275.00	-	-	275.00	1,591.57	275.00	1,316.57
Chicago	(#)3,902.83	-	-	3,902.83	2,600.85	3,902.83	(*)1,301.98
St. Louis	242.00	-	-	242.00	1,945.25	242.00	1,703.25
Minneapolis	184.47	-	-	184.47	897.14	184.47	712.67
Kansas City	275.64	-	-	275.64	1,882.71	275.64	1,607.07
Dallas	251.00	-	-	251.00	1,559.22	251.00	1,308.22
San Francisco	360.00	-	-	360.00	2,764.75	360.00	2,404.75
Federal Reserve Board	-	-	$15,348.67	15,348.67	-	-	-
Total	$7,376.26	$ 5.00	$15,348.67	$22,729.93	$21,565.94	$7,381.26	$15,691.33
				(a)1,163.99			(b)1,301.98
				$21,565.94			$14,389.35

(&) Includes $204.67 for branch line business transmitted over main line circuit.
(#) Includes salaries of Washington operators.
(*) Credit.
(a) Received $0.67 from War Finance Corporation, and $1,163.32 from Treasury Department covering business for the month of April, 1926.
(b) Amount reimbursable to Chicago.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4605

May 18, 1926.

SUBJECT: Holidays during June, 1926.

Dear Sir:

On Thursday, June 3rd, the following Federal Reserve Banks and Branches will be closed in observance of the birthday of Jefferson Davis and Confederate Memorial Day, and will not participate in either the Gold Fund Clearing or the Federal Reserve Note Clearing of that date:

Richmond	Memphis
Atlanta	Dallas
New Orleans	El Paso
Birmingham	Houston
Nashville	
Jacksonville	

Please include credits of June 3rd for such of the banks mentioned as participate in the Gold Fund Clearing, with your credits of the following business day, and make no shipment of Federal Reserve Notes, fit or unfit, for account of the Head Offices affected, on date of holiday.

Please notify Branches.

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-4607

May 24, 1926.

SUBJECT: Corrections in Inter-District Time Schedule.

Dear Sir:

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

Dallas to Denver - 2 days
Denver to Dallas - 2 days.

Yours very truly,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

X-4608

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 May 25, 1926.

CONDITION OF ACCEPTANCE MARKET

April 15, 1926, to May 19, 1926.

Acceptances

The acceptance market was active in New York and Boston after the middle of April with rather limited supplies of bills moving freely at offered rates. Dealers lowered their rates on April 22 by 1/8 per cent and again on April 23 by 1/4 per cent, and on April 27 the Federal reserve banks reduced their buying rates for the first time since January. The market demand for bills at the new rates declined and during early May New York dealers' portfolios increased to the largest volume of holdings recorded, with larger sales to the Federal reserve banks. After May 18, when dealers raised their rates 1/8 of one per cent on all maturities over 30 days, demand increased somewhat, and on May 20 Federal reserve banks further lowered their rates on bills of over 60 days maturity to an equality with offering rates in the market. In New York the average weekly purchases and sales of dealers during the whole reporting period from April 15 to May 19 were the largest since last October, but in Philadelphia and Chicago relatively quiet conditions prevailed. Bills chiefly in evidence in the Eastern markets involved transactions in silk, sugar, tobacco, and rubber, and in Chicago were based on a considerable variety of products, including grain, rubber, packing house products, and iron ore. The following table shows bill rates in the New York market at the beginning and end of the reporting period:

Acceptance Rates in the New York Market

Maturity	April 14, 1926		May 19, 1926	
	Bid	Offered	Bid	Offered
30 days	3 5/8	3 1/2	3 1/4	3 1/8
60 days	3 5/8	3 1/2	3 3/8	3 1/4
90 days	3 5/8	3 1/2	3 3/8	3 1/4
120 days	3 3/4	3 5/8	3 1/2	3 3/8
150 days	3 7/8	3 3/4	3 5/8	3 1/2
180 days	4	3 7/8	3 3/4	3 5/8

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

STATEMENT FOR THE PRESS

For Release in Morning Papers,
Thursday, May 27, 1926.

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.

There was a slight decline in the activity of industry and trade in April, and a further reduction in the general price level. Commercial demand for bank credit continued large and the volume of security loans, after a rapid decline since the turn of the year, remained at a constant level.

Production.-

Production in basic industries, according to the Federal Reserve Board's index, decreased 1 per cent in April, slight increases in production of lumber and pig iron being more than offset by declines in output in other industries. Particularly large recessions were shown in the production of steel ingots and in textile mill activity. Automobile production, not included in the index, continued in large volume. Factory employment and pay rolls declined slightly in April, particularly in the food, tobacco, textile, and boot and shoe industries. The value of building contracts awarded during April was smaller than in March and practically the same as in April of last year. Awards for the first two weeks in May, however, showed increases as compared with the same weeks in 1925.

Reports by the Department of Agriculture indicate that up to the first of May 68 per cent of spring plowing and 56 per cent of sowing and planting was completed, compared with about 83 per cent and 66 per cent last year. On the

basis of the condition of winter wheat on May 1, a yield of 549,000,000 bushels is forecast compared with a final yield of 583,000,000 bushels in 1925.

Trade.-

The volume of wholesale trade in April was seasonally smaller than in March for all lines except meats. Compared with a year ago, sales of groceries, meats and drugs were larger in April, while sales of drygoods, shoes and hardware were smaller. Department store sales increased less than usual and were somewhat smaller than a year ago. Sales of mail order houses were slightly smaller than in March, but continued to be larger than in the corresponding month of 1925. There was some decrease in the stocks of merchandise held by wholesale firms during the month, and inventories of department stores showed less than the usual seasonal increase, though they were larger than a year ago. Weekly freight car loadings decreased in the early part of April but later increased, and the volume of shipments for the month of April as a whole and for the first two weeks in May was larger than in the corresponding periods of any previous year.

Prices.-

Wholesale commodity prices, according to the Bureau of Labor Statistics index, declined slightly from March to April. Increases in the farm products and foods groups, which had been declining for several months, were more than offset by decreases in other groups. The greatest declines were in the prices of clothing materials. In the first three weeks of May prices of wheat, cattle, sheep, cotton goods, pig iron, bricks, and rubber declined, while those of hogs, raw silk, and crude petroleum increased.

Bank Credit.-

Commercial demand for bank credit at member banks in leading cities

continued in large volume between the middle of April and the middle of May. Liquidation of security loans, which had been rapid since the beginning of the year, did not continue after the middle of April and the volume of these loans remained fairly constant at a level about $450,000,000 below the peak at the end of 1925. There was some addition to the banks' investments and the total of their loans and investments was about $1,000,000,000 larger than at the same period of last year.

Withdrawals of funds from New York were reflected in an increase between the middle of April and the middle of May in borrowings by member banks from the Federal Reserve Bank of New York, while borrowings at most of the other reserve banks declined. Open-market holdings of the reserve banks remained fairly constant during the period and there was little change in the total volume of reserve bank credit outstanding.

Money rates late in April reached the lowest level for a year, but in May conditions in the money market became somewhat firmer.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4610
May 26, 1926.

Gentlemen:

You are advised that in compliance with the provision of Section 21 of the Federal Reserve Act that "The Federal Reserve Board shall, at least once each year, order an examination of each Federal reserve bank * * *", the Federal Reserve Board has ordered its Chief Examiner, through its Division of Examination, to make an examination of each Federal reserve bank at least once during the calendar year.

In accordance with this action, the Board has directed Mr. J. F. Herson, its Chief Examiner, to make at least one examination of the Federal Reserve Bank of during the year 1926.

The Board has also empowered its Chief Examiner to select the dates on which all examinations will be begun.

You are requested to give him and his force all proper assistance in making the examinations.

Very truly yours,

D. R. Crissinger,
Governor.

To all F. R. banks.

COPY

IN THE UNITED STATES CIRCUIT COURT OF APPEALS

FOR THE FIFTH CIRCUIT.

NO. 4770

MISS RUTH M. JACKSON AND MRS. ANNA M. SCOTT,

Appellants,

Versus

J. W. McINTOSH, COMPTROLLER OF CURRENCY, AND E. F. ANDERSON, RECEIVER OF GEORGIA NATIONAL BANK OF ATHENS, GEORGIA, et al.,

Appellees.

Appeal from the District Court of the United States for the Northern District of Georgia.

C. N. Davie and Chas. S. Reid for Appellants.

Howell C. Erwin, Thos. F. Green, Thos. J. Shackelford and M. C. Elliott, (Green & Michael, Shackelford & Shackelford, Erwin, Erwin & Nix, M. C. Elliott, W. S. Poage and Thos. F. Green on the brief), for Appellees.

-:-:-:-:-

Before WALKER, BRYAN and FOSTER, Circuit Judges.

WALKER, Circuit Judge:-

This is an appeal from a decree denying a temporary injunction prayed for in a bill filed by the

appellants, one of them being a stockholder of the Georgia National Bank of Athens, Georgia, and both of them being creditors of that bank, against the appellees, the Comptroller of the Currency, and the receiver of that bank appointed by such Comptroller, who took charge of the assets of said bank for the purpose of liquidation as provided by law. The injunction prayed for was one restraining and enjoining the appellees from consummating or further attempting to consummate an alleged proposed disposition of assets of said bank. The allegations of the bill showed the following: Prior to the filing of the bill said Receiver filed in the court below an application for the approval of that court of a pretended sale to the Georgia Securities Company, a corporation organized under the laws of Georgia, with a capital stock of Ten Thousand Dollars, (herein called the corporation), of the assets of said bank except cash on hand, stockholders' liability, liability of officers and directors for misfeasance or malfeasance in office, and described real estate; and the court made an order that any and all parties in interest show cause, if any there be, at a time and place stated, why said application should not be granted, and that notice of that order be given publication in a named newspaper. That application showed as follows: The application has been approved by the Comptroller of the Currency.. The Corporation will deliver to the Receiver, for the bank's creditors, its debentures, dated November 3, 1925, for the amount due each creditor at the date of the bank's suspension, payable

on or before five years from date, with interest thereon at the rate of 4% per annum, interest payable annually. Said debentures to be secured by deed of trust of the transferred assets made by the Receiver to named trustees as security for the payment of said debentures. Any available cash in the hands of the Receiver at the time of the proposed sale, after reserving such sums as may be deemed necessary to pay expenses of the receivership, shall be distributed by the Receiver to the bank's creditors, the sums so paid to be credited upon the debentures upon presentation for that purpose, "and where debentures are not presented to be so credited, or where any creditor of said bank should fail or refuse to accept said debenture then the amounts that would be payable to such creditor under said distribution shall be held by said Receiver to the credit of such creditors and paid to them upon application, and the debentures issued to such creditors shall thereupon be credited accordingly." Said trustees in their discretion may require any action with respect to the property conveyed to them, "including the sale, transfer, assignment or conveyance of any or all of said property or assets."

