X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JULY 2, 1926.

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Date
	Admitted to Membership:	
	None.	
	Closed:	
7	Peoples State Bank, Humboldt, Iowa	6-26-26
	Voluntary Withdrawals:	
9	First State Bank, Stevensville, Mont.	7- 1-26
11	Bay City Bank & Trust Co., Bay City, Texas	6-30-26

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

2	Fishkill National Bank, Beacon, N. Y.	6-29-26
4	First National Bank, Portsmouth, Ohio	6-29-26
8	National Bank of Commerce, Jackson, Tenn.	6-29-26
8	First National Bank, Memphis, Tenn.	6-29-26
11	South Texas National Bank, Galveston, Texas	6-29-26

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JULY 9, 1926.

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership:

Dist. No.		Date
	None.	

Absorbed by National Bank:

4	The Adena Commercial & Savings Bank, Adena, Ohio, has been taken over by the Peoples National Bank, Adena, Ohio.	6-26-26

Voluntary Withdrawals:

7	Victor Savings Bank, Victor, Iowa	7- 6-26
12	Deseret Savings Bank, Salt Lake City, Utah	7- 1-26

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

12	Merchants National Bank, Los Angeles, Calif.	7- 7-26
12	Coos Bay National Bank, Marshfield, Oreg.	7- 7-26

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JULY 16, 1926.

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership:

Dist. No.		Capital	Surplus	Total resources	Date
2	Linden Trust Co., Linden, N. J.	$200,000	$50,000	$260,000	7-13-26
2	Greenpoint Bank of Brooklyn, N. Y.	200,000	300,000	4,533,760	7-12-26

Consolidation of State Member Banks:

3	The Fidelity Trust Company, Philadelphia, Pa., and the Philadelphia Trust Company, Philadelphia, Pa., have consolidated under the title "Fidelity-Philadelphia Trust Company".	7-10-26

Converted to National Bank:

8	The Citizens Bank of Maplewood, Maplewood, Mo., has converted into the Citizens National Bank of Maplewood.	7- 1-26

Voluntary Withdrawals:

8	Farmers & Merchants Bank,	Dyer, Tenn.	7-15-26
9	Edgar State Bank,	Edgar, Mont.	7-14-26
10	Bank of Lewellen,	Lewellen, Nebr.	7-15-26

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

1	Home National Bank, Brockton, Mass.	7-16-26
1	National Bank of Middlebury, Middlebury, Vt.	7-14-26
1	Derry National Bank, Derry, N. H.	7-14-26
1	First National Bank, Van Buren, Maine	7-14-26
2	First National Bank, Pompton Lakes, N. J.	7-14-26
3	York National Bank, York, Pa.	7-14-26
7	Chilton National Bank, Chilton, Wis.	7-14-26
8	First National Bank, Fayetteville, Ark.	7-14-26
12	National Bank of Idaho, Pocatello, Ida.	7-16-26

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JULY 23, 1926.

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Date
	Admitted to Membership:	
	None.	
	Change of Title:	
6	The Citizens Trust Co., Savannah, Ga., has changed its title to Citizens Bank and Trust Co.	7- 8-26
	Closed:	
6	Bank of Louisville, Louisville, Ga.	7-22-26
	Consolidation of State Members:	
5	The Merchants and Farmers Bank, Cheraw, S. C., has consolidated with the Bank of Cheraw, Cheraw, S. C.	4-24-26
	Converted to National Bank:	
6	The American Bank, Union Springs, Ala., has converted into The American National Bank of Union Springs.	7-20-26
	Voluntary Withdrawal:	
7	Marathon County Bank, Wausau, Wis.	7-21-26

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

1	First National Bank, Peterboro, N. H.	7-20-26
1	National Bank of Derby Line, Derby Line, Vt.	7-20-26
10	Albuquerque National Bank, Albuquerque, N. Mex.	7-20-26
10	First National Bank in Raton, Raton, N. Mex.	7-23-26
11	Austin National Bank, Austin, Texas	7-20-26
12	First National Bank, Pomona, Calif.	7-20-26
12	First National Bank, Burlington, Wash.	7-20-26

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JULY 30, 1926.

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Date
	Admitted to Membership:	
	None.	
	Reopened:	
8	Bank of Versailles, Versailles, Mo.	7-27-26
	Converted to National Bank:	
11	Caddo Mills State Bank, Caddo Mills, Texas	6- 1-26
	Voluntary Withdrawals:	
11	Trent State Bank, Goldthwaite, Texas	7-29-26
11	Citizens State Bank, Luling, Texas	7-28-26

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

2	First National Bank and Trust Co., Massena, N. Y.	7-27-26

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED AUGUST 6, 1926.

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Capital	Surplus	Total resources	Date
	Admitted to Membership:				
1	Phoenix Bank, Hartford, Conn.	$1,000,000	$1,000,000	$18,072,850	7-31-26
2	Guardian Trust Co. of New Jersey, Newark, N. J.	5,000,000	2,500,000	7,552,525	8- 2-26
	Converted to National Bank:				
11	First State Bank, Post City, Texas				7-29-26

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

1	Waltham National Bank,	Waltham, Mass. 8- 6-26
7	Peoples National Bank,	Independence, Iowa 8- 6-26
7	First National Bank,	Story City, Iowa 8- 6-26
12	Capital National Bank,	Olympia, Wash. 8- 6-26

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED AUGUST 13, 1926.

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Capital	Surplus	Total resources	Date
	Admitted to Membership:				
2	Bank of Yorktown, New York, N. Y.	$1,000,000	$250,000	$1,250,000	8- 9-26
8	Bank of La Plata, La Plata, Mo.	50,000	10,000	379,566	8-12-26
	Voluntary Withdrawal:				
9	Lake City Bank of Minnesota, Lake City, Minn.				5-13-26
	Change of Title:				
11	The Guaranty State Bank, Trenton, Texas, has changed its title to First State Bank of Trenton.				-

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

2	Citizens National Bank,	Englewood, N. J.	8-12-26
3	First National Bank,	Blackwood, N. J.	8-11-26
3	First National Bank,	Oley, Penna.	8-11-26
8	First National Bank,	St. Charles, Mo.	8-12-26

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED AUGUST 20, 1926.

CHANGES IN STATE BANK MEMBERSHIP.

Dist. No.		Date
	Admitted to Membership:	
	None.	
	Merged with State Member:	
2	The Greenpoint Bank of Brooklyn, N. Y., a member, has merged with the Bank of the Manhattan Company, New York, N. Y., also a member.	8-14-26
	Voluntary Withdrawal:	
8	The Warren Bank, Warren, Ark.	8-19-26

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED AUGUST 27, 1926.

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Date
None.		

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

3	Citizens National Bank,	Pottstown, Pa.	8-23-26
5	Citizens National Bank,	Orange, Va.	8-23-26
7	First National Bank,	Platteville, Wis.	8-23-26
10	National State Bank,	Boulder, Colo.	8-26-26
10	First National Bank,	Enid, Okla.	8-26-26
12	Northwestern National Bank,	Bellingham, Wash.	8-23-26

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED SEPTEMBER 3, 1926

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Capital	Surplus	Total resources	Date
	Admitted to Membership:				
2	Murray Hill Trust Co., New York, N. Y.	$1,000,000	$1,000,000	$2,050,291	9- 2-26
3	Shamokin Banking & Trust Co., Shamokin, Penna.	125,000	125,000	931,798	8-28-26

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

3	Pleasantville National Bank,	Pleasantville, N. J.	9- 2-26
3	Pacific Avenue National Bank,	Atlantic City, N. J.	9- 2-26
3	Hummelstown National Bank,	Hummelstown, Penna.	9- 2-26
3	National Union Bank,	Reading, Penna.	9- 2-26
4	Norwood National Bank,	Norwood, Ohio.	9- 2-26
5	First National Bank,	Monroe, N. C.	9- 2-26
5	Rockingham National Bank,	Harrisonburg, Va.	9- 2-26
8	Cannelton National Bank,	Cannelton, Ind.	9- 2-26
10	First National Bank,	Holdenville, Okla.	9- 2-26

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED SEPTEMBER 10, 1926.

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Capital	Surplus	Total resources	Date
	Admitted to Membership:				
2	First Bank of Utica, Utica, N. Y.	$1,250,000	$1,250,000	$19,367,466	9- 9-26
	Converted to National Bank:				
6	Alabama Bank & Trust Co., Montgomery, Ala.				9- 7-26
	Absorbed by State Member:				
6	The Union Banking Company, Monroe, Ga., a member, has been absorbed by the Bank of Monroe, Monroe, Ga., a member.				9- 2-26
	Voluntary Withdrawals:				
7	Sparta State Bank, Cromwell, Ind.				9- 4-26
9	Bank of New Richmond, New Richmond, Wis.				9- 7-26

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED SEPTEMBER 17, 1926.

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership:

Dist. No.		Capital	Surplus	Total resources	Date
1	Phoenix State Bank & Trust Co., Hartford, Conn.	$1,600,000	$1,600,000	$28,352,673	9-11-26

Consolidated with Nonmember:

1	The Phoenix Bank, Hartford, Conn., has consolidated with the State Bank & Trust Co., Hartford, Conn., under the title Phoenix State Bank & Trust Company, which has become a member.	9-11-26

Withdrawals:

7	Auburn Park Trust & Savings Bank, Chicago, Ill.	9-15-26
9	Bank of Commerce, Kalispell, Mont.	9-13-26
9	Moccasin State Bank, Moccasin, Mont.	9-13-26
10	Elgin State Bank, Elgin, Nebr.	9-15-26

Absorption of Nonmember Bank:

12	Gunnison Valley Bank, Gunnison, Utah, has absorbed the Bank of Centerfield, Utah, nonmember.	9- 7-26

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

2	Citizens National Bank, Rahway, N. J.	9-15-26
5	First National Bank, Emporia, Va.	9-15-26
6	First National Bank, Thomasville, Ga.	9-15-26
8	Columbus National Bank, Columbus, Miss.	9-15-26
10	First National Bank, Blackwell, Okla.	9-15-26

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED SEPTEMBER 24, 1926.

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership:

Dist. No.		Capital	Surplus	Total resources	Date
2	West Orange Trust Company West Orange, N. J.	$150,000	$25,500	$175,500	9-21-26

Voluntary Liquidation

12	Lake County Loan and Savings Bank, Lakeview, Oregon	9-8-26

Absorption of National Bank

2	Irving Bank-Columbia Trust Company, New York, N. Y. has absorbed the National Butchers & Drovers Bank of New York and changed its title to "Irving Bank and Trust Company."	9-18-26

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED OCTOBER 1, 1926.

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership:

Dist. No.		Date
	NONE	

Consolidation of State members:

2	The First Bank of Utica and the Oneida County Trust Company of Utica, New York have merged under the title "First Bank and Trust Company of Utica."	9-25-26

Absorption of National Bank:

9	The Gallatin Trust and Savings Bank, the Security Bank and Trust Company, and the Commercial National Bank, all of Bozeman, Montana, have absorbed the National Bank of Gallatin Valley at Bozeman, Montana.	3-22-26

PERMISSION GRANTED TO EXERCISE TRUST POWERS :

7	Citizens National Bank, Hammond, Indiana.	9-29-26
9	The Houghton National Bank, Houghton, Michigan.	9-29-26

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED OCTOBER 8, 1926.

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership:

Dist. No.		Capital	Surplus	Total resources	Date
2	Times Square Trust Co., New York, N. Y.	$2,000,000	$500,000	$2,518,335	10- 5-26

Closed:

7	First State Bank, Carsonville, Mich.	10- 7-26
11	Commercial Guaranty State Bank, Longview, Texas	9-30-26

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

2	First National Bank, Saugerties, N. Y.	10- 5-26
3	York County National Bank, York, Penna.	10- 5-26
4	National Bank and Trust Company, Monessen, Penna.	10- 1-26
6	Alabama National Bank, Montgomery, Ala.	10- 1-26
6	First National Bank, Springfield, Tenn.	10- 5-26
7	National Bank of Mattoon, Mattoon, Ill.	10- 5-26
8	First National Bank, Mitchell, Ind.	10- 5-26
10	Central National Bank, Okmulgee, Okla.	10- 5-26

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED OCTOBER 15, 1926.

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership:

Dist. No.		Capital	Surplus	Total Resources	Date
3	Norristown-Penn Trust Co. Norristown, Pa.	$1,000,000	$1,000,000	$10,431,181	10-14-26

Voluntary Liquidation:

6	Bank of Pittsview, Pittsview, Ala.	9-18-26

Voluntary Withdrawal:

6	The Bartow Bank, Bartow, Ga.	10-9-26

Absorption of Nonmember Bank:

	Central Mercantile Bank, New York, has absorbed the American Bank of New York, nonmember.	10-13-26

PERMISSION GRANTED TO EXERCISE TRUST POWERS

7	Old National Bank, Grand Rapids, Michigan.	10-12-26

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED OCTOBER 22, 1926.

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership:

Dist. No.		Capital	Surplus	Total Resources	Date
2	Interstate Trust Company New York, N. Y.	$3,000,000	$900,000.	$3,900,000	10-21-26
5.	Kanawha Banking and Trust Company, Charleston, W. Va.	500,000	250,000.	4,894,692	9-4-26

Closed

7.	The Wayne County State Bank, Corydon, Iowa.	10-21-26
12.	First Bank of Pilot Rock, Pilot Rock, Oregon.	10-19-26

PERMISSION GRANTED TO EXERCISE TRUST POWERS

3.	Farmers National Bank, Millheim, Pennsylvania.	10-20-26
5.	Franklin National Bank, Washington, D. C.	10-20-26
7.	First National Bank, Bay City, Michigan.	10-20-26
7.	First National Bank, Libertyville, Illinois.	10-20-26

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED OCTOBER 29, 1926.

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership:

Dist. No.		Date
	NONE	

Voluntary Withdrawal

6.	Union Bank and Trust Company, Baton Rouge, La.	10-23-26

Closed

7.	State Bank of Fremont, Fremont, Iowa.	10-25-26
7.	Garwin State Bank, Garwin, Iowa.	10-25-26

Absorption by National Bank

10.	Farmers Reserve State Bank, St. Marys, Kans. absorbed by First National Bank of St. Marys, Kansas.	10-23-26

Change of Title

11.	The Guaranty State Bank of Grand Prairie, Texas has changed its title to Farmers State Bank of Grand Prairie.	10-21-26

PERMISSION GRANTED TO EXERCISE TRUST POWERS

2.	First National Bank, Islip, New York	10-29-26
5.	Peoples National Bank, Bedford, Virginia.	10-28-26

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FEDERAL RESERVE BOARD ANNOUNCEMENT

WEEK ENDED NOVEMBER 5, 1926.

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership:

Dist. No.	NONE	Date

Voluntary Withdrawal

9	Kandiyohi County Bank, Willmar, Minn.	10-23-26

PERMISSION GRANTED TO EXERCISE TRUST POWERS

1	Milford National Bank, Milford, Mass.	11-2-26
5	National Bank of Fairfax, Fairfax, Virginia	11-2-26
5	First National Bank, Springfield, S. C.	11-2-26
5	First National Bank, Williamson, W. Va.	11-2-26
5	First National Bank, Cumberland, Maryland	11-3-26
7	First National Bank, Clinton, Indiana.	11-2-26

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED NOVEMBER 12, 1926.

CHANGES IN STATE BANK MEMBERSHIP:

Dist.		Capital	Surplus	Total resources	Date
	Admitted to Membership:				
2	American Exchange-Pacific Bank, New York, N. Y.	$7,500,000	$8,500,000	$254,901,022	11-10-26
	Closed:				
7	Citizens Savings Bank, Fostoria, Iowa				11- 9-26
7	Terril Savings Bank, Terril, Iowa				11- 9-26
	Voluntary Liquidation:				
12	Athena State Bank, Athena, Oreg.				10-22-26
	Voluntary Withdrawal:				
9	First Bank of Grantsburg, Grantsburg, Wis.				11- 8-26

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

None.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED NOVEMBER 19, 1926.

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Capital	Surplus	Total resources	Date
	Admitted to Membership:				
8	Sedalia Trust Co., Sedalia, Mo.	$100,000	$25,000	$694,155	11-19-26
	Voluntary Withdrawals:				
6	Citizens Bank & Trust Co., West Point, Ga.				11-15-26
7	Union Bank of Winneconne, Winneconne, Wis.				11-18-26
10	Security Bank, Meadow Grove, Nebr.				11-13-26
	Closed:				
10	Federal Trust Co., Kansas City, Mo.				11-12-26

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

2	Central National Bank, New York, N. Y.	11-11-26
2	First National Bank, Warwick, N. Y.	11-17-26
3	Doylestown National Bank, Doylestown, Penna.	11- 9-26
3	First National Bank, Ebensburg, Penna.	11-17-26
3	Waynesboro National Bank & Trust Co., Waynesboro, Penna.	11-13-26
4	National Bank & Trust Co., Monessen, Penna.	11-17-26
7	First National Bank, Goodland, Ind.	11-17-26

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED NOVEMBER 26, 1926.

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Date
	Closed:	
6	Hartwell Bank, Hartwell, Ga.	11-23-26
7	County Savings Bank, Algona, Iowa	11-26-26
7	Farmers & Drovers State Bank, Lakota, Iowa	11-26-26
	Absorbed by State Member:	
4	The Ohio Trust Co., Cleveland, Ohio, a member, has been absorbed by the Lake Erie Trust Co., Cleveland, Ohio, a member.	11-20-26
	Voluntary Withdrawal:	
7	Mapleton Trust & Savings Bank, Mapleton, Iowa	11-24-26
	Change of Title:	
11	The Guaranty State Bank, Kosse, Texas, has changed its title to First State Bank of Kosse.	11-19-26

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

None.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED DECEMBER 3, 1926.

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Capital	Surplus	Total resources	Date
	Admitted to Membership:				
2	First Trust Company of Albany, Albany, N. Y.	$600,000	$400,000	$18,613,785	11-29-26
3	Montour County Trust Co., Danville, Penna.	125,000	20,000	673,382	11-30-26
	Closed:				
7	Hamilton County State Bank, Webster City, Iowa				12- 1-26
	Succeeded by Nonmember:				
8	The Cotton Belt Savings & Trust Co., Pine Bluff, Ark., a member bank, has been succeeded by the Cotton Belt Bank & Trust Co., Pine Bluff, Ark., a nonmember.				11-29-26

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

5	Old Point National Bank, Phoebus, Va.	11-30-26
5	Shenandoah Valley National Bank, Winchester, Va. (Sup.)	11-30-26
7	First National Bank, Stanton, Iowa (Sup.)	11-30-26

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED DECEMBER 10, 1926.

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Date
	Admitted to Membership:	
	None.	
	Closed:	
6	Bank of Bowman, Bowman, Ga.	12- 9-26
6	Bank of Elberton, Elberton, Ga.	12- 7-26
6	Royston Bank, Royston, Ga.	12- 4-26
8	Bank of Crittenden County, Marion, Ark.	12- 7-26
12	Madras State Bank, Madras, Oreg.	12- 7-26
	Reopened:	
7	County Savings Bank, Algona, Iowa	12- 3-26
7	Farmers & Drovers State Bank, Lakota, Iowa	12- 2-26
	Voluntary Withdrawal:	
9	Mellette County State Bank, White River, S. Dak.	12- 8-26
	Absorbed by Nonmember:	
11	Austwell State Bank, Austwell, Texas	11-29-26

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

3	First National Bank in Waynesboro, Waynesboro, Pa.	12- 7-26
4	First National Bank, Oil City, Pa.	12-10-26
5	National Bank of Charlottesville, Charlottesville, Va. (Supplemental)	12- 7-26
6	Traders National Bank, Tullahoma, Tenn.	12-10-26

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED DECEMBER 17, 1926.

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Date
	Admitted to Membership:	
	None.	
	Merger of State Members:	
2	The American Exchange-Pacific Bank, New York, N. Y., has merged with the Irving Bank & Trust Co., New York, N. Y., under the title of American Exchange Irving Trust Company.	12-11-26
	Closed:	
6	The Bank of Lavonia, Lavonia, Ga.	12-10-26
7	Farmers Savings Bank, Ute, Iowa	12-11-26
	Change of Title:	
11	The Guaranty State Bank, Spearman, Texas, has changed its title to the Fidelity Bank of Commerce.	12-15-26

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

1	Providence National Bank,	Providence, R. I.	12-14-26
3	Union National Bank,	Scranton, Pa.	12-17-26
7	First National Bank,	Chicago Heights, Ill.	12-17-26
7	First National Bank,	Lake Geneva, Wis.	12-10-26
10	First National Bank,	Madison, Nebr.	12-17-26

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED DECEMBER 24, 1926.

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Capital	Surplus	Total resources	Date
	Admitted to Membership:				
2	East Orange Trust Co., East Orange, N. J.	$200,000	$50,000	$298,385	12-18-26
	Change of Title:				
2	The Central Mercantile Bank of New York, N. Y., has changed its title to Central Mercantile Bank & Trust Co.				12-16-26
	Closed:				
7	Iowa Loan & Trust Co., Des Moines, Iowa				12-20-26
8	Citizens Bank of Tunica, Tunica, Miss.				12-18-26
	Voluntary Withdrawals:				
7	Stewart State Bank, St. Charles, Ill.				12-23-26
7	H. C. McLachlin & Co. State Bank, Petersburg, Mich.				12-21-26
8	Desha Bank & Trust Co., Arkansas City, Ark.				12-23-26
	Voluntary Liquidation:				
8	Arkansas Valley Bank, Fort Smith, Ark.				12-23-26
	Merged with Nonmember:				
12	The State Bank of Goldendale, Goldendale, Wash., has merged with Brooks & Co. Bank, Goldendale, Wash., a nonmember.				12-13-26

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

None.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED DECEMBER 31, 1926.

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.	Admitted to Membership:	Date
	None.	

Absorbed by National Bank:

11	The Blooming Grove State Bank, Blooming Grove, Texas, has been absorbed by the Citizens National Bank of Blooming Grove.	12-22-26

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

1	First National Bank, Fort Kent, Maine	12-30-26
3	Merchants National Bank, Bangor, Penna.	12-30-26

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TREASURY DEPARTMENT
Office of the Secretary
WASHINGTON

July 7, 1926.

The Governor
of the Federal Reserve Board.

Sir:

You are hereby advised that the Department has referred to the Disbursing Clerk, Treasury Department, for payment, the account of the Bureau of Engraving and Printing for preparing Federal Reserve notes during the period June 1, 1926, to June 30, 1926, amounting to $117,876, as follows:

	$5	$10	$20	$100	Total
Boston	300,000				300,000
New York	600,000	100,000	100,000		800,000
Philadelphia	200,000				200,000
Cleveland	300,000		75,000		375,000
Atlanta	100,000	150,000	50,000		300,000
Chicago	500,000				500,000
Minneapolis	100,000				100,000
Dallas	250,000				250,000
San Francisco	200,000	50,000	50,000	10,000	310,000
	2,550,000	300,000	275,000	10,000	3,135,000

3,135,000 sheets @ $37.60 per M $117,876.00

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

Boston	$ 11,280.00
New York	30,080.00
Philadelphia	7,520.00
Cleveland	14,100.00
Atlanta	11,280.00
Chicago	18,800.00
Minneapolis	3,760.00
Dallas	9,400.00
San Francisco	11,656.00
	117,876.00

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

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WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4633

July 15, 1926.

SUBJECT: Necessity for Assistant Federal Reserve Agents at Federal reserve branch banks where unissued Federal reserve notes are carried.

Dear Sir:

Within the past few years several cases have arisen in which a Federal reserve agent desired to have an employee of a branch bank act as Assistant Federal Reserve Agent in the handling and custody of unissued Federal reserve notes. The Board has expressed disapproval of such arrangements.

Section 16 of the Federal Reserve Act requires that Federal reserve notes shall be held for the Federal Reserve Agent, under such rules and regulations as the Federal Reserve Board may prescribe, in the joint custody of himself and the Federal reserve bank to which he is accredited. A joint custody of the kind contemplated requires that the Federal Reserve Agent and accordingly each of his assistants should be separate and distinct from, and entirely independent of, the Federal reserve bank or branch bank in so far as the custody and handling of Federal reserve notes is concerned. The same person should not act as Assistant Federal Reserve Agent in the handling or custody of unissued Federal reserve notes and perform the functions of a clerk or employee of a Federal reserve bank or branch bank. In order to preserve the legal situation contemplated by Section 16, it is necessary to have at each Federal reserve branch bank where unissued Federal reserve notes are held an Assistant Federal Reserve Agent, properly qualified and bonded, who is entirely independent of the Federal reserve bank or branch bank. As stated in the Board's letter of March 31, 1926 (X-4574), however, it is not necessary that an Assistant Federal Reserve Agent be appointed in any branch at which unissued Federal reserve notes are not carried.

In one case in which a situation of this kind arose recently the Federal Reserve Agent was able to secure the services of a gentleman engaged in other business in the city in which the branch bank was located, to perform the duties of an

Assistant Federal Reserve Agent in the handling and custody of Federal reserve notes. This gentleman was properly qualified under the law and, of course, gave the usual bond. The time required of him as Assistant Federal Reserve Agent in the handling and custody of Federal reserve notes was not sufficient to prevent or interfere with his continued attention to his personal business. The Federal Reserve Board has no objection to an arrangement of this kind, whereby a person engaged in an outside business or profession acts as Assistant Federal Reserve Agent at a branch bank provided, of course, such person is properly qualified under the provisions of the Federal Reserve Act and gives the customary bond required in such cases.

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-4636
July 16, 1926.

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

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-4636-a and X-4636-b, covering in detail operations of the main line, Leased Wire System, during the month of June, 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,

O. E. FOULK,
Deputy 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 JUNE, 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	33,550	644	34,194	5,133	-	29,061	3.52
NewYork	152,107	-	152,107	7,448	-	144,659	17.55
Philadelphia	39,893	613	40,506	4,352	-	36,154	4.39
Cleveland	76,635	1,197	77,832	5,721	-	72,111	8.75
Richmond	48,056	2,239	50,295	5,318	-	44,977	5,46
Atlanta	63,460	2,800	66,260	5,967	-	60,293	7.31
Chicago	106,287	2,155	108,442	7,712	-	100,730	12.22
St. Louis	76,832	2,048	78,880	5,906	-	72,974	8.85
Minneapolis	37,412	1,690	39,102	3,481	-	35,621	4.32
Kansas City	75,697	2,103	77,800	5,838	-	71,962	8.73
Dallas	58,046	3,839	61,885	3,552	-	58,333	7.08
San Francisco	105,706	1,996	107,702	10,220	-	97,482	11.82
Total	873,681	21,324	895,005	70,648	-	824,357	100.00%
F.R.Board			309,332	31,822	110	277,400	
Total			1,204,337	102,470	110	1,101,757	
Per cent of Total			100%	8.51%	.01%	91.48%	

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-4636-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, JUNE, 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	$ 736.13	$ 260.00	$ 476.13
New York	1,025.16	-	-	1,025.16	3,670.22	1,025.16	2,645.06
Philadelphia	216.66	-	-	216.66	918.08	216.66	701.42
Cleveland	284.50	-	-	284.50	1,829.88	284.50	1,545.38
Richmond	180.00	-	-	180.00	1,141.85	180.00	(&)1,166.52
Atlanta	255.00	-	-	255.00	1,528.74	255.00	1,273.74
Chicago	(#)3,938.94	-	-	3,938.94	2,555.56	3,938.94	(*)1,383.38
St. Louis	200.00	-	-	200.00	1,850.80	200.00	1,650.80
Minneapolis	263.55	-	-	263.55	903.44	263.55	639.89
Kansas City	275.64	-	-	275.64	1,825.70	275.64	1,550.06
Dallas	251.00	-	-	251.00	1,480.64	251.00	1,229.64
San Francisco	360.00	-	-	360.00	2,471.91	360.00	2,111.91
FederalReserve Board			$15,350.35	$15,350.35			
Total	$7,510.45	-	$15,350.35	$22,860.80	$20,912.95	$7,510.45	$14,990.55
				(a)1,947.85			(b)1,383.38
				$20,912.95			$13,607.17

(&) Includes $204.67 for branch line business transmitted over main line circuit.
(#) Includes salaries of Washington operators.
(*) Credit.
(a) Received $2.76 from War Finance Corporation and $1,945.09 from Treasury Dept. covering business for month of June, 1926.
(b) Amount reimbursable to Chicago.

FEDERAL RESERVE BOARD

WASHINGTON

X-4637

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

July 19, 1926.

SUBJECT: Holidays during August, 1926.

Dear Sir:

The following Federal Reserve Banks and Branches will observe holidays during the month of August, 1926, on the dates specified:

Monday	August 2	Denver	Colorado Day
Tuesday	August 3	St. Louis	Primary Election Day
Tuesday	August 3	Kansas City Oklahoma City	General Election Day
Thursday	August 5	Nashville	State Election Day
Tuesday	August 31	San Francisco Los Angeles	Primary Election 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 affected on each of the holidays with your credits for the following business day in your Gold Fund Clearing telegrams, and make no shipment of Federal Reserve notes, fit or unfit, for account of the head offices involved.

Please notify Branches.

Very truly yours,

J. C. Noell.
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

July 21, 1926.

Carded

SUBJECT: Clayton Act applications involving banks in more than one district.

Dear Sir.

The Federal Reserve Board desires that a Clayton Act application which involves banks in more than one Federal Reserve District be accompanied by the recommendation of the Federal Reserve Agent of each district involved before being transmitted to the Board. It is requested, therefore, that when such an application is presented to you unaccompanied by the recommendation of the Federal Reserve Agent of the other district involved, the application be sent to the Federal Reserve Agent of such district in order that he may attach his recommendation and forward the application to the Board.

By order of the Federal Reserve Board.

Very truly yours,

Walter L. Eddy,
Secretary.

TO ALL FEDERAL RESERVE AGENTS.

F E D E R A L R E S E R V E B O A R D X-4640

STATEMENT FOR THE PRESS

For immediate release July 23, 1926.

CONDITION OF ACCEPTANCE MARKET
June 17, 1926 to July 14, 1926.

Acceptances.

The acceptance market was generally quiet from the middle of June to the middle of July and New York dealers reported a considerable decline in the volume of their purchases and sales as compared with the preceding four weeks. The demand for bills, which had been unusually active in May and early June, slackened after the middle of the month, partly on account of firmer money conditions, and on June 23 dealers advanced their rates on 90 day bills. Bills of this maturity which had been quoted at 3 1/2 per cent bid and 3 3/8 per cent offered late in May and had declined to 3 3/8 - 3 1/4 per cent early in June were now again offered at 3 3/8 per cent. A somewhat better demand developed after this increase and with supplies declining, dealers' portfolios were reduced to lower levels. Offerings to the reserve bank in New York were moderate but in Boston fairly heavy. The demand for 90 day bills improved still further toward the middle of July with no increase in supply and some dealers advanced their rates on 120 day bills on July 14. These bills which had borne the same rates as 90 day maturities were now quoted by some dealers at 1/8 per cent more. Rates on other maturities remained unchanged throughout the reporting period. The following table shows the rates on bills of various maturities on July 14:

Acceptance Rates in the New York Market

Maturity	July 14, 1926	
	Bid	Offered
30 days	3 1/4	3 1/8
60 "	3 3/8	3 1/4
90 "	3 1/2	3 3/8
120 "	3 5/8 - 3 1/2	3 1/2 - 3 3/8
150 "	3 5/8	3 1/2
180 "	3 3/4	3 5/8

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

For Release in Morning Papers,
Wednesday, July 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 June and July, as contained in the forthcoming issue of the Federal Reserve Bulletin.

Industrial activity was at the same level in June as in May, and was slightly above the level of a year ago. The average of commodity prices advanced further between May and June.

Production. -

The Federal Reserve Board's index of production in basic industries remained unchanged in June. Production of iron and steel and activity of woolen machinery continued to decline, and there were also reductions in the output of copper, zinc, and petroleum, while cotton consumption, the manufacture of food products, and the output of coal and cement increased. Production of automobiles was smaller in June than in May and for the first time this year was less than in the corresponding month of 1925. Declines took place in June in employment and pay rolls of all textile industries, except woolen and worsted goods and men's clothing, and some of these industries were less active than at any time since 1924. Building contracts awarded during June were slightly less than in May and for the first time since early in 1925 were smaller than in the corresponding month of the preceding year.

Crop reports issued by the Department of Agriculture indicated a slight improvement during June. The composite condition of all crops on July 1 was reported at 6.4 per cent below the average July condition during the last

ten years. The production of winter wheat was estimated at 568,000,000, or 172,000,000 more than in 1925, and that of spring wheat at 200,000,000, or 71,000,000 less than last year. A production of 2,661,000,000 bushels of corn, or 8.3 per cent less than last year, is indicated in the same report. Cotton production, on the basis of July 16 condition, was estimated at 15,368,000 bales, or 718,000 bales less than the production of last year.

Trade. -

Total volume of wholesale and retail trade in June was larger than for the same month in 1925. Department store sales declined seasonally in June, and wholesale trade in all leading lines, except groceries, also decreased during the month. Sales of mail order houses increased more than usual in June, and were 5 per cent larger than in June, 1925. Stocks of merchandise carried by wholesale firms at the end of June were smaller than a year earlier. Department stores continued to reduce their stocks, and their inventories, which had been considerably above last year's level earlier in the year, were at the end of June only about 1 per cent larger than a year ago. Freight car loadings showed seasonal increases during June and continued through the first half of July at higher levels than in previous years. Loadings of grains in the southwestern states have been particularly large.

Prices.-

The general level of wholesale prices, according to the index of the Bureau of Labor Statistics, increased from May to June by less than half of one per cent. Prices of livestock and meats advanced, and there were small increases for silk, petroleum products, nonferrous metals, and chemicals and drugs. Price decreases occurred in grains, cotton, textiles, building materials, and house furnishings. In the first two weeks of July prices of grains, flour, cotton,

wool, and hides increased, while those of cattle, hogs, silk, and rubber declined.

Bank Credit. -

Loans and investments of member banks in leading cities at the end of June were in larger volume than at any previous time, and after declining during the first half of July were still $900,000,000 above the level of a year ago. Of this increase about $385,000,000 was in loans on securities, $340,000,000 in commercial loans, and $175,000,000 in investments. Since the beginning of 1926 an increase in commercial loans together with the growth of investments has more than offset the reduction in loans on securities.

The demand for credit at the end of the fiscal year and the increased currency requirements over the holiday were reflected in a growth of member bank borrowing at the reserve banks and on July 7 total discounts were near the highest point of the year. With the return flow of currency from circulation after the holiday, discounts declined, and on July 21 were in about the same volume as in the last half of June. The reserve banks' holdings of acceptances and of United States securities changed little during the period, and the total volume of reserve bank credit outstanding in the third week of July was close to the June level.

Money market conditions were firmer in July as indicated chiefly by increases in rates on call and time security loans. Rates on acceptances and on commercial paper were also slightly higher.

(COPY)

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FEDERAL RESERVE BANK

OF RICHMOND

X-4642

July 26, 1926.

Federal Reserve Board,
Washington, D.C.

Attention of Mr. Walter Wyatt, General Counsel.

My dear Mr. Wyatt:

At the recent trial of the case of Craven Chemical Company v. Federal Reserve Bank of Richmond and Cleve & White, the District Court of the United States for the Eastern District of North Carolina instructed a verdict in favor of the Federal Reserve Bank of Richmond and against Cleve and White.

The facts of this case were as follows: Cleve and White drew a check on the Bank of Vanceboro in favor of the Craven Chemical Company. The check was deposited by the Craven Chemical Company in the Murchison National Bank of Wilmington under a deposit slip which made that bank a forwarding agent. The Murchison National Bank sent the check to the Federal Reserve Bank of Richmond for collection in accordance with the terms of its circular. The Federal Reserve Bank of Richmond sent the check to the Bank of Vanceboro on which it was drawn for remittance. The last mentioned bank sent a draft for the amount of this check and other checks sent to it at the same time, which draft was drawn upon the National Bank of New Bern, a designated reserve depositary of the Bank of Vanceboro. The draft was promptly presented, but was dishonored, and the Bank of Vanceboro failed. The Craven Chemical Company instituted an action against the Federal Reserve Bank of Richmond and Cleve and White, alleging that the Federal Reserve Bank was negligent, and also alleging in the alternative that Cleve and White had not been released from liability upon the original check given by them.

The suit was instituted in the State Courts of North Carolina, but removed to a Federal Court before the passage of the Act of Congress depriving Federal Courts of jurisdiction of actions against Federal Reserve Banks. After several continuances the case was recently tried. The Court, as I say, instructed a verdict in favor of the Federal Reserve Bank of Richmond and against Cleve and White. We, of course, had pleaded and proved the sending of our circular concerning our liability for checks received for collection to the Murchison National Bank. We also relied upon Chapter 20 of the Public Laws of North Carolina for 1921, commonly called the Anti-par Clearance Act, which authorizes a State bank to pay a check presented by a Federal Reserve Bank by means of an exchange draft.

Federal Reserve Board,
Washington, D.C.

There was no formal opinion but Judge Meekins in announcing his intention to instruct a verdict in our favor stated that the last mentioned statute of North Carolina certainly operated to relieve a Federal Reserve Bank of any liability upon the ground that it accepted an exchange draft in settlement.

Judge Meekins also held that under the terms of this statute the drawer of the check was not released. Prior to the statute a check was an unconditional order for legal tender money, and the drawer engaged that it would be paid according to its tenor - that is to say in legal tender money. If the holder elected not to demand lawful money, but to accept a substituted medium of payment such as an exchange draft, the holder failed to fulfill the condition upon which he could have recourse to the drawer, so that the drawer was released, and the check paid as to the drawer, but under the North Carolina Statute the holder is presumed to have given an order payable by money, or by an exchange draft; consequently he engages that the check will be paid according to its tenor - that is to say by means of lawful money or a collectible exchange draft, and if a worthless exchange draft be given by the drawee bank the drawer is still bound upon his engagement because the holder has demanded payment of the check according to its tenor, but has not received it.

You will readily see this decision is of no especial interest, except in North Carolina, and in those States, if any, which have similar Acts.

The points decided by the trial judge appear to me to have been already decided by the Supreme Court of North Carolina in Federal Land Bank v. Barrow, 127, S. C. p. 3, and in Graham v. Proctorsville Warehouse, 127 S.C. p. 540.

The Judge stated to me informally that had the North Carolina statute not been in force, he would have still been inclined to give judgment in favor of the Federal Reserve Bank upon the authority of Fergus County v. Federal Reserve Bank of Minneapolis, 244 Pac. 883; but as you can see from the above discussion it was unnecessary for him to consider the application of the uniform check collection circular in view of the fact that he held that the North Carolina Statute was of itself a sufficient defense to any action against the Federal Reserve Bank.

In the course of the trial, an interesting question was raised as to whether or not knowledge by the Federal Reserve Bank of the weakened condition of the Bank of Vanceboro was material. We contended that as long as the bank was open for business, we could not refuse an exchange draft, and that, therefore, our knowledge or ignorance of its condition was immaterial. The Judge at first admitted evidence showing that the Bank of Vanceboro had been for sometime in a weakened condition, but later struck out this testimony upon the ground that the plaintiffs had failed to show that we had any knowledge of this condition, or could have obtained such

Federal Reserve Board,
Washington, D.C.

knowledge by the exercise of ordinary diligence.

The opposing Counsel have informally notified me that they would appeal from the decision of the trial court, but no formal steps have as yet been taken.

With best personal regards, I remain

Very truly yours,

(Signed)

M. G. Wallace,
Counsel.

MGW:IB

X-4644 43

STATE OF MINNESOTA

COUNTY OF HENNEPIN

DISTRICT COURT

FOURTH JUDICIAL DISTRICT

Transcontinental Oil Company,

Plaintiff,

-vs-

FINDINGS OF FACT
AND CONCLUSIONS OF LAW.

Federal Reserve Bank of
Minneapolis,

Defendant.

This cause having been tried by the Court without a jury on the 2nd, 3rd, and 4th days of February, 1926, Messrs. Rockwood & Mitchell appearing for the plaintiff, and Messrs. Ueland & Ueland for the defendant, and the Court having heard and considered the evidence adduced on the part of plaintiff and on the part of defendant, finds as FACTS:

1. That on August 2, 1920 the First National Bank of Eureka issued to the plaintiff its cashier's check (Exhibit A to the complaint) numbered 14896 in the sum of $1799.35, and transmitted said check on or about that day by mail to the office of the plaintiff in Chicago, Illinois where the check was received by plaintiff on or about August 5, 1920.

2. That on August 2, 1920 the First National Bank of Eureka issued to the plaintiff its cashier's check (Exhibit B to the complaint) numbered 14904 in the sum of $871.00, and transmitted said check on or about that day by mail to the office of the plaintiff in Chicago, Illinois where the check was received by plaintiff on or about August 5, 1920.

3. That both of said cashier's checks were endorsed by plaintiff by

unrestricted endorsements to the First National Bank of Chicago and were 44 deposited by plaintiff in that bank on August 5, 1920, and the amount of said checks was credited to plaintiff's checking account in that bank. Plaintiff's pass book in which the deposit of the checks was entered contained the following provision:

> "This bank in receiving checks or drafts on deposit for collection acts only as your agent, and beyond carefulness in selecting agents at other points, and in forwarding to them, assumes no responsibility."

4. That said First National Bank of Eureka was a member bank of defendant and said First National Bank of Chicago was a member bank of the Federal Reserve Bank of Chicago.

5. That during all of August, 1920, and prior thereto, defendant and the Federal Reserve Bank of Chicago were exercising the functions of a clearing house for checks on behalf of their respective member banks pursuant to the provisions of the Federal Reserve Act, and pursuant to an order of the Federal Reserve Board made in accordance with such Act, which order of the Federal Reserve Board was known as "Regulation J, Series of 1917"; that in the exercise of the functions of a clearing house for checks for defendant's member banks, an arrangement had been entered into between defendant, the Federal Reserve Bank of Chicago and the First National Bank of Chicago whereby the First National Bank of Chicago, instead of depositing checks drawn on or payable by member banks of defendant in the Federal Reserve Bank of Chicago, was permitted to route such checks direct to the defendant, which privilege was known as the privilege of "direct routing"; that such arrangement for "direct routing" was entered into merely for the purpose of saving time in

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the collection of checks, the proceeds of checks so routed direct being credited by defendant to the Federal Reserve Bank of Chicago, and it was understood and agreed between all three banks that their rights and liabilities should in all respects be the same as if checks so routed direct had been first deposited by the First National Bank of Chicago with the Federal Reserve Bank of Chicago and by the Federal Reserve Bank of Chicago deposited for collection with the defendant.

6. That said cashier's checks for $1799.35 and $871.00 were, pursuant to such arrangement for direct routing, forwarded by the First National Bank of Chicago to defendant, and were received by defendant on August 6, 1920 and August 7, 1920 respectively.

7. That defendant on the days on which it received said checks forwarded the same for collection to the First National Bank of Eureka, together with other similar items drawn on or payable by said First National Bank, the aggregate of all such items forwarded by defendant to the First National Bank of Eureka on August 6 and 7, 1920 being $8277.30.

8. That the defendant authorized the First National Bank of Eureka to remit for said items by its draft on a Minneapolis or St. Paul bank but did not authorize said First National Bank to remit such a draft drawn against insufficient funds.

9. That said cashier's checks were received by said First National Bank of Eureka either on August 7, 1920, August 9, 1920, or August 10, 1920; that on August 10, 1920 the First National Bank of Eureka attempted to remit to defendant for said cashier's checks and for the other items forwarded by defendant at the same time by drawing its draft in the sum of $8277.30 upon the First & Security National Bank of Minneapolis, Minnesota; that

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said First National Bank of Eureka mailed said draft to defendant which received the same at Minneapolis, Minnesota either after banking hours on August 11, 1920 or early on August 12, 1920, and presented the same for payment on August 12, 1920, and that payment of said draft was refused by said First & Security National Bank which then had no funds to the credit of the drawer bank and said draft has never been paid.

10. That prior to August 1920, the Federal Reserve Board promulgated "Regulation J, Series of 1917" with respect to the check clearing operations of defendant and other Federal reserve banks; that said Regulation J provided in part as follows:

> "In handling items for member * * * banks, a Federal Reserve Bank will act as agent only. The Board will require that each member * * * bank authorize its Federal Reserve Bank to send checks for collection to banks on which checks are drawn, and, except for negligence, such Federal Reserve Bank will assume no liability. Any further requirements that the Board may deem necessary will be set forth by the Federal Reserve Banks in their letters of instructions to their member * * * 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 on all member * * * banks which are clearing through the Federal Reserve Bank."

11. That pursuant to and in accordance with said Regulation of the Federal Reserve Board defendant did promulgate rules and regulations governing the details of its operations as a clearing house under the Federal Reserve Act, in the form of its Check Clearing and Collection Circular, No. 193 which circular was in force during all of August 1920 and had been prior thereto mailed to and received by the Federal Reserve Bank of Chicago and the First National Bank of Chicago; that said Circular provided in part as follows:

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"Checks received by the Federal Reserve Bank drawn on its member banks will be forwarded direct to such member banks and are to be remitted for by the member banks on day of receipt if possible, by their draft on the Federal Reserve Bank provided they have a balance in excess of their required reserve, or by their draft on a bank in Minneapolis or St. Paul. Member banks are required by the Federal Reserve Board to provide funds to cover at par all checks received from, or for account of, their Federal Reserve Bank.

In handling items for member banks, the Federal Reserve Bank of Minneapolis acts as agent only. It is understood that each member bank authorizes it to send checks for collection direct to banks on which checks are drawn, and except for negligence the Federal Reserve Bank of Minneapolis assumes no liability until funds are actually in its hands, and is authorized to charge back any item for which it has not received final payment, including items lost in transit."

12. That during all of August 1920 and prior thereto it was the established, general, uniform and certain usage and custom among banking institutions in Minnesota and South Dakota, where checks deposited for collection drawn on banks located at a distance had been forwarded direct to the drawee or payor bank for collection, for the drawee or payor bank to remit the proceeds of the collection in exchange drafts drawn on banks in the vicinity of the forwarding bank, and it was the established, general, uniform and certain usage and custom among banking institutions in said states for the forwarding bank to permit such remittance by draft and upon receipt of the exchange drafts to endeavor to collect the same; that plaintiff had no actual knowledge of this custom.

13. That during all of August, 1920 it was understood and agreed between defendant and the Federal Reserve Bank of Chicago that defendant should forward all checks drawn on or payable by member banks of defendant which were received by defendant from the Federal Reserve Bank of Chicago or for its account direct to the drawee or payor bank, and that such checks should

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be remitted for by the drawee or payor bank by its draft on a bank in Minneapolis or St. Paul.

14. That during all of August 1920 it was the duly enacted statute law of the State of South Dakota that -

> "Any bank banker or trust company, hereinafter called bank, organized under the laws of, or doing business in, this State, receiving for collection or deposit, any check, note or other negotiable instrument drawn upon or payable at any other bank, located in another city or town whether within or without this State, may forward such instrument for collection directly to the bank on which it is drawn or at which it is made payable and such method of forwarding direct to the payer, shall be deemed due diligence and the failure of such payer bank, because of its insolvency or other default, to account for the proceeds thereof, shall not render the forwarding bank liable therefor, provided, however, such forwarding bank shall have used due diligence in other respects in connection with the collection of such instrument."

15. That on August 11, 1920 the First National Bank of Eureka suspended payment and a receiver was subsequently appointed for said bank by the Comptroller of the Currency.

16. That on August 7, 1920 and thereafter to the time of the suspension of the First National Bank of Eureka there was sufficient money on hand in said bank so that the two cashier's checks, if the same had been presented separately over the counter of said bank and payment thereof in money demanded, would have been paid in cash, but there was not sufficient money in said bank to pay all of the $8277.30 in items held by defendant, and if all of said items had been presented by defendant over the counter of said First National Bank of Eureka and payment thereof in money demanded, none of such items, including the two cashier's checks, would have been paid.

17. That plaintiff has been paid on account of the two cashier's checks

the following sums - $1231.03 on January 5, 1922, and $411.00 on December 9, 1925.

18. That the only terms and conditions assented to by defendant with reference to the collection of the two cashier's checks were the terms and conditions agreed upon by and between defendant and the Federal Reserve Bank of Chicago as hereinbefore found.

19. That there was no negligence on the part of defendant in forwarding the cashier's checks direct to the First National Bank of Eureka for collection.

20. That there was no negligence on the part of the defendant in authorizing the First National Bank of Eureka to remit for said checks by its draft on a bank in Minneapolis or St. Paul and that no loss resulted to plaintiff as a result of such authorization.

As CONCLUSIONS OF LAW the Court finds: That defendant is entitled to judgment of dismissal against the plaintiff and for its costs and disbursements to be taxed by the Clerk.

Let judgment be entered accordingly.

Dated July 27, 1926.

BY THE COURT:

(signed) Horace D. Dickinson
Judge.

Let all proceedings in the above action be stayed for forty days from the date of the above order.

(signed) H.D.D.
Judge.

FEDERAL RESERVE BOARD

WASHINGTON

X-4646

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

August 11, 1926.

SUBJECT: Revised Principles Governing Research, Statistical and Publication Activities.

Dear Sir:

It has recently come to the attention of the Federal Reserve Board that one or two of the Federal reserve banks have prepared for general distribution printed pamphlets descriptive of the operations of the Federal Reserve System and other educational material without previously submitting the text to the Board for approval.

The Board believes that all publications of the Federal reserve banks dealing with matters of more than local interest and all educational material should be submitted to it prior to publication and should receive its approval before being issued to the public.

The Board's statement of the principles governing research, statistical and publication activities of the Federal reserve banks and the Federal Reserve Board, which was transmitted to you with the Board's letter of December 3, 1924, X-4200, has been revised accordingly. Copy of the revised statement is enclosed herewith.

By direction of the Federal Reserve Board.

Very truly yours,

Walter L. Eddy,
Secretary.

TO ALL FEDERAL RESERVE AGENTS.

Enclosure:

PRINCIPLES GOVERNING RESEARCH, STATISTICAL AND PUBLICATION ACTIVITIES OF THE FEDERAL RESERVE BANKS AND THE FEDERAL RESERVE BOARD.

Scope and Purpose.

The purpose of the work of the research and statistical divisions of the Federal reserve banks and the Board is to collect and digest information bearing on the problems with which the Federal reserve system is confronted, either as a matter of current operation or as the basis of Federal reserve policies.

All such work shall be under the general supervision of the Federal Reserve Board acting through its Division of Research and Statistics.

While research studies and scientific investigations may be undertaken on the initiative of the Federal reserve banks or of the Federal Reserve Board, the Federal reserve banks, before expense is incurred for their prosecution, shall secure the approval of the Federal Reserve Board. It is not intended, however, that approval be awaited before studies of small scope are undertaken which involve no considerable expense. In conducting research studies, the Director of the Board's Division of Research and Statistics may make assignments to one or more of the Federal reserve banks of such portions as may seem desirable.

Publications.

All publications of the Federal reserve banks dealing with matters of more than local interest and all educational material shall be submitted to the Federal Reserve Board prior to publication and shall be issued only with the approval of the Board. The monthly reviews, published by the Federal reserve agents, shall be under the general editorial supervision of the Director of Research and Statistics of the Federal Reserve Board.

The monthly reviews of the Federal reserve banks shall not exceed eight pages. Free distribution of these reviews shall be confined to member banks, to other Federal reserve banks, to the Federal Reserve Board, and to firms reporting statistical information, nonmember par list banks, and to such others as may be determined through the Board's Division of Research and Statistics in contact with a committee of the agents. For copies delivered in bulk for distribution, the Federal reserve banks shall make a charge sufficient to cover costs.

TREASURY DEPARTMENT
Office of the Secretary
WASHINGTON

X-4647

August 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 July 1, 1926, to July 31, 1926, amounting to $105,957, as follows:

Federal Reserve Notes, Series 1914

	$5	$10	$20	$50	$100	Total
Boston	200,000	150,000				350,000
New York	725,000	200,000	100,000			1,025,000
Cleveland	100,000	50,000	50,000			200,000
Atlanta	200,000	100,000	50,000	10,000	10,000	370,000
Chicago	500,000	100,000				600,000
Kansas City	100,000					100,000
San Francisco	100,000	100,000	50,000			250,000
	1,925,000	700,000	250,000	10,000	10,000	2,895,000

2,895,000 sheets @ $36.60 per M $105,957.00

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

Boston	$ 12,810.00
New York	37,515.00
Cleveland	7,320.00
Atlanta	13,542.00
Chicago	21,960.00
Kansas City	3,660.00
San Francisco	9,150.00
	105,957.00

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,
Acting Commissioner.

TREASURY DEPARTMENT
OFFICE OF THE SECRETARY
WASHINGTON

August 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, Series 1918, during the period July 1, 1926, to July 31, 1926, for the Federal Reserve Bank of Atlanta, as follows:

1,000 sheets, $1,000, @ $36.60 per M $36.60

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,
Acting Commissioner.

REGULATION F, SERIES OF 1924

(Superseding Regulation F of 1923)

TRUST POWERS OF NATIONAL BANKS

Section 1. Statutory Provisions

The Federal reserve act as amended by the act of September 26, 1918, provides in part:

Sec. 11. The Federal Reserve Board shall be authorized and empowered:

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

Whenever the laws of such State authorize or permit the exercise of any or all of the foregoing powers by State banks, trust companies, or other corporations which compete with national banks, the granting to and the exercise of such powers by national banks shall not be deemed to be in contravention of State or local law within the meaning of this act.

National banks exercising any or all of the powers enumerated in this subsection shall segregate all assets held in any fiduciary capacity from the general assets of the bank and shall keep a separate set of books and records showing in proper detail all transactions engaged in under authority of this subsection. Such books and records shall be open to inspection by the State authorities to the same extent as the books and records of corporations organized under State law which exercise fiduciary powers, but nothing in this act shall be construed as authorizing the State authorities to examine the books, records, and assets of the national bank which are not held in trust under authority of this subsection.

No national bank shall receive in its trust department deposits of current funds subject to check or the deposit of checks, drafts, bills of exchange, or other items for collection or exchange purposes. Funds deposited or held in trust by the bank awaiting investment shall be carried in a separate account and shall not be used by the bank in the conduct of its business unless it shall first set aside in the trust department United States bonds or other securities approved by the Federal Reserve Board.

In the event of the failure of such bank the owners of the funds held in trust for investment shall have a lien on the bonds or other securities so set apart in addition to their claim against the estate of the bank.

Whenever the laws of a State require corporations acting in a fiduciary capacity, to deposit securities with the State authorities for the protection of private or court trusts, national banks so acting shall be required to make similar deposits and securities so deposited shall be held for the protection of private or court trusts, as provided by the State law.

National banks in such cases shall not be required to execute the bond usually required of individuals if State corporations under similar circumstances are exempt from this requirement.

National banks shall have power to execute such bond when so required by the laws of the State.

In any case in which the laws of a State require that a corporation acting as trustee, executor, administrator, or in any capacity specified in this section, shall take an oath or make an affidavit, the president, vice president, cashier, or trust officer of such national bank may take the necessary oath or execute the necessary affidavit.

It shall be unlawful for any national banking association to lend any officer, director, or employee any funds held in trust under the powers conferred by this section. Any officer, director, or employee making such loan, or to whom such loan is made, may be fined not more than $5,000, or imprisoned not more than five years, or may be both fined and imprisoned, in the discretion of the court.

In passing upon applications for permission to exercise the powers enumerated in this subsection, the Federal Reserve Board may take into consideration the amount of capital and surplus of the applying bank, whether or not such capital and surplus is sufficient under the circumstances of the case, the needs of the community to be served, and other facts and circumstances that seem to it proper, and may grant or refuse the application accordingly: Provided, That no permit shall be issued to any national banking association having a capital and surplus less than the capital and surplus required by State law of State banks, trust companies, and corporations exercising such powers.

SECTION II. APPLICATIONS

A national bank desiring to exercise any or all of the powers authorized by section 11 (k) of the Federal reserve act, as amended by the act of September 26, 1918, shall make application to the Federal Reserve Board, on a form approved by said board, for a special permit authorizing

it to exercise such powers. In the case of an original application - - that is, where the applying bank has never been granted the right to exercise any of the powers authorized by section 11 (k) - - the application should be made on F. R. B. Form 61. In the case of a supplemental application - - that is, where the applying bank has already been granted the right to exercise one or more of the powers authorized by section 11 (k) - - the application should be made on F. R. B. Form 61-b. Both forms are made a part of this regulation and may be obtained from the Federal Reserve Board or any Federal reserve bank.

SECTION III. SEPARATE DEPARTMENTS

Every national bank permitted to act under this section shall establish a separate trust department, and shall place such department under the management of an officer or officers, whose duties shall be prescribed by the board of directors of the bank.

SECTION IV. CUSTODY OF TRUST SECURITIES AND INVESTMENTS

The securities and investments held in each trust shall be kept separate and distinct from the securities owned by the bank and separate and distinct one from another. Trust securities and investments shall be placed in the joint custody of two or more officers or other employees designated by the board of directors of the bank and all such officers and employees shall be bonded.

SECTION V. DEPOSIT OF FUNDS AWAITING INVESTMENT OR DISTRIBUTION

Funds received or held in the trust department of a national bank awaiting investment or distribution may be deposited in the commercial department of the bank to the credit of the trust department, provided that the bank first delivers to the trust department, as collateral security, United States bonds, or other readily marketable securities owned by the bank, which collateral security shall at all times be at least equal in market value to the amount of the funds so deposited. *

SECTION VI. INVESTMENT OF TRUST FUNDS

(a) Private trusts. - - Funds held in trust must be invested in strict accordance with the terms of the will, deed, or other instrument creating the trust. Where the instrument creating the trust contains provisions authorizing the bank, its officers, or its directors to exercise their discretion in the matter of investments, funds held in trust may be invested only in those classes of securities which are approved by the directors of the bank. Where the instrument creating the trust does not specify the character or class of investments to be made and does not expressly vest in the bank, its officers, or its directors a discretion in the matter of investments, funds held in trust shall be invested in any

securities in which corporate or individual fiduciaries in the State in which the bank is located may lawfully invest.

(b) Court trusts. - - Except as hereinafter provided, a national bank acting as executor, administrator, or in any other fiduciary capacity, under appointment by a court of competent jurisdiction, shall make all investments under an order of that court, and copies of all such orders shall be filed and preserved with the records of the trust department of the bank, If the court by general order vests a discretion in the national bank to invest funds held in trust, or if under the laws of the State in which the bank is located corporate fiduciaries appointed by the court are permitted to exercise such discretion, the national bank so appointed may invest such funds in any securities in which corporate or individual fiduciaries in the State in which the bank is located may lawfully invest.

SECTION VII. BOOKS AND ACCOUNTS

All books and records of the trust department shall be kept separate and distinct from other books and records of the bank. All accounts opened shall be so kept as to enable the national bank at any time to furnish information or reports required by the Federal or State authorities, and such books and records shall be open to the inspection of such authorities.

SECTION VIII. EXAMINATIONS

Examiners appointed by the Comptroller of the Currency or designated by the Federal Reserve Board will be instructed to make thorough and complete audits of the cash, securities, accounts, and investments of the trust department of the bank at the same time that examination is made of the banking department.

SECTION IX. CONFORMITY WITH STATE LAWS

Nothing in these regulations shall be construed to give a national bank exercising the powers permitted under the provisions of section 11(k) of the Federal reserve act, as amended, any rights or privileges in contravention of the laws of the State in which the bank is located within the meaning of that act.

SECTION X. REVOCATION OF PERMITS

The Federal Reserve Board reserves the right to revoke permits granted under the provisions of section 11(k), as amended, in any case where in the opinion of the board a bank has willfully violated the provisions of the Federal reserve act or of these regulations or the laws of any State relating to the operations of such bank when acting in any of the capacities permitted under the provisions of section 11(k), as amended.

SECTION XI. CHANGES IN REGULATIONS

These regulations are subject to change by the Federal Reserve Board; provided, however, that no such change shall prejudice any obligation undertaken in good faith under regulations in effect at the time the obligation was assumed.

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* The act requires that the bank shall set aside in the trust department "United States bonds or other securities approved by the Federal Reserve Board." This provision of the regulations is intended as a general approval by the Federal Reserve Board of all securities which comply with the requirements thereof and specific approval by the Federal Reserve Board is unnecessary as to such securities. The Board will not approve any securities which do not comply with these requirements.

X-4649

COPY 59

IN THE DISTRICT COURT OF THE SEVENTH JUDICIAL DISTRICT
OF THE STATE OF IDAHO, IN AND FOR THE
COUNTY OF WASHINGTON.

- - - - - - - - - - -

B. W. Grover,
Plaintiff,
vs
The Federal Reserve Bank,
of San Francisco, California,
a corporation,
Defendant.

Civil No.2657
MEMORANDUM DECISION.

- - - - - - - - - - -

This action is brought to recover from the defendant the amounts of certain checks drawn upon the Fruitland State Bank and delivered to defendant by original banks of deposit for collection. It is admitted that defendant received the checks "for collection" from its correspondents, The Weiser National Bank, The First National Bank of Ontario, Oregon, The Pacific National Bank of Boise, Idaho, and the Boise City National Bank of Boise, Idaho. Upon receipt of the several checks defendant promptly sent them direct to the Fruitland State Bank which stamped them "Paid" and returned the cancelled checks to the several makers thereof, and remitted to defendant by draft upon the Payette National or other Idaho Banks. Defendant without delay forwarded the several drafts issued by the Fruitland State Bank, received by it prior to November 16, 1922, to the drawees thereof for payment, but before they could be presented the drafts were dishonored by reason of the failure of the Fruitland State Bank to open its doors on November 16, 1922. The complaint contains six causes of action, the first being founded upon a check for $533.00 drawn by Geo. P. Davis on the Fruitland State Bank in favor of plaintiff. Plaintiff received the check on November 7, 1922, at Fruitland, Idaho, and mailed it the same evening, endorsed by him in blank, to the Weiser National Bank, at Weiser, where he had an account. The latter bank gave plaintiff credit for the amount "subject to final payment" and forwarded it to the defendant bank for collection. This check was received by defendant at Salt Lake on November 11, 1922, and forwarded to the Fruitland State Bank on that date.

The second cause of action is based upon a check for $1,000.00 drawn by the Fruitland Fruitgrowers' Exchange in favor of A. G. Street, dated November 3, 1922. The payee deposited this check about November 4, 1922, in the Western National Bank at Caldwell, Idaho, and on that day said bank endorsed the check and forwarded it to The Boise City National Bank, in due course of business for collection, and the check was thereupon forwarded in due course of business to the defendant at Salt Lake City for collection. Defendant on the day of its reception

forwarded the check to the Fruitland State Bank at Fruitland for payment with instructions to pay said check upon presentation and if not paid to protest the same for non-payment. The check arrived at the Fruitland Bank on November 10, 1922, and at that time the drawer did not have sufficient funds to its credit with said bank to pay said check. The check was held until November 13, 1922, when the Fruitland Fruitgrowers Exchange had sufficient funds on deposit to pay the check when it was marked "paid" and charged to the drawer's account. A draft for the amount thereof payable to defendant, dated November 10, 1922, drawn on The First National Bank of Payette, was mailed to defendant. Said draft was dated November 10, 1922, but was not received by defendant until November 15, 1922, when it was promptly mailed to the drawee bank for payment. Before it was received at Payette, the Fruitland State Bank had closed its doors and the draft was thereby dishonored. The Fruitland State Bank did not protest the check for non-payment after its receipt on November 10, 1922, nor notify defendant of the failure of the payor to pay it.

The third cause of action is based upon thirty six checks drawn by divers persons upon the Fruitland State Bank, payable to The Golden Rule Store, aggregating $287.45 in amount. All of said checks were deposited by the C. C. Anderson Company doing business as the Golden Rule Store, with the First National Bank at Ontario, Oregon, and were by it sent to the Boise City National Bank at Boise, and were by that bank endorsed and duly forwarded to the defendant at Salt Lake City, Utah, for collection. They were promptly sent by defendant direct to The Fruitland State Bank for payment and were marked "paid", charged to the respective accounts of the makers thereof and returned to them. Drafts for the amounts covered by said checks, dated November 13 and 14, 1922, respectively, were forwarded to defendant and reached it on the 16 and 17 of November, 1922, respectively, after the failure of The Fruitland State Bank, and were promptly on said dates forwarded by defendant for protest. They were dishonored by reason of the Fruitland State Bank failing to open its doors on November 16, 1922, and were therefore not paid.

The fourth cause of action is based upon four several checks, three of which are payable to the Ontario Furniture Company and one payable to Mrs. H. E. Duell and endorsed by her to the Ontario Furniture Company, signed by divers persons and aggregating $70.20 in amount. All of said checks were deposited by H. L. Peterson, doing business under the trade name of the Ontario Furniture Company, with the First National Bank of Ontario, and by it endorsed and sent to the defendant for collection. All of said checks were mailed direct to the Fruitland State Bank for payment, which charged the amounts of the several checks to the accounts of the respective drawers thereof, marked the checks "paid" and returned them to the several drawers. Drafts covering the amounts of these checks, were sent to the defendant, dated November 10, 13 and 14, 1922, respectively, and were received by the defendant bank by mail on

November 15, 16 and 17, 1922, respectively and those received on the the 15th and 16th were forwarded for collection on the same day they were received; that received on the 17th was forwarded for protest on the day received. All were dishonored by reason of the failure of the Fruitland State Bank to open its doors on November 16, 1922.

The fifth cause of action is based upon two checks drawn on the Fruitland State Bank, aggregating $498.39, one for $100.00 drawn by E. A. Stenger in favor of the Davidson Grocery Company, and a check for $398.39 drawn by the Mohler Mercantile Company in favor of the Davidson Grocery Company. Said checks were dated on or about the 4th and 8th of November, 1922, respectively. Each of said checks was deposited with the Pacific National Bank at Boise, Idaho, by the said payee therein named, and were in turn endorsed and forwarded by said The Pacific National Bank to the defendant for collection, who in turn mailed them to the Fruitland State Bank for payment. The payee bank marked each of said checks paid, charged the accounts of the makers thereof with the several amounts, and returned the cancelled checks to the drawers. Said bank mailed to defendant its draft dated November 10, 1922, for $100.00, the proceeds of the first check, which said draft was received by defendant on November 15, 1922, and on the same date mailed for collection. The draft covering the item of $398.39, was dated November 14, 1922, mailed by the Fruitland State Bank to defendant, was received by it November 17, 1922, and was mailed on the same date for protest. The Fruitland State Bank having closed its doors before either draft was presented, they were not paid.

The sixth cause of action is based upon a check for $65.80 dated November 4, 1922, drawn by Fruitland Drug Company, on the Fruitland State Bank in favor of Haas Wholesale Company. Said check was thereafter deposited by the payee thereof in the First National Bank of Weiser, which endorsed and delivered said check to The Pacific National Bank at Boise, which endorsed and mailed it for collection. Thereafter the defendant without delay mailed said check to the Fruitland State Bank for payment. It was marked "paid" by the payee bank, charged to the drawee's account, and on November 15, 1922, defendant received at Salt Lake City, Utah, a draft drawn upon another bank for said amount, which draft was on said last named date mailed to drawee for payment. Said draft was not paid because of the failure of the Fruitland State Bank to open its doors on November 16, 1922, before it could be presented for payment. The check sued on was not admitted in evidence.

It was stipulated at the trial that all of the checks involved in the last five causes of action were deposited with the initial banks of deposit for collection, to the credit of the assignors of the plaintiff, their respective accounts credited with the amounts thereof, and that subsequently the several amounts were charged back to the several accounts.

None of the checks in the second, third, fourth, fifth and sixth causes of action are in evidence. There is no testimony as to the character or form of the endorsements thereon, if any.

There is likewise no proof of any custom by the banks in the territory in which the said deposit banks are situate, to require the endorsement of checks, before accepting them for deposit. On the other hand, there has been no offer of proof of any special contract with the banks of deposit. Nothing to show that said checks were not in fact endorsed in the usual manner. The burden of this proof being upon the plaintiff, I incline to the view that the court would be justified in finding that the checks were endorsed as well as deposited. The record being silent as to any special form of endorsement or contract for the collection of these checks, it would seem justifiable to conclude that they were deposited by the holders in their accounts in the usual manner, because it is stipulated that credit was given for the amounts thereof and on failure of payment of the drafts, they were charged back to the several accounts.

Plaintiff's counsel concede that it was not negligence on the part of the defendant to send the various checks direct to the payee for presentation and payment. They contend that because in each instance the defendant accepted drafts in payment of the several checks in lieu of cash, it was negligent and plaintiff should, on that ground alone, recover.

I shall not attempt to discuss the question as it would serve no useful purpose here.

On the question as to whether the defendant has been guilty of any negligence, the answer sets up a general custom of all banks and bankers obtaining in the states of Idaho and Utah, at the time of the transactions complained of, to accept in settlement of collection items received from banks in other cities or towns, exchange upon correspondent banks, and that plaintiff and his assignors and agents in forwarding said checks for collection, did so with full knowledge and notice of the existence of said custom. This defense is clearly sustained by the evidence.

It is true that it was not shown that the depositors had actual notice of such a custom, still, the circumstances were such that they must be charged with notice. All of the persons receiving the checks were business men, as may be inferred from the evidence. They were apparently receiving checks from time to time and knew or were charged with knowing, how checks were collected on out of town banks. The custom must be held to be reasonable under the evidence here. It may be said to be dictated by necessity since it would not be possible, owing to the great volume of business transacted in this country, for banks to function if compelled to make collections in cash or currency. On the other hand, the rule does not hold that a person cannot make a special contract for the collection of commercial paper in any way he desires. It simply goes to the extent of holding that when paper

is deposited for collection, in the ordinary and usual course of business, without any special agreement, it will not be negligence for the collecting agents to follow the prescribed custom.

Plaintiff alleges that on presentation of each of the several checks involved, there was sufficient cash on hand in the Fruitland State Bank to have paid them in cash or currency. The proof is not sufficient to sustain this allegation, and so I find.

I am constrained therefore to find for the defendant on all six causes of action.

At the trial defendant asked leave to amend its answer in certain particulars referred to on page 55 of defendant's brief. The amendment was resisted and the court reserved the ruling. It does not appear that any substantial right of the plaintiff will be jeopardized, and I therefore rule that the amendment may be made as prayed for.

Counsel for defendant may prepare findings and decree, furnishing copies thereof to counsel for plaintiff.

Dated at Weiser, Idaho, July 31, 1926.

(Signed) B. D. Varian (?)

District Judge

Rice & Bicknell Esqs., Caldwell, Idaho,
George Donart Esq., Weiser,
Attorneys for Plaintiff.

A. C. Agnew Esq., San Francisco, Cal.
Merrill & Merrill Esqs., Pocatello, Idaho,
Attorneys for Defendant.

X-4651

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS.

For immediate release.

August 12, 1926.
3:30 o'clock p. m.

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 August 13, 1926.

FEDERAL RESERVE BOARD

WASHINGTON

X-4652

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

August 16, 1926.

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

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-4652-a and X-4652-b, covering in detail operations of the main line, Leased Wire System, during the month of July, 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.

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 JULY, 1926.

From	Business reported by banks	Words sent by New York chargeable to other F. R. Banks(1)	Total	Treasury Department Business	War Finance Corporation Business	Net Federal Reserve Bank Business	Per cent of total bank Business(*)
Boston	33,700	692	34,392	3,422	-	30,970	3.69
New York	155,291	-	155,291	3,746	-	151,545	18.04
Philadelphia	37, 116	701	37,817	2,984	-	34,833	4.15
Cleveland	76,598	1,402	78,000	3,270	-	74,730	8.89
Richmond	47,252	2,338	49,590	3,242	-	46,348	5.52
Atlanta	66,149	2,994	69,143	3,580	-	65,563	7.80
Chicago	98,560	2,206	100,766	4,528	-	96,238	11.46
St. Louis	74,386	1,975	76,361	3,717	-	72,644	8.65
Minneapolis	34,005	1,749	35,754	1,586	-	34,168	4.07
Kansas City	73,547	2,300	75,847	3,279	-	72,568	8.64
Dallas	55,219	4,493	59,712	1,762	-	57,950	6.90
San Francisco	105,878	2,132	108,010	5,581	-	102,429	12.19
Total	857,701	22,982	880,683	40,697	-	839,986	100.00%
F. R. Board			302,969	22,051	-	280,918	
Total			1,183,652	62,748	-	1,120,904	
Per cent of Total			100.00%	5.30%		94.70%	

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-4652b).

(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, JULY, 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	$806.36	$260.00	$546.36
New York	1,072.41	-	-	1,072.41	3,942.19	1,072.41	2,869.78
Philadelphia	216.66	-	-	216.66	906.88	216.66	690.22
Cleveland	284.50	-	-	284.50	1,942.69	284.50	1,658.19
Richmond	227.00	-	-	227.00	1,206.26	227.00	(&)1,183.93
Atlanta	255.00	-	-	255.00	1,704.49	255.00	1,449.49
Chicago	(#)4,038.49	1.00	-	4,039.49	2,504.30	4,039.49	(*)1,535.19
St. Louis	274.00	-	-	274.00	1,890.24	274.00	1,616.24
Minneapolis	201.35	-	-	201.35	889.40	201.35	688.05
Kansas City	275.64	-	-	275.64	1,888.05	275.64	1,612.41
Dallas	251.00	-	-	251.00	1,507.82	251.00	1,256.82
San Francisco	370.00	-	-	370.00	2,663.82	370.00	2,293.82
Federal Reserve Board	-	-	15,348.75	15,348.75	-	-	-
Total	$7,726.05	$1.00	$15,348.75	$23,075.80	$21,852.50	$7,727.05	$15,865.31
				(a)1,223.30			(b) 1,535.19
				$21,852.50			$14,330.12

(&) Includes $204.67 for branch line business transmitted over main line circuit.
(#) Includes salaries of Washington operators.
(*) Credit.
(a) Received $1,223.30 from Treasury Department covering business for the month of July, 1926.
b) Amount reimbursable to Chicago.

"A Bit of Information and Advice for the Home Folks".

(An address to the Annual Convention of the Cotton States Merchants Association, at Memphis, Tenn., on August 26, 1926.)

by

Geo. R. James.

Mr. Chairman and Friends:

I can't begin to tell you how glad I am to be back home or how gratifying it is to have the privilege of meeting and talking with my home folks again.

During the three years that I have been in Washington, serving as a member of the Federal Reserve Board, my work has been quite interesting, my colleagues most congenial and my home life very happy, but at that there have been times when I have been mighty homesick and I frequently find myself thinking of, and trying to figure out, the many perplexing problems that I know are peculiar to our own beloved section of the country.

The study of national and international business and finance, together with watching the fluctuations in the money markets both at home and abroad is as fascinating as was the reading of romances like "Ivanhoe", "Robin Hood" and the "Count of Monte Cristo" in my younger days. Then, too, the routine work of the Board itself, the constant and persistent effort that is being made to adjust the machinery of the Federal Reserve System to meet the more or less frequent changes and the gradual evolution that is taking place in the business of the nation is in itself an inspiration, and I can say that I get a great deal of pleasure and satisfaction from my work. But all the time, along with these matters, there is constantly before me the questions - How are the many changes in business and financial methods affecting my home territory, and how are our people meeting these changes?

Just a few days ago I received a letter from the President of one of the large and important banking institutions in New York which I am going to read to you. The letter referred to reads as follows:

"New York, July 30,1926.

"Dear Mr. James:

"In the last few years,as you know, a radical change has taken place in the purchasing methods of the retailers, distributors and consumers of commodities and manufactured articles. Whereas formerly, with very few exceptions, it was the custom to anticipate the demands of the ultimate consumers by forward buying, it is now the exception rather than the rule when purchases are made in excess of an amount necessary to supply the immediate demand. This practice has come to be characterized by the colloquial term of "hand-to-mouth" buying. On all sides are heard expressions of approval and disapproval of this practice.

"The manufacturers contend that it is becoming increasingly difficult for them to anticipate the demands that may be made upon their output. And in many instances the manufacturer's choice is between piling up an inventory of manufactured goods or executing orders as received at increased costs.

"On the other hand, retailers and distributors claim that with the present high efficiency of the railway transportation systems of the country it is possible for them to secure quickly such articles as may be necessary to meet the demands of their customers, and that because of that fact they see no reason for their carrying a large and expensive inventory.

"Others advise that because of the radical and frequently occurring changes in styles it would be the height of folly for them to make purchases other than are necessary in the routine conduct of their business.

"It is quite evident that it will be necessary for either the manufacturers or the distributors to make such readjustments in their methods of operation as will meet present conditions. This adjustment has, in fact, begun.

"What the solution of the problem may be is to me very perplexing. A reduction in the volume of mass production on the part of the manufacturer, resulting as it would in the majority of cases in increased costs, would not seem to be the only method of reaching the fundamental difficulties in the situation. And on the other hand, in view of the uncertainty of the consumers' demands

due to changes in styles, and the valid objections to piling up inventories, it would not seem reasonable to expect retailers, distributors and others to do any great amount of forward buying with the consequent possibility of having their shelves stocked with unsaleable or unusable merchandise.

"I should appreciate greatly your letting me have the benefit of your thoughts in regard to this problem. To what extent can and should "hand-to-mouth" buying be overcome? Should this practice be accepted as a permanent condition, and if so, what adjustments are necessary and what are the effects to be expected? These are among the questions on which I should greatly value your opinion. I feel sure that if I can secure the opinions of a number of well-informed men such as yourself I may be in a position where I can bring to the attention of the thinking business men of the country an intelligent discussion of the subject."

(Signed) ... .
President"

In reply to this communication, I wrote the gentleman as follows:

"Washington, D.C., August 7, 1926.

"Dear Mr. Blank:

"Your very interesting letter of July 30th addressed to me as President of the Wm. R. Moore Dry Goods Company, Memphis, Tenn., having been forwarded, reached me here this morning.

"There have, as I see it, been many various factors contributing to the growth of the so-called "hand-to-mouth" buying of merchandise and no satisfactory solution of the problem can be found without due consideration of them all. In addition to the things you mention, we have a marked difference between the past and present in the matter of credits, for instance, the shifting from credits based on "inventories" to "receivables" in one form or another. Then, too, there is the development of the "mail order houses", "department stores", "chain stores" and other forms of competition that have grown up, in a very large degree, to take the place of the old fashioned "jobber" and "retailer". The passing of the cross roads country merchant has quite a bearing on this problem.

"Still another factor that must be taken into consideration is the shifting of the population from farms and country to the cities and along with it the change in the buying power of the average person due (a) to frequent distribution of funds through payrolls, and (b) the almost "full employment of labor" that has prevailed in this country for the past five or perhaps ten years. All through this "evolution" in merchandising the old law of the "survival of the fittest" has been at work and now the manufacturer and the distributor

are feeling its effects. Both are facing increasing overhead and other costs on one hand and diminishing profits on the other.

"Frankly, I do not know what the outcome will be. I cannot say which method of distribution (because of the superiority of the service) will survive, but I do venture the assertion that this question cannot be answered until the newer methods shall have passed through a rather long period of depression and unemployment in this country.

"Under existing circumstances and conditions I feel that it is wisdom on the part of the distributors to pursue a "hand-to-mouth" policy in buying merchandise. A quick "turn-over" minimizes both expense and risk and is, therefore, most commendable.

"Assuring you that I appreciate the compliment paid me in asking my opinion, I am,

Yours very truly,

(Signed) Geo.R.James".

I have brought this correspondence to your attention believing that it brings up subjects in which you as merchants have a very vital interest. I am sure that you will agree with the New York banker that "a radical change has taken place in the purchasing methods of the retailers, distributors and consumers of commodities and manufactured articles" in the last few years. I am sure also that you will agree with me that the growth of mail order houses, department stores and chain stores has been little less than remarkable since the ending of the world war. Every live merchant in the country must have noted the very remarkable increase in instalment buying and perhaps there is no development of recent years that has a more important bearing on this question of distributing merchandise than does the practice of buying and selling on the instalment plan.

In the belief that Shakespeare was right when he said "There is good in everything", I have given a great deal of thought and study to this matter of instalment buying and I confess that there are many features of it which I can and do commend. On the other hand, I cannot refrain from a feeling

that to a very great extent the practice is being carried to excess, - in fact, to an extent that I regard as extremely dangerous. I cannot help but view with alarm the steady increase in the debts of the individuals and institutions that make up this great nation of ours. One statistician has made the statement that if every man, woman and child could maintain their present earnings and incomes for a period of two years and that during the same period nothing whatsoever should be expended for current necessities or for anything other than to liquidate the present indebtedness, the end of the period would show the people still very much in debt.

This strikes me as a most serious situation, for, as I pointed out in my letter to the New York banker, during the time this increase in indebtedness was taking place this country has been enjoying nearer full employment of labor and manufacturing capacity of industry than at any time ever recorded in history. During the period, the figures representing the business activity of this country both as to production, employment, prices and wages as well as the debts have been going up, and I want to call your attention to the fact that nobody ever got hurt going up,- even the aviators get along all right while their machines are moving skyward.

The thing that perturbs me is what must inevitably happen when the trend is the other way. What are we doing now to prepare ourselves for the decline? In other words, we have been mounting the hill in a rather smooth running machine - taking a joy ride if you please - speeding on with little thought as to what may be the condition of the road beyond the brow of the hill.

I wonder how many people there are today who know whether or not their "brakes" are in working order? I think if we view the records

of the numerous automobile accidents we would find that the case was an inability to stop in time rather than to breaking down in the movement forward.

The answer to the question "Is instalment buying good or bad" depends upon the individual. For one who fails to budget his income and expenses and who does not provide a cash reserve of not less than twenty per cent of his total indebtedness, instalment buying is certainly very yery bad; in fact, in my opinion it is a very dangerous procedure. But whether one is using the instalment plan of buying or not, I still want to emphasize with all the force available the advisability and desirability of everybody making a budget of his income and expenses not only for his business affairs but for himself as an individual. See for a certainty whether or not your income exceeds your expenses and provides for your commitments, and then when you have finished that job for your ownselves and your own business, do a little figuring along the same lines for your communities. As in the case of individuals or business concerns, no community can be permanently prosperous unless it receives for its products more money than it pays out for purchases made in other communities, and sets up a "reserve" out of the favorable balance.

Business throughout the country at the present time is good. Taking the United States as a whole, it is a country wherein prosperity prevails to a very remarkable degree. Just how long this prosperity can and will prevail, I do not believe any one can tell. I hope it may continue for a long time, but no matter whether the duration of the present prosperity continues for a long or short period, now is the time when the wise man is paying his debts and is getting his house in

order for whatever may follow in the business world.

By all means look to your reserves. There is nothing more important either to an individual or a business concern than is this matter of providing and maintaining a cash reserve, and especially is this true of those who use credit. Every banking institution is required by law to maintain a cash reserve against its deposits, but even if there were no law on the subject, no good banker would for a moment think of running his bank without adequate reserves. Good bankers carry not only the reserves required by law but maintain reserves far in excess of the legal requirements.

Maintaining a cash reserve is just as important to the business house or to the individual who uses credit as it is to a bank. The best managed banks require their borrowing customers to carry a balance usually amounting to twenty per cent of the loan. These balances are nothing more or less than reserves. I know there are many banks (usually those known as country banks) that do not make this requirement of their customers but who endeavor to make up for the absence of these balances by charging a higher rate of interest. Now the fact is, there is no difference in dollars and cents between what the customer actually pays for his accommodation whether he borrows from a city bank which requires a twenty per cent balance and charges a six per cent rate of interest or borrows from a country bank which makes no such requirements and charges seven and one-half per cent, but my friends there is a very vital difference both to the bank and to the customer; the position of either or both being very much stronger when the proper reserves are carried. The man who carries a good balance with a bank never has any trouble getting ac-

commodation when he needs it and if one could only see and appreciate the difference in attitude on the part of the banker towards his customers when the customer has a large balance and when he has no balance, I am sure no further argument would be needed.

The greatest and strongest banking system the world has ever known is your Federal Reserve System, the very foundation of which is the reserves of its member banks. I say YOUR Federal Reserve System, because it was created by and is a very vital part of your Government,- "That Government of the people, by the people, for the people". The fact that the Government stands squarely behind the notes of the reserve banks, which notes play such an important part in providing a currency for the nation, gives you as part of the public a most decided interest in, if not ownership of, the Federal reserve banks and the System.

While the Federal Reserve System deals with the public only through its member banks, the very purpose for which it was created was to be of service to the agriculture, industry and commerce of the nation functioning, if you please, through the member banks which in turn are the custodians of the cash reserves of the people.

The Federal reserve banks were not established to make money. The law provides that for the money the member banks subscribe to the capital of the Federal reserve banks there shall be paid interest at the rate of six per cent per annum. After this dividend or interest is taken care of and the expenses of operating the reserve banks are paid, the balance of the earnings go to the Treasury of the United States.

The law permits the Federal reserve banks to perform certain services for the member banks without charge and at the expense of the reserve banks because it was believed that the reserve banks could reduce

the costs of performing these services, and I can tell you that the services now rendered by the Federal reserve banks are performed at a saving in cost that is far greater than was originally anticipated. The cost of the collection of checks, transfer of funds, and handling of currency by the Federal Reserve System is only a small percentage of what those functions cost when performed by individual banks. The economies that are possible through mass production applies with equal force in the Federal Reserve System as it does in the plants of the Ford Motor Company.

The earnings of the Federal reserve banks arise out of the interest charged member banks when the member banks borrow. They are increased or diminished only as the requirements of the member banks dictate. And perhaps it may be important to state that the facilities of the Federal Reserve System are available for the smallest and for the largest member banks on exactly the same terms and conditions.

I am giving you this information because I think it is just and right that you should know that the so-called free service which the Federal Reserve System renders to its members is in the last analysis, given at the expense of the public, and I feel that as a part of this great American public you should be in a position to inquire (1) whether or not you are getting the benefit of these services, and (2) if not, why not? In other words, you are paying for something so it is up to you to get what you pay for.

Because of my interest in and love for my own home territory, it hurts me terribly to tell you that the South, and this particular section of it especially, is far behind the rest of the country in availing itself of the security, facilities and benefits of the Federal Reserve

System. In the territory served by the Memphis Branch of the Federal Reserve Bank of St. Louis (that is to say, in West Tennessee, Northern Mississippi and Eastern Arkansas) there is the smallest percentage of member banks to banks in the territory of any section of the United States. In this territory, less than fifteen per cent of the banks are members of the Federal Reserve System, whereas, in the great State of New York seventy per cent of all the banks are members of the System. Of course, all of the national banks and practically all of the big State banks in the cities are members of the System.

As a member of the Federal Reserve Board, a good part of my time has been taken up in studying the question of why so many banks in our territory do not belong to the Federal Reserve System, but I am still unable to get anything like a satisfactory answer to the problem. The fact is that when I try to sum up the reasons I have heard for banks not being members of the System, I am reminded of the old story about the Arabian sheik who was noted for being rather thrifty, and one who looked after his business closely and carefully. One day a neighbor sent over to him and asked to borrow a piece of rope. In answer to this request he said that he was sorry he could not let him have the rope because he was using it to tie up his milk. To this the neighbor very indignantly asked - "Whoever heard of tying up milk with a rope?" The old sheik replied - "My friend, when you dont want to do anything, one excuse is just as good as another".

One of the popular answers to my inquiry as to why the nonmember banks do not join the Federal Reserve System, has been that the System does not pay any interest on reserves, whereas, by keeping their reserves with some city correspondent bank they receive interest on their balances;

in consequence, in the one case they get no return on their reserve balances, in the other, they make a profit. This statement always brings to my mind the story of the two negroes who were passing a graveyard. One of them could read and the other couldn't. The educated fellow was entertaining his companion by reading the epitaphs on the tombstones. Finally they came to one which said "He is not dead but sleepeth". The ignorant fellow said "Umph, big boy, that white man ain't foolin' nobody 'cept hisself".

My good friend Dr. Tait Butler once said that the greatest agricultural implement ever invented was the lead pencil, but to a banker who springs that sort of an answer as his reason for not joining the Federal Reserve System, I offer the suggestion that he get himself a supply of lead pencils not to use as agricultural implements but to sharpen and use in analyzing his own affairs.

I could go into details in explaining to you just why this suggestion is offered but my time is too limited and I will only say in this connection that if there are any bankers in the audience they know what I am talking about, and if you who are not bankers ever want to talk to a man who is supposed to be a banker and this same subject comes up, you may be absolutely certain that if he is anything of a good banker at all he will know in his heart that what I am saying is absolutely true.

Another reason frequently offered by country bankers in the South for not joining the Federal Reserve System is that they are denied the right to charge exchange when remitting for their checks. One so-called banker asked in my presence on one occasion "What <u>right</u> has the Federal Reserve System to deny my bank the right to charge exchange?" To this I very promptly answered by asking him the question - "What <u>right</u> have you to de-

duct anything when paying a customer's check that is presented either over the counter or through a Federal reserve bank?"

It is true that in the old days prior to the establishment of the Federal Reserve System it was necessary for banks, in order to pay their customers' checks when the payee of the check lived at a distant point, either to ship the currency or else maintain balances with correspondent banks against which they could draw, and, of course, in either case this costs money and the banks were entitled to collect for the service. But with the coming of the Federal Reserve System this situation changed. The cost of shipping currency is absorbed by the reserve bank and it is not only less expensive but it is safer and more convenient for a bank to pay the checks of his customer when they are presented through a reserve bank than when presented by the customer at the teller's window.

Anyhow, the Supreme Court of the United States has settled the question and has established the "right", once and for all, of the requirement that member banks shall remit at par for all checks sent for collection through the reserve banks.

Furthermore, this right and principle has been recognized by ninety per cent of all banks in the United States, and today every bank in the First, Second, and Third Federal Reserve Districts is a member bank or is on the par lists of the reserve banks.

In this, the Eighth or St. Louis Federal Reserve District, there are all told 3073 banks. Of this number 619 are member banks, and 2454 nonmember State banks. Of the nonmember banks 2036 are on the par list. They voluntarily remit to the reserve banks at par for checks on them that are collected through the Federal Reserve System. 418 nonmember banks (only 13½ per cent of the banks in the entire district)

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still stand out for their "right" (?) to collect exchange.

As you doubtless know, the Federal Reserve Bank of St. Louis has, in addition to the home office, branches at Louisville, Little Rock and Memphis, and the territory is divided accordingly. In that part of the district served by the home, or St. Louis, office, over 95 per cent of the nonmember banks remit to the reserve bank at par. In the part served by the Louisville Branch 97 per cent remit at par. In the part served by Little Rock 62 per cent remit at par. In that territory served by the Memphis Branch only 29 per cent of the nonmember banks remit at par. As I said before, less than fifteen per cent of the banks in the territory covered by the Memphis Branch are members of the System. Can you wonder that I feel humiliated when this situation and these figures are up for consideration?

Next to the Memphis territory in the ratio of banks not on the par list, comes the Atlanta District, and you who read the newspapers know what recently happened to a chain of nonmember banks with more than a hundred members, in that District.

That outfit, headed by the Bankers Trust Company, was not affiliated in any way with the Federal Reserve System. On the contrary, they were against the System; they were leaders in the fight against "par clearance of checks", and declined to keep their reserves in a reserve bank. When the strain came and the need of their reserves developed because of a decrease in the deposits of some of the banks in the chain, those reserves were not available and the crash followed. The banks involved were small, it is true, and the damage measured in dollars was relatively light, but think, my friends, of the tragedies that followed in those hundred and more communities whose hard-earned savings were wiped out.

It seems to me most deplorable that such a large proportion of our people should be denied the financial protection and benefits created for them by the Government, simply because a large group of so-called bankers are asleep on the job.

Already the Atlanta Constitution, one of the great newspapers of the South, is discussing the urgency of forcing by law all commercial banking institutions into a National System under Federal supervision. Certainly the discussions of branch banking and the failure to pass in the last two sessions of Congress the so-called McFadden Bill, designed to check the growth of branch banking in this country, should cause the officers of independent unit banks to wake up and to endeavor to give the communities that are dependent upon them for banking facilities every advantage in banking service that is now available.

Every State bank with requisite capitalization and proper management is not only entitled to membership in the Federal Reserve System but has been and is constantly being invited to join the System. I have told you what I thought of the reasons I have heard for not joining. I wonder what will happen when the depositing customers begin to study the situation and to ask questions?

I do not for one moment mean to say that being a member of the Federal Reserve System guarantees deposits, nor does it insure the public and the depositors against dishonest or incompetent banking, but I do say that that WHEN a bank is a member of the Federal Reserve System and its business is conducted within the limitations and restrictions laid down by the law and the rules and regulations of the Federal Reserve Board THAT BANK CANNOT FAIL.

There have been a great many bank failures in the United States during the past few years. A small percentage of them - and a small per-

centage only - have been members of the Federal Reserve System, but NOT ONE SIGNLE ONE OF THEM failed that had lived up to the letter and spirit of the law and the rules and regulations of the Federal Reserve Board.

Another thing; a very careful analysis of the earnings of the something like thirty thousand banks in the United States shows that the member banks, who live up to the letter and the spirit of the law and the rules and regulations relating to the Federal Reserve System, make more money on the capital invested than do those banks on the average that are not members of the System.

As a result of my study of this great problem, I am willing to say that it is my judgment that if and when a commercial bank finds out that it cannot make money for its stockholders as a member in good standing of the Federal Reserve System, then the best thing that bank can do in the interest of its depositors, its stockholders and its community is to liquidate and get out of the way for certainly there are too many banks in this day and time for the business now available.

I have a good many friends in the banking business in this territory and it is possible that some of them may not like what I am saying to you now, but in that event I can only say that I am sorry. I feel that it is my duty as a public servant to call your attention to such matters as these in which I have a real responsibility.

The views and opinions I have expressed are my own and should not be taken as representing those of the other members of the Federal Reserve Board. What I have said to you is in the hope that my remarks may help you in this time of peace to prepare for war.

I thank you.

FEDERAL RESERVE BOARD

X-4654

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

August 16, 1926.

SUBJECT: Eligibility for Rediscount of Certain Notes of a Cold Storage and Warehouse Company.

Dear Sir:

I am enclosing herewith for your information a copy of a ruling which the Federal Reserve Board recently made upon the eligibility for rediscount at a Federal reserve bank of certain notes of a cold storage and warehouse company.

Very truly yours,

J. C. Noell,
Assistant Secretary.

Enclosure.

TO ALL FEDERAL RESERVE AGENTS AND GOVERNORS

Eligibility of Notes of Cold Storage and Warehouse Company.

The Federal Reserve Board has been requested to rule upon the eligibility of certain notes of a cold storage and warehouse company for rediscount at a Federal Reserve Bank.

It appeared that this company is regularly engaged in the finance business through the making of loans to customers against the security of goods stored with the company. It issues two classes of paper: (1) collateral trust notes secured by the pledge to a trustee of customers' notes payable to the company, representing advances made to customers on the security of goods stored; and (2) straight unsecured notes payable to banks. It conceded that its collateral trust notes are ineligible for rediscount; but contended that its straight unsecured notes are eligible, on the ground that they are issued to finance its current operations. In support of this contention it was stated that the company's quick assets (exclusive of advances to customers) are in excess of its current liabilities (exclusive of its liability on collateral trust notes); that its current accounts receivable consist of accrued storage charges billed to customers but not yet paid and bills rendered to customers for services, ice and material; and that its current operating expenses consist of labor, electric power, material, interest on bonds, administrative expenses, and other usual expenses incident to a going business. On the other hand, it was admitted that the company's bills receivable representing advances made to customers sometimes exceed its collateral trust notes outstanding by as much as 10 or 15%, although the usual practice is to deposit customers' notes in the hands of the trustee, and issue collateral trust notes against them as soon as possible, and the amount of customers' notes pledged to the trustee is approximately the amount of the collateral trust notes outstanding, the only margin required being represented in the value of the goods in storage against which advances have been made.

The Board has given careful consideration to the question presented, and is of the opinion that these notes are not properly eligible for rediscount at a Federal Reserve Bank.

The financial statement showing an excess of quick assets over current liabilities is valuable only as indicating that the borrower is in a liquid condition and that the borrowing is not for capital purposes or for permanent or fixed investments of any kind. In order to be eligible for rediscount under the terms of Section 13 of the Federal Reserve Act, a note must arise out of an actual commercial transaction, that is, it must have been issued or drawn for agricultural, industrial or commercial purposes or the proceeds must have been used or must be intended to be used for such purposes. The eligibility of the notes in question therefore, depends upon the char-

acter of the transactions out of which they arise or the use made of the proceeds, and the mere fact that the company's statement shows an excess of quick assets over current liabilities is not alone sufficient to establish the eligibility of the notes.

It appeared that this corporation is regularly engaged in the finance business through the making of loans to other parties against the security of goods stored with the company by such parties, and that it finances the major portion of this business through the issuance of collateral trust notes secured by the notes of its customers. It conceded that such collateral trust notes are ineligible for rediscount, because they clearly are finance paper under the terms of Section II(b) of the Board's Regulation A and the ruling published on page 308 of the March 1921 Bulletin.

This company, however, borrows some money from banks on its own straight unsecured notes and desired to have such notes declared eligible for rediscount, on the theory that the proceeds of such notes are used exclusively for its current operating expenses. The company's current operating expenses, however, are necessarily incidental to its principal business and their character must be determined by the character of its principal business. Even if its borrowings for current operating expenses could be completely segregated from its borrowing of funds to be advanced to other parties, therefore, it would seem that its borrowings for current operating expenses should be classed as a borrowing for finance purposes, because it arises out of the finance business and not out of a commercial, agricultural or industrial business within the meaning of the Federal Reserve Act and the Board's Regulations.

Moreover, a corporation engaged in the finance business necessarily must have some working funds to enable it to make advances to its customers in the first instance and to carry paper resulting from such advances until it can refinance itself by the issue and sale of collateral trust notes secured by such paper. The proceeds of the unsecured notes made by such a corporation, therefore, would almost certainly be used to some extent in making advances to its customers, and this corporation admits that the amount of advances made to its customers occasionally exceeds the amount of collateral trust notes outstanding by as much as 10 or 15%. It is clear that the borrowings of the company on its straight unsecured notes payable to the bank would, at least to the extent of such excess, be for the purpose of making loans to third parties. As a practical matter, it is almost certain that the proceeds of all borrowings made by the company either on collateral trust notes or on straight notes payable to the banks go into a common fund out of which advances to customers as well as current operating expenses are taken, and it would be impossible to distinguish the proceeds of one class of loans from the proceeds of the other, even if the borrowings of a finance company for its current operating expenses could be considered a borrowing for a commercial instead of a finance purpose.

In view of these considerations the Board is of the opinion that the notes of this corporation cannot properly be considered eligible for rediscount at a Federal reserve bank.

X-4655

FEDERAL RESERVE BOARD

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WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

August 18, 1926.

SUBJECT: Holidays, September, 1926.

Dear Sir:

On Monday, September 6th, there will be no Gold Settlement Fund or Federal Reserve Note Clearing, on account of observance of Labor Day, and the Board's books will be closed.

In addition to the holiday mentioned above, the following Federal Reserve Banks and Branches will observe holidays during the month of September on the days specified:

Thursday, Sept. 9 - San Francisco - Admission Day, California.
Los Angeles
Monday, Sept. 13- Baltimore - Defenders Day, Maryland.
Tuesday, Sept. 14- Detroit - Primary Election Day, Michigan.

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 Federal Reserve Bank of San Francisco on September 9th.

Kindly notify Branches.

Very truly yours,

J. C. Noell.
Assistant Secretary.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS.

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FEDERAL RESERVE BOARD

X-4657

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

August 24, 1926.

SUBJECT: Bankers' acceptances drawn to finance the storage of cotton seed.

Dear Sir:

I am enclosing herewith for your information a copy of a ruling which the Federal Reserve Board has adopted with reference to the eligibility for rediscount at Federal reserve banks of bankers' acceptances drawn to finance the storage of cotton seed.

Very truly yours,

D. R. Crissinger
Governor.

To Governors of all F.R.Banks

Enclosure:

BANKERS' ACCEPTANCES DRAWN TO FINANCE THE STORAGE OF COTTON SEED.

The Federal Reserve Board has been requested to rule upon the eligibility for rediscount at Federal reserve banks of bankers' acceptances drawn to finance the storage of cotton seed under the following circumstances:

Certain cotton seed oil mills own warehouses which they propose to lease to independent warehouse corporations under bona fide leases, the corporations to assume full control and management of such warehouses and to operate them as public warehouses which will be bonded and licensed under the United States Warehouse Act. It is proposed that such prime seed as is received by the mills - that is, seed which is in such condition that it may be safely stored for an indefinite period of time - will be stored by the mills in these warehouses until it can be processed into various cotton seed products, and the mills desire to finance such storage by means of bankers' acceptances secured by warehouse receipts for such seed. The owners of the cotton seed thus stored to have access to it at proper times for purposes of inspection.

The Federal Reserve Board has heretofore ruled that cotton seed, when stored under proper conditions, is a nonperishable readily marketable staple agricultural product within the meaning of the Federal Reserve Act and the Board's Regulation A; and that, therefore, a bankers' acceptance secured by a warehouse receipt for cotton seed is eligible for rediscount at a Federal reserve bank, provided the cotton seed upon which the acceptance is based is stored under such conditions as to protect it adequately from deterioration and provided the acceptance complies in all other respects with the requirements of the law and the Board's regulations. This ruling may be found in the 1925 Federal Reserve Bulletin at page 737.

The Board has also had occasion to rule upon the right of member banks to make acceptances issued against goods stored on premises owned by the owner of the goods but leased to an independent lessee who issues warehouse receipts covering the goods in storage. The Board held in this ruling published on page 634 of the 1918 Bulletin that if the premises in question were actually turned over to the lessee on a bona fide lease, the lessee being independent of the borrower and having entire custody and control of the goods, a member bank could properly accept drafts drawn against warehouse receipts issued by the lessee; but held further that the borrower should not have access to the premises and should exercise no control over the goods stored. Such drafts eligible for acceptance by member banks would also be eligible for rediscount at Federal reserve banks, if of proper maturity.

Under the ruling of the Federal Reserve Board just mentioned access to the premises where the goods are stored is not permitted to the owner of the goods for inspection or for any other purpose. This condition of the previous ruling cannot be met in the storing of cotton seed. Due to the fact that cotton seed is subject to deterioration from heating, cotton seed owners storing their seed in warehouses are accustomed to visit these warehouses from time to time for the purpose of inspecting the seed. In order, therefore, that bankers' acceptances drawn to finance the storage of cotton seed may be eligible for rediscount, a modification of the principle stated in the Board's previous ruling with reference to the owner's access to the goods is necessary.

After a consideration of these questions the Board now rules that -

> Bankers' acceptances secured by cotton seed stored in a warehouse owned by the owner of the cotton seed but leased to an independent public warehouse corporation under bona fide lease, the corporation assuming exclusive control and management of such warehouse and operating it as a public warehouse bonded and licensed under the United States Warehouse Act, may be eligible for rediscount at a Federal reserve bank, although the owners of the cotton seed are permitted access to the seed in storage at proper and reasonable times for the purpose only of inspecting the condition of the seed, provided that on all such occasions the consent of the independent warehouse corporation is first secured and that the owner of the seed or his representative is accompanied by a proper representative of the warehouse corporation.

It should be understood that such acceptances must be of proper maturity and must in all other respects comply with the pertinent provisions of the Federal Reserve Act and the Board's Regulation A. In addition, it is necessary that the cotton seed upon which such acceptances are based be stored under such conditions as to protect it adequately from deterioration.

The Federal Reserve Board is informed that the Department of Agriculture is soon to issue a special regulation governing the storage of cotton seed by warehouses licensed under the United States Warehouse Act. This regulation, a tentative draft of which has been carefully considered at a conference between representatives of the Department of Agriculture and the Federal Reserve Board will, it is believed, provide adequate safeguards. If the storage of cotton seed complies with this regulation which is to be promulgated by the Department of Agriculture, it will be deemed by the Board a storage under such conditions as to protect the cotton seed adequately from the deterioration within the meaning of this ruling.

The question whether bankers' acceptances are desirable from the credit standpoint is, properly, a question for determination by the Federal reserve bank to which the paper is offered for rediscount rather than by the Federal Reserve Board.

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 August 25, 1926

CONDITION OF ACCEPTANCE MARKET
July 15, 1926 to August 18, 1926.

Acceptances:

The market in bankers' acceptances was dull in all of the principal centers during the last half of July and the first half of August, a period during which the bill market is usually less active than at any other time of the year. Very few new bills came into the market and the weekly volume of purchases by reporting dealers in New York was the smallest since September of last year. The demand for bills was also slack although there was an increase in purchases for foreign accounts. Largely as a result of these foreign purchases and of sales to Federal reserve banks, New York dealers' portfolios were reduced by August 18 to the lowest figure reported for a year. The bills purchased by the reserve banks were based chiefly on importations of sugar, wood pulp, rubber, wool, and coffee, and on exports of cotton and grain. Immediately after the advance in the discount rate of the Federal Reserve Bank of New York on August 13, market rates on bills of all maturities, most of which had remained unchanged since June, increased by 1/8 of one per cent and on August 16 by a further 1/8 per cent; but these advances were followed by no notable change in the condition of the market. The table below shows the rates in effect on bills of various maturities at the beginning and end of the reporting period.

ACCEPTANCE RATES IN THE NEW YORK MARKET

Maturity	July 15, 1926		August 18, 1926	
	Bid	Offered	Bid	Offered
30 days	3 1/4	3 1/8	3 1/2	3 3/8
60 days	3 3/8	3 1/4	3 5/8	3 1/2
90 days	3 1/2	3 3/8	3 3/4	3 5/8
120 days	3 5/8	3 1/2	3 7/8	3 3/4
150 days	3 5/8	3 1/2	4	3 7/8
180 days	3 3/4	3 5/8	4 1/8	4

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

For Release in Morning Papers
Friday, August 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 July and August, as contained in the forthcoming issue of the Federal Reserve Bulletin.

Production in basic industries and factory employment and pay rolls declined slightly in July, but the decrease in production was smaller than is usual at this season. Wholesale prices, after a further decline in July, were at the lowest level in nearly two years.

Production.

The Federal Reserve Board's index of production in basic industries, which is adjusted for seasonal variations, increased about one per cent in July. Declines in the output of iron and steel and anthracite, and in the activity of textile mills were larger than the usual seasonal reductions, while the production of flour, copper, zinc, cement, and petroleum increased. The manufacture of automobiles declined further and was smaller than a year ago. Factory employment and pay rolls showed the usual seasonal decline in July, which is due largely to closing for stock-taking and repairs and to summer vacations. Declines were noted in nearly all the important industries for which reports were received, with the exception of leather and shoes and certain food products and building materials. Building contracts awarded in 37 states east of the Rocky Mountains declined in July for the fourth consecutive month and, as in June, were smaller than a year ago. Figures for the first three weeks in August were also below those for the corresponding period of last year. The principal decreases were in the New York and Atlanta districts.

The composite condition of all crops, as reported by the Department of Agriculture, shows an improvement of 2 per cent in July owing largely to the increase in the expected production of wheat. Cotton production, on the basis of August 16

conditions, is estimated at 15,243,000 bales, compared with an output of 16,104,000 in 1925.

Trade.

Volume of trade at wholesale and retail showed a further seasonal decline in July, but continued to be large. Retail trade was larger than a year ago, while wholesale trade was slightly smaller. Sales of department stores and mail order houses declined less than is usual at this season and were 4 per cent and 13 per cent, respectively, larger than in July of last year. Merchandise inventories at department stores continued to decline in July and at the end of the month were in about the same volume as last year. Stocks of meat, dry goods, and shoes carried by wholesale firms were smaller than a year ago but stocks of groceries, hardware, and drugs were larger.

Shipments of goods by railroads were maintained at a high level during July for nearly all types of commodities. Loadings of grain were larger than for any month since October, 1924, and were in record volume for July.

Prices.

The Bureau of Labor Statistics index of Wholesale commodity prices declined about one per cent in July to the lowest level since September, 1924. Price declines were shown for most commodity groups, particularly farm products and foods, while prices of steel and other metals advanced. In the first three weeks of August the prices of grains, cotton, and rubber declined further, while cattle, hogs, potatoes, coal, and coke advanced in price.

Bank credit.

Between the middle of July and the middle of August, total loans and investments of member banks in leading cities increased slightly, reflecting a growth in the seasonal demand for credit for commercial purposes. Loans on securities on August 18 were in about the same volume as a month earlier, while the banks' investments declined.

Between July 21 and August 18 discounts for member banks and the holdings of acceptances increased considerably, while United States security holdings were somewhat reduced, with the consequence that the total volume of reserve bank credit increased by about $50,000,000.

Money market conditions became firmer in August. The rate on commercial paper, which was 4 per cent in June and July, increased to 4 1/4 - 4 1/2 per cent, and the rate on 90-day bankers' acceptances advanced to 3 3/4 per cent. The discount rate of the Federal Reserve Bank of New York was advanced on August 13 from 3 1/2 to 4 per cent.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4661

August 30, 1926.

SUBJECT: Bills and Securities of Finance and Credit Companies.

Dear Sir:

The Board in its letter St. 4720 of November 12, 1925, requested that at the end of each month a report be submitted regarding bills and securities of finance and credit companies held by member banks based upon reports of examinations and credit investigations received during the month. Since the inauguration of these monthly reports examinations or credit investigations have been conducted in the case of practically all member banks, and accordingly you are authorized to discontinue these reports beginning with the month of September.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO ALL FEDERAL RESERVE AGENTS

X-4662

THE RELATION OF THE COUNTRY BANKER TO THE FEDERAL RESERVE BANK

(An address before the Kentucky Bankers Association at Louisville, Ky., Sept. 16, 1926.)

by

Geo. R. James

* * *

MR. CHAIRMAN, LADIES AND GENTLEMEN:

As a member of the Federal Reserve Board, nothing has given me as much concern as does "The Relation of the Country Banker to the Federal Reserve Bank", and my one regret is that so few of the country bankers have availed themselves of the privilege and opportunity of becoming members. I say this because of my regard for and my unbounded faith in the Federal Reserve System. I feel that all of you agree with me in the belief that it is the greatest and strongest banking system in the world and that its usefulness, soundness and success have been demonstrated both in times of war and in times of peace.

In considering its functions, I always try to look at the System not from the viewpoint of a banker altogether, but more from the standpoint of the public. For, while the System deals with the public almost entirely through its member banks, the question of how the public would be benefited was of paramount interest and vital importance in its creation and its continued existence depends entirely on whether or not the public is benefited. I, therefore, regard the public's interest in, and the public's opinion of, the System as the one great consideration.

I do not share the opinion one frequently hears to the effect that the Federal Reserve System is an independent organization and that it

is owned by the member banks. I feel that the public has quite as much interest in the Federal reserve banks as have the member banks themselves. This public interest centers in our Government. "That Government of the people, by the people, for the people", and of which the Federal Reserve System is a vital part.

As a citizen, the country banker, whether his bank is or is not a member of the Federal Reserve System, has an interest in the System growing out of his citizenship.

True, the reserve deposits of the member banks may well be said to be the foundation of the Federal Reserve System, and it is also true that the capital stock of the reserve banks was supplied by the member banks. But we must not overlook the fact that the Act of Congress, under which the System was established, provided at the outset that "Should the total subscriptions by banks and the public to the stock of said Federal reserve banks, or any one or more of them, be, in the judgment of the Organization Committee, insufficient to provide the amount of capital stock required therefor, then and in that event the said Organization Committee shall allot to the United States such an amount of said stock as said Committee shall determine."

Then, too, let us for a moment consider "The Division of Earnings of the reserve banks". The Act says -

> "After all necessary expenses of a Federal reserve bank have been paid or provided for, the stockholders shall be entitled to receive an annual dividend of six per centum on the paid-in capital stock, which dividend shall be cumulative. After the aforesaid dividend claims have been fully met, the net earnings shall be paid to the United States as a franchise tax except that the whole of such net earnings, including those for the year ending December thirty-first, nineteen hundred and eighteen, shall be paid into a surplus fund until it

shall amount to one hundred per centum of the subscribed capital stock of such bank, and thereafter ten per centum of such net earnings shall be paid into the surplus.

"The net earnings derived by the United States from Federal reserve banks shall, in the discretion of the Secretary, be used to supplement the gold reserve held against outstanding United States notes, or shall be applied to the reduction of the outstanding bonded indebtedness of the United States under regulations to be prescribed by the Secretary of the Treasury. Should a Federal reserve bank be dissolved or go into liquidation, any surplus remaining, after the payment of all debts, dividend requirements as hereinbefore provided, and the par value of the stock, shall be paid to and become the property of the United States and shall be similarly applied".

The application, under these provisions of the law, of the earnings of the System in the past, results in the capital account of the Reserve System being one-third under the ownership of the member banks and two-thirds (representing the surplus) belonging to the Treasury of the United States.

Neither must we forget the fact that the Government stands squarely behind the notes of the reserve banks, which notes play such an important part in providing a currency for the nation. Even though by any combination of circumstances all of the gold held by the System should be taken away and out of the country, still these notes backed by the integrity of our Government would be worth one hundred cents on the dollar.

It is perfectly clear to my mind that the reserve banks were not created to make money either for themselves or for the member banks beyond the six per cent interest on the money invested in the capital stock. It is equally clear that the System was designed to be an aid to agriculture, industry and commerce,- or, in other words, the public, although, as I said before, it functions through its member banks.

The law does permit the Federal reserve banks to perform

certain services for the member banks without charge and at the expense of the reserve banks because it was believed that the reserve banks could reduce the costs of performing these services, and I can tell you that the services now rendered by the Federal reserve banks are performed at a saving in cost that is far greater than was originally anticipated. The cost of the collection of checks, transfer of funds, and handling of currency by the Federal Reserve System is only a small percentage of what those functions cost when performed by individual banks. The economies that are possible through mass production apply with equal force in the Federal Reserve System as they do in the plants of the Ford Motor Company.

The major earnings of the Federal reserve banks arise out of the interest charged member banks when the member banks borrow. They are increased or diminished only as the requirements of the member banks dictate. And, perhaps it may be important to state that the facilities of the Federal Reserve System are available for the smallest and for the largest member banks on exactly the same terms and conditions.

I am giving you this information because I think it is just and right that you should know that the so-called free service which the Federal Reserve System renders to its members is in the last analysis given at the expense of the public, and I feel that this great American public should be in a position to inquire (1) whether or not it is getting the benefit of these services, and (2) if not, why not?

A good part of my time has been taken up in the study of the question "why so many banks do not belong to the Federal Reserve System", but I am still unable to get anything like a satisfactory answer to this problem. The fact is that when I sum up the replies I have seen or heard

I reach the conclusion that an alibi or an excuse has been offered in lieu of reasons.

It appears to me that a good many bankers, like a great many business men and individuals, have the habit of looking at everything through a pair of spectacles with the dollar sign on one lens and the personal pronoun "I" on the other. Their vision is both narrow and distorted and this perhaps accounts for the attempt so many people make to go through life on the principle "How much can I get and how little can I give!" Oh, what a terrible mistake they make! If they would only take off the spectacles and get a clear, broad view of this wonderful universe they would see that those who have achieved the greatest success operated on the one and only principle of service which is just the opposite.

No matter what one's avocation may be, to be successful he must have for his first and most important consideration the interest of the customers. Not "how much can I get" but "how much can I give" and "how much can I do" to extend my service to the greatest number of people.

One of the popular answers to the inquiry as to why non-member banks do not join the Federal Reserve System has been that the System does not pay interest on reserve deposits, whereas, by keeping their reserves with some city correspondent bank they do receive interest on their balances; in consequence, in the one case they get no return on their reserve balances, in the other, they make a

profit. This statement always brings to my mind the story of the two negroes who were passing a graveyard. One of them could read and the other couldn't. The educated fellow was entertaining his companion by reading the epitaphs on the tombstones. Finally, they came to one which said "He is not dead, but sleepeth". The ignorant fellow said - "Umph, big boy, that white man ain't fooling nobody 'cept hissef."

My good friend Dr. Tait Butler once said that the greatest agricultural implement ever invented was a lead pencil, so to a banker who springs that sort of an answer as his reason for not joining the Federal Reserve System, I offer the suggestion that he get himself a supply of lead pencils not to use as agricultural implements but to sharpen and use in analyzing his own affairs.

I could go into details in explaining to you just why this suggestion is offered but my time is too limited and I will only say in this connection that the city banks who act as correspondents for country banks have quite a way of requiring "commensurate balances" and there are mighty few of them but what make a profit out of the country banks account.

Every now and then we have the suggestion offered that the reserve banks should give immediate credit for items de-

posited with them by their members on the theory that "it would not cost the System anything to do so", but any one who holds this view is very greatly mistaken. Experience has shown that member banks borrow from the reserve banks almost entirely for the purpose of replenishing their required reserve balances and the moment their balances at the reserve banks are in excess of the legal requirements the excess is immediately used to retire the borrowings.

If you will notice the "Report of Condition of the Federal Reserve Banks" published weekly in the leading newspapers of the country, you will find that the item listed in the assets as "Total Bills Discounted" very closely approximates the amount of the item listed in the liabilities as "Deferred Availability Items". In other words, the direct borrowings of member banks, except for infrequent peak periods, offset the "float".

To give "immediate credit" would cut the earning assets of the reserve banks very materially. Calculated on the last report available, it would mean approximately fifty per cent. To replace these "direct borrowings" by purchases in the open market would cause inflation that I should regard as both unthinkable and unpardonable and it would also work a tremendous hardship on the commercial banks of the country by unnaturally forcing a reduction in rates. Possibly the effect upon the country banks would be less

noticeable at the start than would be the effect upon the larger city banks, but you may be certain it would reach even the smallest and most remote banks through competition in one form or another.

It is extremely difficult, if not impossible, to get accurately the effect "giving immediate credit" at the reserve banks would have on general interest rates but my guess is that it would cause a reduction of more than one per cent. So, from the standpoint of the commercial banks only and without regard to or for the Reserve System, see what price would be paid for getting this immediate credit. Say a bank with $200,000.00 of deposits and loans amounting say to $150,000.00, - such a bank might reasonably be expected to have something less than $5,000.00 of items in process of collection, which at four per cent - the present rediscount rate - would mean that "immediate credit" resulted in a saving of $200.00. But as an offset to this, consider the meaning to that bank of the forced reduction in interest rates to its customers. If the reduction was one per cent it would make a net loss of $1,300.00 to the bank. This is among those things that should be considered and figured on with a very sharp pencil.

Another reason frequently offered by country bankers in the South for not joining the Federal Reserve System is that they are denied the right to charge exchange when remitting for their checks. One so-called banker asked in my presence on one occasion "What right has the Federal Reserve System to deny my bank the right to charge exchange?" To this I very promptly answered by asking him the question - "What right have you to deduct anything when paying a customer's check that is presented either over the counter or through a Federal reserve bank?"

It is true that in the old days prior to the establishment of the Federal Reserve System it was necessary for banks, in order to pay their customers' checks when the payee of the check lived at a distant point, either to ship the currency or else maintain balances with correspondent banks against which they could draw and, of course, in either case this costs money and the banks were entitled to collect for the service. But with the coming of the Federal Reserve System this situation changed. The cost of shipping currency is absorbed by the reserve bank and it is not only less expensive but it is safer and more convenient for a bank to pay the checks of its customer when they are presented through a reserve bank than when presented by the customer at the teller's window.

Anyhow, the Supreme Court of the United States has settled the question and has established the "right", once and for all, of the requirement that member banks shall remit at par for all checks sent for collection through the reserve banks.

Furthermore, this right and principle has been recognized by ninety per cent of all banks in the United States, and today every bank in the First, Second and Third Federal Reserve Districts is a member bank or is on the par lists of the reserve banks.

I understand there are only 16 out of the 458 banks in the State of Kentucky not on the "par remitting list" and I congratulate the people of your State accordingly.

It seems quite possible that some country banks have been kept out of the Federal Reserve System because they did not want to disrupt their relationship with their city correspondents. The chances

are that the relationship has been and is most pleasant and in the main satisfying, but, as I see it, joining the Federal Reserve System does not mean that this relationship should be broken, not by any means, although it would make a change in the nature of the relationship and a change which in my opinion can and should be of advantage to both parties. Undoubtedly, the city correspondent bank can and will find a way for rendering a service that will fully justify the country bank in carrying a balance. I do not for a minute advocate cutting out the city correspondent, but I do urge the country banker to make available for his community every facility the Government provides as an aid to the business of the country.

Another thing, I wonder if the bankers, particularly the country bankers, realize what a great change has taken place and is now taking place in the business methods and conditions of this entire country? Think of the evolution in methods of transportation in the past twenty-five to thirty years. Think of the passing of the ox cart, the horse and buggy and the steamboats. Recall for the moment the coming of automobiles, and good roads, the increased use of the telephone and the inauguration of the rural postal service. Then think of the development of chain stores and the growth of large department stores in cities and what these are doing to the cross-roads storekeeper and the small town merchant.

Dont overlook the shifting of the population from farms to cities, and keep your eye on the cooperative movement and its effect on the marketing of agricultural products.

All of these things have a direct bearing and must be taken

into account when you are figuring on whether or not it pays to belong to the Federal Reserve System, and it would be well to take notice of them whether you consider joining the System or not for they are vital factors in your future, - you may be certain of that.

After all, as I see it, the changes that are taking place in both the business and social life of the nation are only the working out of nature's law of the survival of the fittest. The American public not only demands but it is entitled to the best and the individual or the organization that provides the best service is the one who will survive. And this applies to banking just as well as it does to any other line of business.

You who read the newspapers know what recently happened to a chain of nonmember banks with more than a hundred members in the Atlanta District.

That outfit, headed by the Bankers Trust Company, was not affiliated with the Federal Reserve System. On the contrary, they were against the System; they were leaders in the fight against "par clearance of checks", and declined to keep their reserves in a reserve bank. When the strain came and the need of their reserves developed because of a decrease in the deposits of some of the banks in the chain, those reserves were not available and the crash followed. The banks involved were small, it is true, and the damage measured in dollars was relatively light, but think, my friends, of the tragedies that followed in those hundred and more communities whose hard-earned savings were wiped out.

It seems to me most deplorable that such a large proportion of our people should be denied the financial protection and benefits created for them by the Government, simply because a large group of so-called

bankers are asleep on the job. 106

Already the Atlanta Constitution, one of the great newspapers of the South, is discussing the urgency of forcing by law all commercial banking institutions into a National System under Federal supervision. Certainly the discussions of branch banking and the failure to pass in the last two sessions of Congress the so-called McFadden Bill, designed to check the growth of branch banking in this country, should cause the officers of independent unit banks to wake up and endeavor to give the communities that are dependent upon them for banking facilities every advantage in banking service that is now available.

Every State bank with requisite capitalization and proper management is not only entitled to membership in the Federal Reserve System but has been and is constantly being invited to join the System. I have told you what I thought of the reasons I have heard for not joining. I wonder what will happen when the depositing customers begin to study the situation and to ask questions?

I do not for one moment mean to say that being a member of the Federal Reserve System guarantees deposits, nor does it insure the public and the depositors against dishonest or incompetent banking, but I do say that WHEN a bank is a member of the Federal Reserve System and its business is conducted within the limitations and restrictions laid down by the law and the rules and regulations of the Federal Reserve Board, THAT BANK CANNOT FAIL.

There have been a great many bank failures in the United States during the past few years. A small percentage of them - and a small percentage only - have been members of the Federal Reserve System, but NOT ONE SINGLE ONE OF THEM failed that had lived up to the letter and spirit of the law and the rules and regulations of the Federal

Reserve Board.

Another thing; a very careful analysis of the earnings of the something like thirty thousand banks in the United States shows that the member banks who live up to the letter and the spirit of the law and the rules and regulations relating to the Federal Reserve System make more money on the capital invested than do those banks on the average that are not members of the System.

As a result of my study of this great problem, I am willing to say that it is my judgment that if and when a commercial bank finds out that it cannot make money for its stockholders as a member in good standing of the Federal Reserve System, then the best thing that bank can do in the interest of its depositors, its stockholders and its community is to liquidate and get out of the way for certainly there are too many banks in this day and time for the business now available.

Let me, in conclusion, urge you to look upon the law and the rules and regulations of the Federal Reserve Board not as restrictive measures, intended to harass and handicap, but as a standard of good banking, for, after all, that is exactly what they are.

It may seem to the nonmember country banker that the requirements of the reserve banks, relative to the paper that is to be discounted, are difficult to meet, but let me assure you that [illegible] is not the case. It is like it was when I began to realize that if I was to keep peace in my family I would have to buy an automobile. I just hated to give up my horses, and then, too, I feared that I never would be able to operate a car. One day I realized how many people there were driving cars, then said to myself surely if other people can learn I can too, and with the determination to run an automobile or die in the attempt, my fears vanished, and I soon found that after all it was a very easy and

simple matter, and I was in this way enabled to again take my place on the public highways.

Don't be afraid to ask your borrowing customers for a statement or to insist that they carry a balance with you as a reserve against the loan. Surely you carry reserves against your obligations to your depositors, not because it is the law but because it is good banking. Good for you as well as the depositor. It is equally good for you and for your borrowing customer to require him to keep a reserve.

Don't stick to the antiquated methods of getting your accommodations for seasonal needs just because it seems to be the easy way. I learned as a boy at Sunday School that the easy route was not the road to salvation.

The future of the country banker will rest upon his ability to meet changed conditions by adopting the new methods. His road is not going to be an easy one by any means. Most likely it is and will be full of ruts, but right here let me remind you that the only difference between a rut and a grave is that one is longer and the other deeper.

Study your position and do not be ashamed to acknowledge mistakes or to learn from the experiences of others. As Mr. Hubbard once said,"While we are green we are growing and when we think we are ripe we are beginning to get rotten".

My last and possibly most important suggestion is that you keep in mind the slogan of your own great Commonwealth - "United we stand; divided we fall". And then, if you have not already done so, join the Federal Reserve System.

I thank you.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4664

September 7, 1926.

SUBJECT: Code Word to cover new issue of Certificates of Indebtedness, Series TJ-1927, in telegraphic transactions.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "BELONGING" has been designated to cover the new issue of Treasury Certificates of Indebtedness dated September 15, 1926, Series TJ-1927.

This word should be inserted in the Federal Reserve Telegraphic Code Book, following the supplemental code word "BELONGETH", at the bottom of page 25.

Yours very truly,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F.R.BANKS.