> "If any question should arise with respect to the rights or liabilities of either the debenture holders, or any of them, or the company under this indenture, then the decision made by the trustees, or a majority of them, concurred in by said company, acting through its directors, or a majority of them, shall be final and conclusive. Should any such question arise and the decision of the trustees, or a majority of them, not be concurred in by said company, then the question shall be referred by them to the Judge of the Judicial Circuit, in which is located the City of Athens, Georgia, and his decision thereon shall be final and conclusive.

The trustees shall be deemed the representatives of all debenture holders in said proceedings insofar as necessary parties are concerned.

If at any time during the administration of the assets of said Georgia Securities Company the Trustees or a majority of them, should be of the opinion that the officials in charge of said company are not pressing with due and proper diligence the collection of any or all of its assets, then said Trustees may call upon said officials to proceed with greater dispatch in the collection of same, and should said officials thereafter omit to press said collections or convert said assets into cash for the benefit of debenture holders with due and proper diligence, in the judgment of said Trustees, or a majority of them, then said Trustees may demand and receive of said officials all of the assets of said company, and by themselves, or through such agents as they may employ, administer said assets for the benefit of said debenture holders in the same manner of said officials are required to do. In such an event said Trustees have the right to incur and pay from said assets in their hands all lawful and proper expenses of administration, according to their best judgment and discretion."

The corporation shall receive no compensation for performance of its duties in the administration of the assets acquired from the Receiver. All salaries of its officers and clerical force to be approved by said trustees. The Federal Reserve Bank of Atlanta shall have a prior lien on the transferred assets to secure a described debt owing to it by the bank, in consideration whereof it is to cancel a stated amount of the debt to it. Each debenture contained the following:

"If this debenture is not presented for final payment within twelve months from the maturity of the same, then said company shall have the right to liquidate its affairs and distribute among the remaining debenture holders or the stockholders of said company, after all other debentures are paid in full, the amount that would be otherwise held for the redemption of the same, without further liability thereon. Certain persons have subscribed the sum of Ten Thousand Dollars for the capital stock of this company in order to perfect a legal organization of the same.

> The holder of this debenture agrees that when the assets acquired from the Receiver of the Georgia National Bank are exhausted that the capital stock of said Securities Company shall be distributed ratably among those who contributed the same, and all claims upon said capital stock are hereby waived. This debenture is accepted and held subject to all of the terms hereof as well as the terms, provisions and stipulations contained in said trust agreement to the same extent as if the same had been incorporated herein."

Under Section 5234 of the United States Revised Statute a national bank receiver, "upon the order of a court of record of competent jurisdiction may sell or compound all bad or doubtful debts, and, on a like order, may sell all the real or personal property of such association, on such terms as the court shall direct." This provisions does not authorize a disposition of assets which is not a sale. The above mentioned application made no mention of bad or doubtful debts, but invoked the exercise of the court's power to order a sale of real and personal property of the bank. The proposed disposition of property of the bank was challenged on the ground that it was not a sale within the meaning of the above quoted statute, and was not consistent with other statutory provisions with reference to the administration of a national bank's assets placed in the hands of a receiver. U. S. Comp. Stat. 9827. In behalf of the appellees it was contended that the application for or the making of such an administrative order as was sought could not be interfered with by injunction. It has been held that such a proceeding by a receiver is an ex parte one, and that an order made therein is not subject to be appealed from by a creditor of the bank. Fifer v. Williams, 5 F. (2d) 286. The following was said in the opinion in that case: "For an attempt to make an illegal or fraudulent sale,

doubtless a remedy by suit would lie, and from a decision in such suit an appeal could be taken to this court." The appellants have such an interest in the bank's assets as to be entitled to resist an illegal disposition of them. In the circumstances disclosed no adequate legal remedy was available, and a court of equity properly could be applied to for relief. And if a temporary injunction was improperly denied, the decree to that effect is subject to be appealed from.

The effect of the proposed disposition of assets of the bank would be to transfer them to the Corporation for administration, or for the sale or other disposition of them when approved by the trustees under the deed of trust. The Corporation was to incur no obligation or liability to pay anything to the bank's creditors or stockholders except that it was to pay to debenture holders pro rata shares of the amount realized from the transferred assets, after deducting the costs and expenses of administration. That the bank's creditors and stockholders were not to get anything except from the transferred assets is clearly shown by the following provision: "The holder of this debenture agrees that when the assets acquired from the Receiver of the Georgia National Bank are exhausted, that the capital stock of said Securities Company shall be distributed ratably among those who contributed the same, and all claims upon said capital stock are hereby waived." The creation of an agency for the handling and administration of assets and the payment of the proceeds, less costs and expenses, to those who are entitled to such assets is not a sale of them. A change in the beneficial ownership of the thing dealt

with, and a price, paid or promised, and certain or capable of being ascertained, are essential ingredients of a sale. Butler v. Thompson, 92 U. S. 412; Gockstetter v. Williams, 9 F. (2d), 354. Under the proposed transaction the bank's creditors and stockholders were to get nothing from the transferred assets, unless what the corporation realized from them exceeded the expenses of handling them, and the Corporation was to get nothing but reimbursement for such expenses, though more than the amount of such expenses should be realized from those assets. The Corporation was not to acquire the beneficial ownership of the transferred assets, and existing rights of such ownership were to be retained except so far as those rights were to be destroyed or impaired by the exercise of the powers or privileges conferred on the Corporation, the trustees under the deed of trust, and the debenture holders. Without a real sale of them, assets of the bank were to be surrendered by the receiver and made subject to be sold by the Corporation with the approval of the trustees under the deed of trust, instead of by the receiver with the approval of a court. An above cited statute, (Comp. Stat. 9827), provides for the contingency of the bank's debts being paid without exhausting its assets. In that event the bank's stockholders are entitled to have the remaining assets administered by an agent of their own selection. The plan in question is not consistent with due effect being given to that provision. The statutes provide a complete scheme for the winding up of the affairs of a failed national bank. A court cannot properly approve a violation by a receiver of statutory requirements. By R. S. 5234

the "receiver," under the direction of the Comptroller shall take possession of the books, records, and assets of every description of such association, collect all debts, and claims belonging to it, and," etc. The effect of the proposed transaction would be a delegation to the Corporation of the receiver's duty and authority to collect what was owing to the bank, and a surrender of assets of the bank by the receiver to the Corporation, which was not the buyer of such assets. The receiver was not authorized, with or without a court's approval, so to delegate his duties or powers, or to make such a surrender of assets. We are of the opinion that the injunction sought was an appropriate means of preventing an illegal disposition of assets of the bank, and that the court erred in refusing to grant that relief. As the challenged transaction was illegal for the reasons above indicated, it is not necessary to pass on the question as to the validity of the feature of it relating to the bank's debt to the Federal Reserve Bank of Atlanta.

The decree is reversed, and the cause is remanded for further proceedings not inconsistent with this opinion.

REVERSED.

(ORIGINAL FILED APRIL 7, 1926.)

TREASURY DEPARTMENT
WASHINGTON

June 7, 1926.

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, 1926, to May 31, 1926, amounting to $117,500, as follows:

Federal Reserve Notes, Series 1914

	$5	$10	$20	$50	Total
Boston	300,000				300,000
New York	750,000	100,000	100,000		950,000
Philadelphia	100,000				100,000
Cleveland	400,000	100,000	50,000	20,000	570,000
Richmond		50,000	10,000		60,000
Atlanta	100,000	150,000	100,000	20,000	370,000
Chicago	200,000				200,000
St. Louis	- -	- -	- -	- -	- -
Minneapolis	100,000				100,000
Dallas	100,000				100,000
San Francisco	375,000				375,000
	2,425,000	400,000	260,000	40,000	3,125,000

3,125,000 sheets @ $37.60 per M $117,500.00

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

	Sheets	Compensation	Plate Printing	Materials	Total
Boston	300,000	$ 5,310.00	$ 2,460.00	$3,510.00	$ 11,280.00
New York	950,000	16,815.00	7,790.00	11,115.00	35,720.00
Philadelphia	100,000	1,770.00	820.00	1,170.00	3,760.00
Cleveland	570,000	10,089.00	4,674.00	6,669.00	21,432.00
Richmond	60,000	1,062.00	492.00	702.00	2,256.00
Atlanta	370,000	6,549.00	3,034.00	4,329.00	13,912.00
Chicago	200,000	3,540.00	1,640.00	2,340.00	7,520.00
Minneapolis	100,000	1,770.00	820.00	1,170.00	3,760.00
Dallas	100,000	1,770.00	820.00	1,170.00	3,760.00
San Francisco	375,000	6,637.50	3,075.00	4,387.50	14,100.00
	3,125,000	$55,312.50	$25,625.00	$36,562.50	$117,500.00

The Bureau appropriations will be reimbursed in the above amount from the indefinite appropriation "Preparation and Issue of Federal Reserve Notes, Reimbursable", and it is requested that your board cause such indefinite appropriation to be reimbursed in like amount.

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

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4617

June 14, 1926.

SUBJECT: Expense Main Line, Leased Wire System,
May, 1926.

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-4617-a and X-4617-b, covering in detail operations of the main line, Leased Wire System, during the month of May, 1926.

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 the Federal Reserve Board.

Yours very truly,

Fiscal Agent.

TO GOVERNORS OF ALL F. R. BANKS EXCEPT CHICAGO

(Enclosures)

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINE OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF MAY, 1926

From	Business reported by banks	Words sent by New York chargeable to other F. R. Banks(1)	Total	Treasury Dept. Business	War Finance Corporation Business	Net Fed. Reserve Bank Business	Per cent of total bank Business (*)
Boston	29,553	342	29,895	3,266	-	26,629	3.53
New York	123,133	-	123,133	5,153	-	117,980	15.65
Philadelphia	37,124	324	37,448	3,083	-	34,365	4.56
Cleveland	70,163	846	71,009	3,129	-	67,880	9.00
Richmond	44,160	1,452	45,612	2,983	-	42,629	5.66
Atlanta	58,183	2,694	60,877	3,548	-	57,329	7.61
Chicago	94,799	1,692	96,491	4,771	-	91,720	12.17
St. Louis	71,041	1,340	72,381	3,610	-	68,771	9.12
Minneapolis	33,589	1,096	34,685	1,529	-	33,156	4.40
Kansas City	68,983	1,457	70,440	3,131	-	67,309	8.93
Dallas	50,966	3,168	54,134	1,728	-	52,406	6.95
San Francisco	96,885	1,787	98,672	5,015	-	93,657	12.42
Total	778,579	16,198	794,777	40,946		753,831	100.00%
F.R.Board			288,216	23,181	153	264,882	
Total			1,082,993	64,127	153	1,018,713	
Per cent of total			100%	5.92%	.01%	94.07%	

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-4617-b)

(1) Number of words sent by New York to other F. R. Banks for their sole benefit charged to banks indicated, in accordance with action taken at Governors' Conference November 2 - 4, 1925.