X-4665

TREASURY DEPARTMENT
Office of the Secretary
WASHINGTON

September 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 August 1, 1926, to August 31, 1926, amounting to $109,983, as follows:

Federal Reserve Notes, Series 1914

	$5	$10	$20	$50	$100	Total
New York	850,000	150,000				1,000,000
Cleveland			50,000	10,000		60,000
Richmond	100,000					100,000
Atlanta	400,000	200,000	150,000	20,000	5,000	775,000
Chicago	400,000	200,000				600,000
Minneapolis	100,000					100,000
Kansas City	150,000				5,000	155,000
San Francisco	100,000		100,000	10,000	5,000	215,000
	2,100,000	550,000	300,000	40,000	15,000	3,005,000

3,005,000 sheets @ 36.60 per M $109,983.00

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

New York	$ 36,600.00
Cleveland	2,196.00
Richmond	3,660.00
Atlanta	28,365.00
Chicago	21,960.00
Minneapolis	3,660.00
Kansas City	5,673.00
San Francisco	7,869.00
	109,983.00

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.

TREASURY DEPARTMENT
Office of the Secretary
WASHINGTON

September 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, Series 1918, during the period August 1, 1926, to August 31, 1926, amounting to $73.20, as follows:

Federal Reserve Bank of Atlanta

1,000	sheets	$500
1,000	sheets	1000
2,000	sheets @ 36.60 per M	$73.20

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.

(COPY)

FEDERAL RESERVE BANK OF CHICAGO X-4667

Chas. L. Powell, Counsel,
Continental and Commercial Bank Bldg.

CHICAGO

August 11, 1926

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

My dear Mr. Wyatt:

You perhaps will be interested to know of a case which I brought for the Federal Reserve Bank of Chicago out in one of the State District Courts in Iowa. The principal defendant was the National Surety Company which is a corporation organized under the laws of the State of New York. That Company took appropriate steps and removed the case from the State Court to the United States District Court for the Northern District of Iowa alleging as a ground diversity of citizenship and, in that connection, alleged that the Federal Reserve Bank of Chicago was a citizens of Illinois within the meaning of the Judiciary Act.

I filed motion to remand to the State Court on the ground that Federal Reserve Bank of Chicago was not a citizen of any State. My motion was sustained and the case was remanded but no formal opinion by the Judge was rendered.

I relied upon the case of Bankers Trust Company v. Texas and Pacific Railway Co., 241 U. S. 295, and State of Texas v. Interstate Commerce Commission, 258 U. S. 158; and I have no doubt of the soundness of the conclusion of the court that the Federal Reserve Bank under the present condition of the law cannot be considered a citizen of any State.

Yours truly,

(signed) Chas. L. Powell

Chas. L. Powell,
Counsel.

CLP.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4668

September 15, 1926.

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

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-4668-a and X-4668-b, covering in detail operations of the main line, Leased Wire System, during the month of August, 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.

Enclosures.

TO GOVERNORS OF ALL F. R. BANKS EXCEPT CHICAGO.

X-4668-a

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

From	Business reported by banks	Words sent by New York chargeable to other F. R. Banks (1)	Total	Treasury Department Business	War Finance Corporation Business	Net Federal Reserve Bank Business	Per cent of total bank Business(*)
Boston	30,740	575	31,315	3,504	-	27,811	3.51
New York	126,175	-	126,175	4,080	-	122,095	15.41
Philadelphia	35,781	685	36,466	2,660	-	33,806	4.27
Cleveland	72,625	1,570	74,195	2,971	-	71,224	8.99
Richmond	44,178	2,836	47,014	2,921	-	44,093	5.57
Atlanta	59,096	3,338	62,434	3,697	-	58,737	7.41
Chicago	97,717	2,589	100,306	4,301	-	96,005	12.12
St. Louis	84,789	2,047	86,836	3,941	-	82,895	10.46
Minneapolis	35,549	1,905	37,454	1,469	-	35,985	4.54
Kansas City	70,915	2,395	73,310	3,342	-	69,968	8.83
Dallas	51,489	4,303	55,792	1,591	-	54,201	6.84
San Francisco	98,563	2,247	100,810	5,318	-	95,492	12.05
Total	807,617	24,490	832,107	39,795	-	792,312	100.00
F.R.Board			293,361	25,671	256	267,434	
Total			1,125,468	65,466		1,059,746	
Per cent of Total			100%	5.82%	.02%	94.16%	

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-4668-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.

X-4668-b

REPORT OF EXPENSE MAIN LINE
FEDERAL RESERVE LEASED WIRE SYSTEM, AUGUST, 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	$ 766.30	$ 260.00	$506.30
New York	1,100.16	$21.00	-	1,121.16	3,364.28	1,121.16	2,243.12
Philadelphia	216.66	-	-	216.66	932.22	216.66	715.56
Cleveland	284.50	-	-	284.50	1,962.68	284.50	1,678.18
Richmond	185.00	-	-	185.00	1,216.03	185.00	(&)1,235.70
Atlanta	255.00	-	-	255.00	1,617.74	255.00	1,362.74
Chicago	(#)4,172.90	-	-	4,172.90	2,646.02	4,172.90	(*)1,526.88
St. Louis	272.00	-	-	272.00	2,283.61	272.00	2,011.61
Minneapolis	183.34	-	-	183.34	991.16	183.34	807.82
Kansas City	275.64	-	-	275.64	1,927.75	275.64	1,652.11
Dallas	251.00	-	-	251.00	1,493.30	251.00	1,242.30
San Francisco	370.00	-	-	370.00	2,630.74	370.00	2,260.74
Federal Reserve Board	-	-	$15,339.53	15,339.53	-	-	-
Total	$7,826.20	$21.00	$15,339.53	$23,186.73	$21,831.83	$7,847.20	$15,716.18
				(a)1,354.90			(b)1,526.88
				$21,831.83			$14,189.30

(&) Includes $204.67 for branch line business transmitted over main line circuit.
(#) Includes salaries of Washington operators.
(*) Credit.
(a) Received $1,348.72 from Treasury Dept., and $6.18 from War Finance Corporation covering business for the month of August, 1926.
(b) Amount reimbursable to Chicago.

X-4669

IN THE DISTRICT COURT OF THE UNITED STATES

FOR THE DISTRICT OF NEBRASKA

NORTH PLATTE DIVISION.

War Finance Corporation,

Plaintiff

-vs.-

William E. Duff and
M. F. Duff,

Defendants.

Instructions to the Jury

By the Court

J. W. Woodrough, Judge.

Chas. W. Pearsall,
Reporter.

THE COURT:

Gentlemen of the Jury: In this case at the conclusion of the testimony the plaintiff has moved for judgment for the amount of the note sued on, with interest as provided in the note. The evidence does show beyond question that plaintiff is entitled to judgment for at least that part of the note as to which no claim of payment is made, so, in any event, plaintiff should have judgment for that amount, but his motion at the present time, and the motion which I will now consider, is for judgment for the full amount of the note.

The defendants do not move for a directed verdict but take the position that there is at least one disputed fact on which they should have a verdict of the jury, and that is upon the question of the conversation between the defendants and one, Irving M. Hall, and one, Murphy.

Now the situation appears to be that by act of Congress there has been established a War Finance Corporation and that, among other things, the War Finance Corporation, on conditions specified in the act are empowered to make advances not inconsistent with the act to banks which may have made advances for agricultural purposes. Pursuant to the act and the establishment of the War Finance Corporation it appears that plaintiff did make to the First National Bank of Gering certain advances evidenced by writings and by the testimony of witnesses, and that as collateral security various notes were taken into the actual custody of the War Finance Corporation, amongst others the note executed by the defendant in this case, being the note sued on. In the act power is given to make regulations concerning the transaction of

this business, but no regulations are called to the attention of the court, and the case comes on as one in which the government engaged in a business that is ordinarily private business, asks that the same rules be applied to its private transactions as are applied to transactions between individuals similarly occupied, and it would seem that such are the rules which the court must apply to the case at bar.

It is undoubtedly the general rule of the Law Merchant, and part of our law concerning notes and bills and negotiable paper, that the holder, whether as a purchaser of the whole title or as a holder as collateral, is entitled to this protection; that it is the duty of the maker of the note, when he makes either a payment thereon or a full payment of the note, to ascertain that the party to whom he makes the payment has the note in his possession. And it was undoubtedly the rule of the English law, and the law originally, that the possession of the negotiable instrument was the only permissible evidence of authority to receive payments, either partial or in full, thereon, and this for a very clear reason. One who considers the commercial institutions of the United States upon which its progress has rested is immediately struck with the fundamental part that our Law Merchant has played in our advance as a commercial and industrial nation, and one of the principal things is the protection which the law has afforded to the holders of negotiable instruments. Negotiable instruments impute notice to those who make them of certain protections and certain rights which accrue to those who, in the course of business, acquire them and gain ownership of them. It has been essential and found to be the only safe rule that the maker of a negotiable instrument must anticipate

that in the course of trade it may at any moment pass from the hands of one person to the hands of another in remote parts of the country, and, therefore, the rule was established, and has been affirmed in innumerable decisions that the possessor of the negotiable instrument is the owner to whom payment must be made. But there is undoubtedly this feature of that rule not inconsistent therewith: that the holder, one who has either absolute or qualified ownership, of a negotiable instrument may constitute parties as agent to deal in regard to the negotiable instrument, and the real question we have here now is the question of whose agent the First National Bank of Gering was when it accepted partial payment of the note in question, the note sued on. It is undisputed that a partial payment of some twelve hundred dollars, as I remember the amount - - it is not uncertain, it is fixed by the evidence - was actually made by the defendants to the First National Bank of Gering, and that they made that payment in the belief at the time that the bank was the agent authorized to receive it, and in reliance upon that belief. The Corporation contends, however, that as a matter of fact, and as a matter of law under all of the circumstances, that the Bank was not its agent but was the agent of the defendants, and that is the inquiry here. Now, that inquiry must be determined, and I think determined as a matter of law, upon the state of the record here. Regard must first be had to the nature of the business of which this was a mere item, one item amongst many. The evidence establishes that under the authority of the Act of Congress the War Finance Corporation has made in this small territory that we are concerned with here at least thousands - had taken over at least thousands of notes and

obligations from the agricultural district, and those obligations, negotiable notes - I guess it may be stated exclusively negotiable notes - were at the office of the War Finance Corporation in Omaha. The War Finance Corporation did not employ any agents of its own directly- no employees to attend to the collateral notes, to the collection of them and the giving of notices that such a quantity of notes would necessarily occasion from time to time, and the various demands that would have to be made upon such collateral notes. It employed one agent who is here before us, Mr. Murphy, who states what his authority and duties were, and it is unquestioned what they were. He was a field man of the War Finance Corporation whose duty it was to inspect the securities behind the collateral that was taken by the War Finance Corporation, to inquire further as to the validity of signatures, and such as that he was to do in the course of his employment, and during the period of time we have to consider here did that in thousands of instances. In case a bank failed then the War Finance Corporation adopted and had agencies to attend to the collection of collateral, but in the ordinary course of its business it did not. The evidence establishes clearly that that business was carried on for the benefit of the War Finance Corporation on a large scale. Mr. Murphy testified that in the territory in which he was concerned, which is a comparatively small territory, that he had to do with and inspected a hundred banks, and probably more than a hundred banks, connected with this business. So that it is apparent from the testimony that a very large volume of business was carried on arising out of the large number of collateral notes which the War Finance Corporation had presumably at

Omaha, or at least away from the place where the notes were given. Now it seems to me that the court must know, as a matter of common knowledge, that it is a large part of the business of banks to see to the collection of their notes; that that business involves a great activity of a great number of people; even in one bank, the smallest bank, it must be that a considerable portion of the time of the bank is given to that very matter of collecting its notes, of dealing with the makers of the notes, and doing the thousand and one things that go to the maintaining of the integrity of notes in banks and the value thereof as security. The evidence here shows that as to certainty a proportion, and probably a very large proportion, of those collateral notes, they were secured by chattel mortgages upon livestock of various kinds, and that as to those securities the nature of the business was such that shipments must be made at the time that in the course of the business it seemed advantageous to do so. So that as to that class of notes it is perfectly obvious that there is a large amount of work which must necessarily be done by the owner of paper secured by that kind of security, in maintaining the integrity and value of the notes, work such as determining when shipments can be advantageously made under all the circumstances, in seeing that they are made so as to best maintain the security, and in seeing that the payments are made to the parties entitled thereto. It seems to me, therefore, that the evidence shows, and it is obvious, that a large amount, almost say a vast amount of such work was done in the course of the transactions of the War Finance Corporation, and it was done in such way, as Mr. Flanagan testifies, that the money came into the War Finance Corporation, and, when in full payment of the note which

was held as collateral, went to the satisfaction of the note. When it did not reach that point it was a payment on the note which in due course would be endorsed on the note. Now, with a hundred banks in the territory actively engaged in doing this work we cannot avoid seeing a picture of great activity being carried on, and that is a condition, of course, which must be known to the War Finance Corporation. It knew, of course, that such activities were going on, and undoubtedly obviously it acquiesced and understood that such would be the course of business; that there were two or three kinds of activities being carried on in its behalf to maintain its securities, and always carried on by the banks with which it was doing business and to which it made its advances. Those banks made, to start in with, a complete showing of their condition, and then their condition was checked from time to time so that the condition of the banks was known, and, therefore, necessarily, the activities of the banks and the course of the business as it is disclosed that it was carried on were known to the War Finance Corporation. Further, it is obvious that in conducting a bank where notes are taken in large numbers from various borrowers, that a part of the business of the bank, and one of its most usual and well known means of collection of its notes and securing itself is the fact that its customers dealing with it have, through one transaction and another and in one way and another, sums of money or credits which are in the bank and which the bankers customarily apply in payment or partial payment of the notes and obligations due to the banks; that the banks, therefore, are in a position of advantage in the matter of making collections additional to

the advantage of close contact with the borrower. And it is clear that in the course of this business these advantages and the benefits thereof accrue to the holder of the collateral security, the War Finance Corporation. So it appears to me that the evidence can leave no other inference whatever than the inference that the War Finance Corporation had constituted these banks, including the First National Bank of Gering to be its agents in the matter of looking after the very large number of collateral loans that were behind the banks' own obligations to the War Finance Corporation. It is, of course, open to the War Finance Corporation under the Act of Congress to make regulations whereby a different course of dealing may be set up and whereby notice may be brought home directly to the borrowers, the local agriculturists, that the War Finance Corporation shall be dealt with directly and that it has not constituted the bank its agent. Such regulation might well be within the purview of the Act and within the powers of the War Finance Corporation, but no such regulations are shown. Therefore, in this case, as in all other private transactions we must look to the situation as it presents itself to the borrower himself. Now, how does it present itself to the borrower himself? This dealing, this advance to the bank of Gering covers more than a year, covers possibly two and a half years -- I forget the exact length of time, but a considerable period of time -- as to the borrowers generally then some of them may know that their notes have been transferred as collateral to the War Finance Corporation, and there are probably many others who do not know. It is shown in the evidence in this case that certainly as to one loan, the defendant, the younger man here, he testified he did not know that his note had been transferred. But as to those customers of the bank, dealing with it

in the ordinary course nothing arises to suggest to them that there is any qualification of the bank's authority to deal with them, to do so promiscuously and generally with a large number of people and a large number of instruments, all of which must be known to the War Finance Corporation because it is the usual course of business. That being so, the borrowers then, who are in the position of the defendants in this case, have nothing to apprise them of any limitations upon the authority of the bank with which they have dealt, and with which they are dealing, to receive a partial payment on a note. And that is so whether the note is due at the time of the partial payment or is not due. No absolute difference of rule exists in the case of payment before due from payments after due, and this situation is controlled by the course of business, and the course of business is such as to show beyond any question that the War Finance Corporation did confide these matters to the bank and should be held bound by the act of the bank in accepting payments or partial payments. The bank will be considered the agents of the War Finance Corporation in the absence of regulations and in the absence of any course of conduct to bring a different inference or knowledge home to the borrower.

Now, as to the contention of the defendants that there is an issue of fact by reason of the conversation had between Mr. Murphy, Mr. Hall and the defendants. I am satisfied that there is no issue of fact there which would change the situation. The nature of Murphy's agency for the War Finance Corporation is established and could not be changed by anything said or done by Murphy. Besides which, the conversation, even as it is detailed by the borrowers, by the defendant Duff, is

equally consistent with the intention to make the bank the agent of the War Finance Corporation as with the intention of Duff to make the bank his agent. The claim is that Hall said to Duff, and Duff agrees, that he could pay the money to the local bank and said that he would transmit it to the War Finance Corporation. That conversation is asserted by the two witnesses for the defendant and, to a certain extent possibly, it is denied unequivocally by Murphy -- That is, he said he didn't hear it. But I am satisfied that whether it occurred or not it couldn't change the situation. If, as a matter of fact, by reason of the way in which the business was carried on, the inference could be drawn that the bank was its customer's agent, why, then, that kind of conversation would not change the result. It depends upon the way the business was in fact actually carried on, and not upon any promise that Hall may have made at that time to the borrower,, Duff.

I, therefore, hold that, as a matter of law, upon the evidence shown, the payment to the bank was a sufficient payment to the War Finance Corporation and that the defendant is entitled to credit for what he paid, and that plaintiff is entitled to a judgment for the difference with interest as provided in the note.

Before I do that, in order to make the record correct I will overrule the motion by the plaintiff, and allow an exception.

I will then give the direction to the jury that I have indicated, and will allow an exception to both parties. Let the record so show.

Now, if you will compute for the benefit of the clerk the amount due in the way I have indicated it, the clerk will prepare a

form of verdict.

MR. MCLAUGHLIN. I now move to dismiss the action without prejudice, it not yet having been submitted to the jury, and there being nothing to prevent dismissing the action without prejudice. In view of the fact that both parties have not joined in the motion to direct a verdict it is elementary that the action can be dismissed without prejudice any time before a verdict is rendered.

THE COURT. Well, the plaintiff, may at any time before final judgment move to dismiss without prejudice. Now that motion is made at this time, I am satisfied that the right to make that motion is lost after the definite ruling has been announced upon the law of the case by the court, and that the motion is made too late and should be denied, and is denied.

To which ruling of the court the plaintiff excepts.

THE COURT: Gentlemen of the Jury: You are instructed to return the verdict as I have indicated and which the clerk has prepared.

To which instructions by the court to the jury the plaintiff excepts.

THE COURT: I will ask the first juror in the front row to step forward and sign the verdict.

Thereupon the juror indicated signed the verdict as directed.

The Court then directed the clerk to read the verdict and the clerk read theverdict.

THE COURT. So say you all, Gentleman of the Jury, under direction of the court. The verdict will be entered and recorded

as and for the verdict of the jury, and judgment rendered thereon.

To all of which the plaintiff excepts.

THE COURT. Plaintiff is allowed thirty days in which to file motion for new trial.

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X-4671

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 September 21, 1926.

CONDITION OF ACCEPTANCE MARKET
August 19, 1926 to September 15,1926.

Acceptances:

The market in bankers' acceptances was quiet during the last part of August and first part of September but improved somewhat later in the month. Both the supply of bills and the demand for them were reported small throughout August by New York and Boston dealers and in Chicago there was a marked scarcity of new bills although the demand was fair. In September a better demand developed in the New York market, principally for ninety day bills. This demand came principally from out of town purchasers and from local banks which were buying for foreign clients. The total purchases and sales of New York dealers during the period from August 19 to September 15 was the smallest for any reporting period since February. Rates on bills of all maturities of less than 120 days were increased by 1/4 per cent on August 23 and the buying rates of the Federal reserve banks were also advanced. The following table shows the rates in effect on bills of various maturities at the beginning and end of the reporting period:

Acceptance Rates in the New York Market

Maturity	August 19, 1926		September 15,1926	
	Bid	Offered	Bid	Offered
30 days	3 1/2	3 3/8	3 3/4	3 5/8
60 "	3 5/8	3 1/2	3 7/8	3 3/4
90 "	3 3/4	3 5/8	4	3 7/8
120 "	3 7/8	3 3/4	4 1/8	4
150 "	4	3 7/8	4 1/4	4 1/8
180 "	4 1/8	4	4/1/4	4 1/8

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

September 23, 1926.

SUBJECT: Discretion of Federal Reserve Agent in accepting or rejecting paper offered as collateral for Federal reserve notes.

Dear Sir:

The question has been raised whether the action of the Board of Directors of a Federal reserve bank in accepting paper for discount deprives a Federal Reserve Agent of discretion in accepting or rejecting such paper when offered as collateral for Federal reserve notes. The Board has given careful consideration to this matter and the conclusions which it has reached may be set out as follows:

Under the terms of Section 16 of the Federal Reserve Act, the Federal Reserve Board, acting through the Federal Reserve Agent, is charged with the responsibility of determining in each case whether an application by a Federal reserve bank for Federal reserve notes should be rejected or granted in whole or in part. It is clear that the Board is empowered to exercise its discretion in passing upon the desirability of collateral tendered as security against the issue of Federal reserve notes. This discretion is ordinarily exercised through the Federal Reserve Agent to whom the collateral is offered. In order that Federal reserve notes may always be fully protected by collateral security of proper kinds and amounts, it is important that the function of passing upon such collateral security should not be exercised in a perfunctory manner but it should be performed with care, and it should not be assumed that all paper discounted by a Federal reserve bank constitutes, without further examination as to its quality or goodness, acceptable collateral for the protection of Federal reserve notes.

The fact that a Federal Reserve Agent as a member of the Executive Committee of a Federal reserve bank may have participated in admitting a particular piece of paper to rediscount by the bank in no way precludes the exercise by him of independent judgment as to the desirability of such paper when it is tendered as collateral for the issue of Federal reserve notes.

130

The Federal Reserve Board expects Federal reserve agents at all times to see to it that all Federal reserve notes issued by them to their respective banks are fully protected by proper collateral deposited with them, and that in any cases where collateral tendered to them is deemed unsatisfactory in quality or amount, it shall be rejected and other collateral asked, and the matter of such rejection shall be reported to the Federal Reserve Board.

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-4673

September 23, 1926.

SUBJECT: Holidays during October, 1926.

Dear Sir:

There will be no Gold Settlement Fund or Federal Reserve Note Clearing on Tuesday, October 12, 1926, on account of observance of Columbus Day, (Fraternal Day at Birmingham), and the books of the Gold Settlement Division will be closed. For your information, the offices of the Board and the following banks and branches will remain open for business as usual:

Richmond	Little Rock
Atlanta	Memphis
Nashville	Minneapolis
Jacksonville	Kansas City
Detroit	Denver
St. Louis	Oklahoma City

In addition to the holiday mentioned above, Jacksonville Branch of the Federal Reserve Bank of Atlanta will be closed on Friday, October 8th, account observance of Farmers' Day.

Supplemental wire advice as to the Portland Branch of the Federal Reserve Bank of San Francisco observing October 12th as a holiday will be sent as soon as the Attorney General of Oregon renders his decision in regard to that day being observed as a legal holiday in that state.

Kindly notify Branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

X-4675

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

September 23, 1926.

SUBJECT: Election of Class "A" and "B" Directors.

Dear Sir:

This will confirm my telegram to you of this date advising that the Board has designated November 15, 1926, as the date for opening the polls for the election of Class "A" and "B" directors and that no change will be made in the group classifications which have governed in these elections for the past several years.

Very truly yours,

Walter L. Eddy.
Secretary.

TO CHAIRMEN OF ALL FEDERAL RESERVE BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4676

September 23, 1926.

SUBJECT: Procedure in Elections of Class "A" and "B" Directors.

Dear Sir:

The Federal Reserve Board desires to have from you an expression of your opinion as to the workings of the present system of electing Class "A" and"B" directors of the Federal reserve banks. It would also appreciate your giving it an outline of the various steps taken by you in the conduct of such elections and to have you send it specimen copies of nomination blanks, your advices to member banks, ballot forms, etc. If any criticisms or suggestions have been made to you by member banks, concerning the election procedure, the Board would like to be advised of them.

It would also like to have your views as to whether or not any change should be made in the grouping of the member banks of your district.

The Board also requests that the Federal Reserve Agents discuss this subject of election procedure at their forthcoming conference, in addition to replying individually in writing to this communication.

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-4677

September 24, 1926.

Dear Sir:

In the considerations which have been given during the past two years to the question of whether or not the Federal reserve banks should discontinue the handling of so-called non-cash collection items, considerable opposition has developed to the continuance of the service as at present, that is, without charge and without limitation as to items payable at street addresses.

The provisions of the Federal Reserve Act authorize, but do not require the Federal reserve banks to handle non-cash items and the inauguration of the function was not the result of an order by the Federal Reserve Board, but rather at its suggestion. The Board wishes to suggest to the Federal reserve banks that each bank exercise its own option as to the collection of non-cash items at street addresses, but continue the collection of non-cash items collectible at banks.

Very truly yours,

D. R. Crissinger,
Governor.

TO GOVERNORS OF ALL F. R. BANKS.

X-4678

(Superseding X-4545)

BY-LAWS OF THE FEDERAL RESERVE BOARD

EFFECTIVE SEPTEMBER 23, 1926.

Article 1.

The Chairman.

The Secretary of the Treasury, as Chairman of the Board, shall preside at all meetings when present. In the absence of the Chairman, the Governor shall act as presiding officer. In the absence of both the Chairman and the Governor, the Vice-Governor shall preside, and in the absence of all three such officers, the remaining member of the Executive Committee shall preside.

Article 11.

The Governor.

Sec. 1. The Governor of the Federal Reserve Board shall be the active executive officer thereof; subject, however, to the supervision of the Board and to such rules and regulations as may be incorporated herein or may from time to time, by resolution, be established.

Sec. 2. The Governor shall have general charge of the executive and routine business of the Board not specifically assigned under the by-laws or by resolution of the Board to any individual member or committee thereof, and shall have supervision of the Board's staff.

Sec. 3. The Governor shall be an ex-officio member of all Standing Committees of the Board.

Article 111.

The Vice-Governor.

Sec. 1. In the absence or disability of the Governor, his powers shall be exercised and his duties discharged by the Vice-Governor, and in the absence or disability of both of these officers, such powers shall be exercised and such duties discharged by the remaining member of the Executive Committee; in the absence or disability of all members of the Executive Committee the powers and duties of the Governor shall be exercised by the senior member of the Board present.

Sec. 2. It shall be the duty of the Vice-Governor to cooperate with the Governor in the administration of the executive business of the Board.

Article IV.

Secretary and Assistant Secretaries.

Sec. 1. The Board shall appoint a Secretary and one or more assistant secretaries.

Sec. 2. The Secretary shall keep an accurate record of the proceedings of the Board and shall conduct such correspondence and perform such other duties as may be assigned to him by the Governor or by the Board. In the absence or disability of the Secretary, the duties of that office may, by direction of the Board, be performed by an assistant secretary.

Sec. 3. The Secretary shall have custody of the seal and, acting under the authority of the Board, shall have power to affix same to all instruments requiring it. Such instruments shall be attested by the Secretary.

Sec. 4. The assistant secretaries shall each perform such duties as may be assigned to them from time to time by the Board or by the Secretary.

Article V.

Assistant to the Governor.

Sec. 1. The Board may authorize appointment of an Assistant to the Governor.

Sec. 2. The Assistant to the Governor shall perform such duties as shall be assigned to him by the Governor.

Article VI.

The Executive Committee.

Sec. 1. There shall be an Executive Committee of the Board consisting of three members, which shall include the Governor, Vice-Governor and one of the appointive members of the Board. The appointive member of the Committee shall be nominated and elected at a regular meeting of the Board. Members of the Board shall serve as far as practicable in rotation and for approximately equal terms. The presence of three members shall be requisite for the transaction of business by the Executive Committee, and action shall be taken only on unanimous vote of the Committee.

Sec. 2. In the absence of the Governor and Vice-Governor the appointive member of the Executive Committee shall act as Chairman and shall, with two other appointive members of the Board present in Washington to be chosen by him in the order of their seniority, exercise the powers and discharge the duties of the Executive Committee. In the absence of all three

regular members of the Executive Committee the three remaining appointive members of the Board, provided there be three in Washington, shall act as an interim committee and exercise the powers and discharge the duties of the Executive Committee, the senior member acting as Chairman.

Sec.3. It shall be the duty of the Executive Committee to review and submit drafts of important correspondence involving the expression of opinions or decisions of the Board, and to prepare and make recommendations governing the conduct of the Board's business.

Sec.4. The Executive Committee shall also have charge of all matters appertaining to the internal organization of the Board, and shall make recommendations from time to time on this matter. It shall also prepare annually a budget of proposed expenditures.

Sec.5. In the absence of a quorum of the Federal Reserve Board and for the transaction of business requiring action during the absence of such quorum, the Executive Committee is authorized to transact business which can be transacted in accordance with established principles and policies of the Board and to perform such additional duties as may be specifically delegated to it from time to time by instruction of the Federal Reserve Board.

The Secretary of the Board shall serve as Secretary of the Executive Committee.

Article VII.

Standing Committees.

In addition to the Executive Committee there shall be the following Standing Committees, appointments to which shall be made by the Governor, subject to the approval of the Board.

Sec.1. Law.

To the Law Committee shall be referred for study and report all questions of a legal nature. To this Committee shall also be assigned the preparation or revision of the Board's regulations, contemplated amendments to the Federal Reserve Act, applications under the Kern amendment to the Clayton Act, and applications for the exercise by national banks of trust powers.

The General Counsel shall serve as Secretary of the Committee.

Sec.2. Examination.

To this Committee shall be referred all questions relating to the examination of Federal Reserve or member banks including admission of state banks and permission to establish and operate branches.

The Chief Examiner shall serve as Secretary of this Committee.

Sec. 3. Research and Statistics.

This Committee shall have charge of all investigations of an economic and statistical character authorized by the Board and shall supervise the work of the Division of Research and Statistics and the preparation and publication of the Federal Reserve Bulletin. This Committee shall also have supervision of the statistical and publication work of the Federal Reserve Banks.

The Director of the Division of Research and Statistics shall serve as Secretary of this Committee, or in his absence the Assistant Director shall so serve.

Sec. 4. Salaries and Expenditures of Federal Reserve Banks.

To this Committee shall be assigned all recommendations from Federal Reserve Banks for changes of salaries and other expenditures. This Committee shall make reports with respect to charge-offs and franchise tax of Federal Reserve Banks.

The Secretary of the Board shall serve as Secretary of this Committee.

Sec. 5. District Committees.

To each Federal Reserve Bank and District shall be assigned a Committee of not less than two members of the Federal Reserve Board. It shall be the duty of each Committee to keep itself informed by correspondence and visit of the affairs of the Bank and the condition of the District, and make investigation and report on all questions appertaining to the operation of any Federal Reserve Bank or the condition of any Federal Reserve District that may be referred to it by the Board. These Committees shall also aid the Committee on Salaries and Expenditures with information regarding personnel of the respective Federal Reserve Banks of which they have charge. These Committees shall also make recommendations to the Board for the appointment of Directors at Federal Reserve Banks and Branches.

Article VIII.

The Fiscal Agent and Deputy Fiscal Agent.

Sec. 1. The Board shall appoint a Fiscal Agent and a Deputy Fiscal Agent. The duty of the Fiscal Agent shall be to collect and deposit all moneys receivable by the Board with the Treasurer of the United States, to be placed in a special fund established on the books of the Treasurer for the Federal Reserve Board. The Deputy Fiscal Agent shall perform the duties of the Fiscal Agent during his absence or disability.

Sec. 2. The Fiscal Agent and Deputy Fiscal Agent shall each execute a separate bond with surety satisfactory to the Board.

Sec. 3. Payments of expenses and other disbursements of the Board shall be made by the Fiscal Agent upon proper vouchers out of moneys

advanced to him by requisition and warrant out of the special fund and placed to his official credit with the Treasurer of the United States as provided by Section 5 of this Article. In the absence of the Fiscal Agent payment of expenses and other disbursements shall be made by the Deputy Fiscal Agent upon proper vouchers out of moneys advanced to the Fiscal Agent by requisition and warrant out of the special fund and placed to his official credit with the Treasurer of the United States as provided by Sections 5 and 6 of this article.

Sec. 4. The Fiscal Agent shall prepare a quarterly account in such form as shall be approved by the Comptroller General of the United States and, after approval by the Governor, such quarterly account shall be submitted to the General Accounting Office. Such account shall cover payments of expenses and other disbursements made by both the Fiscal Agent and the Deputy Fiscal Agent.

Sec. 5. The Governor shall, when necessary, make requisition on the Treasurer of the United States for the advance of such sums to the Fiscal Agent as may be necessary from the Federal Reserve Board fund.

Sec. 6. The Deputy Fiscal Agent in making disbursements of the Board upon proper vouchers out of the moneys advanced to the Fiscal Agent shall sign against funds to the official credit of the Fiscal Agent with the Treasurer of the United States in the name of the Fiscal Agent by himself as Deputy Fiscal Agent.

Article IX.

Gold Settlement Fund.

and

Federal Reserve Agents' Fund.

All funds deposited by or for account of the respective Federal Reserve Agents in the Federal Reserve Agents' fund of the Federal Reserve Board and all funds deposited by or for account of the respective Federal Reserve Banks in the Gold Settlement Fund of the Federal Reserve Board shall be held on deposit with the Treasurer of the United States and shall be subject to withdrawal only by check of the Federal Reserve Board signed by the Secretary or an Assistant Secretary and countersigned by the Governor or acting executive officer of the Board.

Article X.

Requisition for Delivery.

of

Federal Reserve Notes

Requisitions upon the Comptroller of the Currency for the delivery

of Federal Reserve notes to the respective Federal Reserve Agents shall be made by the Secretary or Assistant Secretary in response only to requests made by the Federal Reserve Agents to the Board for such notes. The Secretary or Assistant Secretary shall submit daily for approval to the Governor or acting executive officer of the Board a schedule showing the amount of each denomination of Federal Reserve Notes requisitioned by him for the account of each Federal Reserve Agent.

Article XI.

The Seal.

The following is an impression of the seal adopted by the Board.

SEAL.

Article XII.

Counsel.

Sec. 1. The Board shall appoint a General Counsel whose duty it shall be to advise with the Board, or any member thereof, as to such legal questions as may arise in the conduct of its business; to prepare, at the Board's request opinions, regulations, rulings, forms and other legal papers and to perform generally such legal services as he may be called upon by the Board to perform.

Sec. 2. Subject to the direction of the Governor, the General Counsel shall have authority to correspond directly with the Counsel of the various Federal Reserve Banks and to request their opinions as to the interpretation of the local laws of the States included in their respective Federal Reserve Districts. Copies of all such correspondence shall be furnished to the Board for its information.

Sec. 3. Whenever it may be deemed advisable, the Board may appoint one or more Associate or Assistant Counsel, or one or more Assistants to Counsel. The duty of such Associate or Assistant Counsel shall be to assist the General Counsel in the performance of his duties and to perform the duty of the General Counsel in his absence. The duty of such Assistant to Counsel or Assistants to Counsel shall be to assist the General Counsel in the performance of his duties.

Sec. 4. The Board may appoint from time to time Consulting Counsel, who may be attorneys at law engaged in outside practice.

Article XIII.

Meetings.

Sec. 1. Five members of the Board shall constitute a quorum for the transaction of business.

Sec. 2. Stated meetings of the Board shall be held on such days of the week and at such hours as the Board by a majority vote may fix from time to time. One meeting day each week shall be set apart for consideration of the following matters, advance notice of not less than two days being sent to members of important questions to be taken up at the meeting:

Discount and open market matters;
Approval of expenditures and salaries;
Establishment of Federal Reserve Branches, Agencies, Currency Stations;
Permission for establishment of member bank branches;
Amendment of Board's rules and regulations;
New policies or changes of policy;
Such other major matters as may be reserved for consideration at the weekly meeting.

Sec. 3. Special meetings of the Board may be called by the Chairman or Governor or upon the written request of three members of the Board.

Sec. 4. At all meetings of the Board the following shall be the order of business:

(1) Reading or inspection of the Minutes of the last regular meeting and Minutes of meetings of the Executive Committee.
(2) Report of the Governor.
(3) Report of the Secretary.
(4) Reports of the committees or members on assigned business.
(5) Unfinished business.
(6) New business.

Sec. 5. No vote shall be taken or motion made by the Board at a meeting or conference when others than the members of the Board and its Secretarial staff are present.

Article XIV.

Absences.

Sec. 1. Absences of appointive members of the Board shall as far as practicable be arranged so as not to interfere with the expeditious conduct of the Board's business in Washington.

Article XV.

Information and Publication.

Sec. 1. All persons employed by the Board shall keep inviolate its business, affairs, and concerns, and shall not disclose or divulge the same to any unauthorized person whomsoever, and any employee who shall give information contrary to this by-law shall be liable to immediate dismissal. Except upon vote of the Board, no one other than a Member of the Board, or the Secretary, Assistant Secretaries, Assistant to the Governor, and General Counsel, shall be permitted to inspect any of the Board's minutes.

Sec. 2. No statements shall be made to the press expressive of the Board's policy or descriptive of its action except as authorized and approved by the Board. Such statements shall be issued only in written form and when authorized and approved they shall be issued through the office of the Governor or such other officer or member of the Board as may be specifically designated. While each member of the Board must determine for himself the propriety or necessity of expressing publicly his individual opinion on any question, members shall not quote publicly the opinion of other members on matters which have not formally been passed upon by the Board.

Sec. 3. There shall be published monthly, a bulletin to be known as "The Federal Reserve Bulletin", which shall be the official periodical organ or publication of the Federal Reserve Board.

Sec. 4. No resolutions of a personal character, except upon the death of a member of the Federal Reserve Board while serving as such, shall appear in any publication of the Federal Reserve Board.

Article XVI.

Amendments.

These by-laws may be amended at any regular meeting of the Board by a majority vote of the entire Board, provided that a copy of such amendments shall have been delivered to each member at least seven days prior to such meeting.

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

For Release in Morning Papers, Tuesday, Sept. 28th. X-4679

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

Industrial activity and distribution of commodities continued in large volume in August at a level higher than a year ago. The general level of wholesale prices receded further in August, reflecting price declines for agricultural commodities.

PRODUCTION: - The index of production in basic industries, which is adjusted for the usual seasonal variations, declined slightly in August, but this decline was accounted for by the fact that there were five Sundays in August as against four in July. Textile mill activity and production of steel ingots, zinc, and petroleum increased, while the output of pig iron, lumber, coal, copper, cement, and sugar was smaller than the month before. Automobile production increased considerably in August and was larger than in any month since April. Factory employment and pay rolls, after declining in July, increased in August, as is usual at this season of the year. Building activity, as measured by contract awards in 37 states east of the Rocky Mountains, was in larger volume in August than in July or in any other previous month with the exception of August, 1925. In eastern and southeastern states the volume of building was smaller in August than a year ago, while in the middle west contracts awarded were larger. Contracts for residential structures were smaller than last year, while those for industrial buildings and for public works and public utilities were substantially larger.

Crop conditions improved in August, according to a statement by the Department of Agriculture. September forecasts of yields of corn, barley, hay, tobacco, and most fruit and vegetable crops were above those made in August, while expected yields of oats and spring wheat were slightly less. A cotton crop of 15,810,000 bales was indicated on the basis of the condition of the crop at the middle of September. The crop, however, is later than last year and ginnings up to September 16 amounted to only 2,511,000 bales, compared with 4,282,000 bales prior to September 16, 1925.

TRADE:

Volume of wholesale trade and of sales at department stores increased in August and retail sales were larger than a year ago. Stocks of dry goods and shoes carried by wholesale firms were smaller at the end of August than last year, while those of groceries and hardware were larger. Inventories of department stores increased in preparation for autumn trade, but this increase was less than is usual at this season and at the end of the month stocks were smaller than a year ago. Freight car loadings in August continued higher than in the corresponding months of previous years and for the weeks of August 28 and September 4 exceeded all previous weekly records. Loadings of grain continued large and shipments of merchandise in less-than-car-load lots, miscellaneous commodities, ore, and coke were considerably larger than in the corresponding period of previous years.

PRICES:

Wholesale commodity prices, according to the index of the Bureau of Labor Statistics, declined by over 1 per cent in August, reflecting largely price decreases for grains, livestock, and meat products. Prices of clothing materials, fuels, and metals increased between July and August, while prices

of cotton, wool, sugar, building materials, and rubber showed little change. In the first half of September prices of grains, cattle, sugar, bituminous coal, and coke advanced, while prices of raw cotton, silver, and bricks declined.

BANK CREDIT:

Increased demand for bank credit in connection with the harvesting and marketing of crops and autumn trade, together with an increase in loans on securities, was reflected in a considerable growth between the middle of August and the middle of September in loans of member banks in leading cities. The banks' holdings of investments also increased, though there was a decrease in investments at banks in New York City, and total loans and investments on September 15 were larger than at any previous time.

The volume of reserve bank credit increased by about $90,000,000 between August 18 and September 22, partly in response to seasonal demands for currency. Discounts for member banks rose in September to the highest figure for the year, and acceptance holdings also increased, while United States securities declined by about $55,000,000.

Money rates continued to rise in September. Rates on commercial paper advanced by one-fourth per cent to 4 1/2 - 4 3/4 per cent, and rates on security loans also averaged higher than in August.

FEDERAL RESERVE BOARD

X-4681

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

October 6,1926.

SUBJECT: Litigation Affecting Federal Reserve System as a Whole.

Dear Sir:

At the last conference of Governors of all Federal reserve banks, it was voted:

> "To recommend to the Federal Reserve Board that the Federal Reserve System, acting through the Federal Reserve Board, retain as special counsel, Mr. Newton D. Baker, to consider litigable matters only, and that all Federal reserve banks shall refer to the Counsel of the Federal Reserve Board as soon as it arises every litigated question, together with all papers relating thereto, and that the Counsel of the Federal Reserve Board should refer to such special counsel all such cases as he thinks concern the system as a whole and any other cases which Counsel of the forwarding Federal reserve banks request be referred to the special counsel."

Upon consideration of this subject, the Federal Reserve Board voted to disapprove the recommendation of the Governors' Conference to the effect that the system retain Hon. Newton D. Baker as Special Counsel to consider litigable matters only. The Board voted, however, that all Federal reserve banks be requested to forward to the General Counsel of the Federal Reserve Board all papers in suits brought against Federal reserve banks and also all papers in suits brought by Federal reserve banks which are of system-wide interest, in order that the question of employing special system counsel might be determined in each specific case.

The obvious purpose of the plan recommended by the Governors' Conference was to obtain better coordination of the litigation involving the various Federal reserve banks, to the end that the interests of the Federal Reserve System as a whole in the legal principles involved in such litigation might be more adequately safeguarded. The Board is in sympathy with this purpose, but believes that it is not necessary to obtain the services of a lawyer of national reputation on a regular retainer in order to accomplish the desired results.

The Office of the Board's General Counsel has for some time been acting as a clearing house for information respecting recently decided cases of interest to the entire Federal Reserve System, and it is believed that this service might be extended in such a way as to accomplish the purpose of the recommendation of the Governors' Conference without incurring the expense involved in the employment of a lawyer of national reputation on a regular retainer basis.

The Board believes that, if information concerning all pending cases is promptly sent to the Board's General Counsel, the necessary cooperation can be obtained through correspondence with counsel for the Federal reserve banks and through conferences participated in by counsel for all Federal reserve banks. Whenever it is considered advisable to obtain the services of a lawyer of national reputation to assist in the trial of a case involving questions of system-wide interest, such special system counsel can be retained in that particular case.

You are requested, therefore, to arrange with counsel for your bank to forward promptly to the General Counsel of the Federal Reserve Board copies of all papers in suits brought against Federal reserve banks and copies of all papers in suits brought by Federal reserve banks which are of system-wide interest.

Very truly yours,

D. R. Crissinger,
Governor.

To Governors of all
Federal Reserve Banks.

FEDERAL RESERVE BOARD

X-4682 148

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

October 7, 1926.

SUBJECT: Assistant Federal Reserve Agents at Branches.

Dear Sir:

A question has been raised as to the necessity for appointing assistant Federal reserve agents at branch Federal reserve banks where the duties of such assistant Federal reserve agents are confined largely to the issue and retirement of Federal reserve notes.

At several branches, the office of assistant Federal reserve agent has been abolished and the stocks of Federal reserve currency held there are carried in the form of issued notes. At one branch where a stock of unissued notes is carried, the Federal reserve agent is represented by two directors of the branch, one having been designated assistant Federal reserve agent and the other alternate assistant Federal reserve agent. These representatives of the agent each receive a nominal salary in addition to a small fee for each time they are called upon to engage in currency operations. The Board feels that under such an arrangement the designation of a representative of the Federal reserve agent need not be confined to members of the board of directors of the branch, but anyone, other than an employee of the branch Federal reserve bank, residing locally and legally qualified, may be designated.

Consideration is being given by one of the Federal reserve agents to the abolishment of the office of assistant Federal reserve agent at the branches of his bank. The agent feels that a greater amount of Federal reserve notes should be maintained at each branch than the amount which the bank should be called upon to carry at the branch in the form of issued notes. The proposal has been made that the Board approve of the agent carrying at each branch what might be termed an emergency stock of unissued Federal reserve notes, the stock of unissued notes to be placed in a number of chests - each chest to be under triple control of an officer of the branch, a representative of the auditing department stationed at the branch and the Federal reserve agent at the head office. When Federal reserve notes are needed for emergency purposes, the need will be communicated to the Federal reserve agent at the head office, who will telegraph his control combination or combinations for a specific chest or chests to the branch. Under an agreement between the Federal reserve agent and the Federal reserve bank the dispatch of the wire containing the control combination to a particular chest will be considered as a delivery to the Federal reserve bank of the amount of notes shown by the records of the agent

and of the other joint custodians to have been placed in this chest at the time the control was established, and this amount will be accepted by the bank as conclusive for all purposes. The branch will prepare and mail to the agent the usual vault record sheet showing the serial numbers, denominations and amount of notes issued, attested by the officer of the branch and the representative of the auditor designated as joint custodians, and carrying a receipt signed by an officer of the branch for the amount of notes received from the Federal reserve agent through the release of the particular chest or chests.

Under the foregoing suggested arrangement, either the Federal reserve agent or his assistant must be present at the branch each time it is necessary to replenish the emergency supply of Federal reserve notes, in order to receive them from the Post Office authorities, (or from the branch whenever an accumulation of fit notes is turned back to the agent) and in order to see that they are properly deposited in the chests under the necessary control combinations. It might also be necessary for the agent or his assistant at the head office to visit the branch once or twice a year on the occasion of the examination made by the Federal Reserve Board's examiners.

The Board desires that the Federal reserve agents at their forthcoming conference give consideration to the practicability and desirability of establishing some uniform procedure for handling the note functions of the agents at those branches where the full-time service of an assistant Federal reserve agent does not appear to be required.

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-4686

October 12, 1926.

SUBJECT: Topic for Next Governors' Conference.

Dear Sir:

The Federal Reserve Board has voted to place upon the program for the next conference of Governors of Federal Reserve Banks for their consideration and advice, the question as to the advisability of the Board adopting for all national banks a minimum capital requirement and imposing other requirements in connection with its granting authority to such banks to exercise trust powers.

For your information in this connection, there is enclosed herewith a copy of a memorandum by the Board's Counsel relative to the legal right of the Board to place a minimum limit on capital of national banks to which it will grant trust powers.

Very truly yours,

Walter L. Eddy,
Secretary.

To Governors of all F.R.Banks.

Enclosure:

X-4687-a

May 21, 1926.

The Federal Reserve Board

Mr. Wyatt - General Counsel.

Right of Board to place minimum limit on capital of national banks to which it will grant trust powers.

The opinion of this office has been requested on the question whether the Board can legally place a minimum limit upon the capital of a national bank to which it will grant trust powers.

The last paragraph of Section 11(k) of the Federal Reserve Act reads as follows:

> "In passing upon applications for permission to exercise the powers enumerated in this sub-section, the Federal Reserve Board may take into consideration the amount of capital and surplus of the applying bank, whether or not such capital and surplus is sufficient under the circumstances of the case, the needs of the community to be served, and any other facts and circumstances that seem to it proper, and may grant or refuse the application accordingly: Provided, That no permit shall be issued to any national banking association having a capital and surplus less than the capital and surplus required by State law of State banks, trust companies, and corporations exercising such powers."

In view of this provision there can be no doubt that the Federal Reserve Board may legally prescribe a minimum capital for national banks applying for trust powers and may decline to grant trust powers to any national bank which has not a capital equal to or in excess of the minimum limit so prescribed by the Board. Of course, the minimum capital prescribed by the Federal Reserve Board must not be less than the capital required by State law of State banks, trust companies, and other corporations exercising trust powers.

Respectfully,

Walter Wyatt,
General Counsel.

WW/NS

FEDERAL RESERVE BOARD

X-4687 152

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

October 12, 1926.

SUBJECT: Topic to be Placed on Program of Conference of Federal Reserve Agents.

Dear Sir:

The Federal Reserve Board has voted to place upon the program for the next conference of Federal Reserve Agents for their consideration and advice the question as to the advisability of the Board adopting for all national banks a minimum capital requirement and imposing other requirements in connection with its granting authority to such banks to exercise trust powers.

For your information in this connection, there is enclosed herewith a copy of a memorandum by the Board's Counsel relative to the legal right of the Board to place a minimum limit on capital of national banks to which it will grant trust powers.

Very truly yours,

Walter L. Eddy.
Secretary.

Enclosure.

TO ALL FEDERAL RESERVE AGENTS.

X-4687-a

May 21, 1926.

The Federal Reserve Board

Mr. Wyatt - General Counsel.

Right of Board to place minimum limit on capital of national banks to which it will grant trust powers.

The opinion of this office has been requested on the question whether the Board can legally place a minimum limit upon the capital of a national bank to which it will grant trust powers.

The last paragraph of Section 11(k) of the Federal Reserve Act reads as follows:

> "In passing upon applications for permission to exercise the powers enumerated in this sub-section, the Federal Reserve Board may take into consideration the amount of capital and surplus of the applying bank, whether or not such capital and surplus is sufficient under the circumstances of the case, the needs of the community to be served, and any other facts and circumstances that seem to it proper, and may grant or refuse the application accordingly: Provided, That no permit shall be issued to any national banking association having a capital and surplus less than the capital and surplus required by State law of State banks, trust companies, and corporations exercising such powers."

In view of this provision there can be no doubt that the Federal Reserve Board may legally prescribe a minimum capital for national banks applying for trust powers and may decline to grant trust powers to any national bank which has not a capital equal to or in excess of the minimum limit so prescribed by the Board. Of course, the minimum capital prescribed by the Federal Reserve Board must not be less than the capital required by State law of State banks, trust companies, and other corporations exercising trust powers.

Respectfully,

Walter Wyatt,
General Counsel.

WW/NS

FEDERAL RESERVE BOARD

WASHINGTON X-4688

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

October 12, 1926.

SUBJECT: TOPIC FOR GOVERNORS' CONFERENCE.

Dear Sir:

The question of adopting regulations covering the rediscount of notes secured by adjusted service certificates under the provisions of Section 502 of the World War Adjusted Compensation Act, which was on the program for the last conference of Governors, has also been placed upon the program for the forthcoming conference. For your information in this connection, there are enclosed herewith a copy of the Board's letter of March 13, 1926, (X-4561) suggesting this topic for the last conference, and also a copy of a letter received from the Director of the United States Veterans' Buroau on this subject, together with a copy of the Board's reply thereto.

Very truly yours,

Walter L. Eddy,
Secretary.

(Enclosures)

To Governors of all F.R.Banks.

COPY

X-4688-a

August 3,
1926.

Honorable Frank T. Hines, Director,
United States Veterans' Bureau,
Washington, D.C.

My dear Mr. Hines:

The Board has considered further your letter of July 14th requesting its advice as to the best method of advising banks throughout the country of the provisions of the World War Adjusted Compensation Act and also requesting the advice of the Board as to whether or not it would be feasible to prescribe a standard form of promissory note to be used by banks in making loans on adjusted service certificates. Before advising you on these questions the Board desires to have the suggestions of the Governors of the Federal Reserve Banks with reference thereto. It will, therefore, present your questions to the Governors of the Federal Reserve Banks at their next conference which will be held in Washington this Fall. It is noted that no loans can be made on adjusted service certificates before January 1, 1927, and it is believed sufficient time will remain after the Conference of Governors of Federal Reserve Banks to advise banks throughout the country of the provisions of the Adjusted Compensation Act before January 1, 1927.

Very truly yours,

(signed) D. R. Crissinger

D. R. Crissinger,
Governor.

C O P Y

156

X-4688-b

UNITED STATES VETERANS BUREAU

WASHINGTON

July 14, 1926.

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

My dear Mr. Crissinger:

Under the provisions of the World War Adjusted Compensation Act (Public No.120 - 68th Congress) approximately 2,400,000 adjusted service certificates with a face value of approximately $2,500,000,000 have been issued, effective January 1, 1925. Loans may be made on and after January 1, 1927, to the holders of such certificates by banks as provided by Title V of the Act.

The adjusted service certificate contains a reprint of Section 502 of Title V, which provides authority for the granting of loans by banks and for redemption of such loans by the Veterans Bureau in the event of non-payment by the veteran. The certificate also contains a table for determining the loan value of the certificate.

It is desirable that banks making such loans be fully advised as to the requirements of the law before January 1, 1927, and it is thought that possibly a standard form of promissory note might be devised that could be recommended for use by the member banks of the Federal Reserve System and others.

Your advice in the premises, especially as to the best method of advising the banks and as to whether or not a standard form of promissory note is feasible, will be greatly appreciated.

For your convenience a copy of the World War Adjusted Compensation Act and a specimen of the adjusted service certificate are inclosed.

Very truly yours,

(Signed) Frank T. Hines
FRANK T. HINES,
Director.

Incls.

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

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4689

October 12, 1926

SUBJECT: Conference Topic - Reduction in Reserve Requirements.

Dear Sir:

In passing upon applications from member banks located in outlying sections of reserve or central reserve cities, for reductions in their reserve requirements on demand deposits to 7% or 10%, respectively, the Board has followed the policy outlined in its letter of December 19, 1924 (X-4221), which was recommended to it by the Federal Reserve Agents at their conference in November of that year.

The Board now requests that the Federal Reserve Agents, at their forthcoming conference, consider the practicability of their reviewing at least once each year the situation with respect to member banks which have been granted the reduced reserve privilege, with a view to recommending to the Board revocation of its permission in the cases of member banks, the character of whose business shows a material change.

Very truly yours,

Edmund Platt,
Vice Governor.

(Enclosure)

TO ALL F. R. AGENTS

X-4221

December 19, 1924.

SUBJECT: Determination of Outlying District for Purpose of Reserve Reduction.

Dear Sir:

You are hereby advised that the Federal Reserve Board has approved the following recommendation of the recent conference of Federal Reserve Agents:

> "That the Federal Reserve Board in determining whether a member bank located in an outlying district of a reserve or central reserve city should be permitted to carry reduced reserves as provided in Section 19, Federal Reserve Act, should be guided in each instance by the results of an analysis of the character of the business of the applicant member bank or of all the banks of the neighborhood group showing a proportion of -
> (1) Balances due other banks
> (2) Balances of corporations
> (3) Public deposits
> (4) Cash in vaults."

You are further advised that the Federal Reserve Board has ruled that a bank applying for a reduction in reserves under the provisions of Section 19 must have been a member of the Federal Reserve System and in operation as such for a period of at least one year prior to the date of such application.

Very truly yours,

Walter L. Eddy,
Secretary.

TO ALL FEDERAL RESERVE AGENTS

FEDERAL RESERVE BOARD

WASHINGTON

X-4690

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

October 12, 1926.

SUBJECT: TOPIC FOR GOVERNORS' CONFERENCE.

Dear Sir:

The Board has voted to place upon the program for the next conference of Governors the question of the authority of a Federal reserve bank to receive deposits of securities for safekeeping from Farm Loan Registrars, from Federal Land Banks and from Federal Intermediate Credit Banks. This question is discussed in a memorandum prepared in the office of the Board's Counsel, a copy of which is enclosed herewith for your information.

Very truly yours,

Walter L. Eddy,
Secretary.

To Governors of all F.R.Banks.

Enclosure:

X-4690-a

June 4, 1926.

Federal Reserve Board

Mr. Vest - Assistant Counsel.

Authority of Federal reserve banks to receive deposits of securities from Federal land banks for safekeeping.

The attached letter from the Cashier of the Federal Reserve Bank of raises the question whether Federal reserve banks are authorized to accept securities for safekeeping from Farm Loan Registrars, from Federal land banks and from Federal intermediate credit banks.

After a careful consideration of this question, I am of the opinion that Federal reserve banks are authorized to receive deposits of securities for safekeeping from Federal intermediate credit banks, but are without authority to receive such deposits from Federal land banks or from Farm Loan Registrars.

With reference to the authority of Federal reserve banks to receive deposits of securities from Federal intermediate credit banks the following provision of law found in Section 406 of the Agricultural Credits Act of 1923, is pertinent:

> "Federal reserve banks are hereby authorized to act as depositories for and fiscal agents of any national agricultural credit corporation or Federal intermediate credit bank."

In my opinion, this provision of law is sufficiently broad to include authority to Federal reserve banks to accept deposits of funds or securities from Federal intermediate credit banks. In fact, the Board has previously held, under a statute containing substantially the same provision with reference to the War Finance Corporation as the above statute has with reference to Intermediate credit banks, that Federal reserve banks may hold securities for safekeeping for the account of the War Finance Corporation.

The question whether the reserve banks may receive deposits of securities from Federal land banks or from Farm Loan Registrars is more involved. There is no express authority given in either the Federal Reserve Act or the Farm Loan Act for Federal reserve banks to receive deposits of funds or securities from Federal land banks or from Farm Loan Registrars. This in itself makes the receipt of such deposits beyond the powers of Federal reserve banks. In addition, however, there is a provision of the Farm Loan Act which seems by implication to deny the existence of a right in Federal land banks to make deposits in Federal reserve banks. This is found in Section 13 of the Farm Loan Act and authorizes a Federal land bank "to deposit its securities, and its current funds subject to check, with any member bank of the Federal Reserve System." It is reasonable to assume from this provision of law

and from the absence of any provision authorizing deposits in Federal reserve banks, that it was not intended that Federal land banks should make deposits in Federal reserve banks.

Section 19 of the Farm Loan Act provides that mortgages and bonds held by a Farm Loan Registrar as collateral security for farm loan bonds shall be deposited "in such deposit vault or bank as the Federal Farm Loan Board shall approve, subject to the control of said Registrar and in his name as trustee * * *." The words "in any bank" would seem to include a Federal reserve bank, and there appears to be no reason why a Federal reserve bank, approved by the Farm Loan Board, might not be used as such a depository, so far as the Registrar's authority is concerned. This statute obviously, however, does not in any way enlarge the powers of Federal reserve banks or give them authority to receive deposits from Farm Loan Registrars.

The Federal Reserve Board has approved the right of Federal reserve banks to pay coupons of Farm loan bonds and also to accept deposits of funds from Federal land banks in anticipation of such maturing coupons. The authority to receive deposits for this purpose is found in the first paragraph of Section 13 of the Federal Reserve Act which authorizes Federal reserve banks, solely for the purposes of exchange or collection, to receive from a nonmember bank deposits of current funds, provided such nonmember bank maintains balances sufficient to offset the items in transit held for its account by the Federal reserve bank. This provision of law, however, does not authorize Federal reserve banks generally to receive deposits from Federal land banks for other purposes. The decision of the Federal Reserve Board that coupons of Farm loan Bonds might be paid by Federal reserve banks out of deposits made by Federal land banks was based upon an opinion rendered by Judge Elliott, then General Counsel for the Federal Reserve Board. In another opinion, however, Judge Elliott took the position that the Federal reserve banks have no authority to receive deposits generally from Federal land banks, and also in his opinion with reference to the payment of Farm Loan Bond coupons he stated that Section 13 does not authorize Federal reserve banks to receive deposits "from Farm land banks to the same extent that such deposits are received from member banks or from the United States Government."

Under Section 6 of the Farm Loan Act the Secretary of the Treasury is directed to require all Federal land banks acting as financial agents of the Government or depositaries of public money to furnish satisfactory security by the deposit of bonds or otherwise. No doubt the Secretary of the Treasury, under his authority to require Federal reserve banks to act as fiscal agents of the United States, could require the Reserve Banks to receive deposits of such securities from Federal land banks as are required of them under Section 6 of the Farm Loan Act. In so doing, however, Federal reserve banks would be acting as fiscal agents of the United States and would be receiving and holding securities for the United States rather than for the Federal land banks.

Except in such cases as this, however, it is not believed that a Federal reserve bank could properly be considered to be acting as a fiscal agent or depository of the Government in receiving deposits of securities from Federal land banks. The United States at the present time owns only a small amount of the capital stock of the Federal land banks. Funds and securities of the land banks are not the property of the Government, and a bank receiving a deposit of funds or securities of Federal land banks is not in my opinion thereby rendered a fiscal agent or a depository of the United States.

As stated above, therefore, I am of the opinion that Federal reserve banks are without legal authority to receive a deposit of funds or securities from Farm Loan Registrars, or from Federal land banks except where such deposits are made in anticipation of maturing coupons of Farm loan bonds which are to be paid by the Federal reserve banks. * * * * .

Respectfully,

George B. Vest,
Assistant Counsel.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4691

October 12, 1926.

SUBJECT: Conference Topic - Federal Reserve Bank Representation at Bankers' Conventions.

Dear Sir:

In a recent discussion of the benefits accruing as a result of representation of the Federal Reserve banks at bankers' conventions, question arose as to the necessity for a given Federal Reserve bank arranging to send more than one officer or employee to such a convention, at the expense of the bank, and whether or not the practice of two or more officers attending bankers' conventions at the expense of a Federal Reserve bank and with the loss to the bank of their services for a period of several days, is entirely justified. With the thought that it might be possible for the Governors and Chairmen of the Reserve banks to work out some uniform practice to be followed with respect to the extent to which Federal Reserve banks should be represented at bankers' conventions, it was suggested that this matter be made the subject of discussion by the forthcoming conferences.

Very truly yours,

Edmund Platt,
Vice-Governor.

TO ALL GOVERNORS AND FEDERAL
RESERVE AGENTS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4692

October 13, 1926

SUBJECT: Topic for Next Conference of Governors.

Dear Sir:

As you were advised in the Board's letter of May 11th, 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 parent corporations representing borrowings of funds to be advanced to subsidiaries. These questions are discussed in the Board's letters of December 30, 1925, (X-4484), March 12, 1926 (X-4560, X-4560a, X-4560b) and May 11, 1926, (X-4602). Copies of these letters are enclosed herewith for your information in this connection.

On the occasion of the last meeting of the Federal Advisory Council, which was held in Washington on September 17, there was a purely informal discussion of this subject between the Federal Reserve Board and the Federal Advisory Council, during which it was developed that the facts in the case which gave rise to above mentioned letters may have been incorrectly stated to the Board; and that if they had been correctly stated, it might have been possible for the Board to declare this paper eligible for rediscount on a theory entirely different from the theory on which it has heretofore been discussed. Heretofore it has been assumed that the payment of money by the parent corporation to the subsidiaries is in the nature of a loan to the subsidiaries; but it now appears that such payments may possibly be considered payments on account of goods purchased for future delivery, in which event they would be payments for a commercial purpose rather than a finance purpose.

During this discussion it was represented to the Board that the subsidiaries to which the M.A. Hanna Company makes advances are under contract to deliver to the M. A. Hanna Company in the spring pig iron, ore, etc., produced during the winter months and that such goods are billed to the Hanna Company by the subsidiaries and are sold by the Hanna Company, which collects the money, deducts the amount of "advances", and remits to the subsidiaries the balance due them. It was then suggested that, if the transaction between the Hanna Company and its subsidiaries involves an actual, bona fide sale by the subsidiaries to the parent corporation and a re-sale by the parent corporation <u>for its own account</u>, the payment of money by the parent corporation to the subsidiaries might be construed to be an advance payment on account of the purchase of goods for future delivery rather than a loan. It was recognized, however, that the question as to the true nature of such a payment would be a very close question which could not be determined until after a very careful

scrutiny of the facts and of the contractual relation existing between the parent corporation and the subsidiary. The ultimate determination of this question would depend very largely upon the existence of a bona fide contract between the parent corporation and the subsidiary for the purchase of goods for future delivery at a fixed price. Such a contract would necessarily result in the parent corporation assuming the ultimate credit risk on the re-sale of the goods and taking the profit or loss resulting from the price realized on such re-sale.

As indicated above, this discussion was purely informal, and this new aspect of the problem has not yet been formally submitted to the Federal Reserve Board for a ruling. This information is being furnished to you, therefore, merely in order that you may be advised of the possible further developments in connection with this problem.

Very truly yours,

Edmund Platt,
Vice-Governor.

(Enclosures)

To Governors of all F. R. Banks.

X-4484

December 30, 1925.

SUBJECT: Eligibility for Rediscount of Notes of Corporation Representing Borrowings of Funds to be Advanced to Subsidiaries.

Dear Sir:

The Federal Reserve Board has recently had occasion to rule upon the eligibility for rediscount at a Federal reserve bank of notes of a parent corporation representing borrowings by the parent corporation of funds to be advanced to its own subsidiaries.

In the particular case presented to the Board for a ruling it appeared that formerly member banks took the notes of the subsidiaries with the endorsement of the parent corporation and that such notes were considered eligible for rediscount at Federal reserve banks; but that recently the parent corporation had decided that it would be better and simpler financing for it to borrow all funds to be used by it or its subsidiaries on its own notes and to make advances from such borrowings to its subsidiaries. Two of the Federal reserve banks, however, took the position that, under the regulations of the Federal Reserve Board, notes of the parent corporation given for funds borrowed for the purpose of making advances to its own subsidiaries must be classed as "finance paper" which is ineligible for rediscount at Federal reserve banks; and a member bank requested the Board to reconsider the question with a view of ascertaining whether a more liberal interpretation could be placed upon that provision of its regulations which pertains to finance paper.

The position taken by the Federal reserve banks in this matter is in accordance with a strict technical interpretation of that provision of the Board's regulations which provides that in order for paper to be eligible for rediscount the proceeds of such paper must have been used "in the first instance" for an eligible purpose and that paper "the proceeds of which have been or are to be advanced or loaned to some other borrower" is not eligible for rediscount. Upon further consideration of this question, however, the Board reached the conclusion that this is an unnecessarily strict interpretation of its regulations in cases of this kind, and the Board ruled 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 advances except 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 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.

Very truly yours,

D. R. CRISSINGER,
Governor.

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

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 advances except 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

FEDERAL RESERVE BANK
OF CLEVELAND

176

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 rr, 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.

X-4602

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

X-4693

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

October 13, 1926.

SUBJECT: TOPIC FOR THE GOVERNORS' CONFERENCE.

Dear Sir:

The Board has voted to place upon the program for the next conference of Governors the question whether the Board's Regulation A should be amended so as to make eligible for rediscount or purchase by Federal reserve banks a bankers' acceptance drawn by an elevator or warehouse company and secured by terminal warehouse receipts issued by the elevator or warehouse company that draws the draft.

For your information in connection with this matter there are enclosed herewith copies of certain correspondence and memoranda discussing this question.

Very truly yours,

Walter L. Eddy,
Secretary.

To all Governors.

Enclosures

August 23, 1926.

Mr. E. R. Kenzel,
Deputy Governor,
Federal Reserve Bank of New York,
New York City, New York.

Dear Mr. Kenzel:

I have your letter of August 20th with reference to bankers' acceptances drawn by an elevator or warehouse company and secured by terminal warehouse receipts of the company that draws the draft. You state that you assume that the Board's action in postponing the consideration of an amendment to Regulation A on this subject until after the next Governors' Conference would not necessarily preclude a ruling by the Board along the lines indicated in the last paragraph of Governor Young's letter to Mr. Eddy dated July 26th.

At the time when the Board decided to refer this matter to the next Governors' Conference it had under consideration not only the proposed amendment to Regulation A but also the proposal made in Governor Young's letter that the Board so interpret its present regulations as to make eligible the acceptances under consideration. The Board's action in deferring this matter was intended to include both of these proposals and consideration of the entire subject was postponed until the next Conference of Governors.

Very truly yours,

(signed) J. C. Noell,

J. C. Noell,
Assistant Secretary.

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FEDERAL RESERVE BANK

OF NEW YORK

August 20, 1926.

J. C. Noell, Esq.,
Assistant Secretary, Federal Reserve Board,
Washington, D.C.

Dear Mr. Noell:

I have your letter of August 18, advising me that after careful consideration the Board has decided to refer back to the Conference of Governors for further consideration an amendment to Section X (3) of Regulation A, which was discussed at the last conference, and thank you for the information.

I assume that this would not necessarily preclude a ruling by the Board meanwhile along the lines indicated in the last paragraph of Governor Young's letter to Mr. Eddy, dated July 26, 1926. If that were done it would, I think, serve the Minneapolis and St. Paul banks quite as well during the approaching grain season, which is almost upon us and which, from all accounts, I surmise will bring pretty heavy demands on the banks in that section.

Very truly yours,

(signed) E. R. Kenzel

E. R. Kenzel,
Deputy Governor.

ERK/VRM

August 18,
1926.

Mr. R. A. Young, Governor,
Federal Reserve Bank of Minneapolis,
Minneapolis, Minn.

Dear Sir:

The Board has given careful consideration to the matter of adopting an amendment to section X(3) of its Regulation A as proposed by the last Governors' Conference so as to make eligible for rediscount or purchase by Federal reserve banks a bankers' acceptance drawn by an elevator or warehouse company and secured by terminal warehouse receipts of the elevator or warehouse company that draws the draft.

Although this subject was discussed at the last Conference of Governors, it was not on the program and the stenographic record indicates that the Governors had not had a sufficient opportunity to study the question. Since the Conference took place some question has arisen as to whether the adoption of the amendment to the regulations in the form proposed would properly accomplish the desired purpose.

In view of these facts the Board believes that this matter should be given further consideration by the Governors' Conference before being acted upon by the Board and has accordingly decided to put it upon the program for further discussion at the next conference of Governors.

Very truly yours,

(signed) J. C. Noell

J. C. Noell,
Assistant Secretary.

GBV OMC

X-4693-d

Aug. 10, 1926.

Federal Reserve Board

Mr. Wyatt - General Counsel

Bankers' acceptances secured by terminal warehouse receipts issued by the borrower.

Pursuant to the instructions issued by the Board at its meeting of August 6th, I have drafted and respectfully submit herewith a proposed ruling which would permit Federal reserve banks to rediscount or purchase on the open market bankers' acceptances secured by registered terminal warehouse receipts issued by the borrowers when such receipts conform to the essential conditions prescribed in the attached correspondence.

I feel it my duty, however, to advise the Board that, in my opinion, it would be unwise to issue a ruling of this kind and that if the Board desires to make acceptances of this kind eligible for rediscount, it would be much wiser to do so by means of an amendment to Regulation A along the lines of that recommended by the last Governors' Conference. I have, therefore, taken the liberty of preparing and respectfully submit herewith a revised draft of the proposed amendment to Regulation A which, in my judgment, will meet most of the objections raised by Mr. Kenzel.

I respectfully request permission to discuss this subject orally with the Board when it comes up for definite action.

Respectfully,

(signed) Walter Wyatt

Walter Wyatt,
General Counsel.

(PROPOSED RULING OF THE FEDERAL RESERVE BOARD.)

BANKERS' ACCEPTANCES SECURED BY TERMINAL GRAIN ELEVATOR OR WAREHOUSE RECEIPTS ISSUED BY THE BORROWER.

Notwithstanding that provision of Section X(3) of Regulation A which requires that, in order to be eligible for rediscount by Federal reserve banks, bankers' acceptances issued to finance the storage of readily marketable staples must be secured at the time of acceptance by warehouse, terminal or other similar receipts, issued by a party independent of the borrower, the Federal Reserve Board has ruled that Federal reserve banks may rediscount bankers' acceptances drawn by terminal grain elevator or warehouse companies and secured by terminal grain elevator or warehouse receipts issued by the drawers; provided that:

(1) Such terminal grain elevator or warehouse company is duly bonded and licensed and is regularly inspected by State or Federal authorities with whom all receipts for grain and all transfers thereof are registered and without whose consent no grain can be withdrawn;

(2) Under the laws of the State in which such terminal grain elevator or warehouse is located, as interpreted by the courts of such State, such receipts give the holder good legal title to, or an effective legal lien on, grain of the amount and quality for which such receipt is issued, which title or lien is good as against bona fide purchasers and general creditors; and

(3) Such acceptances comply in all other respects with the relevant provisions of the Federal Reserve Act and the regulations and rulings of the Federal Reserve Board.

This ruling is designed to give recognition to receipts issued by terminal grain elevator or warehouse companies located in certain States the laws of which provide for the supervision of such elevator or warehouse companies and the registration of receipts to such an extent that in practical effect, the grain is under the control of State officials independent of the issuing warehouse or elevator. Such State supervision and control is believed sufficient to warrant the Federal Reserve Board in making an exception to its general rule that warehouse receipts securing bankers' acceptances issued to finance the storage of readily marketable staples must be issued by a party independent of the borrower.

PROPOSED AMENDMENT TO REGULATION A.

BE IT RESOLVED by the Federal Reserve Board that Section X (3) of Regulation A be amended to read as follows:

"(3) The storage of readily marketable staples, provided that the bill is secured at the time of acceptance by a warehouse, terminal, or other similar receipt, conveying security title to such staples, issued by a party independent of the customer or issued by a terminal grain elevator or warehouse company duly bonded and licensed and regularly inspected by State or Federal authorities with whom all receipts for grain and all transfers thereof are registered and without whose consent no grain can be withdrawn; and provided further that the acceptor remains secured throughout the life of the acceptance. In the event that the goods must be withdrawn from storage prior to the maturity of the acceptance or the retirement of the credit, a trust receipt or other similar document covering the goods may be substituted in lieu of the original document, provided that such substitution is conditioned upon a reasonably prompt liquidation of the credit. In order to insure compliance with this condition it should be required, when the original document is released, either (a) that the proceeds of the goods will be applied within a specified time toward a liquidation of the acceptance credit or (b) that a new document, similar to the original one, will be resubstituted within a specified time."

August 10,
1926.

(COPY)

X-4693-g

FEDERAL RESERVE BANK 186

OF MINNEAPOLIS

July 26, 1926

Mr. Walter L. Eddy, Secretary,
Federal Reserve Board,
Washington, D.C.

Dear Mr. Eddy:

This will acknowledge receipt of your letter of July 24, enclosing copy of letter of Mr. E. R. Kenzel, Chairman of the General Committee on Bankers Acceptances, dated July 9, to Mr. Walter Wyatt.

Mr. Kenzel is correct in his interpretation of rules numbers 63, 64 and 65, adopted by the Railroad & Warehouse Commission of the State of Minnesota. It is not compulsory for an elevator in this state to issue receipts for all the grain stored. Likewise, it is not compulsory for these receipts to be registered. Therefore, the receipts of an elevator company in the state of Minnesota may be good, or may not be good. However, an elevator company may issue receipts for all grain stored and may have the receipts registered by a representative of the State Department, as to quantity and grade.

The Twin City bankers long ago recognized that if receipts were to be good security, receipts should be issued for all grain stored and that such receipts should be registered by the State Department, and, in reality, be under state control. In fact, a regular registered terminal warehouse receipt is the only security that a northwestern banker can accept on the domestic storage of grain and feel absolutely sure of what he is getting. The Twin City bankers would not care to accept many receipts that are issued by elevators in this state that comply with the law. Therefore, the amendment to Subdivision 3 of Section 10 of Article B of Regulation A, was worded in such a way so that the receipts of elevators that were not bonded, that did not issue receipts for all of the grain stored in their elevators, or that did not have the receipts registered, would be excluded.

I am still convinced that the suggested amendment will cover the situation and throw out the proper safeguards. Nevertheless, I cannot help but feel that the whole question could be handled much better if Mr. Kenzel's suggestion be adopted - that is, that the Board interpret its own regulations to mean that regular registered terminal warehouse receipts constitute documents for commodities so controlled by a third party independent of the borrower, as to make them good and eligible collateral.

Yours respectfully,

(signed) R. A. Young
R. A. Young,

July 24, 1926.

Dear Governor Young:

There is enclosed herewith copy of a letter addressed to the Board under date of July 9th by Mr. Kenzel, Deputy Governor of the Federal Reserve Bank of New York, which is self-explanatory. It is requested that you advise the Board of your views on the matters discussed in Mr. Kenzel's letter.

Very truly yours,

Walter L. Eddy,
Secretary.

Mr. R. A. Young, Governor,
Federal Reserve Bank,
Minneapolis, Minn.

(Enclosures)

(COPY)

X-4693-i

July 13, 1926.

To Federal Reserve Board

From Mr. Wyatt - General Counsel

Subject: Bankers' Acceptances secured by terminal warehouse receipts issued by the borrower.

At the last Governors' Conference, the Conference voted to request the Board to amend Section X(3) of Regulation A to read as follows, the words underlined being added to the present regulation:

> "(3) The storage of readily marketable staples, provided that the bill is secured at the time of acceptance by a warehouse, terminal, or other similar receipt, conveying security title to such staples, issued by a party independent of the customer or issued by a terminal grain elevator company duly bonded and licensed and regularly inspected by State or Federal authorities with whom all receipts for grain and all transfers thereof must be registered and without whose consent no grain can be withdrawn; and provided further that the acceptor remains secured throughout the life of the acceptance. In the event that the goods must be withdrawn from storage prior to the maturity of the acceptance or the retirement of the credit, a trust receipt or other similar document covering the goods may be substituted in lieu of the original document, provided that such substitution is conditioned upon a reasonably prompt liquidation of the credit. In order to insure compliance with this condition it should be required, when the original document is released, either (a) that the proceeds of the goods will be applied within a specified time toward a liquidation of the acceptance credit or (b) that a new document, similar to the original one, will be resubstituted within a specified time."

The purpose of this proposed amendment is to make eligible for rediscount or purchase by Federal reserve banks, bankers' acceptances drawn by an elevator company and secured by a terminal warehouse receipt of the elevator company that draws the draft.

OPINION

In my opinion, the Board may legally adopt and promulgate this amendment to its regulations. The question whether it should do so is a question of policy to be decided by the Board.

DISCUSSION

This proposed amendment to the Board's regulations was first recommended by Governor Young in a letter addressed to the Board under date of September 17, 1924. The matter was referred to this office and Mr. Freeman rendered an opinion in which he stated that there was some doubt whether warehouse receipts of the kind described in Governor

Young's letter would comply with that provision of the Federal Reserve Act which requires that they convey or secure title, especially in view of the fact that the grain is stored in an elevator owned by the borrower and that the warehouse receipts are issued by the borrower to himself. Mr. Freeman stated that there is a conflict in the decided cases as to whether such a receipt does secure title to the goods or whether a bona fide purchaser of goods from the warehouseman does not take precedence over the holder of the receipt. In my opinion, the question whether these particular receipts convey a good title or give the holder a valid lien enforceable against a bona fide purchaser of the wheat, is a question which will depend upon the laws of the state in which the elevator is located and upon the construction of those laws by the courts of that state. This is a question of local law upon which this office cannot undertake to pass.

Mr. Freeman also stated that, even if such warehouse receipts could be considered as complying with the letter of the law, there would still remain an important question of policy whether the Board should make an exception to the fundamental principle heretofore established by it and uniformly adhered to, that such receipts must be issued by a party independent of the borrower. In view of the importance of this question Mr. Freeman recommended that it be considered by the Acceptance Committee of the Governors' Conference and that committee be requested to make a recommendation to the Federal Reserve Board.

The Board advised Governor Young under date of October 15, 1924, that no immediate change in the regulations was possible in such an important matter and suggested that he submit the question for consideration at the next Governors' Conference. The question, however, was not submitted to, or considered by, the Governors' Conference at that time.

Under date of September 9, 1925, Governor Young again brought up this question and urged an early ruling upon it. Mr. Mitchell came to Washington to discuss the question with the Board and, by direction of the Board, this office prepared a proposed form of amendment designed to accomplish what the Federal Reserve Bank of Minneapolis and its member banks desired. This amendment was prepared after a discussion with Mr. Mitchell and he was entirely satisfied with it. At the Board meeting on September 29, 1925, the matter was discussed informally by the Board with Mr. Mitchell. No definite action was taken by the Board because the matter had never been passed upon by the Governors' Conference. The discussion resulted in an informal understanding to the effect that the Board would not consider the adoption of any such amendment to its regulations without the question having first been considered by the Governors' Conference and that, if the Federal Reserve Bank of Minneapolis desired to have the subject considered by the Governors' Conference,

Governor Young should have it put on the program for discussion at the next Governors' Conference.

This subject was finally put on the program for discussion at the last Governors' Conference and the Conference recommended the adoption of the proposed amendment to Regulation A.

Under date of July 2nd, Mr. Kenzel, Chairman of the General Committee on Banking Acceptances, addressed a letter to the Board in which he suggested that, in view of the close approach of the grain marketing season, it would be desirable for the Board to deal with this question at its early convenience. I have had some further correspondence with Mr. Kenzel on this subject, which develops the fact that Mr. Kenzel fears that the proposed amendment is so strictly worded that it would be difficult for the terminal elevator companies to comply with its requirements. In this connection I desire to call attention to the fact that the amendment recommended by the Governors' Conference was drafted by this office at the Board's direction and after thorough consultation with Mr. Mitchell. Mr. Mitchell and I discussed the subject personally at great length, and Mr. Mitchell was thoroughly satisfied with the language of the amendment and advised me that it would satisfactorily fit the practical situation in his district. In view of these facts, I am inclined to think that Mr. Kenzel's fears are unfounded, though I cannot undertake to interpret the Minnesota law, which is not at all clear.

The law requires that a bankers' acceptance drawn to finance the domestic storage of readily marketable staples must be secured by a warehouse receipt "conveying or securing title" to such staples; and the Board cannot waive this requirement of the law. In order to make sure that this requirement of the law is complied with, the Board has heretofore ruled uniformly, and has required by the terms of its regulations, that such receipts must be issued by a party independent of the borrower. If, under the laws of the state in which the warehouse or elevator is located, a receipt like that described in Governor Young's letter is held by the courts to convey valid title to the grain and to give the holder a valid lien on such grain which is good against a bona fide purchaser of the grain, the Board would waive the requirement of its regulations that such receipt be issued by a party independent of the borrower. The question whether, even under these circumstances, the Board should waive this fundamental requirement of its regulations, however, is an extremely important question of policy.

The attached draft of a proposed amendment to Regulation A would make an exception to the requirement that the warehouse receipt be issued by a party independent of the borrower, but would not waive the requirement of the law that such receipt must convey or secure title. The question whether receipts securing bankers' acceptances comply with the law as conveying or securing title would in each instance be a question for determination by the Federal re-

serve bank upon the advice of local counsel; because the court decisions in the various states are in such conflict upon this subject that the Board could not well attempt to issue any general ruling on it.

I wish to make it clear that this office does not recommend the adoption of this amendment. If, however, the Board decides to adopt this amendment, I respectfully suggest that the matter is not of sufficient general importance to warrant the publication of a new edition of the regulations at this time, and that the matter could be sufficiently covered by the publication of the amendment in the Federal Reserve Bulletin. Such a statement in the Federal Reserve Bulletin should call particular attention to the fact that this amendment to the Regulations does not waive the requirement of the law that such warehouse or terminal receipts must convey good security title and that under the regulation as amended it is essential that, such terminal or warehouse receipts must actually convey to the holder a valid lien which is enforceable as against general creditors of the warehouse company or bona fide purchasers from the warehouse company.

For the futher information of the Board, there is attached hereto the Board's previous file on this subject and the recent correspondence with Mr. Kenzel.

Respectfully,

(Signed) Walter Wyatt,

General Counsel.

File attached.

(COPY)

X-4693-j

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FEDERAL RESERVE BANK

OF NEW YORK

July 9, 1926.

Federal Reserve Board,

Washington, D.C.

Attention: Mr. Walter Wyatt

Dear Mr. Wyatt:

Referring to our conversation this morning over the telephone as to the adequacy of the terms of Regulation A if modified as suggested by Governor Young (see page 383 of Stenographer's Minutes of the Governors Conference of March 1926), to admit as eligible security for warehouse secured bankers acceptance credits the receipts issued by the Minneapolis terminal elevators, I shall endeavor to state the doubts that arose in my mind in that regard.

The pertinent language in the proposed amendment is "or issued by a terminal grain elevator company duly bonded and licensed and regularly inspected by State or Federal authorities with whom all receipts for grain and all transfers thereof must be registered and without whose consent no grain can be withdrawn." Nothing that I have seen, either in the law of the State of Minnesota, the rules or by-laws of the Railroad and Warehouse Commission of the State of Minnesota or in any communications from bankers, indicates that the Minneapolis terminal elevator grain companies are duly bonded and licensed or that all of their receipts for grain and all transfers thereof must be registered.

I think it is quite clear from the documents which I sent to Mr.Vest on July 2 that the Bartlett Frazier Company of Minneapolis conducts its Soo Line terminal elevator as a public terminal warehouse and that it is as a public terminal warehouse rather than as a terminal grain elevator that they come within the warehouse provisions of the law.

Rule #64 adopted by the Railroad and Warehouse Commission states that holders of warehouse receipts should promptly present them, etc., for registration. You will note that it is permissive, not compulsory.

Rule #63 covering the delivery of grain on storage receipts provides for delivery of the grain upon surrender of the receipt properly indorsed. I do not see that the rule requires that the receipt shall have been registered by the Commission. Another part of the same rule authorizes the State Registration Department to accept terminal public warehouse receipts for cancellation, etc. No mention is made of registered receipts, from which I infer that some receipts may not be registered.

Rule #65 refers in its latter part to grain delivered for which no receipts have been issued, which to my mind presents the probability of the fact

that it is contemplated that grain shall be received for which no receipts are issued and which, therefore, when delivered must be delivered without the surrender of receipts.

It would seem to me, therefore, at least from these rules and lacking further definite information, that serious doubt is created in respect of the compliance of these terminal elevator receipts with the terms of the amendment suggested by Governor Young, and in every case it would be a question in which Federal reserve banks would have to ascertain the facts as to exact compliance with the proposed regulation which, in my opinion, would be a serious detriment to the ready negotiability of the bills.

If it is desired to admit this class of receipt as eligible by a change in the Regulations, in my opinion, for practical purposes the change would have to be so drafted as to relieve all apprehension or doubt as to the compliance of the collateral with the terms of the regulation. This, I consider, might well require such a general description of the collateral as would be difficult to draft in such a way as would exclude other receipts not safeguarded as the Minneapolis grain receipts are by the Railroad and Warehouse Commission, provided the holder of the receipts chooses to avail of the protection provided by the Commission.

On the other hand, carrying a little furtner the thought that I intended to convey in my letter of July 2, it has always been my understanding that the purpose of all of the Board's special rulings in respect of warehousing facilities controlled by trustees or agents of creditors was to assure that the security title would be conveyed by the warehouseman's receipt and that the physical property would be safeguarded to the creditors by a physical control as well, exercised by the trustees or agents, rather than that the signature of the actual receipt issued should be by someone other than the borrower. In fact, I am quite sure that in many credits that have been granted under these special rulings the actual receipts were executed by the borrower. Therefore, I have felt and I believe that the accepting bankers generally feel that the spirit and intent of the Regulations as interpreted by these special rulings is complied with if the physical custody of the goods pledged is made practically independent of the borrower by the supervision and acts of the trustees or agents.

It seems to me that, for practical purposes, that is a reasonable view and it was with such thoughts in mind that I attempted to state my belief that these Minneapolis terminal warehouse receipts for grain in terminal elevators, when registered by the Commission, knowing all that we now do about the physical control of the grain by the representative of the Commission, the inspection of it on receipt, the weighing it in and the weighing it out, the registration and the sealing up of the spouts at night when the agent of the Commission is absent from the elevator, constitute documents for commodities so controlled by the Commission independently of the borrower as to make them good and eligible collateral under the present regulations as modified and interpreted by the special rulings the Board has made from time to time heretofore in connection with commodities stored in the borrower's warehouses or on the borrower's premises but physically controlled by trustees or agents of the creditors.

I should be glad to discuss any other points in this matter with you at your convenience.

Very truly yours,

(signed) E. R. Kenzel
E. R. Kenzel,
Chairman, General Committee on

(COPY)

X-4693-k

194

FEDERAL RESERVE BANK

OF NEW YORK

ATTENTION OF:
MR. G. B. VEST, ASSISTANT COUNSEL

July 2, 1926

Federal Reserve Board,

Washington, D.C.

Dear Sirs:

Referring to our conversation over the telephone this afternoon with respect to the eligibility for acceptance by member banks of bankers acceptances secured by terminal elevator receipts for grain issued by Minneapolis terminal elevators or warehouses which are owned by the taker of credit and drawer of the bill but which are operated under the supervision of the Railroad and Warehouse Commission of the State of Minnesota, I am enclosing as arranged a copy of a letter recently received by Mr. Fred I. Kent, Vice President of the Bankers Trust Company and former President of the American Acceptance Council, from the First National Bank of Minneapolis, dated June 24, 1926; also copies of excerpts from the law of Minnesota pertaining to warehouse receipts and a copy of some of the rules and regulations adopted by the Railroad and Warehouse Commission of the State of Minnesota, and a photostatic copy of a warehouse receipt registered by the Railroad and Warehouse Commission, all being copies of the enclosures mentioned in the aforesaid letter of the First National Bank of Minneapolis received by Mr. Kent and loaned to me by him.

In our conversation over the telephone I referred to the fact that the real question at issue, which is whether or not warehouse receipts issued under such circumstances are issued by a warehousing concern independent of the borrower, was presented by Governor Young at the conference of governors in March, 1926, when the question was discussed and the conference acted favorably upon Governor Young's suggestion that the Board's regulations governing warehouse secured credits should be amended in such a way as was intended to include such ware house receipts as security for an eligible bill. (See Stenographic Minutes of Conference, pages 378-389).

As stated to you over the telephone, it would hardly seem to me necessary to amend the regulation as suggested to the conference if the control by the Railroad and Warehouse Commission of the grain stored in such terminal elevators is such as to make a receipt issued by the elevator company and registered by the Commission such an "other similar document" as conforms to the spirit and intent of the present regulations.

I may say that I have discussed the degree of actual security as represented by such receipts with the leading bankers in Minneapolis, with Governor McDougal and Deputy Governor McKay of the Chicago Federal Reserve Bank and with leading bankers in Chicago, and have been assured by each of them that such receipts are taken freely as collateral for loans in important

amounts by the Minneapolis and Chicago banks and are by them regarded as being absolutely safe and about the best collateral that they handle in their institutions. Each of them has referred to the practical control of the warehouses by the Commission through its representative stationed at each warehouse and had told me in effect that it would be practically impossible for the grain to be removed from the warehouse without the surrender of the receipts.

Personally, I am assured in my own mind that these terminal receipts registered by the Commission are the full equivalent of the kind of receipts intended to be required by the Board in its Regulations.

Mr. Kent had stated to me that the First National Bank of Minneapolis would have occasion during the coming grain season to extend a large amount of credit on grain in terminal elevators in Minneapolis, possibly as much as $5,000,000 and that the other banks in Minneapolis would have relative opportunities and that he himself would consider receipts issued and registered under these conditions as collateral abundantly good and entirely satisfactory to secure acceptance credits; also that it had been his intention to take the matter up with the Board through the American Acceptance Council. He, however, did not know that the matter was already before the Board and had been under discussion for some considerable period of time and he, therefore, gladly acquiesced in my suggestion that I forward you this new information which had come to him.

In view of the close approach of the grain shipping season I would respectfully suggest that it would seem desirable that the Board might deal with this question at its early convenience.

Respectfully,

(signed) E. R. Kenzel,

E. R. Kenzel,
Chairman, General Committee on
Bankers Acceptances.

ERK/VRM
Encs.

(COPY)

FIRST NATIONAL BANK

MINNEAPOLIS, MINN.

June 24th, 1926.

Mr. F. I. Kent, Vice President,
Bankers Trust Co.,
16 Wall Street, New York City.

Dear Mr. Kent:

Referring to our conversation of a few days ago regarding the eligibility of bills secured by warehouse receipts issued by the same company as the drawer of the bill. I enclose herewith photostatic copy of a terminal elevator receipt issued in accordance with the rules and regulations of the R. R. & Warehouse Commission of Minnesota. You will note the receipt reads for a specified amount of a certain grade of grain and bears a stamp showing date of registration by the R. R. & Warehouse Commission. As stated in my conversation, it is our practice to check the registration and genuineness of the receipts by presenting them at the office of the R. R. & Warehouse Commission in Minneapolis, so that we are assured of the genuineness of the collateral in our hands. The Statute distinctly states that grain can only be delivered upon delivery of the warehouse receipt.

I think I mentioned to you that terminal elevators are inspected by the R. R. & Warehouse Commission at regular intervals, and that also in each elevator is a representative of the Commission who actually checks the incoming and outgoing grain, and when this representative leaves at night, the spouts are sealed by him.

As requested by you, I enclose copies of excerpts from the Law of Minnesota pertaining to warehouse receipts, and also a copy of some of the rules and regulations adopted by the R. R. & Warehouse Commission. We feel that bills secured by these warehouse receipts conform with the requirements for eligible bills and will appreciate your assistance in having them declared eligible. Governor Young has already had the matter up before the Governors of the Federal Reserve Bank, and it is my understanding the change was approved by them and their action has been submitted to the Federal Reserve Board who now have the matter under advisement. With kindest regards, I am,

Yours very truly,

(Signed) J. G. BYAM

Vice President.

JGB'B

(COPY) X-4693-m

Chapter 28, of the General Statutes of Minnesota for 1923 covers railroads, warehouses and grain, including the power and duties of the Railroad and Warehouse Commission under Sections 5020 and 5021, as follows:

5020. - GRAIN TO BE RE-DELIVERED ON SURRENDER OF WAREHOUSE RECEIPT. - Upon return of the receipt of grain not stored in separate bins to the proper warehouseman, properly indorsed, and upon payment or tender of all advances and legal charges, grain of the same grade and quantity named therein shall be delivered to the holder of such receipt within twenty-four hours after facilities for receiving the same have been provided. The identical grain, if stored in separate bins, shall be so delivered. If such warehouseman shall fail so to deliver it, he shall be liable to the owner in damages at the rate of one cent a bushel for each day's delay, unless he shall deliver the property to the several owners in the order of demand, as rapidly as it can be done by ordinary diligence. If the warehouseman shall fail so to deliver such grain, the person entitled thereto may recover the same, if kept in separate bins, or the same amount of grain of like grade, if stored with other grain, or the value thereof, in a civil action; and such warehouseman shall also be guilty of larceny.

5021. - WAREHOUSEMAN NOT TO SELL WITHOUT AUTHORITY FROM OWNER. - No such warehouseman shall sell or otherwise dispose of or deliver out of store any grain stored in his warehouse without the express authority of its owner and the return of the storage receipt, except as herein provided, nor mix together grain of different grades in store, nor select grain of different qualities, but of the same grade, for storage or delivery, nor shall he in any way tamper with grain of others while in his possession or custody, with the purpose of securing any profit to himself or any other person, or attempt to deliver grain of one grade for that of another. Any person violating any provision of this section shall be punished by fine of not more than one thousand dollars or imprisonment in the state prison for not more than five years, or both.

RULES 61, 62, 63, 64, 65 and 66 of RULES AND REGULATIONS ADOPTED BY THE RAILROAD AND WAREHOUSE COMMISSION

Rule 61

INSPECTION AT TERMINAL WAREHOUSES

All grain received into or shipped from public terminal warehouses must be inspected by a duly authorized State Inspector and weighed by a duly authorized State Weigher.

Rule 62

WAREHOUSE RECEIPTS

Warehouse receipts in the form prescribed by law must be issued upon the application of the owner or consignee for all grain received, but only upon actual delivery of grain into store. No receipts shall be issued for a greater quantity of grain than is actually received.

Rule 63

DELIVERY OF GRAIN ON STORAGE RECEIPTS

Upon return of the receipt to the proper Warehouseman properly indorsed, and upon payment or tender of all advances and legal charges, grain of the grade and quantity named therein shall be delivered to the holder of such receipt within twenty-four hours after facilities for receiving the same have been provided.

The grain represented by said receipt is immediately deliverable and not subject to further charge for storage, and the Warehouseman shall be held in default if delivery is not made in the order demanded and as rapidly as due diligence, care and prudence will justify.

The State Registration Department is hereby authorized to accept terminal public warehouse receipts for cancellation, also loading out instructions, from parties surrendering the same, who may have taken delivery of wheat on May, July and other future contracts. The Registration Department shall furnish to such receipt holders, blank forms in triplicate of the surrender notice and loading out instructions, and upon surrender of the receipts to the Department by the holder thereof, accompanied by surrender notice and loading instructions, said receipts shall be cancelled by the Department and returned to the terminal company issuing the same, taking duplicate receipts therefor, one to be retained by the Department and the other returned to the party surrendering said receipts.

Rule 64

HOLDERS OF RECEIPTS TO PRESENT SAME FOR REGISTRATION

Holders of warehouse receipts should promptly present them at the office of the Warehouse Registrar for registration, and upon the delivery of grain represented by any of the said receipts such receipts shall be immediately cancelled and shall thereafter be void and not again placed in circulation.

Rule 65

WAREHOUSEMAN'S DAILY REPORT TO REGISTRAR

Warehousemen must state in their daily reports to the Registrar the amount of each kind and grade of special bin grain received or delivered; also what warehouse receipts representing such grain have been cancelled, giving number of each receipt and the amount, kind and grade received and delivered upon each; they must also state the amount, kind and grade of all other grain delivered, for which no receipts have been issued; also show when and how such unreceipted grain was received.

Rule 66

WAREHOUSEMAN'S STATEMENT

It shall be the duty of Public Warehousemen on or before Tuesday morning of each week to make a statement, under oath, of the amount of each grade of grain in store in his warehouse at the close of business on the previous Saturday, and shall furnish to the Warehouse Registrar and Railroad and Warehouse Commission such daily and weekly statements as they may require.

(COPY)

200

X-4693-o

September 29,1925.

PROPOSED AMENDMENT TO REGULATION A, ARTICLE B, SECTION X, SUBDIVISION (3).

In order to effect the amendment suggested by Governor Young of the Federal Reserve Bank of Minneapolis in his letter of September 9, 1925, Mr. John R. Mitchell, at a meeting of the Federal Reserve Board today, suggested that Subdivision (3) of Section X, of Article B, of Regulation A, be amended to read as follows, the words in capital letters being inserted:

"(3) The storage of readily marketable staples, provided that the bill is secured at the time of acceptance by a warehouse, terminal, or other similar receipt, conveying security title to such staples, issued by a party independent of the customer OR ISSUED BY A TERMINAL GRAIN ELEVATOR COMPANY DULY BONDED AND LICENSED AND REGULARLY INSPECTED BY STATE OR FEDERAL AUTHORITIES WITH WHOM ALL RECEIPTS FOR GRAIN AND ALL TRANSFERS THEREOF MUST BE REGISTERED AND WITHOUT WHOSE CONSENT NO GRAIN CAN BE WITHDRAWN; and provided further that the acceptor remains secured throughout the life of the acceptance. In the event that the goods must be withdrawn from storage prior to the maturity of the acceptance or the retirement of the credit, a trust receipt or other similar document covering the goods may be substituted in lieu of the original document, provided that such substitution is conditioned upon a reasonably prompt liquidation of the credit. In order to insure compliance with this condition it should be required, when the original document is released, either (a) that the proceeds of the goods will be applied within a specified time toward a liquidation of the acceptance credit or (b) that a new document, similar to the original one, will be resubstituted within a specified time."

(COPY)

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FEDERAL RESERVE BANK X-4693-p

OF MINNEAPOLIS

September 9, 1925.

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

Dear Governor Crissinger:

Under date of September 17, 1924, I wrote you in reference to acceptances in this district, which our larger banks were executing on domestic storage of grain. Copy of my letter is enclosed herewith, which will be self-explanatory. Under date of October 15, 1924, Mr. Platt replied to my communication upon behalf of the Board, and suggested that the matter be discussed before the Governors' Conference. I also received a letter from Mr. Cunningham in reference to the matter, dated October 16, 1924. Inasmuch as I was going to Washington, I did not reply to their communications by letter, but discussed the matter with them in detail when I was in Washington.

It appears to our people that these acceptances are entirely legitimate and secured by a receipt that is just as good as that of an independent elevator. Some of our banks are again accepting in this manner, and while there is nothing to prohibit them from doing it, that I know of, still I have to inform them that there is a question about their eligibility for purchase or discount by a Federal Reserve Bank.

I do not know that it is absolutely necessary to finance by this method at the moment, but at the same time I am satisfied that the time will come when our banks will have to resort to the acceptance form of credit to enable them to handle the marketing of grain in an orderly and systematic way. I therefore would appreciate it very much if the Board would again consider the request of our people, and see if it is not possible to amend the regulations in such a way as to permit acceptances of terminal elevator companies, which are under State supervision, to be eligible for discount or purchase at a Federal Reserve Bank, even if such acceptances are secured by regular, registered, terminal warehouse receipts of the elevator that draws the draft. I do not see how it is possible for me to give any more information in reference to the transaction other than was contained in my letter of September 17, and the verbal talks I have had with Messrs.Cunningham and Platt. Nevertheless, Mr. Mitchell contemplates being in Washington in the very near future, and if there are additional inquiries which you care to make of him, he is thoroughly familiar with the transaction and can explain the details.

I would appreciate a ruling on this question as soon as possible after your interview with Mr. Mitchell,because some of our banks are anxious to get a reply.

Yours respectfully,
(signed) R. A. Young
R. A. Young

(COPY) X-4693-q

October 15, 1924.

Dear Governor Young:

The Board, at its meeting on Tuesday, considered the points raised in your letter of September 17th, suggesting a change in Section X, Article B, of Regulation A, so that acceptances based upon terminal elevator warehouse receipts covering the storage of their own grain might be made eligible for discount by Federal reserve banks, and directed me to reply that no immediate change in the Regulations is possible in such an important matter. This question is not a new one and there is at least some doubt as to the power of the Board to amend the Regulations in the desired manner under the law. The question of policy involved is so important that the Board suggests that you submit this for consideration at the forthcoming conference of Governors.

I have heard the suggestion made that the control of grain in these elevators by the State Railroad and Warehouse Commission is so complete their operation is practically that of independent warehouses. A full statement of the facts involved in the operation of checking in and checking out grain should be made.

Very truly yours,

(Signed) Edmund Platt

Vice Governor.

Mr. R. A. Young, Governor,
Federal Reserve Bank,
Minneapolis, Minn.

(COPY)

X-4693-r

203

FEDERAL RESERVE BANK

OF MINNEAPOLIS

September 17, 1924.

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

Dear Governor Crissinger:

It has been the practice of terminal elevator companies in this district to establish an acceptance credit with local banks on the domestic storage of grain. The elevator company draws on the bank, which accepts, and such acceptance is secured by regular registered terminal warehouse receipts of the elevator company that draws the draft. This form of acceptance was recently referred to our Counsel, and I am sending herewith a copy of his opinion. You will observe that in Judge Ueland's opinion such acceptances are not eligible for discount or purchase by a Federal Reserve Bank. Nevertheless, the acceptances are so well secured that I am writing to you to see if it would not be possible to have the Board amend its regulation in such a way that acceptances of this class would be eligible for discount or purchase by a Federal Reserve Bank, and in making such suggestion I offer the following:

A terminal elevator in Minnesota is under strict supervision and control of our State Railroad & Warehouse Commission. All grain that is stored in the elevator is checked in by a representative of the State Railroad & Warehouse Commission as to grades and weights. All grain is checked in like manner that is removed from the elevator. Therefore, if an elevator company issues a negotiable terminal warehouse receipt against grain stored in its own elevator, the grain cannot be removed from the elevator except with the knowledge and permission of a representative of the State Railroad & Warehouse Commission. There is one exception to this statement. It would be possible for the elevator company to move the grain between 6 o'clock in the evening and 7 o'clock the following morning. However, the possibility of an elevator company removing grain from its own elevator during these hours is almost negligible and need not be considered, because the only way it could remove any great amount would be by box cars, and the railroads would not handle the grain between those hours. Even if it is admitted that it is possible to remove a portion of the grain between these hours, the State has thrown out an additional safe-guard by requiring the elevator company to furnish a bond of 15¢ a bushel on the elevator's capacity. In the case of the Electric Steel Elevator Company the bond is for $600,000. In addition to this, every terminal elevator in the Twin Cities is under the direct surveillance of our local Chamber of Commerce, i. e. a representative of the Chamber of Commerce can check any terminal elevator as to bushels and grades at any time. I am informed that this is done regularly by the Chamber of Commerce about every three weeks. I point out these facts to show that every possible safe-guard

has been taken to protect the delivery of the grain when the holder of a receipt demands delivery. In other words, a regular registered terminal warehouse receipt issued by the elevator company that draws the draft is just as good collateral as a receipt issued by a party independent of the drawer.

It will be suggested that an independent company be organized to take custody of the grain, but even if such a company was organized and it issued a regular registered warehouse receipt under state supervision, it would not be any better collateral, and if it issued its warehouse receipt without state supervision, it would not be as good. It may also be suggested that the elevator company store the grain in an independent elevator, if they contemplate financing by acceptances. However, an elevator's profit comes largely from its storage charges, and if it has to pay storage charges, it would have to get the additional profit either from the buyer or the seller. Of course it would be impossible to get it from the buyer, and it would be the same old story that the grower of the grain - the farmer - would have to stand the expense. We are right in the middle of a crop moving period, and it means everything to our agricultural interests to have grain moved with as little expense as possible. If it should be announced at this time that these bills are ineligible, they would naturally sell at a higher rate in the open market. It therefore seems to me, because of the safe-guards that have been placed around the warehouse receipts, that it would be entirely proper and advisable for the Federal Reserve Board to amend its Regulation A, Series 1924, Article 3, subdivision (3) in such a way as to permit acceptances of our terminal elevator companies that are under state supervision to be eligible for discount or purchase by a Federal Reserve Bank, even if such acceptances are secured by regular registered terminal warehouse receipts of the elevator that draws the draft.

I feel that this matter is urgent and would appreciate it very much if the Board would act favorably upon my suggestion.

Yours respectfully,

(Signed) R. A. YOUNG

Governor.

P. S. I have referred this letter to Mr. Mitchell and he approves of my suggestion.

(COPY)

X-4693-s 205

September 15, 1924.

Mr. John R. Mitchell, Chairman,
Board of Directors,
Federal Reserve Bank
of Minneapolis.

Dear Sir:-

In connection with the letter from Mr. Curtiss of the Federal Reserve Bank of Boston of August 9th inquiring concerning the eligibility of a banker's acceptance drawn by the Electric Steel Elevator Company or the Russell-Miller Milling Company of this city and secured by the grain warehouse receipts of the Elevator Company, I submit the following for your information:

Regulation A, Series 1924, Article B, subd. (3) provides that such an acceptance is to be secured "at the time of acceptance by a warehouse, terminal, or other similar receipt, conveying security title to such staples, issued by a party independent of the customer".

The Elevator Company is a public terminal warehouse, independent in point of law of the Russell-Miller Milling Company, and a banker's acceptance of the Milling Company, secured by the warehouse receipts of the Elevator Company, is clearly eligible.

As a public terminal warehouse the Elevator Company is under very strict supervision and control by our State Railroad and Warehouse Commission. The law on that subject in found in Chap.201, Laws 1923. It requires license from the State, and bond to the State

to secure the warehouse receipts. The bond in this instance is for $600,000. The grain taken into the warehouse is weighed and graded by State employees. The Elevator Company is required to make daily reports to the Commission of grain taken out and of cancellation of the receipts for the same, and of the grain remaining from time to time under outstanding receipts. The law, in short, places the warehouse under such rigid State control so as to make the receipts most excellent security. The Commission having constant information about the grain in the warehouse and the outstanding receipts, it is the practice here to have its registrar certify on the receipts that the grain called for is actually in the warehouse. But while this is the practice such a certification is not mandatory under the law, and a receipt issued without that certification is valid, and entitles the holder to the grain called for. It has been suggested that in effect the grain is in the custody of the Commission and that the receipts are therefore within the ruling of the Board reported in Vol. 9, page 1194, Federal Reserve Bulletin, 1923, concerning coal on the Duluth docks. I do not think this can be successfully claimed. The storage receipts for coal in that case were issued by a storage company which held the title to the coal as trustee and had possession and custody of the coal, independent of any control on the part of the drawer of the acceptance. In the present instance, notwithstanding the supervision and control of the Railroad and Warehouse Commission, and the excellence of the storage receiptsas security, the Elevator Company must be conceded

to be the custodian of the grain represented by the receipts. The receipts are hence not "issued by a party independent of the customer".

What is said above applies exclusively to the question of eligibility for discount in a Federal reserve bank.

(Signed) A. UELAND
Counsel.

AU*MS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4694

October 13, 1926.

SUBJECT: Topic for Governors' Conference.

Dear Sir:

At the last Conference of Governors it was voted that the Counsel of the several Federal reserve banks be asked to prepare an opinion on the advisability of seeking an amendment to the law to restore to Federal courts jurisdiction over suits by and against Federal reserve banks, and that all of these opinions when prepared should be forwarded to the Governor of the Federal Reserve Board. Accordingly several of the Counsel to the Federal reserve banks have forwarded to the Governor of the Board opinions on this question. Counsel to some of the other Federal reserve banks have expressed their opinions in letters addressed to the Board's General Counsel.

In order that the Board may have an expression of the views of the Governors on this question in the light of the opinions rendered by the several counsel, the Board has voted to place this topic upon the program for the forthcoming Conference of Governors. For your information in this connection there are enclosed herewith a copy of a memorandum on this subject prepared by Counsel to the Federal Reserve Board and also copies of the opinions which have been rendered by counsel for the Federal reserve banks. There are also enclosed a letter received by the Board from Mr. Dewey, Assistant Secretary of the Treasury, asking that the Federal Land Banks and the Joint Stock Land Banks be included in any request for legislation of this kind, and a copy of the Board's reply thereto.

Very truly yours,

Walter L. Eddy
Secretary.

Enclosures

FOR GOVERNORS OF ALL F. R. BANKS

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 benefiting 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 214

February 25, 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.

COPY

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.

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

(COPY)
FEDERAL RESERVE BANK
OF NEW YORK X-4694-a

March 12, 1926

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

Dear Mr. Wyatt:

I have received your letter of March 10, with the enclosure, relative to amendments to Federal legislation in regard to the jurisdiction of the Federal courts over suits by and against Federal reserve banks and exemption of reserve banks from the process of attachment and garnishment before final judgment in any case.

I have advised Governor Strong that I think legislation along these lines is highly desirable and that I think an amendment in substantially the form of the amendment which you propose in paragraph 3 of page 3 of your memorandum to the Board will afford relief, so far as the question of Federal jurisdiction is concerned. I have also advised the Governor that I think that perhaps a decision as to what form of relief to ask of Congress and in what manner and at what time it shall be brought up can best be reached by the Governors' Conference after reviewing the legislative needs of the System and after possible inquiry of members of Congress and of others, if there are any, interested in procuring amendments to the Federal Judicial Code. I do not feel it is possible for me to say more along the lines of procedure at the present time.

With kind regards,

Very truly yours,

(Signed) L. R. Mason

L. R. Mason
General Counsel.

(COPY)
Williams & Sinkler
Attorneys at Law
Philadelphia

X-4694-b

April 30, 1926

Hon. George W. Norris, Governor,
Federal Reserve Bank,
925 Chestnut Street, Philadelphia.

Dear Governor Norris:

I am writing in reply to your letter of the 19th inst. requesting an opinion on "the advisability of seeking an amendment to the law in order to restore to Federal courts jurisdiction over suits by and against Federal Reserve Banks." I note that this request is being made to counsel for the several Federal Reserve Banks pursuant to resolution adopted at the recent Conference of Governors.

I wrote you on March 12, 1926, after receiving a memorandum on this subject from Mr. Wyatt, Counsel for the Federal Reserve Board, informally expressing my view that such an amendment would be very desirable and that the best form it could take would be the third of three suggestions made by Mr. Wyatt in the memorandum referred to. Since the receipt of your letter of the 19th inst. I have had an opportunity to consider more carefully the decisions bearing on the subject in connection with the legislation establishing and limiting the jurisdiction of Federal courts. The result of this further consideration of the subject has merely been to strengthen the view previously expressed to you.

I think that there would be obvious disadvantage in amending either the Judicial Code or the Federal Reserve Act, to provide that for jurisdictional purposes the Federal Reserve Banks shall be deemed to be citizens of the states in which their principal offices are located. It would seem that merely to amend 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 is still less to be desired. The objections to these first two suggestions in Mr. Wyatt's memorandum are, I think, sufficiently indicated by him to render further discussion on my part unnecessary.

The Act of February 13, 1925, which has had the effect of depriving Federal Courts of jurisdiction in a suit by or against a Federal Reserve Bank, unless the initial pleading on the part of the plaintiff actually raises a question necessarily involving the interpretation of the Constitution of the United States or some Federal Statute, provides in Section 12 as follows:

> "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."

The amendment suggested by Mr. Wyatt, which appears to me the most desirable under all the circumstances, is to change the proviso in this section to read 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."

Though not specifically referred to in your letter, or in the Resolution adopted by the Conference of Governors, I should perhaps add that it would seem to me important in connection with the amendment particularly referred to that a further amendment should be sought to relieve Federal Reserve Banks as National Banks are now relieved under the provisions of Section 5242 of the Revised Statutes from being subject to the process of attachment and garnishment before final judgment in any case. It would seem even more appropriate that the Federal Reserve Banks should have the benefit of such exemption than National Banks. Even without the benefit of this statutory exemption the status of a national bank as a citizen of the state in which it is located would place it in a better position in this respect than a Federal Reserve Bank. The disadvantages would in my judgment very clearly outweigh the advantages of establishing by legislation each Federal Reserve Bank as a citizen of the state in which its principal office is located or as a citizen of each of the states within its district. Reasons for localizing ordinary commercial banks do not apply to Federal Reserve Banks. The governmental functions of Federal Reserve Banks are such that if for no other reason I should consider it desirable that their status as corporations of the United States and not of any state or states should continue. I should therefore think, especially if an amendment such as suggested above can be enacted to restore the jurisdiction of the Federal courts that there should be an amendment to the Federal Reserve Act in effect exempting Federal Reserve Banks from the process of attachment and garnishment before final judgment.

I understand that it is not necessary for your purposes for me at this time to further elaborate the views I have expressed, but I shall be glad to do so later should you so desire.

Very truly yours,

(Signed) Parker S. Williams.

(COPY)
FEDERAL RESERVE BANK
OF ATLANTA

X-4694-c

April 10, 1926

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

Dear Mr. Wyatt:

It has not been possible heretofore to give the proper consideration to your memorandum addressed to the Federal Reserve Board with reference to the advisability of obtaining an amendment to the law which would restore to the Federal Courts jurisdiction of suits by and against Federal Reserve Banks. We have today, however, been able to give consideration thereto, as well as to the memorandum prepared by Mr. Wallace on the same subject.

We believe that an amendment of the kind suggested in subdivision three of your memorandum should be sought. Your suggestion No. 1 would, at best, give only partial relief and, unless there be some determined opposition to an amendment similar to your third suggestion, it might be as easy to obtain the one type of amendment as the other.

As a practical matter, we would suggest that you try to ascertain the reason which impelled the American Bar Association and the Supreme Court to submit for the consideration of Congress the provision which was embodied in Section 12 of the Act of February 13, 1925. We recall that in former correspondence you quoted someone in the office of the Department of Justice who told you that Section 12 was not enacted with any particular thought of the Federal Reserve Banks, but that on the other hand those who suggested the enactment had in mind other Federal corporations. At the time it occurred to us that it was possible that the primary purpose of the enactment was to keep the Federal Farm Land Banks and Joint Stock Land Banks from utilizing the Federal Courts in foreclosure proceedings. If in fact this was the purpose sought to be accomplished, then an attempt to gain relief for the Reserve Banks might be handicapped rather than helped by coupling the Reserve Banks with Federal Land Banks and Joint Stock Land Banks in the proposed amendment.

We merely suggest the above for your consideration.

We also think it would be desirable to secure legislation which would exempt the Reserve Banks from the levy of attachments or executions until after final judgment.

We have never had a case in which suit has been brought against the Atlanta Bank by attachment, and, therefore, have never studied the ques-

tion of attachments against Reserve Banks with any particular care. As to whether or not the right of attachment would obtain in a particular State would, it seems to us, depend entirely upon the peculiar statutory provisions of such State. In Georgia, for example, one ground for attachment is that "the debtor resides out of the State". This provision has been construed as referring to actual residence as distinguished from constructive or legal residence or political domicile. In fact our Court in one case has quoted with approval the following language: "It is the question of actual residence and not of domicile merely; and this is a fact to be determined by the ordinary and obvious indicia of residence."

In another case the Supreme Court of Georgia has said: "The mere fact that a non-resident may be found and served does not prevent a creditor from exercising his right to sue by attachment."

Obviously the statutes of the different States may vary, but, so far as our observation goes, the usual attachment statute is similar to the one which is of force in this State.

In Georgia, and in most States, the rule seems to be that a foreign corporation, even though it does business in the State, is regarded as a "non-resident". In Georgia, for instance, the statute specifically provides, "Attachments may issue against incorporations not incorporated by the laws of this State, who are transacting business within the State, under the same rules and regulations as are by this Code prescribed in relation to issuing attachments and garnishments in other cases."

Manifestly, a Federal Reserve Bank is not a foreign corporation within the meaning of these statutes. As to whether or not it would be subject to attachment under a statute similar to the Georgia statute would seem to depend upon the determination of the question of whether or not it has a "residence" in the ordinary sense. If so, then it would properly be regarded as being a non-resident of States other than the State of its residence. The case of Bacon vs. Federal Reserve Bank of San Francisco, if properly reasoned, would seem to establish the proposition that a Federal Reserve Bank has a domicile or habitat, to wit: the locality where its principal office is located. Our best judgment is that a Federal Reserve Bank should properly be regarded as a resident of the State wherein is located its principal office and, therefore, a non-resident of the other States. Although strong reasons might be urged to the contrary, and the question is a new one, so far as our investigation goes, we believe that under a statute like the Georgia statute a Federal Reserve Bank would be liable to attachment in any State whereof it is a non-resident; and that this would be true although the Reserve Bank is a citizen of no particular State and may be said to have a field for the prosecution of its corporate activities coincident with the boundaries of the United States, except in so far as its operations may be circumscribed by the statute of its creation.

We are further of the opinion that a Reserve Bank may be sued

in ordinary actions at common law or in equity in any State wherein service may be validly perfected upon it in accordance with the statutes of such State, unless, of course, such statutes purport to authorize service upon persons or by modes which would violate the general constitutional guaranties. We are of the opinion that a Federal Reserve Bank is suable at law or in equity in the Courts of a State wherein service may be properly perfected upon a branch, provided the statutes of the State provide for such service. We do not think, however, that a Reserve Bank could be brought into Court by ordinary process issuing from the Court of a State wherein there is no office or place of business upon which service could be had. Mr. Wallace in his memorandum refers to the fact that in several suits brought against the Richmond Bank the position has been taken that "a Federal Reserve Bank was, in contemplation of law, present in every State of its District and subject to suits in such States in the same manner as a corporation duly domiciled therein." We assume that service of process in the suits referred to was made on the officers in charge of a branch office, or that service was otherwise properly perfected. Assuming that there was no question as to service, it would seem to us that the position taken by the plaintiffs in those cases was logical and correct.

If the suits brought by attachment against the Minneapolis Bank, mentioned in Judge Ueland's letter, were instituted in States other than the State of the residence of the Minneapolis Bank, and if the revelant statutes authorized attachment proceedings against non-residents, then it appears to us that the attachments were probably properly sued out. Nor do we see any essential inconsistency between the right to maintain attachment suits, as related by Judge Ueland, and the right to sue the Reserve Bank at common law, as has been done in the case of the Richmond Bank.

The Atlanta Bank has been sued once in a State Court in Louisiana, service having been made upon the New Orleans Branch, and we reached the conclusion in that case that jurisdiction had been obtained against the Bank by the State Court. Were an attachment to be brought against the Atlanta Bank in Mississippi, for example, where there is no branch upon the officers of which service could be had, we believe that we would advise the Bank to take the necessary steps to dissolve the attachment and to proceed to defend the case on the merits, assuming, of course, that property had been "caught" by the attachment.

We are not entirely clear on the proposition as to whether a Reserve Bank would be regarded as a non-resident of a State in which a branch office is located, and, of course, the right to attach in such case would be determinable by particular statutes. As a general proposition, however, we incline to the belief that a Reserve Bank resides in the State where its principal office is located and that it is a non-resident of other States. We are, of course, dealing only with the question of <u>residence</u> as distinguished from citizenship.

Our interest in the question under consideration has intrigued us into writing a letter of unpardonable length. We stand ready to assist

you in every way possible in securing an amendment to the law, which will enable Federal Reserve Banks again to invoke the jurisdiction of the Federal Courts, as well as an enactment of a statute which would prevent attachments against the assets and property of Reserve Banks in advance of final judgment.

With regards, we are

Yours very truly,

(Signed) Randolph & Parker,
General Counsel.

(COPY)
FEDERAL RESERVE BANK
OF CHICAGO

X-4694-d

April 14, 1926

J. B. McDougal, Esq.,
Governor,
Federal Reserve Bank of Chicago,
Chicago, Illinois.

My dear Governor:

I am advised by Mr. Dillard that at the recent conference of the Governors of the twelve Federal Reserve Banks held in Washington, a resolution was passed to the effect that the counsel of the several Federal Reserve Banks be asked to prepare an opinion on the advisability of seeking an amendment to the law in order to restore to Federal Courts jurisdiction over suits by and against Federal Reserve Banks, and that all of these opinions, when prepared, should be forwarded to the Governor of the Federal Reserve Board.

Prior to that conference, I had received from Mr. Wyatt, counsel for the Federal Reserve Board, a copy of his memorandum of date March 9, 1926, to the Federal Reserve Board on this subject; and under date of March 12, 1926, I wrote you expressing my views; and I beg to refer you to that letter read in connection with Mr. Wyatt's memorandum, of which you have copy, for an expression of my views on the subject. I do not believe I can add anything to what I there said; and a copy of that letter may be attached to this letter and forwarded to the Governor of the Federal Reserve Board, as my response to the resolution.

Very truly yours,

(Signed) Chas. L. Powell
Counsel

(COPY)
FEDERAL RESERVE BANK
OF CHICAGO

Chas. L. Powell,
Counsel,
Continental & Commercial Bank Bldg.

X-4694-e

March 12, 1926

Mr. J. B. McDougal, Governor
Federal Reserve Bank of Chicago,
Chicago, Illinois.

My dear Governor:

Re: Topic for Governors' Conference - advisability of seeking amendment to restore to Federal courts jurisdiction over suits by and against Federal Reserve Banks.

I am in receipt of a letter from Mr. Walter Wyatt, Counsel for the Federal Reserve Board, enclosing for my information copy of a memorandum of date March 9th on the above subject passed by him to the Federal Reserve Board.

In Mr. Wyatt's letter he suggested that I discuss this subject briefly with you before your departure for the conference and that I write him expressing my views to him on the matter covered thereby.

I assume that you have seen Mr. Wyatt's memorandum and there is no necessity for me to rehearse the matters discussed by him.

I can only say to you that I deem the matter of very great importance.

By the Amendment to the Judiciary Act of February 13, 1925, the Federal Reserve Banks are in effect shut out of the Federal courts. They are thus left absolutely at the mercy of the state courts, except in the very limited cases where a right is asserted under the Constitution of the United States or some Federal Statute. However it arises and whatever may be the cause thereof, prejudice is apt to result to the Federal Reserve Banks by being driven to rely on the state courts.

Aside from this matter of jurisdiction which is thoroughly discussed in Mr. Wyatt's memorandum, he also discusses therein "the matter of attachments and garnishments against Federal Reserve Banks" and that subject, too, is of vital importance, except that I do not believe the matter of garnishment of a Federal Reserve Bank as a debtor of some other bank or individual is of importance. The important thing is that Federal Reserve Banks be free from a writ of attachment under which its property can be tied up by garnishment or otherwise. Our own bank was very seriously inconvenienced by a writ of attachment taken out in a state court in Iowa whereby funds to the amount of four or five thousand dollars belonging to the Federal Reserve Bank were tied up by means of a garnishment of an Iowa bank which had possession of the Federal Reserve funds.

Section 5242 of the Revised Statutes, being a part of the National Bank Act expressly provides with reference to National Banks as follows:

> "No attachment, injunction or execution shall be issued against such association (a National Bank) or its property before final judgment in any suit, action or proceeding in any state, county or municipal court."

The matter of freedom from attachment by which its property can be tied up and the matter of exemption from a writ of injunction by which its operations can be interfered with are of more vital importance to the Federal Reserve Banks as now constituted than to National Banks which are given this exemption by statute.

The above quoted language was discussed by the Supreme Court of the United States in Pacific National Bank v. Mixter, 124 U. S. 721, and the law was upheld and a reason for the law, if any were necessary to be given, was found to be in the paramount interest of the United States in such institutions.

It will be seen that this section with reference to National Banks also prohibits injunctions--a prohibition much more important to Federal Reserve Banks and to the Government than such prohibition is applicable to National Banks.

I am of the view that in any attempted amendment to the Judiciary Act with reference to jurisdiction there should be included an effort to obtain a provision of the law prohibiting the issuance of an attachment or injunction against a Federal Reserve Bank or its property prior to final judgment.

The third suggestion made by Mr. Wyatt on page 3 of his memorandum is in my judgment the simplest and most effective way to procure an amendment to the Judiciary Act touching the matter of jurisdiction; and how best to call the other matter to the attention of Congress and procure legislation I have not had time to fully consider. The desired result could be brought about by amending the language in section 4 of the Federal Reserve Act which now reads

> "to sue and be sued, complain and defend in any court of law or equity"

so as to make it read

> "to sue and be sued, complain and defend in any court of law or equity; but no attachment or injunction shall be issued against such bank or its property before final judgment in any suit, action or proceeding in any state, county or municipal court."

The foregoing is a more suggestion as to how the Act could be amended to cover this point; but the vital thing is that it should be amended and the manner of bringing about the amendment can better be considered by experts along that line than by me.

Yours very truly,

(Signed) Chas. L. Powell,
Counsel.

FEDERAL RESERVE BANK
OF
ST. LOUIS

April 29, 1926.

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

Dear Mr. Wyatt:

I have been so tied up in court proceedings since the receipt of your letter of March 31 as to preclude me from giving Mr. Wallace's letter serious consideration until the present time.

As suggested in my letter to you under date of March 16, I believe the most successful way to tackle the proposition would be to try and have the jurisdiction restored as near as possible to what it was prior to the jurisdictional amendment, February 13, 1925.