REPORT OF EXPENSE MAIN LINE
FEDERAL RESERVE LEASED WIRE SYSTEM, MAY, 1926.

Name of Bank	Operators' Salaries	Operators' Overtime	Wire Rental	Total Expenses	Pro rata Share of Total Expense	Credits	Payable to Federal Reserve Board
Boston	$ 260.00	-	-	$ 260.00	$ 755.47	$ 260.00	$ 495.47
New York	944.16	-	-	944.16	3,349.31	944.16	2,405.15
Philadelphia	216.66	-	-	216.66	975.90	216.66	759.24
Cleveland	284.50	-	-	284.50	1,926.12	284.50	1,641.62
Richmond	192.50	-	-	192.50	1,211.32	192.50(&)	1,223.49
Atlanta	255.00	-	-	255.00	1,628.64	255.00	1,373.64
Chicago	(#)3,976.19	-	-	3,976.19	2,604.55	3,976.19(*)	1,371.64
St. Louis	200.00	-	-	200.00	1,951.80	200.00	1,751.80
Minneapolis	183.34	-	-	183.34	941.66	183.34	758.32
Kansas City	275.64	-	-	275.64	1,911.14	275.64	1,635.50
Dallas	251.00	-	-	251.00	1,487.39	251.00	1,236.39
San Francisco	360.00	-	-	360.00	2,658.05	360.00	2,298.05
Federal Reserve Board			$15,353.48	15,353.48			
Total	$7,398.99	-	$15,353.48	$22,752.47	$21,401.35	$7,398.99	$15,578.67
				(a)1,351.12			(b)1,371.64
				$21,401.35			$14,207.03

(&) Includes $204.67 for branch line business transmitted over main line circuit.
(#) Includes salaries of Washington operators.
(*) Credit.
(a) Received $3.88 from War Finance Corp., and $1,347.24 from Treasury Dept., covering business for month of May, 1926.
(b) Amount reimbursable to Chicago.

C O P Y X-4618.

FEDERAL RESERVE BANK

of

ST. LOUIS

June 12, 1926.

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

Dear Mr. Wyatt:

Your telegram regarding the decision in the case of the City of Douglas vs the Federal Reserve Bank of Dallas was forwarded to me at Little Rock, Arkansas, where I was in trial of a similar case. Upon my return to the office I find your letter of June 4th enclosing copy of the Douglas opinion. I have written to Stroud congratulating him on his success in this case, as it seems to have removed a considerable portion of the sting contained in the Malloy decision.

On Monday of this week we tried out a case before the Circuit Court of Little Rock, Arkansas. The item in controversy was one drawn on an Arkansas Bank in favor of a resident of Louisiana who deposited it in a nonmember bank in Louisiana, which, in turn, forwarded it to the First National Bank of Shreveport and the latter (under the direct sending agreement with the Federal Reserve Bank of Dallas) forwarded it to our Little Rock Branch and by the Little Rock Branch it was forwarded direct to the drawee bank. The item was collected by charging the account of the drawer of the item. The drawee bank then attempted to remit by draft on its Little Rock correspondent. The draft proved to be uncollectible because of the failure of the remitting bank.

I had employed Mr. H. M. Armistead, of the firm of Cockrill & Armistead, Little Rock, Arkansas, to represent me as local attorney in the matter. Mr. Armistead had always felt that the circular letter between the Federal Reserve Bank of Dallas and its member, the First National Bank of Shreveport, La., authorizing the collection to be made in exchange, constituted a defense in our favor. I did not feel so confident as to this defense and felt that if the case was defeated it must be defeated on the ground that the Louisiana Bank and <u>not</u> the Federal Reserve Bank of St. Louis must respond for the loss. Under the Arkansas practice one is permitted to file a demurrer and an answer in the same pleading. Accordingly, we demurred on the grounds:

(1) That since in Louisiana by judicial construction, (Martin vs Hibernia Bank & Trust Co. 53 Southern, 572) the initial bank was responsible for the acts of its sub-agents.

(2) That if the Court should find that the direct sending statute, since enacted by the Louisiana legislature, had changed the rule in Louisiana from the New York to the Massachusetts rule, then since Arkansas has a similar direct sending act, the Arkansas act made the drawee bank a suitable agent of the owner of the item, and that the drawee bank having collected the item and having failed to remit in money was alone responsible to the owner of the item.

We also pleaded the circular letter contract between the Federal Reserve Bank of Dallas and its member, the First National Bank of Shreveport, authorizing the acceptance of a draft in collection and the circular letter and regulation between Federal Reserve Banks; also Regulation J.

I argued the demurrer on both points, and whilst the Court seemed to take kindly to the suggestions he stated that since under the Arkansas procedure he could consider the demurrer at the end of the case, he would prefer to hear the evidence. This being agreeable to both parties, it was accordingly done. We thereupon submitted the stipulations and offered evidence of the universal custom among banks of accepting drafts instead of money in the matter of collections, and rested.

The Court thereupon inquired of plaintiff's attorney if his only charge of negligence against the Federal Reserve Bank was that it took an exchange draft instead of cash from the drawee bank and upon receiving an affirmative reply stated, under the circumstances, he would have to find against the plaintiff; that as he viewed the case, when this item was deposited in the Louisiana Bank, drawn on a bank in another state, the owner of the item knew that the collection would have to be made through other agents and was bound by any contract made by such agents; therefore, was bound by the contract existing between the Federal Reserve Bank of Dallas and the First National Bank authorizing the acceptance of a draft in lieu of money in the matter of collections.

The plaintiff, of course, took an appeal from the decision; nevertheless, the judgment, as it now stands, can be sustained by the Supreme Court on any of the defenses or the demurrer offered, since the plaintiff did not ask for the

findings of facts and declarations of law. I am, therefore, very hopeful of the successful outcome of this case when it reaches the Supreme Court of Arkansas.

Personally I am now and always have been somewhat afraid of the circular letter defense on cases arising prior to the amendment of Regulation J. However, I think under the status of the judgment, as it now stands, we ought to win it on the demurrer, or on the custom as proved even if the Supreme Court should not hold the same views the trial court did as to the circular letter defense.

With kindest regards, I am

Very truly yours,

(s) Jas. G. McConkey.

Counsel

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4619

June 15, 1926.

SUBJECT: Reporting violation of criminal statute prohibiting use of words "Federal", "Reserve", etc.

Dear Sir:

There is enclosed herewith for your information a copy of an Act of Congress which was approved and became a law on May 24, 1926, to prohibit the offering for sale as Federal Farm Loan Bonds, of any securities not issued under the terms of the Farm Loan Act, to limit the use of the words "Federal", "United States" or "Reserve" in the titles of private institutions and to prohibit false advertising by banks not members of the Federal Reserve System. The provisions of this act are as follows:

1. It prohibits the advertising or offering for sale as Federal Farm Loan Bonds, of any securities not issued under the provisions of the Federal Farm Loan Act.

2. It prohibits the use of the word "Federal" or "United States" or any other words implying Government ownership, obligation or supervision, in advertising or offering for sale any securities not issued by the United States or under the provisions of some act of Congress.

3. It prohibits any firm, person or corporation doing a banking, loan, building and loan, brokerage, factorage, insurance, indemnity or trust business other than the Federal Reserve Board, Federal Farm Loan Board, Federal Trade Commission, or any other department or independent establishment of the United States, or any Federal reserve bank, Federal land bank, Federal reserve agent, Federal Advisory Council, or any corporation organized under the laws of the United States, to use the words "Federal", "United States" or "Reserve" as a part of its name or title. Firms, persons or corporations actually engaged in business under a name or title including these words prior to the passage of the law are expressly excepted from the prohibitions of the act.

4. It prohibits any bank, banking association or trust company which is not a member of the Federal Reserve System to advertise or represent that it is a member of such System.

5. Violation of the provisions of the law is made a misdemeanor punishable by fine or imprisonment or both, and the illegal use of the words above set out, may be prevented by injunction.

Since this is a criminal statute violations of its provisions come under the jurisdiction of the Department of Justice. You are requested, therefore, to report the facts in all cases of violations of this law coming to your notice, to the local United States District Attorney and also to send a full report of the matter to the Federal Reserve Board. This report to the Board should be made in duplicate in order that the Board may transmit a copy thereof to the Department of Justice, which may then take such action as it considers advisable in each case.

Yours very truly,

Walter L. Eddy.
Secretary.

Enclosure.

TO ALL FEDERAL RESERVE AGENTS.

C O P Y

X-4619-a

(Public - No. 279 - 69th Congress)

(S. 2606)

An Act To prohibit offering for sale as Federal farm loan bonds any securities not issued under the terms of the Farm Loan Act, to limit the use of the words "Federal," "United States," or "reserve," or a combination of such words, to prohibit false advertising, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That no bank, banking association, trust company, corporation, association, firm, partnership, or person not organized under the provisions of the Act of July 17, 1916, known as the Federal Farm Loan Act, as amended, shall advertise or represent that it makes Federal farm loans or advertise of offer for sale as Federal farm loan bonds any bond not issued under the provisions of the Federal Farm Loan Act, or make use of the word "Federal" or the words "United States" or any other word or words implying Government ownership, obligation, or supervision in advertising or offering for sale any bond, note, mortgage, or other security not issued by the Government of the United States or under the provisions of the said Federal Farm Loan Act or some other Act of Congress.

Sec. 2. That no bank, banking association, trust company, corporation, association, firm, partnership, or person engaged in the banking, loan, building and loan, brokerage, factorage, insurance, indemnity, or trust business shall use the word "Federal," the words "United States," or the word "reserve" or any combination of such words, as a portion of its corporate, firm, or trade name or title or of the name under which it does business: Provided, however, That the provisions of this section shall not apply to the Federal Reserve Board, the Federal Farm Loan Board, the Federal Trade Commission, or any other department, bureau, or independent establishment of the Government of the United States, nor to any Federal reserve bank, Federal land bank, or Federal reserve agent, nor to the Federal Advisory Council, nor to any corporation organized under the laws of the United States, nor to any bank, banking association, trust company, corporation, association, firm, partnership, or person actually engaged in business under such name or title prior to the passage of this Act.