I believe the third plan suggested in your letter of March 9, addressed to the Federal Reserve Board, is best suited to bring about this result with the least opposition, since it is plainly apparent that by the Feb. 13, 1925, amendment, Congress desired to exclude from the effect of the amendment corporations in which the United States had a substantial financial interest; and while the United States does not own any of the stock of the Federal Reserve Banks, its receipts from the excess earnings and its reversionary interest in the Reserve banks brings these banks clearly within the intent of the Act, as revised. The same thing, to a lesser degree, might be said to apply to Federal Land Banks and Joint Stock Land Banks.

Under these circumstances, we would not be asking for any class legislation especially favorable to the Federal Reserve Banks, but would simply be asking that the Act be so amended as to carry out what was in reality intended by Congress when corporations, organized under the United States, in which the Government owns an interest, were exempted from the provisions of the amendment.

The suggestion made by Judge Uhland as to placing the Federal Reserve Banks on the same footing as National banks in the matter of suits by attachment is likewise important. In this District so far this method has not

been used against us. I can see, however, the pitfalls it offers to a successful defense of suits against Federal Reserve Banks, and while the jurisdictional amendment sought will not help us in attachment suits in cases where the amount is less than $3,000.00, I still believe that it would not be best to bring the two matters up under the same amendment since the jurisdictional amendment sought would only place the Reserve Banks in the class intended by the February 13, 1925 amendment as being corporations in which the United States Government had a financial interest; whereas the attachment amendment would be open to the claim that we were seeking class legislation favorable to Federal Reserve Banks.

After securing the amendment restoring the jurisdiction, we could then take up the matter of suits by attachment and probably have the Federal Reserve Act so amended so as to place suits of this nature on the same plane as those against national banks. In this, I think we would have an absolutely logical position.

With kindest regards, I am

Very truly yours,

(signed) Jas. G. McConkey

Counsel.

JCMcC/GP

X-4694-g

FEDERAL RESERVE BANK OF MINNEAPOLIS

Ninth District

April 6, 1926.

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

My dear Mr. Wyatt:

I think that the simplest way for rectifying the present situation as respects the right of the Federal reserve banks to litigate cases in the Federal courts would be to get Section 12 of the Act of February 13, 1925 amended so as to read:

> "No district court shall have jurisdiction of any action or suit by or against any corporation, except a Federal reserve bank, upon the ground that it was incorporated by or under an Act of Congress: provided, &c."

This, it seems to me, would leave the Federal reserve banks with respect to jurisdiction just as they were before, namely, that they could bring suits in the district courts of the United States and remove suits to those courts from State courts in all cases involving the requisite amount in controversy.

If, in addition to this, an amendment was made to the Federal Reserve Act to the effect that no property of a Federal reserve bank should be subject to attachment or garnishment, I think the present difficulties of the Federal reserve banks in matters of litigation would be removed.

This in answer to your letter of March 31st with copy of the letter of M. G. Wallace to Mr. George J. Seay, Governor of March 19th.

Yours very truly,

(signed) A. Uoland

(COPY)
FEDERAL RESERVE BANK
OF KANSAS CITY

April 26th, 1926.

X-4694-H

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

My dear Mr. Wyatt:

I am very sorry that on account of absence from the office I have not sooner had the opportunity to reply to your letter, transmitting copy of letter addressed by Mr. Wallace to Governor Seay, of the Federal Reserve Bank of Richmond, with reference to the character of relief which should be attempted to be obtained from Congress affecting the jurisdiction of Federal District Courts in suits brought by and against the Federal Reserve Banks.

I thoroughly agree both with you and Mr. Wallace that the most effective legislation which could be obtained would be to restore the jurisdiction of the district courts as the same existed prior to the amendment of February 13, 1925. If the jurisdiction could be so restored, I feel that we would have all the relief which we could reasonably expect, unless, in addition, we should be made exempt from attachment, prior to final judgment, as national banks are.

I have had considerable doubt, however, as to whether an amendment of this kind could be obtained from Congress, and for that reason have felt that we should only attempt to obtain such legislation as would place us on a parity with national banks, which, of course, would mean that we would be declared residents of the states in which the several banks maintain their head offices.

At the time that Governor Bailey discussed the question with me before the recent conference of governors, I expressed these views to him, but endeavored to make it plain that if there appeared any liklihood of an effort being successful to restore the former jurisdiction, I felt that the same should by all means be done.

I know that you are in a much better position to judge what might be expected from Congress along these lines than any of us who are distant from Washington, and if you feel, as I assume you do, that the full relief, as indicated, might be obtained, I am heartily in favor of making the effort to get it. It might be well, in any event, to make the attempt, and then if it is unsuccessful to ask for the lesser relief. The only objection to that procedure, of course, would be that we might be delayed in obtaining the legislation, but in view of the far reaching effect of the change in all the future litigation, that delay would be negligable.

I shall be greatly interested in hearing what determination you finally reach, and shall appreciate it if you will advise me when you have come to such conclusion.

With best personal regards, I am

Very truly yours,

(Signed) H. G. Leedy.

FEDERAL RESERVE BANK

OF SAN FRANCISCO

April 28, 1926.

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

Dear Mr. Wyatt:

I have read with a great deal of interest your able and comprehensive memorandum to the Federal Reserve Board (X-4551, March 9, 1926), upon the advisability of seeking legislation to restore to the Federal courts jurisdiction over suits by and against Federal reserve banks.

I believe that at the Governors' Conference it was determined to refer this matter to counsel for the several banks, with the idea of getting their expressions of opinion thereon.

I can add nothing in the way of argument to that which you have already placed before the Board. I am very strongly of the opinion that legislation of some character, restoring federal jurisdiction in suits by and against Federal reserve banks should be sought. In the litigation which I have conducted for this bank in the Twelfth Federal Reserve District since the amendment of the Judicial Code, I have on several occasions found myself at a serious disadvantage by reason of being required to either bring the action or defend it before a state court. It is undoubtedly true that in the great majority of cases federal judges are better qualified and federal juries are of a higher character than those encountered in the state courts. Access to the Federal Court tends to dissipate local prejudice which so often exists in relation to the Federal reserve banks and gives us an appellate right to the United States Circuit Court of Appeals and, in some instances, to the Supreme Court of the United States. These are advantages of a very real character which should not be overlooked.

I am also of the opinion that the best and most expeditious method of obtaining the remedy which we desire is through an amendment to Sec. 12 of the Act of Feb. 13, 1925, and I believe that the amendment quoted on page 3 of your memorandum would fulfill every necessary purpose. This method of approach has the advantage of not appearing to be an effort on the part of the Federal reserve banks to obtain special legislation in their behalf and simply serves to extend the proviso so that it will cover the Federal Reserve Bank and other similar or analogous institutions. I sincerely trust that legislation of this character may be obtained at the present session.

I have also read and studied with interest the memorandum prepared by Mr. Wallace for the Federal Reserve Bank of Richmond (X-4573, March 19, 1926).

I have always been decidedly of the opinion that a Federal reserve bank should be considered as "doing business" in every state within the reserve district in which it is located. This district embraces all of six states and part of another state. In each of these states, except two, we either maintain branch offices or field agents. Of course in Washington, Oregon and Utah, where we have branch offices, it would seem useless to argue that we are not doing business in those states. In Idaho we maintain a number of field agents engaged in the liquidation of paper inherited by us from failed banks and it would seem equally futile for us to contend that in that state we are not doing business. In California we maintain the head office in one branch and of course there is no question as to jurisdiction there. Arizona and Nevada are the only states in this district in which we do not maintain either branch offices or field agents. We are, however, daily transacting business with many banks in both of these states and I would be extremely embarrassed were I forced to contend that even in these states we are not technically "doing business" as that term is legally used. In fact it seems to me that this contention on our part might serve as a boomerang, both on account of the attachment statutes and on account of the fact that if in one case it is contended as a defense that we are not legally "doing business" within the state it might be contended in another case that we have no right of action within the state until we had complied with the laws relating to foreign corporations; the appointment of resident agents upon whom process might be served, the payment of statutory fees and compliance with other formalities required of foreign corporations.

Of course you are familiar with the decision of the District Court of the Eastern District of Kentucky in the matter of Farmers and Merchants Bank of Catlettsburg v. Federal Reserve Bank of Cleveland, 566 Fed. 286. In that case Judge Cochran wrote a very exhaustive (I might say exhausting) opinion covering 46 pages, in which practically all of the authorities relating to this subject were reviewed and analyzed. I have always agreed with the conclusion reached by Judge Cochran that the employment by the Federal Reserve Bank of Cleveland of even an isolated agent for the purpose of collecting checks drawn on a state bank, constituted doing business within the state to a degree which would render the Reserve bank subject to suit in such state.

The question of "doing business" was also touched upon in the case of Bacon v. Federal Reserve Bank of San Francisco, 289 Fed. 513. There, of course, the primary question was whether or not the Federal Reserve Bank of San Francisco was an "inhabitant" of the State

of Washington within the meaning of Sec. 51 of the Judicial Code and the court determined that this bank was an "inhabitant" only of the Federal Judicial District within which its head office is located. This conclusion, to my mind, does not conflict with the question of the situs of the Federal reserve banks for the purpose of suit in state courts.

Aside from the strictly legal question involved, it seems to me that morally the Federal reserve banks should be subject to suit in any state embraced within the Federal Reserve District in which they are doing business. It would seem to me highly inequitable to require the holder of a small claim against a Federal reserve bank to employ non-resident counsel and perhaps travel many hundred miles for the purpose of enforcing the claim. I think that the Federal reserve banks should be suable in any state over which they respectively have jurisdiction.

Lastly, I am thoroughly in accord with the suggestion made by Judge Ueland in his letter addressed to you under date of Feb. 23, 1926 (X-4551-a). I have never been embarrassed by having a litigant attempt attachment or garnishment against the Federal Reserve Bank of San Francisco. Claims filed against us have always been allowed to go to judgment before any attempt has been made to collect. I can well realize, however, the embarrassment which Judge Ueland has suffered by reason of the garnishment issued in the case to which he refers. I think it is not only fair but necessary to a proper administration of the affairs of the Federal reserve banks that legislation be passed exempting such banks from the process of attachment or garnishment until final judgment is rendered. Such legislation seems to me to be more essential in the case of Federal reserve banks than in the case of National banks which, by statute, are given a local situs.

If I can assist you in any way in preparing further memoranda or briefs on these subjects, please command me.

Very truly yours,

(signed) Albert C. Agnew.

Counsel.

X-4694-j

September 24, 1926

Hon. C. S. Dewey,
Assistant Secretary of the Treasury,
Washington, D. C.

My dear Mr. Dewey:

In reply to your letter of September 20th you are advised that the Federal Reserve Board has under consideration the question of recommending to Congress legislation permitting Federal Reserve Banks to sue and be sued in the Federal courts; but the Board has not yet decided whether to recommend such legislation. If the Board does decide to recommend such legislation it will be very glad to include the Federal Land Banks and Joint Stock Land Banks in such request and will be pleased to have the cooperation of the Treasury Department and the Farm Loan Board in connection with such legislation.

Very truly yours

(Signed) D. R. Crissinger

D. R. Crissinger
Governor

(COPY)
TREASURY DEPARTMENT
Washington

X-4694-k

September 20, 1926

My dear Governor:

I understand that your Board has under consideration the question of legislation permitting Federal Reserve Banks to sue and be sued in Federal Courts.

In considering this situation, the Treasury feels that Federal Land Banks and Joint Stock Land Banks are in the same category as Federal Reserve Banks and asks that these banks be included in any request for legislation which you may make along these lines, provided, of course, that in your opinion their inclusion would not militate against the successful passage of the bill.

Very truly yours,

(Signed) C. S. Dewey,

C. S. DEWEY,
Assistant Secretary of the Treasury

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

X-4695

TREASURY DEPARTMENT

OFFICE OF THE SECRETARY

WASHINGTON

October 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 September 1, 1926, to September 30, 1926, amounting to $108,336, as follows:

Federal Reserve Notes, Series 1914

	$5	$10	$20	$50	Total Sheets
Boston	200,000				200,000
New York	600,000	250,000			850,000
Cleveland	150,000			10,000	160,000
Richmond	100,000				100,000
Atlanta	250,000	100,000	75,000		425,000
Chicago	200,000	300,000			500,000
St. Louis	100,000				100,000
Kansas City	100,000				100,000
Dallas	200,000	50,000	25,000		275,000
San Francisco	100,000	100,000	50,000		250,000
	2,000,000	800,000	150,000	10,000	2,960,000

2,960,000 sheets @ $36.60 per M. $108,336.00

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

Boston	$7,320.00
New York	31,110.00
Cleveland	5,856.00
Richmond	3,660.00
Atlanta	15,555.00
Chicago	18,300.00
St. Louis	3,660.00
Kansas City	3,660.00
Dallas	10,065.00
San Francisco	9,150.00
	$108,336.00

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) S. R. Jacobs,

Deputy Commissioner.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4697

October 15, 1926.

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

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-4697-a and X-4697-b, covering in detail operations of the main line, Leased Wire System, during the month of September, 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 SEPTEMBER, 1926.

From	Business reported by banks	Words sent by New York chargeable to other F.R.Banks (1)	Total	Treasury Department Business	War Finance Corporation Business	Net Federal Reserve Bank Business	Per cent of total bank Business (*)
Boston	33,412	535	33,947	4,824	-	29,123	3.72
New York	133,108	-	133,108	7,104	-	126,004	16.09
Philadelphia	38,362	643	39,005	4,398	-	34,607	4.42
Cleveland	76,909	1,591	78,500	6,599	-	71,901	9.18
Richmond	45,382	2,843	48,225	5,678	-	42,547	5.43
Atlanta	62,553	3,221	65,774	6,578	-	59,196	7.56
Chicago	104,678	2,753	107,431	7,617	-	99,814	12.75
St. Louis	62,151	1,549	63,700	6,393	-	57,307	7.32
Minneapolis	36,357	1,875	38,232	3,436	-	34,796	4.44
Kansas City	72,579	2,293	74,872	6,082	-	68,790	8.78
Dallas	60,769	4,618	65,387	3,883	-	61,504	7.85
San Francisco	105,550	2,065	107,615	10,076	-	97,539	12.46
Total	831,810	23,986	855,796	72,668	-	783,128	100.00
F.R.Board			327,478	59,283	-	268,195	
Total			1,183,274	131,951		1,051,323	
Per cent of total			100%	11.15%		88.85%	

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-4697-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, SEPTEMBER, 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	$ 1.00	$ -	$ 261.00	$ 756.30	$ 261.00	$ 495.30
New York	1,076.16	-	-	1,076.16	3,271.18	1,076.16	2,195.02
Philadelphia	216.66	-	-	216.66	898.61	216.66	681.95
Cleveland	284.50	-	-	284.50	1,366.34	284.50	1,581.84
Richmond	213.00	-	-	213.00	1,103.95	213.00	(&) 1,095.62
Atlanta	255.00	-	-	255.00	1,536.99	255.00	1,281.99
Chicago	(#)3,947.16	-	-	3,947.16	2,592.14	3,947.16	(*) 1,355.02
St. Louis	200.00	-	-	200.00	1,488.20	200.00	1,288.20
Minneapolis	183.34	-	-	183.34	902.68	183.34	719.34
Kansas City	275.64	-	-	275.64	1,785.02	275.64	1,509.38
Dallas	251.00	-	-	251.00	1,595.95	251.00	1,344.95
San Francisco	370.00	-	-	370.00	2,533.18	370.00	2,163.18
Federal Reserve Board	-	-	15,348.75	15,348.75	-	-	-
Total	$7,532.46	$ 1.00	$15,348.75	$22,882.21 (a) 2,551.67 $20,330.54	$ 20,330.54	$7,533.46	$14,356.77 (b)1,355.02 $13,001.75

(&) Includes $204.67 for branch line business transmitted over main line circuit.
(#) Includes salaries of Washington operators.
(*) Credit
(a) Received $2,551.67 from Treasury Department covering business for the month of September, 1926.
(b) Amount reimbursable to Chicago.

FEDERAL RESERVE BOARD

X-4698 245

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

October 18, 1926.

SUBJECT: Holidays during November, 1926.

Dear Sir:

On Monday, November 1st, the New Orleans Branch of the Federal Reserve Bank of Atlanta will be closed in observance of All Saints' Day. Please include your credits of November 1st for the New Orleans Branch in the Gold Fund Clearing of November 3rd.

On Tuesday, November 2nd, (Election Day); Thursday, November 11th, (Armistice Day), and Thursday, November 25th, (Thanksgiving Day), there will be no Gold Settlement Fund or Federal Reserve Note Clearing, and the books of the Board's Gold Settlement Division will be closed.

For your information, the offices of the Federal Reserve Board and the following banks and branches will be open for business on the dates specified:

November 2nd	November 11th
Boston	Boston
Cleveland (1/2 day)	New York
Cincinnati (1/2 day)	Buffalo
Atlanta	Cleveland
New Orleans	Cincinnati
Birmingham	
Jacksonville	Atlanta
Little Rock	Detroit
Louisville	
Omaha	
Salt Lake City.	

Very truly yours,

J. C. Noell,
Assistant Secretary.

To Governors of all F.R.Banks.

C O P Y IN THE DISTRICT COURT OF DOUGLAS COUNTY, NEBRASKA.

William Whittingham, Plaintiff

vs.

Federal Reserve Bank of Kansas City, Mo., a corporation, Defendant.

OPINION OF THE COURT.

Plaintiff brings this suit at law against the defendant to recover from the defendant the amount of a certain cashier's check issued by the Wyoming State Bank of Lusk, Wyo., made payable to the plaintiff herein, a resident of the City of Village of Pardeeville, Wisconsin, on the ground that as the agent of the plaintiff for the collection of said check the defendant violated its duty and was grossly negligent in its proceedings to collect said check, resulting in its failure to collect.

Insofar as it is necessary here to relate plaintiff in his amended petition alleges that on or about _____ date of February 1923, he caused to be placed with the defendant for the purpose of immediate collection and payment in legal tender money of the United States, the cashier's check referred to, same being for $1220.40 and plaintiff alleges that he did so by depositing said check in the Pardeeville State Bank of Wisconsin for collection on February 17, 1923, which bank immediately forwarded same to the First Wisconsin National Bank of Milwaukee for collection, the latter bank in turn forwarding same to this defendant; that the defendant negligently mailed said check, with other items, direct to the Wyoming State Bank at Lusk, which issued said check and negligently accepted in payment therefor the Lusk Bank's draft on the First National Bank of Cheyenne, Wyoming, and thereupon the Lusk Bank stamped

its cashier's check paid; that at the time of the presentation of said cashier's check to the Lusk Bank for payment, and at the time plaintiff accepted its worthless draft in payment therefor, said Lusk Bank had in its possession sufficient legal tender money to pay said cashier's check in full; that very soon after defendant's receipt of the Lusk Bank draft aforesaid, said Lusk bank failed and a receiver therefor was appointed, whereupon defendant filed with the receiver it's claim and proof of ownership of said draft. That by reason of the foregoing facts the defendant became and is liable to the plaintiff for the amount of plaintiff's cashier's check, placed in defendant's hands for collection, and for which he prays judgment, with interest and costs.

To this petition the defendant filed it's answer in which it alleges that on or about February _____, 1923, it received for collection from the 1st Wisconsin Nat'l Bank of Milwaukee for the account and credit of the Federal Reserve Bank of Chicago, of which the Milwaukee bank was and is a member, the cashier's check referred to in plaintiff's petition, in the sum of $1220.40, which the plaintiff had endorsed and deposited in the Pardeeville State Bank of Pardeeville, Wisc., which bank had forwarded said check to the said 1st Wisconsin Nat'l Bank of Milwaukee; that defendant in due course of business and without any negligence, but in the exercise of due diligence and with lawful right and authority so to do, promptly forwarded said check to said Wyoming State Bank of Lusk for payment, and thereupon received from said bank it's draft in the amount of said check which draft, however, was dishonored, and not paid because of the failure and closing of said Lusk bank, whereupon defendant charged back to the account of the Federal Reserve Bank of Chicago the amount of said check, as it had a right to do. Thereupon defendant pleads regulations J-series of 1920 promulgated by the Federal Reserve Board, and also Bulletin #184, issued by said Federal Reserve Bank of Chicago, under date of December 7, 1922, as contained in a general letter known as

General Letter D-1, under date of January 15, 1923, likewise a general letter of authority by said Chicago bank to defendant under date of Nov. 16, 1922, and alleges that it was operating under and in pursuance of the same, and that it received and handled the check in question in conformance to said rules and regulations, and the statutes of the United States pertaining to the subject; that the 1st Wisconsin Nat'l Bank from which defendant received said check was and is a member bank of the Chicago Federal Reserve District and had full knowledge and notice of all of the rules and regulations under which defendant as a Federal Reserve Bank operated and was required to operate in the handling of said check; that defendant believed said 1st Wisconsin Nat'l Bank was the owner of said check and entitled to the proceeds thereof and dealt with said bank accordingly and that prior to the filing of plaintiff's petition in this case, the defendant had no knowledge or notice of any alleged right or claim of plaintiff in or to said check or the proceeds thereof, or of any connection between plaintiff and the Pardeeville bank or between plaintiff or the Pardeeville Bank and the 1st Wisconsin Nat'l Bank of Milwaukee.

Defendant admits that for the benefit of the said Milwaukee bank, which which it dealt as the presumed owner of said cashier's check, it filed proof of claim for the amount of said check with the receiver of the insolvent bank at Lusk and that it did so with the consent and authority of said Milwaukee bank. That said claim was allowed and that since the allowance thereof defendant has received two dividends thereon which it promptly transmitted to the said Milwaukee bank, which were received and accepted by said bank without objection.

Defendant further pleads a general and uniform custom of long and continuous standing prevailing among all banks and bankers in the United States, including those of Illinois, Wisconsin, Nebraska and Wyoming, for banks having checks, drafts and other like paper for collection to send said instruments direct to the bank of issue for collection, and to receive and

accept in payment therefor, said bank's draft instead of requiring said bank to remit by actual cash, and that in the instant transaction, defendant simply followed the universal custom in it's effort to collect the cashier's check in question.

Defendant further alleges that it appears from the face of the amended petition that plaintiff has not the legal capacity to maintain this action, and further said amended petition does not state facts sufficient to constitute a cause of action in favor of plaintiff and against this defendant.

From the evidence in the case, the most, if not all of which is expressly admitted in the record or stands undisputed, it appears that some time about the early part of February, 1923, the plaintiff was the owner of a note and mortgage which had become due and the mortgagee, residing at or near Lusk, Wyoming, had indicated his readiness to pay same, whereupon plaintiff placed the same in the hands of the Pardeeville Bank, in which he did business, to forward and collect. In due time and on or about February 17, 1923, the Pardeeville Bank received remittance of the amount of said note and mortgage in the form of a cashier's check of the Wyoming State Bank at Lusk, Wyo, for the sum of $1220.40, payable to the plaintiff; on or about the same day plaintiff endorsed said cashier's check in blank and gave it to the Pardeeville bank, which in return therefor gave plaintiff $20.40 in cash and a regular negotiable certificate of deposit on it's own bank for the balance of $1200,00 and plaintiff says that is all he knows about it and that he never saw or heard anything of the cashier's check after that,

It further appears that the Pardeeville Bank received the cashier's check endorsed by plaintiff, duly endorsed same itself and forwarded it to it's correspondent the First Wisconsin Nat'l Bank of Milwaukee, taking credit for the same itself and charging same to the Milwaukee bank, The Milwaukee bank receiving said check gave the Pardeeville Bank due credit for same, endorsed the same itself and forwarded check to the defendant herein, thru the

Federal Reserve Bank of Chicago, which defendant bank in turn endorsed the check and promptly forwarded same direct to the bank of issue, The Wyoming State Bank at Lusk, Wyo. for payment. That bank upon receipt of it's cashier's check, stamped the same paid and in payment therefor issued and sent to defendant it's own draft upon it's correspondent, the First Nat'l Bank of Cheyenne, Wyo. That at the time of the presentation of said cashier's check to the Lusk bank for payment and defendant's acceptance of a draft in payment therefor instead of cash, said Lusk bank had in it's possession available for the payment of said check more than sufficient sum of legal tender money to pay said check. That defendant having received said draft as aforesaid, promptly forwarded the same to the First Nat'l Bank of Cheyenne, Wyo., the drawee, for payment, but before said draft could be presented for payment, the Lusk bank had closed it's doors and the State Bank Controller for the State of Wyoming had taken possession. Said draft was duly protested for nonpayment and returned to the defendant.

Upon defendant receiving the return of the unpaid draft it notified the Milwaukee Bank of that fact and that it had charged back against said bank the amount of the cashier's check and the Milwaukee bank in turn charged back said item to the Pardeeville bank and notified said bank accordingly, whereupon it seems that an officer of said Pardeeville bank went to the plaintiff herein and procured from him a surrender of the certificate of deposit that said bank had theretofore issued to him and cancelled the same by stamping it paid.

Full and satisfactory proof has been made of the existence and operation of all of the rules, regulations and other like matters pleaded in defendant's answer, including the prevailing universal custom among all banks and bankers of the United States for the bank having commercial or bank papers for collection against a distant bank, to send such paper direct to the bank of issue and to receive said banks draft in payment therefor, and that this custom was well known and understood by all the parties handling cashier's

check in this case (including the Pardeeville bank) except the plaintiff himself. To him it was perhaps not known.

It is in evidence that the defendant retained the dishonored draft for the purpose of filing the same for allowance with the receiver for the insolvent bank and that it did so by and with the consent of the Milwaukee bank; that said claim was filed, proof made, and judgment rendered therefor in the name of the defendant as a general creditor. Since said allowance two 5% dividends thereon have been paid to defendant, amounting to something less than $125.00, which was duly remitted by defendant to the Milwaukee bank and by it credited to the Pardeeville bank.

Therefore, under the allegations of his amended petition and the proof in support thereof, the plaintiff claims the defendant is liable upon any one or more of the following grounds:

1. Because defendant as plaintiff's agent for the collection of said cashier's check was negligent and violated it's duty in sending said check direct to the bank that issued it and in accepting in payment therefor said banks draft instead of cash.

2. Because defendant filed it's claim as a general creditor with the receiver of the insolvent bank instead of a preferred creditor claiming the right to the money received by said bank in payment of plaintiff's note and mortgage as a separate or segregated fund for the use and benefit of plaintiff.

3. Because the defendant in filing a claim for payment of it's draft representing the proceeds of plaintiff's cashier's check, in it's own name, making proof thereof accordingly and obtaining a judgment therefor in it's own name, thereby became the absolute debtor of plaintiff for the amount of his cashier's check.

I have thus set forth an abstract of the pleadings and evidence in the case at the length I have more for the benefit of those who might wish to have an outline of it's history than because the same is necessary for the pronouncement of a decision. For, as I view the case and the transaction involved, I am firmly of the opinion that it falls clearly within the controlling principles announced in the very recent case of CITY OF DOUGLAS vs FEDERAL RESERVE BANK OF DALLAS, decided by the Supreme Court of the United States on

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June 1st of the present year, and reported in 46 Sup.Ct.Rep. at page 554; as also the decisions of our own Supreme Court in the case of National Bank of Commerce vs Bossemyer, 101 Nebr. 96, and other cases cited in the City of Douglas case, supra.

From the opinion in the case last referred to, it appears that the County of Cochise, Ariz., drew it's check on the Central Bank of Wilcox, Ariz. in favor of plaintiff, the City of Douglas, which endorsed it in blank to the First Nat'l Bank of Douglas, Ariz., and that bank credited the amount of said check to the account and in the pass book of plaintiff, on the face of which pass book was printed: "All out of town items credited subject to final payment". The Douglas bank endorsed the check: "Pay to the order of the El Paso Branch, Federal Reserve Bank of Dallas," the defendant herein and forwarded it to that bank for collection. The defendant bank in due time forwarded the check to the drawer bank at Wilcox. The latter bank debited the drawer's account with the amount of the check, stamped it paid, and returned it to the drawer and transmitted to the defendant, in lieu of cash, it's own check upon the Central Bank of Phoenix, in an amount covering this and other items. Before this check could be presented for payment both the Wilcox Bank and the Phoenix Bank failed, and said check was dishonored. The First Nat'l Bank of Douglas receiving no proceeds of the check, charged back the amount of it to the account of plaintiff. Thereupon plaintiff brought suit in the Federal District Court against the defendant Federal Reserve Bank of Dallas to recover the amount of the check on the ground that defendant was negligent in accepting the check of the Wilcox Bank in payment instead of cash.

The case was tried without a jury, resulting in a judgment for defendant, which was later affirmed by the Circuit Court of Appeals, and still later reaffirmed by the Supreme Court of the United States in it's opinion just referred to and in which it appears that plaintiff assigned as error the holding of the Circuit Court of Appeals "that defendant was not in such rela-

tionship with plaintiff as to permit plaintiff to recover for defendants negligence."

Mr. Justice Stone, in writing the opinion in the case, after stating the facts substantially as above recited, refers to what is known as the "New York rule", in respect to the liability of a bank having commercial paper for collection and what the courts have held thereunder; also to what is known as the "Massachusetts rule" in respect to the same subject matter, and what the courts have held under that rule; also to the particular theory advanced by the plaintiff on which it claims the right to recover, and that advanced by the defendant on which it claims plaintiff cannot recover, and then says:

"It is not necessary to decide any of these questions here, for when paper is endorsed without restrictions by the depositor, and is at once passed to his credit by the bank to which he delivered it, he becomes the creditor of the bank; the bank becomes the owner of the paper and in making the collection is not the agent for the depositor," (citing numerous cases.)

"Such was the relation here between the plaintiff and the Douglas bank, unless it was altered by the words printed on the passbook to the effect that out of town items were credited "subject to final payment". The meaning of this language, as the cashier of the Douglas bank testified, and as the court below held, was that if the check was not paid on presentation, it was to be charged back to plaintiff's account. The check was paid, and the drawer and indorsers discharged." (citing numerous cases.)

"Without these words, the relationship between the plaintiff and the bank was that of indorser and indorsee; and their use here did not vary the legal rights and liabilities incident to that relationship, unless it dispensed with notice of dishonor to the depositor."

and there is no evidence of that, either in that case or the case at bar.

"While there is not entire uniformity of opinion, the weight of authority supports the view that upon the deposit of paper unrestrictedly indorsed, and credit of the amount to the depositor's account, the bank becomes the owner of the paper, notwithstanding a custom or agreement to charge the paper back to the depositor in the event of dishonor", (citing numerous cases, including that of National Bank of Commerce vs. Bossmyer, 101 Neb. 96.)

"Plaintiff having thus surrendered it's rights in the paper, only rights arising out of its contract with the initial bank remained. If those rights were affected by the act or omission of defendant, they were affected only because that contract so stipulated. Defendant's duties arose out of its contract with the initial bank, or out of its relation to that bank as owner of the paper. Hence there was no relationship between plaintiff and defendant which could be made the basis of recovery for defendant's want of diligence."

This case, it seems to me, covers in all substantial respects the transaction in the case at bar, except that in the case at bar which occurred between plaintiff and the initial bank at the very inception of the transaction offers a much stronger reason for the application of the rule announced than in the ordinary case. The evidence in the case at bar is that plaintiff, having possession of the cashier's check, endorsed the same in blank without any restrictive terms or conditions whatsoever, and gave it to the Pardeeville bank, which in return therefor gave to plaintiff $20.40 in cash and a regular negotiable certificate of deposit on its own bank for $1200.00, without any qualifications or conditions whatever attached thereto. In my opinion, that constituted a complete purchase and sale of the cashier's check. The bank thereby became the absolute owner of the check and the plaintiff the absolute owner of the cash and the certificate of deposit, each to do with their respective instruments whatsoever they liked.

But it is said that it is in evidence that the cashier's check was given to and accepted by the bank of Pardeeville for collection. It is my candid opinion that no such idea was ever expressed or thought of by either plaintiff or the bank at the time the instruments were exchanged, but that that theory is an after-thought suggested by the bank after it discovered the failure to collect the proceeds of the cashier's check and in the attempt to have that theory prevail persuaded the aged plaintiff to surrender his certificate of deposit back to the bank.

The theory now advanced serves as a most striking illustration of the truth of the old proverb that actions speak louder than words; and that the character of the endorsement of the check by plaintiff to the bank, and his receiving therefor from the bank part cash and a negotiable certificate of deposit for the balance, constitutes a transaction between the parties entirely inconsistent with the theory of a bailment for collection. Besides, it would seem that such an oral agreement between plaintiff and the initial

bank, particularly if unknown to the defendant, would not alter in any way the legal effect of plaintiff's unrestricted endorsement. That much, apparently, is either expressed or plainly inferred from the most, if not all; of the decided cases.

The same view as announced in the case of City of Douglas, supra, seems to have been expressed by our own Supreme Court in the National Bank of Commerce vs. Bossmyer, 101 Nebr. 96, above referred to. In that case, the court said:

"While there is some conflict in the authorities, the better view is that the deposit of a check or draft in a bank with a general endorsement, and the giving of credit for its amount by the bank to the depositor, in the absence of other evidence as to the intention of the parties passes the title to the bank and makes it a holder for value, entitled to recourse on prior endorsements upon the protest of the paper. In other words when such a state of facts is proven, there is a prima facie case made that the title has passed, and the fact that it, the receiving bank, may charge back the protested draft does not affect the relation. In Higgins vs. Hayden, 53 Neb. 61, before the enactment of the Negotiable Instruments Act, it was held that a bill of exchange drawn to the order of a bank by its customer, the amount of which was placed to his credit, and on which the customer drew and the bank paid checks, became the property of the bank, such conduct being inconsistent with the theory of a bailment for collection."

It may be proper here to note that "other evidence" as to the intention of the parties in transferring the paper, appearing in the above quotation, means other written words as part of, or connected with, the indorsement itself appearing on the face of the instrument, tending to alter or modify the otherwise unrestricted endorsement. This much clearly appears from other parts of the same opinion as well as from other decided cases.

Plaintiff, in support of his action herein, seems to rely strongly upon the case of Malloy vs. Federal Reserve Bank of Richmond, 264 U. S. 160. There would seem to be at least two important distinctions between the case referred to and the case at bar. The first is, that it nowhere appears in the Malloy case, supra, that the endorsement of the paper by the depositor with the initial bank was an unrestricted endorsement, or that anyone connected with the transaction claimed that it was such. About the only indication we are afford-

ed as to the character of the endorsement is the following statement taken from the opinion of the court in its statement of the facts in the case.

"It was properly endorsed and deposited with the Perry Banking Company of Perry, Fla., for collection and credit."

The 2nd distinction is, as was said by Justice Stone in the City of Douglas case, supra, in stating the distinction between that case and the Malloy case, - that in the Malloy case "a local statute relieved the bank receiving paper for collection from any liability except that of due care in selecting a sub-agent for collection and in transmitting the paper to it, and it was held that the owner of the paper might proceed against the sub-agent for negligent failure to collect the paper". The question of unrestricted endorsement or the legal affect thereof did not arise in the case.

The plaintiff has not sought either to plead or prove a like local statute of Wisconsin, and, so far as the court is aware, none exists.

Because of the legal affect of plaintiff's unrestricted endorsement in the case at bar, he has never been able to reach that point or situation in the case where the alleged negligence of the defendant could be considered as was done in the Malloy case.

It may be proper to observe that the City of Douglas case, decided on June 1st of the present year, met with the approval of the entire bench of that court, including, of course, Justice Sutherland, who wrote the opinion in the Malloy case.

I am of the opinion that plaintiff has shown no relationship between himself and the defendant herein which could be made the basis of recovery for defendant's alleged want of diligence. And that if plaintiff has a cause of action at all arising from the transaction in question, as probably he has, it is against the Pardeeville bank for the restoration of his certificate of deposit.

Plaintiffs action will be dismissed and judgment for defendant for costs.

(SGD) A. C. TROUP,
Judge.

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, October 28th, 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 September and October, as contained in the forthcoming issue of the Federal Reserve Bulletin.

Industrial and trade activity increased in September and is at present in considerably larger volume than in mid-summer. The price of cotton has declined sharply within recent weeks while prices ofmost groups of commodities have advanced. Volume of bank credit has increased seasonally, and money rates have remained firm.

Production

Production in basic industries and factory employment and pay rolls, according to the Federal Reserve Board's indexes, after changing but little for about four months, advanced in September to the highest points since last spring. The increase has been particularly large in textile mill activity. Consumption of cotton has increased considerably, woolen mill activity is the largest since January, and employment has increased in nearly all branches of the textile industry. Iron and steel production was maintained from early in August until the latter part of October at a level higher than for the corresponding period of previous years. Automobile output was reduced in September but continued larger than a year ago. Mining of coal has steadily increased since mid-summer, and the weekly run of crude petroleum from wells in October reached the highest level since June of last year. Building contracts awarded during August and September were only slightly smaller in value than the awards for the corresponding period of last year and in the first half of October far exceeded those of a year ago. A substantial decline in contracts for residential structures has been largely offset by increases in awards

for industrial and engineering projects. The Department of Agriculture's October 18 estimate placed cotton production at 17,454,000 bales, an increase of about three-quarters of a million over the estimate made on the first of the month and of 1,350,000 bales more than last year's crop.

Trade

Wholesale and retail trade increased in September and was slightly larger than last year. Inventories of Department stores increased slightly more than is usual in September, and at the end of the month were in about the same volume as a year ago. Railroad freight car loadings reached new high weekly records in September, and shipments were maintained during the early weeks of October in much larger volume than in previous years. A great part of the increase as compared with last year is due to shipments of coal and ore, but loadings of manufactured commodities have also been larger.

Prices

The general level of wholesale prices advanced slightly in September and October, notwithstanding the drop in the price of cotton to the lowest level since 1921. The Bureau of Labor Statistics index of wholesale prices was about one per cent higher in September than in August, reflecting advances both in agricultural and in non-agricultural commodities. In recent weeks prices of corn, nonferrous metals, and paper have declined, while prices of livestock, meats, poultry and dairy products, and bituminous coal have increased.

Bank Credit

Between September 22 and October 20 the seasonal increase in the demand for credit for agricultural and commercial purposes was reflected in a continued growth in the commercial loans of member banks in leading cities. Loans on securities and holdings of investments declined, but the bank's total loans and investments were about $60,000,000 larger on October 20 than four weeks earlier.

At the reserve banks, the volume of member bank borrowing, after considerable fluctuations in response to temporary conditions, was in October at about the same average level as in September. There was little change in the banks' holdings of United States securities, while acceptance holdings continued to increase, as is usual at this season.

Except for a temporary firming around the first of October, there has been little change in the condition of the money market. Rates on commercial paper and on acceptances have remained at the levels established in September.

X-4703

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 October 26, 1926.

CONDITION OF ACCEPTANCE MARKET
September 16, 1926 to October 20, 1926.

Acceptances:

During the period from September 16 to October 20 there was a substantial increase in the supply of bills coming into the acceptance market, the majority of them based on transactions in cotton. Bills drawn to finance the importation of silk and sugar and the exportation of grain and copper also appeared in considerable volume. A good out of town demand was reported from New york and a good local demand from Boston, and the volume of dealers' sales, aside from the sales to Federal reserve banks, was larger than for any corresponding reporting period since June. Nevertheless the supply was in excess of demand and in spite of fairly heavy offerings to the reserve banks, dealers' portfolios were larger at the end than at the beginning of the period. No changes occurred in rates which were quoted as follows on October 20:

Acceptance Rates in the New York Market, October 20, 1926

Maturity	Bid	Offered
30 days	3 3/4	3 5/8
60 "	3 7/8	3 3/4
90 "	4	3 7/8
120 "	4 1/8	4
150 "	4 1/4	4 1/8
180 "	4 1/4	4 1/8

FEDERAL RESERVE BOARD

WASHINGTON

X-4704

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

October 26, 1926

SUBJECT: Cotton Seed Oil as an Agricultural Product.

Dear Sir:

The Federal Reserve Board has recently been requested to rule upon the question whether crude cotton seed oil is a "nonperishable, readily marketable staple agricultural product" within the meaning of the third paragraph of Section 13 which authorizes Federal reserve banks to discount or purchase sight drafts drawn to finance the domestic shipment of nonperishable, readily marketable staple agricultural products.

After careful consideration of this question, the Board is of the opinion that cotton seed oil is essentially a product of manufacture and cannot properly be deemed an agricultural product within the meaning of the third paragraph of Section 13.

Under date of March 19, 1926, the Federal Reserve Board addressed a letter to all Federal reserve banks (X-4564) wherein it ruled that flour and bran are essentially products of manufacture and cannot properly be considered agricultural products within the meaning of the above mentioned provision of Section 13. This ruling was based upon a decision of the Supreme Court of Kansas in the case of Getty v. C. R. Barnes Milling Co., 19 Pac. 617, wherein it was squarely held that flour is not an agricultural product.

Cotton seed oil is a product of some three or four steps of manufacture which are analogous to the steps involved in the production of flour and bran from wheat and the Board feels that the same rule must necessarily apply to cotton seed oil as to flour and bran.

Very truly yours,

D. R. Crissinger,
Governor.

TO ALL GOVERNORS.

FEDERAL RESERVE BOARD

WASHINGTON

October 27, 1926.

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

SUBJECT: Deductions in computing reserves of member banks.

Dear Sir:

One of the Federal reserve banks recently addressed an inquiry to the Board raising the question whether a forwarding member bank in computing its reserves may properly treat as amounts due from banks credits actually entered by correspondent banks, representing such items as coupons, checks drawn on themselves by corporations other than banks, bill of lading drafts, etc., which items have not yet actually been collected by the correspondent banks. It appears that it is not an uncommon practice for a correspondent bank to give credit to a forwarding bank immediately upon receipt of items of this kind, adjusting the difference between the date of credit and date of collection by interest charges or by analysis deductions for float.

The Board has heretofore ruled that bonds, coupons and bill of lading drafts forwarded for collection may not be deducted as items due from banks until such items have actually been collected and the proceeds have been credited to the account of the forwarding bank. In these rulings, however, the Board was considering the case where items are forwarded for collection, and credit is not given by the correspondent bank until the items have been collected. Under the facts of the instant case, the correspondent bank gives credit to the forwarding bank immediately upon receipt of the items, regardless of the fact that these items have not yet been collected. The two cases are thus fundamentally different. If immediate credit is given by a correspondent bank, reserving only the right to charge back the items in case of nonpayment, the correspondent bank at once becomes indebted to the forwarding bank in the amount of the items and the forwarding bank is entitled to draw against the credit so made as soon as the items are received by the correspondent bank.

In the Board's opinion when credit has actually been entered by a correspondent bank on an item forwarded to it by a member bank and the member bank is immediately entitled to draw against the credit so entered, the amount of this credit may properly be considered an amount due from banks and deducted by the member bank in computing its reserve from its balances due to banks, notwithstanding the fact that the correspondent bank has not yet actually collected the item.

By order of the Federal Reserve Board.

Walter L. Eddy,
Secretary.

To Governors of all F.R.Banks.

(COPY)

X-4706

FEDERAL RESERVE BANK

OF NEW YORK

263

September 22, 1926.

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

Dear Mr. Wyatt:

I beg to acknowledge the receipt of your letter of September 17, with the enclosed copy of opinion of the United States District Court for the District of Nebraska in the case of War Finance Corporation v. Duff.

I have read the opinion of the Court with much interest. It occurs to me that in a like case a reserve bank rediscounting paper for one of its members might conceivably find itself subject to the same inference of agency. I have thought of means which might be adopted to prevent any inference that a member bank receiving payment on account of a note in like circumstances, received such payment as the agent of the reserve bank, if, after more mature consideration, it should be deemed advisable or necessary to take action in this regard.

The practice of making such payments in this district, I am informed, is very rare indeed - so much so that the question is thought by some of our operating men to be of no great practical importance. Moreover, the present strong position of member banks in this district minimizes the necessity of adopting such measures. It has occurred to me, however, that the situation may be very different in some of the other districts, and I should like very much indeed to be advised of what action has been taken, if any, by other reserve banks. It seems to me the principle is the same in all districts and that the case might be a good one for uniform treatment.

Very truly yours,
(signed) L. R. Mason
L. R. Mason,
General Counsel.

(COPY)
FEDERAL RESERVE BANK
OF SAN FRANCISCO.

X-4706-a

September 22, 1926

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

Dear Mr. Wyatt:

I thank you for your letter of September 17, 1926, transmitting copy of the decision of the District Court of the United States for the District of Nebraska in the case of War Finance Corporation v. Duff. The same question as that presented in this case has arisen several times in my experience here.

We have not suffered any considerable losses by reason of collections made on paper held by this bank under rediscount and which collections were not remitted by the member bank prior to its failure, and I have not, therefore, had an occasion to present the question to the court of last resort in any of the states comprised in this district. I did, however, try the matter out on a small item in the courts of Utah and in that case it was determined by the court that the member bank, in effecting the collection, acted as our agent and the maker of the paper could not be required to duplicate the payment. I feel, however, that when the maker of a note pays something on account and fails to see that the payment is indorsed on the note, or pays the obligation entirely and fails to require the surrender of the note, marked cancelled, such acts constitute negligence on the part of the maker which should prevent him from successfully maintaining that the bank to which the payment is made is the agent of a discounting agency in whose possession the note is retained.

For some years I have urged upon the officers of this bank the advisability of recording assignments of chattel mortgages in those cases where we discount paper so secured. Our practice at the present time is to take an assignment of the mortgage but to hold it unrecorded as long as the member bank from which we received it is a going institution. Of course in cases of this kind, the record shows that the member bank is the owner of the mortgage without assignment and in such cases the mortgagor might be warranted in paying the mortgage debt to the discounting bank, resting upon the assurance of the record. The officers of this bank feel, however, that the expense, time, and trouble connected with recording assignments of chattel mortgages, coupled with the possible embarrassment to the member bank by reason of record notice that the mortgagor's paper has been discounted, make it inadvisable to record such assignments. Perhaps it is true that the practical considerations outweigh the risk entailed in leaving the assignments unrecorded.

Yours very truly,

(Signed) Albert C. Agnew,
Counsel.

(COPY)

FEDERAL RESERVE BANK X-4706-b

OF ATLANTA

LAW DEPARTMENT
422-430 Healey Bldg.
RANDOLPH & PARKER
General Counsel.

September 28, 1926.

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

Dear Mr. Wyatt:

We thank you for your letter of September 17th, enclosing copy of a recent decision in the District Court of the United States for the District of Nebraska in the case of War Finance Corporation v. Duff. The case is an interesting one, but one which, it seems to us, must necessarily be determinable upon the particular facts at bar. Of course, had the note actually been in the hands of the bank for collection, there would have been no doubt about the fact that a directed verdict in favor of the plaintiff would have been proper. We assume that the decision of the Court must have been predicated upon the general proposition that the War Finance Corporation had allowed persons generally to make payments for its account to the bank and that this course of conduct estopped the corporation from questioning the authority of the bank to receive such payments. It does seem as if the Court went a long way in its decision.

We had an almost identical case in Georgia involving an alleged payment which had been made to a bank shortly prior to its closing for the account of the War Finance Corporation. In the particular case we convinced opposing counsel that the closed bank had not been in fact the agent of the Corporation for the purpose of receiving payment and the matter finally terminated in favor of the Corporation. Had the facts been different, however, in our case, we would have been much troubled by the same.

Yours very truly,

(signed) Randolph & Parker

General Counsel.

(COPY)
FEDERAL RESERVE BANK
OF RICHMOND. X-4706-c

September 18, 1926

Federal Reserve Board,
Washington, D. C.

Attention of Mr. Walter Wyatt, General Counsel.

My dear Mr. Wyatt:

I have your letter of September 17th, enclosing me a copy of the decision of the District Court of the United States for the District of Nebraska in the case of War Finance Corporation v. Duff.

The decision rests, of course, primarily upon the facts of the case, or rather the inferences which may be drawn from the facts, but I agree with Mr. Merrill that it may prove of great interest to the Federal Reserve Banks, and any bank which discounts paper for another. It seems to me that the opinion is palpably illogical in that the court in the beginning states that any person who makes a negotiable note is bound to know that it may be transferred, but in the end apparently holds that the War Finance Corporation is estopped to deny that the original payee is itself agent simply because the War Finance Corporation knows that the original payee is in the business of collecting notes, and that the maker does not know the note has been transferred to the War Finance Corporation. I trust that the case may be appealed.

Very truly yours,

(Signed) M. G. Wallace,

M. G. Wallace,
Counsel.

MGW:IB

(COPY)

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X-4706-d

FEDERAL RESERVE BANK

OF ST. LOUIS

September 20, 1926

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

Dear Mr. Wyatt:

RE: - WAR FINANCE CORPORATION
vs.
DUFF

I am in receipt of your letter of the 17th enclosing the Court's instructions to the jury in a recent decision of the District Court of the United States for the Nebraska District in the case of the War Finance Corporation vs. Duff.

I am inclined to agree with Mr. Merrill that the case was wrongly decided; - and, I have a case in the matter of the failure of one of our member banks involving several small amounts, in which I am going to try to convince the Court that the payment to the rediscounting bank (when the maker knew that we held the note) did not constitute payment to us.

With kindest regards,

Very truly yours,

(signed) Jas. G. McConkey

Counsel.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4711

November 6, 1926

Subject: Code Word for use by the Federal Reserve Agent at New York in advising other Federal Reserve Agents of transactions in certain bankers' acceptances sold by the Federal Reserve Bank of Boston to other Reserve Banks for the account of the Open Market Committee.

Dear Sir:

It has been suggested that in order to reduce the phraseology in telegrams between the Federal Reserve Agent at New York and other Federal Reserve Agents advising of transactions in certain bankers' acceptances sold by the Federal Reserve Bank of Boston to other reserve banks for the account of the Open Market Committee, an additional code word be supplied from the Federal Reserve Telegraphic Code.

This suggestion has been approved, and effective November 13th, the following code word will be used covering the transactions referred to:

"Abstract" I have today received from Federal Reserve Bank Boston bankers acceptances aggregating $_____ to be held in trust for your account as collateral security your Federal Reserve notes."

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

Yours very truly,

J. C. Noell,
Assistant Secretary.

TO ALL FEDERAL RESERVE AGENTS.

(COPY)

X-4712

TREASURY DEPARTMENT
Office of the Secretary

Commissioner of the Public Debt.

WASHINGTON

November 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 October 1, 1926, to October 31, 1926, amounting to $143,106.00, as follows:

Federal Reserve Notes, Series 1914

	$5	$10	$20	$50	$100	Total
Boston	250,000	150,000				400,000
New York	650,000					650,000
Philadelphia	100,000					100,000
Cleveland	100,000		100,000	25,000		225,000
Richmond	100,000	50,000	50,000			200,000
Atlanta	200,000	150,000	50,000	25,000	10,000	435,000
Chicago	200,000	600,000	50,000			850,000
St. Louis	200,000					200,000
Minneapolis	100,000					100,000
Kansas City	200,000					200,000
Dallas	150,000					150,000
San Francisco	200,000	150,000	50,000			400,000
	2,450,000	1,100,000	300,000	50,000	10,000	3,910,000

3,910,000 sheets @ 36.60 per M $143,106.00

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

Boston	$ 14,640.00
New York	23,790.00
Philadelphia	3,660.00
Cleveland	8,235.00
Richmond	7,320.00
Atlanta	15,921.00
Chicago	31,110.00
St. Louis	7,320.00
Minneapolis	3,660.00
Kansas City	7,320.00
Dallas	5,490.00
San Francisco	14,640.00
	$143,106.00

The Bureau appropriations will be reimbursed in the above amount from the indefinite appropriation "Preparation and Issue of Federal Reserve Notes, Reimbursable", and it is requested that your board cause such indefinite appropriation to be reimbursed in like amount.

Respectfully,

(signed) R. W. Barr.

Acting Deputy Commissioner.

FEDERAL RESERVE BOARD

271

WASHINGTON

X-4713

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

November 17, 1926.

SUBJECT: Complimentary Copies of Federal Reserve Bulletin for State Bank Examiners.

Dear Sir:

Referring to the Board's letter X-4467 of December 9, 1925, on the above subject, you are advised the Board has approved a similar arrangement for the year 1927. It is requested, therefore, that you send to the Board, not later than December 15th, a list of names of State bank examiners in your district to whom a complimentary copy of the Federal Reserve Bulletin should be forwarded during the year 1927.

Yours very truly,

J. C. Noell,
Assistant Secretary.

TO ALL FEDERAL RESERVE AGENTS.

FEDERAL RESERVE BOARD

272

WASHINGTON

X-4714

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

November 9, 1926

SUBJECT: Fees and Expenses in Par Clearance Case of Pascagoula National Bank vs. the Federal Reserve Bank of Atlanta, et al.

Dear Sir:

Referring to the Board's letter (X-4138) of August 22, 1924, there is enclosed herewith a statement covering the fees and expenses in the par clearance case of the Pascagoula National Bank vs. the Federal Reserve Bank of Atlanta et al, which the Federal Reserve Board has approved.

It is requested that each Federal reserve bank remit to the Federal Reserve Bank of Atlanta its pro rata share of this expense (based on capital and surplus as of November 3, 1926), as follows:

Boston - - - -	$ 3,334.14
New York - - -	12,412.49
Philadelphia - -	4,260.13
Cleveland - - -	4,706.53
Richmond - - -	2,326.66
Atlanta - - -	1,773.21
Chicago - - -	6,108.88
St. Louis - - -	1,924.55
Minneapolis - -	1,366.97
Kansas City - -	1,699.61
Dallas - - - -	1,539.10
San Francisco -	3,057.41

By direction of the Federal Reserve Board.

Very truly yours,

Walter L. Eddy,
Secretary.

(Enclosure)

TO ALL GOVERNORS.

X-4714-a

STATEMENT OF EXPENSES WHICH ARE TO BE INCLUDED IN THE FINAL PRO-RATING IN CASE OF PASCAGOULA NATIONAL BANK AGAINST FEDERAL RESERVE BANK OF ATLANTA.

Date	Description	Amount
7-13-25	Amount paid to Newton D. Baker in connection with Par Clearance Case, Pascagoula, Miss., as per letter from Federal Reserve Board 7-29-25.	$ 2,394.43
8-29-25	Remittance to Montgomery B. Angell covering expenses in connection with Pascagoula National Bank case.	275.02
9-11-25	Amount to be prorated among Federal Reserve Banks in connection with Pascagoula Case, 1-1-25, covering bill of Foote and Davies Company, printing brief.	568.81
12-9-25	Cashier's check to Douglas O. Morgan, Washington, D. C., covering services of reporting and transcribing oral argument of Pascagoula Case in October term United States Supreme Court.	21.60
12-10-25	Cashier's check to Newton D. Baker for services rendered in Pascagoula Case, as per statement 11-27-25.	947.22
12-17-25	Fee paid to Newton D. Baker as per statement rendered 12-10-25, covering services in connection with Pascagoula Par Clearance Case.	10,000.00
1-18-26	Paid Foote and Davies Company, Atlanta, Ga., for twenty-six brief corners and twenty-five briefs printed.	10.00
2-20-26	Paid Clerk, United States Court of Appeals, New Orleans, La., for certified copy of court opinion in connection with Pascagoula Case.	5.00
8-17-26	Fee and expenses since December 10, 1925, paid to Newton D. Baker, as per statement rendered 7-24-26, covering services in connection with Pascagoula Par Clearance Case.	25,262.28
11-5-26	Cashier's check to Montgomery B. Angell, covering services and expenses in connection with Pascagoula case, per statement October 13, 1926.	5,025.32
	Total.....	$ 44,509.68

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4715

November 11, 1926

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

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-4715-a and X-4715-b, covering in detail operations of the main line, Leased Wire System, during the month of October, 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.

(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 OCTOBER, 1926.

From	Business reported by banks	Words sent by New York chargeable to other F.R.Banks (1)	Total	Treasury Department Business	War Finance Corporation Business	Net Federal Reserve Bank Business	Percent of total bank Business (*)
Boston	34,055	503	34,558	3,658	-	30,900	3.69
New York	136,445		136,445	4,711	-	131,734	15.71
Philadelphia	38,810	313	39,123	3,022	-	36,101	4.31
Cleveland	76,867	1,540	78,407	3,274	-	75,133	8.96
Richmond	45,738	2,962	48,700	3,199	-	45,501	5.43
Atlanta	64,652	3,611	68,263	4,140	-	64,123	7.65
Chicago	101,187	2,988	104,175	4,605	-	99,570	11.88
St. Louis	74,366	2,089	76,455	3,824	-	72,631	8.66
Minneapolis	37,306	2,125	39,431	2,021	-	37,410	4.46
Kansas City	73,850	2,791	76,641	3,206	-	73,435	8.76
Dallas	67,706	4,465	72,171	1,818	-	70,353	8.39
San Francisco	105,369	1,850	107,219	5,752	-	101,467	12.10
Total	856,351	25,237	881,588	43,230	-	838,358	100.00%
F.R.Board			298,565	26,561		272,004	
Total			1,180,153	69,791		1,110,362	
Percent of Total			100.00%	5.91%		94.09%	

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-4715-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.

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

X-4715-b

Name of Bank	Operators' Salaries	Operators' Overtime	Wire Rental	Total Expenses	Pro Rata Share of Total Expenses	Credits	Payable to Federal Reserve Board
Boston	$ 260.00	-	-	$ 260.00	$ 786.65	$ 260.00	$ 526.65
New York	944.16	-	-	944.16	3,349.14	944.16	2,404.98
Philadelphia	216.66	-	-	216.66	918.83	216.66	702.17
Cleveland	284.50	-	-	284.50	1,910.14	284.50	1,625.64
Richmond	185.00	-	-	185.00	1,157.60	185.00	1,177.27(&)
Atlanta	255.00	-	-	255.00	1,630.87	255.00	1,375.87
Chicago	3,891.58(#)	-	-	3,891.58	2,532.64	3,891.58	1,358.94(*)
St. Louis	200.00	-	-	200.00	1,846.19	200.00	1,646.19
Minneapolis	183.34	-	-	183.34	950.81	183.34	767.47
Kansas City	275.64	-	-	275.64	1,867.51	275.64	1,591.87
Dallas	251.00	-	-	251.00	1,788.63	251.00	1,537.63
San Francisco	370.00	-	-	370.00	2,579.54	370.00	2,209.54
Federal Reserve Board	-	-	$15,341.63	15,341.63	-	-	-
Total	$7,316.88	-	$15,341.63	$22,658.51	$21,318.55	$7,316.88	$15,565.28
				1,339.96(a)			1,358.94(b)
				$21,318.55			$14,206.34

(&) Includes $204.67 for branch line business transmitted over main line circuit.
(#) Includes salaries of Washington operators.
(*) Credit.
(a) Received $1,339.96 from Treasury Department covering business for the month of October, 1926
(b) Amount reimbursable to Chicago.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4718

November 12, 1926

Dear Sir:

There is handed you herewith, for your information, copy of a letter and enclosure received from the Treasury Department, advising that the insurance rate covering shipments of money and securities by registered mail under insurance policies held by the Treasury Department has been reduced from 4 7/8¢ to 4 1/2¢ per each $1,000.00, effective November 1, 1926.

Very truly yours,

Walter L. Eddy,
Secretary

Enclosures

TO ALL GOVERNORS OF F. R. BANKS.

(COPY)
TREASURY DEPARTMENT
Washington

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X-4718-a

November 5, 1926

The Secretary,
Federal Reserve Board,
Washington, D. C.

Sir:

There are enclosed herewith several copies of circular notice issued this day to the principal officers of the Treasury Department and others concerned, relating to the insurance policies held by the Treasury Department with the Aetna Insurance Company, United States Fire Insurance Company, Federal Insurance Company, The Continental Insurance Company, and The Globe and Rutgers Fire Insurance Company, covering shipments of money and securities by registered mail, notifying all parties interested of an adjustment in the rate from 4-7/8¢ to 4-1/2¢ per each $1,000, effective November 1, 1926.

It is requested that all Federal Reserve Banks and branch banks be notified of this adjustment in rate. Sufficient copies are enclosed for this purpose.

By direction of the Secretary:

Respectfully,

(Signed) F. A. Birgfeld,

F. A. BIRGFELD,
Chief Clerk,

Enclosure.

X-4720
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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

November 15, 1926.

Dear Sir:

As you probably know, under date of June 3, 1926, Congress adopted an act to consolidate, codify, and set forth the general and permanent laws of the United States in force December 7, 1925. This Act is known as "The Code of Laws of the United States of America."

The enacting provision provides that the Code "shall establish prima facie the laws of the United States, general and permanent in their nature, in force on the 7th day of December, 1925; but nothing in this Act shall be construed as repealing or amending any such law or as enacting as new law any matter contained in the Code. In case of any inconsistency arising through omissions or otherwise between the provisions of any section of this Code and the corresponding portion of the legislation heretofore enacted, effect shall be given for all purposes whatsoever to such enactments."

While the Code at present is thus only prima facie evidence of the law, it is planned to reenact it and give it the effect of repealing and superseding all law in force December 7, 1925, as soon as it is possible to discover and correct such errors as are contained in the Code in its present form. It is highly important, therefore, to discover and call attention to all important errors in the codification of the Federal Reserve Act and related statutes as soon as possible, in order that such statutes may not be amended unintentionally when the Code is given final effect.

A careful examination by this office of that part of the Code which corresponds to the provisions of the Federal Reserve Act has disclosed a number of omissions and inaccuracies which have been called to the attention of Congress. I enclose for your information a copy of a letter on this subject which the Board addressed to Honorable Roy G. Fitzgerald, Chairman of the House Committee on Revision of Laws under date of November 9, and also a copy of a memorandum prepared by this office calling attention to such errors and omissions as have been discovered. If in the course of your work you should discover any further errors in the codification of the Federal Reserve Act or related statutes, I should appreciate it if you will call such errors promptly to the attention of this office, in order that proper steps may be taken to have them corrected.

Preliminary copies of this Code, bound in buckram but without index or tables, can be purchased from the Government Printing Office for $3 per copy.

Very truly yours,

Walter Wyatt
General Counsel.

Enclosures.

(COPY)

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X-4702-a

November 9, 1926

Honorable Roy G. Fitzgerald, Chairman,
Committee on Revision of Laws,
House of Representatives,
Washington, D. C.

My dear Congressman :

The Federal Reserve Board has received a copy of the Code of the Laws of the United States passed by Congress June 30, 1926, and has noted your request, accompanying each volume of the Code, that those who use the Code inform your Committee of any omission or misstatement which may be discovered. In compliance with your request, Counsel to the Federal Reserve Board has made a careful examination of that part of the Code which corresponds to the provisions of the Federal Reserve Act, and has prepared a memorandum calling attention to a number of omissions and inaccuracies. A copy of this memorandum is enclosed herewith for the information of your committee.

Among the matters omitted from the Code are the sixth and seventh paragraphs of Section 2 of the Federal Reserve Act, which provide for the forfeiture of the franchises of national banks for failure to comply with the provisions of the Federal Reserve Act. It is probable that these provisions were omitted from the codification because the codifiers considered them obsolete. The first sentence of the 6th paragraph provides :

> "Should any national banking association in the United States now organized fail within one year after the passage of this Act to become a member bank or fail to comply with any of the provisions of this Act applicable thereto, all of the rights, privileges, and franchises of such association granted to it under the national-bank Act, or under the provisions of this Act, shall be thereby forfeited."