Sec. 3. That no bank, banking association, or trust company which is not a member of the Federal Reserve system shall advertise or represent in any way that it is a member of such system or publish or display any sign, symbol, or advertisement reasonably calculated to convey the impression that it is a member of such system.

Sec. 4. That any bank, banking association, trust company, corporation, association, firm, or partnership violating any of the provisions of this Act shall be guilty of a misdemeanor and shall be subject to a fine of not exceeding $1,000. Any person violating any of the provisions of this Act, or any officer of any bank, banking association, trust company, corporation, or association, or member of any firm or partnership violating any of the provisions of this Act who participates in, or knowingly acquiesces in, such violations shall be guilty

of a misdemeanor and shall be subject to a fine of not exceeding $1,000 or imprisonment not exceeding one year, or both. Any such illegal use of such word or words, or any combination of such words, or any other violation of any of the provisions of this Act, may be enjoined by the United States district court having jurisdiction, at the instance of any United States district attorney, any Federal land bank, joint-stock land bank, Federal reserve bank, or the Federal Farm Loan Board or the Federal Reserve Board.

Sec. 5. That if any clause, sentence, paragraph, or part of this Act shall for any reason be adjudged by any court of competent jurisdiction to be invalid, such judgment shall not affect, impair, or invalidate the remainder of this Act, but shall be confined in its operation to the clause, sentence, paragraph or part thereof directly involved in the controversy in which such judgment shall have been rendered.

Approved, May 24, 1926.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4620

June 16, 1926.

SUBJECT: Holidays during July, 1926.

Dear Sir:

On Monday, July 5th, in observance of Independence Day there will be no Gold Settlement Fund or Federal Reserve Note Clearing, and the books of the Federal Reserve Board will be closed.

In addition to the holiday mentioned, the following banks and branches will be closed on the dates specified:

Tuesday	July 13	Nashville Memphis	General Forrest's birthday
Saturday	July 24	Dallas El Paso Houston	Primary Election Day
		Salt Lake City	Pioneer Day

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 mentioned on each of the holidays with your credits for the following business day in your Gold Fund Clearing telegrams, and make no shipment of Federal Reserve Notes, fit or unfit, for account of the Federal Reserve Bank of Dallas, on July 24th.

Please notify Branches.

Very truly yours,

Walter L. Eddy,
Secretary.

TO GOVERNORS OF ALL F. R. BANKS

MEMORANDUM IN RE USE OF GOVERNMENT TRANSPORTATION REQUESTS:

The General Accounting Office has revised the form of Government transportation request now in use and issued new regulations regarding same. The following instructions are based thereon:

1. All unused requests of the old series must be turned in prior to June 30, 1926. They will not be honored after that date.

2. The new form of request is provided in progressively numbered books that will carry blanks in multiples of 5 to which serial letters have been assigned as follows:

A -	books	containing	5 blanks
B -	"	"	10 "
C -	"	"	25 "
D -	"	"	50 "
E -	"	"	100 "

A supply of books A, B and C have been obtained and are now in the office of the Fiscal Agent.

3. Each traveler is to be supplied with an identification card for use when obtaining transportation on a Government request.

4. Books containing 5 requests or multiples thereof may be issued in blank to travelers as may be required, and when so issued, the traveler will sign them also as issuing officer. The name and title of the person to whom issued and the numbers in the book will appear on the first tabulation sheet.

5. The original request should be signed by the traveler in his own bona fide handwriting when the transportation or ticket for same has been furnished. Both forms should be completed by typewriter, indelible pencil or pen and a legible carbon must always be secured.

6. When a traveler signs a request both as issuing officer and traveler, the carrier will require him to exhibit the book from which the request was taken in order to ascertain the name of the person to whom such book was issued and will then require him to establish his identity by the official card provided for the purpose as the person to whom the book was issued.

7. Requests will not be used where the value of the transportation is less than one dollar ($1.00).

8. The value of the transportation should be plainly marked on the carbon copy and the carbon copy forwarded to the Board at the earliest opportunity after its use. Blanks are provided for the purpose of keeping a record of requests issued.

9. Semiannual reports are to be made by the Board to the Treasury Department on June 30 and December 31 of each year, and each person having in his possession a book of requests should send a description of same to the Fiscal Agent of the Board, giving the numbers of the requests remaining unused.

10. Cancelled requests, together with the carbons should be forwarded to the Fiscal Agent of the Board.

W. M. IMLAY
Fiscal Agent.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4625

SUBJECT: ASSESSMENT FOR GENERAL EXPENSES OF THE FEDERAL RESERVE BOARD, JULY 1 TO DECEMBER 31, 1926.

June 24, 1926.

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, 1926, levying an assessment upon the several Federal reserve banks of an amount equal to eleven hundredths of one per cent (.0011) of the total paid in capital stock and surplus of such banks as at close of business June 30, 1926, to defray the estimated general expenses of the Federal Reserve Board from July 1 to December 31, 1926.

Kindly deposit one-half of the amount of your assessment in the General Account, Treasurer, U. S., on your books July 1, 1926, and one-half September 1, 1926, 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,

Enclosure.

Fiscal Agent.

X-4625a

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 eleven hundredths 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 eleven hundredths of one per cent of the total paid-in capital and surplus of such banks as of June 30, 1926, and the Fiscal Agent of the Federal Reserve 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, 1926, and the second half on September 1, 1926.

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

For Release in Morning Papers,
Monday, June 28, 1926.

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 declined further in May, while wholesale prices advanced slightly for the first time in seven months. The volume of trade at wholesale and at retail increased partly as the result of more favorable weather conditions.

Production.-

Activity in most lines of industry was smaller in May than in April. The reduction was reflected in a decreased volume of output as well as in a decline in the number of factory workers and in total wage payments. The largest declines occurred in the textile, leather and shoes, and iron and steel industries. Production of automobiles continued large in May. In the lumber, cement, brick and glass industries activity was maintained and there were seasonal increases in the output of certain food products. The volume of building contracts awarded declined further in May but continued larger than in May of last year. Figures for the first three weeks of June indicate further decreases and the volume of contracts awarded was smaller in that period than in the corresponding weeks of 1925. Recent declines in contracts as compared with last year have been particularly large in middle western and southeastern districts.

Reports by the Department of Agriculture indicate that the composite

condition of crops on June 1 was 8 per cent below the average condition on that date for the past ten years, and somewhat lower than the average condition a year ago. On the basis of the June 1 condition the estimated yield of winter wheat was 543,000,000 bushels as compared with an estimate of 549,000,000 bushels made a month earlier and a final yield of 398,000,000 bushels in 1925.

Trade.-

With more favorable weather in May than in the preceding month the volume of wholesale and retail trade increased and was larger than in May of last year. Department store sales exceeded those of earlier months of this year, and total sales for the first five months were larger than for the corresponding period of any preceding year. Merchandise stocks carried by wholesale firms were slightly smaller at the end of May than a month earlier. Stocks of groceries, hardware, and drugs were larger than a year ago, but those of meats, dry goods, and shoes were smaller. Stocks at department stores declined more than usual in May and were only slightly larger at the end of the month than a year ago. Railroad freight shipments increased and in May and in the first two weeks of June were above those of the same weeks of previous years. Shipments of miscellaneous commodities were especially large.

Prices.-

The general level of wholesale commodity prices, according to the index of the Bureau of Labor Statistics, rose slightly in May for the first time since last August. Price advances were shown both for agricultural and non-agricultural commodities. Among the principal advances were those in the prices of gasoline, livestock and meat, while prices of grains and cotton declined. In the first three weeks of June prices of grains, livestock, silk,

and nonferrous metals advanced, while those of sugar, cotton, cotton goods, and pig iron declined.

Bank Credit.-

Growth in loans on securities and commercial loans carried total loans and investments of reporting member banks in leading cities in the middle of June to a new high point above the total reached at the close of last year. The large reduction in the volume of loans on securities by New York City banks since the beginning of the year has been more than offset in the total of loans and investments of all reporting banks by increases in commercial loans and in investments of banks both in New York City and outside.

At the reserve banks changes in the volume of credit outstanding during the month ending June 23 reflected chiefly the financial operations of the United States Treasury around the middle of June. The temporary abundance of funds caused by the redemption of maturing United States obligations on June 15 caused a sharp decline in borrowings of member banks, particularly in New York City. As checks in payment of income taxes were cleared and collected, however, borrowings at the reserve banks rose to their previous level.

Money rates in general showed little change during the month. Rates on call and time loans were slightly lower around the middle of June, but in the third week were higher than in the latter part of May. Rates on acceptances and on commercial paper remained practically unchanged.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4627

June 29, 1926.

SUBJECT: Right of Federal Reserve Bank to remove non-member bank from par list.

Dear Sir:

The Federal Reserve Board has been requested to rule upon the question whether a Federal reserve bank may, of its own volition, strike from the par list the name of a nonmember State bank which has agreed to remit at par, but repeatedly fails to comply with special instructions to telegraph nonpayment of checks drawn on such bank and forwarded direct to it for payment, and which in some instances returns checks drawn upon it unpaid without protesting such checks.

Under the terms of the Federal Reserve Act Federal reserve banks must receive on deposit at par and proceed to collect all checks on member banks which are presented to them by member banks; but they are not required to handle checks on nonmember banks.

Section III of the Board's Regulation J provides that:

> "Each Federal reserve bank will receive at par from its member banks and from nonmember clearing banks in its district, checks drawn on all member and nonmember clearing banks, and checks drawn on all other nonmember banks which are collectable at par in funds acceptable to the Federal reserve bank of the district in which such nonmember banks are located."

It is the general policy of this provision of the regulation to require all Federal reserve banks to handle all checks drawn on nonmember banks which can in fact be collected at par in acceptable funds without employing a special agent other than a bank to present such checks for collection across the counter; and construed strictly according to its letter the regulation might be

considered by implication to forbid a Federal reserve bank to strike from the par list any nonmember bank on which checks can in fact be collected at par. A reasonable construction of this regulation, however, does not require a Federal reserve bank to handle checks drawn on a nonmember bank when such checks cannot be collected without undue risk to the Federal reserve bank.

After a careful consideration of the question presented, the Board has ruled that Federal reserve banks may, of their own volition, remove from the par list the name of any nonmember bank which repeatedly fails to remit promptly for cash letters sent to it, to protest unpaid cash items sent to it, to comply with instructions to wire advice of nonpayment, to comply with any other provisions of Regulation J of the Federal Reserve Board, or of the Federal reserve bank's check collection circular, or which for any other reasonable cause may be deemed by the Federal reserve bank to be an unfit or unsafe agent for collection; unless checks on such bank can safely be collected at par in acceptable funds through another bank in the same city or town.

By order of the Federal Reserve Board.

Very truly yours,

Walter L. Eddy,
Secretary.

TO GOVERNORS AND FEDERAL RESERVE AGENTS OF ALL F. R. BANKS.

X-4628

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 29, 1926.

SUBJECT: Eligibility for rediscount of notes of parent corporation to finance purchase of automobiles to be used by its subsidiaries.

Dear Sir:

The Board has been requested to rule upon the eligibility for rediscount at a Federal Reserve Bank of notes issued under the following plan:

The notes are to be made by a certain corporation which is a parent company owning approximately 75% of the capital stock of a number of corporations throughout the United States engaged in motor transportation under the "Drive it yourself plan". The proceeds of the notes in question are to be used by the parent company to purchase automobiles which are to be distributed to the various subsidiary companies. These subsidiaries are to pay for the cars out of earnings from month to month. The notes will be guaranteed by a surety company. The parent company does all of the borrowing for the subsidiaries.

The plan appears to be one whereby the parent corporation borrows money to finance the purchase of automobiles to be used as permanent or fixed investments in the business of its subsidiaries. The Board has heretofore held that notes of a corporation engaged in the business of furnishing motor transportation, made for the purpose of providing funds with which to purchase motor vehicles, are ineligible for rediscount, on the grounds that such motor vehicles necessarily constitute a large part of the corporation's entire equipment and are hence to be considered permanent or fixed investments. It is true that under the plan here presented the notes are to be made by the parent corporation and the cars purchased and distributed by it to its subsidiaries, but this does not change the nature or purpose of the transaction. It does not appear whether there is an actual sale of these automobiles by the parent company to the subsidiaries, but in any event the Board does not feel that these notes should be considered eligible on the theory that the proceeds are to be used to purchase goods which are to be resold, because of the close affiliation of the parent company with the subsidiaries; the obvious purpose of the plan is to finance the

subsidiary corporations in acquiring the automobiles. In the Board's opinion, the transaction is, in substance even if not in form, a borrowing for capital purposes. The notes of the parent company, therefore, the proceeds of which are to be used to purchase automobiles to be distributed to its subsidiaries and used by them for capital purposes, must be considered ineligible for rediscount at a Federal Reserve Bank.

By order of the Federal Reserve Board.

Very truly yours,

Walter L. Eddy,
Secretary.

TO GOVERNORS OF ALL F.R.BANKS AND ALL F.R.AGENTS.

X-4629

375

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 30, 1926.

SUBJECT: Purchase of Third Liberty Loan Bonds by Federal Reserve Banks under agreement to resell.

Dear Sir:

This is to advise you that the Federal Reserve Board has approved a recommendation of the Open Market Investment Committee for the Federal Reserve System that Federal Reserve Banks extend the repurchase agreement practice with recognized dealers in Government securities to include Third Liberty Loan bonds. These bonds mature September 15, 1928, and now have only a little more than two years to run.

The volume of United States Treasury certificates and notes outstanding has been greatly reduced and it seems proper to increase the volume of short-term securities which dealers can borrow on from the Federal Reserve Banks by the addition of the Third Liberty Loan bonds.

Yours very truly,

D. R. Crissinger,
Governor.

TO ALL GOVERNORS OF FEDERAL RESERVE BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 6, 1926.
St. 4792.

SUBJECT: Special Notification of Dividend declared by State Bank and Trust Company Members.

Dear Sir:

Enclosed herewith is a copy of the Board's form 107a "SPECIAL NOTIFICATION OF DIVIDEND DECLARED" by State Bank and Trust company members of the Federal Reserve System.

Will you kindly advise the Board whether you make any special use of the reports submitted on this form by State bank members and whether there is any reason from the standpoint of your bank why these banks should not be authorized to discontinue submitting the reports.

Very truly yours,

Walter L. Eddy,
Secretary.

Enclosure.

TO ALL F. R. AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 7, 1926.
St. 4796.

SUBJECT: Data for 1925 Annual Report of the Federal Reserve Board.

Dear Sir:

For use in the forthcoming annual report of the Federal Reserve Board, will you kindly furnish us as soon as practicable with the following data:

1. Classification of U. S. securities held by your bank (1) under repurchase agreement, and (2) in investment account, as at close of business December 31, 1925, giving the character of securities, interest rate, maturity date, and par value. The total only need be shown for securities bought through the Open Market Investment Committee and held in Special Investment Account.

2. Statement showing the number of member banks in each State (or part of State in the district) accommodated through the discount of paper during the calendar year 1925.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS.*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 11, 1926,
St. 4800.

SUBJECT: Revision of forms A, 38, 44-a, and 170.

Dear Sir:

There is enclosed herewith a copy of each of the following revised forms, for use beginning with the present month:

Form A - Discount and open market operations during the month.

Form 38- Classification of discounted and purchased bills held at the end of the month. (Separate head office and branch reports need not be submitted on this form in the future.)

Form 44-a - Classification of money held by the Federal reserve bank and of gold held by the Federal reserve agent at end of month.

Form 170 - Monthly report of clearing operations.

A supply of each of the forms is being forwarded to you today under separate cover.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Enclosure.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS*

FEDERAL RESERVE BOARD

WASHINGTON

January 12, 1926,
St. 4802.

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

SUBJECT: Debits to Individual Accounts.

Dear Sir:

In compiling monthly figures of debits to individual accounts from weekly reports received in 1926, it is proposed, as in 1925, to prorate the figures for each city for those weeks which do not fall entirely within a given month, on the basis of actual business days. By reference to data available at the Board's offices we find that the report weeks in 1926 which begin in one month and end in another, i.e., the report weeks for which the figures must be prorated between two months, contain the following days observed as holidays in the states specified:

January 1, 1926	All states and the District of Columbia
March 2	Texas
April 29	New Hampshire
April 30	Wyoming
May 31	District of Columbia and all states except Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, North Carolina, Oklahoma, South Carolina, South Dakota.
August 2	Colorado
August 3	Missouri, Montana, Oklahoma
August 31	California
October 5	Arkansas, Missouri
November 1	Louisiana and Nevada
November 2	All states except Alabama, Connecticut, Georgia, Kansas, Maine, Massachusetts, Mississippi, New Mexico, Ohio, Utah and Vermont.
November 25	All states and the District of Columbia
January 1, 1927	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 FEDERAL RESERVE AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 14, 1926.
St. 4808

SUBJECT: Reports of Condition of State Banks and Trust Companies.

Dear Sir:

It will be greatly appreciated if in accordance with your usual practice you will kindly furnish the Federal Reserve Board, as soon as available, with a copy of the abstract of reports of condition of state banks and trust companies in your state on December 31, 1925, or other recent date in case you did not issue a call for reports of condition as of December 31.

In submitting the above mentioned data it is requested that the number of banks be stated and that separate figures be furnished for mutual savings banks providing there are any such banks operating in your state.

A franked and self-addressed envelope, requiring no postage, is enclosed for use in transmitting the data requested.

Very truly yours,

J. C. Noell,
Assistant Secretary.

Enclosure

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 14, 1926.
St. 4809

SUBJECT: Reports of Condition of State Bank and Trust Companies.

Dear Sir:

It will be greatly appreciated if in accordance with your usual practice you will kindly furnish the Federal Reserve Board, as soon as available, with a copy of the abstract of reports of condition of state banks and trust companies in your state on December 31, 1925, or other recent date in case you did not issue a call for reports of condition as of December 31.

In submitting the above mentioned data it is requested that the number of banks be stated and that separate figures be furnished for mutual savings banks providing there are any such banks operating in your state, also that the figures be segregated by Federal reserve districts.

A franked and self-addressed envelope, requiring no postage, is enclosed for use in transmitting the data requested.

Very truly yours,

J. C. Noell,
Assistant Secretary.

Enclosure.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 21, 1926.
St. ~~1771~~ 4813

SUBJECT: Bank Suspensions and Insolvencies
December 1925.

Dear Sir:

There is enclosed herewith a list of member and nonmember banks reported to the Board as having suspended operations during the month of December, and of banks previously closed which resumed business during the same month, a summary of which will be published in the Federal Reserve Bulletin. The statement also includes any corrections made in the lists previously sent to you.

Data pertaining to your district as shown in the statement have been checked against the list of bank failures during 1925, recently verified by you, and such reports on form X-4401 as have been received by the Board. Accordingly the statement is merely sent to you for your information, in continuation of similar lists for prior months.

Very truly yours,

Walter L. Eddy,
Secretary.

Enclosure.

TO ALL FEDERAL RESERVE AGENTS EXCEPT ATLANTA,
RICHMOND AND CHICAGO*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 23, 1926.
St. 4818.

SUBJECT: Discontinuance of Reports on
Form 107a.

Dear Sir:

Replies received to the Board's letter St. 4792 of January 6, 1926, all indicate that adequate information regarding dividends declared by state bank and trust company members is contained in the semi-annual reports of earnings and dividends, and that reports on form 107a, "Special Notification of Dividend Declared" by State bank and Trust company members, serve no useful purpose and may well be dispensed with.

You are accordingly authorized to notify all state bank and trust company members in your district that no further reports on form 107a need be submitted to your bank.

Very truly yours,

Walter L. Eddy,
Secretary.

LETTER TO ALL FEDERAL RESERVE AGENTS

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

February 9, 1926.
St. 4832..

SUBJECT: Member banks absorbed and operated as branches of other banks.

Dear Sir:

In case you have such information available, will you kindly furnish the Board with a statement showing the name, location, capital and deposits of each national bank and of each state bank member which was taken over by other banks either by consolidation, purchase, or otherwise, during the four-year period ending December 31, 1925, and continued in operation as a branch or additional office. It will also be appreciated if you will give the date on which each of the member banks herein referred to surrendered its membership in the System, and the name of the bank of which it became a branch or additional office.

Very truly yours,

Edmund Platt,
Vice Governor.

COPY OF LETTER TO ALL F. R. AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

February 13, 1926.
St. 4844.

SUBJECT: Weekly Member Bank Press Statement.