Because of the words "within one year after the passage of this Act", the codifiers evidently thought that this provision expired by limitation one year after the passage of the Federal Reserve Act; but such was not the intent of Congress. Congress intended that all national banks then in existence or which might subsequently be organized should become members of the Federal Reserve System and at all times comply with the provisions of the Federal Reserve Act. The words above quoted were inserted in the Act merely for the purpose of giving national banks then in existence one year within which to comply with the provisions of the Federal Reserve Act before they should be subjected to the forfeiture of their charters for failure to do so. Although the language of the law is not entirely clear, this was the obvious intent of Congress and this is the construction which has been given to the law and has been generally accepted as correct. The sixth and seventh paragraphs of

the Federal Reserve Act, therefore, are not obsolete; and it is highly important that they be retained in the law, because they provide the most effective means of enforcing those provisions of the Federal Reserve Act which pertain to national banks.

The first sentence of the fourth paragraph of Section 10 of the Federal Reserve Act providing that the first meeting of the Federal Reserve Board shall be held in Washington has been omitted, apparently because it was considered obsolete. This provision, however, is still of importance in the determination of the location or situs of the Federal Reserve Board for suit or otherwise. The question of the situs of the Federal Reserve Board has already been raised in one important case, and this provision of law was one of the grounds upon which the Court based its opinion that the Federal Reserve Board is an inhabitant of the District of Columbia within the meaning of Section 51 of the Judicial Code.

Section 29 of the Federal Reserve Act which provides that if any part of the Act is adjudged invalid such invalidity shall not extend to other parts of the Act, has been omitted. This provision is an important one and should be retained, unless the Code contains a similar provision generally applicable to all the provisions of the Code. Such a general provision of the Code has not been found in the investigation made by the Board's Counsel.

Section 30 of the Federal Reserve Act which expressly reserves to Congress the right to amend, alter or repeal the Act is omitted. While the Board is of the opinion that Congress would have this right without an express reservation, the retention of such a provision in the law is believed to be very desirable because it effectively settles the question beyond any possibility of dispute. A similar provision of the National Bank Act was omitted when that Act was incorporated in the Revised Statutes of the United States, and such omission has given rise to much debate as to the right of Congress to amend certain provisions of the National Bank Act. A repetition of that unfortunate occurrence is undesirable.

Some of the errors in the codification which are mentioned in the enclosed memorandum, such as those in Sections 1, 92, 221 and 462 are unimportant, but are mentioned for the sake of accuracy and completeness. The errors occurring in the following sections of Title 12 of the Code, however, are important and should be corrected: 248(e), 248(l), 324, 327, 330, 331, 345, 346, 351, 373, 411, 412, 413, 414, 420, 422, 447, 448, 467, 482, 611, 613, 615, 616, 617, 619, 629, 630, 631, 943, 1222 and 1223; and also Section 771 of Title 31. Some of these errors very seriously affect the existing provisions of the Federal Reserve Act, and it is highly important that they be corrected before the Code is given the effect of superseding preexisting law. One or two of these errors will be discussed by way of illustration.

Section 327 of Title 12 of the Code corresponds to the seventh paragraph of Section 9 of the Federal Reserve Act, which authorizes the Federal Reserve Board to require any member bank which has failed to comply with the provisions of "this section" (i.e., Section 9 of the Federal Reserve Act) to

surrender its stock in the Federal reserve bank and to forfeit all rights and privileges of membership. Although this provision refers to the whole of Section 9 of the Federal Reserve Act, containing some twelve paragraphs which are incorporated in the Code as Sections 321 to 331, inclusive, the codifiers failed to change the words "this section" so as to refer to the other sections of the Code which correspond to the other paragraphs of Section 9 of the Federal Reserve Act. The result is that Section 327 of the Code is practically meaningless; and, if the Code should be given the effect of superseding preexisting law without correcting this mistake, it would deprive the Federal Reserve Board of this very important power to enforce the provisions of Section 9 of the Federal Reserve Act.

Section 412 of Title 12 of the Code would very seriously change the vitally important provisions of the law with reference to the character of collateral which may be pledged with the Federal Reserve Board to secure Federal Reserve notes. Thus the Code authorizes the pledging of notes, drafts and bills of exchange acquired under the provisions of Section 342 of the Code, whereas under that Section of the Code notes, drafts and bills of exchange may be acquired by Federal reserve banks only for purposes of collection, the Federal reserve banks acquire them merely as Agents, have no title to them, and could not properly pledge them as security for Federal Reserve notes. Section 412 of the Code also authorizes the pledging of acceptances acquired by Federal reserve banks under Section 372, whereas Section 372 merely confers power on member banks to issue bankers' acceptances. On the other hand, Section 412 of the Code omits reference to Section 359, which corresponds to Section 14(f) of the Federal Reserve Act, and thus would deprive Federal reserve banks of the right to pledge as collateral security to Federal Reserve notes acceptances of Federal Intermediate Credit Banks and National Agricultural Corporations which may now be purchased by Federal reserve banks under the provisions of Section 14(f). The important corrections which should be made in Section 412 are clearly indicated in the enclosed memorandum prepared by the Board's Counsel.

The Board cannot undertake to discuss in detail all of the errors in the Codification which would seriously affect the existing provisions of the Federal Reserve Act; but they are pointed out in the enclosed memorandum, and the Board urges most strongly that the necessary corrections be made before the codification is given the effect of superseding preexisting law.

The Federal Reserve Board desires to do everything possible to assist you and your Committee in the important task of making this Code absolutely accurate and complete and hopes that you will call upon it if it can be of any further assistance to you in the matter. In this connection, the Board requests that it be given an opportunity of having its Counsel confer with your codification experts in order to make sure that the important mistakes in those portions of the codification which cover the provisions of the Federal Reserve Act may be corrected before the codification is given final effect.

Very truly yours,

D. R. Crissinger,
Governor

Enclosure.

ERRORS IN "THE CODE OF THE LAWS OF THE UNITED STATES OF AMERICA" RELATING TO THE FEDERAL RESERVE ACT.

Those parts of "The Code of the Laws of the United States of America," Act of Congress approved June 30, 1926, which correspond to the various provisions of the Federal Reserve Act have been carefully examined and the errors and other inaccuracies which have been discovered are listed below. This list includes also a few errors which have been found in other statutes which affect indirectly the Federal Reserve System. The codification of such other statutes, however, has not been carefully checked and such errors as are mentioned were discovered incidentally in connection with the examination of the codification of the Federal Reserve Act and the amendments.

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. These provisions should, therefore, be retained in the Code.

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.

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 obsolete.

OTHER ERRORS.

All references are to Title 12 unless otherwise stated.

Section 1. Corresponds to a part of Section 10 of the Federal Reserve Act. In the fourth line "a" before the words "national currency" should be omitted in order to comply with the original statute.

Section 82. Corresponds to Section 5202 of the Revised Statutes as amended by Section 13, Federal Reserve Act.

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. Corresponds to a part of Section 2 of the Federal Reserve Act. Provides that, "The Federal reserve cities now in existence are continued." This is now 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. Corresponds to a part of Section 2 of the Federal Reserve Act. 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(c) 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(c) 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 (f) Corresponds to Section 11(f) of the Federal Reserve Act. The reference at the end of this section "December 23, 1923" should be changed to read "December 23, 1913."

Section 248 (k) Corresponds to Section 11(k) of the Federal Reserve Act. The reference at the end of this section contains two typographical errors. The proper reference is as follows: "December 23, 1913, C.6, Section 11, 38 Stat. 262; September 26, 1918, C. 177, Section 2, 40 Stat. 968".

Section 248 (l) Corresponds to Section 11(l) of the Federal Reserve Act. The reference to Section 632 of Title 5 should be to "Chapter 12 of Title 5 and amendments thereto".

Section 261 Corresponds to a part of Section 12 of the Federal Reserve Act. The comma in the next to the last line of this section does not appear in the original statute and should be omitted.

Section 234. 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 be-

cause no stock has ever been alloted 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 act.

Section 322. Corresponds to a part of Section 9 of the Federal Reserve Act. The word "applications" in the second line should be made singular "application".

Section 324. Corresponds to a part of Section 9 of the Federal Reserve Act. The reference to "this section" in the second line should be changed to read "Sections 321 to 331". The reference to Section 5209 of the Revised Statutes should be changed to read "Section 592."

Section 325. Corresponds to a part of Section 9 of the Federal Reserve Act. The reference at the end of this section "30 Stat. 232" should be changed to read "40 Stat. 232".

Section 327. Corresponds to part of Section 9 of the Federal Reserve Act. The word "section" appearing in the fourth line and also in the last line should be changed to read "Sections 321 to 331 inclusive."

Section 330. Corresponds to a part of Section 9 of the Federal Reserve Act. The three references to "this section" should be changed to read "Sections 321 to 331 inclusive".

The reference at the end of this section "38 Stat. 257" should be changed to read "38 Stat. 259".

Section 331. Corresponds to a part of Section 9 of the Federal Reserve Act. The two references to "this section" should be changed to read "Sections 321 to 331 inclusive".

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 meaningless and should be omitted.

The comma in the first line of the paragraph marked "Fifth" does not appear in the original statute. A comma should be placed after the word "directors" in the first line of the paragraph marked "Sixth" in order to comply with the original statute.

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.

Section 342. Corresponds to a part of Section 13 of the Federal Reserve Act. The comma after the word "checks" in the sixteenth line 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 344. Corresponds to a part of the Agricultural Credits Act of 1923. The title to this section would be much more appropriate if changed to read "Rediscount or purchase of bills of exchange payable at sight or on demand".

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 347. Corresponds to a part of Section 13 of the Federal Reserve Act. The reference at the end of this section to "March 4, 1923, C. 252, Title IV, Sections 402, 403, 42 Stat. 1478, 1479" is incorrect. The Act of March 4, 1923, did not amend this part of Section 13 of the Federal Reserve Act.

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 340."

Section 355. Corresponds to a part of Section 14 of the Federal Reserve Act. The reference at the end of this section "38 Stat. 274" should be changed to read: "38 Stat. 364".

Section 372. Corresponds to a part of Section 13 of the Federal Reserve Act. The title to this section is somewhat misleading because the section refers not only to the acceptance of drafts or bills relating to shipments but also to other kinds of drafts or bills. It would seem more appropriate to make the title read "Acceptance of drafts or

bills by member banks.

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 the second paragraph it would seem should be changed to "section". The comma appearing after the word "Board" in the next to the last line of the first paragraph is not to be found in the original statute.

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. In the fifth line after the word "may", a comma should appear in order to correspond to the original statute. In the ninth line the semi-colon should be changed to a comma.

Section 411. Corresponds to a part of Section 16 of the Federal Reserve Act. The words "hereinafter set forth" in the fourth line should be changed to read "as set forth in Sections 412 to 422 inclusive". In the reference at the end of this section the date "1913" is omitted after the words "December 23".

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 Re-

serve 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 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 413. Corresponds to a part of Section 16 of the Federal Reserve Act. The reference at the end of this section "December 23, 1923", should be changed to read: "December 23, 1913". In the nineteenth line the comma should be placed after the word "or" instead of before the word "or" in order to comply accurately with the original statute. The words "hereinafter provided" should be changed to read: "provided in Sections 414 and 415". The reference at the end of this section "December 23, 1923" should be changed to read "December 23, 1913".

Section 414. Corresponds to a part of Section 16 of the Federal Reserve Act. The reference at the end of this section "December 23, 1923" should be changed to read "December 23, 1913". The words "hereinbefore required" should be changed to read "required by section 413".

Section 415. Corresponds to a part of Section 16 of the Federal Reserve Act. At the end of this section the reference "December 23, 1923"

should be changed to read "December 23, 1913".

Section 416. Corresponds to a part of Section 16 of the Federal Reserve Act. The reference at the end of this section "December 23, 1923" should be changed to read "December 23, 1913".

Section 417. Corresponds to a part of Section 16 of the Federal Reserve Act. The reference at the end of this section "September 21, 1917" should be changed to read "June 21, 1917".

Section 418. Corresponds to a part of Section 16 of the Federal Reserve Act. The reference at the end of this section "December 23, 1923" should be changed to read "December 23, 1913".

Section 419. Corresponds to a part of Section 16 of the Federal Reserve Act. The reference at the end of this section "December 23, 1923" should be changed to read "December 23, 1913".

Section 420. Corresponds to a part of Section 16 of the Federal Reserve Act. The words "herein provided for" should be changed to read "provided for in Sections 411 to 422 inclusive". The reference at the end of this section "December 23, 1923" should be changed to read "December 23, 1913".

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 447. Corresponds to a part of Section 16 of the Federal Reserve Act. The words "herein provided for" should be changed to read "provided for in Sections 441 to 448 inclusive".

Section 448. Corresponds to a part of Section 16 of the Federal Reserve Act. The word "herein" in the last line should be stricken out and the words "in Section 441 to 448 of this chapter" added at the end of the section.

Section 461. Corresponds to a part of Section 19 of the Federal Reserve Act. The reference at the end of this section should also include a reference to "June 21, 1917, C. 32, 40 Stat. 232".

Section 462. Corresponds to a part of Section 19 of the Federal Reserve Act. In the seventh line of paragraph (b) "a" should be inserted before the word "city".

Section 463. Corresponds to a part of Section 19 of the Federal Reserve Act. The reference at the end of this section "39 Stat. 691" should be changed to read "38 Stat. 691".

Section 464. Corresponds to a part of Section 19 of the Federal Reserve Act. The reference at the end of this section "39 Stat. 691" should be changed to read "38 Stat. 691".

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 omitted. 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 pro-

bably correct but the words "Assistant Treasurer" have been retained in the twelfth line. The word "section" found in the first and third lines of the last paragraph of this section should be changed to read "chapter". The reference at the end of this section to "June 21, 1917" C. 328" should be changed to read "June 21, 1917, C. 32".

Section 481. Corresponds to a part of Section 21 of the Federal Reserve Act. In the 15th line a comma should be placed after the word "bank" to comply accurately with the provisions of the original statute.

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 501. Corresponds to a part of Section 5208 of the Revised Statutes. The reference to Section 331 should be changed to read "Sections 321 to 331 inclusive."

Section 594. Corresponds to a part of Section 22 of the Federal Reserve Act. In the 14th line the comma after the word "House" does not appear in the original statute.

Section 611. Corresponds to a part of Section 25(a) of the Federal Reserve Act. The word "section" in the ninth, twelfth and fourteenth 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 eighth 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 tenth line should also be changed.

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.

Section 624. Corresponds to a part of Section 25(a) of the Federal Reserve Act. In the next to the last line of this section the word "jurisdic-

tion" should be made plural "jurisdictions".

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". The last word appearing in this section, "hereunder" should be changed to read "thereunder".

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." The word "or" appearing after "officer" in the fourteenth line should be changed to read "of".

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 "subsection (b) of" in the fifth and sixth 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".

Section 771. of Title 31. Corresponds to a part of the Act approved April 4 , 1918. The reference in the 15th and 16th lines to Sections 141 to 143 of Title 12 should be changed to read "sections 141 to 144 inclusive of Ti-

tle 12 and Sections 461 and 462 of Title 12".

Section 759. of Title 39. Corresponds to a part of the Postal Savings Act as amended May 18, 1916. After the words "Federal Reserve System", appearing in the 6th line and also in the 25th line of this section of the Code, the original statute contains the words "established by the Act approved December 23, 1913". These words have been omitted from the Code and it is suggested that there be substituted in their stead the words "as described in Chapter 3 of Title 12".

FEDERAL RESERVE BOARD

X-4721

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

November 16, 1926.

SUBJECT: Annual Reports of Federal Reserve Agents.

Dear Sir:

In accordance with the usual custom the annual reports of the Federal reserve agents for 1926 should be confined to a textual discussion with such incidental data and tables as appear proper. Detailed statistical tables should not be used, but reference may be made to the statistical data published in the report of the Federal Reserve Board.

In a number of instances in the past expense figures based on the functional expense reports have been included in the annual reports submitted to the Federal Reserve Board or in the annual statements to stockholders. If such data were generally published, comparisons probably would be made between unit costs of handling the several classes of operations performed by the reserve banks, and it would be difficult for the banks or the Board to satisfactorily explain why the unit costs in a given function at some of the banks were materially out of line with those at others. For this reason the Board treats the functional expense figures as confidential and not for publication, and requests that the same policy be followed by your bank.

In preparing its own annual report the Board will follow the same general arrangement of the statistical tables in both Parts I and II as was adopted last year, and copies of the schedules pertaining to your district which will be published in Part II of the Board's annual report will, if practicable, be forwarded to you for comparison with any similar data that may have been prepared by your bank.

Very truly yours,

Walter L. Eddy,
Secretary.

TO ALL FEDERAL RESERVE AGENTS.

FEDERAL RESERVE BOARD

WASHINGTON

X-4722

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

November 16, 1926.

SUBJECT: Bank Salaries.

Dear Sir:

Following the usual practice, will you kindly have prepared and forwarded to the Board on or before December 10 salary recommendations of your Board of Directors for the year 1927 in the same form as submitted last year in accordance with the Board's letter X-4452 of November 17, 1925, a copy of which is enclosed. The recommendations should cover all employees on the bank's payroll, including those whose salaries are reimbursable to the bank either in whole or in part from notary fees, cafeteria receipts, etc. If the bank's counsel is not an officer (does not devote his entire time to the bank) a separate recommendation should be made covering the annual retainer fee to be paid and for any additional compensation for clerk hire or other assistance.

The recommendations should, as last year, be accompanied with a statement showing total salary payments made during 1926 (December estimated) and the estimated salary requirements for officers and employees during 1927, classified by functions.

Very truly yours,

Walter L. Eddy,
Secretary.

Letter to Chairmen of all F.R.Banks except New York.

Enclosure.

November 17, 1925.

SUBJECT: Bank Salaries.

Dear Sir:

In accordance with previous practice and in view of Section 4 of the Federal Reserve Act, which provides that any compensation that may be provided by boards of directors of Federal Reserve banks for directors, officers or employees shall be subject to the approval of the Federal Reserve Board, it is requested that you prepare and forward to the Board on or before December 10 schedules, in accordance with the sample forms attached hereto, containing the names and salaries of all officers and employees of your bank. It will be noted that the schedules are to show the present and proposed annual salaries of all officers and of employees receiving in excess of $2,500 per annum, and the salaries at the beginning of 1925 and those proposed for January 1, 1926, of employees receiving $2,500 or less. Separate schedules should be submitted for the Head Office and each Branch.

Will you also kindly accompany your salary recommendations with a statement showing salaries paid to officers and to employees during 1925 (December estimated), and the estimated salary requirements for officers and employees during 1926, classified by functions in accordance with the enclosed form.

Very truly yours,

Walter L. Eddy.
Secretary.

Enclosure.

TO CHAIRMEN OF ALL F. R. BANKS

X-4452-a

NAMES AND SALARIES OF OFFICERS ON DECEMBER 1, 1925.

(Includes only the positions listed in Federal Reserve Board's letter X-3532 of Oct. 5, 1922)

Federal Reserve Bank - Branch _____

Name	Title	Functions supervised	Present annual salary	Proposed salary Jan. 1, 1926

Total, ____officers

NUMBER AND SALARIES OF EMPLOYEES RECEIVING MORE THAN $2,500 PER ANNUM.

(Employees recommended for salaries in excess of $2,500 should also be included in this report)

Federal Reserve Bank - Branch_____, Dec. 1, 1925.

Name	Title	Functions to which assigned	Present annual salary	Proposed salary Jan. 1, 1926.

Total, _____ employees

X-4452-c

NUMBER AND SALARIES OF EMPLOYEES RECEIVING $2,500 OR LESS PER ANNUM.

(Employees recommended for salaries in excess of $2,500 should not be included in this report).

Federal Reserve Bank - Branch _____, Dec. 1, 1925.

Name	Title	Salary on Jan. 1, 1925*	Proposed salary Jan. 1, 1926
	_____ function		

Total, _____ employees

NOTE: Employees should be grouped according to the functions given in the functional expense report, form E, and totals shown for all functions. An employee assigned to more than one function should be listed in the function to which he devotes the greater part of his time, with a note indicating in what other functions he is employed. The report should not include extra help or temporary employees, but it should include all regular employees whose salaries are reimbursable to the bank either in whole or in part. In the case of employees who are on a per diem or hourly basis, the estimated total annual compensation should also be shown.

*If hired during 1925, please show the initial salary.

X-4452-d

SALARIES* PAID DURING 1925 AND ESTIMATED PAYMENTS DURING 1926

Federal Reserve Bank (including branches)_____

Functions (Form E classification)	Paid during 1925 (December estimated)		Estimated payments during 1926	
	Officers	Employees	Officers	Employees
General Overhead				
Provision of Space				
Provision of Personnel				
General Service				
Failed Banks				
Loans, Rediscounts and Acceptances				
Securities				
Currency and coin				
Check collections				
Non-cash collections				
Accounting				
Fiscal Agency				
Legal				
Auditing				
Bank Relations				
Federal Reserve Note Issues				
Bank Examination				
Statistical and Analytical				
Total				

*Includes extra help, overtime and supper money.

FEDERAL RESERVE BOARD

WASHINGTON X-4723

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

November 16, 1926.

SUBJECT: 1927 Budget for Statistical and Analytical Work.

Dear Sir:

In continuation of the policy adopted last year, will you kindly prepare and submit to the Board for approval, not later than December 10, a budget of expenditures covering work in the Statistical and Analytical function of your bank (including branches, if any), to be carried on during the year 1927. The budget should be submitted on the attached form which corresponds with the functional expense report form E, and which provides for showing in parallel columns the budget approved for and amounts actually expended during 1926 (December estimated) and the proposed budget for the calendar year 1927. The proposed salary payments as shown in the budget for 1927 should be based on the salary recommendations made for next year.

Very truly yours,

Walter L. Eddy,
Secretary.

TO ALL FEDERAL RESERVE AGENTS.

Enclosure.

FEDERAL RESERVE BANK OF _____ (including branches)

Proposed budget of expenses in the Statistical and Analytical function (as defined in the Manual of Instructions covering functional expense reports form E) for the year 1927.

(All figures to be shown to the nearest dollar, cents omitted)

	BUDGET for 1926	EXPENSES during 1926*	BUDGET for 1927
ADMINISTRATION:			
Salaries - officers			
Salaries - employees			
Traveling expenses			
Print. & stat. & other supplies			
Telephone and telegraph			
All other**			
TOTAL			
STATISTICAL:			
Salaries - employees			
Traveling expenses			
Print. & stat. & other supplies			
Telephone and telegraph			
Postage			
All other**			
TOTAL			
MONTHLY LETTER:			
Printing and stationery			
Postage			
TOTAL			
LIBRARY:			
Salaries - employees			
Traveling expenses			
Print. & stat. & other supplies			
Telephone and telegraph			
News service - subscription to periodicals, etc.			
Books			
All other **			
TOTAL			
GRAND TOTAL			

MEMORANDA:

Number of copies of monthly letter printed, December 1926 _____

Receipts from monthly letters sold: Year 1926 $_____ Do not deduct from expenses
Estimated, Year 1927 $_____

*December expenses estimated.
**Classify, if in excess of $100.

COPY

X-4724

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FEDERAL RESERVE BANK

OF DALLAS.

LAW DEPARTMENT
Locke, Locke, Stroud & Randolph
Counsel.

November 5, 1926.

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

Dear Walter:

I acknowledge receipt of your letter of October 28, in which you enclose copies of several letters you have received commenting upon the case of the War Finance Corporation v. Duff. I have intended writing you about this case, but have delayed it due to the fact that we have had a case involving almost identical facts, which we lost in the trial court and also in the Court of Civil Appeals. We now have pending an application for writ of error for the Supreme Court of Texas.

I am enclosing herewith a copy of the opinion of the Court of Civil Appeals in the case in which the Federal Reserve Bank is interested, and also a copy of the application for writ of error. I am also sending under separate cover thirteen copies of the brief which we filed in the Court of Civil Appeals.

I think that the matters pointed out in Paragraph Number Two in our application for writ of error, under Grounds of Jurisdiction, fully cover anything which I might have to say with reference to the importance of the question.

I will keep you advised as to the progress of the case in the Supreme Court.

Sincerely,

(signed) E. B. Stroud, Jr.

E. B. STROUD, JR.

Enclosures.

C
O
P
Y

X-4724-a

No. 392

In the

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COURT OF CIVIL APPEALS

FOR THE

TENTH SUPREME JUDICIAL DISTRICT

OF TEXAS, AT WACO

FEDERAL RESERVE BANK OF DALLAS
Appellant,

v.

T. A. HANNA ET AL, APPELLEES.

Appeal from District Court,
Johnson County

This suit was instituted by appellant, Federal Reserve Bank of Dallas, against appellees, T. A. Hanna and C. D. Dickerson, to recover on two promissory notes in the sum of $750.00 each, with interest and attorney's fees. The parties will be designated as in the trial court. Said notes were executed by defendant Hanna to defendant Dickerson and made payable at the First National Bank of Cleburne, hereafter called the Cleburne Bank, on July 1st, 1921 and September 1st, 1921, respectively. They were both duly endorsed by Dickerson and sold and delivered by him to said Cleburne Bank. Defendant Hanna was afterwards duly advised of said fact. On August 23rd, 1921, the Cleburne Bank notified defendant Hanna that said first note was past due, and that said second note would be due September 1st, and that both were payable at its office. Defendant Hanna immediately wrote said bank asking that both notes be extended to November 1st. Said bank refused the request, and declared it would take necessary steps to collect the same if not paid

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within ten days. Defendant Hanna mailed to said bank his check for the amount due on both notes. Said check was received by said bank on September 8, 1921, and was promptly cashed and the proceeds appropriated by it to its own use. Said Cleburne bank was indebted to the plaintiff and had long prior to the maturity of said notes endorsed and delivered the same to it as collateral security for such indebtedness.

Defendants, among other defenses, pleaded that said notes had been paid in full to the Cleburne Bank and that said bank was the agent of plaintiff at the time of such payment and authorized to receive the same.

The case was submitted to a jury on special issue and judgment was rendered for the defendants on the verdict returned in response thereto.

OPINION.

The court submitted to the jury the following special issue:

> "Was the National Bank of Cleburne the Agent of the Federal Reserve Bank of Dallas in the collection of the two notes sued upon on September 8th, 1921?"

The jury answered said issue "Yes". Plaintiff objected to the submission of said issue on the ground that there was no evidence to authorize its submission. Plaintiff contends that the court erred in overruling said objection, and such contention is the principal issue presented in this appeal.

Defendant's check for the amount of said notes was sent to the Cleburne Bank by mail and he was not present at the time it was received to require production and surrender of said notes. While it appears that said notes were probably in said bank in the hands of the manager of plaintiff's loan department for collection at the time, it did not have actual possession of the same. The rule in such cases is laid down in 3rd R.C.L., p. 1289, sec. 521, as follows:

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> "When payment is made to a person not having possession of the securities properly endorsed, the burden of showing that such person was authorized to receive payment for the creditor rests upon the party who makes the claim of payment."

See also 2 C.J., ;. 624; Rhodes v. Belchee, 59 Pac. 117. The mere fact that the person to whom payment is made is not at the time of payment in actual possession of the securities or notes intended to be discharged is not conclusive of lack of authority, but is a mere circumstance to be duly considered in determining the issue of agency or authority to receive such payment. 2 C.J. p. 625, sec. 262. It is not, however, necessary that agency or authority in fact to receive payment be established by direct evidence. Like any other material fact in issue, it may be proved by circumstances. 2 C.J., p. 944, sec. 708; 21 R. C. l., pp.820-1, sec. 6; Daugherty v. Wiles, 207 S.W.900, 901-2; Stringfellow v. Brazelton, 142 S.W. 936, 938-9; Ward V. Powell, 127 S. W. 851, 852; Wilson v. LaTour, 66 N. W. 474; Bissell v. Dowling, 76 N. W. 100. Where evidence is introduced tending to show agency or authority the issue should be submitted to the jury. 2 C. J., p. 960, sec. 731; Bradstreet v. Gill, 72 Tex. 115, 116.

The Cleburne Bank was indebted to the plaintiff in the sum of more than $600,000.00, which indebtedness was secured by notes owned by it and endorsed and delivered by it to the plaintiff as collateral. Mr. Gentry, the manager of plaintiff's loan department, was a witness in its behalf. He testified on cross-examination that he visited the Cleburne bank every day from the early part of August, 1921, until it failed on or about the 18th day of October of that year, except on two occasions, when someone else from his department came in his stead; that during all that time he knew that the Cleburne bank was borrowing heavily, was hard pressed for money, and was in what he termed an "extended" condition. He did not define that term but on

consideration of his testimony as a whole we understand that he meant thereby a condition of probable but not certain insolvency. He further testified that he knew during all that time that plaintiff did not care to send said bank any more notes through the mail for collection; that his daily visits to said bank were to collect said collateral notes and also checks on said bank; that he brought each day all notes that were due, all that were past due and all that would mature in the next ten days; that he did not present said notes to the makers but that he collected them by presenting them to Mr. Norwood, president of the Cleburne bank; that the bank paid very few notes in comparison with the notes they had out. We quote from the testimony of said witness as follows:

> "I don't know who would notify the various makers of the various notes I would bring down here to come in and pay the notes. Mr. Norwood never did at my instance notify anybody that their note was due and for them to come in and pay it. No one in the bank did that I know of; they didn't do anything at my instance. I would come in there with my notes past due, but I brought no pressure on them at all to go out and notify the makers of the notes to come in and pay up. * * * As to whether or not I just sat down there and guarded the notes and didn't ask anybody to make any effort to collect those notes, I looked after the notes. That is what I was supposed to do. That was my business. I didn't give any of them away. I never did see any of the makers of the notes myself, go out and tell them to come in and pay them. I never did write any of them notices. * * *I didn't even suggest that to the National Bank of Cleburne; I assumed that he was looking after the collections himself." (Italics ours).

This witness further testified that he would not surrender a note to the employes of the Cleburne Bank and permit them to take it to the window and collect it and bring the money back to him, but that he required them to bring the money to him before he would part with the note. This testimony was contradicted by defendant's witness Randle, who testified that he was employed by the Cleburne Bank and that he kept the loan and discount ledger thereof during the time in question.

We quote from his testimony as follows:

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> "It is a fact that for several months prior to the failure of the National Bank of Cleburne Mr. Gentry on practically every day came down to the National Bank of Cleburne and brought the notes that the National Bank of Cleburne had placed as collateral with the Federal Reserve Bank with him for collection. With reference to what the method was of collecting the notes, when customers of the bank would come into the bank and come up to the window and want to pay a note held by the Federal Reserve Bank, Mr. Gentry would bring his notes, together with his cash letter, every morning, and he would sit back in the back end of the bank, as well as I remember, and the notes were usually paid at the front, and if a man came in to pay his note we would have to go back and get the note from Mr. Gentry and come up and collect the money and then take the money back to Mr. Gentry * * * In collecting these notes from the makers of them and paying the money to Mr. Gentry, it is a fact that on account of the financial condition of the National Bank at that time that the only money they were able to pay the notes with was from what they collected and what money was deposited in the bank."

We think the testimony above quoted, considered withall the other testimony in the case, raised a reasonable inference that the Cleburne bank was notifying the makers of the notes pledged by it to plaintiff of the maturity of the same as they became due, and endeavoring to collect the same, and that plaintiff knew of such action and not only acquiesced therein but tacitly approved the same; that neither the Cleburne bank nor plaintiff saw fit to disclose that said notes had been so pledged; that plaintiff intended that the Cleburne bank should continue to collect said notes as the ostensible owner and holder thereof, but for its benefit, and that the procedure adopted by plaintiff was intended merely to keep it in touch with such collections and prevent a diversion or misapplication of the preceeds. The notes involved in this case were a part of said collateral, and were, according to the testimony of the witness Gentry, brought by him to the Cleburne bank for collection the same as the other notes testified about by him. We think the testimony was ample to justify the court in submitting the issue of the agency of the Cleburne Bank in collecting said collateral. No complaint was made of the manner in which such issue was submitted.

Plaintiff's contention that the court erred in submitting the same is overruled.

We have examined all the other contentions presented by plaintiff as ground for reversal and have concluded that they should be overruled.

The judgment of the trial court is affirmed.

J. N. GALLAGHER
Chief Justice

C
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P
Y

No....

In the

SUPREME COURT OF THE STATE OF TEXAS

---oOo---

Federal Reserve Bank of Dallas,
Plaintiff in Error

v.

T. A. HANNA, et al,
Defendants in Error

---oOo---

APPLICATION FOR WRIT OF ERROR

---oOo---

TO THE SUPREME COURT OF THE STATE OF TEXAS:

The Federal Reserve Bank of Dallas, a banking corporation organized under and by virtue of the laws of the United States of America, hereby applies for a writ of error to the Court of Civil Appeals for the Tenth Supreme Judicial District of Texas, to correct the errors committed by said Court and to render such judgment as said court should have rendered in the cause therein pending, numbered 392, wherein the said Federal Reserve Bank of Dallas is appellant, and T. A. Hanna and C. D. Dickerson are appellees.

NATURE OF THE CASE

The statement of the nature of the case made by the Court of Civil Appeals in its opinion is complete and accurate except in the following particulars:

1. The opinion does not disclose that the indebtedness of $600,000 on the part of the Cleburne bank to the Federal Reserve Bank of Dallas, secured in part by the notes in question, was a loan of $600,000 made by the Federal Reserve Bank of Dallas in due course in pursuance of the purposes contemplated by law of lending money to member banks upon the security of commercial paper.

2. The opinion does not mention the undisputed fact that the Cleburne bank was regularly open for business and functioning as a going concern each day until October 18, 1921, when it failed. 315

3. The opinion mentions, but unimportantly, that the defendant's check was received by the Cleburne bank on September 8, 1921, forty days prior to the failure of the Cleburne bank.

4. The opinion does not mention the fact that the maker of the notes took no steps during this time to obtain possession of the notes, and that he made no inquiry concerning the same.

5. The opinion mentions, but likewise without emphasis, that the notes in question were payable at the Cleburne bank.

GROUNDS OF JURISDICTION

This Court possesses jurisdiction to issue, and should issue the writ of error applied for because:

1. The cause is of a civil nature, brought to the Court of Civil Appeals by appeal from the final judgment of the District Court of Johnson County, Texas, and is not of the class of cases in which the jurisdiction of the Court of Civil Appeals is by law made final.

2. In its decision of the case, the Court of Civil Appeals has committed errors of law of such importance to the jurisprudence of the State as to require correction.

(a). The effect of the opinion of the Court of Civil Appeals is to make it impossible for the holder of a number of notes payable at the same bank to present them there for payment and to receive and accept payment for a portion of them without constituting the bank at which the notes are payable his agent to collect all of the notes which he holds, where the holder has any knowledge that the bank at which the notes are payable is encouraging their payment; and this notwithstanding such bank as pledgor has such a lawful right to do this that the holder could not prevent him from so doing. Thus, the opinion means that the only protection which a holder has is to notify the maker of the notes that they have been transferred to him, whereas it is a fundamental rule of law that no such duty devolves upon the holder of a negotiable instrument, and whereas it is also fundamental that the maker of such commercial paper makes

payment at his peril if he does not secure the surrender of the instrument in exchange for payment.

(b). In effect, the opinion of the Court of Civil Appeals requires that a holder in due course of a negotiable instrument, wherein the maker definitely promises to pay at a specified place, must make some effort to collect the note from the maker other than merely to present the note at the stipulated date and place of payment, whereas, the fundamental and universally recognized rule of commercial law is that it is the duty of the maker of the note to be present or to cause some one to be present at the date and place of payment to make payment and to receive the note in exchange.

(c). The effect of the opinion of the Court of Civil Appeals is to permit the establishment of agency from a set of circumstances each in itself proper and lawful, or wholly irrelevant, and this notwithstanding that there is admittedly no question of estoppel involved.

(d). There being no express evidence of agency on the part of the Cleburne bank to collect the notes, and there being on the contrary express testimony that there was no such agency for collection, and that the Federal Reserve Bank of Dallas had its own collector, one Gentry, present at the stipulated date and place of payment to receive payment, and to deliver the notes only when he received the amount called for, the Court of Civil Appeals has held that the circumstance "that the Cleburne bank was notifying the makers of the notes pledged by it to plaintiff of the maturity of the same as they became due and endeavoring to collect the same, and that plaintiff knew of such action and not only acquiesced therein but tacitly approved the same" implied actual agency, whereas there is no evidence that the Federal Reserve Bank knew the letters were written, and if such knowledge may be inferred, it was the right and duty of the Cleburne bank as pledgor, and therefore as the owner of the equitable title to the notes and the residuary interest in the same, to exert all of its efforts to secure the attendance of the makers upon the date and at the place stipulated with the money with which to make payment, and whereas the letters written by the Cleburne bank were consistent with this right and duty, and whereas there is no evidence whatever indicating any knowledge on the part of the Federal Reserve Bank of Dallas that the Cleburne bank was doing anything other than exerting its efforts to such an end,; There was no evidence whatever that any misrepresentation was made by the Cleburne bank with reference to its ownership of any notes or holding of any notes, or that the Federal Reserve Bank of Dallas had any information whatever concerning any fraudulent or improper misrepresentations. Moreover, this decision was made by the Court of Civil Appeals notwithstanding the fundamental and universally recognized rule of law that agency may not be proved by the declarations or acts of the alleged agent himself.

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(e). The disregard by the Court of Civil Appeals of this fundamental rule of evidence, its implied ruling that the holder in due course of a negotiable instrument must give some notice that the note has been transferred to him, and that he must make some effort himself to collect the note other than merely to present it at the stipulated time and place of payment, and that he may not allow any person who is a pledgor of the note and thus owner of its equitable title, to notify or urge the maker of the note to pay the same at the stipulated date and place of payment or threaten the maker with legal action if it be not paid, are of tremendous consequence to the Federal Reserve Bank of Dallas in the performance of its public functions, and are of tremendous consequence to state banks of this state which discount and rediscount commercial paper for their customers, and to the commercial public in general.

The Federal Reserve Bank of Dallas is an institution created by the Federal Government for a national purpose, and operates throughout the entire State of Texas and additional territory. It is an established policy of both state and national law that every bank should maintain in cash or unrestricted credit a certain portion of its deposits. This is commonly known as a bank's reserve, and one of the chief functions of the Federal Reserve Bank of Dallas is to hold and have readily available the reserves of all national banks of this district, and such state banks as are members. That this large sum of money may be utilized for the benefit of the agricultural, livestock and commercial interests of this district, the Federal Reserve Bank of Dallas is permitted by the terms of the Federal Reserve Act to extend loans to its member banks upon the strength of their customers' notes, such as those involved in this case, thus supplying credit as and when the legitimate demands of a community require more than the local banks are able to furnish without assistance. When withdrawn and converted into money, the credit thus supplied is largely in the form of Federal Reserve Bank notes, which form approximately thirty five per cent of the national circulation. They pass from hand to hand, and the public accepts them as readily as it does gold or silver coin issued by the mints of the United States government. These Federal Reserve Bank notes are made valuable because they are secured by a deposit of sixty per cent of their value in gold, and forty per cent of their value in notes taken by a Federal Reserve Bank to secure the

loans made to member banks, similar to the notes involved in this litigation. Obviously, the member bank notes securing the Federal Reserve Bank notes must be collected as and when they mature, and it is of the greatest importance that the courts of this State do not permit the law on such questions as are here involved to become confused, and thus give rise to a state of law which might impair the value of a large portion of our national currency and jeopardize the reserves of the banks located in this district.

3. In this case, the Court of Civil Appeals is in conflict with other courts of Civil Appeals of this State, in that it permits the establishment of actual agency upon evidence of much less probative force than was held to be insufficient in the cases of Evans Snyder Buel Company v Holder, 41 S. W. 404; and Higley v. Dennis, 88 S. W. 400.

4. In this case, the Court of Civil Appeals has held differently from a prior decision of the Supreme Court of Texas upon a question of law material to the decision, in that it has held that the notices and letters mailed to the maker by the Cleburne bank were circumstances to be considered in connection with other circumstances for the purpose of establishing agency on the part of the Cleburne bank to receive payment; whereas, in the case of Coleman v. Colgate, 6 S. W. 553, the Supreme Court holds that the declarations of the alleged agent, even taken in connection with other circumstances, are not to be considered in proving agency.

ASSIGNMENTS OF ERROR

First Assignment of Error:

The Court erred in refusing to sustain Appellant's first assignment of error, and in thereby holding that the letter set out in plaintiff's Bill of Exception No.2 filed in the trial court was admissible in evidence over plaintiff's objection that the same was immaterial, irrelevant, and an attempt to prove agency by the declarations of the alleged agent. The letter is as follows:

"Cleburne, Texas, Aug. 23, 1921.

Mr. T. A. Hanna,
Kaufman, Texas
Dear Sir:

Your note in favor of this bank for $750.00 was due and payable at this office on July 1, 1921.

Please give your attention to the matter on or before the above date.

Yours very truly,

S.B.Norwood, President.

We appreciate promptness."

Proposition:

Declarations of an alleged agent are not admissible even as a circumstance to be considered in connection with other circumstances to prove the fact of agency.

Statement:

This assignment is identical with appellant's first assignment of error directed to the action of the District Court, and is presented under the second ground in Appellant's Motion for Rehearing in the Court of Civil Appeals. Further statement is rendered unnecessary by the full and complete statement appearing in the opinion of the Court of Civil Appeals, subject to the corrections appearing on Pages 1 and 2 of this instrument.

Argument and Authorities:

We respectfully refer the Court for argument and authorities to the discussion in the printed brief filed by Appellant in the Court of Civil Appeals, Pages 18-24, and to its Motion for Rehearing, Pages 16-19.

Second Assignment of Error: 320

The Court erred in refusing to sustain Appellant's second assignment of error, and in thereby holding that the letter set out in plaintiff's Bill of Exception No.3 was admissible in evidence over plaintiff's objections that the same was immaterial, irrelevant, and an attempt to prove agency by the declarations of the alleged agent. The letter is as follows:

"Cleburne, Texas, Aug. 23,1921.
Mr. T.A.Hanna,
Kaufman, Texas.
Dear Sir:
Your note in favor of this bank of $750.00 will be due and payable at this office on Sept.1, 1921.
Please give the matter your attention on or before the above date.
Yours truly,

S. B. Norwood, President
We appreciate promptness."

Proposition:

The same proposition urged under our first assignment of error is applicable to the second assignment of error.

Statement:

This assignment is identical with appellant's second assignment of error directed to the action of the District Court, and is presented under the second ground in Appellant's Motion for Rehearing in the Court of Civil Appeals. Further statement is rendered unnecessary by the full and complete statement appearing in the opinion of the Court of Civil Appeals subject to the corrections appearing on Pages 1 and 2 of this instrument.

Argument and Authorities:

We respectfully refer the Court for argument and authorities to the discussion in the printed brief filed by appellant in the Court of Civil Appeals, Pages 18-24, and to its Motion for Rehearing, Pages 16-19.

Third Assignment of Error:

The Court erred in refusing to sustain Appellant's third as-

signment of error, and in thereby holding that the letter set out in plaintiff's Bill of Exception No.4 filed in the trial court was admissible in evidence over plaintiff's objection that the same was immaterial, irrelevant, and an attempt to prove agency by the declarations of the alleged agent. The letter is as follows:

"THE NATIONAL BANK OF CLEBURNE
Cleburne, Texas, Aug.30, 1921.
Mr. T. A. Hanna,
Kemp, Texas.
Dear Sir:

I have your letter of August 29th, and in reply beg to advise it will not be agreeable with us to extend these notes to November 1st at all. We will expect payment in full within the next ten days, otherwise we will be compelled to take such steps as necessary to collect same.

Yours truly,

S. B. Norwood,
President"

PROPOSITION:

The same proposition urged under our first assignment of error is applicable to the third assignment of error.

STATEMENT:

This assignment is identical with appellant's third assignment of error directed to the action of the District Court, and is presented under the second ground in Appellant's Motion for Rehearing in the Court of Civil Appeals. Further statement is rendered unnecessary by the full and complete statement appearing in the opinion of the Court of Civil Appeals subject to the corrections appearing on Pages 1 and 2 of this instrument.

Argument and Authorities:

We respectfully refer the Court for argument and authorities to the discussion in the printed brief filed by appellant in the Court of Civil Appeals, Pages 18-24, and to its Motion for Rehearing, pages 16-19.

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Fourth Assignment of Error:

The Court erred in refusing to sustain Appellant's fifth assignment of error, and in thereby holding that the letter presented to the Court of Civil Appeals in plaintiff's Bill of Exception No. 6 filed in the trial court was admissible in evidence over plaintiff's objection that the same was immaterial, irrelevant, and an attempt to prove agency by the declarations of the alleged agent. The letter is as follows:

"THE NATIONAL BANK OF CLEBURNE,
Cleburne, Texas
A.P.Wooldridge,Receiver,
September 1, 1923.

Mr. C. R. Pannill, Cashier,
First National Bank,
Kemp, Texas.

My dear Sir:

As receiver of the failed National Bank of Cleburne, I have two notes of one T.A. Hanna for $750.00 each and both past due since September 1, 1921.

I understand that Mr. Hanna lives at Kemp and Mr. Walter Tynes, Jr., Vice President of the First National Bank of Maybank, Texas has suggested that I write you.

Will you please let me know in confidence something of the character, standing and financial responsibility of Mr. T. A. Hanna and if I am forced to employ an attorney, who would be a good lawyer at Kemp to whom to intrust this collection. I will accept what you may be kind enough to write me in strict confidence.

I enclose a self-addressed and stamped envelope for your anticipated kind reply.

Respectfully,
A. P. Wooldridge, Receiver"

Proposition:

The same proposition urged under our first assignment of error is applicable to the fourth assignment of error.

Statement:

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This assignment of error is identical with the appellant's fifth assignment of error directed to the action of the District Court, and is presented under the second ground in Appellant's Motion for Rehearing in the Court of Civil Appeals. Further statement is rendered unnecessary by the full and complete statement appearing in the opinion of the Court of Civil Appeals subject to the corrections appearing on Pages 1 and 2 of this instrument.

Argument and Authorities:

We respectfully refer the Court for argument and authorities to the discussion in the printed brief filed by appellant in the Court of Civil Appeals, Pages 18-24, and to its Motion for Rehearing, Pages 16-19.

Fifth Assignment of Error:

The Court erred in refusing to sustain Appellant's sixth assignment of error, and in thereby holding that the letter set out in plaintiff's Bill of Exception No.7, filed in the trial court, was admissible in evidence over plaintiff's objection that the same was immaterial, irrelevant, and an attempt to prove agency by the declarations of the alleged agent. The letter is as follows:

"THE NATIONAL BANK OF CLEBURNE,
A.P.Wooldridge, Receiver
August 29, 1923.

Mr. Walter Tynes, Jr., Cashier,
First National Bank,
Maybanks, Texas.

Dear Sir:

As receiver of this bank, I hold two notes of one T. A. Hanna for $750.00 each. One note is past due since July 1, 1921, and the other since September 1, 1921. I am trying to locate Mr. Hanna and find out something about his character and standing. Do you know this gentleman and does he live anywhere in your vicinity, and may I ask you in the strictest confidence, is he good for the amount of the two notes of which I am writing or either of them, and what does he do?

I inclose a stamped envelope for your anticipated kind reply.

Respectfully,
(Signed) A.P.Wooldridge, Receiver".

Proposition:

The same proposition urged under our first assignment of error is applicable to the fifth assignment of error.

Statement:

This assignment is identical with appellant's sixth assignment of error directed to the action of the District Court, and is presented under the second ground in Appellant's Motion for Rehearing in the Court of Civil Appeals. Further statement is rendered unnecessary by the full and complete statement appearing in the opinion of the Court of Civil Appeals subject to the corrections appearing on Pages 1 and 2 of this instrument

Argument and Authorities:

We respectfully refer the Court for argument and authorities to the discussion in the printed brief filed by appellant in the Court of Civil Appeals, Pages 18-24, and to its Motion for Rehearing, Pages 16-19.

Sixth Assignment of Error:

The Court erred in refusing to sustain appellant's seventh assignment of error, and in thereby holding that the District Court did not err in admitting in evidence, over appellant's objection that the same was immaterial and irrelevant, as fully set out in plaintiff's Bill of Exception No.8, the testimony of George Randles, as follows:

> "A. Mr. Gentry would bring his notes, to-together with his cash letter every morning and he would sit back in the back end of the bank as well as I remember and the notes were usually paid at the front, and if a man came in to pay his note we would have to go back and get the note from him and come up and collect the money and take the money back to him. That is the way I remember it."

Proposition:

The foregoing assignment is submitted as a proposition.

Statement:

This assignment is identical with appellant's seventh assign-

ment of error directed to the action of the District Court, and is presented under the first ground in Appellant's Motion for Rehearing in the Court of Civil Appeals. Further statement is rendered unnecessary by the full and complete statement appearing in the opinion of the Court of Civil Appeals, subject to the corrections appearing on Pages 1 and 2 of this instrument.

Argument and Authorities:

We respectfully refer the Court for argument and authorities to the discussion in the printed brief filed by the Appellant in the Court of Civil Appeals, Pages 40-52, and in its Motion for Rehearing, Pages 7-8.

Seventh Assignment of Error:

The Court erred in refusing to sustain appellant's eighth assignment of error based on plaintiff's motion for peremptory instructions, and in thereby holding that the testimony was ample to justify the court in submitting the issue of agency.

Proposition:

Inasmuch as the plaintiff in error was in possession of the two notes sued upon, properly endorsed, and there was no legal evidence that the National Bank at Cleburne was the agent of the plaintiff in error to collect the same, the motion for peremptory instructions should have been granted.

Statement:

The foregoing assignment of error appears as Assignment of Error No.8 filed in the trial court (Tr.43-44), and is presented under the first ground in Appellant's Motion for Rehearing in the Court of Civil Appeals. This assignment necessarily involves the testimony educed upon the trial of the case. The opinion of the Court of Civil Appeals together with the statements in the beginning of this application cover this testimony.

Argument and Authorities:

We respectfully refer the Court for argument and authorities to the discussion in the printed brief filed by appellant in the Court of Civil

Appeals, Pages 64-85, and to its Motion for Rehearing, Pages 3-15. 326

Eighth Assignment of Error:

The Court erred in overruling appellant's twelfth assignment of error directed to the action of the trial court is submitting the issue of agency to the jury, on the grounds that there was no evidence, and that the evidence was insufficient to warrant the submission of such issue to the jury, as set out in plaintiff's objections and exception to the charge of the court (Tr.47), and thereby holding that the testimony was ample to justify the trial court in submitting the issue of agency.

Proposition:

The foregoing assignment is submitted as a proposition.

Statement:

This assignment is identical with appellant's twelfth assignment of error directed to the action of the trial court, and is presented under the first ground in Appellant's Motion for Rehearing in the Court of Civil Appeals. The statement under this assignment is necessarily a repetition of the statement in the next preceding assignment, being plaintiff' in error's seventh assignment of error, and for a statement herein we respectfully refer the Court to our statement under our seventh assignment of error.

Argument and Authorities:

We respectfully refer the Court for argument and authorities to the same portions of the printed brief filed by appellant in the Court of Civil Appeals and to the same portions of Appellant's Motion for Rehearing as set out under our argument in the next preceding assignment of error.

ARGUMENT UNDER FIRST TO FIFTH ASSIGNMENTS OF ERROR

The principle of law that declarations of an alleged agent are not admissible to establish the fact of agency, and are admissible only for the purpose of binding the principal after the fact of agency has been established, we think is too well settled to require further argument or citation of authorities. In the present case, if the Cleburne bank was in fact the agent of the Federal Reserve Bank of Dallas, no dispute as to the payment being binding on the Federal Reserve Bank of Dallas could be made. The above is a statement in which we think all will concur, and it is made merely to show that the only question in this case was and is that of the authority of the Cleburne bank. In other words, this is not a case wherein it was sought to bind the principal by the authorized acts or admissions of the agent, but one in which the authority was sought to be shown by the acts and conduct and admissions of the alleged agent, and the herein complained of notices and letters mailed by the Cleburne bank were, over objections, introduced solely for the latter purpose, and counsel so concedes in appellee's brief filed in the Court of Civil Appeals, wherein it is stated: "Appellees will state perspectively that the purpose of the introduction of the two letters in August 1921, taken in connection with the other facts and circumstances in the case, affirmatively and clearly show to the mind of any reasonable man that the National Bank of Cleburne in writing said letters was acting as the agent of appellant." The Court of Civil Appeals, while not passing directly on the assignments of error relating to these points, did set out as one of the circumstances tending to show agency, to be taken into consideration with other circumstances, the fact that the testimony "raised a reasonable inference that the Cleburne bank was notifying the makers of the notes pledged by it to plaintiff of the maturity of the same as they became due, and endeavoring to collect the same, and that plaintiff knew of such action and not only acquiesced therein, but tacitly approved the same." And again, it is pointed out that "on August 23, 1921, the Cleburne bank notified defendant Hanna

that said first note was past due, and that said second note would be due on 328 September 1. Defendant Hanna immediately wrote said bank asking that both notes be extended to November 1. Said bank refused the request, and declared that it would take necessary steps to collect the same if not paid in ten days;" thus, one of the circumstances was the fact that these notices were sent to the makers by the Cleburne bank.

In this connection, we quote from the case of Coleman v. Colgate, reported in 6 S.W.553, as follows:

> "The proposition of the appellant, under this assignment of error, is that the 'declarations of the party that he is an agent are good as a circumstance (taken in connection with other circumstances) to be considered in proving agency, especially when accompanied with acts of agency, action, and advice in the interest and on behalf of the same principal.' There was no error in excluding the evidence of Walker. Starkweather's declarations, if he had made them, that he was plaintiff's agent could not have established the agency. Agency cannot be established in this way; nor can the admissions and statements of one representing himself to be an agent bind the principal until the agency is established."

ARGUMENT UNDER SIXTH, SEVENTH, AND EIGHTH ASSIGNMENTS OF ERROR

The submission to a jury of the question of agency in this case violates fundamental and well established rules of commercial law, in that the acts and conduct relied upon to establish agency were justified by the elemental rules pertaining to the rights and obligations of the holder of commercial paper. The following rules are fundamental:

> 1. There is no duty resting on the holder of a negotiable note to notify the maker that the note has been transferred to him and is in his possession. (Sections 52 and 57 of the Uniform Negotiable Instruments Act - Article 5935, Revised Civil Statutes, 1925, Sections 51 and 57).
>
> 2. Where a note on its face is made payable at a specified place, the only duty resting on the holder is to present the note at the time and place where it is made payable. (Sections 70 and 73 of the Uniform Negotiable Instruments Act - Article 5937, Revised Civil Statutes, 1925, Sections 70 and 73).
>
> 3. The pledgor of commercial paper retains

an interest in the same which entitles him to advise the parties liable thereon of the time and place of payment, and in the event of non-payment, to take such steps as are necessary to collect the same. Brown v. Bronson, 87 N.Y.Sup.,872; Baker v. Burkett, 21 Southern 970; Baldwin v.Jordan, 171 S.W. 1016.

4. It is the duty of the maker of a note to demand the surrender of the note at the time of payment. Rhodes v. Belchee, 59 Pac.,117; Smith v. Kidd, 68 N.Y.130; Evans Snyder Buel Company v. Holder, 41 S.W.404.

5. Where a negotiable instrument is payable upon its face at a specified bank, the bank so specified is the agent of the debtor to make payment unless the instrument is actually lodged by the holder with the bank. Ward v. Smith, 74 U. S. 447; State National Bank of St. Louis, v. J. J. Hyatt & Co., 86 S.W.1002.

To permit the submission of the question of agency upon the facts and circumstances pointed out in the opinion of the Court of Civil Appeals destroys the protection thrown around the holder of commercial paper by the principles above enumerated.

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WHEREFORE, premises considered, your plaintiff in error respectfully prays this Court to grant it a writ of error for revision of the judgment of the Court of Civil Appeals, and upon consideration to render such judgment as said Court should have rendered in favor of plaintiff in error.

The defendant in error, T. A. Hanna, is represented by G. O. Crisp, Kaufman, Texas; Chrisman & Chrisman, Cleburne, Texas; Keith and Prestridge, Cleburne, Texas; and especially by Gayle Prestridge of the firm of Keith and Prestridge, upon whom service may be had.

The defendant in error, C. D. Dickerson, is a resident of Cleburne, Johnson County, Texas, and is not represented by counsel, never having answered in this cause.

The plaintiff in error deposits with the clerk herewith carbon copies of this application, and has advised counsel for the defendant T. A. Hanna, as well as the defendant C. D. Dickerson, of the filing of the same, and of the deposit of said copies.

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_____

Attorneys for plaintiff in error

FEDERAL RESERVE BOARD

WASHINGTON November 17, 1926.

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

SUBJECT: Code Words to be used by the Federal Reserve Bank of New York in advising other Federal reserve banks of transactions through the Gold Settlement Fund in purchases of foreign bills for System account.

Dear Sir:

In order to simplify and reduce the phraseology in telegrams between the Federal Reserve Bank of New York and other Federal reserve banks in connection with advices covering transactions through the Gold Settlement Fund in purchases of foreign bills for system account, it has been suggested for such purpose that additional code words be supplied from the Federal Reserve Telegraphic Code.

The Board has approved this suggestion, and effective November 27, 1926, the following code words will be used between the Federal Reserve Bank of New York and other Federal reserve banks covering the transactions referred to:

JUNKETING: Purchased today from foreign banks bills for system account totaling $_____ face amount. We charge you total $_____ your apportionment. Please credit us.

JURYMAST: Beginning _____(date) daily earnings of your bank on investments through foreign banks will be $_____. We shall credit your account with this amount daily until you are otherwise advised.

JUSTIFIED: We credit you today $_____ as reduction in your participation in bills purchased through foreign banks for system account, account of reduction in total bills held.

It is requested that a record of the above additions be made on page 130 of the Federal Reserve Telegraphic Code.

Very truly yours,

J. C. Noell.
Assistant Secretary.

LETTER TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

November 17, 1926.

SUBJECT: Christmas Holiday.

Dear Sir:

On Christmas Day, the offices of the Federal Reserve Board and all Federal Reserve Banks and Branches will be closed.

This is the only holiday which will be observed during the month of December.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F.R.BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

X-4730

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

November 19, 1926.

Dear Sir:

The Federal Reserve Board has available for free distribution a limited number of copies of its Index Digest of the Federal Reserve Act, (1924 edition). We will be glad, upon request, to forward you a copy of this publication.

Very truly yours,

J. C. Noell.
Assistant Secretary.

X-4731

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 November 24, 1926

CONDITION OF ACCEPTANCE MARKET
October 21, 1926 to November 17, 1926.

Acceptances:

The acceptance market continued to show seasonal activity during the period from October 21 to November 17 and dealers' transactions on a weekly average basis were larger than during the preceding five weeks. The majority of bills in the market were drawn against cotton, silk, sugar, and coffee. Toward the end of the period offerings of bills to the market declined and dealers lowered their rates on the longest maturities at the end of the first week in November and on all other maturities longer than 30 days during the following week. In New York the longer bills were purchased largely for foreign account, the domestic demand being confined principally to short bills. New York dealers' sales to the reserve bank were about the same as during the preceding reporting period, but those of Boston dealers were considerably smaller. The following table shows the rates which prevailed before and after they were lowered:

Acceptance Rates in the New York Market

Maturity	October 20, 1926		November 17, 1926	
	Bid.	Offered.	Bid.	Offered.
30 days	3-3/4	3-5/8	3-3/4	3-5/8
60 "	3-7/8	3-3/4	3-3/4	3-5/8
90 "	4	3-7/8	3-7/8	3-3/4
120 "	4-1/8	4	4	3-7/8
150 "	4-1/4	4-1/8	4-1/8	4
180 "	4-1/4	4-1/8	4-1/8	4

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

For release in Morning Papers,
Friday, November 26th, 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 October and November, as contained in the forthcoming issue of the Federal Reserve Bulletin.

Industrial activity continued in large volume in October, while the general level of prices declined slightly. Notwithstanding the seasonal increase in borrowing for commercial purposes, the volume of bank credit outstanding declined in recent weeks reflecting the continued liquidation of loans on securities.

Production

Production in basic industries, as measured by the Federal Reserve Board's index, which makes allowance for the usual seasonal variations, showed little change in October as compared with September. Textile-mill activity and the daily average output of iron and steel was maintained during October but in November there was a decrease in steel production. The output of bituminous coal was stimulated by export and bunker demand and attained new high records in October and November, and petroleum production was also large. There was a sharp decline in automobile production and the output of cars was smaller in October than in any month since January. The volume of building activity, as indicated by the value of contracts awarded, has declined for the past three months, as is usual at this season of the year, and has been throughout the period at a slightly lower level than during the exceptionally active autumn season of 1925. Residential contracts during the same period have been smaller than a year ago, while those for engineering projects and public works have been larger.

Trade

Distribution of commodities at wholesale declined in October, contrary to the usual trend for that month, and was in smaller volume than in October of any year since 1922. Sales of department stores showed the usual seasonal growth in October, but owing partly to less favorable weather conditions and to a smaller number of trading days, were at a somewhat lower level than in the same month of last year. Sales of mail order houses were also smaller than a year ago. Stocks of merchandise carried by wholesale firms were slightly smaller than a year ago, while department store stocks increased more than is usual in September and October and at the end of October were larger than in 1925. Freight car loadings were in record volume in October and November, because of unusually large shipments of coal and ore and a continued heavy movement of other commodities.

Prices

Wholesale prices of nearly all groups of commodities declined in October and November. Prices of bituminous coal, however, advanced sharply as the result of foreign demand caused by the British coal strike, but recently there has been some decline in coal prices. The price of raw cotton, after falling rapidly in September and early October, has been steady in recent weeks. Prices of non-agricultural commodities, as classified in the Bureau of Labor Statistics price indexes, declined slightly between September and October, while those of agricultural products declined about 2 per cent to the lowest level since the summer of 1924.

Bank credit

Seasonal growth in loans for commercial and agricultural purposes at member banks in leading cities has been accompanied by continued liquidation of loans on securities, with the consequence that the total volume of loans and investments of these banks in the middle of November was considerably smaller than a month earlier.

At the reserve banks the decline in the volume of member bank credit has been reflected in a reduction of the total bills and securities to a level $37,000,000 below the corresponding date in 1925. Discounts for member banks were in about the same volume as a year ago, while holdings of acceptances and of United States securities were smaller.

Easier conditions prevailed in the money market in November. Rates on prime commercial paper declined from 4-1/2 - 4-3/4 per cent in October to 4-1/2 per cent in November, and there was also a reduction of 1/8 per cent in the rates on bankers' acceptances.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4735

December 1, 1926.

SUBJECT: Federal Reserve Bank Representation at Bankers' Conventions.

Dear Sir:

Referring to the Board's letter of October 12, 1926, X-4691, on the subject of Federal reserve bank representation at bankers' conventions, you are advised that the Federal Reserve Board concurs in the view of the recent Governors' Conference, which was substantially the same as that of the Federal Reserve Agents, that representation of Federal reserve banks at conventions within their own district is of utmost importance; that attendance at conventions outside of their district is sometimes advisable, and that determination of the extent to which Federal reserve banks should be represented at such conventions by officers and employees should be left to the judgment of the officers and directors of the Federal reserve banks, since it is impossible to lay down any uniform practice.

Very truly yours,

Walter L. Eddy,
Secretary.

To All Governors and F.R.Agents.

FEDERAL RESERVE BOARD

WASHINGTON

X-4737

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

December 3, 1926.