Dear Sir:

The Board's weekly press statement showing the condition of reporting member banks in leading cities as at close of business on Wednesdays is now released for publication in Friday afternoon papers of the following week, with the result that there is an interval of nine days between the date to which the figures relate and the date of their publication. The Board feels that the value of this statement would be materially enhanced if the date of publication could be advanced, preferably to Sunday following the Wednesday to which the figures relate. As all or nearly all of the cities in which the reporting banks are located appear to be within over-night mail time from a Federal reserve bank or branch, it would seem that if all reporting member banks would cooperate by mailing figures each Thursday showing their condition as at close of business on the preceding day, it would be practicable for the Federal reserve banks and branches to receive and consolidate the figures for all reporting banks in their respective territories, and wire them to the Federal Reserve Board on Friday, in most cases probably by noon. This would enable the Board to make the necessary consolidation of the figures, and to issue the complete statement to the press on Saturday for publication in Sunday morning papers.

It will be appreciated if you will advise us at your early convenience whether or not such a plan would be likely to work out satisfactorily in your district. If any of the cities in your district in which reporting member banks are located are not within over-night mail time from your bank (or one of its branches), advice will be appreciated as to which cities fall in this class, and the approximate cost per reporting bank of obtaining the information by telegraph. The estimated cost per telegram should be based on the assumption that the telegram will be dispatched as a fast day message at Government rates, showing figures in thousands of dollars for all of the present items (except of course those that are taken from the books of the Federal reserve bank), and that each item reported will be designated by a single code word as on form St. 51.

The question has been raised as to whether or not it would be advisable to add a new page to the weekly member bank statement showing separate figures for each Federal reserve bank city, and we should be glad to have an expression of your opinion as to the advisability of publishing figures for Federal reserve bank cities regularly each week. The release would then consist of four pages.

The Board also has under contemplation the advisability of making certain changes in the statement, the principal ones being the publication of a single total for holdings of United States securities, instead of separate figures for pre-war bonds, Liberty bonds, Treasury bonds, Treasury notes, and Treasury certificates, and the consolidation of loans secured by Government obligations with loans secured by stocks and bonds. In case the date of publication of the statement is advanced, it is thought that the changes under contemplation, if made, could be inaugurated at the same time.

In this connection, will you kindly advise the Board whether prompt receipt of the total figures from the reporting member bank statement (i.e., for all districts combined) is of sufficient importance to warrant their being telegraphed to you as soon as available for your own information or to be released for publication locally, as is done in the case of the Federal reserve bank figures.

Very truly yours,

Walter L. Eddy,
Secretary.

TO ALL FEDERAL RESERVE AGENTS.*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

February 17, 1926,
St. 4850.

SUBJECT: Condition of Member Banks as of December 31, 1925.

Dear Sir:

For your information there is enclosed herewith a preliminary statement regarding the condition of all member banks combined as of December 31, 1925. The Board's abstract (No. 31) 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*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

February 19, 1926,
St. 4852

SUBJECT: Bank Suspensions and Insolvencies.

Dear Sir:

There is enclosed herewith a list of member and nonmember banks reported to the Board as having suspended operations during the month of January, and of banks previously closed which resumed business during the same month. The statement also includes any corrections made in the lists previously sent to you.

It will be appreciated if you will kindly check the data pertaining to your district against your records and advise the Board on or before February 27, by telegraph if necessary, whether or not any corrections or additions are necessary therein, in order that correct summaries by districts may be published in the Federal Reserve Bulletin.

Very truly yours,

Walter L. Eddy,
Secretary.

Enclosure.

LETTER TO ALL FEDERAL RESERVE AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

February 24, 1926.
St. 4855.

SUBJECT: Functional Expenses,
Second Half, 1925.

Dear Sir:

There is enclosed herewith one copy of the consolidated Functional Expense exhibit for the half year ending December 31, 1925.

Copies of the exhibit are also being mailed to the Governor of the bank and to the Chairman of the Procedure Committee.

Very truly yours,

E. L. Smead, Secretary,
Committee on Salaries,
Expenditures and Efficiency.

Enclosure.

LETTER TO CHAIRMAN OF EACH FEDERAL RESERVE BANK*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

March 8, 1926,
St. 4870.

SUBJECT: Abstract of Condition Reports of State Bank and Trust Company members and of all Member Banks as of December 31, 1925.

Dear Sir:

We are forwarding to you under separate cover copies of the Board's Abstract No. 31 showing the condition of State Bank and Trust Company members and of all member banks as at close of business on December 31, 1925. Consolidated figures for all member banks, both National and State, are shown on pages 1 and 12.

Please forward one copy of the abstract to each State Bank and Trust Company member in your district that has expressed a desire to receive copies of abstracts as issued.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

LETTER TO ALL FEDERAL RESERVE AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

March 11, 1926,
St. 4875.

SUBJECT: Form E - Functional Expense Report.

Dear Sir:

There are being forwarded to you today under separate cover copies of form E, Semi-annual Functional Expense Report, a proof copy of which was sent you on December 15.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

TO CHAIRMEN OF ALL FEDERAL RESERVE BANKS*

COPIES TO GOVERNORS AND CHAIRMEN OF
PROCEDURE COMMITTEES.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

March 15, 1926.
St. 4880.

SUBJECT: Bank Suspensions and Insolvencies

Dear Sir:

There is enclosed herewith a list of member and nonmember banks reported to the Board as having suspended operations during the month of February, and of banks previously closed which resumed business during the same month. The statement also includes any corrections made in the lists previously sent to you.

It will be appreciated if you will kindly check the data pertaining to your district against your records and advise the Board on or before March 27, by telegraph if necessary, whether or not any corrections or additions are necessary therein, in order that correct summaries by districts may be published in the Federal Reserve Bulletin.

Very truly yours,

Walter L. Eddy,
Secretary.

Enclosure.

LETTER TO ALL FEDERAL RESERVE AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

March 20, 1926.
St. 4891

My dear Congressman:

During the course of the hearing on March 17 before the Committee on Banking and Currency on the bill to authorize the construction of a banking house for the Baltimore Branch, the Committee asked for certain information regarding the cost of buildings already constructed, the policy of the Federal Reserve Board with reference to charge-offs and depreciation allowances on bank premises, the cost of the Fiscal Agency work handled by the Federal reserve banks segregated so as to show the cost of the various operations, and the cost of operating the Transit and Transfer of Funds departments.

In compliance with this request I am enclosing herewith a pamphlet showing the "Directors, Personnel, Bank Premises, etc." of each Federal reserve bank, branch, and agency, which was prepared in January of this year. This pamphlet shows the cost of the land, buildings, vaults, and vault equipment, fixed machinery and equipment, and furniture and equipment separately for each Federal reserve bank and branch, together with charge-offs and depreciation allowances thereon, and I trust gives the information desired regarding the cost of bank premises and of furniture and equipment at the Federal reserve banks.

I should like to call your attention to the fact that the separate figures shown as the cost of the buildings and of fixed machinery and equipment represent the division between the two items set up by the Board for depreciation allowance purposes, the depreciation obviously being much less on a building than on fixed machinery and equipment such as boilers, engines, dynamos, elevators, heating, plumbing and lighting systems, refrigeration plants, etc., which wear out in a relatively brief period as compared with the life of the building. The Board's policy in authorizing depreciation allowances and charge-offs on bank premises is shown in the enclosed extract from its 1922 annual report, from which you will note that the depreciation allowance on buildings does not exceed 2 per cent, unless the replacement cost of the building is below its book value, while on fixed machinery and equipment the maximum allowance is 10 per cent.

There have been only four Federal reserve branch buildings erected since the passage of the Act of June 3, 1922, as amended by the Act of February 6, 1923, limiting the cost of buildings erected for Federal reserve branches, exclusive of the cost of vaults, permanent equipment, furnishings and fixtures. Of these buildings, the contract prices of the buildings proper of the Denver, Omaha, and Little Rock branches were as follows: Denver $230,863, Omaha $230,227, and Little Rock $220,659. The total cost of the building at Jacksonville including vault and permanent equipment was only $236,499, or less than the $250,000 maximum set up by Congress for the building proper.

I am also sending you a statement regarding the Fiscal Agency work handled by the Federal reserve banks, which shows reimbursable and non-reimbursable expenses from 1917 to the end of 1925, and a statement showing the cost of operating the Transit and Collection departments and the cost of effecting Transfers of Funds.

This letter together with the enclosures referred to herein is being sent to each member of the Committee on Banking and Currency. In case the data enclosed are not sufficiently complete for the Committee's purposes, I shall be glad to have such additional data prepared as may be desired.

Very truly yours,

Geo. R. James,
Member, Federal Reserve Board.

Enclosures.

(TO ALL MEMBERS OF HOUSE COMMITTEE ON BANKING AND CURRENCY)

EXPENSES OF THE FISCAL AGENCY DEPARTMENTS OF FEDERAL RESERVE BANKS

The Federal reserve banks were appointed depositaries and fiscal agents of the United States by the Secretary of the Treasury on January 1, 1916, in accordance with the provisions of Section 15 of the Federal Reserve Act. Their operations in these capacities were, however, of relatively small volume until the entry of the United States into the world war in 1917, and for that reason were conducted by the Federal reserve banks without expense to the Treasury. After the Government began to issue certificates of indebtedness and Liberty bonds in order to finance the war, fiscal agency operations increased very rapidly, and provision was therefore made in 1917 by the Treasury to reimburse the Federal reserve banks for practically all direct expenses incurred by them in the performance of their fiscal agency functions. This arrangement was continued until June 30, 1921, since which time the Federal reserve banks have been reimbursed for only those fiscal agency expenses which are incurred directly in connection with the sale of new issues of Government securities, the cost of conducting all other fiscal agency operations being absorbed by the Federal reserve banks.

The table below shows the reimbursable and non-reimbursable Fiscal Agency department expenses of the Federal reserve banks beginning with 1917, in comparison with the current expense of operating all departments:

COMPARISON OF EXPENSES OF THE FISCAL AGENCY FUNCTION OF THE FEDERAL RESERVE BANKS WITH THE TOTAL EXPENSE OF ALL FUNCTIONS

(Fiscal Agency expenses as shown below do not include general administrative expenses, such as salaries of senior officers and cost of space in buildings owned by Federal reserve banks)

	Expenses of Fiscal Agency Function (including War Finance Corporation operations)			Total expense of all functions*	Ratio of Fiscal Agency expense to total expense (per cent)
	Reimbursed by Treasury	Absorbed by F. R. banks	Total		
1917	$3,094,750	-	$3,094,750	$8,254,477	37.5
1918	16,256,689	-	16,256,689	27,216,222	59.7
1919	16,626,016	-	16,626,016	35,965,649	46.2
1920	6,215,356	-	6,215,356	34,473,386	18.0
1921	2,609,754	$1,245,939	3,855,693	37,073,599	10.4
1922	1,183,815	1,530,551	2,714,366	30,742,864	8.8
1923	1,912,483	1,142,936	3,055,419	31,676,656	9.6
1924	444,067	867,765	1,311,832	28,875,193	4.5
1925	167,330	703,485	870,815	27,695,493	3.1
Total	48,510,260	5,490,676	54,000,936	261,973,539	20.6

*Current expenses of Federal reserve banks plus reimbursable fiscal agency expenses.

Under the arrangement now in effect, the Federal reserve banks absorb the expense of the following Fiscal Agency operations:

Denominational exchange of coupon bonds.
Exchange of temporary for permanent bonds
Exchange of interim receipts for permanent bonds
Inter-change of coupon and registered bonds
Telegraphic transfer of securities
Forwarding of registered bonds to the Treasury for transfer
Shipment of cancelled securities to the Treasury
Redemptions of called or matured securities
Maintenance of Government deposits accounts with depositary banks
Custody of securities for Treasury
Purchase and sale of Government securities for Treasury account.

Aside from purely fiscal agency operations, all Federal reserve banks act as depositaries for the general funds of the Treasury, for which work they have never received reimbursement. In this capacity, the reserve banks are required to perform the following operations:

Pay Government checks and warrants
Pay coupons from Government securities
Transfer funds by telegraph for Government account
Withdraw Government deposits from banks in the district
Collect checks and non-cash items for Government account
Handle former sub-treasury operations.

No separate record has been maintained of the cost of some of these operations, but for 1925 the direct cost of handling Government checks and warrants was $136,735, Government coupons $123,719, and coin $304,381.

POLICY FOLLOWED BY FEDERAL RESERVE BOARD IN AUTHORIZING DEPRECIATION ALLOWANCES AND CHARGE-OFFS ON BANK PREMISES OF FEDERAL RESERVE BANKS

The policy followed by the Federal Reserve Board in authorizing depreciation allowances and charge-offs on land and buildings acquired for banking house purposes by the Federal reserve banks, as set forth on page 23 of the Board's 1922 annual report, is as follows:

"On August 1, 1922, the Federal reserve banks were advised that in the future requests for authority to charge off depreciation on bank premises or to set up a reserve for depreciation thereon should be accompanied with a statement showing for each separate piece of property the cost, estimated replacement value, and book value of buildings, either completed or in course of construction; the cost, estimated market value, and book value of land owned; and the cost of fixed machinery and equipment, such as heating, lighting, plumbing, ventilating systems, etc., in order that the Board might have complete data before it in passing upon such requests and in order that separate rates of depreciation might be determined for land, buildings, and fixed machinery and equipment. In the same letter the board stated that no charges against current net earnings would be authorized to cover depreciation on land where the estimated market value of the land was equal to or in excess of its book value and that, in general, depreciation allowances on bank buildings were not to exceed 2 per cent of their estimated replacement cost (including vaults but excluding fixed machinery and equipment) unless the estimated replacement cost of bank buildings was materially below book value, in which case requests for permission to write off a depreciation charge in excess of 2 per cent would be considered. Estimated replacement costs were to be determined by taking the mean of the actual cost and the estimated lowest construction costs at any time in the past 15 years. The rule laid down with reference to fixed machinery and equipment provided that reserves should be based upon the estimated life of the machinery and equipment, with a view to its ultimate replacement, the annual reserve allowance in no case to exceed 10 per cent of cost."

COST OF OPERATING THE TRANSIT AND COLLECTION DEPARTMENTS OF THE FEDERAL RESERVE BANKS, AND COST OF MAKING TRANSFERS OF FUNDS

During the past three years the Federal Reserve Board has been receiving reports from the Federal reserve banks distributing their operating expenses according to functions performed. The costs of operating each function or department, however, as shown in these reports do not include general overhead expenses such as salaries of senior officers, the cost of space occupied by the several departments, and the keeping of the general books, individual ledgers, etc., of the bank, which are shown separately in the reports. The expenses directly charged to the Transit and Collection departments, and to the operating unit which handles transfers of funds, were as follows during the past three years.

	1923	1924	1925
Check collections	$4,585,982	$4,462,189	$4,174,170
Non-cash collections	1,156,238	1,051,719	905,888
Total	5,742,220	5,513,908	5,080,058
Transfers of funds	479,583	457,753	419,075

St. 4890

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

March 23, 1926
St. 4892

SUBJECT: Condition reports of State bank and Trust Company Members, Form 105

Dear Sir:

There are being forwarded to you today under separate cover copies of form 105 as revised for the next call. Please mail three copies of the form to each State Bank and Trust Company member in your district with instructions to hold the blank forms pending receipt of a call for condition reports.

Upon receipt of notice from the Board of the call for condition reports, kindly notify the banks thereof by mail and request them to fill out the reports and mail them to you promptly - in no case later than 10 days after receipt of the call.

In order that the compilation of the Board's abstract showing the condition of all state bank and trust company members combined as of the date of the next call may not be unduly delayed, it is requested that the reports be forwarded to the Board as soon as practicable after they are received by the Federal reserve bank. If it is necessary to communicate with a bank regarding apparent errors in its report, a note to that effect should be made on the report itself before it is mailed to the Board, and the Board should be advised of the necessary corrections when the desired information is received from the member bank.

Kindly acknowledge receipt.

Yours very truly,

Walter L. Eddy,
Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

March 31, 1926
St. 4902

ADDRESS OFFICIAL CORRESPONDENCE TO THE FEDERAL RESERVE BOARD

SUBJECT: Weekly member bank press statement.

Dear Sir:

Referring to your reply to the Board's letter St. 4844 of February 13, regarding proposed changes in the weekly condition report of member banks in leading cities and the practicability of advancing the date of publication thereof, I beg to advise that the Board has decided to combine all holdings of Government securities into one item and to advance the date of publication of the statement as much as practicable.

The replies received to the Board's letter indicate that the reports can probably be obtained in time to wire the data to the Board each Friday, but that considerable difficulty may be experienced in getting a few of the banks to send their figures in promptly. Consequently it would seem advisable for all the Federal reserve agents to obtain the reports from member banks in their districts as promptly as possible for a few weeks before any actual change is made in the release date, so that the earliest practicable release date may be definitely determined in advance of the actual change. You are requested, therefore, to advise reporting member banks in your district that the value of the statement will be much enhanced if the publication date is advanced, and to ask them to mail their reports in time to reach your bank on Friday if possible. If this is done, the reports can be consolidated at your bank and wired to the Board Friday afternoon, and the statement mimeographed by the Board Saturday morning.

There is enclosed herewith a copy of revised form St. 51, a supply of which is being forwarded to you under separate cover, and it is suggested that you advise your member banks of the consolidation of the United States security holdings into one item at the same time that they are requested to send their reports in more promptly. This change will be incorporated in the Board's weekly statement for March 31, which will be released for publication on April 9.

Very truly yours,

Walter L. Eddy,
Secretary.

Enclosure.

TO ALL FEDERAL RESERVE AGENTS

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

April 15, 1926.
St. 4920.

SUBJECT: Bank Suspensions and Insolvencies.

Dear Sir:

There is enclosed herewith a list of member and nonmember banks reported to the Board as having suspended operations during the month of March and of banks previously closed which resumed business during the same month. The statement also includes any corrections made in the lists previously sent to you.

It will be appreciated if you will kindly check the data pertaining to your district against your records and advise the Board on or before April 27, by telegraph if necessary, whether or not any corrections or additions are necessary therein, in order that correct summaries by districts may be published in the Federal Reserve Bulletin.

Very truly yours,

J. C. Noell,
Assistant Secretary.

Enclosure.

LETTER TO ALL FEDERAL RESERVE AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

April 24, 1926.
St. 4932.

SUBJECT: Reports of Condition of State Banks and Trust Companies.

Dear Sir:

It will be greatly appreciated if in accordance with your usual practice you will kindly furnish the Federal Reserve Board, as soon as available, with a copy of the abstract of reports of condition of state banks and trust companies in your state on April 12, 1926, or other recent date in case you did not issue a call for reports of condition as of April 12.

In submitting the above mentioned data it is requested that the number of banks be stated and that separate figures be furnished for mutual savings banks providing there are any such banks operating in your state, also that the figures be segregated by Federal reserve districts.

A franked and self-addressed envelope, requiring no postage, is enclosed for use in transmitting the data requested.

Very truly yours,

J. C. Noell,
Assistant Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

April 24, 1926.
St. 4933.

SUBJECT: Reports of Condition of State Banks and Trust Companies.

Dear Sir:

It will be greatly appreciated if in accordance with your usual practice you will kindly furnish the Federal Reserve Board, as soon as available, with a copy of the abstract of reports of condition of state banks and trust companies in your state on April 12, 1926, or other recent date in case you did not issue a call for reports of condition as of April 12.

In submitting the above mentioned data it is requested that the number of banks be stated and that separate figures be furnished for mutual savings banks providing there are any such banks operating in your state.

A franked and self-addressed envelope, requiring no postage, is enclosed for use in transmitting the data requested.

Very truly yours,

J. C. Noell,
Assistant Secretary.

Enclosure.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

May 15, 1926.
St.4951.

SUBJECT: Bank Suspensions and Insolvencies.

Dear Sir:

There is enclosed herewith a list of member and nonmember banks reported to the Board as having suspended operations during the month of April and of banks previously closed which resumed business during the same month. The statement also includes any corrections made in the lists previously sent to you.

It will be appreciated if you will kindly check the data pertaining to your district against your records and advise the Board on or before May 27, by telegraph if necessary, whether or not any corrections or additions are necessary therein, in order that correct summaries by districts may be published in the Federal Reserve Bulletin.

Very truly yours,

J. C. Noell,
Assistant Secretary.

Enclosure.

LETTER TO ALL FEDERAL RESERVE AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

May 28, 1926,
St. 4966.

SUBJECT: Condition of Member Banks as of April 12, 1926.

Dear Sir:

For your information there is enclosed herewith a preliminary statement regarding the condition of all member banks combined as of April 12, 1926. The Board's abstract (No. 32) 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*

Loans and investments of all member banks decreased $130,000,000 between December 31, 1925, and April 12, 1926, to $31,070,000,000. Decreases of $386,000,000 in loans and investments reported by New York City central reserve city banks and of $51,000,000 reported by the same class of banks in Chicago were partially offset by increases of $171,000,000 reported by other reserve city banks and $136,000,000 by country banks. Loans and discounts, including overdrafts, aggregated $22,006,000,000, a decrease of $269,000,000 since December 31, but an increase of $1,617,000,000 since April 6, 1925. The principal changes in this item since December 31 include decreases of $345,000,000 and $40,000,000 in the New York and Boston districts, respectively, and increases of $65,000,000 and $53,000,000 in the Philadelphia and Cleveland districts. Investments in United States securities were $70,000,000 greater than on December 31, but $85,000,000 less than a year ago, while holdings of other securities were $69,000,000 larger than on December 31 and $253,000,000 larger than on April 6, 1925.

Total deposits amounted to $32,870,000,000, a decrease of $1,358,000,000 since December 31, but an increase of $1,644,000,000 since April 6, 1925. Demand deposits increased $973,000,000 during the year and time deposits $828,000,000, increases occurring in all districts except for a nominal decrease in both demand and time deposits in the Minneapolis district. Substantial increases in these items were reported for the New York, Chicago, Boston, San Francisco, Philadelphia, Atlanta, and Cleveland districts. Amounts due to banks and bankers fell off $232,000,000 during the year, decreases being reported for all districts except San Francisco. Of the increase of $1,644,000,000 in total deposits since April 6, 1925, $376,000,000 was reported for the central reserve cities of New York and Chicago, $618,000,000 for other reserve cities, and $650,000,000 by country banks. The decrease of $1,358,000,000 in total deposits since December 31, 1925, of which $1,049,000,000 was reported by central reserve city banks in New York City, is attributable in part to a reduction in the amount of float carried by the member banks, uncollected items having declined by $848,000,000, of which $103,000,000 was in items with Federal reserve banks in process of collection and $745,000,000 in exchanges for clearing house and checks on other banks in same place.

In the attached tables are figures by Federal reserve districts for all member banks and System figures for State bank and trust company members and for national banks.

Changes in the principal resources and liabilities as compared with figures for December 31, 1925, and April 6, 1925, were as follows:

	Increase (+) or decrease (-) since	
	Dec. 31, 1925	April 6, 1925
Loans and discounts (including overdrafts)	- $269,000,000	+$1,617,000,000
United States securities	+ 70,000,000	- 85,000,000
Other bonds, stocks and securities	+ 69,000,000	+ 253,000,000
Total loans and investments	- 130,000,000	+ 1,785,000,000
Demand deposits	-*1,002,000,000	+ 973,000,000
Time deposits	+ 302,000,000	+ 828,000,000
Government deposits	+ 75,000,000	- 32,000,000
Due to banks and bankers	- 371,000,000	- 232,000,000
Certified and cashiers' checks	- 362,000,000	+ 107,000,000
Acceptances outstanding	- 15,000,000	+ 8,000,000
Bills payable and rediscounts	- 171,000,000	+ 141,000,000

*Demand deposits plus certified and cashiers' checks outstanding and less exchanges and other uncollected items decreased $515,349,000.

RESOURCES AND LIABILITIES OF MEMBER BANKS ON APRIL 12, 1926 AND DECEMBER 31, 1925. St. 4966b

	State Bank & Trust Company members		National Banks	
	April 12, 1926	Dec. 31, 1925	April 12, 1926	Dec. 31, 1925
Loans and discounts (including overdrafts)	$8,698,506,000	$8,733,482,000	$13,307,802,000	$13,541,803,000
U. S. securities	1,293,409,000	1,241,015,000	2,537,669,000	2,520,050,000
Other bonds, stocks and securities	1,965,470,000	1,913,038,000	3,267,147,000	3,250,128,000
Total loans and investments	11,957,385,000	11,887,535,000	19,112,618,000	19,311,981,000
Cash in vault	173,546,000	185,676,000	366,715,000	388,856,000
Reserve with F. R. Banks	847,284,000	861,241,000	1,288,664,000	1,376,992,000
Items with Federal Reserve Banks in process of collection	234,710,000	253,453,000	487,345,000	572,090,000
Due from banks and bankers	484,223,000	538,772,000	1,449,278,000	1,616,534,000
Exchanges for clearing house, and checks on other banks in same place	592,441,000	959,027,000	858,010,000	1,236,439,000
All other resources	905,737,000	900,141,000	1,317,478,000	1,336,558,000
Total resources	15,195,326,000	15,585,845,000	24,880,114,000	25,839,450,000
Demand deposits	6,371,736,000	6,678,897,000	10,451,412,000	11,145,805,000
Time deposits	4,756,886,000	4,607,266,000	6,197,861,000	6,045,762,000
U. S. deposits	147,587,000	113,183,000	231,863,000	190,948,000
Certified and cashiers' checks	381,650,000	549,880,000	481,816,000	675,878,000
Due to banks and bankers	1,047,836,000	1,209,013,000	2,801,570,000	3,011,569,000
Total deposits	12,705,695,000	13,158,239,000	20,164,522,000	21,069,962,000
Bills payable and rediscounts	316,555,000	362,930,000	524,303,000	648,882,000
Acceptances outstanding	239,602,000	242,632,000	285,692,000	297,524,000
Capital stock paid in	752,800,000	727,007,000	1,409,634,000	1,378,301,000
Surplus fund	692,652,000	666,812,000	1,187,968,000	1,165,879,000
All other liabilities	488,022,000	428,225,000	1,307,995,000	1,278,902,000

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 8, 1926,
St. 4971.

SUBJECT: Payment of Dividends on
June 30, 1926.

Dear Sir:

In submitting the usual semi-annual resolution of your board of directors with reference to the payment of the June 30 dividend, kindly furnish the Board with statements showing, as of June 1,(1) the indebtedness to the Federal Reserve bank of each failed bank and the estimated loss which the Federal reserve bank will probably sustain in the case of each bank, and (2) the indebtedness to the Federal reserve bank of each member bank that is considered to be in an unsafe condition and the estimated loss, if any, which the reserve bank is likely to sustain in the case of each such bank.

Very truly yours,

Walter L. Eddy,
Secretary.

LETTER TO ALL CHAIRMEN*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 15, 1926
St. 4984

SUBJECT: Abstract of Condition Reports of State Bank and Trust Company members and of all Member Banks as of April 12, 1926.

Dear Sir:

We are forwarding to you under separate cover copies of the Board's Abstract No. 32 showing the condition of State Bank and Trust Company members and of all member banks as at close of business on April 12, 1926. Consolidated figures for all member banks, both National and State, are shown on pages 1 and 12.

Please forward one copy of the abstract to each State Bank and Trust Company member in your district that has expressed a desire to receive copies of abstracts as issued.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

LETTER TO ALL F. R. AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 16, 1926.
St. 4986.

SUBJECT: Bank Suspensions and Insolvencies.

Dear Sir:

There is enclosed herewith a list of member and nonmember banks reported to the Board as having suspended operations during the month of May and of banks previously closed which resumed business during the same month. The statement also includes any corrections made in the lists previously sent to you.

It will be appreciated if you will kindly check the data pertaining to your district against your records and advise the Board on or before June 28, by telegraph if necessary, whether or not any corrections or additions are necessary therein, in order that correct summaries by districts may be published in the Federal Reserve Bulletin.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

LETTER TO ALL FEDERAL RESERVE AGENTS*

Enclosure.

FEDERAL RESERVE BOARD

411

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 17, 1926.
St.4988.

SUBJECT: Bank Failures.

Dear Sir:

The Comptroller of the Currency has kindly consented to supply the Board in the future with information regarding the causes of failure of National banks, and accordingly it will be unnecessary hereafter to obtain any information regarding the causes of failures from the receivers of National banks. Such information as you have readily available should continue to be reported on form X-4401. In submitting reports on this form regarding failures of state bank and trust company members and of non-member banks, it is requested that special care be exercised in designating the causes of failure, also that such additional information bearing on the cause of the failure as you may have available be shown in the column marked "Supplementary comments."

In a number of instances the Board has found it difficult to determine whether a bank reported by telegram as having closed should be classed as a bank failure or merely as a bank going into voluntary liquidation. Accordingly it is requested that in the future the Board be given telegraphic advice of the closing of only such banks as have been closed to depositors by supervisory banking authorities or by the bank's directors because of financial difficulties. In case there is any doubt, however, as to whether a bank has been closed on account of financial difficulties, and should therefore be classed as a bank failure, or has gone into liquidation for other reasons, advice should be wired of the closing together with such particulars as are available.

Very truly yours,

Walter L. Eddy,
Secretary.

LETTER TO ALL FEDERAL RESERVE AGENTS *

FEDERAL RESERVE BOARD

412

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 21, 1926.
St. 4995

SUBJECT: Condition reports of State Bank and Trust Company Members, Form 105

Dear Sir:

There are being forwarded to you today under separate cover copies of form 105 revised as of May 5, 1926. Please mail three copies of the form to each State Bank and Trust Company member in your district with instructions to hold the blank forms pending receipt of a call for condition reports.

Upon receipt of notice from the Board of the call for condition reports, kindly notify the banks thereof by mail and request them to fill out the reports and mail them to you promptly - in no case later than 10 days after receipt of the call.

In order that the compilation of the Board's abstract showing the condition of all state bank and trust company members combined as of the date of the next call may not be unduly delayed, it is requested that the reports be forwarded to the Board as soon as practicable after they are received by the Federal reserve bank. If it is necessary to communicate with a bank regarding apparent errors in its report, a note to that effect should be made on the report itself before it is mailed to the Board, and the Board should be advised of the necessary corrections when the desired information is received from the member bank.

Kindly acknowledge receipt.

Yours very truly,

Walter L. Eddy,
Secretary.

LETTER TO ALL FEDERAL RESERVE AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 25, 1926.
St. 4999.

SUBJECT: Earnings and Dividends Reports of State Bank and Trust Company Members as of June 30, 1926.

Dear Sir:

There are being forwarded to you today under separate cover by mail copies of form 107 for use of State bank and Trust company members in submitting their semi-annual reports of earnings and dividends.

Please advise the banks that the report, which should be submitted not later than July 10, 1926, is to cover the six-month period ending June 30, 1926, irrespective of whether or not they may have closed their books on that date, or whether any dividends that may have been declared cover that particular period.

Kindly acknowledge receipt.

Very truly yours,

Walter L. Eddy,
Secretary.

LETTER TO EACH FEDERAL RESERVE AGENT*