Dear Sir:

The report of the Pension Committee to the last Governors' Conference contains a recommendation to the effect that it is desirable that the Governors and Chairmen of the respective Federal reserve banks "attempt to interest members of Congress with whom they have personal acquaintance or influence, with a view to expediting the early passage of the bill" to incorporate the Federal Reserve Pension Fund, which was introduced in the Senate last March.

The Governors' Conference voted that the action recommended therein should be taken insofar as it is practicable, and the action of the conference has been submitted to the Federal Reserve Board for its advice or approval.

The Board does not approve of the above recommendation contained in the Committee's report, nor of the action of the Governors' Conference relative thereto.

Very truly yours,

D. R. Crissinger,
Governor.

TO ALL GOVERNORS AND F. R. AGENTS.

FEDERAL RESERVE BOARD

WASHINGTON

December 4, 1926.

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

SUBJECT: PRELIMINARY INFORMATION RE NOTES SECURED BY ADJUSTED SERVICE CERTIFICATES.

Dear Sir:

Pursuant to action taken at the recent Governors' Conference, Governor McDougal designated Messrs. W. J. Davis, Assistant Cashier of the Federal Reserve Bank of Philadelphia, George S. Sloan, Assistant Cashier of the Federal Reserve Bank of Richmond, and W. D. Gentry, Assistant Cashier of the Federal Reserve Bank of Dallas, to serve as a committee to confer with this office in connection with the preparation of regulations and circulars relative to the discount of notes secured by adjusted service certificates. The Committee met in Washington on the morning of Wednesday, December 1st, and finished its work on the afternoon of Friday, December 3rd.

Pursuant to the informal understanding arrived at during the Governors' Conference, this office, with the assistance and very helpful cooperation of the committee, proceeded to prepare proposed regulations on this subject for submission to the Federal Reserve Board and a draft of a circular letter to be sent by each Federal reserve bank to every incorporated member or nonmember bank in its district. It will be remembered that the Director of the Veterans' Bureau had requested the Federal Reserve Board to obtain the cooperation of the Federal reserve banks in informing all banks as to the manner in which loans might be made on adjusted service certificates. In view of this fact, the proposed circular letter contains much information of a general nature for the guidance of banks in making loans on adjusted service certificates, in addition to information with respect to the rediscount of notes evidencing such loans. It is believed that this letter will save much correspondence on the part of the Federal reserve banks by answering in advance many questions which banks would otherwise ask the Federal reserve banks.

The operating details set out in the circular letter will not comply in every particular with the practice in all Federal reserve districts, and it is expected that certain portions of the letter, especially those pertaining to "Method and Terms of Rediscount" and "Collection of Rediscounted Notes at Maturity" will have to be changed by some of the banks in order to comply with their practices. It is hoped, however, that in other respects the circulars finally issued by Federal reserve banks will be uniform in so far as practicable.

There are enclosed for your information preliminary copies of the various documents prepared jointly by the committee and by this office. It is important to note that these documents are in tentative form and are subject to change. The proposed regulation has not yet been submitted to the Federal Reserve Board for approval and may be changed before it is finally promulgated. Both the circular letter and the regulation are based on the assumption that the Director of the Veterans' Bureau will promulgate certain regulations; and they will have to be changed if the Veterans' Bureau declines to promulgate such regulations.

It is expected that the Veterans' Bureau will issue regulations covering loans on adjusted service certificates within a few days. As soon as that Bureau takes definite action, the proposed regulations of the Board will be submitted to the Federal Reserve Board for approval with such changes, if any, as are found to be necessary.

As soon as the Veterans' Bureau and the Federal Reserve Board have officially promulgated regulations, copies of such regulations, together with final drafts of the proposed circular letter and all the other documents enclosed, will be forwarded promptly to each Federal reserve bank, in order that each Federal reserve bank may take the necessary steps to send the circular letter and enclosures to all member banks in its district at the earliest possible date - by December 15, if possible.

It is expected that the Director of the Veterans' Bureau will furnish to each Federal reserve bank a sufficient supply of copies of the adjusted compensation act, the amendment thereto, the regulations of the Veterans' Bureau, and any forms which may be approved by the Veterans' Bureau, to enable each Federal reserve bank to send a copy of same to every bank in its district. The Federal Reserve Board, of course, will furnish a similar supply of copies of its regulations on this subject. If this is done, it will be necessary for the Federal reserve banks to have printed only the circular letter, the authorization to rediscount, and the application for rediscount.

Very truly yours,

Walter Wyatt,
General Counsel.

(Enclosures)

TO THE GOVERNORS OF ALL F.R. BANKS.

(Tentative draft subject to change. Not for publication in this form)

FEDERAL RESERVE BANK OF _____ Circular No._____

_____, 1926.

REDISCOUNT OF NOTES SECURED BY ADJUSTED SERVICE CERTIFICATES.

To all Incorporated Banks in the

_____ Federal Reserve District.

Under the provisions of the World War Adjusted Compensation Act, adjusted service certificates shall be dated as of the 1st day of the month in which the applications for such certificates are filed, but in no case before January 1, 1925. Banks are authorized to make loans on the security of such adjusted service certificates, but not before the expiration of two years after the date of the certificate.

Only the veteran named in the certificate can lawfully obtain a loan on his adjusted service certificate and neither the beneficiary nor any other person than the veteran has any rights in this respect.

LOANS ON ADJUSTED SERVICE CERTIFICATES.

Any national bank or any bank or trust company incorporated under the laws of any State, territory, possession or the District of Columbia, hereinafter referred to as any "bank", is authorized to loan to any veteran upon his promissory note secured by his adjusted service certificate (without the consent of the beneficiary thereof) any amount not in excess of the loan value of the certificate at the date the loan is made. Each certificate contains on its face a table for determining the loan value of the certificate.

Any bank holding a note secured by an adjusted service

certificate may sell the note to any bank authorized to make a loan to a veteran and deliver the certificate to such bank.

In case a note secured by an adjusted service certificate is sold or transferred, the bank making the transfer is required by law to notify the veteran promptly by mail at his last known postoffice address.

No adjusted service certificate is negotiable or assignable, or may serve as security for a loan, except as provided in Section 502 of the World War Adjusted Compensation Act, which is printed on the face of each adjusted service certificate. Any negotiation, assignment or loan made in violation of the provisions of Section 502 of the World War Adjusted Compensation Act is void.

The law provides that the rate of interest which a bank may charge upon such loan shall not exceed by more than 2% 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 of the district in which the lending bank is located.

The Director of the United States Veterans' Bureau cannot lawfully make payment on any note secured by an adjusted service certificate, 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, stating that such bank has not charged or collected, or attempted to charge or collect directly or indirectly, any fee or other compensation in respect of any loan made upon the security of an adjusted service certificate by the bank to a veteran, except the interest authorized by law.

The Regulations of the Veterans' Bureau also require that such affidavit shall state:

(1) That the person who obtained the loan evidenced by such note is known to be the veteran named in the adjusted service certificate securing such note, and

(2) That the bank has notified the veteran by mail at his last known post office address of any sale, discount, or rediscount of such note.

REDEMPTION OF CERTIFICATES BY THE DIRECTOR OF THE VETERANS' BUREAU.

If the veteran does not pay the loan at its maturity the bank holding the note and adjusted service certificate may at any time after the maturity of the loan, but not before the expiration of six months after the loan was made, present them to the Director of the Veterans' Bureau. The Director may in his discretion accept the certificate and note and pay the bank in full satisfaction of its claim, the amount of the unpaid principal due it, and the unpaid interest accrued at the rate fixed in the note, up to the date of the check issued to the bank.

If the veteran dies before the maturity of the loan, the amount of unpaid principal and unpaid interest accrued up to the date of his death immediately becomes due and payable. In such case, or if the veteran dies on the date the loan matures or within six months thereafter, the bank holding the note and the certificate shall, upon notice of the death of the veteran,

present them to the Director of the Veterans' Bureau who shall thereupon pay 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 by the Director of the death of the veteran and fails to present the certificate and note to the Director within 15 days after such notice, interest shall be paid only up to the 15th day after such notice.

If the veteran has not died before the maturity of the certificate and has failed to pay his note to the bank holding the note and certificate, such bank at the maturity of the certificate may present the note and certificate to the Director of the Veterans' Bureau, who is thereupon required by law to 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.

REDISCOUNTS WITH FEDERAL RESERVE BANKS.

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 an adjusted service certificate and held by a bank is made eligible for discount or rediscount by the Federal reserve bank of the Federal reserve district in which such bank is located, 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; provided that at the time of discount or rediscount such note has a maturity not in excess of nine months, exclusive of days of grace, and complies in all other respects with the provisions of the law and the regulations of the Federal Reserve Board.

ELIGIBILITY FOR REDISCOUNT.

In order to be eligible for rediscount at a Federal reserve bank, any such note must:

1. Arise out of a loan made by a bank to a veteran in full compliance with the provisions of the World War Adjusted Compensation Act and the regulations of the United States Veterans' Bureau;

2. Be secured by the adjusted service certificate issued to the maker, which certificate must accompany the note;

3. Be held by the offering bank in its own right at the time it is offered for rediscount;

4. Be negotiable in form and otherwise in the form approved by the United States Veterans' Bureau;

5. Have a maturity at the time of rediscount not in excess of nine months, exclusive of days of grace;

6. Evidence a loan the amount of which does not exceed the loan value of the adjusted service certificate for the year in which such loan was made;

7. Be payable with interest accruing after the date of the note at a rate stated in the face of the note, which rate shall not exceed by more than 2 per cent per annum the rate charged at the date of the loan for the discount of 90-day commercial paper by the Federal reserve bank of the Federal reserve district in which the payee bank is located;

8. Bear the endorsement of the bank offering it for rediscount, which endorsement shall be deemed a waiver of demand, notice and protest

by such bank as to its own endorsement exclusively;

9. Be accompanied by the evidence of eligibility required by the Regulations of the Federal Reserve Board and by such other evidence of eligibility as this bank may require;

10. Be accompanied by such affidavits and other evidence as would be required by the Veterans' Bureau in the event this bank should apply to the Veterans' Bureau for payment of the note; and

11. Comply in all other respects with the requirements of the law and of the regulations of the Federal Reserve Board.

INELIGIBILITY AS COLLATERAL TO A BANK'S OWN NOTE.

Neither a member bank nor a nonmember bank may borrow from a Federal reserve bank on its own promissory note secured by notes of veterans in turn secured by adjusted service certificates; because neither the Federal Reserve Act nor the World War Adjusted Compensation Act authorizes the Federal reserve banks to make such loans. That provision of Section 13 of the Federal Reserve Act which authorizes Federal reserve banks to make loans to member banks for periods not in excess of 15 days on the promissory notes of such member banks requires that such notes must be secured by paper eligible for rediscount or for purchase by Federal reserve banks under the provisions of the Federal Reserve Act or by bonds or notes of the United States. Section 502 of the World War Adjusted Compensation Act which authorizes Federal reserve banks to rediscount notes secured by adjusted service certificates is not made a part of the Federal Reserve Act.

METHOD AND TERMS OF REDISCOUNT

Prior to the rediscount of any paper a certified copy of a resolution passed by the board of directors of the offering bank with the Seal of the bank affixed, authorizing the proper officials to rediscount, must be filed with the Federal reserve bank. It will not be necessary for member banks which have filed such a resolution in connection with rediscounts to file any additional resolution in connection with notes secured by adjusted service certificates.

Before rediscounting any such notes for any nonmember bank, this bank will require such nonmember bank to furnish to it such information as this bank may consider necessary in order to satisfy itself as to the condition of such bank and the advisability of making rediscounts for it. Blank applications for rediscount will be supplied by this bank upon request.

All such notes offered for rediscount should be listed on the application form provided and the application signed by a duly authorized officer. Full information must be furnished as provided on the form.

Upon acceptance for rediscount by the Federal reserve bank the proceeds of such notes will be credited to the reserve account of the bank, in the case of a member bank, and, in the case of a nonmember bank, the Federal reserve bank will remit by check or, upon request, will credit the account of a designated member bank located in this Federal reserve district for the use and credit of the nonmember.

The rate of discount deducted by this bank will be the same as that deducted by it in rediscounting 90 day notes issued for commercial purposes.

COLLECTION OF REDISCOUNTED NOTES AT MATURITY.

In the case of member banks, the usual procedure will be to forward for collection all notes secured by adjusted service certificates to the banks discounting such notes, several days in advance of their maturity. Such notes will be charged to the member bank's account when due without notice, it being assumed that on the maturity date the member bank will provide funds in excess of its required reserve to meet the notes.

In the case of nonmember banks, notice of approaching maturity will be forwarded to the discounting banks approximately ten days in advance of the maturity of each note, and the discounting banks will be required to place funds in the hands of the Federal reserve bank to pay them, which funds must be available on the date of maturity of the notes.

FURTHER INFORMATION ENCLOSED.

For your information there are enclosed the following:

1. The World War Adjusted Compensation Act. Sections 501, 502 and 504 deserve the special attention of banks which contemplate making loans on the security of adjusted service certificates.

2. The Act of July 3, 1926, amending the World War Adjusted Compensation Act. Section 503 as amended by this Act deserves special attention.

3. The Regulations of the Veterans' Bureau with respect to loans on adjusted service certificates.

4. Copies of forms of notes, affidavits, etc., approved by the Veterans' Bureau.

5. The Regulations of the Federal Reserve Board with respect to the rediscount of notes secured by adjusted service certificates.

6. A proposed form of resolution to be adopted by banks authorizing the endorsement and rediscount of such notes.

7. Copies of form of application to this Federal reserve bank for rediscount of such notes.

Very truly yours,

FEDERAL RESERVE BOARD.

REGULATION M, SERIES OF 1926

REDISCOUNT OF NOTES SECURED BY ADJUSTED SERVICE CERTIFICATES.

SECTION I. STATUTORY PROVISIONS.

Under the terms of the World War Adjusted Compensation Act, loans may lawfully be made to veterans upon their adjusted service certificates only in accordance with the provisions of Section 502 thereof.

Any national bank, or any bank or trust company incorporated under the laws of any State, Territory, possession, or the District of Columbia 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, any amount not in excess of the loan value of the certificate, which is stated on the face of the certificate. The law provides that the rate of interest charged upon the loan by the lending bank shall not exceed by more than 2 per cent per annum the rate charged at the date of the loan for the discount of 90 day commercial paper by the Federal reserve bank of the Federal reserve district in which the lending bank is located.

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 an adjusted service certificate and held by a bank is made eligible for discount or rediscount with the Federal reserve bank of the Federal reserve district in which such

bank is located, 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; provided that at the time of discount or rediscount such note has a maturity not in excess of nine months, exclusive of days of grace, and complies in all other respects with the provisions of the law and the regulations of the Federal Reserve Board.

SECTION II. DEFINITIONS.

Within the meaning of this Regulation :

(a) The term "the Act" shall mean the World War Adjusted Compensation Act;

(b) The term "Director" shall mean the Director of the United States Veterans' Bureau;

(c) The term "certificate" shall mean an adjusted service certificate issued under the provisions of Section 501 of the World War Adjusted Compensation Act;

(d) The term "veteran" shall mean any person to whom an adjusted service certificate has been issued by the Director under the provisions of the World War Adjusted Compensation Act;

(e) The term "bank" shall mean any national bank or any bank or trust company incorporated under the laws of any State, Territory, possession or the District of Columbia;

(f) The term "note" shall mean a promissory note, negotiable in form, secured by an adjusted service certificate, and

evidencing a loan made by a bank on the security of such certificate in full compliance with the provisions of the World War Adjusted Compensation Act.

SECTION III. ELIGIBILITY.

In order to be eligible for rediscount at a Federal reserve bank, any such note must:

(a) Arise out of a loan made by a bank to a veteran in full compliance with the provisions of the Act and of any regulation which the Director may prescribe;

(b) Be secured by the certificate issued to the maker, which certificate must accompany the note;

(c) Be held by the offering bank in its own right at the time it is offered for rediscount;

(d) Be negotiable in form and otherwise in the form approved by the Director;

(e) Have a maturity at the time of rediscount not in excess of nine months, exclusive of days of grace.

(f) Evidence a loan the amount of which does not exceed the loan value of the certificate for the year in which such loan was made;

(g) Be payable with interest accruing after the date of the note at a rate stated in the face of the note, which rate must not exceed by more than 2 per cent per annum the rate charged at the date of the loan for the discount of 90-day commercial paper by the Federal reserve bank of the Federal reserve district in which the payee bank is located;

(h) Bear the endorsement of the bank offering it for rediscount, which endorsement shall be deemed a waiver of demand, notice, and protest by such bank as to its own endorsement exclusively;

(i) Be accompanied by the evidence of eligibility required by this Regulation and such other evidence of eligibility as may be required by the Federal reserve bank to which it is offered for rediscount; and

(j) Comply in all other respects with the requirements of the law and of this Regulation.

SECTION IV. EVIDENCE OF ELIGIBILITY.

(a) General. - The Federal reserve bank to which a note is offered for rediscount must be satisfied either by reference to the note itself or otherwise that the loan evidenced by the note or any assignment thereof complies in all respects with the provisions of section 502 of the Act and that the note is eligible for discount by a Federal reserve bank under the terms of the law and the provisions of this Regulation.

(b) Affidavit of Lending Bank. - Any note offered to a Federal reserve bank for rediscount must be accompanied by the affidavit required by Section 502(h) of the Act and the regulations of the Director, in form approved by the Director, 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, stating that:

1. Such bank has not charged or collected, or attempted to charge or collect, directly or indirectly, any fee or other compensation in respect of any loan, made by such bank to any veteran under Section 502 of the Act, except the interest authorized by such section;

2. The person who obtained the loan evidenced by such note is known to be the veteran named in the certificate securing such note; and

3. That such bank has notified the veteran by mail at his last known post office address of any sale, discount, or rediscount of such note by such bank, as required by Section 502(b) of the Act.

(c) Affidavit of Other Banks. - If such note is offered for rediscount by a bank other than the bank which made the loan thereon, it must also be accompanied by an affidavit of an officer of the offering bank and an affidavit of an officer of each other bank which has sold, discounted or rediscounted such note, which affidavit shall be in form approved by the Director and shall state that the bank of which the affiant is an officer has promptly notified the veteran by mail at his last known post office address of the sale, discount or rediscount of such note by such bank, as required by Section 502(b) of the Act.

SECTION V. APPLICATION FOR REDISCOUNT.

Every application for the rediscount of such notes shall be made on a form approved by the Federal reserve bank to which such

note is offered and shall contain a certificate of the offering bank to the effect that, to the best of its knowledge and belief, such note arose out of a loan made in full compliance with the provisions of the Act and the regulations of the Director and is eligible for rediscount under the provisions of Section 502 of the Act and of this Regulation.

SECTION VI. PROPER BANK FOR REDISCOUNT.

No such note shall be rediscounted by any Federal reserve bank for any bank not located in its own Federal reserve district, except that such notes may be rediscounted by any Federal reserve bank for any other Federal reserve bank.

SECTION VII. RATE OF REDISCOUNT.

The rate of interest charged by any Federal reserve bank on any such note rediscounted by it shall be the same as that charged by it for the rediscount of 90-day notes drawn for a commercial purpose, except that when such notes are rediscounted for another Federal reserve bank the rate shall be that fixed by the Federal Reserve Board.

SECTION VIII. REDISCOUNTS FOR NONMEMBER BANKS.

No Federal reserve bank shall rediscount such notes for any nonmember bank until such bank has furnished to the Federal reserve bank such information as it may request in order to satisfy itself as to the condition of such bank and the advisability of making the rediscount for it.

(TENTATIVE DRAFT SUBJECT TO CHANGE. NOT FOR PUBLICATION IN THIS FORM)

X-4738-c

$_____ _____ (Place) _____ (Date)

_____ after date, I promise to pay to the order of _____ (Name of Bank or Trust Company) of _____ (City or Town and State) _____ Dollars for value received, with interest after date at _____ per cent. This note is payable at the bank named above. The makers and endorsers of this note waive presentation, protest, and notice of dishonor.

As collateral security for the prompt payment of this note I have delivered to and do hereby pledge with the holder of this note my adjusted service certificate No. _____ dated _____ further identified by No. A _____. This note may be sold, discounted or rediscounted and the certificate pledged herewith may be transferred in accordance with the provisions of the World War Adjusted Compensation Act. If the principal and interest of this note are not paid at its maturity any bank holding this 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 this note and certificate to the Director of the United States Veterans' Bureau in order to secure payment of this loan, as provided in the World War Adjusted Compensation Act.

_____ (Signature of Veteran.)

Please print or typewrite name and address of veteran here

_____ (Name of veteran)

_____ (Street Address or Route Number)

_____ (City or Town and State)

(TENTATIVE DRAFT SUBJECT TO CHANGE. NOT FOR PUBLICATION IN THIS FORM)
X-4738-d

AUTHORITY FOR REDISCOUNTING NOTES SECURED BY ADJUSTED SERVICE CERTIFICATES WITH THE FEDERAL RESERVE BANK OF _____.

WHEREAS, it is desired that the officers of this bank should from time to time be able to rediscount on its behalf veterans' notes secured by adjusted service certificates, Now, therefore, be it

RESOLVED:

1st. That the President, Vice President and Cashier are, and each or either of them is, hereby authorized to rediscount with the Federal Reserve Bank of _____, any such notes now or hereafter held by this bank, upon such terms and at such time or times as to him or them may seem desirable.

2nd. That the foregoing powers shall continue and remain in force until express notice of their revocation has been duly given to said Federal Reserve Bank of _____.

I_____ do hereby certify that the foregoing is a true extract from the minutes of a meeting of the Board of Directors of the _____ a quorum being present, held at _____ the _____ day of _____ 19 .

In witness whereof, I have hereunto set my hand and affixed the official seal of the said Bank this _____ day of _____ 19____.

_____

SEAL

(TENTATIVE DRAFT SUBJECT TO CHANGE. NOT FOR PUBLICATION IN THIS FORM)

X-4738-e

APPLICATION FOR REDISCOUNT OF NOTES SECURED BY ADJUSTED SERVICE CERTIFICATES.

To the Federal Reserve Bank of _____.

The _____ bank of _____ offers herewith the following Veterans' notes secured by adjusted service certificates, duly endorsed by it.

We agree that the Federal Reserve Bank of _____ may charge the amount of the notes to our account at their maturity, or, if not a member of the Federal Reserve System, we promise to place acceptable funds in the hands of the Federal Reserve Bank of _____ covering the amount of each note, which funds shall be available on the day each note matures.

Our endorsement shall be deemed a waiver of demand, notice and protest.

I hereby certify that, to the best of my knowledge and belief, the note or notes offered herewith arose out of a loan made in full compliance with the provisions of the World War Adjusted Compensation Act and the regulations of the Director of the United States Veterans' Bureau and is eligible for rediscount with a Federal Reserve Bank under the provisions of Section 502 of the World War Adjusted Compensation Act and of the regulations of the Federal Reserve Board.

_____
(President)

_____
(Cashier)

Please list in maturity order

MATURITY	NAME OF VETERAN	ADDRESS	DO NOT USE THIS COLUMN: AMOUNT

(TENTATIVE DRAFT SUBJECT TO CHANGE. NOT FOR PUBLICATION IN THIS FORM)X-4738-f

PROPOSED PROVISION OF REGULATION BY VETERANS' BUREAU.

No payment upon any note will be made by the Director to any bank under Section 502, unless the note when presented to him is accompanied by the affidavit or affidavits required below:

1. If such note has never been sold, discounted, or rediscounted by the bank which made the loan, it shall be accompanied by an affidavit by an officer of such bank on form (A), which is made a part of this regulation.

2. If such note has been sold, discounted or rediscounted by the bank which made the loan, it shall be accompanied by an affidavit of an officer of such bank on form (B), which is made a part of this regulation.

3. If such note has been sold, discounted or rediscounted by any bank or banks other than the bank which made the loan, it shall be accompanied by an affidavit by an officer of each such other bank on form (C), which is made a part of this regulation.

(Tentative draft subject to change. Not for publication in this form)

Form No. (A) X-4738-g 362

State of _____)
) SS :
County of _____)

I, _____ being duly sworn depose
(Name of officer)
and say that I am an officer, to wit _____
(Name of office)
of the _____, of _____
(Name of bank or trust company) (City or town and State)
which is a bank incorporated under the laws of _____, and I further depose and say:

(1) That the said bank or trust company has not charged, or collected, or attempted to charge, or collect, directly or indirectly, any fee or other compensation, in respect of this loan or any other loan made by such bank to any veteran under the provisions of Section 502 of the World War Adjusted Compensation Act, except the interest authorized by such section at a rate not exceeding by more than 2% 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 of _____, which
(Name of Federal Reserve Bank)
is the Federal Reserve Bank of the _____
(No. of Federal Reserve District)
Federal Reserve District in which the said _____
(Name of bank or trust company)
_____ is located:

(2) That the person who obtained the loan evidenced by the attached note, secured by adjusted service certificate No._____ dated _____ further identified by No. A_____ is known to be the person named in such adjusted service certificate; and

(3) That the said _____ made
(Name of bank or trust company)

the loan evidenced by the attached note to the veteran whose name is signed to such note and that such note has never been sold, discounted or rediscounted by the said _____
(Name of bank or trust company)

_____
(Signature of officer)

Subscribed and sworn to before me
this _____ date of _____

_____

_____
(Notary Public, or other officer designated by the United States Veterans Bureau.)

(TENTATIVE DRAFT SUBJECT TO CHANGE. NOT FOR PUBLICATION IN THIS FORM).

Form No. (B) X-4738-h

State of _____)
) SS:
County of _____)

I, _____, being duly sworn depose and say that I
(Name of officer)
am an officer, to wit _____ of the _____,
(Name of office) (Name of bank or trust company)
of _____ which is a bank incorporated under the laws of
(City or town and State)
_____, and I further depose and say:

1. That the said bank or trust company has not charged, or collected, or attempted to charge, or collect, directly or indirectly, any fee or other compensation, in respect of any loan, made by such bank to any veteran under the provisions of Section 502 of the World War Adjusted Compensation Act, except the interest authorized by such section at a rate not exceeding/more than 2% 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 of _____
(Name of Federal reserve bank)
which is the Federal Reserve Bank of the _____
(No. of Federal Reserve District)
Federal Reserve District in which the said _____
(Name of bank or trust company)
is located;

2. That the person who obtained the loan evidenced by the attached note, secured by adjusted service certificate No._____ dated _____ further identified by No.A _____ is known to be the person named in such adjusted service certificate; and

3. That the veteran who obtained the loan evidenced by the attached note secured by adjusted service certificate No. _____ dated _____ further identified by No.A _____ was promptly notified by the _____ that the
(Name of bank or trust company)

said note is being sent to the _____
(Name of bank or trust company to whom the note is transferred)
of _____, for sale, discount or rediscount.

_____
(Signature of Officer)

Subscribed and sworn to before
me this _____ day of
_____, _____.

_____
(Notary Public, or other officer designated by the United States Veterans' Bureau.)

(TENTATIVE DRAFT SUBJECT TO CHANGE. NOT FOR PUBLICATION IN THIS FORM.)

X-4738-i

Form No. (C)

State of _____)
)SS.
County of _____)

I, _____ being duly sworn depose and
(Name of officer)
say that I am an officer, to wit _____ of the _____
(Name of office) (Name of
_____ and I further depose and say that the veteran who
bank or trust company)
obtained the loan evidenced by the attached note secured by adjusted service
certificate No._____ dated _____ further identified by
No. A_____ has been notified by the said _____
(Name of Bank or trust
_____ that the said note is being sent to the _____
company) (Name of bank or trust
_____ of _____,
company to whom note was transferred)
for sale, discount or rediscount.

_____
(Signature of Officer.)

Subscribed and sworn to before me
this _____ day of _____

_____
(Notary Public, or other
officer designated by
the United States Vet-
erans Bureau.)

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

December 4, 1926.

SUBJECT: Review of Situation of Member Banks in Outlying Sections Granted Reserve Reductions.

Dear Sir:

Referring to the Board's letter of October 12, 1926, X-4689, and the consideration of the subject thereof at the recent Conference of Federal Reserve Agents, the Board has voted to request each Federal Reserve Agent to review at the end of the year the situation with respect to member banks located in outlying sections of reserve and central reserve cities, which have been granted permission to carry reduced reserves on demand deposits under the provisions of Section 19 of the Federal Reserve Act.

The Board would like to have the first review of the situation made as of December 31, 1926, and a report thereon from each Federal Reserve Agent as soon after the end of the year as practicable. It is expected that the report of each Federal Reserve Agent will deal individually with each bank which has been granted the reduced reserve privilege, and that in each case, in addition to such data and comment as the Agent may deem it desirable to submit, there will be set forth

(1) Total deposits as of the date of approval of the bank's application.
(2) Total deposits as of the date of the survey.
(3) Amount due to banks as of the date of approval of the bank's application.
(4) Amount due to banks as of the date of the survey.
(5) Ratio of bank deposits to total deposits.

Very truly yours,

Walter L. Eddy,
Secretary.

TO ALL F. R. AGENTS.

FEDERAL RESERVE BOARD

X-4740

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

December 4, 1926.

SUBJECT: Acceptances by national banks against import and export bills.

Dear Sir:

The Federal Reserve Board has for some time had under consideration the question whether national banks may legally accept drafts drawn upon them by other banks against the security of import or export bills of exchange previously discounted by such other banks.

The question now arises in the following form: The New York agency of a foreign bank buys export bills to finance the shipment of cotton to a foreign country; and, in order to refinance itself, arranges for a national bank to accept bills drawn upon such national bank by such foreign bank and secured by a pledge of the export bills previously purchased by the foreign bank. The question presented is whether the national bank may lawfully accept bills drawn upon it under such circumstances.

In a ruling published on page 610 of the Federal Reserve Bulletin for June 1920, the Board ruled that "no bank which has purchased a foreign documentary draft may refinance itself by drawing a draft on a member bank secured by the documentary draft". The Board has carefully reconsidered this question, however, and is of the opinion that such ruling contains an unnecessarily strict interpretation of the law. The Board is now of the opinion that such acceptances may be said to come within the broad terms of the provision of Section 13 of the Federal Reserve Act which authorizes member banks to accept drafts drawn upon them "which grow out of transactions involving the importation or exportation of goods"; provided that such drafts are drawn before the underlying export transaction is completed. The same interpretation would necessarily apply also to drafts drawn upon national banks by other banks against the security of import bills previously discounted by such other banks.

The Board rules, therefore, that national banks may legally accept drafts drawn upon them by other banks against the security of import or export bills of exchange previously discounted by such other banks; provided that such drafts are drawn before the underlying import or export transactions are completed and comply as to maturity and in all other respects with the provisions of the law and the Board's regulations. Conversely, the Board rules that national banks may not legally accept drafts drawn upon them by other banks against the security

of import or export bills of exchange previously discounted by such other banks when such drafts are drawn after the underlying import or export transactions are completed.

In the Board's opinion, an import or export transaction is completed when the goods have arrived at the final destination specified in the export shipping documents.

Very truly yours,

D. R. Crissinger,
Governor.

TO ALL GOVERNORS.

TREASURY DEPARTMENT
OFFICE OF THE SECRETARY
WASHINGTON

December 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 November 1, 1926, to November 30, 1926, amounting to $136,701, as follows:

Federal Reserve Notes, Series 1914

	$5	$10	$20	$50	Total
Boston	$ 300,000	200,000			$500,000
New York	250,000	150,000			400,000
Philadelphia	100,000	75,000			175,000
Cleveland	200,000	150,000	50,000	10,000	410,000
Richmond	100,000		50,000		150,000
Atlanta	150,000	100,000			250,000
Chicago	600,000	600,000	100,000		1,300,000
Kansas City	100,000				100,000
San Francisco	300,000	100,000	50,000		450,000
	2,100,000	1,375,000	250,000	10,000	3,735,000

3,735,000 sheets @ $36.60 per M $136,701.00

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

Boston	$ 18,300.00
New York	14,640.00
Philadelphia	6,405.00
Cleveland	15,006.00
Richmond	5,490.00
Atlanta	9,150.00
Chicago	47,580.00
Kansas City	3,660.00
San Francisco	16,470.00
	$136,701.00

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

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ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4742

December 7, 1926

SUBJECT: Standardization of the Size and Arrangement of Bank Checks, Notes, Drafts and Similar Instruments.

Dear Sir:

A day or two ago the Federal Reserve Board conferred with a standing committee appointed by a general conference of bankers, lithographers and other interests, held on December 4, 1925, to consider the subject of the standardization of the size and arrangement of bank checks, notes, drafts and other instruments. This committee requested the co-operation of the Federal Reserve System in promulgating the plan adopted by the conference as set forth in a booklet issued by the United States Department of Commerce, several copies of which are being forwarded to you under separate cover.

After going over the details of the plan with the committee, the Board voted to approve the principles involved, and it is hereby submitted to your bank for such consideration as you may deem advisable.

Very truly yours,

Walter L. Eddy,
Secretary.

TO ALL GOVERNORS.

FEDERAL RESERVE BOARD

WASHINGTON

X-4743

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

December 9, 1926

SUBJECT: Authority of Federal Reserve Banks to Receive Securities for Safekeeping from Federal Intermediate Credit Banks or Federal Land Banks.

Dear Sir:

The Federal Reserve Board has been requested to express an opinion on the question whether Federal reserve banks are authorized to accept securities for safekeeping from Farm Loan Registrars, from Federal Land Banks, or from Federal Intermediate Credit Banks. After a careful consideration of this question the Board reached the conclusion that Federal reserve banks may properly receive securities for safekeeping from Federal Intermediate Credit Banks but are without authority to do so for Federal Land Banks or Farm Loan Registrars.

The Agricultural Credits Act of 1923 provides that "Federal reserve banks are hereby authorized to act as depositories for and fiscal agents of any National Agricultural Credit Corporation or Federal Intermediate Credit Bank." It seems clear that under this provision of law, Federal reserve banks are authorized to accept deposits of funds or securities from Federal Intermediate Credit Banks.

No provision either in the Federal Reserve Act or the Farm Loan Act gives Federal reserve banks authority to receive deposits of securities from Farm Loan Registrars or from Federal Land Banks. Section 13 of the Farm Loan Act which authorizes Federal Land Banks to deposit securities and funds "with any member bank of the Federal Reserve System" seems clearly to contemplate that deposits of Federal Land Banks should be made in member banks of the Federal Reserve System rather than in Federal reserve banks. The Board is, therefore, of the opinion that Federal reserve banks have no authority to receive deposits of securities for safekeeping from Federal Land Banks or from Farm Loan Registrars.

By direction of the Federal Reserve Board.

Very truly yours,

Walter L. Eddy,
Secretary.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

X-4745

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

December 9, 1926.

SUBJECT: Code Word to cover new issue of Certificates of Indebtedness, Series TS-1927, in Telegraphic Transactions.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "BELONITE" has been designated to cover the new issue of Treasury Certificates of Indebtedness, dated December 15, 1926, Series TS-1927.

This word should be inserted in the Federal Reserve Telegraphic Code Book following the supplemental code word "BELONGING", at the bottom of page 25.

Very truly yours,

J. C. Noell.
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS

FEDERAL RESERVE BOARD

WASHINGTON

X-4746.

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

December 10, 1926.

SUBJECT: Rediscount of Notes Secured by Adjusted Service Certificates.

Dear Sir:

I enclose for your information a copy of a new regulation promulgated by the Federal Reserve Board December 9, 1926. This regulation pertains to the rediscount by Federal reserve banks of notes secured by adjusted service certificates and will be known as Regulation M.

I also enclose for your information the following:

1. A final draft of the proposed circular letter on the above subject to be sent by each Federal reserve bank to every incorporated bank in its district. This proposed circular letter was prepared by the Board's Counsel with the advice and assistance of a committee of officers of Federal reserve banks appointed pursuant to a resolution adopted at the last Governors' Conference, as more fully explained in Mr. Wyatt's letter of December 4 (X-4738);
2. Regulation promulgated December 8, 1926, by the United States Veterans' Bureau pertaining to loans on adjusted service certificates;
3. Copy of form of note and affidavits approved by the United States Veterans' Bureau;
4. Proposed form of application for rediscount of such notes; and
5. Proposed form of resolution to be adopted by banks authorizing the endorsement and rediscount of such notes.

The Board's Regulation M is now on the press and it is hoped that a supply of printed copies can be shipped to you on Monday or Tuesday of next week.

The United States Veterans' Bureau has agreed to supply to each Federal reserve bank a sufficient number of copies of the following documents to enable each Federal reserve bank to send a copy to every incorporated bank in its district:

1. The World War Adjusted Compensation Act;
2. The Act of July 3, 1926, amending the World War Adjusted Compensation Act;
3. The regulations of the Veterans' Bureau with respect to loans on adjusted service certificates; and
4. Forms of notes and affidavits approved by the Veterans' Bureau.

A supply of each of these documents will be shipped to each Federal reserve bank as soon as they can be printed. A further supply of the forms of notes and affidavits provided by the Veterans' Bureau for the use of lending banks will be furnished to each Federal reserve bank which is willing to distribute such forms upon request. Most of the Federal reserve banks have already expressed their willingness to do this.

Each Federal reserve bank will, of course, be expected to print its own circular letter, forms of application for rediscount, and the proposed form of resolution to be adopted by banks authorizing the endorsement and rediscount of notes secured by adjusted service certificates.

Very truly yours,

Walter L. Eddy.
Secretary.

Enclosures.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS.

FEDERAL RESERVE BANK OF _____ Circular No._____

_____, 1926.

REDISCOUNT OF NOTES SECURED BY ADJUSTED SERVICE CERTIFICATES.

To all Incorporated Banks in the

_____ Federal Reserve District.

Under the provisions of the World War Adjusted Compensation Act, adjusted service certificates shall be dated as of the 1st day of the month in which the applications for such certificates are filed, but in no case before January 1, 1925. Banks are authorized to make loans on the security of such adjusted service certificates, but not before the expiration of two years after the date of the certificate.

Only the veteran named in the certificate can lawfully obtain a loan on his adjusted service certificate and neither the beneficiary nor any other person than the veteran has any rights in this respect.

LOANS ON ADJUSTED SERVICE CERTIFICATES.

Any national bank or any bank or trust company incorporated under the laws of any State, territory, possession or the District of Columbia, hereinafter referred to as any "bank", is authorized 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 value of the certificate at the date the loan is made. Each certificate contains on its face a table for determining the loan value of the certificate.

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The United States Veterans' Bureau has prepared a form of note for use in this connection and is printing a supply of such forms for distribution to the banks. The regulations of the Bureau provide that the form of notes used in making loans secured by adjusted service certificates should substantially follow the form prepared by the Bureau. The official form provided by the Bureau should, therefore, be used whenever possible. When it is not possible to use this form the bank should use a form substantially the same as that provided by the Veterans' Bureau, a sample copy of which is enclosed herewith.

Any bank making a loan on an adjusted service certificate is required by the regulations of the United States Veterans' Bureau promptly to notify the Bureau of the name of the veteran, the A-number shown immediately after the name, the number of the certificate and the amount and date of the loan.

Any bank holding a note secured by an adjusted service certificate may sell the note to any bank authorized to make a loan to a veteran and deliver the certificate to such bank.

In case a note secured by an adjusted service certificate is sold, discounted or rediscounted, the bank making the transfer is required by law to notify the veteran promptly by mail at his last known postoffice address.

No adjusted service certificate is negotiable or assignable, or may serve as security for a loan, except as provided in Section 502 of the World War Adjusted Compensation Act, which is printed on the face of each adjusted service certificate. Any negotiation, assignment or loan not made in accordance with the provisions of Section 502 of the World War Adjusted Compensation Act is void.

The law provides that the rate of interest which a bank may charge upon such loan shall not exceed by more than 2% 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 of the district in which the lending bank is located. The regulations of the United States Veterans' Bureau provide that, where a loan is made by a bank located in a territory or possession not embraced in any Federal Reserve District, the rate of interest charged shall not exceed the legal rate in such territory or possession; provided, however, that the interest charged on loans made outside the continental limits of the United States by a branch of a bank whose head office is in a Federal Reserve District will be governed by the discount rate on 90-day commercial paper in effect at the Federal Reserve Bank of the district in which the parent bank is located. No charge, other than the interest allowed by law, may be made by the lending bank; since the act provides, under penalty, that such bank shall not charge or collect, or attempt to charge or collect, directly or indirectly, any fee or other compensation in respect of any loan made upon the security of an adjusted service certificate except the interest authorized by law. Any violation of this provision will make the loan void.

The Director of the United States Veterans' Bureau cannot lawfully make payment on any note secured by an adjusted service certificate, 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 of the Veterans' Bureau, stating that such bank has not charged or collected, or attempted to charge or collect directly or indirectly, any fee or other compensation in respect of <u>any loan</u> made upon the security of an adjusted service certificate by the bank to a veteran, except the interest authorized by law.

The Regulations of the United States Veterans' Bureau also require that such affidavit shall state:

(1) That the person who obtained the loan evidenced by such note is known to be the veteran named in the adjusted service certificate securing such note;

(2) That the lending bank has notified the United States Veterans' Bureau that it has made a loan to the veteran named in the certificate; and

(3) That the bank has notified the veteran by mail at his last known post office address of any sale, discount, or rediscount of such note.

The Regulations of the United States Veterans' Bureau also provide that in case the note was resold or rediscounted by any bank other than the lending bank, affidavit shall be made by a duly authorized officer of such bank that proper notice of such resale or rediscount was promptly mailed to the veteran at his last known address.

There is printed on the same piece of paper as the form of note prepared by the Veterans' Bureau two forms of affidavits covering the above requirements; and the Regulations of the Veterans' Bureau provide that the proper execution of the appropriate affidavit on such form will be considered as a compliance with the requirements of the Veterans' Bureau with respect to affidavits.

REDEMPTION OF CERTIFICATES BY THE DIRECTOR OF THE VETERANS' BUREAU

If the veteran does not pay the loan at its maturity the bank holding the note and adjusted service certificate may at any time after

the maturity of the loan, but not before the expiration of six months after the loan was made, present them to the Director of the Veterans' Bureau. The Director may in his discretion accept the certificate and note and pay the bank in full satisfaction of its claim, the amount of the unpaid principal due it, and the unpaid interest accrued at the rate fixed in the note, up to the date of the check issued to the bank.

The Regulations of the Veterans' Bureau state that it will be the policy of the Bureau to redeem all loans made in accordance with the law and regulations made pursuant thereto, when such loans are made in good faith to the veteran to whom the certificate was issued, except that where the note is held by a bank for a period in excess of six months after the date of maturity, the discretion authorized by law may be invoked and redemption refused.

If the veteran dies before the maturity of the loan, the amount of unpaid principal and unpaid interest accrued up to the date of his death immediately becomes due and payable. In such case, or if the veteran dies on the date the loan matures or within six months thereafter, the bank holding the note and the certificate shall, upon notice of the death of the veteran,

present them to the Director of the Veterans' Bureau, who shall thereupon pay 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 by the Director of the death of the veteran and fails to present the certificate and note to the Director within 15 days after such notice, interest shall be paid only up to the 15th day after such notice.

If the veteran has not died before the maturity of the certificate and has failed to pay his note to the bank holding the note and certificate, such bank at the maturity of the certificate must present the note and certificate to the Director of the Veterans' Bureau, who is thereupon required by law to 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.

REDISCOUNTS WITH FEDERAL RESERVE BANKS.

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 an adjusted service certificate and held by a bank is made eligible for discount or rediscount by the Federal reserve bank of the Federal reserve district in which such bank is located, 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; provided that at the time of discount or rediscount such note has a maturity not in excess of nine months, exclusive of days of grace, and complies in all other respects with the provisions of the law, the regulations of the United States Veterans' Bureau, and the regulations of the Federal Reserve Board.

ELIGIBILITY FOR REDISCOUNT.

In order to be eligible for rediscount at a Federal reserve bank, any such note must:

1. Arise out of a loan made by a bank to a veteran in full compliance with the provisions of the World War Adjusted Compensation Act and the regulations of the United States Veterans' Bureau;

2. Be secured by the adjusted service certificate issued to the maker, which certificate must accompany the note;

3. Be held by the offering bank in its own right at the time it is offered for rediscount;

4. Be negotiable in form and otherwise in the form approved by the United States Veterans' Bureau;

5. Have a maturity at the time of rediscount not in excess of nine months, exclusive of days of grace;

6. Evidence a loan the amount of which does not exceed the loan value of the adjusted service certificate for the year in which such loan was made;

7. Be payable with interest accruing after the date of the note at a rate stated in the face of the note, which rate shall not exceed by more than 2 per cent per annum the rate charged at the date of the loan for the discount of 90-day commercial paper by the Federal reserve bank of the Federal reserve district in which the lending bank is located;

8. Bear the endorsement of the bank offering it for rediscount, which endorsement shall be deemed a waiver of demand, notice and protest

by such bank as to its own endorsement exclusively;

9. Be accompanied by the evidence of eligibility required by the Regulations of the Federal Reserve Board and by such other evidence of eligibility as the Federal reserve bank may require;

10. Be accompanied by such affidavits and other evidence as would be required by the Veterans' Bureau in the event the Federal reserve bank should apply to the Veterans' Bureau for payment of the note; and

11. Comply in all other respects with the requirements of the law and of the regulations of the Federal Reserve Board.

INELIGIBILITY AS COLLATERAL TO A BANK'S OWN NOTE.

Neither a member bank nor a nonmember bank may borrow from a Federal reserve bank on its own promissory note secured by notes of veterans in turn secured by adjusted service certificates; because neither the Federal Reserve Act nor the World War Adjusted Compensation Act authorizes the Federal reserve banks to make such loans. That provision of Section 13 of the Federal Reserve Act which authorizes Federal reserve banks to make loans to member banks for periods not in excess of 15 days on the promissory notes of such member banks requires that such notes must be secured by paper eligible for rediscount or for purchase by Federal reserve banks under the provisions of the Federal Reserve Act or by bonds or notes of the United States. Section 502 of the World War Adjusted Compensation Act which authorizes Federal reserve banks to rediscount notes secured by adjusted service certificates is not made a part of the Federal Reserve Act.

METHOD AND TERMS OF REDISCOUNT.

Prior to the rediscount of any paper a certified copy of a resolution passed by the board of directors of the offering bank with the Seal of the bank affixed, authorizing the proper officials to rediscount, must be filed with the Federal reserve bank. It will not be necessary for member banks which have filed such a resolution in connection with rediscounts to file any additional resolution in connection with notes secured by adjusted service certificates.

Before rediscounting any such notes for any nonmember bank, this bank will require such nonmember bank to furnish to it such information as this bank may consider necessary in order to satisfy itself as to the condition of such bank and the advisability of making rediscounts for it. Blank applications for rediscount will be supplied by this bank upon request.

All such notes offered for rediscount should be listed on the application form provided and the application signed by a duly authorized officer. Full information must be furnished as provided on the form.

Upon acceptance for rediscount by the Federal reserve bank the proceeds of such notes will be credited to the reserve account of the bank, in the case of a member bank, and, in the case of a nonmember bank, the Federal reserve bank will remit by check or, upon request, will credit the account of a designated member bank located in this Federal reserve district for the use and credit of the nonmember.

The rate of discount deducted by this bank will be the same as that deducted by it in rediscounting 90 day notes issued for commercial purposes.

COLLECTION OF REDISCOUNTED NOTES AT MATURITY

In the case of member banks, the usual procedure will be to forward for collection all notes secured by adjusted service certificates to the banks discounting such notes, several days in advance of their maturity. Such notes will be charged to the member bank's account when due without notice, it being assumed that on the maturity date the member bank will provide funds in excess of its required reserve to meet the notes.

In the case of nonmember banks, notice of approaching maturity will be forwarded to the discounting banks approximately ten days in advance of the maturity of each note, and the discounting banks will be required to place funds in the hands of the Federal reserve bank to pay them, which funds must be available on the date of maturity of the notes.

FURTHER INFORMATION ENCLOSED.

For your information there are enclosed the following:

1. The World War Adjusted Compensation Act. Sections 501, 502 and 504 deserve the special attention of banks which contemplate making loans on the security of adjusted service certificates.

2. The Act of July 3, 1926, amending the World War Adjusted Compensation Act. Section 503 as amended by this Act deserves special attention.

3. The Regulations of the Veterans' Bureau with respect to loans on adjusted service certificates.

4. The Regulations of the Federal Reserve Board with respect to the rediscount of notes secured by adjusted service certificates.

5. A sample copy of the form of note and affidavits, approved by the United States Veterans' Bureau. A supply of these forms will be provided by the Veterans' Bureau and any incorporated bank may obtain a supply from the United States Veterans' Bureau, Washington, D.C., or from this bank, upon request.

6. A proposed form of resolution to be adopted by banks authorizing the endorsement and rediscount of such notes.

7. Copies of form of application to this Federal reserve bank for rediscount of such notes. Additional copies of this form will be supplied by this bank, upon request.

Very truly yours,

FEDERAL RESERVE BOARD

REGULATION M, SERIES OF 1926

REDISCOUNT OF NOTES SECURED BY ADJUSTED SERVICE CERTIFICATES

SECTION I. STATUTORY PROVISIONS.

Under the terms of the World War Adjusted Compensation Act as amended loans may lawfully be made to veterans upon their adjusted service certificates only in accordance with the provisions of Section 502 thereof.

Any national bank, or any bank or trust company incorporated under the laws of any State, Territory, possession, or the District of Columbia 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, any amount not in excess of the loan value of the certificate, which is stated on the face of the certificate. The law provides that the rate of interest charged upon the loan by the lending bank shall not exceed by more than 2 per cent per annum the rate charged at the date of the loan for the discount of 90 days commercial paper by the Federal reserve bank of the Federal reserve district in which the lending bank is located.

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 an adjusted service certificate and held by a bank is made eligible for rediscount with the Federal reserve bank of the Federal reserve district in which such bank

is located, whether or not the bank offering the note for 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; provided that at the time of rediscount such note has a maturity not in excess of nine months, exclusive of days of grace, and complies in all other respects with the provisions of the law, the regulations of the United States Veterans' Bureau and the regulations of the Federal Reserve Board.

SECTION II. DEFINITIONS.

Within the meaning of this Regulation:

(a) The term "the Act" shall mean the World War Adjusted Compensation Act as amended;

(b) The term "Director" shall mean the Director of the United States Veterans' Bureau;

(c) The term "certificate" shall mean an adjusted service certificate issued under the provisions of Section 501 of the World War Adjusted Compensation Act as amended;

(d) The term "veteran" shall mean any person to whom an adjusted service certificate has been issued by the Director under the provisions of the World War Adjusted Compensation Act as amended;

(e) The term "bank" shall mean any national bank or any bank or trust company incorporated under the laws of any State, Territory, possession or the District of Columbia;

(f) The term "note" shall mean a promissory note, negotiable in form, secured by an adjusted service certificate, and

evidencing a loan made by a bank on the security of such certificate in full compliance with the provisions of the World War Adjusted Compensation Act as amended and the regulations of the United States Veterans' Bureau.

SECTION III. ELIGIBILITY.

In order to be eligible for rediscount at a Federal reserve bank, any such note must:

(a) Arise out of a loan made by a bank to a veteran in full compliance with the provisions of the Act and of any regulation which the Director may prescribe;

(b) Be secured by the certificate issued to the maker, which certificate must accompany the note;

(c) Be held by the offering bank in its own right at the time it is offered for rediscount;

(d) Be negotiable in form and otherwise in the form approved by the Director;

(e) Have a maturity at the time of rediscount not in excess of nine months, exclusive of days of grace;

(f) Evidence a loan the amount of which does not exceed the loan value of the certificate for the year in which such loan was made;

(g) Be payable with interest accruing after the date of the note at a rate stated in the face of the note, which rate must not exceed by more than 2 per cent per annum the rate charged at the date of the loan for the discount of 90-day commercial paper by the Federal reserve bank of the Federal reserve district in which the lending bank is located;

(h) Bear the endorsement of the bank offering it for rediscount, which endorsement shall be deemed a waiver of demand, notice, and protest by such bank as to its own endorsement exclusively;

(i) Be accompanied by the evidence of eligibility required by this Regulation and such other evidence of eligibility as may be required by the Federal reserve bank to which it is offered for rediscount; and

(j) Comply in all other respects with the requirements of the law and of this Regulation.

SECTION IV. EVIDENCE OF ELIGIBILITY.

(a) General. - The Federal reserve bank to which a note is offered for rediscount must be satisfied either by reference to the note itself or otherwise that the loan evidenced by the note or any sale, discount, or rediscount thereof complies in all respects with the provisions of section 502 of the Act and that the note is eligible for rediscount by a Federal reserve bank under the terms of the law and the provisions of this Regulation.

(b) Affidavit of Lending Bank. - Any note offered to a Federal reserve bank for rediscount must be accompanied by the affidavit required by Section 502 (h) of the Act and the regulations of the Director, in form approved by the Director, 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 stating that:

1. Such bank has not charged or collected, or attempted to charge or collect, directly or indirectly, any fee or other compensation in respect of any loan, made by such bank to any veteran under Section 502 of the Act, except the interest authorized by such section;

2. The person who obtained the loan evidenced by such note is known to be the veteran named in the certificate securing such note;

3. Such bank has notified the Director that it has made a loan to the veteran named in the certificate, as required by the Regulation of the Director; and

4. Such bank has notified the veteran by mail at his last known post office address of any sale, discount, or rediscount of such note by such bank, as required by Section 502(b) of the Act.

(c) Affidavit of Other Banks. - If such note is offered for rediscount by a bank other than the bank which made the loan thereon, it must also be accompanied by an affidavit of an officer of the offering bank and an affidavit of an officer of each other bank which has sold, discounted or rediscounted such note, which affidavit shall be in form approved by the Director and shall state that the bank of which the affiant is an officer has promptly notified the veteran by mail at his last known post office address of the sale, discount or rediscount of such note by such bank, as required by Section 502(b) of the Act.

SECTION V. APPLICATION FOR REDISCOUNT.

Every application for the rediscount of such notes shall be made on a form approved by the Federal reserve bank to which such

note is offered and shall contain a certificate of the offering bank to the effect that, to the best of its knowledge and belief, such note arose out of a loan made in full compliance with the provisions of the Act and the regulations of the Director and is eligible for rediscount under the provisions of Section 502 of the Act and of this Regulation.

SECTION VI. PROPER BANK FOR REDISCOUNT.

No such note shall be rediscounted by any Federal reserve bank for any bank not located in its own Federal reserve district, except that such notes may be rediscounted by any Federal reserve bank for any other Federal reserve bank.

SECTION VII. RATE OF REDISCOUNT.

The rate of interest charged by any Federal reserve bank on any such note rediscounted by it shall be the same as that charged by it for the rediscount of 90-day notes drawn for a commercial purpose, except that when such notes are rediscounted for another Federal reserve bank the rate shall be that fixed by the Federal Reserve Board.

SECTION VIII. REDISCOUNTS FOR NONMEMBER BANKS.

No Federal reserve bank shall rediscount such notes for any nonmember bank until such bank has furnished to the Federal reserve bank such information as it may request in order to satisfy itself as to the condition of such bank and the advisability of making the rediscount for it.

December 9, 1926.

AUTHORITY FOR REDISCOUNTING NOTES SECURED BY ADJUSTED SERVICE CERTIFICATES WITH THE FEDERAL RESERVE BANK OF _____.

WHEREAS, it is desired that the officers of this bank should from time to time be able to rediscount on its behalf veterans' notes secured by adjusted service certificates, Now, therefore, be it

RESOLVED:

1st. That the President, Vice President and Cashier are, and each or either of them is, hereby authorized to rediscount with the Federal Reserve Bank of _____, any such notes now or hereafter held by this bank, upon such terms and at such time or times as to him or them may seem desirable.

2nd. That the foregoing powers shall continue and remain in force until express notice of their revocation has been duly given to said Federal Reserve Bank of _____.

I_____ do hereby certify that the foregoing is a true extract from the minutes of a meeting of the Board of Directors of the _____ a quorum being present, held at _____ the _____ day of _____ 19 .

In witness whereof, I have hereunto set my hand and affixed the official seal of the said Bank this _____ day of _____ 19____.

_____

SEAL

APPLICATION FOR REDISCOUNT OF NOTES SECURED BY ADJUSTED SERVICE CERTIFICATES.

To the Federal Reserve Bank of _____.

The _____ bank of _____ offers herewith the following Veterans' notes secured by adjusted service certificates, duly endorsed by it.

We agree that the Federal Reserve Bank of _____ may charge the amount of the notes to our account at their maturity, or, if not a member of the Federal Reserve System, we promise to place acceptable funds in the hands of the Federal Reserve Bank of _____ covering the amount of each note, which funds shall be available on the day each note matures.

Our endorsement shall be deemed a waiver of demand, notice and protest.

I hereby certify that, to the best of my knowledge and belief, the note or notes offered herewith arose out of a loan made in full compliance with the provisions of the World War Adjusted Compensation Act and the regulations of the Director of the United States Veterans' Bureau and is eligible for rediscount with a Federal Reserve Bank under the provisions of Section 502 of the World War Adjusted Compensation Act and of the regulations of the Federal Reserve Board.

_____
(President)

_____
(Cashier)

Please list in maturity order

MATURITY	NAME OF VETERAN	ADDRESS	DO NOT USE THIS COLUMN: AMOUNT

$_____ _____ _____ 396
(Place) (Date)

_____ after date, I promise to

pay to the order of _____
(Name of Bank or Trust Company)

of _____
(City or Town and State)

_____Dollars
for value received, with interest after date at _____ per cent until paid. This note is payable at the bank named above.

As collateral security for the prompt payment of this note I have delivered to and do hereby pledge with the holder of this note my adjusted service certificate No._____ dated _____ further identified by No. A _____. This note may be sold, discounted or rediscounted and the certificate pledged herewith may be transferred in accordance with the provisions of the World War Adjusted Compensation Act, as amended. If the principal and interest of this note are not paid at its maturity any bank holding this 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 this note and certificate to the Director of the United States Veterans' Bureau in order to secure payment of this loan, as provided in the World War Adjusted Compensation Act.

_____
(Signature of Veteran).

Please print or typewrite name and address of veteran here.

(
(_____
((Name of Veteran)
(
(_____
((Street Address or Route Number)
(
(_____
((City or Town and State)

State of _____)SS:
)
County of _____)

I, _____, being duly sworn depose and
(Name of Officer)
say that I am _____ of _____
(Title of Office) (Bank or Trust Company)

of _____, which is a bank incorporated
(City or Town and State)
under the laws of _____; that the person who obtained the loan evidenced by the above note is known to be the veteran named in the adjusted service certificate referred to therein; that the said bank or trust company has not charged or collected or attempted to charge or collect, directly or indirectly, any fee or other compensation (except interest as authorized by Section 502 of the World War Adjusted Compensation Act as amended) in respect of any loan made under this section by the bank to a veteran; that the United States Veterans' Bureau was promptly notified of the making of the original loan as required by paragraph 3 of Regulation of the United States Veterans' Bureau; that in any negotiation of this note by sale, discount or rediscount subsequent to the original loan, proper legal notice was given to the veteran as required by Section 502 (b) of the Act, and that this affidavit is made pursuant to authority given by the Board of Directors.

Subscribed and sworn to before me this
_____day of _____ _____
(Signature of Officer)

_____
(Notary Public, or other officer designated by the United States Veterans' Bureau).

State of _____) SS:
)
County of _____)

I, _____, thereunto duly authorized,
(Name of Officer)
being sworn depose and say that I am _____ of the
(Title of Office)
_____ of _____
(Name of Bank or Trust Company) (City or Town and State)
and that the veteran who obtained the loan evidenced by the above note, which was transferred to this bank by _____
(Name of Bank or Trust Company)
has been notified by the _____
(Name of Bank or Trust Company)
that the said note is being retransferred to the _____
(Name of Bank or Trust
_____ for sale, discount,or rediscount.
Company)

_____
(Signature of Officer)

Subscribed and sworn to before me this
_____day of _____

_____
(Notary Public, or other officer designated by the United States Veterans' Bureau. See Regulation _____ U.S.V.B.)

FEDERAL RESERVE AGENT.

1. Number of examiners — Total salaries paid

2. Number of assistants — Total salaries paid

3. Number of other employees at headquarters — Total salaries paid

4. How are examiners selected and organized? Is the personnel of the examining force made up of men qualified and trained for their work?

5. Is examining force capable of conducting an examination, independent of state force, of the large banks in your district?

6. When additional assistance is needed for examination of large banks or for other purposes, how selected and from what source obtained - qualifications?

7. Salaries and expenses paid for such assistance?

8. How many examiners do you have capable of making independent credit investigations? Of this number how many are not regularly engaged in this work?

Give the information as indicated by the six questions below as to each examiner, assistant and other employees in the department:

1. Name Age

2. Salary

3. Length of service as examiner

4. Previous experience

5. Any special personal qualifications

6. General ability and professional judgment

MEMBER STATE BANKS

Give the information indicated by the nine questions below, by states, as to each bank in the district, making separate lists for each class of banks:

1. Commercial banks — Commercial & trust companies
   Trust companies — Trust and savings banks
   Savings banks

2. Name and location

3. Capital

4. Surplus

5. Profits

6. Deposits

7. Loans

8. Fixed assets

9. Total assets

In addition to the foregoing information, please give separately the information called for under questions below:

1. Number of member state banks closed in 1925

2. Number of member state banks closed in 1926

3. Number of non-member banks

EXPENSES

Separate by years - 1925-1926

1. Number of state member banks

2. Combined resources

3. Cost of and charge made for examinations

4. Method of assisting banks

5. Traveling expenses

6. Office supplies, printing and stationery

7. Tehephone, telegraph

8. Stenographic

9. Additional help, etc.

10. All other expenses

11. Has the cost of all examinations made been charged? If not, give list of banks not charged and reasons therefor.

12. Has cost of all credit investigations made been absorbed by the reserve banks? If not, give names of banks charged and reasons therefor.

EXAMINATIONS

1. Scope - Do the examinations now made give the necessary information to enable the Federal Reserve Board to determine whether or not the member banks are operating within the requirements of the Federal Reserve Act, the regulations of the Board and the conditions of membership?
Do examinations include complete inspection of all assets and liabilities?

2. Procedure - Do examiners upon entering bank promptly and immediately place all books, records and tangible assets under seal and do they maintain custody and control until work of inspection as to particular groups of assets or accounts has been completed?

3. Frequency

4. Are all examinations so conducted as to develop as to each class of assets and accounts examined the essential facts? (Information in response to this question involves an inquiry as to how an individual examiner conducts every step in an examination)

5. What examination of liabilities is made by Federal reserve examiners when making examinations?

6. What examination of liabilities is made by Federal reserve examiners when making credit analysis?

7. Are proofs of C/D - cashiers checks, etc., carried forward from one examination to another (a continuous proof) by either state department or Federal reserve examiners?

8. Any attention given to bank accounts, etc., - reconciled or inspected?

9. Do examiners, during the examination and while at the bank, inquire into and examine the following:

    a. Whether the law with reference to the stock ownership of Federal reserve bank has been complied with?

    b. Whether the bank has had any withdrawal or impairment of capital since last examination?

    c. Whether the bank has unimpaired capital sufficient to entitle it to be national bank in same situation or equal to 60% with provisions for paying additional 40% out of net income?

    d. Whether the bank rediscounts with Federal reserve bank paper of a borrower who is liable to bank in excess of provisions of Federal Reserve Act?

    e. Whether bank certifies any checks against funds which are not actually on deposit at the time of certification?

    f. Whether bank has rediscounted with Federal reserve bank for

any person, company, firm or corporation any notes, drafts or bills bearing the signature or endorsement of any one borrower in excess of 10% of the unimpaired capital and surplus of the bank, excepting bills of exchange drawn in good faith against actual existing values,

g. Whether bank has accepted for any one person, company, firm or corporation an amount in excess of 10% of its paid up and unimpaired capital and surplus? If so, whether excess liability is secured by documents or by some other actual security growing out of the same transaction as the acceptance? Whether any such acceptances have more than six months to run?

h. Whether the bank has liability for accepted bills to an amount equal in the aggregate more than one-half of its paid up and unimpaired capital and surplus? If so, whether Federal Reserve Board has given permission to accept such excess?

i. Whether bank has accepted in domestic transactions bills drawn in excess of 50% of its paid up and unimpaired capital and surplus?

j. Whether bank has accepted drafts or bills of exchange for the purpose of furnishing dollar exchange? If so, whether Section 13 of the Federal Reserve Act has been complied with?

k. Whether the bank has received special permission of the Federal Reserve Board to accept dollar exchange bills?

l. Whether all of the acceptances made by bank drawn in lawful transactions are within the limitation as stated in Regulation C of the Federal Reserve Board?

m. Whether the bank acts as a medium or as an agent of a non-member bank in applying for discounts from the Federal reserve banks?

n. Whether the bank makes new loans or pays any dividends when required reserves are deficient,

o. Whether the bank or any officer, director or employee thereof has made any loan or granted any gratuity to any bank examiner?

p. Whether any officer, director or employee or attorney of the bank has accepted favor for procuring credit?

q. Whether bank has contracted for the purchase from any of its directors or directors' firms, securities or other property, on terms less favorable to bank than those offered to others? If so, whether account was authorized by majority of the board of directors not interested in the transaction?

EXAMINATIONS (Cont'd)

r. Whether bank has sold securities or property to any director in regular course of business on terms more favorable to such director than offered to others?

s. Whether bank has paid to any director, officer, attorney or employee a greater rate of interest on deposits of such person than that paid to other depositors on similar deposits?

t. Whether bank has notified Federal Reserve Board of any increase of capital or surplus or additional stock issues.

10. Do examiners, during the examination and while at the bank, inquire into Regulation H - Ten conditions of membership?

a. Whether bank has made any change in general character of assets or in scope of functions such as tend to affect materially its standard maintained at time of admission to Federal Reserve System?

b. Whether bank gives due regard to safety of customers?

c. Whether bank has reduced capital without permission of Federal Reserve Board?

d. Whether bank has established branches, agencies or additional office without permission of Federal Reserve Board?

e. Whether bank has consolidated or absorbed, purchased or acquired interest in excess of 20% in another bank, or directly or indirectly promoted a new bank without permission of the Federal Reserve Board?

f. Whether bank has any excess loans?

g. Whether bank has deposits with non-members in excess of 10% of its capital and surplus?

h. Whether bank has accepted in excess of 50% of capital and surplus for dollar exchange, or is gross acceptance greater than 50% of capital and surplus, without permission of the Federal Reserve Board?

i. Whether board of directors have passed resolution authorizing interchange of reports and information between Federal reserve bank and banking authorities of state in which bank is located?

j. Whether bank has complied with any other special conditions which Federal Reserve Board imposed upon it at time of admission to System?

EXAMINATIONS(Cont'd)

11. When making examinations do Federal reserve examiners examine trust departments and safekeeping departments - Procedure? Are controlling trust documents studied and understood sufficiently by examiners to give them a practical knowledge of the purposes of the various trusts? (See national bank form on trusts).

12. When credit analysis is made do examiners inspect and pass judgment on proofs of liabilities passed them by the state examiners?

13. When making joint examinations, do state examiners ask for or expect assistance from Federal reserve examiners when analysing loans or other assets?

14. How far do Federal reserve examiners rely on state examinations? By what means do the Federal reserve banks determine whether state examinations are adequate for their purposes and are the methods by which they determine whether state examinations should be accepted adequate?

15. Where Federal reserve examiners participate with state examiners in their examinations of state member banks does such participation tend to raise the standard of state examinations?

16. How soon after examinations are reports forwarded to Federal Reserve Agent? How soon after examinations are reports forwarded to the Federal Reserve Board? Includes state reposts?

17. When the Federal Reserve bank receives reports of examinations or makes credit investigations or otherwise obtains information with relation to the condition of a member bank, is the information properly analyzed and filed so that it can be readily obtained?

18. Who analyzes reports when received? What records are kept? When is this information used? How often reviewed?

19. What records are held by Federal Reserve Agent of banks examined? Are they sufficient?

20. What information is in the Federal reserve bank as regards permission to exercise trust powers? To accept up to 100% of capital and surplus?

21. Are the examining forces making adequate credit investigation, which involve the loan policies, personnel and organization, as well as an appraisal of the assets of a bank?

22. When credit analysis is made do examiners value and pass on any or all assets in addition to loans and discounts?

23. Describe general determining factor that prompts you to institute credit investigations?

24. Are credit investigations conducted regularly of all state member banks whether or not substantial borrowers?

EXAMINATIONS (Cont'd)

25. Where is credit information obtained other than from statements - this includes all assets?

26. Are the Federal reserve banks receiving adequate information as to the conditions of the state member banks upon which they may safely act in extending credit?

27. Do examiners hold directors meetings in connection with each examination and credit analysis for the purpose of discussing matters subject to criticism and informing directors of the general condition of the bank?

28. Do examiners make a study and embody in report a brief economic survey of each place or section? Does Federal Reserve Agent and bank have knowledge of the economic conditions under which the member bank is operating?

29. To what extent are Fedoral reserve banks aware of the development of unfavorable conditions in member banks, through their daily contacts - cash letters - loans, etc?

30. Are all reports called for by the Federal Reserve Board verified at time of next examination or credit investigation?

31. Does the Federal Reserve Agent and bank receive a copy? Are they inspected at time of receipt?

32. Who makes examination when bank is applying for membership? Nature of examination?

33. Who in Federal reserve bank passes upon applications?

34. Conditions imposed at time of application for admission - How followed up?

35. What records are held pertaining to conditions imposed? Is Federal Reserve Board advised whether conditions are being followed up?

36. Are examiners aware of these conditions when making examinations?

37. When state authorities accept Federal reserve examinations and reports in lieu of their own, do they, when making own examinations, see that conditions imposed by Federal Reserve Board are being followed up?

38. Practice of Federal Reserve Agent with respect to making examinations and dealing with unsatisfactory practices and conditions in state banks? In national banks?

39. Does Federal Reserve Agent receive copies of reports of examination of state bank members from each State Bank Superintendent in the district?

40. Does the Federal Reserve Agent and bank get copies of disciplinary letters written to banks, by state authorities, not in satisfactory condition, and the answers received from them.

EXAMINATIONS (Cont'd)

41. How does your treatment of unsatisfactory conditions differ as between borrowing and non-borrowing banks?

42. Do both state and federal examiners make specific recommendations in their reports as to the action which, in their opinion, the bank should or must take to correct conditions? What steps are taken by Federal reserve banks to secure the correction of unsatisfactory conditions in member banks? How far are suggestions and criticisms followed up?

43. In general, what can the Federal Reserve Board do to improve examinations in districts or in states where they are most in need of improvement?

44. Obtain information by states or parts of states in each Federal reserve district that will give an economic picture of the territories referred to.

STATE DEPARTMENT

Supervisor:

1. Name - Age - Previous professional and executive experience.
2. Intergrity and ability.
3. Powers of the supervisor - Are his general statutory powers sufficient to enable him to obtain compliance with sound banking practices? State in detail particulars in which State law is defective.
4. Extent to which he exercises them.
5. Are sufficient funds available or obtainable to properly operate his department?
6. Has he authority to assess stockholders under double or other liability?
7. Give by States synopsis of statutory provisions relating to double or other liability of stockholders.
8. Has he authority to take possession of and administer insolvent banks?
9. Are charters issued subject to his findings and has he authority complete or limited to deny applications for charters?
10. What specific legal action or what action necessarily implied from general statutory authority may he take to correct illegal or otherwise unsound and unsatisfactory conditions? Does he exercise fully the foregoing powers - if not, set forth the particulars in which he fails to do so?

STATE DEPARTMENT

Examiners:

1. Number of examiners. Total salaries paid.
2. Number of assistants. Total salaries paid.
3. Number of other employees at headquarters and other offices. Total salaries paid.
4. How are examiners selected?
5. Is examining force capable of conducting an examination of the larger banks in their district?
6. When additional assistance is needed for examinations of large banks or for other purposes, how selected and from what source obtained.

GIVE AS TO EACH EXAMINER, ASSISTANT, OR OTHER EMPLOYEES THE DATA INDICATED BELOW.

1. Name - Age - Headquarters.
2. Salary.
3. Previous experience.
4. Any special personal qualifications.
5. Length of service in department.
6. General ability and professional judgment.

STATE DEPARTMENT

Examinations:

1. Scope - Do examinations include complete inspection of all assets and liabilities?
2. Procedure - Do examiners upon entering bank promptly and immediately place all books, records and tangible assets under seal and do they maintain custody and control until work of inspection as to particular groups of assets or accounts has been completed?
3. Frequency.
4. Are all examinations so conducted as to develop as to each class of assets and accounts examined the essential facts? (Information in response to this question involves an inquiry as to how an individual examiner conducts every step in an examination.)
5. Are trust departments and safekeeping departments of banks examined? Are controlling trust documents studied and understood sufficiently by examiners to give them a practical knowledge of the purposes of the various trusts? (See national bank form on trusts.)
6. Do examiners embody in reports a brief economic survey of each place or section?
7. Do examiners hold directors meetings in connection with each examination for the purpose of discussing matters subject to criticism and informing directors of the general condition of the bank?
8. Are their examining forces making adequate investigations of individual credits, other assets, loan policies, personnel and organization?

9. Describe briefly character and extent of appraisal of loans and discounts and other assets. Are banks generally required to maintain adequate credit files including statements of individual borrowers? Are State examiners instructed and required to insist upon the production of statements? Do they furnish credit information to the Federal reserve agent or Federal reserve bank? Does Federal reserve agent, Federal reserve bank or Federal reserve examiner, furnish credit information to State department of member banks?

10. Describe briefly character and extent of examination of liabilities.

11. Generally, is sufficient time spent on examinations, if not, is this due to insufficient examining force or is it due to slighting of work by careless, irresponsible and inefficient examiners?

12. In general what can the authorities of this State do to improve examinations?

13. Charges for examination. The method of assessing charges. By whom assessed and collected?

14. Are examining forces allowed a flat per diem rate for living expenses with actual cost of transportation - if so, what is the per diem? Are they allowed actual living expenses with detailed accounting, or actual living expenses with the maximum per diem fixed, or is the maximum allowance for particular expenses limited?

15. Are State examiners required to make specific recommendations to the banks under examination or to the supervisor as to the action which in their opinion banks should or must take to correct unsatisfactory conditions or criticisms and are their recommendations embodied in the report?

Examinations (Cont'd)

16. Do State examiners, when making their examinations, follow up or report on conditions imposed at time of application for membership by Federal Reserve Board?

17. Do State examiners when making examinations jointly with Federal reserve examiners consult the latter freely as to credits, solvency, etc., and do they generally accept the conclusions of the Federal reserve examiners and adopt them as their own?

18. Are joint examinations by State examiners and Federal reserve examiners being made in this State?

a. Are the relations between the State Supervisor and the Federal Reserve Agent and between the State examiners and the Federal reserve examiners harmonious, and is there effective cooperation in all relations?

b. In joint examinations what work is done independently by the State examiners and what by the Federal reserve examiners, or do they perform all work jointly?

c. Are joint examinations in this State considered entirely satisfactory or would you recommend at least one independent examination a year of all State member banks by Federal reserve examiners with provision for more frequent examinations of banks whose dangerous or unsatisfactory condition seems to warrant unusual attention?

Examinations (Cont'd)

19. Do State examinations now made give the necessary information to enable the Federal Reserve Board to determine whether or not the member banks are operating within the requirements of the Federal Reserve Act, the Regulations of the Board, and the conditions of membership?

20. Do supervisors themselves or through competent assistants make analysis of reports independently of examiners who made examinations - if so, is this done promptly following an examination - is the analysis made the basis of corrected measures? Does Federal reserve agent receive benefit of their analysis?

21. How soon after examinations are reports forwarded to the Federal reserve bank? How soon after receipt of report from State Department does Federal reserve bank forward copy to Federal Reserve Board?

22. Does supervisor of this State make credit investigations in lieu of complete examinations covering liabilities as well as assets?

23. Do authorities in this State accept Federal reserve examinations in lieu of State examinations?

24. Has this supervisor cooperated or is he inclined to cooperate with the Federal reserve agent in adopting a report form for his examinations that meet the requirements of the Federal Reserve Board, objections, etc.? Give in detail what is being done by Federal reserve agents to obtain cooperation?

(COPY)

THOMAS B. PATON
110 East 42nd Street
New York

X-4749

General Counsel
American Bankers Association

December 8, 1926.

Benj. Strong, Governor,
Federal Reserve Bank,
New York City

My dear Sir:

The Committee on Commercial Law of the Commissioners on Uniform State Laws will have a meeting early in January. Professor Williston of Harvard University, who is a member, wishes to present to the committee for its consideration a draft of proposed amendments to the Negotiable Instruments Law. He has just written the General Counsel asking if he has any suggestions and if so to submit them within a fortnight.

For the past ten years attempts have been made to have the Commissioners recommend various amendments and such attempts have failed. This invitation comes as a welcome surprise.

Accordingly we are passing this communication along to you with the request that you and your attorney please submit within the next week any proposed amendments to the N. I. Act which you may have in mind. We are enclosing several amendments that have been suggested to this office. These suggestions are only tentative, but we would like to have your criticism.

Knowing how important this matter is, we hope it will have your early attention.

Very truly yours,

TBPJr/S

Thomas B. Paton, Jr.

Enclosures.

(COPY) X-4749-a

From Office of General Counsel,
American Bankers Association,
110 East 42nd St., New York, N. Y.

December 8th, 1926.

SUGGESTED AMENDMENTS TO NEGOTIABLE INSTRUMENTS ACT.

Full text of act, pages 797 to 827, Vol. 1, Paton's Digest.

1. Payor bank as equitable purchaser of stopped check or other instrument payable at bank: Should the Negotiable Instruments Act be amended to protect a payor bank where it pays a check or other instrument in violation of a stop payment order to a holder in due course? Consider the advisability of inserting an amendment to the Negotiable Instruments Act to the effect that a bank violating a stop order becomes subrogated as equitable purchaser to the rights of the holder. This subject is discussed in opinions 4519a, 4520a, and 4521a of Paton's Digest. Where a stopped check or other instrument has been paid by a bank, payment is regarded as final and recovery from the party receiving the money is not allowed. The account of the drawer or maker on the other hand cannot be charged by the bank which violated the stop order. Under these circumstances it would seem equitable that the payor bank should be subrogated as equitable purchaser to the rights of the holder. See Hiroshima v. Bank of Italy, 248 Pac. (Cal. App. 1926) 947.

2. Certification of altered checks: This subject is discussed fully in opinion 111a of Paton's Digest. It is suggested that Sec. 62 be amended to read as follows (the underlined words are new matter): Sec. 62. "The acceptor by accepting the instrument engages that he will pay it according to the tenor (of his acceptance) the instrument as drawn by the maker or drawer and admits:

(1) The existence of the drawer, the genuineness of his signature, and his capacity and authority to draw the instrument; and

(2) The existence of the payee named by the maker or drawer and his then capacity to indorse."

The practical reasons for suggesting this amendment are set forth in opinion 111a of Paton's Digest and it is suggested that this amendment be provided for in order that certifying banks be protected against being held liable upon altered or raised checks.

3. Payee as holder in due course: There is a conflict of authority in the decisions before and after the Negotiable Instruments Act as to whether or not a payee can be a holder in due course. It may be desirable to amend the Negotiable Instruments Act by a provision

to the effect that the payee coming within the qualifications which constitute a holder in due course cannot be deprived of that status by reason of the fact that he is payee. For discussion of this subject see opinions 2436 et seq. in Paton's Digest.

4. Extension of warranty by indorser by having it run not only to holders in due course but also to the drawee bank: It has been suggested that Sec. 66 of the N. I. Act be amended providing that the indorser's warranty run to the drawee, such warranty, however, not to include drawer's signature. See opinion 2674a of Paton's Digest. In the case where the drawee bank is allowed to recover from the indorser of money paid on a forged indorsement, the different courts adjudge recovery upon two grounds, (1) that the bank receiving payment warrants the genuineness of the prior indorsements, (2) that the bank receiving payment has received money under a mistake of fact without consideration which the law implies a contract to repay. An amendment extending the warranty to the drawee is suggested as the better rule of recovery. This subject is discussed in opinions 2676, 2191, 2741 of Paton's Digest. See also State v. Broadway National Bank, 282 S.W. (Tenn. 1926) 194.

5. Instrument payable at bank presented after maturity: Attention is called to the desirability of fixing a definite rule authorizing a bank to pay or refuse to pay an instrument payable at a bank when presented after maturity. The section in the N. I. Act referred to is Sec. 87. For discussion see opinion 215a, 218a and 3739 of Paton's Digest.

6. "Pay any bank or banker" as an unrestrictive indorsement, i. e. title-conveying: Is it desirable that the N. I. Act be amended making it clear that this form of indorsement in use by banks is title-conveying rather than agent creating? It is suggested for consideration that this indorsement be specifically designated as a nonrestrictive one unless coupled with words making it otherwise. There is a conflict of authority on this point. For discussion see 2771a and 2192a of Paton's Digest. See particularly Sands v. Parker et al., 284 S.W. (Tenn. 1926) 902. See also First Nat. Bank of Fort Smith v. Brunk, 280 S.W. (Ark. 1926) 372.

7. Stale checks: It might be well to consider the advisability of inserting a provision in the N. I. Act not only limiting the time of negotiation of checks but also the time after which a bank can safely refuse to pay same. See paton's Digest, opinion 1202 et seq., particularly 1204a.

8. Reasonable time limit for negotiation of instruments: The suggestion has been made that it might be advisable to fix or recommend a definite period of time as a reasonable time limit for negotiation of instruments in conformity with actual experience and practice, in line with legislation as passed in New Hampshire and South Dakota. For references on this subject see Sec. 53 N. I. Act on p. 805, Paton's Digest. See also Secs. 71 and 193 of the N.I. Act on pp. 808

and 823 respectively of Paton's Digest. See also opinion 2442a.

9. Protection of rights of holder in due course of negotiable instrument based on gambling and usurious consideration: This subject is discussed in 1161a of Paton,s Digest, a quotation from which reads as follows: "The needed protection would be afforded by a simple amendment of the Negotiable Instruments Act to the effect that where a negotiable instrument is declared void by any statute because based on a gaming or usurious consideration or otherwise in violation of statute, it shall nevertheless in the hands of a holder in due course be enforceable against all parties liable thereon. Or, as an alternative, the specific statutes of different states which avoid instruments for usury or gaming might be separately amended by the insertion of provisions excepting from their application, negotiable instruments in the hands of holders in due course."

10. Instruments payable in "current funds": Amend Sec. 2 of the N. I. Act by including as negotiable instruments those payable in "current funds." For discussion see opinions 428, 1048a and 1216 of Paton's Digest.

11. Exchange as medium of payment of negotiable instruments: The Negotiable Instruments Act requires as a condition of negotiability that instruments be payable in money. Certain states have passed acts giving the drawee bank the option under certain specified conditions of paying in money or in exchange. Map 26, and opinion 1285a of Paton's Digest. The instruments consequently are not technically payable in money since the drawee has the option to pay in something else. It is unlikely that the legislatures in passing such acts had any intention of rendering checks nonnegotiable. It might be well to clarify the situation so far as checks payable in these states are concerned by expressly providing that an instrument payable at the payor's option in cash or exchange shall be considered negotiable whether the option be given by statute or in the instrument itself.

12. Waiver of presentment, protest, and notice of dishonor: Attention is called to the ambiguity in the meaning of the word "waiver" in Sec. 110 of the N. I. Act. Should not this ambiguity be cleared up by proper amendment expressly stating that the waiver includes not only waiver of notice but also waiver of presentment and protest? It might also be amended by stating that if the waiver is on the face of the instrument it is binding on all parties but where it is written on the back above the signature of the indorser it binds such indorser only. It might also be well, if possible, to give a definite legal effect to a waiver on the back of an instrument inserted in a box. Suppose an indorsement written above the signature of the indorser by its terms expresses to bind all the indorsers. Should this situation be clarified?

13. Payment of check once dishonored upon second presentment: This subject is discussed in opinion 4082 et seq. of Paton's Digest, wherein it appears that it is the custom of banks to pay checks once dishonored upon second presentment. Apparently the point has never been decided by the courts. It is suggested that this matter be considered. Should the rule be definitely fixed by amendment to the Negotiable Instruments Law?

14. Post-dated checks: There is no provision in the Negotiable Instruments Act providing for the negotiability of post-dated checks before due date. It is suggested that Sec. 1 of subdiv. 3 of the N.I. Act be amended by including the case of a post-dated check which is neither payable on demand or at a fixed determinable future time. See Mullin, J., Kuflik v. Vaccaro, 170 N.Y. Suppl. 14; see also 21 A.L.R. p. 229, Wilson v. Midwest State Bank (bottom first column, p. 233, to the effect that a post-dated check is irregular and carries notice of the defect upon its face).

15. Interest on instrument falling due on Saturday, Sunday or holiday and not paid until next business day: The question has been raised as to whether an instrument draws interest for the two added days. An opinion has been rendered, 2913a of Paton's Digest, to the effect that the interest is collectible. This subject is mentioned here for discussion as to whether or not it is necessary to have the N.I. Act amended to make the point certain. See also opinions 2497 and 2498a of Paton's Digest.

16. Presentment and protest of lost note: The Negotiable Instruments Act, Sec. 160, under title II, covering bills of exchange makes provision for protest covering the situation where a bill is lost. There is no express provision covering the situation where a note is lost. Should an amendment be made providing for the presentment and protest upon copy of the lost note or the written particulars thereof? Questions of this nature have been submitted to the Office of the General Counsel. See opinion 4139 of Paton's Digest.

Unusual situations which have come up under the Negotiable Instruments Act.

The following cases are submitted for information as showing unusual decisions handed down by the courts which have a bearing upon the Negotiable Instruments Act. No state-wide recommendation has been suggested.

1. Interim receipts: In the case of Manhattan Company v. Morgan, 150 N.E. 594, the New York Court of Appeals pointed out that amendment of the Negotiable Instruments Act was the proper remedy to make interim certificates entitling the bearer to bonds of the Kingdom of Belgium negotiable. Following this decision the New York Legislature

passed a law known as the Hofstadter Securities Receipts Law providing for the negotiability not only of interim receipts but of a variety of other instruments such as equipment trust certificates and other forms which the banking world and investors have always treated as negotiable. Would it be desirable to amend the Negotiable Instruments Act to cover situations suggested by this New York statute. See Legal Service Bulletin, of the American Bankers Association, No. 2, p. 8.

2. Unauthorized certificate of deposit: The decision of the Supreme Court of west Virginia in Merchants Bank and Trust Company v. Peoples Bank of Keyser, 130 S.E. 142, would have a serious effect, if followed, upon the negotiability of certificates of deposit. Read the note to the digest of this case in 231la of Paton's Digest. As far as West Virginia is concerned it is questioned whether the N. I. Act, Sec. 23, needs an amendment on this point.

3. Trade Acceptance: Negotiability of a trade acceptance under the N.I. Act has been denied by the Supreme Court of Florida in Citizens' State Bank of Marianna v. Carmichael, 103 So. 111. This decision is criticised in opinion 168a of Paton's Digest. It is submitted that the N. I. Act needs no amendment on this point, it being clearly set forth. The problem is a serious one for Florida bankers and as stated in opinion 168a "the effect of such a decision is to give notice to the commercial world that so far as the state of Florida is concerned, the standard form of trade acceptance contained in this clause is not negotiable but is subject to defenses." A remedy for the situation is needed.

C O P Y

TREASURY DEPARTMENT

X-4750

WASHINGTON

December 9, 1926.

Federal Reserve Board,
Washington, D. C.

Gentlemen:

For the purpose of informing National Bank Examiners what are lawful investments for trust funds, under the State laws, to be used when they examine trust departments, and in order that we may intelligently take up violations with any national banks that may not be complying with the law in connection with Section 6 of the Regulations of the Federal Reserve Board, it is respectfully requested that we be furnished, through the Law Departments of the Federal Reserve Banks, a memorandum setting out the provisions of the laws of the various States sepcifying the kind of investments in which corporate fiduciaries may lawfully invest.

2nd. Section 11 (k) of the Federal Reserve Act provides in part:

"Whenever the laws of a State require corporations in a fiduciary capacity, to deposit securities with the State authorities for the protection of private or court trusts, national banks so acting shall be required to make similar deposits and securities so deposited shall be held for the protection of private or court trusts, as provided by State law."

In connection with the above, a similar statement setting forth the requirements of the various States for the deposit by national banks of securities with State authorities before they may exercise fiduciary powers, is desired.

Respectfully,

(Sgd.) E. W. STEARNS

Deputy Comptroller.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4751

December 15, 1926

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

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-4751-a and X-4751-b, covering in detail operations of the main line, Leased Wire System, during the month of November, 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.

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 NOVEMBER, 1926

From	Business reported by banks	Words sent by New York chargeable to other F.R. Banks (1)	Total	Treasury Department Business	War Finance Corporation Business	Net Federal Reserve Bank Business	Percent of total bank Business (*)
Boston	33,694	516	34,210	3,546	-	30,664	3.89
New York	132,104	-	132,104	4,377	-	127,727	16.19
Philadelphia	37,773	638	38,411	3,064	-	35,347	4.48
Cleveland	71,361	1,631	72,992	3,495	-	69,497	8.81
Richmond	42,581	3,042	45,623	2,777	-	42,846	5.43
Atlanta	54,672	3,355	58,027	3,417	-	54,610	6.92
Chicago	99,968	2,825	102,793	4,312	-	98,481	12.48
St. Louis	68,807	2,633	71,440	3,262	-	68,178	8.64
Minneapolis	36,876	2,354	39,230	1,558	-	37,672	4.77
Kansas City	70,720	2,404	73,124	2,979	-	70,145	8.89
Dallas	58,393	4,672	63,065	1,408	-	61,657	7.82
San Francisco	94,308	2,345	96,653	4,499	-	92,154	11.68
Total	801,257	26,415	827,672	38,694	-	788,978	100.00%
F. R. Board			276,088	25,895		250,193	
Total			1,103,760	64,589		1,039,171	
Percent of Total			100.00%	5.85%		94.15%	

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-4751-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, NOVEMBER, 1926.

X-4751-b

Name of Bank	Operators' Salaries	Operators' Overtime	Wire Rental	Total Expenses	Pro Rata Share of Total Expenses	Credits	Payable to Federal Reserve Board
Boston	$ 260.00	-	-	$ 260.00	$ 831.48	$ 260.00	$ 571.48
New York	944.16	$ 1.00	-	945.16	3,460.57	945.16	2,515.41
Philadelphia	216.66	-	-	216.66	957.59	216.66	740.93
Cleveland	284.50	-	-	284.50	1,883.12	284.50	1,598.62
Richmond	199.00	-	-	199.00	1,160.65	199.00	1,166.32 (&)
Atlanta	255.00	-	-	255.00	1,479.13	255.00	1,224.13
Chicago	3,923.62(#)	2.00	-	3,925.62	2,667.57	3,925.62	1,258.05(*)
St. Louis	200.00	-	-	200.00	1,846.78	200.00	1,646.78
Minneapolis	183.34	-	-	183.34	1,019.58	183.34	836.24
Kansas City	275.64	-	-	275.64	1,900.21	275,64	1,624.57
Dallas	251.00	-	-	251.00	1,671.50	251.00	1,420.50
San Francisco	370.00	-	-	370.00	2,496.57	370.00	2,126.57
Federal Reserve Board	-	-	$15,337.36	15,337.36	-	-	-
Total	$7,362.92	$ 3.00	$15,337.36	$22,703.28	$21,374.75	$7,365.92	$15,471.55
				1,328.53(a)			1,258.05(b)
				$21,374.75			$14,213.50

(&) Includes $204.67 for branch line business transmitted over main line circuit.
(#) Includes salaries of Washington operators.
(*) Credit.
(a) Received $1,328.53 from Treasury Department covering business for the month of November, 1926
(b) Amount reimbursable to Chicago

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4753

December 18, 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 1927. 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

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

December 21, 1926.

SUBJECT: Holidays during January, 1927.

Dear Sir:

On Saturday, January 1, 1927, New Year's Day, there will be no Gold Settlement Fund or Federal Reserve Note Clearing, and the offices of the Federal Reserve Board will be closed.

The Federal Reserve Banks and Branches indicated below will also be closed in observance of holidays during January.

Saturday, January 8,	New Orleans	)Anniversary of)Battle of New)Orleans.
Wednesday, January 19,	Richmond Atlanta Birmingham Nashville Jacksonville Memphis	)Anniversary of)birthday of)General Robert)E. Lee.))

Please include your credits of January 8th for New Orleans, and January 19th for Richmond, Atlanta and Memphis, in the Gold Fund Clearings of the following business days, and make no shipment of Richmond or Atlanta Federal Reserve notes, to Head Office or to Washington, on January 19th.

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-4755

December 23, 1926.

SUBJECT: ASSESSMENT FOR GENERAL EXPENSES OF THE FEDERAL RESERVE BOARD, JANUARY 1 TO JUNE 30, 1927.

Dear Sir:

Confirming telegraphic advice, there is enclosed herewith copy of a resolution adopted by the Federal Reserve Board levying an assessment upon the several Federal reserve banks of an amount equal to one hundred sixteen thousandths of one per cent (.00116) of the total paid in capital stock and surplus of such banks at close of business December 31, 1926, to defray the estimated general expenses of the Board from January 1 to June 30, 1927.

Kindly deposit one-half of the amount of your assessment in the General Account, Treasurer, U. S., on your books January 1, 1927, and one-half March 1, 1927, in each instance issuing a C/D for credit of "Salaries and Expenses, Federal Reserve Board, Special Fund", assessment for general expenses, and sending 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.

(Sent to Chairman of each Federal Reserve Bank)

X-4755-a

RESOLUTION LEVYING ASSESSMENT

Whereas, under Section 10 of the act approved December 23, 1913, and known as the Federal Reserve Act, the Federal Reserve Board is empowered to levy semi-annually upon the Federal reserve banks in proportion to their capital stock and surplus an assessment sufficient to pay its estimated expenses, including the salaries of its members, assistants, attorneys, experts and employees for the half-year succeeding the levying of such assessment, together with any deficit carried forward from the preceding half-year; and

Whereas, it appears from estimates submitted and considered that it is necessary that a fund equal to one hundred sixteen thousandths of one per cent of the total paid-in capital stock and surplus of the Federal reserve banks be created for the purpose hereinbefore described, exclusive of the cost of engraving and printing of Federal reserve notes; Now, therefore,

Be it resolved, That pursuant to the authority vested in it by law, the Federal Reserve Board hereby levies an assessment upon the several Federal reserve banks of an amount equal to one hundred sixteen thousandths of one per cent of the total paid-in capital and surplus of such banks as of December 31, 1926, and the Fiscal Agent of the Board is hereby authorized to collect from said banks such assessment and execute, in the name of the Board, receipts for payments made. Such assessments will be collected in two installments of one-half each; the first installment to be paid on January 1, 1927, and the second half on March 1, 1927.

* * *

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 December 23, 1926.

CONDITION OF ACCEPTANCE MARKET
November 17, 1926 to December 13, 1926.

Acceptances:

An increased volume of new bills appeared in the New York market during the last half of November and the first half of December, based chiefly on cotton exports and storage, sugar storage and coffee and silk imports. In the Boston market bills were less plentiful. The demand fell off in both markets during the first weeks of the period and dealers' portfolios reached large proportions. As a consequence, rates on 60 and 90 day bills were advanced about December 7 by 1/8 per cent to the quotations of the first of November. The change was reflected in a better demand for bills, but dealers' portfolios on December 15 were still larger than on any previous reporting date since last May. Sales to the reserve banks were unusually large in late November and early December. The following table shows the market rates which prevailed at the beginning and end of the reporting period.

Acceptance Rates in the New York Market.

Maturity	November 17, 1926		December 13, 1926	
	Bid	Offered	Bid	Offered
30 days	3-3/4	3-5/8	3-3/4	3-5/8
60 "	3-3/4	3-5/8	3-7/8	3-3/4
90 "	3-7/8	3-3/4	4	3-7/8
120 "	4	3-7/8	4	3-7/8
150 "	4-1/8	4	4-1/8	4
180 "	4-1/8	4	4-1/8	4

FEDERAL RESERVE BOARD

428

X-4758

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

December 23, 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 1927.

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.

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,
Monday, December 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 November and December, as contained in the forthcoming issue of the Federal Reserve Bulletin.

Activity in manufacturing industries decreased in November and December, while production of important minerals continued at a high level. Wholesale prices declined to the lowest level in more than two years. Firmer money conditions in December reflected the usual seasonal requirements in connection with holiday and end-of-year activity.

Production:

Factory employment and pay rolls declined in November, reflecting decreased activity in many important industries, but owing to the large output of minerals, the Federal Reserve Board's index of production in basic industries advanced somewhat during the month. Production of bituminous coal and petroleum in recent weeks has exceeded all previous records, and output of copper and zinc during the month of November was in unusually large volume. Pig iron production also increased slightly in November, but steel mill operations in that month and in December were considerably reduced. Automobile production, which is not included in the index of production in basic industries, declined sharply in November for the second consecutive month and was smaller than in any month since August, 1925. Textile-mill activity was maintained during November at approximately the same rate as in October. The value of building contracts awarded showed

less than the usual seasonal decline in November and was slightly larger than in November, 1925. Awards for the first half of December likewise exceeded those reported in the corresponding period of last year.

Agriculture:

The Department of Agriculture estimates the value of 55 principal crops raised in 1926, on the basis of December 1 farm prices, at $7,802,000,000, compared with $8,950,000,000 in 1925. Of the decrease in the value of crops the decline in the value of the cotton crop accounts for $580,000,000, and that of the corn crop for about $260,000,000, while the total value of the wheat crop increased by nearly $40,000,000.

Trade:

In November distribution of merchandise at wholesale and retail showed the usual decline from the activity earlier in the autumn. Compared with a year ago, however, wholesale trade was in about the same volume and retail trade larger. Sales of department stores were about 7 per cent larger than last year and those of leading mail order houses were 6 per cent larger. Stocks of merchandise carried by wholesale firms declined further in November and were smaller at the end of the month than a year ago. Inventories of department stores, however, increased slightly more than is usual in November. Freight car loadings declined considerably in November and December from the record high levels of October, although the movement of coal continued heavy.

Prices:

The general level of wholesale prices declined in November and prices of many important basic commodities decreased further in the first half of December. The Bureau of Labor Statistics index of wholesale commodity prices for November

was 148, the lowest level since July, 1924. Bituminous coal prices increased 431
sharply during October and the early part of November, but in recent weeks have declined by about two-thirds of the previous rise. Petroleum prices have been reduced since early in November, and there have also been declines in pig iron, copper, zinc, lead, and silver. The fall in prices of agricultural commodities, which has lasted with few interruptions for over a year, continued in November. Grains, however, have risen somewhat since the latter part of that month. The clothing-materials and house-furnishings groups have declined steadily in price during recent months to the lowest levels of the post-war period.

Bank credit:

Loans and investments of member banks in leading cities increased by over $100,000,000 during the four weeks ending December 15, reflecting in part the growth in the demand for credit and currency that usually occurs in December. The increase was in loans on securities, while commercial loans declined somewhat from their seasonal high point in November.

The volume of reserve bank credit showed the usual seasonal increase after the middle of November but was lower than in the corresponding period of 1925, partly because there was a smaller increase this year in the amount of money in circulation.

Money market conditions became slightly firmer in December than at the end of November. Commercial paper rates were unchanged but open-market rates on bankers' acceptances advanced by one-eighth of one per cent and call rates on security loans averaged higher for the month.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4760

December 28, 1926.

SUBJECT: Additional Holiday during January, 1927.

Dear Sir:

Referring to letter X-4754, December 20, 1926, subject "Holidays during January, 1927", the Board is now advised that the Louisville Branch of the Federal Reserve Bank of St. Louis will also be closed on Wednesday, January 19th, in observance of a holiday in the State of Kentucky.

Please include your credits of January 19th for Louisville Branch in your Gold Fund Clearing telegrams of January 20th.

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

July 12, 1926.
St.5018.

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 June 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 July 26, 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 EACH FEDERAL RESERVE AGENT*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

July 16, 1926
Ot. 5025.

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 June 30, 1926, or other recent date in case you did not issue a call for reports of condition as of June 30.

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

July 16, 1926
St. 5026.

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 abstrct of reports of condition of State banks and trust companies in your state on June 30, 1926, or other recent date in case you did not issue a call for reports of condition as of June 30.

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

July 24, 1926
St. 5032.

SUBJECT: Expenses of Federal Reserve Banks.

Dear Sir:

The Board believes that you and the directors and officers of your bank will be interested in the enclosed statement, prepared primarily for its information, which brings out the trend of expenses chargeable to functions essential to the operation of the System, as distinguished from expenses absorbed as a matter of policy or of operations carried on as a matter of policy. The statement, as you will note, is similar in form to that prepared in November 1923, a copy of which was enclosed with the Board's letter St. 4450 of March 11, 1925.

Very truly yours,

D. R. Crissinger,
Governor.

Enclosure.

LETTER TO CHAIRMEN OF ALL F. R. BANKS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

August 11, 1926
St. 5049

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 July, 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 August 26, 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*

August 24, 1926.
St. 5059

SUBJECT: Condition of Member Banks as of June 30, 1926.

Dear Sir:

For your information there is enclosed herewith a preliminary statement regarding the condition of all member banks combined as of June 30, 1926. The Board's abstract (No. 33) 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,

J. C. Noell,
Assistant Secretary.

Enclosure.

LETTER TO ALL FEDERAL RESERVE AGENTS*

CONDITION OF MEMBER BANKS AS OF JUNE 30, 1926 St. 5059a

Loans and investments of all member banks on June 30 aggregated $31,391,000,000, an increase of $321,000,000 since April 12, the preceding call date. Of this increase $253,000,000 was reported by the central reserve city banks in New York City and $59,000,000 by those of Chicago, while all other reserve city banks show a decline of about $15,000,000 and country banks an increase of $23,000,000. Loans and discounts, including overdrafts, aggregated $22,267,000,000, an increase of $261,000,000 since April 12 and of $1,453,000,000 since June 30, 1925. The principal changes in this item since April 12 were increases of $187,000,000 and $81,000,000 in the New York and Chicago districts, respectively, and a decrease of $53,000,000 in the Atlanta district, smaller decreases being shown by banks in the Richmond, St. Louis, Minneapolis and Dallas districts. Investments in United States securities were $86,000,000 less than on April 12. About $25,000,000 of this decrease was due to the setting up separately in the statement of securities borrowed by national banks which heretofore were reported among securities owned. Holdings of other securities were $146,000,000 greater than on April 12.

Total deposits aggregated $33,724,000,000, an increase of $854,000,000, since April 12 and of $1,304,000,000 since June 30, 1925. Demand deposits increased $568,000,000 during the year and time deposits $792,000,000, increases being reported by all districts except Minneapolis for demand deposits and Dallas for time deposits. Amounts due to banks and bankers were $37,000,000 less than on June 30, 1925. Of the increase of $1,304,000,000 in total deposits during the year, $139,000,000 was reported by central reserve city banks in New York and Chicago, $597,000,000 by other reserve city banks, and $567,000,000 by country banks. The increase of $854,000,000 in total deposits since April 12, of which $659,000,000 was reported by central reserve city banks in New York and $79,000,000 by those in Chicago, is attributable largely to an increase in the amount of float carried by the member banks, uncollected items having increased $322,000,000, of which $312,000,000 was 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 April 12, 1926, and June 30, 1925, were as follows:

	Increase (+) or decrease (-) since	
	April 12, 1926	June 30, 1925
Loans and discounts (including overdrafts)	+$261,000,000	+ $1,453,000,000
United States securities	- 86,000,000	- 57,000,000
Other bonds, stocks and securities	+ 146,000,000	+ 293,000,000
Total loans and investments	+ 321,000,000	+ 1,689,000,000
Demand deposits	+*557,000,000	+ 568,000,000
Time deposits	+ 218,000,000	+ 792,000,000
Government deposits	- 152,000,000	+ 51,000,000
Due to banks and bankers	+ 131,000,000	- 37,000,000
Certified and cashiers' checks	+ 99,000,000	- 70,000,000
Acceptances outstanding	- 57,000,000	+ 60,000,000
Bills payable and rediscounts	- 22,000,000	+ 101,000,000

*Demand deposits plus certified and cashiers' checks outstanding and less exchanges and other uncollected items increased $334,000,000.

RESOURCES AND LIABILITIES OF MEMBER BANKS ON JUNE 30, 1926 AND APRIL 12, 1926 St. 5059b

	State Bank & Trust Company members		National Banks	
	June 30, 1926	April 12, 1926	June 30, 1926	April 12, 1926
Loans and discounts (including overdrafts)	$8,844,923,000	$8,698,506,000	$13,422,556,000	$13,307,802,000
U. S. securities	1,278,632,000	1,293,409,000	2,466,297,000	2,537,669,000
Other bonds, stocks and securities	2,007,616,000	1,965,470,000	3,370,863,000	3,267,147,000
Total loans and investments	12,131,171,000	11,957,385,000	19,259,716,000	19,112,618,000
Cash in vault	175,183,000	173,546,000	358,937,000	366,715,000
Reserve with F. R. Banks	855,001,000	847,284,000	1,381,171,000	1,288,664,000
Items with Federal Reserve Banks in process of collection	230,752,000	234,710,000	501,409,000	487,345,000
Due from banks and bankers	499,778,000	484,223,000	1,480,273,000	1,449,278,000
Exchanges for clearing house, and checks on other banks in same place	765,846,000	592,441,000	996,890,000	858,016,000
All other resources	884,850,000	905,737,000	1,324,212,000	1,317,478,000
Total resources	15,542,581,000	15,195,326,000	25,302,608,000	24,880,114,000
Demand deposits	6,607,373,000	6,371,736,000	10,772,668,000	10,451,412,000
Time deposits	4,860,690,000	4,756,886,000	6,312,173,000	6,197,861,000
U. S. deposits	84,918,000	147,587,000	142,729,000	231,863,000
Certified and casniers' checks	457,140,000	381,650,000	505,554,000	481,816,000
Due to banks and bankers	1,082,015,000	1,047,836,000	2,898,312,000	2,801,570,000
Total deposits	13,092,136,000	12,705,695,000	20,631,436,000	20,164,522,000
Bills payable and rediscounts	296,303,000	316,555,000	522,608,000	524,303,000
Acceptances outstanding	216,873,000	239,602,000	250,932,000	285,692,000
Capital stock paid in	757,412,000	752,800,000	1,412,072,000	1,409,634,000
Surplus fund	701,504,000	692,652,000	1,198,061,000	1,187,968,000
All other liabilities	478,353,000	488,022,000	1,287,499,000	1,307,995,000

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

August 21, 1926.
St. 5061.

SUBJECT: Functional Expenses,
First Half, 1926.

Dear Sir:

There is enclosed herewith one copy of the consolidated Functional Expense exhibit for the half year ending June 30, 1926.

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, Chief,
Division of Bank Operations.

Enclosure.

LETTER TO CHAIRMAN OF EACH FEDERAL RESERVE BANK*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

August 24, 1926.
St. 5063.

Dear Sir:

The head offices of all the Federal reserve banks having now been in their own buildings for a year or more, the Board's Committee on Salaries and Expenditures has had a table prepared showing the cost of maintaining the Provision of Space function at the head office of each Federal reserve bank for the year ending June 30, 1926. This statement has been prepared in more detail than is shown in the semi-annual functional expense exhibit in order that the Board could have a better comparison between the Federal reserve banks of the cost of maintaining the function.

As it occurs to us that you and the officers and directors of your bank might be interested in comparing the detailed costs shown for your bank with those shown for other Federal reserve banks, we are enclosing herewith three copies of the statement. It should be understood, of course, that this statement does not include such expenses as depreciation or interest on money invested in land and buildings.

Very truly yours,

Geo. R. James, Chairman,
Committee on Salaries
and Expenditures.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

August 24, 1926.
St. 5064.

SUBJECT: Debits to Individual Accounts.

Dear Sir:

The Board's weekly statement of debits to individual accounts by banks in selected cities is now extensively used as a measurement of the volume of business transacted currently in each reporting center and in all reporting centers, and as an index of the volume of these transactions over an extended period. It is therefore desirable to make the published figures as representative as possible and to be extremely careful to see that they are kept on a comparable basis.

Under the present system of reporting it is difficult to maintain the representative character and comparability of figures over a considerable period of time because of the changes that frequently occur in the relative volume of deposit liabilities of reporting and of non-reporting banks. At present the reports for many of the cities represent debits of only those banks which are members of the local clearing house association or which clear through members of the association, and changes in such membership necessarily affect the number of reporting banks and consequently the comparability of the figures. Requests have also been received from time to time for permission to include figures for additional banks both for cities in which clearing house associations exist and cities where debit figures are compiled by other agencies. The Board feels that the statement would be much improved if all banks in each reporting center that receive checking deposits could be induced to furnish debit figures regularly each week, and it would like to have an expression of your views as to the practicability of obtaining regular reports from all banks in each of the reporting cities in your district. To accomplish this it might be necessary to get reports direct from some of the banks not now reporting, but arrangements could perhaps be made in most cases for these banks to report through the existing reporting agencies.

With the view of determining how seriously the figures are affected by the fact that reports cover only a portion of the banks in some centers, it will be appreciated if you will kindly prepare and send to the Board a statement showing for each reporting center: (a) the names of clearing house banks; (b) the names of all so-called clearing nonmember banks, the name of each clearing nonmember bank to follow, slightly indented, the name of the clearing-house bank through which its checks are handled; and (c) the names of all

other banks which carry deposits subject to check. The words "no report" should be shown after the name of each bank for which no reports are now received. The list of banks should be accompanied with a table showing separately for each reporting center the total demand deposits of reporting banks and of non-reporting banks.

The present inquiry is intended to furnish the Board with information regarding the completeness of the debit figures for the various centers and to obtain the views of the Federal reserve agents with respect to the suggested changes in the statement and it is requested that for the present no arrangements, even in a tentative way, be entered into for obtaining figures from banks not now reporting.

Very truly yours,

D. R. Crissinger,
Governor.

LETTER TO ALL FEDERAL RESERVE AGENTS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

September 9, 1926
St. 5083

SUBJECT: Abstract of Condition Reports of State Bank and Trust Company members and of all Member banks as of June 30, 1926.

Dear Sir:

We are forwarding to you under separate cover copies of the Board's Abstract No. 33 showing the condition of State Bank and Trust Company members and of all member banks as at close of business on June 30, 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,

J. C. Noell,
Assistant Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

September 14, 1926
St. 5090.

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 August, 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 September 25, 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

October 13, 1926.
St. 5119.

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 September, 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 October 25, 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

448

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

October 14, 1926.
St. 5120.

SUBJECT: Branches of Member and Nonmember banks.

Dear Sir:

There are enclosed herewith two copies of lists of banks operating branches, as follows:

1. National banks in your district operating branches as of June 30, 1926, based on reports submitted by you as of June 1924, supplemented by information received from the Comptroller of the Currency or obtained from the Bankers Directory.

2. State member banks in your district operating branches as of June 30, 1926, based on reports submitted by you as of June 1924, supplemented by data shown on the June 30, 1926, condition reports, form 105, or obtained from the Bankers Directory.

3. All nonmember banks operating branches as of December 31, 1925, in the following states whose capitals lie within your district, except banks which became members during the first six months of this year, based on reports submitted by you as of June 1924 and December 1925, supplemented by data obtained from the Bankers Directory:

It will be noted that the lists show or call for the location and name of the parent bank; the location, name or street address, type, and date and method of establishment of each branch; and whether the nonmember banks are stock, mutual savings, or private banks. Much of the data called for is not shown, not being available at the Board's offices. It will be appreciated if you will kindly have all of the data verified or corrected and brought up to date as of June 30, 1926, supplying such information regarding each branch as is called for but not shown, and inserting any banks which operate branches but which are not listed. When completed the statement should, so far as data are available, conform to the style of the enclosed sample sheet. The original copy of the statement with all corrections and additions noted thereon should be returned to the Board.

The notes at the bottom of the form indicate how the information called for in column 2 is to be reported. In the third column are to be shown the year in which the branch was opened for business, together with the month and date where readily available, also the manner in which the branch was established - whether "de novo" (by the present operating bank) or otherwise. If not established "de novo" by the present bank, the date should represent that on which it became a branch of such bank, and the name, capital and deposits of the bank which was converted into a branch should be given, or so much of the data as is readily available. If the branch was formerly operated by another bank, this fact should be shown in the manner indicated on the sample sheet, and it should also be stated whether the branch was originally established "de novo" (as a branch), or whether it was originally an independent bank. In case a bank or branch is located in an outlying section of a city, care should be taken to see that the name of the city or town is given as the location, followed by the name of the subdivision in parenthesis if practicable, as, for example, Los Angeles (Hollywood) or New York (Brooklyn).

In order to enable the Board to maintain a complete up-to-date record of branch banks in operation in the United States, it will be appreciated if you will kindly furnish us, as soon as practicable after June 30 and December 31 of each year, with a report, in accordance with the enclosed sample form, covering all branches established during the six-month period (including branches taken over by one bank from another) by national and state member banks in your district, and by all nonmember banks in the above-mentioned states; a list of branches discontinued, showing the date and method of discontinuance in each case; and a list of full-fledged branches changed to teller's windows, and vice versa.

The Board also wishes to bring up to date the information regarding chain banking received in 1922 in response to its letter X-3549 of October 31, 1922. It will accordingly be appreciated if you will accompany your report on branch banks with as complete a statement as practicable on chain banking in your district, giving the name by which each chain is generally known, by whom the controlling interest is held, the character and degree of control exercised, the name and location of each bank belonging to the chain, and such other information regarding the functions of the chain groups as you now have available or may be able to obtain readily.

Very truly yours,

Walter L. Eddy,
Secretary.

Enclosure.

LETTER TO ALL FEDERAL RESERVE AGENTS EXCEPT SAN FRANCISCO*

(sample sheet) 450

NONMEMBER BANKS* WITH BRANCHES OR ADDITIONAL OFFICES, DEC. 31, 1925.

(To be brought up to date as of June 30, 1926) St.5120a

Location and name of parent bank	Location, name or street address, and type of branch**		Date and method of establishment of branch***
(state)			
Oakville First State Bank	Oakville Uptown office	A	Dec. 1, 1920, de novo
ditto	Centerville Centerville Branch	C B	1908. Formerly Second State Bank, capital $50,000 deposits $500,000.
Yale Empire Trust Co.	York 158 Front St.	NC A	Feb. 1912. Formerly branch of Third State Bank. Originally de novo branch.
Jonesville Citizens State Bank	Jonesville 95 Market St.	B	March 1923. Formerly branch of First National Bank. Originally independent bank.

*All banks are stock savings or commercial banks or trust companies, except those marked "Mutual savings" or "private bank."

**If the branch or office is located in territory contiguous at some point to the corporate limits of the home city, indicate this fact by "C" after the name of the town; if located in non-contiguous territory, indicate by "NC". Also designate an additional office or teller's window, i.e., an office not authorized to make loans, by "A", and a full-fledged branch by "B".

***See accompanying letter of instructions.

FEDERAL RESERVE BOARD

October 26, 1926.

WASHINGTON St.5137.

ADDRESS OFFICIAL CORRESPONDENCE TO THE FEDERAL RESERVE BOARD

SUBJECT: Forms for use during 1927.

Dear Sir:

It will be appreciated if you will kindly advise the Board at your early convenience the number of copies of the forms listed below that will be required by your bank (including branches, if any) during the calendar year 1927.

Form Number	Title
34	Daily balance sheet. Please state the number required for the head office and each branch separately and also give any special punching that may be desired.
F. R. A. - 5	Daily statement of Federal reserve agent.
E	Semi-annual functional expense report.
38	Classification of discounted and purchased bills held at the end of the month.
95	Monthly report of earnings.
96	Monthly report of current expenses.
97	Monthly report of income and expense - Other real estate.
171	Monthly report of average daily holdings of bills and securities, earnings thereon, and annual rates of earnings.

Please show separately the number of copies of each form required if it is revised and the number if not revised.

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

October 30, 1926
St.5142.

SUBJECT: 1927 Edition of Federal Reserve Bank Balance Sheet, Form 34.

Dear Sir:

There is enclosed herewith a copy of the present Federal reserve bank balance sheet, form 34, on which are shown changes which are being made in the 1927 edition, all of which it is believed are self-explanatory.

The year's supply of the form will be mailed as soon as received from the printer, which should be about the middle of December.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Enclosure.

LETTER TO GOVERNORS* OF ALL FEDERAL RESERVE BANKS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

November 15, 1926,
St. 5158.

SUBJECT: Bank Suspensions.

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 October, and of banks previously suspended 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 November 25, 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.

COPY TO EACH FEDERAL RESERVE AGENT*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

November 19, 1926
St. 5163.

SUBJECT: Earnings, Expenses, and Dividends Reports of State Bank and Trust Company Members.

Dear Sir:

There are being forwarded to you today under separate cover copies of form 107, revised in October 1926, for the use of state bank and trust company members in submitting their reports of earnings, expenses, and dividends for the six months ending December 31, 1926.

The revised form calls for more detailed information regarding earnings and expenses, which will, it is believed, be of material help to the banks themselves in analyzing their own income and expense accounts and in comparing their financial results of operations with those of other banks as shown in published reports. The principal change, as you will note, is the division of the interest items so that separate figures will be reported of interest paid on demand, time, and bank deposits, and of interest received on loans and discounts, investments, and balances with other banks. The item "Profits on securities sold" has also been added in the earnings group, in order to insure all banks reporting such income uniformly. Section 2 calls for separate figures of depreciation on banking house, furniture and fixtures, in order that there may be no doubt as to where such amounts are charged and that all reports may be on a comparable basis.

A new section has been added to show total credits to profit account since organization and disposition of profits, primarily to provide a check on the three preceding sections. While it is realized that some banks may have difficulty in filling out section 4 the first time, it is thought that this may be largely overcome if the significance of the section is fully appreciated. The data required in this section may be explained as follows:

Item 19, "Total surplus fund at date of this report," item 21, "Net amount reserved for _____," and item 22, "Amount of net profits or loss." The amounts reported against each of these items should correspond with the amounts shown by the books of the bank on December 31, 1926, that is, item 19 should agree with the "Surplus fund at date of this report" as shown at the top of the form; item 22 should agree with item 15, "Amount of net profits undivided or loss to be carried forward to item 7 of next report;" while item 21 should represent the amounts set aside as a reserve and not actually paid out or charged off, as shown by the books of the bank after close of business on December 31, 1926.

Item 20, "Total dividends since organization." Some of the banks may have difficulty in determining this amount, but it is assumed that in most cases it can be obtained from their records. If the exact amount is not known it is suggested that the banks furnish an estimate of the amount of dividends paid, based on the best sources of information available.

Item 17, "Profits and surplus of old organization at date of conversion retained by present organization." This item, of course, will apply to only such banks as have been reorganized, or converted from a private, national or other class of bank, and have retained profits of the old organization.

Item 18, "Total obtained by reduction of capital not repaid to shareholders, by assessment on shareholders and by voluntary contributions since organization." This item also probably will be used by relatively few banks, ordinarily only where a bank has sustained losses in such amount as to impair its capital account.

Item 16, "Total net profits since organization," will represent the difference between the total of items 19, 20, 21, and 22 and the total of items 17 and 18.

In sending out these forms to the banks for use at the end of this year, it is suggested that you enclose a statement embodying substantially the above information, in order to make it as clear as possible to the banks just how the reports should be prepared.

Very truly yours,

Walter L. Eddy,
Secretary.

TO ALL FEDERAL RESERVE AGENTS

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

November 20, 1926
St.5164.

SUBJECT: Closing of Books on December 31, 1926.

Dear Sir:

In accordance with the usual custom, it will be appreciated if the resolution of your board of directors for the payment of the semi-annual dividend, and requests for authority to charge earnings with depreciation allowances, reserves for probable losses, etc., are received at the Board's offices not later than December 10, 1926, and are accompanied with the following information: (1) estimated gross earnings, current expenses, proposed additions to and deductions from current net earnings, and net earnings available for surplus and franchise tax for the calendar year 1926, (2) unpaid indebtedness of failed banks to Federal reserve bank, giving the names of the banks, indebtedness of each on November 30, character of security, if any, and the probable loss in the case of each bank, and (3) indebtedness to Federal reserve bank of member banks considered to be in an unsafe condition, giving the names of the banks, indebtedness of each on November 30, character of security, if any, and estimated loss in the case of each bank.

The procedure laid down in the Board's letter St. 4333 of November 26, 1924, subject "Closing of Books on December 31, 1924," relating to charge-offs and depreciation reserves on bank premises, furniture and equipment, depreciation on United States securities, and surplus and franchise tax, is still in effect and should be followed in submitting your requests at the end of the year, except that it will be unnecessary to furnish an itemized list of furniture and equipment carried on the books at the date of your request and which it is proposed to purchase during the remainder of the year.

With regard to depreciation reserves and charge-offs on bank premises, the 1927 edition of daily balance sheet, form 34, will show the book value of Bank Premises divided into (a) Land, (b) Buildings, including vaults, (c) Fixed machinery and equipment, and (d) Other real estate and New building account, instead of Banking houses (including land), New building account, and Other real estate, as at present. By reference to paragraphs (b) and (c) under Bank Premises on page 2 of the Board's letter St. 4333 of November 16, 1924, you will note that it has been the purpose of the Board to authorize the banks to charge off a sufficient amount of the cost of each bank building to reduce the book value thereof to estimated replacement cost, and thereafter to

authorize the setting up of a depreciation reserve of not to exceed 2 per cent per annum of the replacement cost, also to authorize a reserve to be set aside each year to cover depreciation on fixed machinery and equipment, the annual addition to such reserve not to exceed 10 per cent of cost. In accordance with the principles laid down in that letter, the Board would prefer that beginning with January 1, 1927, all Federal reserve banks carry their bank premises accounts on form 34 as follows: (a) Land on which a banking house is located - at book value, i.e., actual cost less amounts charged off; (b) Completed buildings - at replacement cost, i.e., actual cost less amounts charged off to reduce book value to estimated replacement cost, determined in accordance with the formula laid down in paragraph (d) of the Board's letter St. 4333; (c) Fixed machinery and equipment in completed buildings - at actual cost; and (d) Other real estate and new building account (unfinished buildings) at book value, i.e., actual cost less amounts charged off. If this is done, the depreciation reserves to be set aside at the end of each year will be based on the replacement cost of the buildings and the actual cost of fixed machinery and equipment, as shown on form 34. The total of such reserves which is to be deducted from the book value of bank premises will then represent only the annual depreciation charges on buildings and fixed machinery and equipment, i.e., they will not include charges to earnings made for the purpose of bringing the book value of buildings down to replacement cost nor any amounts charged off on land.

In order that the bank premises records of the Board may be checked against those of the banks and any differences reconciled before the new accounts are set up on form 34 beginning with 1927, we are enclosing herewith a statement covering each separate building owned by your bank, showing on the face side of the form the cost of the building in detail, and on the reverse side the amounts charged off and the depreciation reserves set aside to the end of 1925. The reserves as shown on these statements may not agree with depreciation reserves now shown on form 34, as we have endeavored in all cases to follow the plan outlined above in determining whether each amount should be treated as a charge-off or as a depreciation reserve. It will be appreciated if you will have these statements checked and returned, if practicable, with your bank's request for authority to close your books, pay the semi-annual dividend, etc., at the end of 1926.

Very truly yours,

Walter L. Eddy,
Secretary.

Enclosure.

TO CHAIRMEN OF ALL FEDERAL RESERVE BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

December 17, 1926,
St. 5193.

SUBJECT: Bank Suspensions.

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 November, and of banks previously suspended 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 December 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.

COPY TO EACH FEDERAL RESERVE AGENT*

FEDERAL RESERVE BOARD

WASHINGTON

459

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

December 18, 1926.
St. 5195.

SUBJECT: Reports of Earnings, Expenses, Dividends, and Franchise Tax payments for 1926.

Dear Sir:

In order that the Board may have information regarding the financial results of operations of Federal reserve banks during the present calendar year as soon as practicable after January 1, it is requested that a statement be telegraphed or mailed in time to reach the Board's offices on Monday morning, January 3, 1927, showing the following information:

(Code)

EACH - Gross earnings .....$_____
EADS - Current expenses ..... _____
EARN - Current net earnings .....$_____
ELBA - Additions to Current net earnings_____
ENID - Deductions from Current Net earnings_____
Net additions to or deductions from current net earnings ..... _____

EAST - Net earnings available for dividends, franchise tax, and surplus ..... _____

EYRE - Dividends paid ..... _____
EMET - Paid to Government as franchise tax ..... _____
EVEN - Transferred to surplus account ..... _____

Total (to agree with item EAST) ..... _____

CAPP - Subscribed capital January 1, 1927 ..... _____
CEDE - Surplus January 1, 1927 ..... _____

It is also requested that the regular monthly reports of earnings and expenses on forms 95, 96 and 97 be accompanied with an itemized statement showing in detail all additions to and deductions from current net earnings (Profit and Loss account) during the year, and that in addition to the regular balance sheet form 34 for the last day of the year representing the condition of the bank after final closing of the books, a form 34 be submitted showing the condition of the bank at close of business but prior to the making of any adjusting or closing entries.

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

December 22, 1926.
St. 5197.

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 August 23, 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

December 24, 1926.
St. 5201.

SUBJECT: Form F.R.A.-5, Daily Statement of Federal Reserve Agent.

Dear Sir:

There is enclosed herewith a copy of the 1927 edition of form F.R.A.-5, Daily Statement of Federal Reserve Agent, a supply of which is being sent to you today under separate cover by registered mail.

It will be noted that the item "Gold and Gold Certificates on hand" in the present edition of the form has been divided into "Gold certificates" and "Gold bullion and coin"; also that the captions of the second and third columns have been changed to "Additions" and "Deductions" in order to insure uniformity in preparation of the reports by all Federal reserve agents.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Enclosure.

TO ALL FEDERAL RESERVE AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

December 30, 1926
St. 5207

SUBJECT: Certification of Franchise Taxes paid on December 31, 1926.

Dear Sir:

Following the usual practice, the Board requests that you have the Auditor of your bank prepare and forward to the Under-Secretary of the Treasury, Washington, D. C., certified statements reflecting the financial results of operation of your bank during the calendar year 1926, similar in form to the statements outlined in the Board's letter St. 4388 of January 5, 1925.

Kindly furnish the Board with a duplicate copy of the certified statements forwarded to the Treasury Department.

Very truly yours,

Walter L. Eddy,
Secretary.

TO CHAIRMEN OF ALL FEDERAL RESERVE BANKS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

December 30, 1926.
St. 5208

SUBJECT: Data for 1926 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, 1926, 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 1926.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS*