FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JANUARY 7, 1927.

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership:

Dist. No.		Capital	Surplus	Total resources	Date
2	The Standard Bank, New York, N. Y.	$250,000	$250,000	$8,308,085	1- 3-27
3	Lycoming Trust Co., Williamsport, Pa.	2,000,000	500,000	18,000,000	1- 3-27

Absorption of Nonmember:

2	The First Trust Company of Albany, N. Y., a member, has absorbed the Albany Trust Company, a nonmember.	12-31-26

Closed:

4	Peoples Bank Company, Frazeysburg, Ohio	1- 3-27
12	Peoples Bank, Cambridge, Idaho	1- 6-27

Succeeded by a State Member:

3	The Northern Central Trust Co., Williamsport, Pa., a member, has been succeeded by the Lycoming Trust Co., a member.	1- 3-27

Absorbed by a National Bank:

12	Hillsboro Commercial Bank, Hillsboro, Oregon	1- 3-27

Voluntary Withdrawal:

9	Citizens State Bank, New Ulm, Minn.	1- 3-27

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

2	Bergenfield National Bank, Bergenfield, N. J.	1- 7-27
2	Rutherford National Bank, Rutherford, N. J.(Sup.)	1- 7-27
2	First National Bank, Manhasset, N. Y.	1- 7-27
3	Farmers & Merchants National Bank, Bridgeton, N. J.	1- 7-27
4	City-National Bank of Commerce, Columbus, Ohio	1- 4-27
6	First National Bank, McComb City, Miss.	1- 4-27
10	Casper National Bank, Casper, Wyo. (Supplemental)	1- 4-27

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JANUARY 14, 1927.

CHANGES IN STATE BANK MEMBERSHIP:

District No.			Effective Date
	Admitted to Membership:		
	None.		
	Closed:		
7	State Bank of Early,	Early, Iowa	1- 8-27
12	Farmers State Bank,	New Plymouth, Idaho	1- 6-27
12	Delta State Bank,	Delta, Utah	1-10-27
	Succeeded by a Nonmember.		
8	The Arkansas Bank & Trust Co., Newport, Ark., a member, has been succeeded by the Arkansas Trust Co., Newport, Ark., a nonmember.		1-10-27
	Absorbed by a National Bank:		
11	The Texas State Bank, Canton, Texas, has been absorbed by the First National Bank of Canton, Texas.		1-10-27
	Merger of State Member Banks:		
12	The American Bank of San Francisco, Calif., has consolidated with and under the charter of the Mercantile Trust Company of California, San Francisco, Calif., and under the title, American Trust Company.		1-12-27

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

2	Bowery & East River National Bank, New York, N. Y.	1- 8-27

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

8	Mercer National Bank, Harrodsburg, Ky.	1-13-27
11	First National Bank in Brownsville, Texas	1-13-27

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JANUARY 21, 1927.

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Effective Date
	Admitted to Membership:	
	None.	
	Closed:	
5	Bank of Georgetown, Georgetown, S. C.	1-21-27
7	North Liberty State Bank, North Liberty, Ind.	1-17-27
	Absorbed by National Bank:	
11	Farmers State Bank, Grand Prairie, Texas, has been absorbed by the City National Bank of Grand Prairie.	1-17-27

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

7	First National Bank, Ottawa, Ill.	1-19-27
9	First National Bank, Fairmont, Minn.	1-19-27

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JANUARY 28, 1927.

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Date
	Admitted to Membership:	
	None.	
	Absorption of National Bank:	
5	The First National Bank, Hartsville, S. C., has been absorbed by the Bank of Hartsville, Hartsville, S. C., a member.	1-18-27
	Voluntary Withdrawal:	
7	Saline Savings Bank, Saline, Mich.	1-27-27
	Closed:	
11	American Trust & Savings Bank, El Paso, Texas.	1-27-27

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

1	Pittsfield National Bank, Pittsfield, Maine.	1-25-27
11	Merchants National Bank, Port Arthur, Texas.	1-25-27
12	First National Bank, Portland, Oreg. (Supplemental)	1-27-27

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED FEBRUARY 4, 1927.

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Capital	Surplus	Total resources	Date
	Admitted to Membership:				
2	United States Trust Co., Newark, N. J.	$1,200,000	$400,000	$1,800,000	2- 1-27
3	Paoli Bank & Trust Co., Paoli, Penna.	125,000	75,000	607,439	2- 3-27
	Change of Title:				
3	The Security Trust & Safe Deposit Co., Wilmington, Del., has changed its title to Security Trust Co.				1-18-27
	Absorption of National Bank:				
4	The Fourth & Central Trust Co., Cincinnati, Ohio, a member, has absorbed the Citizens National Bank & Trust Co., Cincinnati, Ohio.				1-31-27
	Voluntary Withdrawals:				
4	Marshall County Bank, Moundsville, W. Va. (not previously reported)				7-12-26
10	Chappell State Bank, Chappell, Nebr.				1-31-27
	Closed:				
5	Citizens Bank & Trust Co., Rock Hill, S. C.				1-29-27
7	Farmers State Savings Bank, Bay City, Mich.				2- 1-27
	Voluntary Liquidation:				
9	Deposit Bank and Trust Co., Winona, Minn.				1-22-27

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

3	Fruit Growers National Bank and Trust Co., Smyrna, Del. (Supplemental)	2- 1-27
3	National Bank of Jersey Shore, Jersey Shore, Penna.	2- 2-27
3	First National Bank & Trust Company in Waynesboro, Waynesboro, Penna.	2- 1-27
4	Marine National Bank, Pittsburgh, Penna.	1-28-27
5	First National Bank, Narrows, Va.	2- 1-27

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED FEBRUARY 11, 1927.

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Date
	Admitted to Membership:	
	None.	
	Voluntary Withdrawals:	
7	Green Lake State Bank, Green Lake, Wis.	2- 7-27
9	Bank of Ellsworth, Ellsworth, Wis.	2- 9-27
	Succeeded by Nonmember:	
8	Chicot Bank & Trust Co., Lake Village, Ark.	2- 9-27
	Change of Title:	
4	The Fourth and Central Trust Co., Cincinnati, O., has changed its title to Central Trust Co.	1-31-27

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

2	Broadway National Bank, Paterson, N. J.	2- 9-27
6	Citizens National Bank, Meridian, Miss.	2- 9-27
6	First National Bank, Morristown, Tenn.	2- 9-27
7	Peru National Bank, Peru, Ill.	2- 9-27
10	First National Bank in Ardmore, Ardmore, Okla.	2- 9-27
10	Citizens National Bank, Okmulgee, Okla.	2- 9-27

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED FEBRUARY 18, 1927.

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Date
	Admitted to Membership:	
	None.	
	Closed:	
5	Peoples Bank, Sumter, S. C.	2-15-27
	Absorbed by Nonmember Bank:	
5	The Home Bank, St. Matthews, S. C., has been absorbed by the South Carolina Savings Bank of St. Matthews, S. C., a nonmember.	2-12-27
	Change of Title:	
5	The Petersburg Savings & Trust Co., Petersburg, Va., has absorbed the American Bank & Trust Co., Petersburg, Va., and changed its title to Petersburg Savings and American Trust Co.	2-14-27
	Absorbed by National Bank:	
6	The Dacula Banking Co., Dacula, Ga., has been absorbed by the First National Bank, Lawrenceville, Ga.	

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

4	Coshocton National Bank, Coshocton, Ohio	2-14-27
4	Merchants & Farmers National Bank, Greensburg, Pa.	2-14-27
6	City National Bank, Knoxville, Tenn. (Sup.)	2-14-27
8	Farmers National Bank, Madisonville, Ky.	2-17-27

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED FEBRUARY 25, 1927.

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Date
	Admitted to Membership:	
	None.	
	Voluntary Withdrawal:	
9	Farmers & Miners State Bank, Belt, Mont.	2-16-27
	Absorption of Nonmember:	
12	The James M. Peterson Bank, Richfield, Utah, a member, has absorbed the State Bank of Escalante, Escalante, Utah, a nonmember.	2- 7-27
	AUTHORIZED TO ACCEPT DRAFTS AND BILLS OF EXCHANGE UP TO 100 PER CENT OF CAPITAL AND SURPLUS:	
3	Franklin-Fourth Street National Bank, Philadelphia, Pa.	2-23-27
	PERMISSION GRANTED TO EXERCISE TRUST POWERS:	
1	City National Bank, New Britain, Conn.	2-23-27
1	Third National Bank & Trust Co., Springfield, Mass.	2-23-27
3	Central National Bank, Philadelphia, Pa.(Supplemental)	2-23-27
5	Denton National Bank, Denton, Md.	2-23-27
5	Commercial National Bank, High Point, N. C. (Supplemental)	2-23-27
5	Norfolk National Bank of Commerce and Trusts, Norfolk, Va. (Supplemental)	2-23-27
7	First National Bank, Huntington, Ind.	2-23-27
10	Commercial National Bank in Muskogee, Muskogee, Okla.	2-23-27

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED MARCH 4, 1927.

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Date
	Admitted to Membership:	
	None.	
	Change of Title:	
2	The Mount Pleasant Bank, Pleasantville, N. Y., has changed its title to Mount Pleasant Bank & Trust Co.	1-21-27
6	The Brotherhood of Locomotive Engineers Bank & Trust Co., Birmingham, Ala., has changed its title to Engineers Bank & Trust Company.	2-19-27
	Absorption of National Bank:	
4	The Union Trust Co., Cincinnati, Ohio, has absorbed the Fifth-Third National Bank, Cincinnati, Ohio, and has changed its title to Fifth-Third Union Trust Company.	2-26-27
	Consolidation of State Members:	
3	The Peoples Bank & Trust Co., Philadelphia, Pa., has consolidated with and under the title of the Colonial Trust Company, Philadelphia, Pa.	2-11-27
	Reopened:	
11	American Trust & Savings Bank, El Paso, Texas.	2-28-27

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

2	Traders National Bank of Brooklyn in New York, N.Y.	3- 4-27
2	National Bank of Westfield, Westfield, N. Y.(Sup.)	3- 3-27
3	First National Bank, Selins Grove, Pa.	3- 3-27
8	First National Bank, Bridgeport, Ill.	3- 1-27
11	First National Bank, Marshall, Texas (Supplemental)	3- 1-27
12	Bank of Italy National Trust and Savings Association, San Francisco, Calif.	3- 1-27

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED MARCH 11, 1927.

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Date
	Admitted to Membership:	
	None.	
	Converted to National Bank:	
12	Bank of Italy, San Francisco, Calif.	3- 1-27
	Absorbed by State Member:	
12	Mission Savings Bank, San Francisco, Calif.	3- 9-27
12	Bank of Sausalito, Sausalito, Calif. (Both of the above banks were absorbed by the American Trust Co., San Francisco, Calif.)	3- 9-27

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

2	Peoples National Bank, Hackettstown, N. J.	3- 8-27
2	Broad and Market National Bank, Newark, N. J.	2-26-27
2	Merchants National Bank, Elmira, N. Y.(Supplemental)	3- 8-27
6	First National Bank in Fort Payne, Ala.	3- 8-27
7	American National Bank, Pekin, Ill.	3- 9-27
12	Seaboard National Bank, Los Angeles, Calif.	3- 8-27

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED MARCH 18, 1927.

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Capital	Surplus	Total resources	Date
	Admitted to Membership:				
2	Weequahic Trust Co., Newark, N. J.	$200,000	$100,000	$3,577,860	3-18-27
7	Wheaton Trust & Savings Bank, Wheaton, Ill.	100,000	40,000	152,310	3- 9-27
	Change of Title:				
4	The Pearl-Market Bank, Cincinnati, Ohio, has changed its title to Pearl-Market Bank and Trust Co.				3- 9-27
	Closed:				
8	Citizens Savings Bank, Cabool, Mo.				3-17-27

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

3	First National Bank, Nanticoke, Pa. (Supplemental)	3-15-27
1	Rutland County National Bank, Rutland, Vt.	3-15-27
7	Farmers & Merchants National Bank, Wabash, Ind. (Sup.)	3-17-27
7	Farmers National Bank, Knoxville, Ill.	3-17-27
9	First National Bank, Lake Linden, Mich.	3-17-27
10	Wyoming National Bank, Casper, Wyo. (Supplemental)	3-17-27

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED MARCH 25, 1927.

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Admitted to Membership: Capital	Surplus	Total resources	Date
2	Merchants Trust Co., Newark, N. J.	$1,350,000	$1,350,000	$20,710,953	3-19-27
	Closed:				
6	Bank of Orange & Trust Co., Orlando, Fla.				3-22-27
12	Tillamook County Bank, Tillamook, Oreg.				3-18-27
	Voluntary Withdrawals:				
8	Merchants & Farmers Bank, Dumas, Ark.				3-21-27
11	Guaranty Bond State Bank, North Zulch, Texas				3-21-27
	Consolidated with State Member:				
12	The Italian-American Bank, San Francisco, Calif., has consolidated with the Bank of Italy, San Francisco, Calif.				2-16-27

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

1	Capitol National Bank, Hartford, Conn.	3-14-27
2	Linden National Bank, Linden, N. J.	3-22-27
2	Northern Valley National Bank, Tenafly, N. J.	3-22-27
2	Greenwich National Bank, New York, N. Y.	3-23-27
3	Beach Haven National Bank and Trust Co., Beach Haven, N.J.	3-17-27
7	Pioneer National Bank, Waterloo, Iowa (Supplemental)	3-22-27

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED APRIL 1, 1927.

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Capital	Surplus	Total resources	Date
	Admitted to Membership:				
2	Pacific Coast Trust Co., New York, N. Y.	$1,000,000	$250,000	$1,250,000	3-26-27
3	Myerstown Trust Co., Myerstown, Pa.	125,000	100,000	1,017,408	3-28-27
	Consolidation of State Members:				
3	The Excelsior Trust Co., Philadelphia, Pa., has consolidated with and under the title of the Colonial Trust Co., Philadelphia, Pa.				3-16-27
	Closed:				
12	Meridian State Bank, Meridian, Idaho.				3-30-27

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

2	First National Bank, Madison, N. J.	3-29-27
2	Port Washington National Bank, Port Washington, N. Y.	3-29-27
3	First National Bank & Trust Co., Elizabethtown, Pa.	3-30-27
3	First National Bank, New Egypt, N. J.	3-29-27
8	Union National Bank, Elizabethtown, Ky.	3-30-27
12	New First National Bank, Fullerton, Calif.	4- 1-27
12	First National Bank, Whittier, Calif.	4- 1-27

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED APRIL 8, 1927.

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership:

Dist. No.		Date
	None.	

Closed:

5	Bank of Darlington, Darlington, S. C.	4-27-27

Absorbed by National Bank:

12 The Mission Bank, San Francisco, Calif., has been absorbed by the Bank of California, N. A., San Francisco.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

9	Iron National Bank, Ironwood, Mich.	4- 6-27
11	First National Bank, Corsicana, Texas	4- 8-27

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED APRIL 15, 1927.

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership:

Dist. No.		Date
	None.	

Absorption of National Banks:

7	The First State Bank, Detroit, Mich., has absorbed the Griswold National Bank, Detroit, Mich., and has changed its title to Griswold-First State Bank.	3-21-27
10	The First Bank of Okarche, Okarche, Okla., has absorbed the First National Bank, Okarche, Okla.	1-18-27
12	The Pacific Southwest Trust & Savings Bank, Los Angeles, Calif., has absorbed the Dinuba National Bank, Dinuba, Calif.	3-19-27
12	Anderson Brothers Bank, Idaho Falls, Idaho, has absorbed the Idaho Falls National Bank, Idaho Falls, Idaho.	3-26-27

Absorbed by State Member:

12	The Home Bank, Porterville, Calif., has been absorbed by the Pacific Southwest Trust & Savings Bank, Los Angeles, Calif., both members of the system.	3-26-27

Insolvent:

12	The Bank of Stanfield, Stanfield, Oreg.	3-12-27

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

4	Bank of Pittsburgh National Association, Pittsburgh, Pa.	4-15-27
5	Second National Bank, Morgantown, W. Va.	4-12-27
5	National Bank of South Carolina, Sumter, S. C.	4-12-27
6	First National Bank, Fort Myers, Fla.	4-12-27
6	First National Bank, Dothan, Ala.	4-12-27
7	First National Bank, Birmingham, Ala.(Supplemental)	4-15-27
10	First National Bank, Longmont, Colo. (Confirmatory)	4-15-27
12	United States National Bank, Newberg, Oreg.	4-15-27

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED APRIL 22, 1927.

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Capital	Total resources	Date
	Admitted to Membership:			
	None.			
	Absorption of National Bank:			
4	The Real Estate Trust Co., Washington, Pa., a member, has absorbed the First National Bank of Washington, Pa.			4-16-27
	Closed:			
7	Wapello State Savings Bank, Wapello, Iowa.			4-19-27
	PERMISSION GRANTED TO EXERCISE TRUST POWERS:			
1	North National Bank, Rockland, Maine			4-22-27
3	Second National Bank, Atlantic City, N. J.			4-22-27
5	Lynchburg National Bank, Lynchburg, Va. (supplemental powers)			4-22-27

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED APRIL 29, 1927.

CHANGES IN STATE BANK MEMBERSHIP:

District		Date
	Closed:	
4	Bridgeport Bank Company, Bridgeport, Ohio.	4-23-27
7	First State Bank, Magnolia, Ill.	4-26-27

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

2	First National Bank, Dunellen, N. J.	4-26-27
2	Bowery and East River National Bank, New York, N.Y. (Confirmatory)	4-26-27
5	First National Bank, Camden, S. C.	4-27-27
5	Peoples National Bank, Rocky Mount, Va.(Sup.)	4-26-27
11	Lindsay National Bank, Gainesville, Texas	4-26-27

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED MAY 6, 1927.

CHANGES IN STATE BANK MEMBERSHIP:

Dist.		Capital	Surplus	Total resources	Date
	Admitted to Membership:				
3	Dime Bank Title & Trust Co., Wilkes-Barre, Pa.	$400,000	$600,000	5,175,144	5- 2-27
	Converted to National Bank:				
6	Citizens & Southern Bank, Savannah, Ga.				5- 2-27
11	Teague State Bank, Teague, Texas.				5- 2-27
	Voluntary Withdrawal:				
9	Security State Bank, Lewiston, Minn.				5- 6-27
	Consolidation of State Members:				
12	The French-American Bank and the United Bank and Trust Company of California, both of San Francisco, have consolidated under the title of United Bank and Trust Company.				5- 2-27
	Change of Title:				
12	The British-American Bank, San Francisco, California, has changed its title to Bank of Montreal (San Francisco).				4-12-27
	Succeeded by a State Member:				
3	The Dime Bank Title and Trust Co., Wilkes-Barre, Pa., has been granted a new charter under the same name and remains a member of the system.				5- 2-27

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

3	Southwark National Bank, Philadelphia, Pa. (Supplemental)	5- 5-27
3	First National Bank, Scranton, Pa. (Confirmatory)	5- 5-27
5	First National Bank, Alexandria, Va. (Supplemental)	5- 5-27
6	Traders National Bank, Birmingham, Ala.	5- 3-27
7	First National Bank, Baraboo, Wisc.	5- 5-27
9	Miners National Bank, Ishpeming, Mich.	5- 5-27
9	Grafton National Bank, Grafton, N. Dak.	5- 3-27
10	First National Bank, Wahoo, Nebr.	5- 2-27

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED MAY 13, 1927.

CHANGES IN STATE BANK MEMBERSHIP:

Dist.		Admitted to Membership: Capital	Surplus	Total resources	Date
7	Ladoga State Bank, Ladoga, Ind.	$25,000	$ 5,000	$88,370	5-12-27

Change of Title:

4	The Real Estate Trust Co., Washington, Pa., has changed its title to First Bank and Trust Company.	4-16-27

Closed:

12	First Bank of Joseph, Joseph, Oreg.	5-13-27

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

8	First National Bank, Memphis, Tenn.	5- 3-27

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

1	Hartford-Aetna National Bank, Hartford, Conn.(Supplemental)	5-10-27
5	First National Bank, Westminster, Md.	5-10-27
5	Virginia National Bank, Petersburg, Va. (Supplemental)	5-13-27
6	First National Bank of Opp, Opp, Ala.	5-10-27
6	National Exchange Bank, Augusta, Ga.	5-13-27
6	Citizens and Southern National Bank, Savannah, Ga.	5- 2-27
7	Live Stock National Bank, Sioux City, Iowa	5-13-27
9	Citizens National Bank in Sioux Falls, S. Dak.	5-10-27
10	First National Bank in Thermopolis, Wyo.	5-10-27

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED MAY 20, 1927.

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership:

Dist.		Capital	Surplus	Total resources	Date
5	Bank of Darlington, Inc., Darlington, S. C.	$100,000	$10,000	$110,000	5-17-27
12	The Bank of Hoquiam, Hoquiam, Wash.	100,000	50,000	1,444,447	5-18-27

Merger of State Members:

2	The Peoples Bank, Buffalo, New York, a member, has merged into the Manufacturers and Traders Trust Co., Buffalo, New York, a member, under title Manufacturers & Traders Peoples Trust Co.	5-16-27

Closed:

9	Farmers & Merchants State Bank, Saco, Mont.	5-16-27

Absorption of Nonmembers by Members:

12	E. G. Young & Co., Bank, Oakland, Oregon, has absorbed the Commercial Bank, Oakland, Oregon, a nonmember.	3-14-27
12	Jackson County Bank, Medford, Oregon, has absorbed the Fidelity State Bank, Gold Hill, Oregon, nonmember.	3-31-27

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

2	Seward National Bank, New York, N. Y.	5-18-27
7	Rockville National Bank, Rockville, Ind. (Supplemental)	5-18-27
10	American-First National Bank in Oklahoma City, Okla. (confirmatory)	5-17-27

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED MAY 27, 1927.

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Capital	Surplus	Total resources	Date
	Admitted to Membership:				
3	Wilkesbarre Deposit & Savings Bank, Wilkesbarre, Pa.	$300,000	$700,000	$6,347,921	5-26-27
7	Pigeon State Bank, Pigeon, Mich.	25,000	5,000	604,954	5-21-27

Absorption of National Bank by State Member:

5	The Putnam County Bank, Hurricane, W. Va., has absorbed the Hurricane National Bank, Hurricane, W. Va.	5-13-27

State Member Consolidated with National Bank:

7	The Jackson State Savings Bank, Jackson, Mich., has consolidated with the National Union Bank, Jackson, Mich.	5- 4-27

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

1	State National Bank, Lynn, Mass.	5-27-27
3	Hopewell National Bank, Hopewell, N. J.	5-27-27
4	Farmers National Bank, Cynthiana, Ky.	5-27-27
4	Merchants National Bank, Meadville, Pa.	5-27-27
6	Houston National Bank, Dothan, Ala.	5-23-27
7	First National Bank, Naperville, Ill.	5-27-27
7	First National Bank in Port Huron, Mich.(Supplemental)	5-23-27
7	Commercial National Bank, Madison, Wis.	5-27-27
7	First National Bank, Wilmette, Ill.	5-27-27

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JUNE 3, 1927.

Dist. No.		Capital	Surplus	Total resources	Date
	Admitted to Membership:				
2	Bank of Avoca, Avoca, N. Y.	$50,000	$50,000	$754,707	6- 2-27
3	Quakertown Trust Co., Quakertown, Pa.	125,000	225,000	1,396,911	6- 1-27
	Closed:				
8	Union Bank & Trust Co., Batesville, Ark.				5-31-27

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

1	Hartford National Bank & Trust Co., Hartford, Conn. (Confirmatory)	5-21-27
4	First National Bank, Springfield, Ohio.	5-31-27
5	National Bank of Suffolk, Suffolk, Va.	6- 1-27
6	Fourth & First National Bank, Nashville, Tenn.(Supplemental)	6- 1-27
7	Continental National Bank, Indianapolis, Ind.	5-28-27

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JUNE 10, 1927.

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership:

Dist.		Capital	Surplus	Total resources	Date
3	Houtzdale Trust Co., Houtzdale, Pa.	$125,000	$75,000	$1,193,564	6- 6-27
3	Peoples Savings & Trust Co., Nanticoke, Pa.	180,000	18,000	997,038	6- 7-27
3	Temple State Bank, Temple, Pa.	75,000	15,000	90,000	6- 4-27

Voluntery Withdrawal:

7	Marysville Savings Bank, Marysville, Mich.	6- 3-27

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

1	State National Bank, Windsor, Vt. (Supplemental)	6- 9-27
2	First National Bank in Greenwich, Greenwich, Conn.	6- 7-27
2	Fort Plain National Bank, Fort Plain, N. Y.	6- 9-27
3	Farmers National Bank of Bucks County, Bristol, Pa.	6- 7-27
4	Winters National Bank and Trust Co., Dayton, O. (Supplemental)	6- 9-27
4	Mt. Sterling National Bank, Mount Sterling, Ky. (Supplemental)	6- 7-27
5	First National Bank, Parkersburg, W. Va. (Confirmatory)	6- 7-27
7	Commercial National Bank, St. Joseph, Mich.	6- 7-27
10	First National Bank, Okemah, Okla.	6- 9-27

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JUNE 17, 1927.

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership:

Dist.		Capital	Surplus	Total resources	Date
4	Wright Banking Co., Bellevue, Ohio	$50,000	$50,000	$1,457,324	6-16-27
7	Guardian Detroit Bank, Detroit, Mich.	5,000,000	3,000,000	8,010,468	6-15-27

Closed:

6	Peoples Bank, Mobile, Ala.	6-11-27

Absorbed by National Bank:

12	Wasco County Bank, The Dalles, Oreg.	6-13-27

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

1	Central National Bank, Middletown, Conn.	6-14-27
2	First National Bank, Kenmore, N. Y.	6-17-27
3	Marine National Bank, Wildwood, N. J.	6-14-27
4	Farmers National Bank, Ashtabula, Ohio	6-17-27
4	Wayne County National Bank, Wooster, Ohio	6-17-27
5	National Bank of Granville, Oxford, N. C.	6-17-27

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JUNE 24, 1927.

CHANGES IN STATE BANK MEMBERSHIP:

Dist.		Date
	Admitted to Membership:	
	None.	
	Absorbed by Nonmember Bank:	
6	Bank of Boston, Boston, Ga.	6- 6-27
	Voluntary Withdrawal:	
8	Grenada Bank, Grenada, Miss.	6-23-27
	Absorbed by National Bank:	
12	Peoples Bank, Sacramento, Calif.	6-13-27

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

2	First National Bank, Milltown, N. J.	6-24-27
2	First National Bank, Batavia, N. Y.	6-24-27
3	Farmers National Bank, Bedford, Pa.	6-17-27
4	First National Bank & Trust Co., Tarentum, Pa.	6- 9-27
5	National Bank of Petersburg, Petersburg, Va.	6-24-27

X-4764
(Revised)

OFFICERS AND DIRECTORS OF FEDERAL RESERVE BANKS.

District No. 1 - Federal Reserve Bank of Boston.

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

DIRECTOR	RESIDENCE	BUSINESS AFFILIATION	TERM EXPIRES Dec. 31
Class A:			
Edward S. Kennard	Rumford, Maine	V.P. & Cashier Rumford Nat'l Bank	1927
Frederick S.Chamberlain	New Britain, Conn.	V.P.,Cash.,New Britain Nat'l Bank	1928
Alfred L. Ripley	Boston, Mass.	Pres. Merchants Nat'l Bank	1929
Class B:			
Chas. G. Washburn	Worcester, Mass.	Director, The Washburn Co.	1927
Albert C. Bowman	Springfield, Vt.	Pres. The John T. Slack Corp'n.	1928
Philip R. Allen	E.Walpole, Mass.	V.P. Bird & Son.	1929
Class C:			
Allen Hollis	Concord, N. H.	Lawyer.	1927
Chas. H. Manchester	Providence, R. I.	Public Utilities.	1928
Frederic H. Curtiss	Boston, Mass.		1929

District No. 2 - Federal Reserve Bank of New York

(Gates W. McGarrah, Chairman and Federal Reserve Agent; Owen D. Young Deputy Chairman; Benjamin Strong, Governor.)

Class A:			
Delmer Runkle	Hoosick Falls,N.Y.	Pres. Peoples Nat'l Bank	1927
Jackson E. Reynolds	New York, N. Y.	Pres. First Nat'l Bank	1928
R. H. Treman	Ithaca, N. Y.	Pres. Tompkins County Nat'l Bank	1929
Class B:			
Samuel W. Reyburn	New York, N. Y.	Pres. Lord & Taylor	1927
Wm. H. Woodin	New York, N. Y.	Pres. American Car & Foundry Co.	1928
Theodore F. Whitmarsh	New York, N. Y.	Pres. Francis H. Leggett & Co.	1929
Class C:			
Clarence M. Woolley	New York, N. Y.	Chrm. American Radiator Co.	1927
Gates W. McGarrah	New York, N. Y.		1928
Owen D. Young	New York, N. Y.	Chrm. General Electric Co.	1929

DIRECTOR	RESIDENCE	BUSINESS AFFILIATION	TERM EXPIRES Dec.31
District No. 3 - Federal Reserve Bank of Philadelphia (Richard L. Austin, Chairman and Federal Reserve Agent; Chas. C. Harrison, Deputy Chairman; Geo.W. Norris, Governor)			
Class A:			
Francis Douglas	Wilkes-Barre, Pa.	Cashier, First Nat. Bank	1927
John C. Cosgrove	Johnstown, Pa.	Banker and Coal Operator	1928
Jos. Wayne, Jr.	Philadelphia, Pa.	Pres. Philadelphia-Girard Nat.Bank	1929
Class B:			
Chas. K. Haddon	Philadelphia, Pa.	Merchant and V.P. Lumbermans Ins.Co.	1927
Alba B. Johnson	Philadelphia, Pa.	Chrm. Southwark Fdry. & Mach. Co.	1928
Arthur W. Sewall	Philadelphia, Pa.	Pres. Gen. Asphalt Co.	1929
Class C:			
Chas. C. Harrison	Philadelphia, Pa.	Retired	1927
H. L. Cannon	Bridgeville, Del.	Canner and Farmer	1928
R. L. Austin	Philadelphia, Pa.		1929
District No. 4 - Federal Reserve Bank of Cleveland (George De Camp, Chairman and Federal Reserve Agent; Lewis Blair Williams, Deputy Chairman; E. R. Fancher, Governor)			
Class A:			
O. N. Sams	Hillsboro, Ohio	Pres. Merchants Nat'l Bank	1927
Chess Lamberton	Franklin, Pa.	V.P. Lamberton Nat'l Bank	1928
Robert Wardrop	Pittsburgh, Pa.	Chrm. First Nat'l Bank	1929
Class B:			
John Stambaugh	Youngstown, Ohio	Iron & Steel Manufacturer	1927
R. P. Wright	Erie, Pa.	Reed Manufacturing Co.	1928
Geo. D. Crabbs	Cincinnati, Ohio	Philip Carey Manufacturing Co.	1929
Class C:			
W. W. Knight	Toledo, Ohio	V.P. Bostwick-Braun Co.	1927
L. B. Williams	Cleveland, Ohio	Hayden, Miller & Co.	1928
George De Camp	Cleveland, Ohio		1929

DIRECTOR	RESIDENCE	BUSINESS AFFILIATION	TERM EXPIRES Dec.31
District No. 5 - Federal Reserve Bank of Richmond (William W. Hoxton, Chairman and Federal Reserve Agent; Frederic A. Delano, Deputy Chairman; George J. Seay, Governor)			
Class A:			
Chas. E. Rieman	Baltimore, Md.	Pres. Western Nat'l Bank	1927
Jas. C. Braswell	Rocky Mount, N.C.	Pres. Planters Nat'l Bank	1928
L. E. Johnson	Alderson, W. Va.	Pres. First Nat'l Bank	1929
Class B:			
Edmund Strudwick	Richmond, Va.	Pres. Atlantic Life Ins. Co.	1927
Edwin C. Graham	Washington, D. C.	Pres. Nat'l Elec. Supply Co.	1928
D. R. Coker	Hartsville, S. C.	Merchant and Planter	1929
Class C:			
Frederic A. Delano	Washington, D. C.	Receiver	1927
Robert Lassiter	Charlotte, N.C.	Textiles	1928
Wm. W. Hoxton	Richmond, Va.		1929
District No. 6 - Federal Reserve Bank of Atlanta (Oscar Newton, Chairman and Federal Reserve Agent; W. H. Kettig, Deputy Chairman; M. B. Wellborn, Governor)			
Class A:			
Eugene R. Black	Atlanta, Ga.	Pres. Atlanta Trust Co.	1927
E. C. Melvin	Selma, Ala.	Pres. Selma Nat'l Bank	1928
G. G. Ware	Leesburg, Fla.	Pres. First Nat'l Bank	1929
Class B:			
J. A. McCrary	Decatur, Ga.	J. B. McCrary Co.	1927
W. H. Hartford	Nashville, Tenn.	Hartford Hosiery Mills.	1928
Leon C. Simon	New Orleans, La.	Pres. Kohn, Weil & Simon, Inc.	1929
Class C:			
Lindsey Hopkins	Atlanta, Ga.	Investments	1927
W. H. Kettig	Birmingham, Ala.	Southern Rep. Crane Co.	1928
Oscar Newton	Atlanta, Ga.		1929

DIRECTOR	RESIDENCE	BUSINESS AFFILIATION	TERM EXPIRES Dec.31
District No. 7 - Federal Reserve Bank of Chicago (William A. Heath, Chairman and Federal Reserve Agent; James Simpson, Deputy Chairman; James B. McDougal, Governor)			
Class A:			
George M. Reynolds	Chicago, Ill.	Chrm. Con. & Com'l Nat'l Bank	1927
Chas. H. McNider	Mason City, Iowa	Pres. First Nat'l Bank	1928
E. L. Johnson	Waterloo, Iowa	Pres. Leavitt & Johnson Trust Co.	1929
Class B:			
A. H. Vogel	Milwaukee, Wis.	Pres. Pfister & Vogel Leather Co.	1927
S. T. Crapo	Detroit, Mich.	Sec.& Treas.Huron Port. Cement Co.	1928
Robert Mueller	Decatur, Ill.	Mueller Manufacturing Co.	1929
Class C:			
W. A. Heath	Chicago, Ill.		1927
F. C. Ball	Muncie, Ind.	Pres. Ball Bros. Mfg. Co.	1928
James Simpson	Chicago, Ill.	Pres. Marshall Field & Co.	1929
District No. 8 - Federal Reserve Bank of St. Louis (William McC. Martin, Chairman and Federal Reserve Agent; John W. Boehne, Deputy Chairman; David C. Biggs, Governor)			
Class A:			
J. C. Utterback	Paducah, Ky.	Pres. City Nat'l Bank	1927
John C. Martin	Salem, Ill.	V.P.,Cashier, Salem Nat'l Bank	1928
John G. Lonsdale	St. Louis, Mo.	Pres. Nat'l Bank of Commerce	1929
Class B:			
Rolla Wells	St. Louis, Mo.	Pres. Wells Realty & Invest. Co.	1927
W. B. Plunkett	Little Rock, Ark.	Pres. Plunkett-Jarrell Groc. Co.	1928
LeRoy Percy	Greenville, Miss.	Planter	1929
Class C:			
Wm. McC. Martin	St. Louis, Mo.		1927
Paul Dillard	Memphis, Tenn.	Dillard & Coffin Co.	1928
John W. Boehne	Evansville, Ind.	Retired	1929

DIRECTOR	RESIDENCE	BUSINESS AFFILIATION	TERM EXPIRES Dec. 31
District No. 9 - Federal Reserve Bank of Minneapolis (John R. Mitchell, Chairman and Federal Reserve Agent; Homer P. Clark, Deputy Chairman; R. A. Young, Governor)			
Class A:			
Wesley C. McDowell	Marion, N. D.	Pres. First Nat'l Bank	1927
Paul J. Leeman	Minneapolis, Minn.	V.P. First Nat'l Bank	1928
J. C. Bassett	Aberdeen, S. D.	Pres. Aberdeen Nat'l Bank	1929
Class B:			
John S. Owen	Eau Claire, Wis.	John S. Owen Lumber Co.	1927
Paul N. Myers	St. Paul, Minn.	V. P. Waldorf Paper Prod. Co.	1928
N. B. Holter	Helena, Mont.	A. M. Holter Hdw. Co.	1929
Class C:			
Homer P. Clark	St. Paul, Minn.	Pres. West Publishing Co.	1927
Geo. W. McCormick	Menominee, Mich.	Gen.Mgr. Menominee River Sugar Co.	1928
John R. Mitchell	Minneapolis, Minn.		1929
District No. 10 - Federal Reserve Bank of Kansas City (M. L. McClure, Chairman and Federal Reserve Agent; Heber Hord Deputy Chairman; W. J. Bailey, Governor)			
Class A:			
C. C. Parks	Denver, Colo.	V.P. First Nat'l Bank	1927
Frank W. Sponable	Paola, Kan.	Pres. Miami County Nat'l Bank	1928
E. E. Mullaney	Hill City, Kan.	Pres. Farmers & Merchants Bank	1929
Class B:			
Thos. C. Byrne	Omaha, Neb.	Byrne & Hammer Dry Goods Co.	1927
J. M. Bernardin	Kansas City, Mo.	J. M. Bernardin Lumber Co.	1928
L. E. Phillips	Bartlesville, Okla.	V.P., G.M., Phillips Petroleum Co.	1929
Class C:			
Heber Hord	Central City, Neb.	Stockman - Farmer	1927
Wm. L. Petrikin	Denver, Colo.	Pres. Great Western Sugar Co.	1928
M. L. McClure	Kansas City, Mo.		1929

DIRECTOR	RESIDENCE	BUSINESS AFFILIATION	TERM EXPIRES Dec. 31
District No. 11 - Federal Reserve Bank of Dallas (C. C. Walsh, Chairman and Federal Reserve Agent; Clarence E. Linz, Deputy Chairman; Lynn P. Talley, Governor)			
Class A:			
J. H. Frost	San Antonio, Tex.	V.P. Frost Nat'l Bank	1927
W. H. Patrick	Clarendon, Tex.	Pres. First Nat'l Bank	1928
Howell E. Smith	McKinney, Tex.	Pres. First Nat'l Bank	1929
Class B:			
Frank Kell	Wichita Falls, Tex.	Pres.& G.M., Wichita Falls & S.R.R.	1927
J. H. Nail	Fort Worth, Tex.	Cattleman	1928
J. J. Culbertson	Paris, Texas.	V.P. Southland Cotton Oil Co.	1929
Class C:			
S. B. Perkins	Dallas, Tex.	Perkins Dry Goods Co.	1927
C. C. Walsh	Dallas, Tex.		1928
Clarence E. Linz	Dallas, Tex.	V.P. & Trea. Southland Life Ins. Co.	1929
District No. 12 - Federal Reserve Bank of San Francisco (Isaac B. Newton, Chairman and Federal Reserve Agent; Walton N. Moore, Deputy Chairman; J. U. Calkins, Governor)			
Class A:			
Howard Whipple	Turlock, Cal.	Pres. First Nat'l Bank	1927
C. K. McIntosh	San Francisco, Cal.	Pres. Bank of California N. A.	1928
T. H. Ramsay	Red Bluff, Cal.	Pres. First Nat. Bank of Red Bluff	1929
Class B:			
Wm. T. Sesnon	Soquel, Cal.	Agriculturist	1927
E. H. Cox	Madera, Cal.	V.P.& G.M. Madera Sugar Pine Co.	1928
A. B. C. Dohrmann	San Francisco, Cal.	Pres. Dohrmann Comm'l Co.	1929
Class C:			
Walton N. Moore	San Francisco, Cal.	Pres. Walton N. Moore Dry Goods Co.	1927
Wm. Sproule	San Francisco, Cal.	Pres. Southern Pacific Ry. Co.	1928
Isaac B. Newton	San Francisco, Cal.		1929

OFFICERS AND DIRECTORS OF FEDERAL RESERVE BRANCH BANKS.

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

DIRECTOR	RESIDENCE	BUSINESS AFFILIATION	TERM EXPIRES Dec. 31
W. W. Schneckenburger	Buffalo, N. Y.		1927
Arthur G. Hough # Chrm.	Batavia, N. Y.	Pres. Wiard Plow Company	1927
Elliott C. McDougal	Buffalo, N. Y.	Chrm. Marine Trust Co.	1927
John A. Kloepfer #	Buffalo, N. Y.	Pres. Liberty Bank.	1928
Frank W. Crandall	Westfield, N. Y.	Pres. Nat. Bank of Westfield.	1928
F. B. Cooley #	Buffalo, N. Y.	Pres. N. Y. Car Wheel Co.	1929
Harry T. Ramsdell	Buffalo, N. Y.	Chrm. Mfgrs. & Traders Tr. Co.	1929

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

C. F. McCombs	Cincinnati, Ohio.		1927
Geo. M. Verity # Chrm.	Middletown, Ohio.	Pres. American Rolling Mill Co.	1927
B. H. Kroger	Cincinnati, Ohio.	Pres. Provident Savings & Tr. Co.	1927
Fred A. Geier #	Cincinnati, Ohio.	Pres. Cin. Milling Machine Co.	1928
E. S. Lee	Covington, Ky.	Pres. First Nat. Bank	1928
John Omwake #	Cincinnati, Ohio.	Pres. U. S. Playing Card Co.	1929
Charles W. DuPuis	Cincinnati, Ohio.	Pres. Citizens Nat. Bank & Tr. Co.	1929

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

J. C. Nevin	Pittsburgh, Pa.		1927
Joseph R. Naylor # Chrm.	Wheeling, W. Va.	John S. Naylor & Co.	1927
R. B. Mellon	Pittsburgh, Pa.	Pres. Mellon National Bank	1927
Chas. W. Brown #	Pittsburgh, Pa.	Pres. Pittsburgh Plate Glass Co.	1928
A. E. Braun	Pittsburgh, Pa.	Pres. Farmers Deposit Nat. Bank	1928
A. L. Humphrey #	Pittsburgh, Pa.	Pres. Westinghouse Air Brake Co.	1929
Jos. R. Eisaman	Greensburg, Pa.	V. P. First National Bank	1929

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

Albert H. Dudley	Baltimore, Md.		1927
John G. Rouse # Chrm.	Baltimore, Md.	Pres. Rouse, Hempstone & Co.	1927
Henry B. Wilcox	Baltimore, Md.	V. Chrm. Merchant's Nat. Bank.	1927
Wm. H. Matthai #	Baltimore, Md.	V. P. Nat. Enameling & Stamping Co.	1928
Levi B. Phillips	Cambridge, Md.	Pres. Nat. Bank of Cambridge	1928
Edmund P. Cohill #	Hancock, Md.	Pres. & Treas. Tonoloway Orchard Co.	1929
Carter G. Osburn	Baltimore, Md.	Chrm. Farmers & Merchants' Nat. Bank	1929

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

DIRECTOR	RESIDENCE	BUSINESS AFFILIATION	TERM EXPIRES Dec. 31.
Marcus Walker	New Orleans, La.		1927
Albert P. Bush #	Mobile, Ala.	Pres. T. G. Bush Grocery Co.	1927
E. S. Hecht.	New Orleans, La.	Pres. Hibernia Bank & Tr. Co.	1927
C. H. Saunders#	New Orleans, La.	V. P. Newman, Saunders & Co.,Inc.	1928
J. P. Butler, Jr.	New Orleans, La.	Pres. Canal Bank & Trust Co.	1928
L. C. Simon # Chrm.	New Orleans, La.	Pres. Kohn, Weil & Simon, Inc.	1929
F. W. Foote	Hattiesburg, Miss.	Pres. First National Bank	1929

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

A. E. Walker	Birmingham, Ala.		1927
John P. Kohn #	Montgomery, Ala.	F. M. Kohn & Son	1927
Walter E. Henley	Birmingham, Ala.	Pres. Birmingham Tr. & Savings Co.	1927
W. H. Kettig # Chrm.	Birmingham, Ala.	Southern Rep., Crane Co.	1928
John H. Frye	Birmingham, Ala.	Pres. Traders National Bank	1928
Oscar Wells #	Birmingham, Ala.	Pres. First National Bank	1929
W. W. Crawford	Birmingham, Ala.	Pres. American Trust & Sav. Bank	1929

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

George R. DeSaussure	Jacksonville, Fla.		1927
L. C. Edwards # Chrm.	Tampa, Fla.	Pres. Florida Citrus Exchange	1927
C. P. Kendall	Jacksonville, Fla.	V. P. Barnett National Bank	1927
J. C. Cooper #	Jacksonville, Fla.	Attorney at Law.	1928
G. G. Ware	Leesburg, Fla.	Pres. First National Bank	1928
Fulton Saussy #	Jacksonville, Fla.	Saussy & Common	1929
Edward W. Lane	Jacksonville, Fla.	Pres. Atlantic National Bank.	1929

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

Joel B. Fort, Jr.	Nashville, Tenn.		1927
Wm. P. Ridley #	Columbia, Tenn.	Farmer	1927
J. E. Caldwell	Nashville, Tenn.	Pres. Fourth & First Bk. & Tr. Co.	1927
W. H. Hartford # Chrm.	Nashville, Tenn.	Pres. Hartford Hosiery Mills.	1928
T. A. Embrey	Winchester, Tenn.	Pres. Farmers National Bank	1928
P. M. Davis #	Nashville, Tenn.	V. P. American National Bank	1929
E. A. Lindsey	Nashville, Tenn.	Pres. Tenn. Hermitage Nat. Bank	1929

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

DIRECTOR	RESIDENCE	BUSINESS AFFILIATION	TERM EXPIRES Dec. 31
Wm. R. Cation	Detroit, Mich.		1927
David McMorran # Chrm.	Port Huron, Mich.	Grower & Manufacturer	1927
Geo. B. Morley	Saginaw, Mich.	Pres. Second National Bank	1927
James Inglis #	Detroit, Mich.	Pres. American Blower Co.	1928
William J. Gray,	Detroit, Mich.	Pres. First National Bank	1928
N. P. Hull #	Lansing, Mich.	Pres. Grange Life Ins. Co.	1929
John W. Staley	Detroit, Mich.	Pres. Peoples State Bank	1929

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

W. P. Kincheloe	Louisville, Ky.		1927
E. H. Woods # Chrm.	Lucas, Ky.	Planter	1927
Max B. Nahm	Bowling Green, Ky.	V. P. Citizens National Bank	1927
E. L. Swearingen #	Louisville, Ky.	Pres. First National Bank	1928
Attilla Cox	Louisville, Ky.	Attorney	1928
Wm. Black #	Louisville, Ky.	Pres. B. F. Avery & Sons, Inc.	1929
Eugene E. Hoge	Frankfort, Ky.	Pres. State National Bank	1929

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

W. H. Glasgow	Memphis, Tenn.		1927
E. M. Allen # Chrm.	Helena, Ark.	Planter, Real Estate & Insurance	1927
R. Brinkley Snowden	Memphis, Tenn.	V.P. Bank of Commerce & Tr. Co.	1927
T. K. Riddick #	Memphis, Tenn.	Attorney	1928
J. W. Vanden	Jackson, Tenn.	Pres. First National Bank	1928
Wm. Orgill #	Memphis, Tenn.	Pres. Orgill Bros. & Co.	1929
Jno. D. McDowell	Memphis, Tenn.	Pres. Fidelity Bank & Tr. Co.	1929

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

A. F. Bailey	Little Rock, Ark		1927
Hamp Williams # Chrm.	Hot Springs, Ark.	Pres. Hamp Williams Hardware Co.	1927
John M. Davis	Little Rock, Ark.	Pres. Exchange National Bank	1927
Moorhead Wright #	Little Rock, Ark.	Pres. Union Trust Co.	1928
W. A. Hicks	Little Rock, Ark.	V.P. American So. Trust Co.	1928
G. H. Campbell #	Little Rock, Ark.	Insurance	1929
Stuart Wilson	Texarkana, Ark.	Pres. State National Bank	1929

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

DIRECTOR	RESIDENCE	BUSINESS AFFILIATION	TERM EXPIRES Dec. 31
R. E. Towle	Helena, Mont.		1927
Henry Sieben # Chrm.	Helena, Mont.	Pres. Sieben Live Stock Co.	1927
T. A. Marlow	Helena, Mont.	Pres. National Bank of Montana	1927
C. J. Kelly #	Butte, Mont.	Hansen Packing Co.	1928
R. O. Kaufman	Helena, Mont.	V.P. & Cash. Union Bank & Tr. Co.	1928

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

J. E. Olson	Denver, Colo.		1927
Merritt W. Gano # Chrm.	Denver, Colo.	The Gano-Downs Co.	1927
Harold Kountze	Denver, Colo.	Chrm. & V.P. Colorado Nat. Bank	1927
Murdo MacKenzie #	Denver, Colo.	The Matador Land & Cattle Co. Ltd.	1928
Harry W. Farr	Greeley, Colo.	Livestock and farming	1928
R. H. Davis #	Denver, Colo.	Wholesale Drug Business	1929
Henry Swan	Denver, Colo.	V. P., U. S. National Bank	1929

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

L. H. Earhart	Omaha, Neb.		1927
A. J. Weaver # Chrm.	Falls City, Neb.	Orchards, Livestock & Farming.	1927
R. O. Marnell	Nebraska City, Neb.	Cashier, Merchants Nat. Bank	1927
Wm. Diesing #	Omaha, Neb.	Cudahy Packing Co.	1928
A. H. Marble	Cheyenne, Wyo.	Pres. Stock Growers Nat. Bank	1928
Wm. E. Hardy #	Lincoln, Neb.	Hardy Furniture Co.	1929
T. L. Davis	Omaha, Neb.	V. P. First National Bank	1929

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

C. E. Daniel	Oklahoma City, Okla.		1927
E. J. Murphy # Chrm.	Clinton, Okla.	Farming & Livestock	1927
William Mee	Oklahoma City, Okla.	Pres. Security National Bank	1927
W. F. Nichols #	Tulsa, Okla.	Merchant & Livestock	1928
Ned Holman	Guthrie, Okla.	Pres. First National Bank	1928
Austin Miller #	Oklahoma City, Okla.	Pres. Oklahoma Furniture Mfg. Co.	1929
Walter Ferguson	Oklahoma City, Okla.	V.P. First National Bank	1929

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

DIRECTOR	RESIDENCE	BUSINESS AFFILIATION	TERM EXPIRES Dec. 31
M. Crump	El Paso, Tex.		1927
H. L. Kokernot # Chrm.	Alpine, Tex.	Cattleman	1927
Geo. D. Flory	El Paso, Tex.	V.P. The State National Bank	1927
C. M. Newman #	El Paso, Tex.	Pres. Newman Investment Co.	1928
E. M. Hurd	El Paso, Tex.	The H. Lesinsky Company	1928
A. P. Coles #	El Paso, Tex.	Investments	1929
E. A. Cahoon	Roswell, N. Mex.	Pres. First Nat. Bank of Roswell	1929

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

D. P. Reordan	Houston, Tex.		1927
E. A. Peden # Chrm.	Houston, Tex.	Pres. Peden Iron & Steel Co.	1927
Fred W. Catterall	Galveston, Tex.	Cash. First Nat. Bk. of Galveston	1927
R. M. Farrar #	Houston, Tex.	Pres. Farrar Lumber Co.	1928
Guy M. Bryan	Houston, Tex.	V.P. Second National Bank	1928
J. Cooke Wilson #	Beaumont, Tex.	Pres. The Wilson Broach Co.	1929
E. F. Gossett	Houston, Tex.	V. P. South Texas Com. Nat. Bank	1929

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

R. B. West	Portland, Ore.		1927
A. C. Dixon #	Eugene, Ore.	Gen.Mgr. Booth-Kelly Lumber Co.	1927
Wm. Pollman	Baker, Ore.	Pres. First Nat. Bank	1927
Edward C. Pease #	The Dalles, Ore.	Edward C. Pease Co., Inc.	1928
John F. Daly	Portland, Ore.	Pres. Hibernia Com. & Savings Bk.	1928
Nathan Strauss # Chrm.	Portland, Ore.	Gen.Mgr.Fleischner, Mayer & Co.	1929
J. C. Ainsworth	Portland, Ore.	Pres. United States Nat. Bank	1929

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

C. R. Shaw	Seattle, Wash.		1927
			1927
E. W. Purdy	Bellingham, Wash.	Pres. First National Bank	1927
Henry A. Rhodes #	Tacoma, Wash.	Rhodes Bros. Department Store	1928
M. F. Backus	Seattle, Wash.	Pres. National Bank of Commerce	1928
Chas. H. Clarke # Chrm.	Seattle, Wash.	Pres. Kelly Clarke Company	1929
M. A. Arnold	Seattle, Wash.	Pres. First National Bank	1929

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

DIRECTOR	RESIDENCE	BUSINESS AFFILIATION	TERM EXPIRES Dec. 31
D. L. Davis	Spokane, Wash.		1927
E. H. Van Ostrand #	Coeur d'Alene, Ida.	Pres. Craig Mount. Lumber Co., Winchester, Idaho.	1927
Charles L. MacKenzie	Colfax, Wash.	Retired	1927
Wm. Duling #	Garfield, Wash.	Farming	1928
R. L. Rutter	Spokane, Wash.	Pres. Spokane & Eastern Trust Co.	1928
G. I. Toevs # Chrm.	Spokane, Wash.	V. P. Centennial Mill Co.	1929
C. E. McBroom	Spokane, Wash.	Pres. Exchange National Bank	1929

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

W. L. Partner	Salt Lake City, Ut.		1927
Chapin A. Day #	Ogden, Utah	Pres. Ogden Portland Cement Co.	1927
J. S. Bussell	Pocatello, Idaho	Pres. Citizens Bank & Trust Co.	1927
F. J. Hagenbarth #	Spencer, Idaho	Pres. Wood Livestock Co.	1928
L. H. Farnsworth	Salt Lake City, Ut.	Chrm. Walker Brothers Bankers	1928
Lafayette Hanchett# Chr.	Salt Lake City, Ut.	Pres. Utah Power & Light Co.	1929
Charles H. Barton	Ogden, Utah.	Pres. Nat. Bank of Commerce	1929

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

R. B. Motherwell	Los Angeles, Cal.		1927
E. M. Lyon #	Redlands, Cal.	Horticulturist	1927
F. J. Belcher, Jr.	San Diego, Cal.	Pres. First Nat. Bank	1927
J. B. Alexander #	Los Angeles, Cal.	Retired	1928
Henry M. Robinson	Los Angeles, Cal.	Pres. First National Bank	1928
W. L. Valentine # Chrm.	Fullerton, Cal.	Pres. Fullerton Oil Co.	1929
J. F. Sartori	Los Angeles, Cal.	Pres. Security Trust & Savings Bank	1929

Appointed by Board

Corrected to May 1, 1927

X-4766

TREASURY DEPARTMENT

Office of the Secretary

WASHINGTON

January 7, 1927.

The Governor,

Federal Reserve Board.

Sir:

You are hereby advised that the Department has referred to the Disbursing Clerk, Treasury Department, for payment, the account of the Bureau of Engraving and Printing for preparing Federal reserve notes during the period December 1, 1926, to December 31, 1926, amounting to $137,250, as follows:

Federal Reserve Notes, Series 1914

	$5	$10	$20	Total
Boston	350,000	300,000		650,000
New York		650,000	250,000	900,000
Philadelphia	200,000	150,000		350,000
Cleveland	200,000	100,000	50,000	350,000
Richmond	50,000	50,000	50,000	150,000
Atlanta		50,000		50,000
Chicago	500,000	100,000	100,000	700,000
Minneapolis	100,000			100,000
Kansas City	100,000	50,000	50,000	200,000
Dallas		50,000		50,000
San Francisco	100,000	100,000	50,000	250,000
	1,600,000	1,600,000	550,000	3,750,000

3,750,000 sheets @ $36.60 per M. . . . . $137,250.

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

Boston	$23,790.00
New York	32,940.00
Philadelphia	12,810.00
Cleveland	12,810.00
Richmond	5,490.00
Atlanta	1,830.00
Chicago	25,620.00
Minneapolis	3,660.00
Kansas City	7,320.00
Dallas	1,830.00
San Francisco	9,150.00

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 X-4767

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 10, 1927.

SUBJECT: Execution of form of demand for payment on adjusted service certificates offered as collateral for loans.

Dear Sir:

The Board's attention has been called to the fact that the form of demand for payment on a number of adjusted service certificates has been completely executed by beneficiaries although the veterans to whom such certificates were issued are still living, and that banks are inquiring whether the execution of such demand for payment prevents the veterans named in the certificates from obtaining loans, and, if so, what action should be taken to remedy the situation.

The Board has referred this question to the United States Veterans' Bureau which has replied as follows:

> " With reference to your letter of January 4, 1927, inquiring as to the effect which the execution of Demand for Payment on the certificate will have upon its value as collateral for the purpose of securing a loan, I wish to advise you that while the form of Demand for Payment should not be executed it will not affect the use of the certificate as collateral in any way."

Very truly yours,

D. R. Crissinger,
Governor.

TO GOVERNORS OF ALL F.R.BANKS.

X-4768

UNITED STATES CIRCUIT COURT OF APPEALS

FOURTH CIRCUIT

No. 2558.

THE LIBERTY NATIONAL BANK OF SOUTH CAROLINA
at Columbia, et al.,
Appellants,

versus

J. W. McIntosh, as Comptroller of the Currency of the United States, and Malcolm S. McConihe, as Receiver of the Liberty National Bank of South Carolina, at Columbia,
Appellees.

No. 2569.

J. W. McIntosh, as Comptroller of the Currency of the United States, and Malcolm S. McConihe, as Receiver of the Liberty National Bank of South Carolina, at Columbia,
Appellants,

versus

THE LIBERTY NATIONAL BANK OF SOUTH CAROLINA
at Columbia, et al.,
Appellees.

Appeals from the District Court of the United States for the Eastern District of South Carolina at Charleston.

(Argued October 19, 1926. Decided January 11, 1927)

Before Waddill, Rose and Parker, Circuit Judges.

D. W. Robinson and William M. Shand (Benet, Shand & McGowan and George Bell Timmerman on brief) for Appellants in No. 2558 and Appellees in No. 2569, and R. Beverley Herbert and John K. Shields for Appellees in No. 2558 and Appellants in No. 2569.

Waddill, Circuit Judge:

These two causes grow out of proceedings to liquidate the affairs of the Liberty National Bank of South Carolina, at Columbia, and were argued together in this court, and will be disposed of in one opinion.

The Liberty National Bank of South Carolina, at Columbia, hereinafter referred to as the Liberty Bank, filed its bill and amended bill in equity in the first named cause in the court below, praying that the action of the Comptroller of the Currency, named as a defendant therein, in appointing the co-defendant, Malcolm S. McConihe Receiver of said bank, he declared void; and that the attempted levy and collection of an assessment on the shareholders of said bank by the defendants, in their official capacity, be enjoined and restrained. The bill briefly alleged that the Liberty Bank had entered into voluntary liquidation under contract with the National Loan and Exchange Bank of Columbia, (hereinafter re-

ferred to as the Exchange Bank), which latter bank was to act as liquidator of the former, assuming to pay certain liabilities, and to be reimbursed by the Liberty Bank for any deficit.

The original contract between the two banks was regularly entered into on the 23rd of October, 1923, and pursuant to a subsequent resolution of the Board of Directors, and by agreement between the banks, clause 6 was added thereto. By the agreement thus entered into, the Liberty Bank transferred all of the assets of every kind of the bank to the Exchange bank, the Exchange bank guaranteeing payment to the depositors of the Liberty Bank of the amount of their deposits therein; and also other obligations of the Liberty Bank for bills payable and rediscounts at the close of business on the 22nd day of October, 1923, as shown by Exhibit A attached to the contract; with a proviso that the Exchange Bank did not guarantee any liability of said Liberty Bank to its stockholders or any other liabilities of said Liberty Bank except those thereinbefore set forth. Under this contract the Exchange Bank at once possessed itself of all the assets and effects of the Liberty Bank, including its banking house, and proceeded to administer and liquidate the assets of the bank as rapidly as in its judgment was deemed advisable and advantageous; and it was provided that after reimbursing itself for all expenses, not however to include commissions to the Exchange Bank (the latter bank making no charge for its services in the administration and liquidation of the affairs of the Liberty Bank and collecting and converting its assets into cash) together with all the advancements made on account of said Liberty Bank, and of all indebtedness of the Liberty Bank to the Exchange Bank of every character; and that the residue of the assets of said Liberty Bank should be turned over to it for distribution among its stockholders. Provision also was made for the liquidation and winding up of the affairs of the Liberty Bank by and under the supervision and direction of the Exchange Bank, but the Liberty Bank reserved the right

through its appropriate committees and representatives to consult and advise daily with the Exchange Bank as to the administration and liquidation of the assets of the Liberty Bank, and also reserved the right to direct in writing the proper disposition of certain of its bills receivable and choses in action as it might be advised to; and the books of the Exchange Bank were to be open to the inspection of a representative of the Liberty Bank. It was further provided that the Exchange Bank should not be liable to the Liberty Bank for any losses in connection with the liquidation and collection of the assets of the latter bank conveyed and transferred to it, except such as arose from gross negligence on its part or its agents. The Liberty Bank stipulated that it would save harmless the Exchange Bank from and against any and all losses, should there be any, which the Exchange Bank might sustain on account of the failure to realize from the assets and property of the Liberty Bank sufficient to reimburse the Exchange Bank for all amounts which it might expend in carrying out the provisions of the contract, and upon final completion of the liquidation to pay any such deficiency to said Exchange Bank.

The bill further charged that the Comptroller was cognizant of and approved the contract of liquidation, and that thereafter the Exchange Bank not having lived up to its contract, sought to have the Comptroller assume jurisdiction of the affairs of the Liberty Bank, and to appoint a receiver to take charge; which the comptroller at first refused to do, but subsequently did, and ordered an assessment of $250,000.00 against the shareholders of the Liberty Bank for the purpose of meeting its obligations, when the amount so due, in addition to the indebtedness ascertained by the comptroller in favor of the Exchange Bank, towit: $453,008.10 was not in excess of $6,000.00. The Liberty Bank also denied its liability to the Exchange Bank for the sum so adjudged against it, as it did the power of the comptroller to make such

adjudication and assessment against shareholders, and insisted that such adjudication and assessment could only be made by a court of competent jurisdiction having authority to wind up the affairs and assess shareholders in insolvent national banks in liquidation.

On the filing of the bill, the court awarded a rule against the defendants to show cause of July 27th why the interlocutory injunction should not be issued as prayed for; whereupon the defendant Comptroller of the Currency specially appeared for the purpose of contesting the jurisdiction of the court. The said defendant Comptroller and his co-defendant the receiver, upon the court's overruling the plea to the jurisdiction, each moved the court to dismiss the bill for lack of equity; and the receiver duly made return to the said rule showing his appointment and what he had done thereunder, with affidavits and records in support thereof. From said report it appears that assets came into his hands as follows:

Good	$138,453.93
Doubtful	63,980.69
Worthless	844,719.48
Total	1,047,154.10

From the first two items, the received hoped to realize $164,865.68. The receiver denied that his appointment was because of solicitation or importunity of the Exchange Bank, but was solely the result of a long and careful investigation and examination by the Comptroller of the affairs of the Liberty Bank, and having become satisfied of its insolvency, the receiver was appointed, and the comptroller thereafter directed the assessment of the shareholders to cover the indebtedness of the Liberty Bank.

On the 28th of July, the court having overruled the objection to the jurisdiction of the court, entered an order declining to enjoin the comptroller from exercising the powers conferred upon him by law, and denied the injunction asked for to restrain the receiver from proceeding with the col-

lection of the shareholders assessments theretofore ordered by the Comptroller. From this action the appeal in the first named cause, #2558 was taken.

On the 4th of August, 1926, the Liberty Bank applied to the district court of the United States for an order enjoining and restraining the defendants from further proceeding to enforce and collect the assessment previously made against the shareholders of the Liberty Bank, pending the appeal in the first cause, which was granted; and from this last named order an appeal was taken by the comptroller of the currency and the receiver theretofore appointed by him for the Liberty Bank, which constitutes the last named cause #2569, and the two will be considered in the order named.

Case #2558 involves a general consideration of the National Bank Act, particularly as respects the power and authority of the Comptroller of the Currency to appoint receivers for insolvent national banks, and assess shareholders in such institutions after liquidation proceedings have been inaugurated by the bank. The Liberty Bank insists that the right of the Comptroller to appoint a receiver only exists prior to the liquidation proceedings, and thereafter receivers are appointed and shareholders assessed not by the comptroller, but by a court of equity of competent jurisdiction.

Whatever may have been the law prior to the amendment of the National Bank Act of 30th June, 1876, 19 St. L., 63, it would seem since that date there should be but little trouble to meet and dispose of the questions presented in this record. Section 1 of the act provides " * * * whenever the Comptroller shall become satisfied of the insolvency of a national banking association, he may, after due examination of its affairs * * * appoint a receiver, who shall proceed to close up such association, and enforce the personal liability of its shareholders, as provided in Section (R.S.,5234) (C.S.,9821) of said statutes."

Section 2 of the act of 1876 provides that when any national banking association shall have gone into (voluntary) liquidation under the provisions of Section 5220 R.S. (C. S.,9806) the individual liability of shareholders provided for by R. S. 5151 (C. S. 9689) may be enforced by any creditor, by a bill in the nature of a creditor's bill in the district court of the district in which the association may have been located.

Section 3 of the act of 1876 (C. S. 9827) provides that when the Comptroller has appointed a receiver and shall have paid the creditors in full and redeemed the circulating notes then a meeting of the shareholders shall be called who shall decide whether the liquidation shall be completed by the receiver or an agent appointed by the shareholders.

It will be observed that by the first section of the amended act (which it may be said in passing is one of far reaching importance to the national government and the public, and in which the Comptroller of the Currency is granted almost imperialistic powers) there is placed apparently no limitation to what he may do when the proper conditions arise for the exercise of the authority and discretion reposed in him. In a word, whenever he becomes after due examination of its affairs, satisfied of the insolvency of a national banking association he may appoint a receiver, who shall proceed to close up the business of such association, and enforce the personal liability against shareholders as prescribed by law. This act can have but one meaning, and having regard to the importance of its subject matter, and the delicate duties to be performed, positive and quick action, when found necessary, is contemplated looking to the winding up and closing of insolvent national banks. The convenience of large numbers of the public perhaps affected by what is to be done, and the serious disturbance of business conditions liable to be involved, would seem to justify and warrant this grant of power to an official of the dignity and importance of the Comptroller of the Currency.

The third section of the amended act gives further color to this view, in that it provides that when creditors, through the Comptroller's receiver, have been paid in full, and the bank's circulating notes redeemed, the institution shall be returned to the control of its stockholders.

Conceding that the second section of the amendatory act of 1876, on which the relief sought by the Liberty Bank is largely based, may give color to the claim made, in that it provides that when a national banking association shall have gone into voluntary liquidation, the individual liability of shareholders (Rev.Stat. sec.5151; Comp.St. sec.9689) may be enforced by any creditor by a bill in the nature of a creditor's bill in the district court of the district in which the association is located. But we have no such case here, and no proceedings have been instituted, or any receiver asked for, and we believe we are not called upon to pass on the relative powers and authority of the Comptroller and the courts, in an insolvency proceeding against a bank in liquidation under section 2 of the amended act. To accept the Liberty Bank's contention would be in effect to take away the Comptroller of the Currency's authority to act in the proper winding up of all insolvent national banking institutions, by the mere act or attempted act of those in charge of such institution, to inaugurate liquidation proceedings. This surely, could not have been the purpose of the act, and to give it such an interpretation would not only do violence to its manifest meaning, but weaken the whole national banking system, and bring about a condition of uncertainty and chaos in connection with this most important branch of the government's business.

Ample authority will be found to make clear the purposes of the national banking act, and to fully and clearly show the power and authority of those charged with its administration, especially that of the Comptroller of the Currency. His jurisdiction in respect to all matters properly within his discretion is exclusive, and he is in respect thereto in no manner

amenable to any court, nor is his action subject to review therein.

"The bank is not considered as a private corporation, whose principal object is individual trade and individual profit; but as a public corporation created for public and national purposes." Chief Justice Marshall, in McCulloch vs.Maryland, 4 Wheat., 316, 425.

"Our conclusions upon principle and authority are that Congress having power to create a system of national banks, is the judge as to the extent of the powers which should be conferred upon such banks, and has sole power to regulate and control the exercise of their operations. That congress has directly dealt with the subject of insolvency of such banks by giving control to the Secretary of the Treasury and the Comptroller of the Currency, who are authorized to suspend the operations of the banks and appoint receivers thereof when they become insolvent, or when they fail to make good any impairment of capital." Mr. Justice Shiras, in Easton v. Iowa, 188 U.S.238.

"The receiver is the instrument of the Comptroller. He is appointed by the Comptroller, and the powers of the appointment carry with it the power of removal. It is for the Comptroller to decide when it is necessary to institute proceedings against the stockholders to enforce their personal liability, and whether the whole or a part, and if only a part, how much shall be collected. These questions are referred to his judgment and discretion, and his determination is conclusive. The stockholders cannot controvert it. It is not to be questioned in the litigation that may ensue. He may make it at such time as he may deem proper, and upon such data as shall be satisfactory to him." Mr. Justice Swayne in Kennedy v. Gibson, 75 U. S. (8 Wall.) 505.

The decisions of the Comptroller of the Currency are not subject to

collateral attack, nor is his assessment against shareholders, and the amount thereof open to review; but, on the contrary, neither the bank nor the shareholders, clearly in the absence of fraud charged and proved, are entitled to a judicial determination of any question involved in his decision either as to the solvency, the sum due creditors and the amount of assessments as ordered, such matters one and all being exclusively within the judgment and discretion of the comptroller, and as to which he acts in a quasi judicial capacity. Kennedy v. Gibson, supra, 75 U.S.498; Casey v. Galli, 94 U.S. 673; United States v. Knox, 102 U.S. (12 Otto) 422; Richmond v. Irons, 121 U.S. 27; Schrader v. Bank, 133 U.S. 67; Bushnell v. Leland, 164 U.S.684; Hightower v. Bank, 263 U.S. 351; Deweese v. Smith, (7th CCA) 106 Fed.438.

Moreover, upon the Comptroller appointing a receiver of a national bank, the receiver takes possession of the assets of the bank, and assumes control of its operation, not as agent of the bank, but as an officer of the United States. He executes bond to the United States for the faithful performance of his duties, and pays to the Treasurer of the United States the moneys collected, and makes to the Comptroller under whose supervision and control he disburses the funds to the credit of the insolvent bank, a full report of his acts and doings in the premises. In re Chetwood, Pet'r. 165 U.S.443, 458; United States v.Weitzel, 246 U.S. 533, and cases cited in each opinion.

Coming to the consideration of the second case, #2569, it is confined within a comparatively narrow compass, and really involves the question of the right to appeal from an order refusing to grant an injunction, What court should exercise this power, that is, the court that declined the injunction or the one to which the appeal is proposed to be taken, and the authority of courts acting in such circumstances? The relief

asked is based upon a written motion made by the parties who failed to secure an injunction to preserve the status quo, and stay the proceedings sought to be enjoined.

Whatever the proposed action may be termed technically, at least it is but an application to grant an appeal from an order refusing an injunction, which in effect seeks to stay or enjoin the doing of something when nothing has been done. The novelty of this situation would seem to be a sufficient answer to the same, save that the statute (Jud. Code, 1911, sec. 129, with amendments Rose's Fed. Pro. Secs. 3rd Ed. sec. 612, Hopkin's Jud. Code, sec. 129, 2nd Ed.) in terms provide for such an appeal. Provision for appeals from orders refusing injunctions was apparently first made by the act of 18th February, 1895, (28 St.L.,666). By subsequent act of 6th June, 1900 (31 St.L.,660) and a still later act of 14th of April, 1906 (34 St.L.,116) the provision for appeals from orders refusing injunctions was omitted, and next appeared in the Judicial Code of 1911, sec. 129 (36 St.L.,1134), and has remained substantially as at present, though this section has several times been amended.

Just the proper procedure for taking appeals from orders refusing to grant injunctions, and whether the same should be granted by the trial or the appellate courts, has brought about some divergence of views on the subject. In the Railroad Tax cases from North Carolina, the district court sought to afford the relief granted by postponing the day on which the order declining the injunction should have effect, leaving a reasonable time to apply to the supreme court for an appeal, if such action should be thought proper. Southern Railway Co. and other railroads, against Watts, et al., 259 U.S. 576. The supreme court concluded that as it was a matter of which the district court was advised, and that tribunal was not, the district court should act upon the application. The case was proceeded with on that

theory, the district court allowing the appeal, which operated in effect to grant the injunction originally asked for, by suspending the collection of the taxes involved pending decision on the merits; and the action of the lower court was subsequently affirmed. The precise conditions were recently before the supreme court in the case of the Virginian Railway Co. vs. The United States, and the United States vs. the Virginian Railway Co., decided December 13th, 1926; and in the latter case, the district court took the same action that it did in the North Carolina tax cases, that is, granted the appeal from an order declining an injunction. The supreme court quite fully reviewed the whole subject of procedure, and held that that court and the district court alike had the right to grant or refuse the appeal, and that in the particular case it should have been refused, and not granted; especially as the effect of granting the same operated not only to secure the relief that had been denied on the application for injunction, but because it stayed the enforcement of the order of the Interstate Commerce Commission, which had received the sanction of the district court by declining the injunction.

This decision in the Virginia Railway cases seems conclusive of this case, as there is nothing peculiar in the circumstances here that call for the granting of the relief sought in the circumstances. The Comptroller of the Currency has issued an order to proceed with the winding up of the affairs of the insolvent bank, by appointing a receiver and ordering the necessary assessment against the shareholders of the bank; and the district court having declined to enjoin this action because of the authority vested in the Comptroller, there was no reason why the court's action and that of the Comptroller in such circumstances should be stayed.

We are not prepared to say that there may not be cases in which the stay should be had, and the appeal granted, but we assume the decision in

the Virginian Railway Co. cases to mean that at least there should be special or unusual conditions making such course proper and necessary at the stage the same was asked for here. Hence, we hold that the granting of an appeal from the order refusing the injunction in the circumstances, was an unwise exercise of the discretion reposed in the court.

Case No. 2558 - Decree affirmed as to matter appealed from.

Case No. 2569 - Decree reversed as to matter appealed from.

X-4770

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

For immediate release at 3:30 P.M. January 13, 1927.

Mr. Owen D. Young, of New York City, has today been appointed by the Federal Reserve Board as a Class C Director and Deputy Chairman of the Board of Directors of the Federal Reserve Bank of New York. In order to accept this appointment Mr. Young has resigned his position as a Class B Director of the Bank, an office to which he was twice elected by the member banks of the district and which he has held since January 1st, 1923. Mr. Young has accepted the new appointment upon the unanimous request of the Federal Reserve Board, in which the directors and officers of the New York Bank most heartily concurred. Under the terms of the law his successor as a Class B Director will be determined by a special election of the member banks in Group 1, the banks in the district which have a capital and surplus in excess of $1,999,000.

The position to which Mr. Young has been appointed was, until recently, held by Mr. William L. Saunders, of Plainfield, New Jersey, whose term expired on December 31, 1926. Mr. Saunders has served as a Class C Director for ten years and as Deputy Chairman for five years. In recognition of the important service which he has rendered, the Board of Directors of the Federal Reserve Bank of New York adopted the following resolution at their meeting today:

> "Upon the retirement of Mr. William L. Saunders as a Class C Director and Deputy Chairman, his associates on the Board desire to express their appreciation of the unselfish and effective service which he has rendered during the past ten years.
>
> Distinguished as an engineer, inventor and industrial executive, he has given liberally of his time and energy to the affairs of the bank, and his broad knowledge and experience, coupl-

ed with sound judgment and tact, has enabled him to make a large contribution to the determination of its policies. The directors and officers will miss greatly his wise counsel and kindly personality."

Letter sent by Mr. Young to the committee appointed by the Bankers' Associations of New York, New Jersey and Connecticut on nominations for directors of the Federal Reserve Bank of New York:

"Dear Sir:

One year ago I was nominated and elected for a second term by the Group 1 Member Banks as a Class B Director of the Federal Reserve Bank of New York. There is, therefore, substantially two years of my term unexpired. It so happens that as of December 31, 1926, Mr. Pierre Jay resigned as Chairman of the Board of the Federal Reserve Bank of New York, and the term of Mr. William L. Saunders, a Class C Director of the Federal Reserve Bank of New York expired by limitation. Mr. Saunders had during his long term of service been designated by the Federal Reserve Board as Deputy Chairman of the Board of the Federal Reserve Bank of New York.

These two occurrences coming coincidently left the Board without a Chairman, and the Federal Reserve Board designated Mr. Clarence Woolley, the other Class C Director, to act as Deputy Chairman. Mr. Woolley, for personal reasons, felt unable to accept, for the remainder of his term, the Deputy Chairmanship. Thereupon the Federal Reserve Board, with the concurrence of the Secretary of the Treasury (the Chairman of the Federal Reserve Board) requested me to resign as a Class B Director of the Federal Reserve Bank of New York in order that they might appoint me a Class C Director, with the designation of Deputy Chairman. That request was concurred in by the Board of Directors of the Federal Reserve Bank of New York and by the executive officers of the bank.

Under such circumstances it seems to me that I was serving the Federal Reserve System and the New York Bank best, and therefore serving the banks which nominated and elected me best by acquiescence in the request. Accordingly, I wish to advise you that I will present my resignation as a Class B Director of the bank to the next meeting of this Board on Thursday, January 13, at which time I have no doubt of its acceptance.

I sincerely hope that you gentlemen whom I may regard as the representatives of the banks which elected me, will feel that I have acted wisely under the circumstances in resigning the Class B Directorship. May I also in this way communicate to you, and to those banks who were my constituents, my appreciation of the honor which you did me in choosing me for such a high and responsible office.

Very respectfully yours."

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4771

January 14, 1927

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

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-4771-a and X-4771-b, covering in detail operations of the main line, Leased Wire System, during the month of December, 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 DECEMBER, 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	37,933	964	38,897	5,778	-	33,119	3.77
New York	155,300	-	155,300	9,854	-	145,446	16.57
Philadelphia	43,662	950	44,612	4,915	-	39,697	4.52
Cleveland	83,811	2,363	86,174	5,931	-	80,243	9.14
Richmond	49,923	3,657	53,580	5,715	-	47,865	5.45
Atlanta	61,028	2,848	63,876	6,791	-	57,085	6.50
Chicago	115,041	3,373	118,414	7,874	-	110,540	12.59
St. Louis	79,664	2,603	82,267	5,967	-	76,300	8.69
Minneapolis	39,358	2,751	42,109	3,218	-	38,891	4.43
Kansas City	80,247	3,033	83,280	5,523	-	77,757	8.86
Dallas	64,872	5,590	70,462	3,256	-	67,206	7.66
San Francisco	110,678	2,812	113,490	9,751	-	103,739	11.82
Total	921,517	30,944	952,461	74,573	-	877,888	100.00%
F. R. Board			350,417	60,868		289,549	
Total			1,302,878	135,441		1,167,437	
Percent of Total			100.00%	10.40%		89.60%	

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-4771-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 Governor's Conference November 2 - 4, 1925.

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

X-4771-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	$ 768.42	$ 260.00	$ 508.42
New York	944.24	$ 3.00	-	947.24	3,377.39	947.24	2,430.15
Philadelphia	216.66	-	-	216.66	921.29	216.66	704.63
Cleveland	284.50	-	-	284.50	1,862.96	284.50	1,578.46
Richmond	199.00	-	-	199.00	1,110.85	199.00	1,116.52(&)
Atlanta	255.00	-	-	255.00	1,324.87	255.00	1,069.87
Chicago	3,945.00(#)	-	-	3,945.00	2,566.16	3,945.00	1,378.84(*)
St. Louis	200.00	-	-	200.00	1,771.24	200.00	1,571.24
Minneapolis	184.47	-	-	184.47	902.95	184.47	718.48
Kansas City	275.64	-	-	275.64	1,805.89	275.64	1,530.25
Dallas	251.00	-	-	251.00	1,561.30	251.00	1,310.30
San Francisco	370.00	-	-	370.00	2,409.22	370.00	2,039.22
Federal Reserve Board	-	-	$15,358.72	15,358.72	-	-	-
Total	$7,385.51	$ 3.00	$15,358.72	$22,747.23	$20,382.54	$7,388.51	$14,577.54
				2,364.69(a)			1,378.84(b)
				$20,382.54			$13,198.70

(&) Includes $204.67 for branch line business transmitted over main line circuit.
(#) Includes salaries of Washington operators.
(*) Credit.
(a) Received $2,364.69 from Treasury Department covering business for the month of December, 1926
(b) Amount re-imbursable to Chicago.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4772

January 14, 1927.

SUBJECT: Correspondence with Director of Veterans' Bureau.

Dear Sir:

There is attached hereto, for your information, copy of a letter which the Board addressed recently to the Director of the United States Veterans Bureau, together with a copy of his reply, both of which are self explanatory.

Very truly yours,

J. C. Noell,
Assistant Secretary.

To Governors of all F.R.Banks.

Enclosures:

(C O P Y)

UNITED STATES VETERANS' BUREAU

WASHINGTON

X-4772-a

January 11, 1927.

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

My dear Governor Crissinger:

I wish to acknowledge your letter of January 10, 1927, propounding certain questions in respect to loans on Adjusted Service Certificates.

The use of the term "bank" in Regulation No. 163 was deemed to include the Federal Reserve Banks where applicable and this Bureau will honor loans presented by such banks in the same manner as loans received from other banks will be redeemed. For this Bureau to assume a position that Federal Reserve Banks were not intended to be allowed to redeem notes when such notes are made eligible for discounting with the Federal Reserve Banks would, in my mind, have the effect of nullifying the intent of the Statutes.

In regard to the matter of honoring loans made to a person not authorized to receive such loan, I do not believe that the Bureau would be empowered to make payment thereon as the effect of redeeming these loans would be the same as paying on a forged instrument, which, of course, is directly contrary to all accepted procedure.

With kindest personal regards.

Very truly yours,

Frank T. Hines,
Director.

(COPY)

FEDERAL RESERVE BOARD
WASHINGTON

X-4772-b

January 10, 1927.

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

My dear General Hines:

The question has been raised as to what your policy will be with respect to paying to Federal reserve banks the amounts of notes representing loans made to veterans on the security of adjusted service certificates, which notes have been rediscounted with Federal reserve banks and left on their hands unpaid at maturity.

The Board is familiar, of course, with the statement of policy contained in subdivision (b) of Section 8 of your Regulation No. 163; but subdivision (a) of that paragraph states that if the veteran does not pay the loan at its maturity "the bank holding the note and certificate" may present the note to you for payment, and no specific mention is made of Federal reserve banks. It would seem that the word "bank" as here used would clearly include Federal reserve banks; but, in view of the fact that some question has been raised about the matter, I believe it would be desirable for you to give the Board a specific statement as to what your policy will be when such notes are presented to you for payment by Federal reserve banks.

The question has also been raised as to whether there would be any likelihood of your declining to pay a note presented by a Federal reserve bank when such note is accompanied by an affidavit of the lending bank stating 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, but the Veterans' Bureau discovers that the loan was not actually obtained by the veteran named in the certificate. In other words, the question has been raised whether under such circumstances there would be any likelihood of the Federal reserve bank suffering any loss in the event of the insolvency of the bank which rediscounted such note with the Federal reserve bank. A definite statement from you on this point will aid materially in clarifying the situation.

An early reply from you will be greatly appreciated and the substance thereof will be communicated promptly to all Federal reserve banks.

Very truly yours,

D. R. Crissinger
Governor.

FEDERAL RESERVE BOARD

WASHINGTON

X-4773

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 14, 1927.

SUBJECT: Receipt of Securities from Farm Loan Registrars by Federal Reserve Banks Acting as Fiscal Agents of the United States.

Dear Sir:

There are enclosed herewith for your information a copy of a letter from the Acting Secretary of the Treasury and a copy of the Board's reply thereto with reference to the receipt of securities for safe keeping from Farm Loan Registrars by Federal Reserve Banks in their capacities as Fiscal Agents of the United States. You will note that the Board states that it will make no objection to Federal Reserve Banks' accepting Government securities for safe keeping for the account of Farm Loan Registrars subject to the order of the Farm Loan Commissioner, if the Secretary of the Treasury requests that they do so as Fiscal Agents of the United States.

Very truly yours,

D. R. Crissinger,
Governor.

TO GOVERNORS OF ALL F.R.BANKS.

Enclosures:

(COPY)

FEDERAL RESERVE BOARD

WASHINGTON. X-4773-a

January 13, 1927.

Honorable Garrard B. Winston,
Acting Secretary of the Treasury,
Washington, D.C.

Dear Sir:

Reference is made to your letter of January 12th regarding the recent opinion of the Federal Reserve Board to the effect that Federal reserve banks are without legal authority to receive securities for safekeeping from Federal land banks or Federal farm loan registrars. You suggest that Federal reserve banks might properly accept Government securities for safekeeping, subject to the order of the Farm Loan Commissioner, for the account of farm loan registrars for specified Federal land banks or joint stock land banks upon authorization of the Treasury to do so as fiscal agents of the United States, and ask whether the Federal Reserve Board sees objection to handling the matter in the manner indicated.

The Federal Reserve Board feels that the question whether the receipt of securities for safekeeping for the account of farm loan registrars is a fiscal agency function which Federal reserve banks may perform, is a question properly for the determination of the Secretary of the Treasury and the Board is not disposed to question the decision which the Secretary may reach. If, therefore, the Secretary of the Treasury requests Federal reserve banks as fiscal agents of the United States to accept Government securities for safekeeping for the account of farm loan registrars subject to the order of the Farm Loan Commissioner, the Federal Reserve Board will have no objection to the Federal reserve banks performing this function.

Very truly yours,

D. R. Crissinger,
Governor.

(COPY)

T R E A S U R Y D E P A R T M E N T

WASHINGTON.

X-4773-b

January 12, 1927.

Dear Governor Crissinger:

I am enclosing herewith copy of letter of December 22, 1926, from the Farm Loan Commissioner, in regard to the recent opinion of the Board to the effect that the Federal Reserve Banks are without legal authority to receive securities for safekeeping from Federal Land Banks or Farm Loan registrars. You will note the Commissioner's statement in the enclosed letter to the effect that the failure of the Federal Reserve Banks to accept such securities for safekeeping would seriously interfere with the present method of handling Government securities held by registrars as collateral security for Farm Loan bonds.

While I do not question the conclusion reached by the Board in the matter as to the method heretofore observed, it would seem that the Federal Reserve Banks could accept Government securities for safekeeping subject to the order of the Farm Loan Commissioner account of Farm Loan registrars for specified Federal or Joint Stock Land Banks upon authorization of the Treasury to do so as Fiscal Agents of the United States, particularly as such registrars are stated to be "public officials" in Section 3 of the Federal Farm Loan Act.

I shall appreciate it, therefore, if you will advise me whether the Board sees objection to handling the situation in the manner above indicated.

Very truly yours,

(Signed) Garrard B. Winston
Acting Secretary of the Treasury.

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

Enclosure.

(COPY)

TREASURY DEPARTMENT
WASHINGTON

X-4773-c

Federal Farm Loan Bureau

December 22, 1926.

My dear Mr. Secretary:

Your attention is respectfully called to the attached copy of a letter from President D. P. Hogan of the Federal Land Bank of Omaha, Nebraska, enclosing a copy of a letter from Secretary Walter L. Eddy, of the Federal Reserve Board, advising the Federal Reserve Banks that they have no authority to receive, from Federal Land Banks or from Farm Loan Registrars, deposits of securities for safekeeping.

Failure of the Federal Reserve Banks to accept such securities for safekeeping will seriously interfere with our method of handling Government securities held by Registrars as collateral security for Farm Loan Bonds. I hope the Federal Reserve Board will allow the present arrangement to continue, until we can perfect other plans, or secure an amendment to the Act. Will you please confer with other members of the Federal Reserve Board and advise me of their attitude.

Yours very truly,

(sgd) A. C. WILLIAMS

Farm Loan Commissioner

Honorable Andrew W. Mellon,
Secretary of the Treasury.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4775

January 19, 1927

SUBJECT: Weekly Reports of Amounts Due to and Due from Banks.

Dear Sir:

It has been felt for some time past that the figures which are reported each week by member banks in leading cities, other than Federal reserve bank cities, have not been adequate to permit the drawing of reasonably satisfactory conclusions regarding local banking conditions, principally because of the lack of information regarding the movement of funds into and out of the respective localities. The Board has therefore decided to ask you to have all of the reporting member banks in leading cities, instead of only those in Federal reserve bank cities as at present, show amounts due to banks and bankers and amounts due from banks and bankers in their weekly condition reports.

Accordingly it will be appreciated if you will instruct reporting member banks in your district to show these figures in their reports beginning with February 2. The information should be reported to the Board against the same code words as are now used for reporting this information for Federal reserve bank cities, i.e., HUPE for amounts due to banks and bankers, and HOTE for amounts due from banks and bankers. Upon receipt of these figures the Board will show amounts due to banks and amounts due from banks for all reporting member banks and for reporting member banks in New York City and in Chicago on page 2 of the weekly statement. On page 3 of the weekly statement amounts due to banks and amounts due from banks will be shown for all reporting member banks in each district, instead of for reporting member banks in Federal reserve bank cities only as at present.

Very truly yours,

Walter L. Eddy,
Secretary.

TO ALL F. R. AGENTS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

67

X-4776

January 19, 1927

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

Dear Sir:

In its circular letter of December 30, 1925 (X-4484), the Federal Reserve Board ruled 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 sibsidiaries. The substance of that ruling may be stated as follows:

> "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."

In accordance with a recommendation made at the recent Governors' Conference, the Federal Reserve Board now revokes in toto the ruling contained in its letter of December 30, 1925 (X-4484) and rules in lieu thereof as follows:

> Where the borrower is a parent corporation having a number of subsidiaries and the parent corporation and its subsidiaries are in practical effect one single organization, and may with propriety be considered a single borrower, the paper of such parent corporation, the proceeds of which have been used or are to be used by the parent corporation or by the subsidiary corporations for an industrial, commercial or agricul-

tural purpose, within the meaning of the Federal Reserve Act and the Board's Regulations, may be considered eligible for rediscount if it complies in all other respects with the provisions of the law and the Regulations of the Federal Reserve Board.

Very truly yours,

D. R. Crissinger,
Governor.

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

X-4777

69

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 20, 1927.

SUBJECT: Holidays during February, 1927.

Dear Sir:

On Saturday, February 12th, Lincoln's birthday, there will be neither Gold Settlement Fund nor Federal Reserve Note clearing, and the books of the Board will be closed. For your information, the offices of the Board and the following Federal Reserve Banks and Branches will remain open for business as usual:

Boston	St. Louis Little Rock
Richmond Baltimore	Kansas City Oklahoma City
Atlanta New Orleans Birmingham Jacksonville	Portland

On Tuesday, February 22nd, Washington's birthday, the offices of the Federal Reserve Board and all Federal Reserve Banks and Branches will be closed.

Kindly notify Branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F.R.BANKS.

FOREIGN BRANCHES OF AMERICAN BANKING INSTITUTIONS.

Bankers Trust Company, New York, N. Y.

Branches:	France:	Paris
	England:	London

Equitable Trust Company, New York, N. Y.

Branches:	England:	London
	France:	Paris
	Mexico:	Mexico City

Chase National Bank, New York, N. Y.

Branches:	Cuba:	Havana
	Panama:	Panama City
	Canal Zone:	Cristobal

Farmers Loan and Trust Company, New York, N. Y.

Farmers Loan and Trust Company, Ltd., London, England (two offices) a British Company; all stock owned by Farmers Loan and Trust Company, New York, N. Y.

Representatives: Paris, France

First National Bank, Boston, Mass.

Branches:	Argentina:	Buenos Aires
	Cuba:	Havana

Guaranty Trust Company, New York, N. Y.

Branches:	England	London (three offices)
		Liverpool
	Belgium:	Antwerp
		Brussels
	France:	Paris
		Havre

National City Bank of New York, New York, N. Y.

Branches:	Argentina:	Buenos Aires
		Rosario
	Belgium:	Antwerp
		Brussels
	Brazil:	Pernambuco
		Rio de Janiero
		Santos (Agency)
		Sao Paulo
	China:	Canton
		Dairen
		Hankow
		Harbin
		Hongkong
		Peking
		Shanghai
		Tientsin

National City Bank of New York, New York, N. Y. (continued)

Branches:

Cuba:
- Caibarien
- Camaguey
- Cardenas
- Ciego de Avila
- Cienfuegos
- Florida
- Guantanamo
- Manzanillo
- Matanzas
- Santa Clara
- Havana - City Branch
  - Belascoain
  - Galiano
  - Cuatro Caminos
  - La Longa
- Moron
- Nuevitas
- Palma Soriana
- Pinar del Rio
- Remedios
- Sagua la Grande
- Sancti Spiritus
- Santiago
- Vertientes
- Yaguajay

Chile:
- Santiago
- Valparaiso

Dominican Republic:
- Barahona
- La Vega
- Puerto Plata
- San Francisco de Macoris
- San Pedro de Macoris
- Santiago de Los Caballeros
- Santo Domingo City

England:
- London - City Branch
- West End Branch

France:
- Paris (National City Bank (France) S.A., subsidiary of National City Bank of New York)

India:
- Bombay
- Calcutta
- Rangoon (Burma)

Italy:
- Genoa
- Milan

National City Bank of New York, New York, N. Y. (continued)

Branches	Japan:	Kobe
		Tokyo
		Yokohama
		Osaka
	Java:	Batavia
	Panama:	Colon
		Panama
	Peru:	Lima
	Porto Rico:	San Juan
	Straits Settlements:	Singapore
	Uruguay:	Montevideo
	Venezuela:	Caracas

BRANCHES OF FOREIGN BANKING CORPORATIONS OPERATING UNDER AGREEMENT WITH THE FEDERAL RESERVE BOARD

Bank of Haiti, Inc. (Subsidiary of National City Bank of New York, holding stock of Banque Nationale de la Republique d'Haiti, operating at the following points in the Republic of Haiti:

Port au Prince (Head Office)
Aux Cayes
Cape Haitian
Gonaives
Jacmel
Jeremie
Petit Goave
Port de Paix
St. Marc
Aquin (Agency)
Miragoane (Agency)

Equitable Eastern Banking Corporation (Subsidiary of Equitable Trust Company, New York, N. Y.)

Branches:	China:	Shanghai
		Hongkong

International Banking Corporation (Subsidiary of National City Bank of New York, N. Y.)

Branches:	China:	*Hankow
		*Peking
		*Shanghai
		*Tientsin
	England:	London
	Spain:	Barcelona
		Madrid
	Philippine Islands:	
		Cebu
		Manila

*Non-banking offices. Exercise note issuing function only

National City Bank (France) S. A. (Subsidiary, in Paris, of National City Bank of New York, N. Y.)

Federal Reserve Board,
January 1, 1927.

EXCERPTS FROM THE INAUGURAL ADDRESS OF THE GOVERNOR OF IOWA, HONORABLE JOHN HAMMILL, TO THE FORTY-SECOND GENERAL ASSEMBLY, DELIVERED AT DES MOINES, IOWA, JANUARY 13th, 1927.

BANKING

"Accordingly I recommend:

(a) That proposed subscribers to capital stock of State banks must furnish a financial statement showing they are worth at least two times, over and above their exemptions, in unincumbered property the amount of their stock subscriptions; the Banking Department to be required not only to investigate the financial circumstances of subscribers to stock, but to determine whether or not they are the character of men who have and will hold the respect and confidence of the community as bankers. Subsequent statements of financial conditions of stockholders to be furnished semi-annually and filed with the Banking Commissioner.

(b) The stockholders should be required to deposit with the Banking Department securities defined by law to insure the prompt and full payment of any assessment which they may be called upon in the future to pay. This requirement should be made effective at once on any NEW banks or TRANSFER of stock in old banks, stockholders in existing banks to receive not to exceed six per cent annual dividends until this assessment liability is put up in approved securities as aforesaid, which assessment liability requirement might be met either by the stockholder himself or by the bank from its future earnings, acting in his behalf.

(c) Good banks should be made out of going banks rather than of closed banks. The laws of some states and the proposals that have been submitted, proceed from the starting point which has to do with closed banks. We should give our attention to studying the situation as regards live, active institutions, and those yet to be formed giving, however, due regard to the liquidation requirements of closed banks.

(d) I recommend that the entire capital of a bank be paid in before a bank can transact business; that the capital requirements be raised to $25,000.00 for cities of 3,000 or less, $50,000.00 for cities of 6,000 or less, and $100,000.00 for cities having a population over 6,000. Such capital must be paid in full before the transaction of business, together with an additional subscription of 10 per cent to cover organization expenses, etc., which it is unlikely immediate earnings of a new bank may meet. No dividend should be declared until a surplus of 20 per cent has been built up, and thereafter 20 per cent of the net earnings each year should be set aside until a 50 per cent surplus has been created. A requirement this drastic is not common in banking statutes, and is for the purpose of preventing distribution of earnings as dividends until proper reserves have been set up to protect against unforeseen contingencies. Experience has shown

75

that in times past some banks have been too prone in prosperous years to declare dividends to the full earning capacity, without regard to the possibility of less prosperous periods, during which losses might be incurred.

(e) Officers and particularly directors should give greater attention to the business of the bank. Directors should be held personally liable for any losses resulting from unlawful acts in the management of the bank which they have in any sense approved or ratified. We should surround the operations of the State Banking System with such safeguards and resolutions as will promote better banking, solely without regard to the conveniences and likes or dislikes of the bankers, as they are semi-public servants, but not to so couch the terms of the law as will result in unnecessarily hampering legitimate business transactions to the detriment of the public interest. Iowa industry, agriculture and livestock pursuits must function. Iowa capital must be conserved and made available for the development and operation of Iowa's resources. Remove the present facilities of the State banking system, without a sufficient substitute, and these industries, on which so many depend, could not continue.

(f) That the ratio of capital to deposits is also sufficient to provide a reasonable margin of safety to depositors.

After making a survey of the conditions surrounding some failed banks, it is my opinion that one of the local causes of bank failures is the fact that officers of the bank have been interested in side ventures and have either borrowed or loaned funds of the bank in cases where they were directly or indirectly financially interested. This practice has occurred in many instances with the managing officer of the institution. The first thought is to restrict the operations of the managing officer of a banking institution to the business of the institution which he represents. Restraint to this extent may be unconstitutional. We should, therefore, reach this situation by restricting the loans, the advances that may be made by a banking institution in such cases, and it should be made unlawful for a bank in this State to loan to a director, officer, or employee thereof, or for a director, officer or employee thereof to borrow from the bank any of its funds, except subject to the following limitations:

1. The indebtedness of an officer, other than a director or an employee, shall not exceed five per cent of the paid-up capital stock and surplus of the corporation.
2. No such loan shall be made without first being approved by a majority of the board of directors at a meeting in the minutes of which such approval shall be recorded in detail. Every such loan shall be acted upon in the absence of the applicant.
3. The combined indebtedness of directors, officers and employees shall not exceed forty per cent of the paid-up capital stock and surplus of the corporation.
4. No officer who is actively engaged in the management of any bank, or any employee, shall BORROW any amount whatever from or discount any note or other commercial paper with the bank by whom employed, except upon good

collateral, or other ample security or endorsement; and no such loan or discount shall be made until after it has been approved by a majority of the directors or a committee of the board of directors authorized to act.

5. No officer who is actively engaged in the management of any bank, or any employee, SHALL MAKE ANY LOAN for the bank by whom employed in which said officer or employee is personally or financially interested, directly or indirectly, for his own account, for himself, or as the partner or agent of others, except upon good collateral, or other ample security or endorsement, and no such loan shall be made until after such personal interest shall have been disclosed to the board of directors and that fact shown by the minutes of the meeting of the board of directors, and the loan approved by a majority of said board of directors.

It should also be provided that if the directors of any bank permit any of the directors, officers or employees thereof to borrow its funds, or discount notes on commercial paper, in violation of the foregoing recommendation or in an excessive amount, or in a dishonest manner, or in a manner incurring great risk or loss to such bank, any director who participated in or assented to the same should be liable personally for all damage which the bank or its shareholders may sustain by reason of such loan.

The bank failures in the state have brought forth the question of a compulsory guarantee of bank deposits. I know of no model bank guaranty law. Only eight states out of the Union have ever attempted such a law. No state has passed such an Act since 1917. All such laws were put to the test when the general period of deflation set in in 1920. Since that time the failure of at least half a dozen or more of them has been calamitous. Whatever the cost of thoroughly competent and efficient bank examinations, it is a proper charge against banks. Whatever laws are devised to make sure that banks are given this sort of supervision, they will have economic justification. Adequate examination and control encourage good banking and discourage bad banking. Bank guaranty laws work contrariwise.

I am inclined to the belief that the soundest and most effective safeguard to bank deposits is a mutual examination system similar to the one devised by the Chicago Clearing House Association. This system has been in effect in Chicago for a number of years and has been accepted by the banks thereof, and while there have been occasional failures, no depositor of a member bank has ever lost a dollar since the examination system was established. I believe it is feasible to divide the State into districts and to organize the banks in each district into a mutual examination association, which can make use of the clearing house system effectively. Once institute such an organization and the strong banks would get in for the possible advantage that it would offer. Then competition would force other banks to become strong enough to warrant membership.

The bankers and the bank depositors of each State should make sure that the bank examinations department is efficiently managed and amply provided with men and money. As the banks themselves pay all the costs of the department, the public cannot object to this. In my judgment if they would do this, they would set up the soundest and most effective instrument of safeguarding deposits yet devised.

Our own Banking Department needs more men and money to hire still more competent men. The head of the department should be able to earn and he should be paid as much as the president of a good sized bank. Under such conditions we should have no epidemic of bank failures and no demand for a guaranty law. Iowa should adopt a banking policy that is sound, that will make each banker stand for a policy that will protect his own bank and the depositors therein.

Let us apply ourselves to develop and encourage better bankers, more careful examination of banks and require banking laws to be more rigidly enforced. The responsibility of the poor banker and the fraudulent banker should not be charged to the honest and efficient banker or the public in general.

Let us be fair and remember again that the economic conditions through which we have been passing have been unprecedented. Borrowers, whether business, professional men or farmers representing in normal times some of our financially strongest and best citizens, have, due to existing conditions become financially embarrassed or "gone broke." Credit has been extended to them legitimately and in good faith. These borrowers have been unable to pay their notes or interest. The stockholders of banks throughout the State have been making up those losses so far as they could and in a vast number of instances have themselves GIVEN THEIR ALL in the effort to make up those losses caused by legitimate borrowers, in order that their banking institution might survive and their depositors be protected.

Proper experience, proper financial ability, proper business integrity on the part of the banker, has, does now, and always will safeguard the depositors' funds. The essential thing, the paramount necessity, is that legislative action should enhance rather than nullify the necessity for such, as all of the banking experiences of the country in all these years have demonstrated the soundness of this contention and the futility and the danger of banking sedatives.

Affirmative legislative specifications concerning investment of a bank's funds are dangerous and offer an opportunity for unsound banking, while broad general restrictions as to investment of any and all of the funds of the bank, provide a feasible and necessary protection to depositors.

With these indispensable qualities our financial institutions should and will attain adequate strength and be best able to serve the fundamental interests of the commonwealth."

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

STATEMENT FOR THE PRESS

For release in Morning Papers,
Thursday, January 27, 1927

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

Volume of output of industry decreased further in December to the lowest level in more than a year, and wholesale prices continued to decline. Easier conditions in the money market in January reflected the usual seasonal liquidation after the turn of the year.

Production.- In December, for the third consecutive month, there was a decrease in industrial production, and the Board's new index, with adjustment for seasonal variations, was 105 on the basis of the average for 1923, 1924, and 1925 as 100. This compares with 113 in September, the high point of the year, and with 108 a year ago. The decline since the recent high point has been entirely in the manufacturing industries, as the output of minerals was at a record high level in November and showed only a slight decline in December. By far the greatest recession of recent months has been in the automobile industry, output of passenger cars and trucks in the United States decreasing from 425,000 in August to 165,000 in December. Reduction in the manufacture of automobiles is usual at the end of the year, when plants close for inventory taking and repairs, but in December, 1926, the decline was considerably larger than usual. Production of iron and steel has also been sharply reduced since the middle of autumn, and activity in the woolen and worsted and silk industries has been somewhat curtailed. Production of lumber, cement, and other building materials has reflected the usual winter decrease in demand. Cotton consumption, on the other hand, was larger than in any previous December.

Factory employment and payrolls declined further in December, reflecting de-

creases in nearly all industries except cotton goods, clothing, foundries and machine shops, and printing and publishing.

The value of building contracts awarded in December, as in November, was larger than in the corresponding period a year earlier, but for the first three weeks of January contracts were in smaller volume than during the same weeks of 1926. This decline in January was largely concentrated in the New York and Atlanta Federal reserve districts, where building was unusually active a year ago. Residential contracts were smaller in December than a year earlier in nearly all districts, the increase in the total for the month being in other types of building.

Trade.- Retail sales during the holiday trade in December exceeded all previous records. Sales of department stores were approximately 4 per cent larger than in December of last year, and sales of mail order houses, while slightly smaller than in 1925, were larger than in the corresponding month of any other year. Sales at wholesale, on the other hand, declined in December and were smaller than a year ago in practically all leading lines, except shoes. Merchandise stocks carried by department stores were reduced slightly more than is usual in December and were somewhat smaller at the end of the month than in 1925, and wholesale stocks were also slightly smaller than a year ago.

Freight car loadings showed about the usual seasonal decline in December, with shipments of all groups of commodities, except coal and merchandise in less than car load lots, in smaller volume than a year earlier.

Prices.- Wholesale prices declined further in December, and the Bureau of Labor Statistics index at 147 for that month was at the lowest level since the middle of 1924. Prices of agricultural products, which declined considerably in October and November, increased slightly in December, owing to advances in prices of grains and cattle. In the first three weeks of January there were further increases in grains, and advances also in cotton, hogs, and flour. Prices of non-agricultural products declined in December owing chiefly to de-

creases in bituminous coal, clothing materials, nonferrous metals, and building materials. In January iron and steel prices were slightly reduced and there were further declines in bituminous coal and nonferrous metals, while prices of cotton goods and coke advanced.

Bank Credit.- At the reserve banks during the four weeks following the peak of the seasonal currency demand, there was a return flow of Federal reserve notes and other cash from circulation amounting in the aggregate to about $400,000,000. This return flow of currency was in about the same volume as a year ago, and, together with substantial gold imports, was reflected in a reduction of the volume of reserve bank credit in use to a level on January 19 lower than at any time since the summer of 1925.

Loans and investments of member banks in leading cities, after increasing to a record level at the end of the year, declined sharply in January. Commercial loans, which had reached their seasonal peak in November were in the middle of January about $200,000,000 below the maximum figure but still more than $300,000,000 above the level of a year ago. Loans on securities of the reporting banks also declined after the turn of the year following a large increase in December and were slightly smaller than in January of last year.

Easier money conditions prevailed in the money market in January, and rates on prime commercial paper declined from 4 1/2 to 4 1/4 per cent, and those on bankers' acceptances from 3 7/8 to a range of 3 5/8 - 3 3/4 per cent.

R E S O L U T I O N

X-4783

Adopted By

FEDERAL RESERVE BOARD,

At Meeting January 27, 1927.

WHEREAS, by a resolution adopted at a meeting held on June 27, 1923, and amended at a meeting held on July 30, 1923, the Federal Reserve Board authorized the Federal Reserve Bank of Atlanta and the Federal Reserve Bank of Boston to establish separate agencies in Havana, Cuba, subject to certain terms and conditions defining the respective rights and powers to be exercised by each such Federal reserve bank through such agencies;

WHEREAS, pursuant to such authority, the Federal Reserve Bank of Boston and the Federal Reserve Bank of Atlanta each established an agency in Havana, Cuba, which agencies were opened for business on September 1, 1923;

WHEREAS, by a resolution adopted at a meeting held on December 22, 1926, and becoming effective on January 1, 1927, the Federal Reserve Board authorized the Federal Reserve Bank of Boston to discontinue its agency in Havana, Cuba, and authorized the Federal Reserve Bank of Atlanta to assume, exercise, and perform, in its own right and on its own behalf, through its agency in Havana, Cuba, all of the duties, functions, rights, powers and privileges previously performed or exercised by the Federal Reserve Bank of Boston through its agency in Havana, Cuba, in addition to the duties, functions, rights, powers and privileges then being performed or exercised by the Federal Reserve Bank of Atlanta through its agency in Havana, Cuba;

WHEREAS, effective January 1, 1927, the agency of the Federal Reserve Bank of Boston in Havana, Cuba, was discontinued and the duties, functions, rights, powers and privileges previously performed or exercised by the Federal Reserve Bank of Boston through such agency were assumed by the Federal Reserve Bank of Atlanta and have since been exercised and performed by the Federal Reserve Bank of Atlanta through its agency in Havana, Cuba;

WHEREAS, it now appears desirable to change in some respects the duties, functions, rights, powers and privileges to be exercised by the Federal Reserve Bank of Atlanta through its agency in Havana, Cuba;

NOW, THEREFORE, BE IT RESOLVED BY THE FEDERAL RESERVE BOARD, that, effective March 1, 1927, the Federal Reserve Bank of Atlanta is hereby authorized to maintain and operate its agency in Havana, Cuba, subject to the following terms and conditions:

(1) The Federal Reserve Bank of Atlanta is authorized to exercise the following powers in Havana, Cuba, through such agency:

(a) To buy, sell and collect prime bankers' acceptances and prime bills of exchange, which accept-

ances and bills are payable in dollars, arise out of actual import or export transactions, bear the signatures of two or more responsible parties, bear a satisfactory bank endorsement, have not more than 90 days to run, exclusive of days of grace, and are secured at the time of purchase by shipping documents evidencing the actual import or export and the actual sale of goods and conveying or securing title to such goods;

(b) To buy from, or sell to, the Republic of Cuba or any banking institution doing business in Havana, Cuba, cable transfers to or from any banking institution located in any city in the United States in which there is located a Federal Reserve Bank or a branch of a Federal Reserve Bank, charging therefor a commission at the rate of $1.00 per $1,000; Provided, that no such cable transfer shall by its terms be for credit to the account of any third party;

(c) To pay out Federal Reserve notes or other currency of the United States in such denominations as may be demanded in payment of cable transfers to Havana, or in payment of cable transfers, bankers' acceptances, or bills of exchange purchased in Havana, the kinds of currency paid out to be discretionary with the agency;

(d) To accept any and all kinds and denominations of United States currency, including Federal Reserve notes, in payment for cable transfers, bankers' acceptances, or bills of exchange sold by it in Havana;

(e) To make direct exchanges in like denominations and amounts of new or fit currency for mutilated or unfit currency tendered by the Treasury of the Republic of Cuba or by any banking institution doing business in Havana, charging for such exchanges a commission at the rate of $1.00 per $1,000; and

(f) To exercise only such incidental powers as shall be necessary to the exercise of the above powers;

(2) The maintenance and operation of such agency in Havana, Cuba, by the Federal Reserve Bank of Atlanta and the exercise of the above powers through such agency shall be subject to such changes and such further rules and regulations as the Federal Reserve Board may prescribe from time to time;

(3) The Federal Reserve Board expressly reserves the right to revoke at any time its consent to the continuance of such agency by the Federal Reserve Bank of Atlanta, to require the discontinuance of such agency, or to authorize the establishment of new agencies whenever in its discretion it considers it desirable to do so;

BE IT FURTHER RESOLVED that, effective March 1, 1927, this resolution shall supersede the resolution on this subject adopted by the Federal Reserve Board on June 27, 1923, and amended on July 30, 1923, and the resolution on this subject adopted by the Federal Reserve Board on December 22, 1926.

FEDERAL RESERVE BOARD

WASHINGTON X-4784

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 29, 1927.

SUBJECT: Eligibility of Certain Notes Secured by Adjusted Service Certificates.

Dear Sir:

One of the Federal Reserve Banks recently addressed the Board with reference to the eligibility for rediscount of a note secured by an adjusted service certificate upon which interest had been collected in advance at a rate which in terms of true interest would bring the yield upon the note within the limitations prescribed by the World War Adjusted Compensation Act.

While the question raised apparently required an interpretation of the Board's Regulations the correct interpretation of the Regulations necessarily depended upon the position that the Director of the United States Veterans Bureau would take in the event that notes representing loans made to veterans under the circumstances described were presented to him for payment under Section 502 of the World War Adjusted Compensation Act. In view of this fact, the Board requested the Director of the Veterans Bureau to advise it whether payment would be made on the notes described in the event they were presented to him, and the Director replied that the Veterans Bureau will honor such notes and make redemption upon proper presentation.

In view of the position of the Director of the Veterans Bureau, the Board is of the opinion that the notes described are eligible for rediscount by Federal Reserve Banks.

Very truly yours,

Walter L. Eddy,
Secretary.

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

No. 122.

In the Supreme Court of Arkansas, Jan. 24, 1927

Rainwater, Bank Commissioner Vs Federal Reserve Bank of St. Louis.

SMITH, J.

The Little Rock Branch of the Federal Reserve Bank of St. Louis, hereinafter referred to as the Reserve Bank, filed a complaint which contained the following allegations. The Reserve Bank is a corporation created by an Act of Congress approved December 23, 1913, popularly known as the Federal Reserve Act, and among its functions is the collection of all items payable in its district when received from member banks and other federal reserve banks. The Peoples Bank of Ozark, Arkansas, is a corporation created under the laws of Arkansas, and was engaged in the banking business at Ozark, Arkansas. Under the Federal Reserve Act all national banks are required to become member banks of the Federal Reserve System, and all state banks and trust companies which are eligible may become members, and all member banks are required to clear at par items drawn on or payable at their respective banks. Nonmember banks voluntarily agreeing to do so are permitted to enter into an agreement with the Federal Reserve Bank to clear at par all items drawn on or payable at such nonmember banks when sent direct to them.

The Peoples Bank was not a member of the Federal Reserve System, but was a party to an arrangement existing between nonmember banks and the Federal Reserve Bank and branches whereby the Federal Reserve Bank of St. Louis agreed that, through its Little Rock Branch, it would send through the United States Mail direct to the Peoples Bank and other nonmember banks, as the Federal Reserve Bank's agent, for collection and remittance, all items drawn on or payable at such nonmember banks, and that remittances for collections could be

made either by the shipment of money at the expense of the Federal Reserve Bank, or by exchange acceptable to the Federal Reserve Bank. It was a part of the agreement on the part of the Peoples Bank (and other nonmember banks) that it would, as agent of the Reserve Bank, present such items as were drawn on it to itself for collection and if the drawer had sufficient funds on hand to entitle the payment of the draft, to pay it to itself as collection agent of the Reserve Bank, and immediately remit the funds so collected, and in the case of the Peoples Bank the agreement was that the remittance should be made to the Little Rock Branch either by shipment of money, or by furnishing satisfactory exchange, and would cause to be protested and return all items it was not willing to pay or could not collect.

The arrangement recited had been in operation for some time, when on January 20, 1926, the Reserve Bank forwarded to the Peoples Bank, endorsed "for collection and remittance," its certain cash letter containing items aggregating $2,569.71. The Peoples Bank collected $2,502.46 worth of these items, and on January 21, 1926, forwarded to the Reserve Bank its draft drawn on the Bankers Trust Company of Little Rock for the amount collected. On January 21, 1926, the Reserve Bank forwarded to the Peoples Bank, endorsed, "for collection and remittance," a cash letter containing items aggregating $2,503.51 of which the Peoples Bank collected $2,458.76, and on January 22, 1926, forwarded to the Reserve Bank its draft for the amount of the collection on the Grand National Bank of St. Louis, Missouri. In each case the uncollected items were also returned.

The Reserve Bank, upon receipt of the respective remittance drafts, duly presented the same to the Bankers Trust Company of Little Rock and the Grand National Bank of St. Louis for payment, and payment was refused and the drafts protested. In the meantime the Peoples Bank had been closed by order

of the State Banking Department and placed in its hands for liquidation.

At the time these items were collected by the Peoples Bank, the drawers and makers thereof had on deposit with the Peoples Bank funds sufficient to pay them, and the Peoples Bank had sufficient funds in its vault and with solvent correspondents to have paid the items, although the account of the Peoples Bank with the Grand National Bank was at the time overdrawn.

After the Bank Commissioner had reconciled the various correspondent bank balances as of the date of closing on January 22, 1926, the date on which the Commissioner took charge of the Peoples Bank, it was found that the true amount of balances due from all banks amounted to $7,738.99, and that the cash in the vault of the Peoples Bank amounted to $8,155.59. At no time between the collection of the items contained in the cash letters referred to and the time the liquidating agent took charge had the cash in the Peoples Bank been less than $8,155.59, nor the balances with solvent correspondents been less than $7,738.99. The total assets of the Peoples Bank at the date of closing amounted to $197,-374.37. Its liabilities were not shown.

The Reserve Bank, acting on the request of and as the agent for its immediate endorsers and the owners of the respective items, filed a claim with the Bank Commissioner in the manner required by law and prayed that the claim so filed be allowed as a preferred claim. The claim was approved by the Bank Commissioner as a common claim, leaving the court to determine whether the claim is a preferential one.

It was stipulated that the facts as recited in the complaint were true, and, in addition, it was further stipulated that the items involved in the cash letters referred to in the complaint were items drawn on or payable at the Peoples Bank, and were collected by charging the accounts of the makers, and that there were no bills-of-lading or similar instruments accompanying any of the items.

Upon the facts so stipulated to be true it was prayed that the court decree that the claim of the Reserve Bank is entitled to a preference, and the Bank Commissioner be directed to allow it as such. The court granted the relief prayed, and the Bank Commissioner has appealed.

It is first insisted that the Reserve Bank was without authority to sue, for the reason that a statute of this State requires that every action must be prosecuted in the name of the real party in interest (Section 1089 C. & M. Digest) except as provided in certain other sections which it is insisted do not apply.

We think, however, that the Reserve Bank had the right to sue. The Reserve Bank had been constituted the agent of the owners, and was the legal holder of the various items, all of which had been accepted and an abortive attempt had been made to pay. The agency was not discharged until the purpose of the agency had been accomplished, which was to make the collections and to remit the proceeds.

Section 1092 C. & M. Digest provides that "An executor, administrator, guardian, trustee of an express trust, a person with whom, or in whose name, a contract is made for the benefit of another, or the state or any officer thereof, or any person expressly authorized by the statute to do so, may bring an action without joining with him the person for whose benefit it is prosecuted. We think the relation of the Reserve Bank to the items sued on is such under the facts stated as to make the statute quoted applicable.

The owners of the respective items cannot recover from the drawers direct, for the reason that the Peoples Bank has collected the amounts thereof from the drawers and has charged to them their canceled checks duly marked paid. Loth V. Mothner, 53 Ark. 116. Nor can the owners of these claims after their allowance by the Bank Commissioner maintain suit thereon, for they have expressly

authorized this suit to be filed by the Reserve Bank for their benefit.

In the case of Second National Bank of Baltimore V. Bank of Alma, 99 Ark. 386, the facts were that the Judge Machine Company deposited to its account with the Second National Bank of Baltimore a draft, with bill-of-lading attached, on the Alma Canning Company. The Baltimore bank sent the draft, with the bill-of-lading attached, to the Bank of Alma for collection, which last-named bank surrendered the bill-of-lading without collecting the draft. The Baltimore bank brought suit against the Bank of Alma for the face value of the draft, and, among other defenses, it was insisted that the Baltimore bank had no capacity to sue. It was there said: "It (the Baltimore bank) had the right to sue in its own name for any default of the defendant (the Bank of Alma) by reason of which any liability was incurred by it to the Judge Machine Company, and it also had the right to institute suit against the defendant for any loss which it caused by reason of a breach of duty committed by it in collecting the draft, because the title thereof had been actually transferred to it, although for collection, by the Judge Machine Company".

Upon the question of the right to preference respective counsel have filed elaborate briefs, which review many authorities, It may be said that these authorities are in hopeless conflict and it is impossible to reconcile them.

We do not review these cases because in the case of Darragh Co. V. Goodman, 124 Ark. 532, we announced the principles which are controlling here. Two cases were involved in that appeal, but as they presented the same legal questions they were disposed of as a single case. It will suffice, therefore, to state the facts in a single one of them.

The First National Bank of Atchison, Kansas, sent drafts with bills-of-lading attached on Darragh Company of Little Rock to the State National Bank for

collection. This bank, of which Darragh Company was a customer, presented the drafts on June 15, 1914, and they were paid by that company's checks on the collecting bank, which charged the checks against the account of the payer and sent its drafts on the National Bank of Commerce of St. Louis to cover the collection. Immediately upon receipt of the exchange the Kansas bank forwarded it to St. Louis for collection, but before it reached there the State National Bank had suspended business and payment of the draft was refused by the St. Louis bank because of the failure of the drawer.

During the day and before the close of business on June 15, 1914, the State National Bank had on hand over $32,000.00 in cash, and when it closed its doors it had $7,000.00 in cash which went into the hands of the receiver who took charge of the assets of the bank. This sum was the lowest amount of cash the defunct bank had on hand at any time after the collection of the drafts. The Chancery court held that the collection constituted a trust fund and ordered it paid out of the cash going into the hands of the receiver to the exclusion of the general creditors of the bank.

It was contended there, as it is here, that the transaction detailed created only the relation of debtor and creditor, and that the collection did not become a trust fund because the funds of the bank were not augmented. It was insisted that the Federal Courts had so held and that we should follow the decisions of the Federal courts so holding.

These contentions were not sustained. And in the opinion holding to the contrary it was said that while a general deposit of money in a bank passes the title immediately to the bank and establishes the relation of debtor and creditor between the bank and the depositor, yet where a bank receives a draft for collection merely, it is the agent of the remitter, drawer or forwarding bank, and takes no title to the paper, or the proceeds when collected, but

holds the same in trust for the purpose of remitting it.

It was there recited that the drafts were sent for collection only and with the expectation that the proceeds of the collection should be remitted immediately upon the receipt thereof by the collecting bank, and that there was nothing to indicate that the parties intended that the drafts, or the proceeds, should not remain the property of the owner, and that such being the case the proceeds of the collection did not become the property of the collecting bank nor establish the relation of debtor and creditor for the amount thereof between it and the drawer bank, but that the relation created was that of principal and agent, and that the agency could be discharged only by remitting to the principal the collection made, and that the agent bank having failed before the payment of its check on the presentation thereof in due course of business for payment, the drawer was entitled to the proceeds of the collected draft out of the defunct's bank's cash going into the hands of the receiver in preference to the general creditors.

It will be remembered that it appears from the agreed statement of facts and the stipulation filed herein that the items were forwarded to the Peoples Bank "for collection and remittance" of the proceeds collected; that the drawers of the items here involved had sufficient balances with the Peoples Bank to authorize the items to be charged to the account of the respective drawers, and this was done, thus paying them, and that at the time these charges were made the Peoples Bank had sufficient funds available to honor the drafts, and that sufficient of its funds went into the hands of the Bank Commissioner as receiver to pay them, and that at no time between the collection and the time the Bank Commissioner took charge of the Peoples Bank were its funds less than the items involved.

No. 122 - 8. X-4785

The case of Federal Reserve Bank of St. Louis V. Millspaugh, State Finance Commissioner, 282 S. W. 706, arose out of an agreed statement of facts which does not differ in any material respect from the facts in the instant case, and the Supreme Court of Missouri held that the Reserve Bank was entitled to have its claim against the defunct bank paid as a preferential one, for the reason that the receiver took the funds of the defunct bank impressed with a trust. In so hold the court cited as authority therefor our case of Darragh V. Goodman, supra.

Other courts in announcing the same conclusion under similar facts which have cited the case of Darragh V. Goodman as authority for so holding are: In Re Messenger V. Carroll Savings & Trust Co. 187 N. W. 545, 193 Iowa 608; Goodyear Tire & Rubber Co. V. Hanover State Bank, 204 Pac. 992, 109 Kans. 772; Kesl V. Hanover State Bank, 204 Pac. 994, 109 Kans. 776; Federal Reserve Bank of Richmond V. Peters, Receiver 123 S. E. 379, 139 Va. 45; Federal Reserve Bank of Richmond V. Behanan, 127 S. E. 161, 141 Va. 285; Federal Reserve Bank of St. Louis V. Quigley, (Mo.) 284 S. W. 164; Bank of Poplar Bluff V. Millspaugh, 275 S. W. 579 (Mo.); Hawaiian Pineapple Co., Ltd., V. Brown 220 Pac. 1114 (Montana); In Re City Bank of Dowagiac, 186 Fed. 250 (S. D.).

It is insisted for the reversal of the decree of the court below that it was an act of negligence on the part of the Reserve Bank to constitute as its agent for the collection of the items the Peoples Bank, the bank upon which they were drawn, and that authority was only conferred to collect and remit for those items in money, and not in exchange.

In the Darragh case the remittance for the collection was made in exchange, and not in cash, and on that feature of the case the court, after stating that it is uniformly held that an agent having for collection obligations due to his principal can receive only money in payment unless otherwise directed, and

that this principle applied to banks holding drafts for collection, said; "The payment by the drawee of the draft of the amount thereof by the delivery of its check therefor against his account in the collecting bank and the charging of the amount against his account, constituted to all intents and purposes a payment in cash of the drafts, the check being merely the vehicle of transfer of the cash."

Continuing the discussion of this feature of the case it was said: "Certainly there is no necessity for the drawee of the drafts to take its check to its bank, the collector, and present it and receive the money and hand it back to the bank in payment of the draft."

It is stated in one of the briefs, and conceded to be true in the other, that the 1925 report of the Federal Reserve Board's Statistical Department shows that the Federal Reserve banks collect on an average each month approximately 65,000,000 items, amounting to $20,500,000,000, in items drawn on or payable at 26,000 different banks and trust companies. It is quite apparent, therefore, that if all remittances were required in cash, the entire volume of the currency would not suffice, even though all of it were kept in transit.

It may be said that the rule announced by this court, that it was negligence for a bank receiving for collection a check or draft payable in another city or town, to send it for collection to the bank upon which it was drawn, has been changed under section 14 of Act No. 496, Acts 1921, page 514, Farmers & Merchants Bank V. Ray, 170 Ark. 293.

This act was passed prior to the transactions out of which this litigation arose, but our holding would not be different if there were no such statute, if it be true that the relation between the Reserve Bank and the Peoples Bank was that of Principal and agent, and not that of debtor and creditor. The cases which have followed the Darragh Case make no such distinction in deter-

mining whether there is a preference. The controlling question is not how the item was forwarded and presented, but whether the drawer had sufficient balance against which the items were charged, and whether the bank so charging them had sufficient funds which went into the hands of the receiver upon its failure to pay these and other similar items.

In the case of Federal Reserve Bank of St. Louis V. Millspaugh State Finance Commissioner, to which we have already referred as being identical with the instant case, the court said: "When the relation existing between two banks, as in the case at bar, is that of principal and agent, the funds collected by the collecting bank for the forwarding bank become impressed with a trust in favor of the owner of the item collected. This is true, although the item collected be one drawn on the collecting bank, and it is collected by charging the item against the drawer's account, or if it be an item payable at the collecting bank and it is collected by a check drawn on it. The trust in either case follows the funds into the hands of the receiver - in this instance, the finance commissioner - although the collecting bank may fail before remitting the proceeds collected, provided the following conditions exist: (1) That the item was forwarded for collection and remittance of the collected proceeds: (2) that the Drawer of the check had a sufficient balance with the collecting bank to authorize the charging of the item to his account: (3) that at the time the charge was made the collecting bank had sufficient funds available to honor the check; (4) that the bank which failed had at the time the receiver took charge of same sufficient funds on hand to pay the amount it had collected.
(Citing Authorities)"

It is stipulated that the conditions there recited exist in the instant case.

If, when the items here involved had been accepted and charged to the respective drawers, the Peoples Bank had shipped currency, instead of issuing exchange, but had closed its doors before the money was actually delivered to the Reserve Bank, the right of the latter to receive and appropriate the money would hardly be questioned, not alone because the delivery to the carrier was a delivery to the consignee, but for the reason also that the consigning bank had segregated so much of its assets to the discharge of its agency- had thus designated the sum remitted as a trust fund belonging to its principal.

In the Millspaugh case from which we have quoted the court said: "Further than this, the creation of the relation of Principal and agent, under the original agreement, by the terms of which the proceeds of the funds collected were to be forwarded to the principal, in currency or acceptable exchange, did not change the relation to that of debtor and creditor by reason of an attempted remittance in uncollectable paper. The sending, therefore, of exchange drafts by the Bank of Oran on the First National Bank as an attempted remittance for the collection made, was indicative of a purpose to segregate or set apart, out of the funds in the First National Bank, the amount represented in the drafts under an assignment for the benefit of the Federal Reserve Bank, the respondent. (Citing Cases)."

So, here, the Peoples Bank had, by accepting the items, assumed the trust relation of an agent, and was bound, as an incident to the agency, to remit either in cash or exchange the sum collected. It would have been a serious breach of trust not to have remitted. The Money was not remitted. It remained either in the vault of the bank or in the hands of its correspondents, and was taken over by the Bank Commissioner as receiver, as appears from the stipulation set out above.

No. 122 - 12. X-4785

The court below was, therefore, correct in holding that the claim of the Reserve Bank should be allowed as a preferential one, and that decree is affirmed.

Hill and Fitzhugh

Fort Smith

Attys for Appellant

Jas. G. McConkey

Atty. for Appellee.

X-4787

TREASURY DEPARTMENT
Office of the Secretary
WASHINGTON

February 4, 1927.

The Governor,
Federal Reserve Board.
Sir:

You are hereby advised that the Department has referred to the Disbursing Clerk, Treasury Department, for payment, the account of the Bureau of Engraving and Printing for preparing Federal reserve notes during the period January 1, 1927, to January 31, 1927, amounting to $136,518, as follows:

Federal Reserve Notes, Series 1914

	$5	$10	$20	$50	$100	Total
Boston	200,000	350,000			5,000	555,000
New York	300,000	350,000	200,000			850,000
Philadelphia	250,000	150,000				400,000
Cleveland	100,000	250,000	200,000	25,000		575,000
Richmond		50,000	100,000			150,000
Chicago	300,000	100,000	200,000			600,000
Kansas City	100,000	100,000	50,000			250,000
Dallas		50,000				50,000
San Francisco	250,000		50,000			300,000
	1,500,000	1,400,000	800,000	25,000	5,000	3,730,000

3,730,000 sheets @ $36.60 per M $136,518.00

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

Boston	$ 20,313.00
New York	31,110.00
Philadelphia	14,640.00
Cleveland	21,045.00
Richmond	5,490.00
Chicago	21,960.00
Kansas City	9,150.00
Dallas	1,830.00
San Francisco	10,980.00
	$136,518.00

The Bureau appropriations will be reimbursed in the above amount from the indefinite appropriation "Preparation and Issue of Federal Reserve Notes, Reimbursable", and it is requested that your board cause such indefinite appropriation to be reimbursed in like amount.

Respectfully,

S. R. Jacobs,
Deputy Commissioner.

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

STATEMENT FOR THE PRESS

Released for publication in
the morning papers of Thursday,
February 10, 1927.

The Federal Reserve Board announced today the appointment of Mr. Gates W. McGarrah, of New York, as Class C Director and Chairman of the Board of the Federal Reserve Bank of New York and Federal Reserve Agent. In order to allow Mr. McGarrah time to sever his existing business connections and to attend the spring meeting of the General Council of the Reichsbank, of which Mr. McGarrah has been the American member under the arrangement set up by the so-called Dawes Plan of 1924, the Board has fixed May first as the date when Mr. McGarrah will actively assume the functions of the position to which he has been appointed by the Board.

In connection with this appointment the Federal Reserve Board gave out the following statement:

"There is no more responsible or important position in the Federal Reserve Banks than that of Chairman and Federal Reserve Agent at the Federal Reserve Bank of New York. The Chairman of the Board is, in a special sense, the guarantor to the Federal Reserve Board and to the public of the good functioning of his bank. In his capacity as Federal Reserve Agent he is the "official representative of the Federal Reserve Board" at his bank.

"The position is, therefore, not only one of broad and great responsibilities but one which calls for exceptional qualifications. By the terms of the Federal Reserve Act the Chairman must be a man of "tested banking experience." But more than skilled banking judgment is, in the opinion of the Federal Re-

serve Board, necessary to the fullest discharge of the responsibilities with which the Chairman and Federal Reserve Agent is charged. He should be a man who by nature is qualified for the assumption of responsibilities public in their character, in order that the public interest in the way in which the Federal reserve banks are operated may be brought effectively to bear upon the bank's every action and attitude.

"The position calls for a combination of qualifications and qualities in the same individual not always easy to find. There are, however, in most American communities men who are outstanding figures in the banking world and, in addition, enjoy the highest repute for integrity, character and public spirit.

"The Federal Reserve Board feels, after a careful canvass extending over a period of two months, that it has been very fortunate in succeeding in bringing to the chairmanship of the Federal Reserve Bank of New York a man of Mr. McGarrah's qualifications. Mr. McGarrah's experience as a banker in New York extends over a period of some forty years. At the time of the organization of the Federal Reserve System in 1914, Mr. McGarrah was President of one of the largest commercial banks in New York City, The Mechanics& Metals National Bank. He later became Chairman of the Board of that institution, and when it was merged with the Chase National Bank about a year ago he became Chairman of the Executive Committee of the merged institutions. As one of the country's outstanding commercial bankers, Mr. McGarrah's interests brought him into contact with every portion of the United States. Few bankers in New York City or elsewhere have his intimate knowledge, gained on the spot, of every section of the United States.

"The high regard in which Mr. McGarrah is held by the banking community of the State of New York is evidenced by his election in 1923 by the member banks of the New York Federal Reserve District to the position of Class A Director of the Federal Reserve Bank of New York. This position Mr. McGarrah held for a term

of three years under the system of rotation observed by the banks of this District with respect to their banking representatives on the Board of the New York Bank.

"In 1924 under the arrangement set up by the Dawes Plan for a General Council for the Reichsbank having foreign representatives on it, Mr. McGarrah was selected to be the American member. This position is in the nature of an international trusteeship of the highest character and in addition calls for the exercise of broadly based banking and financial judgments. His connection with this important European work has given Mr. McGarrah rare facilities for supplementing his experience as a banker in the United States with an intimate knowledge of economic and financial conditions in Europe and the workings of leading European banking and financial systems.

"Mr. McGarrah's credentials, derived as they are from his wide and varied experiences, his high personal character, and his public-mindedness are of the best and give every promise that the Board, in bringing him into the chairmanship of the largest of the twelve Federal reserve banks and the most important Reserve banking institution in the world today, is rendering a great service not only to the Federal Reserve Bank of New York but to the whole Federal Reserve System. The care and deliberateness with which the Board has proceeded in filling this position is in pursuit of its policy, as opportunity offers, of giving to the public interest in the Federal reserve banks through the three Class C Directors appointed by the Federal Reserve Board, the best and ablest representation it can find. It was with this purpose that the Board recently invited Mr. Owen D. Young to relinquish his position as a Class B Director of the Federal Reserve Bank of New York and accept appointment from the Federal Reserve Board as Class C Director of that institution and Deputy Chairman.

"The Board was led to appoint Mr. Young by substantially the same sort of considerations that led to its selection of Mr. McGarrah, Mr. Young's

position in the community being not only that of a business head of outstanding eminence but that of a man whose interest and abilities are more and more being sought in activities and trusteeships of a public nature.' Such are, in a peculiar degree, the Class C directorships of the Federal Reserve Banks."

FEDERAL RESERVE BOARD

WASHINGTON X-4789

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

February 9, 1927.

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 will be reduced from 4 1/2¢ to 4 1/4¢ per each $1,000, effective March 1, 1927, and advising further of an amendment to the cancellation clause in the insurance policies covering such shipments.

Very truly yours,

J. C. Noell.
Assistant Secretary.

(Enclosures)

TO GOVERNORS OF ALL F. R. BANKS.

TREASURY DEPARTMENT
WASHINGTON
(C O P Y)

X-4789-a

February 1, 1927.

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 covering shipments of money and securities by registered mail, notifying all parties interested of a reduction in the rate from 4½ cents to 4¼ cents per each $1,000, commencing March 1, 1927.

Such notice also contains advice of an alteration in the cancellation clause in said policies whereby either party may cancel the policy by giving four months (120 days) written notice thereof to the other but said cancellation shall be without prejudice to any risk then pending.

It is requested that all Federal Reserve Banks and branch banks be notified of this change in the rate and the modification to the policies. Sufficient copies of the notice are enclosed for this purpose.

By direction of the Secretary:

Respectfully,

F. A. BIRGFELD,
Chief Clerk.

Enclosure

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4791

February 11, 1927

SUBJECT: Expense, Main Line, Leased Wire System, January, 1927.

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-4791-a and X-4791-b, covering in detail operations of the main line, Leased Wire System, during the month of January, 1927.

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-4791-a

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINE OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF JANUARY, 1927

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	31,491	495	31,986	3,385	-	28,601	3.46
New York	136,609	-	136,609	3,922	193	132,494	16.04
Philadelphia	37,588	453	38,041	2,991	-	35,050	4.24
Cleveland	74,239	1,703	75,942	3,433	-	72,509	8.78
Richmond	48,097	2,560	50,657	3,332	-	47,325	5.73
Atlanta	55,472	3,266	58,738	3,850	-	54,888	6.65
Chicago	98,600	2,801	101,401	4,529	-	96,872	11.73
St. Louis	72,611	2,128	74,739	3,913	-	70,826	8.57
Minneapolis	36,957	1,937	38,894	1,776	-	37,118	4.49
Kansas City	79,935	2,218	82,153	3,761	-	78,392	9.49
Dallas	65,652	4,491	70,143	2,153	-	67,990	8.23
San Francisco	106,875	2,465	109,340	5,365	-	103,975	12.59
Total	844,126	24,517	868,643	42,410	193	826,040	100.00%
F. R. Board			293,602	23,316		270,286	
Total			1,162,245	65,726	193	1,096.326	
Percent of Total			100.00%	5.65%	.02%	94.33%	

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-4791-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, JANUARY, 1927

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	$ 1.00	-	$ 261.00	$ 747.07	$ 261.00	$ 486.07
New York	983.29	-	-	983.29	3,463.28	983.29	2,479.99
Philadelphia	225.00	-	-	225.00	915.48	225.00	690.48
Cleveland	288.66	-	-	288.66	1,895.74	288.66	1,607.08
Richmond	190.00	-	-	190.00	1,237.20	190.00	1,251.87(&)
Atlanta	255.00	-	-	255.00	1,435.84	255.00	1,180.84
Chicago	4,080.04(#)	-	-	4,080.04	2,532.69	4,080.04	1,547.35(*)
St. Louis	200.00	-	-	200.00	1,850.39	200.00	1,650.39
Minneapolis	193.73	-	-	193.73	969.46	193.73	775.73
Kansas City	275.64	-	-	275.64	2,049.04	275.64	1,773.40
Dallas	251.00	-	-	251.00	1,776.98	251.00	1,525.98
San Francisco	370.00	-	-	370.00	2,718.37	370.00	2,348.37
Federal Reserve Board	-	-	$15,315.53	15,315.53	-	-	-
Total	$7,572.36	$ 1.00	$15,315.53	$22,888.89	$21,591.54	$7,573.36	$15,770.20
				1,297.35(a)			1,547.35(b)
				$21,591.54			$14,222.85

(&) Includes $204.67 for branch line business transmitted over main line circuit.
(#) Includes salaries of Washington operators.
(*) Credit.
(a) Received $2.96 from War Finance Corp. and $1,294.39 from Treasury Dept. covering business for the month of January, 1927.
(b) Amount reimbursable to Chicago.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4792

February 17, 1927

Dear Sir:

My attention has just been called to an opinion rendered on December 18, 1924, by the Circuit Court of Appeals for the Seventh Circuit in the case of Hiatt v. United States, 4 Fed. (2nd) 374; petition for writ of certiorari denied by the Supreme Court, 268 U. S. 704, which involves several rulings of importance to the entire Federal Reserve System.

The head-notes in this case are as follows:

1. "Under Burns' Ann. St. Ind. 1914, Section 4953, authorizing trust companies to invest in 'personal securities,' such a company held to have power to purchase stock of a Federal Reserve Bank."

2. "The action of a trust company in becoming a member of the Federal Reserve System, though it might have been questioned by the state of its incorporation, was not such an ultra vires act as made the transaction void, so that it can be questioned collaterally, and its affiliation was validated by a legislative act expressly extending the power to such companies".

3. "A federal court will take judicial notice of the existence, due incorporation, and functions of a Federal Reserve Bank".

4. "Under Rev. St. Section 5209, as amended September 26, 1918 (Comp. St. Ann. Supp. 1919, Section 9772), the making of a false entry by an officer of a member bank in a report to the Federal Reserve Bank, with intent to deceive any officer of the latter, is an offense".

5. "The provision of Federal Reserve Act, Section 9 (Comp. St. Section 9792), permitting state banks to become members of the Federal Reserve System, is within the powers of Congress and constitutional".

6. "Federal Reserve Act, Section 9(4), being Comp. St. Section 9792, making member banks of the Federal Reserve System and their officers, agents, and employees subject to the provisions of Rev. St. Section 5209 (Comp. St. Section 9772), as applied to state banks, deals only with their relations to the Federal Reserve System, and is not unconstitutional as affecting the powers of the states over such banks".

Very truly yours,

Walter Wyatt,
General Counsel.

X-4794

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

February 17, 1927.

Dear Sir:

The Board has been asked by one of the Federal reserve banks to rule upon the question whether certain notes held by a member bank bearing the endorsement of officers of nonmember banks are eligible for rediscount at Federal reserve banks. It appears that the member bank in question solicits loans through officers of its correspondent nonmember banks. The notes are made payable to the local bank officer and are endorsed by him to the member bank which allows him part of the interest on the loan in payment for his services. The name of the nonmember bank does not appear on the notes either as payee or as endorser.

Before ruling upon the question whether notes of this kind should be considered eligible or desirable for rediscount, the Board wishes to be fully informed as to the extent and prevalence of the practice of making loans in this way. You are accordingly requested to advise the Board whether notes originating in the manner described or under similar circumstances have ever been presented to your bank for rediscount and if so, whether or not they were rediscounted. The Board would also be glad to be advised as to the extent to which practices of this kind prevail in your Federal Reserve District.

Very truly yours,

D. R. Crissinger
Governor.

TO GOVERNORS OF ALL F. R. BANKS EXCEPT KANSAS CITY.

FEDERAL RESERVE BOARD X-4795

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

February 19, 1927.

SUBJECT: Holidays during March, 1927.

Dear Sir:

For your information, the following Federal Reserve Banks and Branches will be closed on the dates specified, during March, 1927, on account of holidays.

Tuesday,	March 1	New Orleans Birmingham	Mardi Gras
Wednesday,	March 2	Dallas El Paso Houston	Texas Independence Day
Monday,	March 7	Detroit	Primary Election Day
Friday,	March 25	Baltimore	Maryland Day

On the dates indicated, therefore, the banks affected will not participate in either the Gold Fund or the Federal Reserve note clearing. Please include credits for the banks and branches mentioned on each of the holidays with credits for the following business day, and make no shipment of Federal Reserve notes, fit or unfit, for account of the Federal Reserve Bank of Dallas on Wednesday, March 2nd.

Kindly notify Branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F.R.BANKS.

X-4796

STATEMENT FOR THE PRESS.

For Release in Papers
Saturday, February 19, 1927.

The first and organization meeting of the Federal Advisory Council for 1927 with the Federal Reserve Board at which general business and financial conditions were discussed was held Friday, February 18. The members of the Council are:

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

Frank O. Wetmore of Chicago, was re-elected President and Col. John F. Bruton of Richmond, was elected Vice President. These officers as ex-officio members and Messrs. Alexander, Rue, Creech and Jones will comprise the Executive Committee. Mr. Walter Lichtenstein continues as Secretary of the Council.

FEDERAL ADVISORY COUNCIL.
1927

Officers:

Frank O. Wetmore, President.
John F. Bruton, Vice President.
Walter Lichtenstein, Secretary

Executive Committee:

Frank O. Wetmore — Levi L. Rue
John F. Bruton — Harris Creech
James S. Alexander — Breckinridge Jones

MEMBERS.

District.		Address.
No. 1.	Arthur M. Heard	Amoskeag National Bank, Manchester, N. H.
No. 2.	James S. Alexander	National Bank of Commerce, New York, N. Y.
No. 3.	Levi L. Rue	Philadelphia-Girard Nat. Bank, 421 Chestnut Street, Philadelphia, Pa.
No. 4.	Harris Creech	Cleveland Trust Company, Cleveland, Ohio.
No. 5.	John F. Bruton	First National Bank, Wilson, N. C.
No. 6.	P. D. Houston	American National Bank, Nashville, Tenn.
No. 7.	Frank O. Wetmore	First National Bank, Chicago, Illinois.
No. 8.	Breckinridge Jones	Mississippi Valley Trust Co., St. Louis, Mo.
No. 9.	Theodore Wold	Northwestern National Bank, Minneapolis, Minn.
No. 10.	Peter W. Goebel	Liberty National Bank, Kansas City, Mo.
No. 11.	B. A. McKinney	American Exchange Nat. Bank, Dallas, Texas.
No. 12.	Henry S. McKee	Barker Brothers, Los Angeles, Calif.

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

February 19, 1927

TEXT OF ARTICLE APPEARING IN THE UNITED STATES DAILY

Saturday, February 19, 1927.

by

D. R. Crissinger
Governor, Federal Reserve Board.

Congress has invested the Federal Reserve Board with broad supervisory powers in the administration of our Federal Reserve System. These powers the Board exercises in cooperation with the 12 Federal Reserve Banks, each of which within the territory assigned to it functions as a central reserve institution.

In passing the Act of December 23, 1913, Congress rejected, along with many other schemes of banking and currency reform, the proposal of a central bank operating branches in different sections of the country. Some coordinating agency exercising supervisory control was, however, clearly essential for the effective functioning of a system of regional reserve banks, and such an agency was provided in the Federal Reserve Board, which is composed of six members appointed by the President, selected "with due regard to a fair representation of the financial, agricultural, industrial, and commercial interests, and geographic divisions of the country," and two members who serve ex-officio - the Secretary of the Treasury, who acts as Chairman of the Board, and the Comptroller of the Currency.

One of the appointive members is designated by the President to serve as Governor of the Board, and one as Vice Governor. Members are appointed for terms of 10 years. The Board occupies rooms in the Treasury Building, and salaries of members are fixed by Congress; but expenses of the Board are levied upon the reserve banks in proportion to their capital and surplus.

One-third of the commercial banks of the country are members of the Federal Reserve System. National banks are required by the Act to subscribe to the capital of the reserve banks and to operate as members, and State banks and trust companies may elect voluntarily to do so, retaining their charter powers as State institutions in so far as these do not conflict with provisions of the Federal Reserve Act or with regulations of the Board. Of the member banks approximately 8,000 are national and 1,300 are State institutions, and these banks control nearly two-thirds of the banking resources of the country. There are a number of State banks, it may be noted, with insufficient capital to meet the minimum requirements of the Federal Reserve Act which are, therefore, ineligible for admission to membership in the system.

Consolidation of bank reserves and their use as a basis for loans to member banks at times of seasonal or other temporary needs is one of the principal purposes of the Federal Reserve Act. Each member bank is required to deposit its reserve in the Federal Reserve Bank of the district in which it is located, and only deposit credits with the reserve bank can be counted as legal reserve by the member bank.

On January 22 these reserve deposits of member banks amounted to nearly $2,200,000,000. Against these deposits the reserve banks are required to hold a reserve of 35 per cent in gold or lawful money. These deposits, together with the banks' capital and the surplus accumulated out of earnings, provide funds in the reserve banks available for making advances to member banks, and for purchases of acceptances and Government securities in the open market.

Under provisions of the Act member banks are enabled to provide adequately for the seasonally and periodically fluctuating credit requirements of agriculture, industry, and commerce, since in any period of unusual credit strain, they can increase their reserves and their lending power temporarily by borrowing at the reserve banks.

On January 23, to take a recent date, member banks were borrowing at the reserve banks through the operation of discounting commercial paper and their secured notes, in the amount of $365,000,000. On reference to condition statements of the reserve banks, it will be found that advances of these banks to their member banks through discounting operations are constantly increasing or decreasing in response to the varying credit needs in the several districts.

By the terms of the Federal Reserve Act the discount rate charged member banks in any district on advances through discounting operations is established by the reserve bank of the district subject to review and determination of the Federal Reserve Board. Another important function of the Board is to define the character of paper that may be accepted as eligible for rediscounting within the meaning of the Act.

The other activities of the reserve banks, including the issue of Federal Reserve notes, open-market operations, the exercise of clearing-house functions for member banks, and the rendering of services as fiscal agents of the Federal Government are subject to the general supervision of the Federal Reserve Board.

The Board appoints three of the nine directors of each Federal Reserve Bank, and designates one of these three, who must be a person of tested banking experience, to serve as chairman of the board of directors of the bank, and as Federal Reserve agent representing and reporting to the Federal Reserve Board. The remaining six directors of each bank

are elected by the member banks of the district, three to represent the member banks and three chosen from persons actively engaged in the district in commerce, agriculture, or some other industrial pursuit.

The Board may authorize or in its discretion require any Federal Reserve Bank to rediscount the discounted paper of any other reserve bank, and so make available to meet a temporary deficiency of reserves in one district any surplus that may have accumulated in another district. In effect this power consolidates the reserve resources of the system.

Acting through its agents at the reserve banks the Board may "grant in whole or in part or reject entirely" applications of any Federal Reserve Bank for Federal Reserve notes. The amount of note circulation is, however, in fact determined rather by the varying demand for currency in the several districts than by any decision of the Board or of those administering the reserve banks.

On January 26, the note circulation of the reserve banks amounted nearly to $1,700,000,000. In December this circulation increased in response to the holiday demand for currency to $1,930,000,000 and fell off in the weeks following in proportion as this seasonal demand subsided. In the post-war years the note circulation rose above $3,000,000,000.

Notes are issued to the reserve banks on a collateral of gold or eligible commercial paper deposited with Federal Reserve agents, and the reserve banks are required to hold gold reserves of 40 per cent against notes in circulation. The continuous fluctuation of this circulation, as shown on the condition statements, is evidence that one of the principal purposes for which the reserve act was passed, the "furnishing of an elastic currency," has been achieved.

The Board may on occasion suspend reserve requirements specified in the Act, establishing a graduated tax upon reserve deficiencies during any period of suspension. It may, if it should find occasion for doing so, reclassify cities as reserve, central reserve, and nonreserve cities. It may permit or require a reserve bank to establish branches. It prescribes regulations under which State banks and trust companies are admitted to membership in the system, and approves applications for membership.

Among the Board's administrative functions may be mentioned administration of the gold settlement fund, through which check clearings and transfers, in so far as they involve inter-district payments and collections are effected. The reserve banks maintain balances in this fund and wire in each day to the Board amounts owed by them to other reserve

banks on account of checks received for collection and transfers sold. Clearings through this fund on the average exceed $2,000,000,000 in the course of a week.

Through its division of examination the Board regularly examines the reserve banks and their branches at least once a year. It may conduct examinations of State member banks, or it may accept examinations of these banks by State authorities. Examinations of national banks are conducted under the direction of the Comptroller of the Currency, who files reports of his examinations with the reserve banks.

Each week the reserve banks report by wire their condition to the Board, which publishes weekly a statement showing the condition of each bank and a consolidated statement for the system, and the Board may require such special reports as it may deem necessary for its own information.

In exercising its supervisory powers the Board seeks the counsel of those administering the reserve banks. It invites the governors of those banks to Washington at least twice each year for formal conference on matters of Federal Reserve policy, and at least once a year it invites the Federal Reserve agents to meet in Washington for conference.

An Advisory Council, consisting of one member from each district appointed by the boards of directors of the several reserve banks under specific provision of the Federal Reserve Act, meets at least four times each year to confer and report in an advisory capacity its recommendations to the Board. Finally the Board maintains a research and statistical staff whose function it is to compile data relating to current business and credit conditions which must be taken into account in formulating credit policies.

X-4800

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 February 24, 1927

CONDITION OF ACCEPTANCE MARKET
January 12, 1927 to February 16,1927

Acceptances:

The acceptance market was considerably more active in late January and early February than in preceding weeks, according to reports of dealers' transactions during the period from January 12 to February 16. The supply of bills was particularly large around the end of the month and in spite of a good demand both from local and foreign purchasers, New York dealers' portfolios increased considerably at that time. Later both their purchases and sales diminished, as was the case also in Chicago. The demand in the Boston market was relatively poor throughout the period and the portfolios of local dealers more than doubled. Rates were frequently unsettled but they were generally lowered early in February and advanced again on February 15. The following table shows the rates in effect at the beginning and end of the reporting period.

Acceptance Rates in the New York Market

Maturity	January 12, 1927		February 16,1927	
	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	3-3/4	3-5/8
90 "	3-3/4	3-5/8	3-7/8	3-3/4
120 "	3-7/8	3-3/4	3-7/8	3-3/4
150 "	4	3-7/8	3-7/8	3-3/4
180 "	4	3-7/8	4	3-7/8

X-4801

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

STATEMENT FOR THE PRESS

February 25, 1927
For immediate release.

A branch of the Federal Reserve Bank of Richmond will be established at Charlotte, North Carolina, and a branch of the Federal Reserve Bank of Dallas will be established at San Antonio, Texas.

The Federal Reserve Board has had under consideration requests for the establishment of these branches coming from the Boards of Directors of the Federal Reserve Banks named, and after careful consideration of the needs of the territories to be served by the proposed branches has given permission for their establishment to take effect when the McFadden banking bill becomes law.

The McFadden Bill confers upon the Federal Reserve Board the right to require at any time the discontinuance of any branch Federal Reserve Bank.

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, February 28, 1927

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

Industrial activity has been slightly larger since the turn of the year than at the close of 1926. Seasonal liquidation of reserve bank credit has been in unusually large volume owing chiefly to the inflow of gold from abroad, and conditions in the money market have been easy. Wholesale prices have continued to decline.

Production

Output of factories was larger in January than in December, but smaller than in January, 1926 or 1925. Mineral production, though somewhat below the December level, continued in unusually large volume, reflecting the maintenance of production of bituminous coal, crude petroleum, and copper. Manufacture of iron and steel, which was sharply curtailed in December, increased in January and February. Automobile output was increased considerably from the unusually low level of production reached last December, but the number of passenger cars produced since the beginning of the year has been smaller than for the corresponding period of the past four years. The textile industries have continued active since December without, however, showing the usual seasonal increase.

Building contracts awarded in 37 states during the first seven weeks of the year were smaller in value than those for the same period of 1926. Decreases have been largest in New York and in the New England, Southeastern and Northwestern

states, while increases occurred in the Middle Atlantic and Central Western states. By types of building, contracts awarded for residential and industrial building in January showed large reductions as compared with December and with January, 1926, while contracts for commercial buildings were larger than a month or a year ago.

Trade

Retail trade showed more than the usual seasonal decline between December and January. Sales of department stores were in about the same volume as a year ago, while those of mail order houses were 7 per cent smaller. Wholesale trade declined in nearly all leading lines in January and was considerably smaller than a year ago. Inventories of department stores were reduced less than is customary and at the end of the month were in about the same volume as in January, 1926. Stocks of merchandise carried by wholesale firms increased slightly, but continued in smaller volume than in the corresponding month of the previous year. Freight car loadings declined by somewhat more than the usual seasonal amount between December and January, but, owing chiefly to heavier shipments of coal this year, weekly loadings since the beginning of the year were larger than for the same period of 1926. Shipments of merchandise in less than car load lots were also slightly larger than last year; but those of most basic commodities were smaller.

Prices

The general level of wholesale prices declined fractionally in January, according to the index of the Bureau of Labor Statistics, considerable advances in prices of livestock being somewhat more than offset in the total by decreases in nearly all other commodity groups included in the index. Prices of non-agricultural products, as a group, declined to the lowest level since early in 1922. In February there were decreases in the price of iron and steel, nonferrous metals, bituminous coal, grains, and hides, while prices of cattle, sheep, cotton, and gasoline increased.

Bank Credit

Commercial loans of member banks in leading cities continued to decline during the four weeks ending February 16, although at a less rapid rate than in earlier weeks, and in the middle of February the volume of these loans was about $270,000,000 below the seasonal peak reached in the middle of November, though about $200,000,000 above last year's level. Loans on securities also declined during the period, while the banks' investment holdings increased somewhat.

The volume of reserve bank credit remained during the four weeks ending February 23 near the low level reached at the end of January. Liquidation of reserve bank credit since the high point of last December has been in excess of $500,000,000, the unusual extent of this reduction being due chiefly to the large inflow of gold from abroad. Total bills and securities of the reserve banks on February 23 were about $200,000,000 smaller than on the corresponding date of last year.

Easier money conditions in February were reflected in a decline in the rate on prime commercial paper from 4 - 4-1/4 to 4 per cent after the first week of the month.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4804

March 4, 1927.

SUBJECT: Proposed Revision of Board's Regulations.

Dear Sir:

In view of the enactment of the so-called McFadden Bill, the Federal Reserve Board is considering the preparation of a new edition of its Regulations, and if you desire to suggest any amendments to the Board's existing Regulations the Board will be very glad to consider such suggestions.

Very truly yours,

Edmund Platt
Vice Governor.

TO CHAIRMEN AND GOVERNORS OF F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4806

March 9, 1927

SUBJECT: Code Words to cover new issues of Certificates of Indebtedness, Series TS2-1927 and Series TM-1928, and Treasury Notes, Series A-1930-32, in Telegraphic Transactions.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code words "BELLY" and "BELONOID" have been designated to cover the two new issues of Treasury Certificates of Indebtedness, dated March 15, 1927, Series TS2-1927 and Series TM-1928, respectively; and the code word "BELOVETH" has been designated to cover the new issue of Treasury Notes, dated March 15, 1927, Series A-1930-32.

These words should be inserted in the Federal Reserve Telegraphic Code Book following the supplemental code word "BELONITE" at the bottom of page 25.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F.R.BANKS.

X-4808

TREASURY DEPARTMENT
Office of the Secretary
WASHINGTON

March 7, 1927.

The Governor,
Federal Reserve Board,
Sir:

You are hereby advised that the Department has referred to the Disbursing Clerk, Treasury Department, for payment, the account of the Bureau of Engraving and Printing for preparing Federal reserve notes during the period February 1, 1927, to February 28, 1927, amounting to $128,026.80, as follows:

Federal Reserve Notes, Series of 1914

	$5	$10	$20	$50	$100	Total
Boston	200,000	100,000				300,000
New York	600,000	350,000	150,000	25,000	10,000	1,135,000
Philadelphia		150,000				150,000
Cleveland	200,000	100,000	50,000	10,000		360,000
Richmond	100,000	50,000				150,000
Chicago	600,000	200,000	150,000			950,000
St. Louis	100,000		50,000			150,000
Dallas	100,000				3,000	103,000
San Francisco	150,000		50,000			200,000
	2,050,000	950,000	450,000	35,000	13,000	3,498,000

3,498,000 sheets @ $36.60 per M $128,026.80

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

Boston	$ 10,980.00
New York	41,541.00
Philadelphia	5,490.00
Cleveland	15,176.00
Richmond	5,490.00
Chicago	34,770.00
St. Louis	5,490.00
Dallas	3,769.80
San Francisco	7,320.00
	$128,026.80

The Bureau appropriations will be reimbursed in the above amount from the indefinite appropriation "Preparation and Issue of Federal Reserve Notes, Reimbursable", and it is requested that your board cause such indefinite appropriation to be reimbursed in like amount.

Respectfully,
(signed) S. R; Jacobs
Deputy Commissioner.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4809

March 11, 1927

SUBJECT: Expense, Main Line, Leased Wire System, February, 1927

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-4809-a and X-4809-b, covering in detail operations of the main line, Leased Wire System, during the month of February, 1927.

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 FEBRUARY, 1927

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	29,124	486	29,610	3,052	-	26,558	3.68
New York	112,646	-	112,646	3,294	-	109,352	15.13
Philadelphia	33,521	418	33,939	2,513	-	31,426	4.35
Cleveland	65,271	1,458	66,729	2,820	-	63,909	8.85
Richmond	39,740	2,184	41,924	2,804	-	39,120	5.41
Atlanta	51,259	3,710	54,969	3,503	-	51,466	7.12
Chicago	88,855	2,692	91,547	3,748	-	87,799	12.15
St. Louis	65,145	2,132	67,277	3,339	-	63,938	8.85
Minneapolis	31,643	1,764	33,407	1,233	-	32,174	4.45
Kansas City	66,408	1,981	68,389	3,306	-	65,083	9.01
Dallas	53,947	3,995	57,942	1,592	-	56,350	7.80
San Francisco	97,942	2,056	99,998	4,655	-	95,343	13.20
Total	735,501	22,876	758,377	35,859	-	722,518	100.00%
F. R. Board			274,273	21,930		252,343	
Total			1,032,650	57,789		974,861	
Percent of Total			100.00%	5.60%		94.40%	

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-4809-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, FEBRUARY, 1927

X-4809-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	$ 796.06	$ 260.00	$ 536.06
New York	983.29	-	-	983.29	3,272.93	983.29	2,289.64
Philadelphia	225.00	-	-	225.00	941.00	225.00	716.00
Cleveland	288.66	-	-	288.66	1,914.44	288.66	1,625.78
Richmond	190.00	-	-	190.00	1,170.30	190.00	1,184.97 (&)
Atlanta	270.00	-	-	270.00	1,540.20	270.00	1,270.20
Chicago	4,065.31(#)	-	-	4,065.31	2,628.30	4,065.31	1,437.01 (*)
St. Louis	200.00	-	-	200.00	1,914.44	200.00	1,714.44
Minneapolis	193.73	-	-	193.73	962.63	193.73	768.90
Kansas City	275.64	-	-	275.64	1,949.05	275.64	1,673.41
Dallas	251.00	-	-	251.00	1,687.30	251.00	1,436.30
San Francisco	370.00	-	-	370.00	2,855.43	370.00	2,485.43
Federal Reserve Board	-	-	$15,341.78	15,341.78	-	-	-
Total	$ 7,572.63		$15,341.78	$22,914.41	$21,632.08	$ 7,572.63	$15,701.13
				1,282.33(a)			1,437.01(b)
				$21,632.08			$14,264.12

(&) Includes $204.67 for branch line business transmitted over main line circuit.
(#) Includes salaries of Washington operators.
(*) Credit.
(a) Received $1,282.33 from Treasury Department covering business for the month of February, 1927.
(b) Amount reimbursable to Chicago.

FEDERAL RESERVE BOARD

WASHINGTON

X-4811.

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

March 17, 1927.

SUBJECT: Bank holidays during April, 1927.

Dear Sir:

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

Monday	April 4	Detroit	Election Day
Wednesday	April 13	Birmingham	Jefferson's birthday
Friday	April 15	Philadelphia Pittsburgh Baltimore New Orleans Nashville Jacksonville Memphis Minneapolis	Good Friday
Friday	April 15	Salt Lake City	Arbor Day
Tuesday	April 19	Boston	Patriots' Day
Thursday	April 21	Dallas El Paso Houston	San Jacinto Day
Friday	April 22	Omaha	Arbor Day
Tuesday	April 26	Atlanta Birmingham Jacksonville	Southern Memorial Day

Therefore, on the dates indicated, the banks affected will not participate in either the regular Gold Fund Clearing or the Federal Reserve Note Clearing. Please include your credits for the banks

affected on each of the holidays with your credits for the following business day in your Gold Fund clearing telegrams, and make no shipments of Federal Reserve notes, fit or unfit, for account of the Head offices concerned, on the holidays mentioned.

Kindly notify branches.

Very truly yours,

J. C. Noell.
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4813

March 22, 1927

SUBJECT: Topic for Governors' Conference.

Dear Sir:

The Federal Reserve Board has voted to place upon the program of the next conference of Governors for their consideration the question whether notes held by a member bank bearing the endorsement of officers of nonmember banks are eligible for rediscount at Federal reserve banks. This question was the subject of the Board's letter of February 17, 1927, X-4794. A copy of this letter together with copies of the replies thereto are enclosed herewith for your information.

Very truly yours,

Walter L. Eddy,
Secretary.

Enclosures.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS.

FEDERAL RESERVE BOARD

X-4794

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

February 17, 1927.

Dear Sir:

The Board has been asked by one of the Federal reserve banks to rule upon the question whether certain notes held by a member bank bearing the endorsement of officers of nonmember banks are eligible for rediscount at Federal reserve banks. It appears that the member bank in question solicits loans through officers of its correspondent nonmember banks. The notes are made payable to the local bank officer and are endorsed by him to the member bank which allows him part of the interest on the loan in payment for his services. The name of the nonmember bank does not appear on the notes either as payee or as endorser.

Before ruling upon the question whether notes of this kind should be considered eligible or desirable for rediscount, the Board wishes to be fully informed as to the extent and prevalence of the practice of making loans in this way. You are accordingly requested to advise the Board whether notes originating in the manner described or under similar circumstances have ever been presented to your bank for rediscount and if so, whether or not they were rediscounted. The Board would also be glad to be advised as to the extent to which practices of this kind prevail in your Federal Reserve District.

Very truly yours,

D. R. Crissinger
Governor.

TO GOVERNORS OF ALL F. R. BANKS EXCEPT KANSAS CITY.

COPY

X-4813-a

FEDERAL RESERVE BANK

OF BOSTON

February 19, 1927.

Dear Sir:

Receipt is acknowledged of your circular letter of February 17, X-4794, and in reply I would say that no instance such as that referred to has ever come to the attention of this bank and, as far as we know, there is no practice of this kind existing in this district.

Should any note such as described in your letter be offered us for rediscount, we would, before considering the application, ask counsel for his opinion as to whether the transaction involves any violation of paragraph (c) of Section 22 of the Federal Reserve Act.

Very truly yours,

(s) W. P. G. Harding,

Governor.

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

C O P Y X-4813-b.

FEDERAL RESERVE BANK OF NEW YORK

February 25, 1927.

Sirs:

In reply to your letter of February 17 (X-4794), we do not recall any case in which notes bearing the endorsements of officers of non-member banks have been offered us for rediscount by member banks. We are quite certain that no such practice as that described in your letter exists or has existed in this district.

Very truly yours,

(Signed) L. F. SAILER

Deputy Governor.

Federal Reserve Board,

Washington, D. C.

COPY X-4813-c

FEDERAL RESERVE BANK OF PHILADELPHIA

February 19, 1927.

Dear Governor Crissinger:

In reply to your letter X-4794, I am writing to inform you that notes negotiated in the manner described by you have never been presented to this bank for rediscount and we have never found a practice of this kind in this district.

Very truly yours,

(s) W. H. Hutt,

Deputy Governor.

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

X-4813-d.

C O P Y

FEDERAL RESERVE BANK OF CLEVELAND.

February 23, 1927.

Mr. D. R. Crissinger, Governor,

Federal Reserve Board,

Washington, D. C.

Dear Governor Crissinger:

Reference is made to the Board's letter X-4794, dated February 17, on the subject of the eligibility for rediscount at a Federal Reserve Bank of notes held by member banks bearing the endorsement of officers of non-member banks.

We have not had any paper of that kind offered to us for rediscount or as collateral.

Very truly yours,

(Signed) E. R. FANCHER

Governor.

ERF.ZDD

(COPY)
FEDERAL RESERVE BANK OF RICHMOND

X-4813-e

February 21, 1927

Federal Reserve Board,

Washington, D. C.

Gentlemen:

We have received and considered the Board's letter X-4794, under date of February 17, in which the Board expressed the wish to be informed as to the extent and prevalence of the practice with certain member banks of soliciting loans through its correspondent nonmember banks and obtaining paper bearing the endorsement of officers of such nonmember banks.

To our knowledge, we have no such paper, and if such paper had come to us with the knowledge, we should have made most careful inquiry into the circumstances, since the practice, in our judgment, appears one to be condemned whether the paper may or may not be technically eligible for rediscount at Federal Reserve Banks.

Very truly yours,

(Signed) Geo. J. Seay,

Governor.

COPY

X-4813-f

FEDERAL RESERVE BANK

OF ATLANTA

February 28, 1927.

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

Dear Sir: -

Reference is made to Board Letter X-4794 under date of February 17th, regarding the solicitation through officers of correspondent non-member banks of loans by member banks, etc.

To the best of our knowledge no notes of this character have been offered to the parent bank or our New Orleans Branch, and should it be ascertained that such paper was offered to us it would be our policy to disapprove such items.

We do not think that the practice referred to in your letter is prevalent in this district, however, this is merely an expression of opinion as we have no first hand information.

Yours very truly,

(s) M. B. Wellborn,

Governor.

(COPY)
FEDERAL RESERVE BANK OF CHICAGO

X-4813-g

February 24, 1927

Federal Reserve Board,

Washington, D. C.

Dear Sirs: Attention: Honorable D. R. Crissinger, Governor.

In further reference to your letter X-4794, dated February 17th, and in which letter reference is made to a case wherein a certain member bank solicits loans through officers of its correspondent non-member banks, involving notes made payable to the local bank officer and endorsed by him to the member bank, you ask for advice on two points as follows:

1. As to whether notes originating in the manner described, or under similar circumstances, have ever been presented to this bank for rediscount and if so, whether or not they were rediscounted.

In response I am pleased to advise you that we are unable to find any cases wherein notes of the class referred to, or of similar character, have been offered to us for rediscount.

2. The Board also inquires as to the extent to which practices of this kind prevail in this district.

We are not aware of the prevalence of such practices, and since the receipt of your letter have carefully reviewed the examiners' reports on approximately twenty-five member banks whose relations with their country correspondents might have led to such practice, but find no evidence of its existence.

Very truly yours,

(Signed) J. B. McDougal
Governor.

COPY X-4813-h

FEDERAL RESERVE BANK

OF

ST. LOUIS

February 25, 1927.

Dear Governor Crissinger:

Replying to your letter of the 17th, X-4794, you are informed that no notes originating in the manner described or under similar circumstances have ever been presented to this bank for re-discount. We do not believe practices of the kind described prevail at all in this District.

Our Memphis Branch has had one or two notes offered to it which did bear evidence on their face that they were either acquired from a non-member bank or were taken indirectly thru a non-member bank as an accommodation. In each such case, after an investigation, the notes were taken up by the member bank re-discounting them.

Very truly yours,

(s) O. M. Attebery,

Deputy Governor.

Federal Reserve Board,
Washington, D. C.

Attention: Governor Crissinger.

C O P Y X-4813-i.

FEDERAL RESERVE BANK OF MINNEAPOLIS.

February 24, 1927.

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

Dear Governor Crissinger:

This will acknowledge receipt of your letter (X4794).

Since 1923 we have not rediscounted nor have there been offered to us any notes such as described in your letter. Previous to 1923 when we were authorized by the Board to discount paper originating in non member banks, we had a few notes offered to us bearing the endorsement of individuals associated with non member banks, and did discount such notes. We, however, gave but little consideration to such endorsements. In other words, we looked to the maker rather than the endorser. In doing so, we reasoned that if a note was eligible and desirable, the fact that an individual had endorsed or guaranteed the paper, could in no way affect its eligibility.

Yours respectfully,

(Signed) R. A. YOUNG

Governor.

RAY-C

(COPY)
FEDERAL RESERVE BANK OF KANSAS CITY

X-4813-j

March 4, 1927

Federal Reserve Board,

Washington, D. C.

Gentlemen:

Attention - Governor Crissinger.

Replying to your letter of February 16th, which is part of a file started on December 31, 1926, by Mr._____, then President of the _____ National Bank of _____.

In order to answer intelligently the questions you ask in your letter of February 16th, I deferred answer until after a meeting of the Managing Directors of our branches, which was held here yesterday. In the meantime I advised them to come prepared as to facts of the amount of paper now under rediscount with us that bears earmarks as having come from a non-member bank. Since conferring with them, I can say to you that I do not believe there is any paper in this bank that can possibly be construed as coming from a non-member bank.

For further discussion I will take the case of Mr. _____ at , and this is on all fours with nearly every so-called live stock bank at live stock centers, meaning by that, banks that are located at public stock yards. Naturally their business is with the larger live stock operators, scattered over the ranges and feeding sections of our District.

In the case of Mr. _____, instead of sending a man from his own bank out into Western Nebraska, to inspect loans for which applications had been made to him by live stock handlers, he selected a man in that section of the country to represent him. He selected a man who was president of a state non-member bank, with the distinct understanding that these loans were no part of the bank's business. The man inspects the cattle, values them, makes the loan, looks after the cattle during the grazing or feeding season, and keeps Mr._____'s bank informed of the progress that is being made with the cattle during the life of this loan. For this service Mr._____ allows the man he has selected one percent or ofttimes two percent on the amount of interest that is charged.

These loans are always too large ever to be taken into any small country banks. The money is furnished by Mr. _____'s bank, the notes are drawn to his representative and endorsed by the representative with recourse, bearing, of course, in this way the guarantee of the man who represents him. Predicated upon what I have stated to be the facts, I cannot but feel that this is eligible paper. I know a great number of

bankers who have been doing this throughout their whole banking careers; indeed, I have done it myself when I was in the commercial banking business. I think it is the proper way for a man who specializes in live stock loans to make his loans this way, then have his inspectors go out occasionally and check up on his representatives who are on the ground, and satisfy himself that his interests are being properly taken care of.

Now, in the case of Mr._____, if he had selected a man in that neighborhood who was not connected with a bank, had had the paper drawn on Mr. _____'s forms and taken the loan into his bank, I cannot help but feel that it would be eligible for rediscount. I know from my knowledge of the situation that these loans are not made primarily for the purpose of rediscounting with the Federal Reserve Bank, and they are seldom offered to us until a considerable period of the note has run, and then only when some emergency comes into the bank's business and it needs to rediscount.

What I am trying to get at is that because a note bears the endorsement of a man who is the president of a non-member bank, this circumstance need not necessarily make that note ineligible. Whenever we find that a member bank is doing that, we refuse to take the paper. We had an outstanding case of this kind in a bank at _____, where the man was covering up the makers of the notes, making the notes on the _____ bank's forms, but when we discovered that the makers of these notes, or the endorsers of them were the officers of a non-member bank, and that the proceeds had been passed to the credit of a non-member bank, we at once refused to take the notes, and in this special case the practice has been broken up.

Each one of our Managing Directors told me during the conference yesterday that they are following at the branches exactly the same rule that we have laid down here at the home office and that non-member bank paper is kept out of our rediscounts.

The point I want you to rule upon is that because a note bears the endorsement of a man who is the president or an officer of a non-member bank need not necessarily make that note ineligible for rediscount, when upon investigation we find that the note was made in good faith to the holding member bank and has no relation to, or claim upon, the non-member bank.

I hope I have made myself clear in this matter, and while it is no longer especially vital to us because, as I said, I believe we now have no such paper in the bank of this District; yet, your examiners apparently still raise the question of whether we are not taking non-member bank paper where they find a note bearing the endorsement of a president or officer of a non-member bank.

I reiterate that whenever we find upon investigation that the notes are made on practically the same line as those of Mr. _____'s, and there are several - possibly one or two at every live stock center that make their paper this way - I hope you will realize that you are going to

deny, first to the live stock interests and also to the member banks located at stock yards, a great deal of the service of the Federal Reserve System by making a ruling that such paper is ineligible. Of course, Mr. _____ could have chosen another man out there, but often this local banker is the best man, and it is for that reason he is chosen, but if he is acting in good faith and Mr. _____ is acting in good faith, which we ascertained, I feel the paper should be classed as eligible.

I have the honor to remain,

Very truly yours,

(Signed) W. J. Bailey
Governor.

(COPY)
FEDERAL RESERVE BANK OF DALLAS

X-4813-k

February 23, 1927

Federal Reserve Board,
Washington, D. C.

Gentlemen: Attention Governor D. R. Crissinger.

This will acknowledge receipt of Board's letter X-4794, dated February 17, 1927, relative to eligibility and desirability of notes offered for rediscount by member banks and which are payable to and bear the endorsement of officers of non-member banks, though such non-member banks do not themselves endorse them.

Replying to the Board's inquiry I am glad to say that we cannot recall a single instance where paper of this character has been offered to this bank for rediscount and we hope that none will be offered in the future. Inasmuch as our attention has never been called to loans of this sort in this district it is our opinion that it is not a common practice here, but to the contrary if there are any they are few in number.

Where the proceeds of the loan are used for a purpose that would render it eligible, while it is possible that the endorsement of officers of non-member banks might be merely incidental, under the circumstances stated in the Board's letter where the endorsing officers of non-member banks have a pecuniary interest through a division of earnings received from such loans, prima facie the matter of eligibility is questionable, to say the least. In addition to this, it is apparent that this practice should readily result in the extension of unsound credit which would be still further aggravated if the paper could be passed on to Federal Reserve Banks for rediscount.

It is also conceivable that through separate agreements loans that were in fact made at the instance of non-member banks might in this manner be camouflaged with a view of making them technically eligible for rediscount at Federal Reserve Banks which would not be the case if they bore the actual endorsement of such non-member banks.

In substance, it is our opinion that loans of this character should not be encouraged by a ruling that would make them eligible for rediscount by a Federal Reserve Bank.

Yours very truly

(Signed) Lynn P. Talley
Governor.

COPY

X-4813-k-1

FEDERAL RESERVE BANK OF DALLAS.

March 18, 1927.

Federal Reserve Board,
Washington, D. C.

Gentlemen: Attention Vice Governor Edmund Platt.

I have your letter of March 14, in reply to mine of February 23, and it is apparent that we are discussing two separate propositions, one being a legitimate loan for an eligible purpose and the other a subterfuge to evade legal loan limitations and to use the rediscount facility in a manner not contemplated by law.

I fully agree with you that in a number of instances the resources of banks are not sufficient to finance their larger customers. It is also a fact, as you state, that frequently banks in the larger towns and cities make loans direct to customers of smaller banks and this is particularly true where the smaller banks have already loaned such customers up to their legal limit. Under such circumstances where it is a legitimate transaction and the proceeds are used for an eligible purpose, the notes being offered for rediscount by a member bank, apparently there can be no sound reason for discriminating against them merely because they bear the endorsement of an officer of a non-member bank. In other words, the matter of eligibility and acceptability should always be governed by the facts in the particular case.

On the other hand, it is conceivable that a non-member bank might enter into an arrangement with its correspondent member bank to make loans for its account with a separate agreement to provide for them at maturity, thus violating the spirit, if not the letter, of the law with reference to its legal loan limit and, furthermore, enjoying indirectly the use of the rediscount facility of the Federal Reserve Bank. If the loans are in fact made at the instance of the member bank, instead of the non-member bank, apparently there is no good reason for making them payable to an individual who is an officer of the non-member bank and, in our

judgment, the fact that they are made payable to him, instead of to the member bank which is supposed to have made the loan, should place the Federal Reserve Bank upon inquiry as to the legitimacy of the transaction.

It is our further thought that it is not a sound practice for a member bank to solicit loans and, as I stated in my previous letter, where the officer of a non-member bank has a pecuniary interest through a division of discount or otherwise there would be an incentive through the use of the rediscount facility to manufacture unsound credit.

I hope that this will give you a clearer understanding of the idea that I intended to express in my previous letter and it is still my opinion that nothing would be gained through a ruling of the Board on this subject as the matter of eligibility and credit acceptability would have to be determined by the actual facts in each case.

Yours very truly,

(Signed) LYNN P. TAILEY.

Governor.

COPY

X-4813-1 146

FEDERAL RESERVE BANK

OF SAN FRANCISCO

February 25, 1927.

Federal Reserve Board,
Washington, D. C.

Dear Sirs:

In reply to your letter of February 17th (X-4794), you are informed that it is not a general practice in this district for the officers of banks to make commercial loans for correspondent banks and to receive commission for their services. We cannot recall any instance in which a note was offered to us for discount, drawn payable to officers of a non-member bank. Had such paper been submitted, however, and had we detected the fact that the endorsers were officers of non-member banks, we would have inquired into the purpose of making the loan in such form, to determine, first, whether the member bank was applying for funds of the Federal Reserve Bank with the object of extending its business beyond ordinary channels, and, secondly, whether the member bank applying for the discount was acting as agent of a non-member bank.

As you may realize, it is quite a custom for city banks to grant relief to country correspondents by purchasing customers' notes without recourse, or by making direct loans, particularly in the case of excess lines, to customers of country correspondents. The form which these loans take varies quite considerably. Some city banks require, wherever possible, that the loan shall be made on its own form of promissory note. In other instances, they require that the loans shall be made on the form of the correspondent bank, drawn to the order of the borrower or to the order of the country bank, or, in rare instances, to the order of officers of such country bank. Whether or not such notes would be endorsed without recourse would depend upon arrangements agreed upon.

Yours very truly,

(s) Jno. U. Calkins,

Governor.

F E D E R A L R E S E R V E B O A R D X-4814

Statement for the Press.

For immediate release March 23, 1927.

Condition of Acceptance Market
February 17, 1927 to March 16, 1927.

Acceptances.

There was a temporary scarcity of new bills offered in the New York acceptance market during the first week of the reporting period, February 17 - March 16, but later the supply regained its former volume, consisting chiefly of bills based on cotton, silk, coffee, and sugar. The supply was small in Boston throughout the period, with cotton, sugar, wool, and rubber bills in largest number. The demand was active in both centers through February and then fell off somewhat, but in New York dealers' sales reached an unusually large total during the week ending March 16, largely on account of foreign purchases. Dealers' offerings to the reserve banks were light early in the period but later increased and their portfolios on March 16 were reduced to the smallest proportions reported since last October. Rates on 30 and 90 day bills were lowered by most dealers on February 25 in the face of the limited supply and these lower rates prevailed during the remainder of the period. The following table shows the market rates on bills of various maturities at the beginning and end of the period:

	Feb.17		March 16	
Maturity	Bid	Offered	Bid	Offered
30 days	3 3/4	3 5/8	3 5/8	3 1/2
60 days	3 3/4	3 5/8	3 3/4	3 5/8
90 days	3 7/8	3 3/4	3 3/4	3 5/8
120 days	3 7/8	3 3/4	3 7/8	3 3/4
150 days	3 7/8	3 3/4	3 7/8	3 3/4
180 days	4	3 7/8	4	3 7/8

FEDERAL RESERVE BOARD

WASHINGTON

148

X-4816

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

March 24, 1927.

SUBJECT: Deduction in Computing Reserves of Member Banks.

Dear Sir:

The Board has received from one of the Federal reserve banks a letter raising certain questions as to the interpretation of the Board's ruling of October 27, 1926 (X-4705) on the question whether a 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. In this ruling the Board held that when credit has actually been entered by a correspondent bank on items of this kind 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 from its balances due to banks notwithstanding the fact that the correspondent bank has not yet actually collected the items.

The first question submitted was whether a bank in computing its reserves may anticipate on the basis of past experience that credit will be given by its correspondent bank immediately upon receipt of the items or should wait until it has advice that credit has actually been given. Where there is an agreement between the forwarding bank and the correspondent bank by the terms of which the credit is given to the forwarding bank immediately upon receipt by the correspondent, the situation is the same with regard to items of the kind under consideration as in the case of checks and other cash items, and the same rules with regard to deductions should apply. In cases where there are such agreements, therefore, items such as coupons, checks drawn on themselves by corporations other than banks; bill of lading drafts, etc., which have been placed in the mails and charged to the account of a correspondent bank, may be treated as balances due from banks and may be deducted from due to bank balances by the forwarding bank in computing its reserves. In the absence of such an agreement between the forwarding bank and the correspondent bank the deduction may not be permitted, until the items have actually been collected and placed to the credit of the forwarding bank.

The second inquiry was whether under the ruling referred to a bank should be permitted to deduct items of this kind provided its correspondent bank credits such items immediately upon receipt, regardless of whether or not the bank has itself credited its own depositor. Here again when there is an agreement by the correspondent bank to give immediate credit the items under consideration should be treated in the same manner as checks and other cash items. Consequently when there is such an agreement, these items may be deducted as soon as they have been placed in the mails and charged to the account of the correspondent bank, regardless of whether or not the forwarding bank has given credit to its own depositor.

By direction of the Federal Reserve Board.

Very truly yours,

Walter L. Eddy.
Secretary.

TO GOVERNORS OF ALL FEDERAL RESERVE 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, March 28, 1927.

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

Industrial output increased further in February and was slightly larger than a year ago, and distribution of commodities by the railroads was larger than for the corresponding period of any previous year. The general level of wholesale prices continued to decline and was in February at the lowest level since the summer of 1924.

Production

Production of manufactures increased in February for the second consecutive month, and the output of minerals, after declining in January, advanced once more in February to the record level reached last December. Factory production and employment, however, continued smaller than during the corresponding month of last year. Production of iron and steel has increased steadily since December, and reports indicate that operations of steel mills in March were at almost the same high rate as in March, 1926. Automobile production increased from 234,000 cars in January to 298,000 cars in February, and weekly figures of employment in Detroit factories indicate some further additions to production in March, but output has continued much smaller than a year ago. Daily average consumption of cotton by mills in February was larger than in any previous month on record, but activity of woolen and silk mills decreased as compared with January. Production of bituminous coal has been maintained in large volume, while that of

anthracite has been considerably reduced. The output of building materials was smaller during the first two months of this year than in the corresponding period of 1926. The value of building contracts awarded in February was 3 per cent smaller than in the same month of last year, but awards for the first three weeks in March were in approximately the same volume as in 1926. Contracts in Southeastern and Northwestern states have been considerably smaller than a year ago, while those in the Central West have been much larger.

Trade.

Retail trade showed less than the usual seasonal decline between January and February. Sales of department stores and chain stores were larger than in February of last year, while those of mail order houses were smaller. Wholesale firms reported a smaller volume of business in February than a year ago, and this decline occurred in nearly all leading lines. Inventories of department stores increased in February in anticipation of the usual expansion in spring trade, but the growth was less than is customary at this season and at the end of the month stocks were slightly smaller than a year ago. Stocks of merchandise carried by wholesale firms also increased in February, but they were generally smaller than in the corresponding month of last year.

Railroad shipments of commodities have increased steadily since January by more than the usual seasonal amount and have exceeded those for the same period last year, owing to larger shipments of coal, of miscellaneous commodities, and of merchandise in less-than-car-load lots.

Prices

Wholesale prices, according to the index of the Bureau of Labor Statistics, continued to decline in February. Among non-agricultural products decreases

occurred in the prices of coal, petroleum, iron and steel, nonferrous metals, and lumber, and the index for non-agricultural prices as a group was at the lowest post-war level. Prices of livestock and livestock products and of clothing materials advanced in February. During the first three weeks of March there were decreases in prices of grains, livestock, sugar, silk, wool, coal, petroleum, and gasoline, while prices of potatoes, pig iron, hides, and rubber advanced.

Bank credit

Demand for commercial credit at member banks in leading cities increased seasonally between the middle of February and the middle of March. There was also growth in the volume of funds used in the security market as indicated by increases in loans to brokers and dealers in securities. Consequently total loans of the reporting banks at the end of the period were close to the level of last autumn. Financial operations of the United States Treasury around the middle of March, with disbursements temporarily in excess of receipts, resulted in a temporary abundance of funds which was reflected at member banks in leading cities in a growth of deposits, in reduced indebtedness at the reserve banks, and in increased holdings of securities.

At the reserve banks, following changes in holdings of bills and securities accompanying the financial operations of the Treasury, the total volume of credit outstanding on March 23 was somewhat larger than four weeks earlier.

Conditions in the money market in March were slightly firmer than in February. Rates on prime commercial paper advanced from 4 per cent to 4 - 4 1/4 per cent and call money was also higher, while rates on acceptances declined somewhat.

FEDERAL RESERVE BOARD

153

X-4818.

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

March 28, 1927.

SUBJECT: Group Life Insurance.

Dear Sir:

It is the Board's understanding that all Federal reserve banks have taken out employees' group life insurance covering officers and employees at both head offices and branches in an amount equal to their annual salaries with a maximum limit, usually of $5,000. We also understand that recently some of the Federal reserve banks have made arrangements with insurance companies to allow employees of the bank to take out additional group insurance at their own expense, or at a flat rate, any difference between such rate and actual cost being charged or credited to the bank's expenses. The Board would like to have rather complete information in its files regarding the group life insurance policies now carried by each bank on the lives of its officers and employees, and I would request that you furnish it, at your earliest convenience, with the following information:

1. Date on which bank first took out group life insurance.

2. Name of the company with which original policy was taken out, together with all changes in companies to date and reasons for changing.

3. Copies of all group life insurance contracts now in effect.

4. Schedule of rates charged by ages or groups, if not shown in contracts now in force.

5. Whether all employees of head office and branch are considered as one group and if not how many separate groups are there and what are the reasons for the separate groups.

6. Statement showing the following information by years since group life insurance has been carried:

Year	Total Premiums paid	Dividends	Net Expense	Employees Average age	Employees Average No.	Average cost per employee	Claims paid beneficiaries

7. Whether officers and employees are permitted to take out additional group life insurance under present contracts at their own expense and, if so, the number carrying the additional insurance, the amount of such insurance in force and the method of assessing the employees therefor.

8. If bank has made arrangements referred to in No. 7 above, show rate and total amount paid by employees for additional group insurance and cost, if any, assumed by bank.

It will be appreciated if you will furnish us, in addition to the above information, such data as you have bearing on the reasons for changes from year to year in the cost of group life insurance and other pertinent data regarding your experience with group life insurance which you think would be of interest to the Board.

Very truly yours,

Walter L. Eddy.
Secretary.

TO CHAIRMEN OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

X-4820

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

March 31, 1927.

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

Dear Sir:

At the last Conference of Federal Reserve Agents Messrs. Hoxton, Martin and Curtiss were appointed a committee to submit a plan providing for changes in the procedure now followed by the Chairmen of the Federal reserve banks in electionsof Class A and B Directors, along the lines of the discussion of the subject which took place at the Conference. The Committee's report, copy of which is enclosed, has been filed with and approved by the Federal Reserve Board, and the procedure outlined therein should be made effective at the time of the next elections.

Very truly yours,

D. R. Crissinger,
Governor.

(Enclosure)

TO ALL CHAIRMEN.

X-4821. 156

C O P Y

December 18, 1923.

Mr. James — Examinations of member banks.

Mr. Wyatt and Mr. Herson

During a conversation we had with you recently, we suggested a possible solution of the entire problem of examining member banks and you requested us to give you a memorandum containing a discussion of the plan we had in mind. It is believed that the plan will be much better understood if, before outlining the plan itself, we discuss briefly the problems involved in the examination of member banks and the methods by which the various features of this problem might be approached.

I. THE PROBLEM.

1. The Federal Reserve Act originally required the Comptroller of the Currency to examine all member banks (both State and national) at least twice a year and to assess the expenses of such examinations against the banks examined in proportion to their resources.

2. That provision is still applicable to national banks; but the State banks were unwilling to subject themselves to examination by the Comptroller of the Currency, and in order to induce them to join the System the Act was amended June 21, 1917, so as to exempt them from this requirement.

3. As a substitute, however, they were made subject to examination by the Federal Reserve Board or the Federal reserve banks, and it was expressly provided that the expenses of all such examinations should be assessed against the banks examined.

4. The Federal Reserve Board does not exercise its authority to examine State member banks but leaves that function to be performed by the Federal reserve banks.

5. In order to reduce the costs of membership and thus make it more attractive to State banks, the Federal reserve banks adopted the practice of absorbing the expenses of examining State member banks.

6. This was manifestly unfair to the national banks which had to pay for their examinations and was a plain violation of the law.

7. Under date of April 7, 1923, therefore, the Federal Reserve Board ruled that the law must be complied with and that Federal reserve banks must assess against State member banks the costs of their examinations.

8. This ruling met with a storm of protest from the Federal reserve banks and from some member banks. It was claimed that it was unfair to the State member banks, many of whom had joined the System on the assurance that they would not be assessed for the expenses of their examinations. Some of the State banks even talk of withdrawing from the System for this reason alone.

9. It has also been claimed, both before the Board and before the Joint Congressional Committee on Membership in the Federal Reserve System, that this ruling of the Board will be an additional reason why State banks will not join the System.

10. Under these circumstances, it is to be expected that Federal reserve banks will refrain from examining State member banks except when compelled to do so, and that even then they will adopt any possible

expedient to avoid assessing the costs of such examinations against the banks examined.

11. In many cases, State examinations will be accepted in lieu of examinations by the Federal reserve bank, even though they are entirely inadequate and unreliable, as they always are in most of the States.

12. Even when the Federal reserve banks examine State member banks, the value of their examinations is somewhat impaired by the fact that they are not independent, disinterested parties, but are the creditors of the banks examined, have constant dealings with them and frequently are on very friendly relations with them.

13. Indeed, such examinations often amount to nothing more than credit investigations, especially since the Board has ruled that the expenses of mere "credit investigations" need not be assessed against the banks examined.

14. Furthermore, there is an entire lack of uniformity in bank examinations. The Comptroller of the Currency has one method and standard of examination; the 48 States have 48 different kinds and standards of examinations; and the 12 Federal reserve banks have at least 12 different kinds, and probably more, since their practices usually vary in the different States of their respective districts. Thus we have something more than 57 varieties of bank examinations.

15. In view of these facts, it certainly cannot be denied that the Federal Reserve System has not fully accomplished one of the fundamental purposes of the Federal Reserve Act - "to establish a better supervision of banking in the United States".

16. This entire situation is very undesirable and should be improved, if possible.

II. METHOD OF SOLUTION

One way to remove the irritation and dissatisfaction resulting from the Board's ruling requiring Federal reserve banks to assess the expenses of examining State member banks against the banks examined, would be to get the law amended so as to legalize the preexisting practice whereby Federal reserve banks absorbed the expenses of such examinations. This would also make membership more attractive to State banks by reducing the expenses of membership and removing entirely one of the reasons for non-membership reported to the Congressional Committee. It would also meet indirectly another demand made to the Congressional Committee - namely, that member banks be permitted to share more largely in the earnings of the Federal reserve banks, which have been quite large.

It would be manifestly unfair to national banks, however, to permit Federal reserve banks to absorb the expenses of examining State member banks without also absorbing the expenses of examining national banks. No such discrimination against national banks should be considered, and if Federal reserve banks are to bear the expenses of examining State member banks, they should also bear the expenses of examining national banks. Any legislation on the subject, therefore, should deal alike with the expenses of examining all member banks, both State and national.

It might be argued that to permit the Federal reserve banks to absorb the expenses of examining national banks as well as State banks would be unfair to the State banks, because the State banks would still have to bear the expenses of examinations made by the State authorities whereas the national banks would be relieved of all such expenses. The proper and natural solution for that difficulty, however, would be for the State banks to go to their legislatures and secure the enactment of a law which would permit or require the State authorities to accept examinations made by the Federal authorities in lieu of examina-

160

tions made by the State authorities. A few States already have such laws with respect to member banks, and the enactment of such laws in other States would tend more and more to a substitution of Federal examinations of a high type and uniform character for State examinations which in most States are notoriously insufficient. This is a result which is very desirable.

The expenses of examining all member banks (both State and national) would be so great, however, as to make it doubtful that Federal reserve banks could bear such expense in normal times when their earnings are small without depleting their dividends and possibly impairing their surplus. To avoid this undesirable result, Federal reserve banks should be permitted to bear such expenses only when they can do so out of their excess earnings, after the payment of all other expenses and their dividends. Whenever the excess earnings are insufficient to cover the expenses of examinations, the deficiency should be made up by assessments against all member banks in proportion to their resources, as national banks are now assessed by the Comptroller of the Currency.

While it is believed that the expenses of examining all member banks could well be defrayed out of the excess earnings of the Federal reserve banks when they are sufficient for the purpose, it is not believed that the function of making such examinations should be entrusted to the Federal reserve banks. The disadvantage of having Federal reserve banks examine State member banks are set forth above, and the present excellent system of examinations of national banks by the Comptroller of the Currency should not be interfered with in any way.

It is believed that it would be desirable to have all State member banks examined regularly by the Comptroller of the Currency, as they were required to be under the original Federal Reserve Act; but experience has shown that State banks are unwilling to submit to examination by the Comptroller of the Currency. The most feasible solution, therefore, would be to let the Comptroller of the Currency continue to examine national banks as at present and let the Federal Reserve Board take over the function of examining State member banks,

and make regular examinations of all State member banks, such examinations to be of a uniform type and of a standard at least as high as that attained by the Comptroller of the Currency. This could be done without any amendment to the law, and would eliminate all the objections to the present more or less haphazard methods followed by the various Federal reserve banks and would make sure that all member banks, both State and national, would be given the benefit of regular examinations of a uniformly high standard by examiners totally independent of, and disinterested in, the banks examined. It would go far toward accomplishing the purpose of the Federal Reserve Act "to establish a more effective supervision of banking in the United States".

It would result also in certain collateral benefits, one of which would be greater economy and efficiency in the examinations of State member banks. Instead of 12 different examining forces maintained by the various Federal reserve banks, there would be a single staff under the Federal Reserve Board with the increased economy and efficiency which would result from such consolidation. While such a force probably would be divided, for convenience, into groups stationed at the various Federal reserve banks, it could be concentrated in one place, say to examine a large State member bank with a large number of branches, or to examine a chain of affiliated member banks. This would solve once for all the troublesome problem of examining banks such as the Bank of Italy.

The examination of State member banks by the Federal Reserve Board would also settle the much mooted question of the right of State member banks to advertise that they are under Government or Federal supervision. In 1920, the Board ruled that member banks might properly advertise that they are subject to Government or Federal supervision, and in reliance upon that ruling many State banks advertised that they were under Government supervision and prepared expensive signs and stationery bearing this legend. In March, 1923, however, the Board reversed that position and held that, inasmuch as State member banks are not examined by the Federal Reserve Board or any other representative of the Federal Government, but are merely examined by the State authorities and the Federal re-

serve banks (which are not arms of the Federal Government), they should not advertise that they are under Government supervision. This has caused much dissatisfaction and some friction on the part of the State member banks, a few of which claim that the principal reason for their joining the Federal Reserve System was to obtain the prestige that they would gain by being able to advertise that they are "under Federal supervision." If the Board, itself, should undertake to examine all State member banks, as it is now authorized to do by law, it would be perfectly proper for the State member banks to advertise that they are under Government supervision, this source of friction would be removed, and an additional inducement would be given them to join the Federal Reserve System.

In order to avoid depriving the Federal reserve banks of their sources of information as to the condition and credit policies of their member banks, they should be furnished at all times with full copies of all reports of examinations of all member banks, both State and national, and the examinations should be so conducted as to produce the information which they need. Furthermore, both the Board and the Comptroller of the Currency should stand ready at all times to make special examinations of member banks whenever requested by the Federal reserve banks. Such other special credit information as is desired by the Federal reserve banks could be obtained by members of the staffs of their credit or discount departments, and it would not be necessary for them to maintain examining departments. The law should be amended so as to make clear their right to make such credit investigations without assessing the costs thereof against the banks examined.

If the examinations of member banks were thus to be conducted by the Comptroller of the Currency and the Federal Reserve Board, the Federal reserve banks could not absorb directly the expenses of such examinations, and a method would have to be devised of assessing such costs against them. This could be covered by

an amendment to the law authorizing the Federal Reserve Board to defray the expenses of examining State member banks and also the expenses of the examinations of national banks by the Comptroller of the Currency. The Board already fixes the salaries of national bank examiners upon the recommendation of the Comptroller of the Currency, and it could easily be authorized to go a step further and pay their salaries and expenses. All such payments could be made from funds derived from assessments levied by the Federal Reserve Board on the Federal reserve banks, whenever their excess earnings are sufficient, and from assessments on the member banks whenever the excess earnings of the Federal reserve banks are insufficient. Having these assessments levied by the Federal Reserve Board rather than by the Federal reserve banks would incidentally reduce somewhat the temptation of the Federal reserve banks to make excessive earnings in order to avoid having to assess their member banks.

III. PLAN SUMMARIZED

1. Let the Comptroller of the Currency continue to examine all national banks as at present, but have the expenses of such examinations defrayed by the Federal Reserve Board out of funds derived from assessments on the Federal reserve banks or on all member banks.

2. Let all State member banks be examined regularly by the Federal Reserve Board instead of irregularly by the Federal reserve banks.

3. Furnish Federal reserve banks with full copies of all reports of examinations of member banks made by the Comptroller of the Currency or by the Federal Reserve Board and have special examinations made by the Board and the Comptroller when requested by the Federal reserve banks.

4. In addition to examinations made by the Federal Reserve Board or the Comptroller of the Currency, permit the Federal reserve banks to make credit investigations of State member banks at any time they consider it desirable to do so, without assessing the costs against the member banks.

5. Whenever the excess earnings of the Federal reserve banks (after payment of expenses and dividends) are sufficient, let the Federal Reserve Board pay the expenses of examining all member banks, both State and national, from funds derived from assessments on the Federal reserve banks.

6. Whenever the excess earnings of Federal reserve banks are not sufficient to defray the expenses of examining all member banks, let the Federal Reserve Board make up the deficiency by assessments on all the member banks in proportion to their respective resources on the dates of examination.

CONCLUSION.

Much of the above plan, of course, could not be put into effect unless the existing law is amended; but inasmuch as the Joint Congressional Committee is now investigating reasons why State banks do not join the Federal Reserve System, and inasmuch as several features of the above plan would tend to make membership in the Federal Reserve System more attractive to State banks, this would seem to be the psychological time to ask Congress to enact such amendments. If you consider that the plan has sufficient merit to make it worth while, we shall be glad to draft a bill embodying the necessary amendments.

In drafting such a bill, it would not be amiss to insert a provision relieving Federal examiners of the limitation of Five dollars per day now prescribed by statute on the allowance for maintenance of Federal officers and employees while travelling on Government business. Five dollars a day is notoriously insufficient for this purpose, since a good room at a hotel costs that much or more without leaving anything for meals or other incidental expenses, and the present limitations of the law constitute quite a hardship on persons travelling on Government business. It might also be possible to make the amendment broad enough to relieve members of the Federal Reserve Board and employees of the Board, as well as the examiners, from this unjust limitation.

Respectfully,

(C O P Y) X-4822

April 6, 1927. 166

To The Federal Reserve Board

From Mr. Wyatt - General Counsel

SUBJECT: Powers and duties of the Board, the Federal Reserve Agents and the Federal Reserve Banks with respect to examinations of State member banks.

The Federal Reserve Board has requested this office to render an opinion "setting forth the powers and duties of the Board, the Federal Reserve Agents and the Federal reserve banks with respect to examinations of State member banks."

OPINION

After very careful consideration of this subject, I have reached certain conclusions which will be summarized below for the convenience of the Board. No mere summary of my conclusions, however, can be sufficient to inform the Board adequately as to the exact nature and scope of the powers and duties of the Federal Reserve Board, Federal Reserve Agents and the Federal reserve banks with respect to examinations of State member banks. The Board's attention is respectfully invited, therefore, to the discussion which follows this summary of my conclusions.

My conclusions may be summarized brief as follows:

I. Powers of the Federal Reserve Board.

1. Under Section 11(a), the Federal Reserve Board is authorized and empowered to examine at its discretion the accounts, books and affairs of each member bank and to require such statements and reports as it may deem necessary.

2. Under Section 11(i), the Board is required to perform the duties, functions or services specified in the Federal Reserve Act and to make all rules and regulations necessary to enable said Board effectively to perform the same.

3. Under Section 9, the Federal Reserve Board is authorized to direct examinations to be made of all State member banks by examiners selected or approved by the Federal Reserve Board.

4. Even when the directors of the Federal reserve bank have approved and accepted the examinations made by the State authorities in lieu of

Federal reserve examinations, the Federal Reserve Board may order special examinations of such banks when it deems necessary.

5. All examinations made under authority of Section 9, either under the direction of the Federal Reserve Board or under the direction of the Federal reserve bank, must be made by examiners selected or approved by the Federal Reserve Board and the Federal Reserve Board is required in all cases to approve the form of the report.

6. Section 9 as amended provides that the expenses of all examinations, other than those made by the State authorities, shall be assessed against and paid by the banks examined.

II. Duties of the Federal Reserve Board.

1. The primary function and duty of the Federal Reserve Board is to see that all provisions of the Federal Reserve Act are administered, enforced, and complied with in such a way as to carry out faithfully the purposes of the Federal Reserve Act and the intent of Congress in enacting the Federal Reserve Act.

2. One of the purposes mentioned in the title of the Federal Reserve Act is "to establish a more effective supervision of banking in the United States."

3. In order to carry out this purpose the Federal Reserve Board is given ample authority to examine State member banks at its discretion and to require such statements and reports as it may deem necessary.

4. The Federal Reserve Act also contains many regulatory provisions designed to improve banking conditions and to prohibit dangerous, unsound and fraudulent banking practices; and it is necessary for the Federal Reserve Board to have available reports of examinations sufficient to disclose violations of such provisions in order to enable the Federal Reserve Board to enforce these provisions of the Federal Reserve Act.

5. Even as to examinations made at the direction of Federal reserve banks, the Federal Reserve Board is specifically required by law to select or approve the examiners making such examinations and in all cases to approve the forms of the

reports of such examinations.

6. It is reasonable to assume that Congress expected the examinations made by examiners selected or approved by the Federal Reserve Board under the provisions of Section 9 to be the same "thorough examinations of all the affairs of the bank" as were previously required to be made by the Comptroller of the Currency and that in prescribing the forms of the reports of such examinations the Federal Reserve Board would require them to be the same "full and detailed" reports of the condition of the banks as were required to be rendered by national bank examiners.

7. The ultimate responsibility for seeing that proper, adequate and sufficiently frequent examinations of all State member banks are made rests squarely upon the Federal Reserve Board.

8. This responsibility cannot be discharged by permitting Federal reserve banks to make mere credit investigations which are so limited in their scope that they cannot adequately disclose the financial condition of the banks examined, the character of their management, or violations of the provisions of the Federal Reserve Act.

9. It is the duty of the Federal Reserve Board to enforce that provision of the Federal Reserve Act which requires the expenses of all examinations of State member banks, other than those made by the State authorities, to be assessed against and paid by the banks examined.

III. Powers of the Federal Reserve Agent.

1. Except for the power granted by Section 21 of the Federal Reserve Act to approve of the making of special examinations of member banks by Federal reserve banks, which probably is superseded by the provisions of Section 9 authorizing Federal reserve banks to make examinations without obtaining the approval of the Federal Reserve Agent, no specific power with respect to examinations of member banks is granted to the Federal Reserve Agent by the Federal Reserve Act.

IV. Duties of the Federal Reserve Agent.

1. By the provisions of Section 4, the Federal Reserve Agent is required to act as the official representative of the Federal Reserve Board and to maintain, under regulations to be prescribed by the Federal Reserve Board, a local office of said Board on the premises of the Federal reserve bank.

2. Through instructions issued by the Federal Reserve Board from time to time, the Federal Reserve Agent is charged with general supervision over the examination of State member banks in each Federal Reserve District and is charged with full responsibility for seeing that at least one examination of every State member bank in his district is made each year, either by the State authorities or by the examiners selected or approved by the Federal Reserve Board, and that copies of reports of examinations made by the State authorities are filed with the Federal reserve bank and the Federal Reserve Board.

3. For the faithful discharge of this duty the Federal Reserve Agent is responsible to the Federal Reserve Board; but the Federal Reserve Board is responsible for the ultimate result, because the Federal Reserve Agent is merely the Board's agent or representative.

V. Powers of Federal reserve banks.

1. Under the provisions of Section 9, the Federal reserve banks are authorized to make examinations of all State member banks, such examinations to be made by examiners selected or approved by the Federal Reserve Board and the forms of the reports of such examinations to be approved by the Federal Reserve Board.

2. The directors of the Federal reserve banks are authorized to approve the examinations of State member banks made by the State authorities and to accept such examinations and the reports thereof in lieu of examinations made by examiners selected or approved by the Federal Reserve Board.

3. This, however, does not preclude the right of the Federal Reserve Board to make its own examinations nor relieve the Board of its duties with respect to examinations.

4. Under the provisions of Section 21, Federal reserve banks are authorized, with the approval of the Federal Reserve Agent or the Federal Reserve Board, to make "special examinations" of member banks in their districts.

5. It is provided that such "special examinations" shall be so conducted as to inform the Federal reserve banks of the condition of their member banks and of the lines of credit which are being extended by them.

6. The expenses of all examinations of State member banks, other than those made by the State authorities, are required to be assessed against and paid by the banks examined.

VI. Duties of Federal reserve banks.

1. The principal purpose of "special examinations" made by the Federal reserve banks clearly is to inform the Federal reserve banks with respect to the condition of their member banks and the lines of credit which are being extended by them, in order that the Federal reserve banks may "extend to each member bank such discounts, advancements and accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks", as required by the provisions of Section 4.

2. This would also seem to be the primary purpose of the other examinations which Federal reserve banks are authorized to make under Section 9.

3. Unless examinations made by the State authorities or by examiners selected or approved by the Federal Reserve Board are available, and unless such examinations are sufficient to inform the Federal reserve banks as to the condition of their State member banks and the lines of credit being extended by them, it is the duty of the Federal reserve banks to make "examinations" of State member banks sufficient to inform them as to the condition of such member banks and the lines of credit being extended by them and to assess the costs of such examinations against the banks examined.

4. So-called "credit investigations" made by the Federal reserve banks without assessing the costs against the member banks are, by their very nature, so limited in their scope as to be insufficient to discharge the responsibility of the Federal reserve banks with respect to informing themselves as to the condition of member banks and the lines of credit extended by them.

DISCUSSION.

The principal powers of the Federal Reserve Board are set out in Section 11 of the Federal Reserve Act. The first five lines of that section, which have never been amended and still appear in the Federal Reserve Act in the form in which they were originally enacted, read as follows:

> "Sec. 11. The Federal Reserve Board shall be authorized and empowered:
> "(a) To examine at its discretion the accounts, books and affairs of each Federal reserve bank and of each member bank and to require such statements and reports as it may deem necessary."

The very first power granted to the Federal Reserve Board under this section, therefore, includes the power to examine, at its discretion, the accounts, books, and affairs of each member bank and to require such statements and reports as it may deem necessary.

Moreover, Section 11 (i) provides, in part, that:

> "* * said board shall perform the duties, functions, or services specified in this Act, and make all rules and regulations necessary to enable said board effectively to perform the same."

It will be noted that this section is mandatory. Reading these two provisions of the Federal Reserve Act alone, therefore, it would appear that the Federal Reserve Board is required to examine the accounts, books and affairs of each member bank.

The principal section of the original Federal Reserve Act on bank examinations, however, was Section 21, which reads in part as follows:

> "Bank Examinations.
> "Sec. 21. Section fifty-two hundred and forty, United States Revised Statutes, is amended to read as follows:
> "The Comptroller of the Currency, with the approval of the Secretary of the Treasury, shall appoint examiners who shall examine every member bank at least twice in each calendar year and oftener if considered necessary: Provided, however, That the Federal Reserve Board may authorize examination

by the State authorities to be accepted in the case of State banks and trust companies and may at any time direct the holding of a special examination of State banks or trust companies that are stockholders in any Federal reserve bank. The examiner making the examination of any national bank, or of any other member bank, shall have power to make a thorough examination of all the affairs of the bank, and in doing so he shall have power to administer oaths and to examine any of the officers and agents thereof under oath and shall make a full and detailed report of the condition of said bank to the Comptroller of the Currency.

"The Federal Reserve Board, upon the recommendation of the Comptroller of the Currency, shall fix the salaries of all bank examiners and make report thereof to Congress. The expense of the examinations herein provided for shall be assessed by the Comptroller of the Currency upon the banks examined in proportion to assets or resources held by the banks upon the dates of examination of the various banks.

"In addition to the examinations made and conducted by the Comptroller of the Currency, every Federal reserve bank may, with the approval of the Federal reserve agent or the Federal Reserve Board, provide for special examination of member banks within its district. The expense of such examinations shall be borne by the bank examined. Such examinations shall be so conducted as to inform the Federal reserve bank of the condition of its member banks and of the lines of credit which are being extended by them. Every Federal reserve bank shall at all times furnish to the Federal Reserve Board such information as may be demanded concerning the condition of any member bank within the district of the said Federal reserve bank.

"No bank shall be subject to any visitatorial powers other than such as are authorized by law, or vested in the courts of justice or such as shall be or shall have been exercised or directed by Congress, or by either House thereof or by any committee of Congress or of either House duly authorized."

It will be seen that the first paragraph of this section originally required the Comptroller of the Currency to appoint examiners who are required to examine every member bank at least twice in each calendar year, except that the Federal Reserve Board might authorize examinations of State banks and trust companies by State authorities to be accepted in lieu of examinations by the Comptroller of the Currency. It is also important to note the character of examinations provided for in this paragraph. The examiners are authorized "to make a thorough examination of all the affairs of the bank" and were required "to make a full and detailed report of the condition of said bank."

State banks, however, objected to being examined by the Comptroller

of the Currency and, in order to make the Federal Reserve System more attractive to State banks, Section 9 of the Federal Reserve Act was amended and reenacted by the Act of June 21, 1917, so as to provide that State banks "shall not be subject to examination under the provisions of the first two paragraphs of Section fifty-two hundred and forty of the Revised Statutes as amended by section 21 of this Act". State banks, therefore, are no longer subject to examination by the Comptroller of the Currency, as provided in the first paragraph of Section 21, but remain subject to the special examinations by Federal reserve banks provided for in the third paragraph of Section 21.

In lieu of the requirement of examinations by the Comptroller of the Currency, Section 9 as amended contains the following provision with reference to examinations of State member banks:

> "As a condition of membership such banks shall likewise be subject to examinations made by direction of the Federal Reserve Board or of the Federal reserve bank by examiners selected or approved by the Federal Reserve Board.
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> "Whenever the directors of the Federal reserve bank shall approve the examinations made by the State authorities, such examinations and the reports thereof may be accepted in lieu of examinations made by examiners selected or approved by the Federal Reserve Board: Provided, however, That when it deems it necessary the board may order special examinations by examiners of its own selection and shall in all cases approve the form of the report. The expenses of all examinations, other than those made by State authorities, shall be assessed against and paid by the banks examined."

It will be seen that this subjects State banks to examinations made either at the direction of the Federal Reserve Board or at the direction of the Federal reserve bank. It is further provided that whenever the directors of the Federal Reserve bank approve the examinations made by the State authorities, such examinations and the reports thereof may be accepted in lieu of examinations made by the examiners selected or approved by the Federal Reserve Board; but the Federal Reserve Board may order special examinations whenever it deems it necessary. Moreover, all such examinations, whether made at the direction of the Federal reserve bank or at the

direction of the Federal Reserve Board, must be made by examiners selected or approved by the Federal Reserve Board and the Federal Reserve Board is required in all cases to approve the form of the report.

While the initiative with respect to approving State examinations is by the amendment transferred from the Federal Reserve Board to the board of directors of the Federal reserve bank, therefore, the ultimate responsibility would seem to remain in the Federal Reserve Board, since all examinations must be made by examiners selected or approved by the Federal Reserve Board, said Board must in all cases approve the form of the report, and the Federal Reserve Board may at its discretion order special examinations whenever it deems necessary. Moreover, the Board's power to examine State member banks at its discretion under Section 11(a) remains unimpaired except for the fact that Section 9 provides explicitly that, "The expenses of all examinations, other than those made by State authorities, shall be assessed against and paid by the banks examined."

Reading all of these sections in the light of their history, therefore, their effect may be summarized briefly as follows:

I. By the original Federal Reserve Act:

1. The Federal Reserve Board was authorized, at its discretion, to examine the accounts, books and affairs of each member bank and to require such statements and reports as it may deem necessary;
2. The Comptroller of the Currency was required to make at least two examinations of every member bank each year, except that the Federal Reserve Board might authorize the examinations by the State authorities to be accepted in lieu of examinations made by the Comptroller of the Currency;
3. The examinations made by the Comptroller of the Currency were re-

quired to be "thorough examinations" of all the affairs of the banks, and the reports of such examinations were required to be "full and detailed" reports of the condition of said banks;

4. Every Federal reserve bank, with the approval of the Federal reserve agent or the Federal Reserve Board, was authorized to make special examinations of member banks in its district, which examinations were required to be so conducted "as to inform the Federal reserve bank of the condition of its member banks and of the lines of credit which are being extended by them".

5. The expenses of such examinations were required to be assessed against the bank examined;

6. It apparently was contemplated, therefore, that a thorough examination of all the affairs of every member bank would be made either by the Comptroller of the Currency or by the State authorities at least twice every year and that, in addition to such thorough examinations, the Federal reserve banks were to be permitted to make special examinations for credit purposes;

II. Under the amendment of June 21, 1917:

1. State member banks are no longer subject to examination by the Comptroller of the Currency;

2. They remain, however, subject to examinations at the discretion of the Federal Reserve Board under the provisions of Section 11(a), which examinations are to be examinations of the accounts, books and affairs of such banks;

3. They also remain subject to special examinations by the Federal reserve banks for credit purposes under the third paragraph of Section 21, and the expenses of such examinations are required

to be assessed against the banks examined;

4. In addition to the above mentioned examinations, State member banks are, by the provisions of Section 9, subject to examinations made by direction of the Federal Reserve Board or of the Federal reserve bank in lieu of the thorough and complete examinations previously required to be made by the Comptroller of the Currency.

5. By the provisions of Section 9, the power of approving State examinations in lieu of Federal examinations is transferred from the Federal Reserve Board to the board of directors of the Federal reserve bank;

6. It is specifically provided, however, that the Federal Reserve Board may order special examinations of State member banks whenever it deems it necessary;

7. All examinations made under Section 9 must be made by examiners selected or approved by the Federal Reserve Board and the Board is required in all cases to approve the form of report;

8. It is specifically provided that the expenses of all examinations of State member banks, other than those made by State authorities, must be assessed against and paid by the banks examined.

With this preliminary survey of the provisions of the Federal Reserve Act, I will now proceed to a consideration of the respective powers and duties of the Federal Reserve Board, the Federal reserve agents and the Federal reserve banks with respect to examinations of State member banks.

POWERS AND DUTIES OF THE FEDERAL RESERVE BOARD.

From an analysis of the above quoted provisions of the Federal Reserve Act, the powers of the Federal Reserve Board with respect to examinations of State

member banks may be summarized as follows:

1. Under Section 11(a) the Federal Reserve Board is authorized and empowered to examine at its discretion the accounts, books, and affairs of each member bank and to require such statements and reports as it may deem necessary.

2. Under Section 11(i), the Board is required to perform the duties, functions or services specified in the Federal Reserve Act and to make all rules and regulations necessary to enable said Board effectively to perform the same.

3. Under Section 9, the Federal Reserve Board is authorized to direct examinations to be made of all State member banks by examiners selected or approved by the Federal Reserve Board.

4. Even when the directors of the Federal reserve bank have approved and accepted the examinations made by the State authorities in lieu of Federal Reserve examinations, the Federal Reserve Board may order special examinations of such banks when it deems necessary.

5. All examinations made under authority of Section 9, either under the direction of the Federal Reserve Board or under the direction of the Federal reserve banks, must be made by examiners selected and approved by the Federal Reserve Board, and the Federal Reserve Board is required in all cases to approve the form of the report.

6. Section 9 as amended provides that the expenses of all examinations, other than those made by the State authorities, shall be assessed against and paid by the banks examined.

Turning now to a consideration of the duties of the Federal Reserve Board, it may be said that the primary function and duty of the Federal Reserve Board is to see that all provisions of the Federal Reserve Act are administered, enforced and complied with in such a way as to carry out faithfully the purposes of the Fed-

eral Reserve Act and the intent of Congress in enacting the Federal Reserve Act. The Federal Reserve Board is an independent establishment of the Federal Government created especially for this very purpose.

One of the purposes mentioned in the title of the Federal Reserve Act is "to establish a more effective supervision of banking in the United States". To this end, the Federal Reserve Act confers ample authority on the Federal Reserve Board to examine State member banks and to require of them such statements and reports as it might deem necessary.

The Federal Reserve Act also contains many regulatory provisions designed to improve banking conditions and to prohibit dangerous, unsound, and fraudulent banking practices. For instance, Section 9 requires all State member banks to comply with the reserve and capital requirements of the Federal Reserve Act, and to conform to those provisions of law imposed on national banks which prohibit such banks from lending on or purchasing their own stock, which relate to the withdrawal or impairment of their capital stock, and which relate to the payment of unearned dividends; Section 9 subjects State member banks and the agents, officers and employees thereof to the provisions of, and the penalty prescribed by, Section 5209 of the Revised Statutes; Section 9 forbids State member banks to certify checks unless the drawer has on deposit an amount equal to the amount of such check; Section 19 forbids any member bank to make new loans or to pay any dividends while its reserves are deficient; and Section 22 contains numerous penal provisions providing for the punishment of dishonest and fraudulent acts.

The fact that the Federal Reserve Board is charged with the duty of enforcing compliance with the provisions of the Federal Reserve Act and that the power to examine Federal reserve banks is intended to enable the Board to perform this duty

is further indicated by the fact that Congress considered such power to be "visitorial" or "visitatorial" in its nature. After providing for special examinations of State member banks, Section 5240 of the Revised Statutes, as amended by Section 21 of the Federal Reserve Act, provides that:

> "No bank shall be subject to any visitatorial powers other than such as are authorized by law, or vested in the courts of justice or such as shall be or shall have been exercised or directed by Congress, or any House thereof or by any committee of Congress or of either House duly authorized."

Construing a similar provision of Section 5241 of the Revised Statutes, the Supreme Court of Oregon construed the term "visitorial powers" to mean the power "to control and arrest abuses, and to enforce a due observance of the statutes"; (State v First National Bank of Portland, 61 Ore. 551, 123 Pac. 712).

Moreover, this is in accordance with the ordinary meaning of the term "visitorial powers". The dictionary defines the term "visitation" as follows:

> "The act of a superior or superintending officer who officially visits a corporation, college, church or the like, to inspect the manner in which it is conducted, and to see that its laws or regulations are observed and executed."

The Board's power of examination, therefore, is a "visitorial power" conferred upon it by Congress for the purpose of enabling the Board to control and arrest abuses and to enforce compliance with the provisions of law pertaining to member banks.

In view of the above, it seems quite clear that the ultimate responsibility for seeing that proper, adequate and sufficiently frequent examinations of State member banks are made rests squarely on the Federal Reserve Board.

Not only are such examinations themselves necessary in order to carry out the purpose of the Federal Reserve Act "to provide for a more effective supervision of banking in the United States", but they are necessary in order to enable the Board to enforce the regulatory provisions of the Federal Reserve Act applicable to State member banks. Thus, such examinations are necessary to

enable the Board to know whether State member banks are complying with the reserve requirements of the Act; whether they are making loans or paying dividends while their reserves are deficient; whether they are violating the penal provisions of Section 22; whether they are violating the provisions of Section 9 with reference to the over certification of checks; or whether they are violating the provisions of the National Bank Act with reference to the withdrawal or impairment of their capital stock or the payment of unearned dividends. Without examinations sufficient to disclose such matters, the Federal Reserve Board cannot possibly discharge its fundamental responsibility of seeing that the Federal Reserve Act is complied with in all respects.

The ultimate responsibility with respect to examinations of State member banks, therefore, rests with the Federal Reserve Board; and this is true notwithstanding the fact that, by the amendment of June 21, 1917, the authority to approve State bank examinations made by State authorities is transferred from the Federal Reserve Board to the directors of the Federal reserve bank. When such examinations are approved by the directors of the Federal reserve bank that does not relieve the Federal Reserve Board of the responsibility of seeing that State member banks are properly examined and that they comply with the provisions of the Federal Reserve Act. The Board would not be justified in relying upon the examinations made by the State authorities unless such examinations are not only entirely adequate to disclose the financial condition, the character of the management of the bank, and the soundness of the practices engaged in by the bank, but also to disclose all violations of the Federal Reserve Act. If the State examinations are not sufficient for this purpose, the Board clearly is not justified in relying upon such examinations in lieu of examinations made by examiners selected or approved by it.

Even where the Federal reserve banks make examinations, they must be made by examiners selected or approved by the Federal Reserve Board and the Federal Reserve Board must approve the form of reports of such examinations. Even in such cases, therefore, Congress is relying upon the Federal Reserve Board to see that such examinations are made by competent examiners and that the reports are in such form as adequately to disclose the condition of such banks and whether or not they are complying with the provisions of the Federal Reserve Act.

Moreover, the history of this subject indicates that the examinations made by examiners selected or approved by the Federal Reserve Board under authority of Section 9 are expected to be thorough and complete examinations. As shown above, they take the place of examinations previously made by the Comptroller of the Currency, which were required to be "thorough examinations of all the affairs of the bank" evidenced by a "full and detailed report of the condition of said bank". It is reasonable to assume that Congress expected the examinations made by examiners selected or approved by the Federal Reserve Board to be of the same high standard as those formerly required to be made by the Comptroller of the Currency, and that Congress expected the Federal Reserve Board in performing its statutory duty of prescribing the forms of the reports of such examinations to require that they be the same "full and detailed" reports of the condition of the banks examined as were required to be rendered by national bank examiners.

In this connection, I feel that I should call attention to the fact that the so-called "credit investigations" made by the Federal reserve banks are, by their very nature as defined and limited by the Federal Reserve Board, inadequate to discharge or fulfil the examining function and responsibility of the Federal Reserve Board.

As stated in the Board's circular letter of May 31, 1923, (X-3728):

> "A credit investigation such as the Board intended to authorize should be confined to an inspection and appraisal of such of the assets of a member bank as are represented by loans to its customers and any further activity by the examiners of a reserve bank to determine the condition (solvency) of a member bank is to be considered an examination within the meaning of the Federal Reserve Act and the costs thereof must be assessed."

In order not to amount to "examinations" the expenses of which must be assessed against the banks examined, therefore, the so-called "credit investigations" must be so limited in their scope as to be entirely inadequate to furnish the Federal Reserve Board with sufficient information to enable it to determine the financial condition of such banks, the character of their management, or whether or not they are violating the provisions of the Federal Reserve Act. If the Board relies entirely upon such "credit investigations", therefore, it cannot discharge its duty to enforce compliance with the provisions of the Federal Reserve Act and provide for a better supervision of banking in the United States.

In my opinion, therefore, so-called "credit investigations" should be considered valuable only as furnishing credit information to the Federal reserve banks and should be totally disregarded in considering the problem of obtaining adequate "examinations" of State member banks.

As stated above, it is the primary function and duty of the Federal Reserve Board to enforce compliance with all provisions of the Federal Reserve Act. It is, therefore, the duty of the Federal Reserve Board to enforce compliance with that provision of the Federal Reserve Act which requires the cost of all examinations of State member banks, other than those made by the State authorities, to be assessed against and paid by the banks examined.

POWERS AND DUTIES OF FEDERAL RESERVE AGENT.

Except for the power granted by Section 21 of the original Federal Reserve Act to approve of the making of special examinations of member banks by Federal reserve banks, which probably is superseded by the provisions of Section 9 authorizing Federal reserve banks to make examinations without obtaining the approval of the Federal Reserve Agent, no specific power with respect to examinations of member banks is granted to the Federal Reserve Agent by the Federal Reserve Act.

By the provisions of Section 4, however, the Federal Reserve Agent is required to act as the official representative of the Federal Reserve Board and to maintain, under regulations to be established by the Federal Reserve Board, a local office of said Board on the premises of the Federal reserve bank; and the Federal Reserve Board has from time to time issued certain instructions to the Federal Reserve Agents regarding examinations of State member banks. The powers and duties of the Federal Reserve Agents with respect to examinations of State member banks, therefore, are such as have been delegated to them by the Federal Reserve Board through such instructions.

In a circular letter addressed to all Federal Reserve Agents under date of January 26, 1918 (X-677), the Board called attention to the fact that it is necessary either for the Board of Directors of each Federal reserve bank to authorize an unqualified acceptance of State reports or for the Federal Reserve Agents to make arrangements to have special examinations made in all States where such authority has not been given, the examinations in such case to be made by representatives of the Federal Reserve Agent or by men who have been or may be designated as special examiners by the Federal Reserve Board. After some discussion of this subject, the Board concluded with the following statement:

"In general the Board desires that you assume the

> full responsibility for seeing that an examination is made of each State member institution in your district at least once each year, either by the designated State authority where the furnishing of a report has been consented to by the State authorities and approved by your bank, or by representatives of the Federal reserve bank who have been or may be designated as special examiners by the Federal Reserve Board. In either case the Federal Reserve Board must be furnished with a signed or certified copy of the report.
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> "It must, however, be understood, that even though acceptance of State examinations is authorized, it maybe necessary to make special examinations by examiners selected or approved by the Federal Reserve Board when such examinations are deemed by the Board to be required."

In a letter addressed to all Federal Reserve Agents under date of December 24, 1918 (X-1327), the Board reiterated the request that the Federal Reserve Agent assume full responsibility for seeing that an examination is made of each State member bank in his district at least once each year either by the State authorities or by the representatives of the Federal reserve bank who have been or may be designated as special examiners by the Federal Reserve Board, and suggested that a Department of Examination be organized in each Federal reserve bank, this department to be under the general supervision of the Federal Reserve Agent.

It thus appears that the Federal Reserve Agent is charged by the Federal Reserve Board with general supervision over the examination of State member banks in each Federal Reserve District and is charged with responsibility of seeing that at least one examination of every State member bank in his district is made each year, either by the State authorities or by examiners selected or approved by the Federal Reserve Board, and that reports of examination made by the State authorities are required to be filed with the Federal reserve bank and with the Federal Reserve Board.

While it is not entirely clear whether examinations made by the Federal Reserve Agent pursuant to these instructions are intended to be examinations made

on behalf of the Federal reserve bank or examinations made on behalf of the Federal Reserve Board, it would seem that, since the Federal reserve agent is the local representative of the Federal Reserve Board and his instructions in this matter emanated from the Federal Reserve Board, such examinations are made pursuant to the direction of the Federal Reserve Board and the Federal Reserve Board is responsible for them. If therefore, such examinations are inadequate the Federal Reserve Agent is responsible to the Federal Reserve Board; but the ultimate responsibility rests with the Federal Reserve Board, because the Federal Reserve Agent is merely the agent or representative of the Federal Reserve Board.

POWERS AND DUTIES OF FEDERAL RESERVE BANKS.

From an analysis of the above quoted provisions of the Federal Reserve Act, the powers of Federal reserve banks with respect to examinations of State member banks may be summarized as follows:

1. Under the provisions of section 9, the Federal reserve banks are authorized to make examinations of all State member banks, such examinations to be made by examiners selected or approved by the Federal Reserve Board, and the forms of the reports of such examinations to be approved by the Board.

2. The directors of the Federal reserve banks are authorized to approve the examinations of State member banks made by the State examiners and to accept such examinations and the reports thereof in lieu of examinations made by examiners selected or approved by the Federal Reserve Board.

3. This, however, does not preclude the right of the Federal Reserve Board to make its own examinations nor relieve the Board of its duties with respect to examinations.

4. Under the provisions of section 21, the Federal reserve banks are authorized with the approval of the Federal Reserve Agent or the Federal Reserve Board, to make "special examinations" of member banks in their districts.

5. It is provided that such "special examinations" shall be so conducted as to inform the Federal reserve banks of the condition of its member banks and of the lines of credit which are being extended by them.

6. The expenses of all examinations of State member banks, other than those made by the State authorities, are required to be assessed against and paid by the banks examined.

Reading the entire Federal Reserve Act, together, it would seem that the purpose of special examinations made by the Federal reserve banks

clearly is to inform the Federal reserve banks with respect to the condition of their member banks and the lines of credit which are being extended by them, in order that the Federal reserve banks may "extend to each member bank such discounts, advancements and accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks", as required by the provisions of Section 4. Naturally, this would also seem to be the primary purpose of the other examinations which Federal reserve banks are authorized to make under Section 9.

It might be said, therefore, that the duty of the Federal reserve banks with respect to examinations of State member banks is to inform themselves as to the condition of such banks and the lines of credit being extended by them, in order that the Federal reserve banks might use such information for their guidance in extending credit to member banks.

For this purpose, the Federal reserve banks have the option of:

(1) Making regular examinations under section 9;

(2) Accepting State examinations and reports thereof in lieu of their own examinations; or

(3) Making special examinations under section 21.

While it is not specifically so provided, it would also seem that they would be justified in accepting for this purpose the reports of any examinations which may be made by the direction of the Federal Reserve Board.

While it does not clearly appear from the Federal Reserve Act, it may be that one of the purposes of authorizing Federal reserve banks to make examinations of State member banks is further to carry out and make effective the purpose of the Federal Reserve Act "to establish a more effective supervision of banking in the United States". If Federal reserve banks made or obtained from the State authorities examinations of all State member banks

which were entirely adequate in every respect, it might be unnecessary for the Federal Reserve Board to make any further examinations of such State member banks, provided that reports of such examinations were furnished to the Federal Reserve Board. In order to be adequate for this purpose, however, it would be necessary for such examinations to show not only the condition of such member banks and the lines of credit being extended by them but also the character of the management of such banks, the soundness or unsoundness of the banking practices engaged in by them, and whether or not they are complying in every respect with all relevant provisions of the Federal Reserve Act.

The Federal reserve banks, however, are not charged with the duty of enforcing compliance with the Federal Reserve Act, nor of enforcing compliance with the State laws. For this reason, it would seem that the duty of seeing that all State member banks are subjected to examinations sufficient to disclose violations of the Federal Reserve Act does not rest primarily with the Federal reserve banks. As pointed out above, the ultimate responsibility in this matter rests with the Federal Reserve Board; because the Board is charged with the duty of enforcing compliance with the provisions of the Federal Reserve Act and is required to perform the duties, functions and services specified in the Federal Reserve Act and to make such rules and regulations as may be necessary to enable it to perform the same. Conceivably, the Federal Reserve Board could issue regulations directing the Federal reserve banks to make examinations sufficient to disclose violations of the Federal Reserve Act; but the Board would still be responsible for seeing that such direction is complied with and that all violations of the Federal Reserve Act are corrected.

The Federal reserve banks are forbidden to discount for member banks the paper of any one borrower who is indebted to the member bank in an amount

exceeding the limitations prescribed in section 13 of the Act; and, by the Board's regulations, the Federal reserve banks are charged with the duty of enforcing penalties for deficiencies in reserves. In this respect, it may be said that the Federal reserve banks are charged with the responsibility of informing themselves as to the lines of credit extended by State member banks to individual customers and as to the deposit liabilities of member banks against which reserves must be carried, and these are matters which might very well be checked up in examinations made by Federal reserve banks. Such information may be obtained through other channels such as the usual periodical reports covering the matter of reserves and financial statements submitted with applications for rediscounts; but it would seem that such reports and statements should be checked by an examiner to verify their accuracy.

In addition to the power to make "examinations" this office has held, and the Board has ruled, that Federal reserve banks may make so-called "credit investigations" of member banks, and that the expenses of such credit investigations need not be assessed against the member banks. In so ruling, however, this office held that any general investigation of a member bank by a Federal reserve bank for the purpose of determining (1) the solvency of the member bank or (2) the general lines of credit which are being extended by it, should be deemed to be an "examination" within the meaning of the Federal Reserve Act and that the cost thereof must be assessed against the member bank. In view of this fact, it would seem that the so-called "credit investigations" made by Federal reserve banks cannot possibly be adequate to perform the function of the "examinations" provided by the Federal Reserve Act or to discharge the duty of Federal reserve banks to make "examinations" of State member banks

sufficient to inform them as to the solvency of such banks and the general lines of credit which are being extended by them.

In a ruling issued by the Board under date of April 7, 1923 (X-3688), the Board has gone a bit further than the ruling made by this office and has provided that:

> "4. There are certain kinds of independent investigations or inquiries which a Federal Reserve Bank may usefully and properly make of member banks which would not constitute examinations within the meaning of the Federal Reserve Act and the costs of which, therefore, need not be assessed against the bank examined; to-wit: investigations of member banks with branches for the purpose of finding out the nature of the organization and the extent of coordination between the head office and branches, and inquiries with respect to 'discounts, advancements and accommodations' which have been extended to or applied for by any member bank.
>
> "5. On the other hand, any general investigation of a member bank by a Federal Reserve Bank for the purpose of determining:(1) the solvency of the member bank, or (2) the general lines of credit which are being extended by it, should be deemed to constitute an examination within the meaning of the Federal Reserve Act and the costs thereof must be assessed against the member banks."

Without expressing any opinion as to the legality of this ruling, it may be said that, even when "credit investigations" are extended in their scope so as to cover the matters referred to in the first paragraph quoted above, they are still inadequate to discharge the bank's responsibility with respect to "examinations".

Realizing this, the Board addressed the following telegram to all Federal reserve banks under date of April 26, 1923:

> "Replies received by the Board to letter X-3688 on Rules Governing Examination of State Member Banks indicate that some of the Banks have misunderstood the purpose and application of certain of these rules, mainly because of apparent inconsistencies between paragraphs 4 and 5. The Board was led to lay down certain specific principles governing Federal Reserve Banks in the matter of examinations because of practice in some Districts of Federal Reserve Banks violating the terms of the law by virtually performing examining functions of the State gratuitously. It was not the

intention of the Board to prevent Federal Reserve Bank from making purely credit investigations. It is the view of the Board that Federal Reserve Banks should, as a part of good credit administration, keep themselves informed of the credit practices and loan practices of their member banks. For this purpose Federal Reserve Banks are authorized from time to time to make investigations of their member banks for credit purposes. Such investigations need not be charged for. It is also the view of the Federal Reserve Board that Federal Reserve Banks should be free to use their judgment as to the time of making such investigations, and Board sees no objection to such purely credit investigations being made at times when State authorities are making their regular examinations. The provisions of paragraph 5 are intended to apply only to special examinations made by Federal Reserve Bank examiners and to such examinations as they may make to determine the solvency of a member bank. These two classes of examinations, under the terms of the Federal Reserve Act, must be charged for."

This telegram was again qualified by a circular letter addressed to all Federal Reserve Agents under date of May 31, 1923 (X-3728), which reads as follows:

"The correspondence received by the Board since the dispatch of a telegram supplementing its letter X-3688, on "Rules governing examination of State member banks", indicates an inclination to give too liberal interpretation to the principles laid down by the Board.

"When the Board authorized the banks to make purely credit investigations of member banks, without assessing the costs, it was done in the interest of good credit administration and it was not intended that this authority should be used as a basis for conducting examinations without assessing the costs.

"A credit investigation such as the Board intended to authorize should be confined to an inspection and appraisal of such of the assets of a member bank as are represented by loans to its customers and any further activity by the examiners of a reserve bank to determine the condition (solvency) of a member bank is to be considered an examination within the meaning of the Federal Reserve Act and the costs thereof must be assessed."

Without expressing any opinion as to the legality of the ruling contained in the Board's telegram as thus qualified, I would say that, in my opinion, "credit investigations" made pursuant to this ruling are not sufficient to discharge the responsibility of the Federal reserve banks with respect to informing themselves as to the condition of member banks and the lines of credit extended by them.

In my opinion, therefore, unless examinations made by the State authorities or by examiners selected or approved by the Federal Reserve Board are available to them, and unless such examinations are sufficient to inform the Federal reserve banks as to the condition of their State member banks and the lines of credit being extended by them, it is the duty of the Federal reserve banks to make "examinations" of State member banks sufficient to inform the Federal reserve banks as to the condition of such member banks and the lines of credit being extended by them and to assess the costs of such examinations against the banks examined.

CONCLUSION.

In this memorandum, I have attempted to set forth the principal powers and duties of the Federal Reserve Board, the Federal reserve agents and the Federal reserve banks with respect to the examinations of State member banks as indicated by the provisions of the Federal Reserve Act. Because there are no specific provisions of the Federal Reserve Act on the subject, I have not attempted to discuss such matters as the making of joint examinations or the lending of examiners to the State authorities. If, therefore, the Board desires a further

opinion from this office on such questions or on any other questions not covered by this opinion, I shall be glad to render a supplemental memorandum upon request.

Respectfully,

Walter Wyatt.
General Counsel.

C O P Y X-4824 194

No. 505.

IN THE

COURT OF CIVIL APPEALS

FOR THE

TENTH SUPREME JUDICIAL DISTRICT

OF TEXAS, AT WACO.

J. S. ODLE, Appellant,

v.

S. C. BARNES, ET AL, Appellees.

Appeal from County Court,
Bosque County.

Appellant J. S. Odle instituted this suit against appellees S. C. Barnes, the Farmers Guaranty State Bank of Meridian, herein called Meridian Bank, the First National Bank of Fort Worth, herein called Fort Worth bank, and the Federal Reserve Bank of Dallas, herein called the Reserve bank, to recover the sum of $345.00. Appellant alleged, in substance, that appellee Barnes was indebted to him upon a vendor's lien note, which note was in the hands of his agent, Judge Hale, for collection; that said Barnes in part payment of said note executed and delivered to his said agent his check dated November 4th, 1924, on the First National Bank, of Morgan, Texas, herein called Morgan bank, for said sum of $345.00; that Judge Hale promptly endorsed said check and deposited the same with the

Meridian bank and said bank credited his current account with the amount thereof; that said Meridian bank forwarded said check for collection to its correspondent, the Fort Worth bank, which bank in turn forwarded the same to its collecting and clearing correspondent, said Reserve bank; that said bank forwarded the same on or about November 7th, 1924, to said Morgan bank, on which it was drawn, for payment, said bank being the only bank at that place; that the same, and all the same, was in the due and regular course of business and in the usual and ordinary way that checks were collected when deposited with local banks at Meridian, Texas; that the same, and all the same, was without undue delay and without negligence on the part of plaintiff or his agent, Judge Hale, and so far without negligence on the part of said forwarding and collecting banks through which it passed; that said Morgan bank marked said check "Paid," cancelled the same, and surrendered the same to appellee Barnes, and that none of the appellees have remitted to appellant or to his agent, Judge Hale, the amount of said check or returned the same; that said Morgan bank failed and refused to pay said check and that because of such failure appellee Barnes was liable to him for the amount thereof. He further alleged that each of the appellee banks was negligent in failing to promptly report back to him the non payment of said check, and that had they done so he could and would have collected the same direct from the Morgan bank before its failure. He further alleged that if mistaken in the allegations aforesaid and if the Morgan bank did in fact pay said check and make remittance therefor, then that appellee banks received such remittance and failed and refused to pay the same to him or to his

said agent, and that by reason of withholding such remittance all the appellees were liable to him in the amount of said check as aforesaid.

Appellee Reserve bank alleged that it was a banking corporation, organized under an act of Congress of the United States commonly known as the Federal Reserve Act; that by the provisions of said Act the Federal Reserve Board was granted certain powers of regulation and control over it; that pursuant to the powers conferred upon said board by sections 13 and 16 of said Act, said board had promulgated certain rules and regulations governing the operation of the check clearing and collection departments of each Federal Reserve Bank; that such regulations include one commonly known as Regulation J, Series of 1924; that said regulation provides, in substance, that every bank sending checks thereto for deposit or collection shall be deemed to authorize the Reserve bank to handle the same subject to the terms and conditions of said regulation, and to warrant its own authority to give said bank such authority so to handle the same; that said regulations provide that a Federal Reserve Bank shall act only as the agent of the bank from which it receives such checks; that it may present such checks for payment or send such checks for collection directly to the bank on which they are drawn; that it may accept either cash or bank drafts in payment of or in remittance for such checks and shall not be held liable for any loss resulting from the acceptance of bank drafts in lieu of cash. A further recital of the pleadings of appellees is not necessary in view of the disposition we shall make of this case.

The case was tried to the court. The evidence introduced showed that appellee Barnes was indebted to appellant on a vendor's lien note;

that he executed and delivered to Judge Hale, appellant's agent, his check for $345.00 in part payment of the same, and that said check was endorsed by Judge Hale and delivered to the Meridian bank; that said bank credited his account with the amount thereof and forwarded the same to the Fort Worth Bank, which in turn forwarded the same to the Reserve bank at Dallas, and that that bank sent the same direct to the Morgan bank for payment and remittance, substantially as alleged by appellant; that said Reserve bank received and handled said check under the provisions of said circular J so pleaded by it; that such receipt and handling was according to its established custom, and that such custom was known to and acquiesced in by both the Fort Worth bank and the Meridian bank. The evidence further showed that the Fort Worth bank transmitted to the Reserve bank its cash letter, listing checks for credit to its account amounting in the aggregate to more than $4,000.00; that among the checks so listed were certain checks on the Morgan bank which amounted in the aggregate to over $800.00, and among which checks the one in question was included; that the Reserve bank thereupon transmitted direct to the Morgan bank its cash letter, listing checks upon said bank for payment amounting in the aggregate to $1925.62, in which list said check was included; that on November 10th the Morgan bank forwarded to the Reserve bank its draft drawn on the Fort Worth Bank in favor of said Reserve bank for the sum of $1850.77 in payment of said list of checks, checks to the amount of $74.85 included in said list being rejected for insufficient funds or other reasons; that the Reserve bank forwarded said draft to the Fort Worth bank for payment and that before it was paid a national bank examiner took charge of the Morgan bank and stopped the payment of said draft; that said Morgan bank was insolvent

and never resumed business; that the Reserve bank proved said unpaid draft as a claim against said bank and that fifty per cent thereof was paid as dividends on such claim by the receiver who administered the assets of said insolvent bank. The evidence further showed that the amount so received on said claim was forwarded through the respective banks, credited to Judge Hale's account and turned over to appellant apparently without prejudice. Notice of the non payment of said draft was transmitted to the Reserve bank through the Fort Worth bank and the Meridian bank to Judge Hale, appellant's agent, in due course of mail. The amount of said check was subsequently by said Reserve bank charged back against the Fort Worth bank, and by it against the Meridian bank and by it against Judge Hale's account. Appelle Barnes had at the time he drew said check and at the time the same was presented to the Morgan bank for payment, funds to his credit therein sufficient to pay the same and said check was promptly charged to his account by said Morgan bank and surrendered to him prior to the closing of the same. It was never returned to appellant. The court rendered a general judgment for all the defendants. The court at request of appellant filed findings of fact which are recorded in the transcript. A regular statement of facts, duly approved, was also filed.

OPINION.

Appellant by the first three propositions presented by him as grounds for reversal, contends that the court erred in holding that the evidence showed that the Barnes check had been paid by the Morgan bank and in rendering judgment against him in favor of said Barnes. The trial court

found as a fact that said check was accepted by Judge Hale, appellant's agent, as payment of the vendor's lien note held by appellant against appellee Barnes to the amount of such check. Appellant assails this finding on the ground that the same is without support in the evidence. The original vendor's lien note was neither declared on in appellant's pleadings nor offered in evidence on the trial of the case. The taking of such check by appellant's agent and the surrender of the note amounted at least to a conditional acceptance of said check, or an acceptance of the same subject to payment. If such payment was in fact made the acceptance of the check became absolute and discharged the original obligation. Johnson vs Amarillo Improvement Co., 88 Tex. 505, 510; Middlekauff vs State Banking Board, 242 S. W. 442, 443; Waggoner Bank & Trust Co. vs. Gamer Co. (Sup. Ct.) 213 S. W. 927, 928-9. Said check was declared by statute to be a bill of exchange payable on demand, and in order to hold Barnes, the drawer thereof, it was necessary that the same be presented to the Morgan bank for payment within a reasonable time, payment refused and notice of such refusal given him. R. S., Art. 5947, secs. 185 and 186. Appellant concedes that it was customary in such cases for one bank holding a check on another bank for collection to send such check direct to the said bank for payment, and to accept the draft of such bank as a remittance therefor, and that the Reserve bank was not negligent in doing so in this case. Appellant does contend, however, that such proceeding did not constitute payment by the Morgan bank of Barnes' check because payment of the draft so issued was stopped. By the express terms of said circular J the Reserve bank was authorized to accept drafts in payment of checks presented

to said Morgan bank for payment. The custom proved was based on said circular and conformed thereto. Mr. Ringer, who was cashier of the Morgan bank at the time, testified without objection that said check was paid by the issuance and forwarding of said draft to the Reserve bank at Dallas. The Reserve bank evidently so regarded the transaction. The trial court found as a fact that it was the universal custom among banks to accept remittance drafts in payment of cash letters listing checks for collection, and further found that as between appellant and appellee Barnes said check had been paid. The statute required appellant to cause said check to be presented to the Morgan bank for payment within a reasonable time, and further provided that the drawer should be discharged from any liability to the extent of any loss caused by delay. R. S., art. 5947, sec. 186. There is no contention that said check would not have been paid in cash if such payment had been demanded. Any loss sustained must be held to have resulted from the delay incident to accepting a draft on the Fort Worth bank instead of cash. While commercially speaking, the term "payment" relates to and is restricted to a payment in money, such is not necessarily the case when applied to a transaction between a creditor and his debtor. Neither is such necessarily the case in a transaction between a creditor's agent and his debtor, when such agent is duly authorized to accept other than money in settlement of his principal's demand. An obligation may be paid and discharged by the delivery and acceptance of something equivalent to money which is regarded as such by the party to whom the payment is due. State vs Tyler County State Bank (Com. Apps.) 277 S. W. 625, 627, and authorities there cited. We think the trial court correctly held that the surrender of said check to the

Morgan bank and the acceptance by the Reserve bank of its draft therefor constituted, as between appellant and Barnes, the payment of said check by said Morgan bank. Were we to concede that appellant is correct in contending that said transaction did not constitute a payment of said check by the Morgan bank, we think it must be held to have constituted in effect an acceptance of said check by said bank with a promise of payment when said draft was presented to its correspondent in Fort Worth, with which it had funds on deposit. The statute expressly provides that if the holder of a check procures it to be accepted or certified, the drawer and all endorsers are discharged from liability thereon. R. S., Art. 5947, sec. 188. If such transaction constituted a payment of said check appellee Barnes was entitled to the possession thereof. If such transaction did not constitute a payment of said check and did not otherwise effect the discharge of said Barnes from liability, the physical possession of said check was not essential to enable appellant to sue thereon. Waggoner Bank & Trust Co. vs Gamer Co., supra, p. 929, par. 5; Western Brass Mfg. Co. vs Maverick, 23 S. W. 728. The action of the trial court in rendering judgment in favor of appellee Barnes was proper.

Appellant contends by the fourth proposition presented by him as ground for reversal of the judgment appealed from that in event it is held that the Morgan bank paid said check, he is entitled to judgment against the bank or banks receiving such payment. The evidence showed without contradiction that said check was paid by a draft drawn by the Morgan bank on the Fort Worth bank in favor of the Reserve bank for the sum of $1850.77; which amount included payment for various other checks besides the Barnes

check; that payment of said draft was stopped; that the Reserve bank proved the same as a claim against the Morgan bank in the receivership proceedings thereon; that the entire dividends received by said Reserve bank on said claim so proved amounted to only fifty per cent of the face thereof; that appellant's pro rata part of such dividends was promptly returned to him through the Fort Worth and Meridian banks, respectively. Appellant concedes that the Reserve bank was, so far as he was concerned, authorized to accept said draft in return for the Barnes check and other checks surrendered to the Morgan bank therefor. No other or further sum was ever received on account of said check or draft by said Reserve bank or any of the other banks involved. The contention presented by appellant in said proposition is overruled.

Appellant contends by the fifth and last proposition presented by him as ground for reversal, that the Fort Worth bank while acting as agent for him was guilty of negligence in surrendering the remittance draft drawn on it by the Morgan bank, and surrendering to the receiver of said bank the funds it held on deposit without paying his said check or procuring the return of the same. The situation upon which this contention is based is not alleged in appellant's petition. Neither is there any allegation therein of the existence of any such duty on the part of the Fort Worth bank or of its negligence in failing to perform the same. The only theory of recovery presented by said petition in event it was held that the transaction between the Reserve bank and the Morgan bank constituted a payment of the Barnes check was that all of said several banks had received such payment and were liable to him therefor. Regardless of the pleadings, however, we

do not think the evidence adduced showed any such duty or liability to appellant for failure to perform the same. Appellant insists that this case was tried upon the theory that the Meridian bank took said check for collection in behalf of plaintiff through his agent, Judge Hale, and that each successive bank through which said check passed became in turn his agent for the collection of the same and the return of the proceeds to him, according to the rule laid down by our Supreme Court in Tillman County Bank vs. Behringer, 113 Tex. 415, 423, 257 S. W. 206. Such theory being the most favorable to appellant, we may for the purpose of the disposition of this case assume that appellant's contention is correct, and dismiss the contention of the Fort Worth bank and the Reserve bank, respectively, that the facts in evidence showed a purchase of said draft from Judge Hale by the Meridian bank, and not the taking of the same for collection. The evidence disclosed that the Fort Worth bank transmitted the Barnes check to the Reserve bank for credit to its account together with other checks amounting in the aggregate to more than $4000.00; that of the checks so transmitted those drawn on the Morgan bank amounted only to about $800.00; that the Reserve bank transmitted direct to the Morgan bank for payment and remittance checks amounting in the aggregate to more than $1900.00, among which checks was included said Barnes check; that the Morgan bank in payment of said checks returned its draft on the Fort Worth bank, payable to the Reserve Bank, for $1850.77, and that this draft was forwarded to the Fort Worth bank for payment. The Barnes check was therefore a mere incident in said series of transactions. The evidence disclosed with reasonable certainty that said draft was received by the Fort Worth bank after the

order from the bank examiner stopping payment thereon. There is no evidence that the Fort Worth bank was advised at the time it received or returned said draft that the same represented in part the proceeds of the Barnes check. Said draft did not of itself operate as an assignment of any part of the funds on deposit to the credit of the Morgan bank in the Fort Worth bank at the time. R. S. Art. 5947, sec. 189. There being no assignment of the funds, the order of payment evidenced by said draft was revocable at the pleasure of the Morgan bank, the drawer thereof. Hall v. First National Bank, 252 S. W. 828, 831. The Fort Worth bank would have rendered itself liable to the Morgan bank or its subsequent receiver if it had paid said draft after payment thereof had been ordered stopped. Hewitt vs. First Nat. Bank of San Angelo (Com. Apps.) 252 S. W. 161, 162-3. We do not think that the Fort Worth bank was authorized under these circumstances to pay the draft, nor that it violated any duty it owed to appellant in refusing to do so. Neither do we think that the Fort Worth bank was authorized to withhold from the receiver out of the funds in its hands belonging to the Morgan bank the amount of said Barnes check. At that time it knew that the amount of the Barnes check was included in said draft, which was a valid outstanding obligation against the Morgan bank in the hands of the Reserve bank. It necessarily follows that it did not violate any duty it owed to appellant in refusing to turn over said funds to the receiver. The Barnes check having been paid, appellant was not entitled to the surrender thereof.

The judgment of the trial court is affirmed.

J. N. GALLAGHER,
Chief Justice.

FEDERAL RESERVE BOARD

X-4825 205

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

April 8, 1927.

SUBJECT: Daylight Saving Schedule.

Dear Sir:

The following Federal Reserve Banks and Branches will operate under daylight saving schedule during the period beginning Monday, April 25th, and ending Saturday, September 24th, 1927:

Boston, New York, Philadelphia, Pittsburgh and Chicago.

The Buffalo Branch will operate under daylight saving schedule from Monday, May 30th to Saturday, September 10th, inclusive.

Banking hours at the Helena Branch, May 15th to September 15th, will be 9:30 a.m. to 2:00 p.m. mountain time, except Saturdays, when the hours will be 9:00 a.m. to 1:00 p.m.

Banking hours at the Salt Lake City Branch, May 1st to September 30th, will be 9:00 a.m. to 2:00 p.m. mountain time, except Saturdays, when the hours will be 9:00 a.m. to 12:00 noon.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

X-4826
~~X-4846~~

TREASURY DEPARTMENT
Office of the Secretary
WASHINGTON

206

April 6, 1927.

The Governor
Federal Reserve Board.

Sir:

You are hereby advised that the Department has referred to the Disbursing Clerk, Treasury Department, for payment, the account of the Bureau of Engraving and Printing for preparing Federal reserve notes during the period March 1, 1927, to March 31, 1927, amounting to $148,083.60 as follows:

Federal Reserve Notes, Series 1914

	$5	$10	$20	$50	$100	Total
Boston	200,000					200,000
New York	700,000	550,000	250,000	75,000	24,000	1,599,000
Philadelphia	350,000	150,000				500,000
Cleveland	250,000	50,000			5,000	305,000
Richmond	100,000					100,000
Chicago	500,000	100,000	75,000	10,000		685,000
St. Louis	100,000					100,000
Minneapolis	50,000	50,000	50,000			150,000
Dallas	100,000	50,000	50,000	2,000		202,000
San Francisco	100,000		100,000		5,000	205,000
	2,450,000	950,000	525,000	87,000	34,000	4,046,000

4,046,000 sheets at $36.60 per M $148,083.60

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

Boston	$ 7,320.00
New York	58,523.40
Philadelphia	18,300.00
Cleveland	11,163.00
Richmond	3,660.00
Chicago	25,071.00
St. Louis	3,660.00
Minneapolis	5,490.00
Dallas	7,393.20
San Francisco	7,503.00
	$148,083.60

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,
Deputy Commissioner.

(C O P Y)

Certified Copy. 207

X-4827

UNITED STATES CIRCUIT COURT OF APPEALS
Fourth Circuit

No. 2588

W. A. CLEVE and D. G. WHITE, Partners trading as
CLEVE & WHITE,
Plaintiffs in Error,

versus

CRAVEN CHEMICAL COMPANY and FEDERAL RESERVE
BANK of RICHMOND,
Defendants in Error.

No. 2589

CRAVEN CHEMICAL COMPANY,
Plaintiff in Error,

versus

FEDERAL RESERVE BANK of RICHMOND and W. A. CLEVE
and D. G. WHITE, Trading as CLEVE & WHITE,
Defendants in Error.

In Error to the District Court of the United States for the
Eastern District of North Carolina,
at New Bern.

(Argued January 26, 1927. Decided April 12, 1927) 208

Before Rose and Parker, Circuit Judges, and Baker, District Judge.

Larry I. Moore (Moore & Dunn on brief) for Cleve & White; George Rountree (Rountree & Carr on brief) for Craven Chemical Company, and M. G. Wallace for Federal Reserve Bank.

Parker, Circuit Judge:

On December 6, 1923, the firm of Cleve & White, of Vanceboro, N.C., sent to the Craven Chemical Company, of Wilmington, N.C., a check for $7,467.50, drawn on the Bank of Vanceboro in payment of a debt due the Chemical Company. The check was received on December 7th, and on the same day was deposited with the Murchison National Bank and credited to the account of the Chemical Company. The Murchison Bank immediately forwarded it for collection to the Federal Reserve Bank of Richmond, which received it on December 8th. The latter bank forwarded it to the drawee, Bank of Vanceboro, and it came into the hands of that bank when it opened for business on Monday, December 10th. On December 11th, the Bank of Vanceboro charged it to the account of Cleve and White, whose deposit balance exceeded the amount of the check; and, in payment of this and certain other items, sent to the Reserve Bank an exchange draft for the sum of $8,333.42 on its reserve deposits in the First National Bank of New Bern, N.C.

209

This exchange draft was received by the Reserve Bank on December 12th, and was immediately forwarded to the drawee, First National Bank of New Bern. It arrived in New Bern and was refused payment for lack of funds on December 13th. In this connection, it appears that the Bank of Vanceboro had had a balance on deposit with the First National of New Bern exceeding the amount of the draft, but that on December 10th the First National of New Bern had charged against this balance the amount of a note which it held against the Bank of Vanceboro, and this practically exhausted the balance. The Bank of Vanceboro failed, and a receiver was appointed for it on December 13th. The check of Cleve & White was thereupon duly charged back to the Murchison National by the Reserve Bank, and to the Chemical Company by the Murchison National.

This action was instituted by the Chemical Company against Cleve & White to recover the amount of their debt, and against the Reserve Bank to recover damages for alleged negligence in handling the check. The trial judge directed a verdict in favor of the Chemical Company as against Cleve & White, but against the Chemical Company and in favor of the Reserve Bank on the cause of action asserted against it. Two writs of error have been prosecuted to this court, one by Cleve & White to review the judgment rendered against them in favor of the Chemical Company, and the other by the Chemical Company to review the judgment discharging the Bank. On each writ of error the principal ground of complaint is the direction of the verdict; and the points raised by the exceptions thereto are the only ones which need be considered. Those relating to evidence are immaterial, as the verdict should have been directed as it was whether the evidence which is the subject thereof be considered as admitted or excluded.

210

On the case presented by Cleve & White, the question which arises is whether payment of their debt has been effected because the Chemical Company accepted their check or because the Federal Reserve Bank, acting for the Chemical Company in the collection of the check, accepted from the drawee of the check a draft on its reserve deposits in the First National Bank of New Bern. As to the first proposition, it is well settled that in the absence of special agreement to that effect, acceptance of a check does not operate as payment of a debt unless the check is itself paid. Little v. Mangum (C.C.A.4th) decided January 11, 1927; Philadelphia Life Ins. Co. v. Hayworth (C.C.A.4th) 296 Fed.339; Hayworth v. Philadelphia Life Ins. Co. 190 N.C. 757, 130 S.E. 612. And an agreement that a check is to be received in absolute payment is not to be implied from the fact that upon its receipt evidences of debt are marked paid and surrendered or a receipt is given. 2 Morse on Banks and Banking (5th Ed.) Sec.544; 21 R.C.L. p 64; Interstate Bank v. Ringo 72 Kan. 116, 83 Pac.119, 115 Am. St. Rep. 176; Little v. Mangum, supra. It is clear, therefore, that the acceptance of the check by the Chemical Company did not extinguish the debt of Cleve & White unless the check itself has been paid.

Whether the check has been paid or not, depends upon whether or not acceptance by the Reserve Bank of the exchange draft on the reserve deposits of the drawee Bank of Vanceboro operated as payment of the check. Undoubtedly the general rule is that acceptance of such draft operates as payment of the check and discharges the drawer of the check from further liability. Federal Reserve Bank v. Malloy 264 U.S. 160, (C.C.A. 4th) 291 Fed. 763, (D.C.) 281 Fed. 997, and cases cited. The reason of the rule is that a check is payable only in cash, and if the holder accepts something other than cash he assumes the risk incident thereto

211

and is estopped to deny payment as against the drawer. As said in Anderson v. Gill 79 Md. 312, 317, and quoted with approval by the Supreme Court in Bank v. Malloy, supra:

"Now, a check on a bank or banker is payable in money, and in nothing else. Morse Banks & Banking (2nd edition) p. 268. The drawer having funds to his credit with the drawee has a right to assume that the payee will, upon presentation, exact in payment precisely what the check was given for, and that he will not accept, in lieu thereof, something for which it had not been drawn. It is certainly not within his contemplation that the payee should upon presentation, instead of requiring the cash to be paid, accept at the drawer's risk a check of the drawee upon some other bank or banker. The holder had a right to make immediate demand for payment upon receipt of Anderson's check, though she was not bound to do so. When her agent, the Old Town Bank - the collecting bank being the agent of the holder - (Dodge v. Freedman's Sav. & Trust Co. 93 U.S. 379) did make demand it was only authorized to receive money (Ward v. Smith, 7 Wall.451); and the acceptance by the collecting agent of anything else rendered it as liable to the holder as though it had collected the cash."

In North Carolina, however, the rule that a check is payable only in cash has been changed by statute. Section 2 of Chapter 20 of the Public Laws of North Carolina of 1921, entitled "An Act to Promote the Solvency of State Banks", provides:

"That in order to prevent accumulation of unnecessary amounts of currency in the vaults of the banks and trust companies chartered by this State, all checks drawn on said banks and trust companies shall, unless specified on the face thereof to the contrary by the maker or makers thereof, be payable at the option of the drawee bank, in exchange drawn on the reserve deposits of said drawee bank when any such check is presented by or through any Federal Reserve Bank, postoffice, or express company, or any respective agents thereof."

The history and purpose of the act, and particularly of this section, are clearly set forth in the opinion of Mr. Justice Brandeis in Farmers & Merchants Bank v. Federal Reserve Bank 262 U.S. 649. The Federal Reserve Bank of Richmond had been attempting to enforce its "par clearance" policy upon the state banks of North Carolina by presenting checks over the counters of the banks which would not agree to remit at par and demanding payment in cash. The effect of this demand for cash payment was not only

to deprive the banks of their exchange charges on checks, but also to reduce their income-producing assets through the necessity of keeping in their vaults in cash a much larger part of their resources than had heretofore been customary. The purpose of this section of the statute was to relieve the state banks of the pressure which was being exerted upon them and of the embarrassment arising from this demand for cash by the Federal Reserve Bank. Its effect was as though the provision of the law had been written into the face of the check; and, consequently, where the maker or drawer did not specify cash payment, he agreed, as did the payee, that if presented by or through a Federal Reserve Bank the check should be payable by an exchange draft drawn by the payee bank on its reserve deposits. In other words, the effect of the act was to change the rule of law that the check should be payable only in cash. As stated by Mr. Justice Brandeis in the case heretofore cited:

> "Thus the statute merely sought to remove (when the drawer acquiesced) the absolute requirement of the common law that a check presented at the bank's counter must be paid in cash. It gave the drawee bank the option to pay by exchange only in certain cases; namely, when the check was 'presented by or through any Federal Reserve Bank, postoffice, or express company, or any respective agents thereof'. The option was so limited, because the only purpose of the statute was to relieve state banks from the pressure which, by reason of the common-law requirement, federal reserve banks were in a position to exert and thus compel submission to par clearance."

As Cleve & White did not specify cash payment in the face of the check, they must be held under the Act of 1921 to have impliedly agreed that the Bank of Vanceboro might pay it by an exchange draft on reserve deposits if it should be presented by or through the Federal Reserve Bank. The Reserve Bank could not require payment in any other medium. Federal Land Bank v. Barrow 189 N.C. 303, 127 S.E. 3. The Reserve Bank, therefore, presented a check which, under the law, the Bank of Vance-

boro was authorized at its option to treat as an order for an exchange draft. When it exercised this option and gave an exchange draft pursuant to the order, was such draft payment when not itself paid? We think not. If, under the case presented, Cleve & White had tendered an exchange draft of the Bank of Vanceboro in payment of their debt, there can be no doubt that this would not have extinguished the debt if the draft had been dishonored, for the rule is well settled that "in the absence of any special agreement to the contrary, the mere acceptance by a creditor from his debtor of the check of a third person, payable to the creditor's order, for a pre-existing debt, is not absolute, but merely conditional, payment, defeasible on the dishonor or non-payment of the check". 21 R.C.L. p. 61 and cases there cited. The result cannot be different where the draft is tendered by the bank upon the order of the debtor instead of by the debtor himself. The rule that acceptance of the draft of the drawee bank in payment of a check releases the drawer can have no application; for the reason of the rule, the common law requirement of cash payment, no longer exists, and the maxim applies: "Cessante ratione legis, cessat ipsa lex".

We do not find that the exact point presented by this case has been heretofore decided, but the principles which we deem controlling were applied by the Supreme Court of North Carolina to a somewhat similar case in Graham v. Proctorville Warehouse Co. 189 N.C. 533, 127 S.E.540. In that case the question was the right of a depositor to set off his deposit in an insolvent bank against a note which its receiver held against him. He had drawn a check against this deposit, and in payment of the check an exchange draft had been given which had been dishonored. It was held that the fact that the check had been charged against depositor's account did not preclude him from claiming the

deposit upon the dishonor of the exchange draft, nor from setting it off against liability on his note. The decision was based upon the holding that payment by exchange draft was conditioned upon the draft being paid. The court said:

"We have not overlooked the contention of plaintiff that by reason of chapter 20, Public Laws, 1921, the Bank of Proctorville had the option to pay the check of J. R. Lawson, its depositor, when same was sent to it for collection through the post office, by draft on the Bank at Wilmington. This statute has been declared by the Supreme Court of the United States not to be in violation of the Constitution of the United States, and therefore valid. Farmers' & Merchants Bank of Monroe, N.C. v. Federal Reserve Bank of Richmond Va., 262 U.S. 649, 43 S. Ct. 651, 67 L. Ed. 1157, 30 A. L. R. 635. The provisions of the statute, however, must be construed in accordance with well-settled rules of law; it will not be held that a drawee bank can charge checks drawn on it by its customers, to the accounts of such customers, remit in drafts or exchange to the forwarding bank, and thereby be released, notwithstanding that said drafts or exchange are, for valid and lawful reasons, not paid. Where a check drawn on a bank or trust company, chartered by this state, is presented to the drawee bank, 'by or through any Federal Reserve Bank, post office or express company or any respective agent thereof', and such bank or trust company in the exercise of the option conferred by said statute, sends to the forwarding bank its draft on its reserve deposits, in payment of such check, it will not be discharged of liability for the collection of its depositor's check until such draft on its reserve deposit has been paid."

Debtors contend that the effect of the judgment of the court below is to require them to pay their debt twice, but this argument begs the question. As we have seen, what has been done has not effected payment of the debt due the Chemical Company, and debtors may file claim against the receiver of the Bank of Vanceboro for the full amount of their deposit, just as though the check had not been charged against it when the worthless exchange draft was sent. Graham v. Proctorville Warehouse Co. supra. On the other hand, the Chemical Company has been guilty of no negligence. The check sent it was not payment, but a means of securing payment or at most conditional payment. It immediately put this check in process of collection, and through no fault on its part has received nothing in payment. Debtors chose the bank in which they

215

deposited the money to meet the debt due the Chemical Company. They sent a check on this bank which under the law they impliedly agreed might be treated merely as an order for an exchange draft. When, without fault on the part of the Chemical Company, this exchange draft turns out to be worthless - when the medium which they have selected for making payment fails to effect payment, they are not in position to say that payment has been made. It is true that there is no evidence that debtors have themselves been guilty of any fault or negligence, and this seems to be one of those unfortunate cases where one of two innocent parties must suffer from the default of a third. Our conclusion that payment has not been made and that the loss must fall on debtors is, we think, not only in accord with the legal principles which we have discussed, but also with the "Broad general principle, that whenever one of two innocent persons must suffer by the acts of a third, he who has enabled such third person to occasion the loss must sustain it".

Cleve & White insist, also, that the Chemical Company cannot maintain this action on the ground that, because the check was deposited with the Murchison Bank, the sole remedy of the Chemical Company is against that bank for negligence in the handling of the check, and in support of this position they rely upon the case of City of Douglass v.Federal Reserve Bank 271 U.S. 489, 46 Sup. Ct. 554. We think, however, that that case is not in point here. That was an action against the Reserve Bank based on negligence in collecting a check. It appeared that the Reserve Bank had accepted a worthless check of the drawee, which under the common law rule constituted payment. Plaintiff had deposited the original check to its credit in the First National Bank of Douglass, Arizona, and the court held that title to the check had passed to that bank and that, as

plaintiff had surrendered its rights in the check, only rights arising out of its contract with the initial bank remained. In the case at bar the action asserted against Cleve & White is for recovery not on the check but on the original indebtedness, on the theory that there has been no payment as the check has not been paid. It appears without contradiction that while the check was originally credited to the Chemical Company by the Murchison Bank, it was charged back to that company when the exchange draft received in payment was dishonored. Under these circumstances, there can be no question that the right to recover upon the original indebtedness rests with the Chemical Company.

Upon the writ of error of the Chemical Company, we are also of opinion that the judgment of the District Court should be affirmed. Assuming without deciding that, under the special contract evidenced by the deposit slip, the Chemical Company sustained such a relation to the Federal Reserve Bank as would enable it to maintain the suit for negligence, we are satisfied that the evidence did not warrant submission of the case to the jury as against the bank, for two reasons, (1) because there was no evidence of negligence on the part of the bank, and (2) because it does not appear that plaintiff has sustained any injury as the result of the failure of the bank to collect the check.

For reasons fully discussed in connection with the writ of error of Cleve & White, this case is distinguishable from the case of Federal Reserve Bank v. Malloy, 264 U.S. 160, in that since the transactions there involved chapter 20 of the Public Laws of 1921 has been enacted, and the Federal Reserve Bank is not now chargeable with negligence in accepting an exchange draft in payment of a check which it holds for collection. Plaintiff contends, however, that the bank was guilty of negligence in

not requiring in payment a check bearing the "I.C." (immediate credit) symbol. In explanation of this contention, it should be said that, when the bank in which reserve deposits of a remitting bank are kept, itself keeps a certain required balance with the Federal Reserve Bank, it is authorized to allow the remitting bank to draw upon it with drafts or checks bearing this "I.C." symbol; and in such case the draft is charged to the account of the drawee bank as soon as it comes into the possession of the Federal Reserve Bank and is credited to the drawer. This credit is merely conditional, however, and if the draft is not honored upon presentation it is charged back to the drawer. The "I.C." arrangement is merely to take care of the interest lost in "the float". There is nothing to show that the Reserve Bank could have obtained an "I.C." draft if it had insisted on it, or that it would have been honored by the drawee if obtained. Furthermore, there is nothing in the statute which authorizes the Federal Reserve Bank to demand an "I.C." draft, and in accepting an ordinary draft on the reserve deposits of the Bank of Vanceboro, it was accepting that which both the drawers and the payee of the check had impliedly authorized it to accept.

Plaintiff further contends that the Federal Reserve Bank should have ascertained the precarious financial condition of the Bank of Vanceboro and communicated the same to the Murchison Bank as the representative of plaintiff. There is no evidence that the Reserve Bank had knowledge of the precarious condition of the Bank of Vanceboro, or of any facts or circumstances which would have put it upon notice or inquiry; and there is no evidence that it was guilty of any negligence whatever in its efforts to collect the check, or that any additional diligence on its part would have resulted in collection.

But, even if negligence on the part of the Federal Reserve Bank be assumed, plaintiff cannot recover on account thereof, as there is no showing whatever that plaintiff has suffered any damage. It has recovered in this action the full amount of its claim against Cleve & White, and there is no suggestion that they are insolvent or that plaintiff cannot collect from them the full amount of its judgment.

The judgment of the District Court is affirmed on both writs of error.

No. 2588 Affirmed

No. 2589 Affirmed

(The late Judge Rose sat in the hearing of these cases, but died before he had an opportunity to pass upon the foregoing opinion.)

True copy,
Teste:

Claude M. Dean Clerk,
U.S.Circuit Court of Appeals, 4th.Ct.

By _____ Deputy Clerk.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4829

April 18, 1927

SUBJECT: Expense, Main Line, Leased Wire System, March, 1927.

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-4829-a and X-4829-b, covering in detail operations of the main line, Leased Wire System, during the month of March, 1927.

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", LeasedWire 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-4829-a

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINE OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF MARCH, 1927.

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	36,049	886	36,935	7,297	-	31,638	3.57
New York	157,898	-	157,898	13,096	74	144,728	16.32
Philadelphia	45,408	692	46,100	6,658	-	39,442	4.45
Cleveland	82,922	1,682	84,604	8,570	-	76,034	8.58
Richmond	53,825	2,334	56,159	8,679	-	47,480	5.36
Atlanta	69,604	3,034	72,638	10,366	-	62,272	7.02
Chicago	120,688	2,303	122,991	11,153	-	111,838	12.61
St. Louis	85,356	3,196	88,552	8,984	-	79,568	8.97
Minneapolis	41,790	2,070	43,860	6,217	-	37,643	4.25
Kansas City	84,768	2,667	87,435	9,602	-	77,833	8.78
Dallas	70,119	6,187	76,306	6,704	-	69,602	7.85
San Francisco	118,884	2,779	121,663	13,185	-	108,478	12.24
Total	969,311	27,830	997,141	110,511	74	886,556	100.00%
F. R Board			436,520	152,243	-	284,277	
Total			1,433,661	262,754	74	1,170,833	
Percent of total			100.00%	18.33%		81.67%	

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-4829-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, MARCH, 1927 X-4829-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	$ 1.00	$ -	$ 261.00	$ 667.70	$ 261.00	$ 406.70
New York	983.29	1.00	-	984.29	3,052.33	984.29	2,068.04
Philadelphia	225.00	-	-	225.00	832.29	225.00	607.29
Cleveland	288.66	-	-	288.66	1,604.72	288.66	1,316.06
Richmond	190.00	-	-	190.00	1,002.48	190.00	1,017.15(&)
Atlanta	270.00	-	-	270.00	1,312.95	270.00	1,042.95
Chicago	4,049.66(#)	-	-	4,049.66	2,358.45	4,049.66	1,691.21(*)
St. Louis	200.00	-	-	200.00	1,677.66	200.00	1,477.66
Minneapolis	195.98	-	-	195.98	794.88	195.98	598.90
Kansas City	275.64	-	-	275.64	1,642.13	275.64	1,366.49
Dallas	251.00	-	-	251.00	1,468.19	251.00	1,217.19
San Francisco	370.00	-	-	370.00	2,289.25	370.00	1,919.25
Federal Reserve Board	-	-	15,339.91	15,339.91	-	-	-
Total	$ 7,559.23	$ 2.00	$15,339.91	$22,901.14	$18,703.03	$ 7,561.23	$13,037.68
				4,198.11(a)			1,691.21(b)
				$18,703.03			$11,346.47

(&) Includes $204.67 for branch line business transmitted over main line circuit.
(#) Includes salaries of Washington operators.
(*) Credit.
(a) Received $4,197.20 from Treasury Department and $.91 from War Finance Corp. covering business for the month of March, 1927.
(b) Amount reimbursable to Chicago.

FEDERAL RESERVE BOARD

WASHINGTON

222

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4830

April 23, 1927

SUBJECT: Topic for Governors' Conference - Proposed Revision of Board's Regulations.

Dear Sir:

The Federal Reserve Board has placed on the program for discussion at the forthcoming Governors' Conference the proposed revision of the Board's regulations. In this connection there are enclosed herewith a copy of the Board's existing regulations with proposed changes noted thereon in red ink, and a memorandum containing the text of proposed new provisions to be inserted in the regulations, together with a brief explanation of the proposed changes.

It is important to note that the enclosed draft is merely a tentative draft prepared by the Board's Counsel after considering the changes made in the law by the McFadden Act and the various suggestions made by the Governors and Federal Reserve Agents in response to the Board's letter of March 4th (X-4804), and is intended primarily to serve as a basis for discussion. It has not been submitted to, or approved even tentatively by, the Federal Reserve Board. Constructive criticisms and suggestions are invited.

Very truly yours,

Walter L. Eddy,
Secretary.

Enclosures.

TO GOVERNORS OF ALL F. R. BANKS.

X-4830-a

TENTATIVE DRAFT OF AMENDMENTS TO REGULATIONS
(Confidential)

The attached draft of amendments to the Federal Reserve Board's Regulations is merely tentative and is intended primarily to serve as a basis for discussion. It has not been submitted to, or approved even tentatively by, the Federal Reserve Board. Constructive criticisms and suggestions are invited.

The changes in the existing regulations are noted in red ink, and the text of new provisions to be inserted is given below. Following this, there is a brief explanation of the changes proposed.

REGULATION A.

The following is the text of the new provisions to be inserted in Regulation A:

#1. To be inserted at place indicated on page 3.

(2) That such notes, drafts or bills of exchange have not been acquired from a nonmember bank, or, if so acquired, that the applying member bank has received permission from the Federal Reserve Board to discount with the Federal Reserve Bank paper acquired from nonmember banks.

#2. To be inserted at bottom of page 6.

SECTION IX. PAPER ACQUIRED FROM NONMEMBER BANKS.

(a) Except with the permission of the Federal Reserve Board, no Federal reserve bank shall discount any paper acquired by a member bank from a nonmember bank or bearing the signature or endorsement of a nonmember bank; except that Federal reserve banks may discount bankers' acceptances and other eligible paper bearing the signature or endorsement of a nonmember bank, if such paper was bought by the offering bank in good faith on the open market from some party other than the nonmember bank.

(b) Applications for permission to rediscount paper acquired from nonmember banks shall be made in writing by the member banks which desire to offer such paper for rediscount and shall state fully the facts which gave rise to each application and the reasons why the applying member banks feel justified in seeking such permission. Such applications shall be addressed to the Federal Reserve Board, but shall be filed with the Federal Reserve Agent, who shall forward them promptly to the Federal Reserve Board with his recommendations.

(c) As a general rule, the Federal Reserve Board will not permit member banks to rediscount paper acquired from nonmember banks which are eligible for membership, because such banks should join the Federal Reserve System if they desire to participate in its benefits. The Board will make exceptions to this rule in some cases in order to assist such banks in emergencies for a limited time; but such exceptions will be made only with the understanding that they will not be continued beyond the period when the nonmember bank concerned can qualify for admission to membership in the Federal Reserve System.

(d) The Federal Reserve Board hereby grants its permission for Federal reserve banks to discount for member banks paper bearing the signature or endorsement of Federal Intermediate Credit Banks, if such paper is otherwise eligible under the law and this regulation.

EXPLANATION OF CHANGES IN REGULATION A.

Section I, page 1.

The provisions regarding the rediscount of paper secured by bonds or notes of the War Finance Corporation is omitted; because, as a practical matter, it is obsolete. It appears that all such bonds are now overdue and that the amount outstanding is only about $17,000.

The phraseology of subdivision (c) is also changed to conform more closely to the language of the law.

Section II, page 2.

The obsolete provisions regarding the bonds or notes of the War Finance Corporation are omitted.

Section III, page 3.

It is suggested that there be incorporated in this section the requirement previously contained in Section IV(b) requiring the application for rediscount to state whether the paper offered was acquired from a nonmember bank.

Section IV(b), page 3.

It is proposed to eliminate from this section the requirement that the application for rediscount shall state whether the note offered for rediscount has been discounted for a depositor other than a bank or for a nondepositor and, if discounted for a bank, whether for a member or a nonmember bank. This suggestion was originally made by the Federal Reserve Bank of San Francisco as a result of the decision

in the Grimm Alfalfa Case. It will be remembered that, in a circular letter addressed to all Federal reserve banks under date of February 27, 1926, (X-4544), the Board waived compliance with this requirement, on condition that the application for rediscount should require member banks to designate whether the paper offered for rediscount, if any, was acquired from nonmember banks and should contain a certificate that none of the paper offered for rediscount, except that so designated, was acquired from nonmember banks. It is proposed to eliminate the old requirement entirely from Section IV(b) and, in lieu thereof, to insert in Section III a requirement that the bank certify that the paper offered for rediscount has not been acquired from a nonmember bank, or if so acquired, that the applying member bank has received permission from the Federal Reserve Board to rediscount with the Federal reserve bank paper acquired from nonmember banks.

It is also proposed to amend subdivision (2) of Section IV(b) so as to require financial statements whenever the amount involved equals or exceeds $500, instead of $5,000 as heretofore. This was recommended by the Federal Reserve Bank of Minneapolis, on the ground that $500 is the amount fixed by the National Bank Examiners as the maximum amount of unsecured credit which should be extended unless supported by a signed financial statement.

It is also proposed to eliminate from Section IV an obsolete proviso to the paragraph regarding statements of borrowers having closely affiliated or subsidiary corporations or firms.

New Section IX.

It is proposed to insert in Regulation A a new section IX con-

taining the substance of the Board's existing rulings with reference to the rediscount of paper acquired from nonmember banks. (See rulings published on page 891 of the 1923 Bulletin and page 252 of the 1926 Bulletin.)

REGULATION B.

It is not proposed to make any changes in this regulation.

REGULATION C.

It is not proposed to make any changes in this regulation.

230

REGULATION D.

The following is the text of the new provisions proposed to be inserted in Regulation D:

#3. To be inserted at place indicated on page 16.

Deposits which are permitted to be withdrawn by check or otherwise, without the actual presentation of the pass-book, certificate, or other similar form of receipt whenever a withdrawal is made, shall not be considered "savings accounts" within the meaning of this regulation.

#4. To be inserted at place indicated on page 17.

A member bank exercising trust powers need not carry reserves against trust funds which it keeps segregated and apart from its general assets or which it deposits in another institution to the credit of itself as trustee or other fiduciary. If, however, such funds are mingled with the general assets of the bank, as permitted to national banks under authority of Section 11(k) of the Federal Reserve Act, a deposit liability thereby arises against which reserves must be carried. In computing reserve requirements, trust funds deposited in a member bank by another bank to the credit of such other bank as trustee or other fiduciary must be classified by the member bank as individual deposits rather than bank deposits.

#5. To be inserted at place indicated on page 18.

Balances which are not payable on demand shall not be considered balances due to or balances due from banks within the meaning of this regulation.

#6A. Either this or 6B to be substituted for Section IV, pages 18 and 19.

SECTION IV. PENALTIES FOR DEFICIENCIES IN RESERVES.

(a) Basic Penalty. Inasmuch as it is essential that the law in respect to the maintenance by member banks of the required minimum reserve balance shall be strictly complied with, the Federal Reserve Board, under authority vested in it by section 19 of the Federal reserve act, hereby prescribes a basic penalty for deficiencies in reserves according to the following rules:

(1) Deficiencies in reserve balances of all member banks will be computed on the basis of actual daily net deposit balances at the close of business each day.

(2) Penalties for such deficiencies will be assessed monthly on the basis of actual daily deficiencies during the preceding month.

(3) A basic rate of 2 per cent per annum above the Federal reserve bank discount rate on 90-day commercial paper will be assessed as a penalty on deficiencies in reserves of member banks.

231

(b) Progressive penalty. - The Federal Reserve Board will also prescribe for any Federal reserve district, upon the application of the Federal reserve bank of that district, an additional progressive penalty for continued deficiencies in reserves, in accordance with the following rule:

When a member bank has had an actual deficiency in reserves for six consecutive weeks, a progressive penalty, increasing at the rate of one-fourth of 1 per cent for each week thereafter during which the actual reserve balance is deficient, will be assessed on daily deficiencies until the required reserve has been restored and maintained for four consecutive weeks; provided that the maximum penalty charged shall not exceed 10 per cent.

6B. Either this or 6A to be substituted for Section IV, pages 18 and 19.

SECTION IV. PENALTIES FOR DEFICIENCIES IN RESERVES.

Inasmuch as it is essential that the law in respect to the maintenance by member banks of the required minimum reserve balance shall be strictly complied with, the Federal Reserve Board, under authority vested in it by section 19 of the Federal Reserve Act, hereby prescribes the following rules governing deficiencies in reserves:

1. Deficiencies in reserve balances of all member banks will be computed on the basis of actual net deposit balances at the close of business each day;

2. Penalties for such deficiencies will be assessed monthly on the basis of actual daily deficiencies during the preceding month;

3. Such penalties shall be assessed at a basic rate of 2% per annum above the Federal Reserve Bank discount rate on commercial paper;

4. When a member bank has an actual deficiency in reserves for six consecutive weeks, there shall be assessed, in addition to the penalty at the basic rate, a progressive penalty increasing at the rate of one-fourth of 1% for each week thereafter during which the actual reserve balance is deficient, until the required reserve balance has been restored and maintained for four consecutive weeks; provided that the maximum penalty charged shall not exceed 10%;

5. Whenever the daily reserve balance of any member bank has been deficient for a time sufficient to subject such bank to the maximum penalty of 10%, the Federal Reserve Agent shall promptly report the fact to the Federal Reserve Board with a recommendation as to whether or not the Board should:

(a) In the case of a national bank, direct the Comptroller of the Currency to bring a suit to forfeit the charter of such national bank under the provisions of Section 2 of the Federal Reserve Act; or

(b) In the case of a State member bank, institute proceedings to require such bank to surrender its stock in the Federal reserve bank and to forfeit all rights and privileges of membership, pursuant to the provisions of Section 9 of the Federal Reserve Act; or

(c) In either case, to take such other action as the Federal Reserve Agent may recommend or the Federal Reserve Board may consider advisable.

#7. To be added at the end of Section V, page 19.

The Federal Reserve Agent in each District shall promptly report to the Federal Reserve Board all violations of this prohibition by member banks in his District and shall in each case recommend whether or not the Board should:

(a) In the case of a national bank, direct the Comptroller of the Currency to bring suit to forfeit the charter of such national bank under the provisions of Section 2 of the Federal Reserve Act; or

(b) In the case of a State member bank, institute proceedings to require such bank to surrender its stock in the Federal reserve bank and to forfeit all rights and privileges of membership pursuant to the provisions of Section 9 of the Federal Reserve Act; or

(c) In either case take such other action as the Federal Reserve Agent may recommend or the Federal Reserve Board may consider advisable.

EXPLANATION OF PROPOSED CHANGES IN REGULATION D.

In general, it may be said that the recommendations received from the Federal reserve banks evidenced more interest in the tendency of member banks to evade the reserve requirements than in any other subject. Numerous suggestions were made to remedy this situation; but, unfortunately, many of them could not be adopted without an amendment to the law. Such of these suggestions as are believed to be consistent with existing law were incorporated in the tentative draft, however, and the entire regulation was considered with a view of strengthening the enforcement of the reserve requirements and checking the tendency of member banks to evade them.

Section II(d), page 16.

The amendments are designed to check the tendency of member banks to evade the reserve requirements by classifying as "savings accounts" deposits which are permitted to be withdrawn at will, by check or otherwise, without the actual presentation of the pass-book. (See the Board's ruling on page 677 of

the 1923 Bulletin.) Amendments of this general character were suggested by the Federal Reserve Banks of Boston and Chicago.

Section III(a), page 17.

This amendment was suggested by the Federal Reserve Bank of New York and is designed to incorporate in the Regulation the substance of the ruling on page 572 of the 1922 Bulletin with reference to reserves against trust funds.

Section III(b), page 18.

This amendment was suggested by the Federal Reserve Bank of Chicago, and is designed to discourage the practice of some banks treating as balances due from banks time deposits carried with other banks against which such other banks carry only 3% reserves.

Section IV, pages 18 and 19.

Two alternative substitutes, designated as "6A" and "6B", are suggested.

The proposed substitute designated as "6A" is designed merely to base the computation of reserves for the purpose of assessing penalties on actual daily balances, instead of average balances for weekly or semi-monthly periods, in order to "prevent some of the wide fluctuations in actual reserves which now take place." This was suggested by the Federal Reserve Bank of New York, and it is understood that such a proposal has been made a separate subject for discussion at the Governors' Conference.

The proposed substitute designated as "6B" is designed to accomplish the same object and, in addition thereto, to strengthen in other respects the enforcement of the reserve requirements of the law. In accordance with a suggestion made by the Federal Reserve Bank of Philadelphia, it is designed to correct the view entertained by some member banks that, so long as they pay the penalties, they have a right to permit their reserves to remain deficient.

It would also prescribe a progressive penalty for all Districts and relieve the Federal Reserve Banks of the necessity of taking the initiative in this matter. The duty of prescribing penalties for deficiencies in reserves is placed by the law on the Federal Reserve Board, and it is believed that the Board rather than the Federal reserve banks should take the initiative in the matter, especially in view of the fact that at times there has been a feeling on the part of some member banks that the Federal reserve banks are influenced by the possibility of increasing their profits.

Section V, page 19.

The elimination of the last sentence of the present regulation is suggested in order to harmonize this section with the proposed amendments to Section IV.

The addition of the proposed new provision designated as "Insert #7" is designed to call forcibly to the attention of member banks the prohibition against making loans or paying dividends while their reserves are deficient and to provide more adequately for its enforcement.

REGULATION E.

It is not proposed to make any changes in this Regulation.

REGULATION F.

The following is the text of the proposed new provisions to be inserted in Regulation F:

#8. Insert on page 25.

Section 3 of the Act of November 7, 1918, as amended by Section 1 of the Act of February 25, 1927, which authorizes any bank, trust company, savings bank, or other banking institution incorporated under the laws of any State or of the District of Columbia to be consolidated directly with a national bank located in the same city, town or village under the charter of such national bank, provides in part that when such consolidation is effected:

> "* * * all the rights, franchises, and interests of such State or District bank so consolidated with a national banking association in and to every species of property, real, personal, and mixed, and choses in action thereto belonging, shall be deemed to be transferred to and vested in such national banking association into which it is consolidated without any deed or other transfer, and the said consolidated national banking association shall hold and enjoy the same and all rights of property, franchises, and interests including the right of succession as trustee, executor, or in any other fiduciary capacity in the same manner and to the same extent as was held and enjoyed by such State or District bank so consolidated with such national banking association."
>
> * * * * * * * * * * * * * * * * * *
>
> "The words 'State bank', 'State banks', 'bank', or 'banks' as used in this section, shall be held to include trust companies, savings banks, or other such corporations or institutions carrying on the banking business under the authority of State laws."

#9. Insert at end of Section II, page 25.

In the case of the organization of a new national bank, the conversion of a State bank or trust company into a national bank, the consolidation of two national banks, or the consolidation of a State bank or trust company with a national bank under the charter of the latter, application for such a permit may be made in advance on behalf of the new, converted, or consolidated national bank, and the permit may be issued simultaneously with

the consummation of such organization, conversion or consolidation. In the case of the organization of a new national bank, the application may be made on behalf of the new national bank by the organizers thereof. In the case of the conversion of a State bank or trust company into a national bank, the application may be made by the State bank or trust company on behalf of the national bank into which it is to be converted. In the case of the consolidation of two or more national banks or the consolidation of a State bank or trust company with a national bank under the charter of the latter, the application may be made by the national bank the charter of which is to be retained.

#10. Insert after Section II, page 25.

SECTION III. - CONSOLIDATION OF TWO OR MORE NATIONAL BANKS.

Where two or more national banks consolidate under the provisions of the Act of November 7, 1918, and any one of such banks has, prior to such consolidation, received a permit from the Federal Reserve Board to act in fiduciary capacities, the rights existing under such permit pass by operation of law to the consolidated bank and the consolidated bank may exercise such fiduciary powers in the same manner and to the same extent as the bank to which such permit was originally issued. In order that the consolidated bank's records may be complete and its right to exercise such fiduciary powers may not be questioned, however, it is advisable for the consolidated bank to obtain from the Federal Reserve Board a permit to exercise fiduciary powers in its own name. Such a permit may be applied for in advance of the consolidation and may be issued in the name of the consolidated bank effective when the consolidation is consummated.

#11. Insert after new Section III, page 25.

SECTION IV. - CONSOLIDATION OF STATE BANK WITH NATIONAL BANK.

Section 3 of the Act of November 7, 1918, as amended by Section 1 of the Act of February 25, 1927, which authorizes any bank, trust company, savings bank, or other banking institution incorporated under the laws of any State or of the District of Columbia to be consolidated directly with a national bank located in the same city, town or village under the charter of such national bank, provides in part that when such consolidation is effected:

> "* * * all the rights, franchises, and interests of such State or District bank so consolidated with a national banking association in and to every species of property, real, personal, and mixed, and choses in action thereto belonging, shall be deemed to be

238

transferred to and vested in such national banking association into which it is consolidated without any deed or other transfer, and the said consolidated national banking association shall hold and enjoy the same and all rights of property, franchises, and interests including the right of succession as trustee, executor, or in any other fiduciary capacity in the same manner and to the same extent as was held and enjoyed by such State or District bank so consolidated with such national banking association."

* * * * * * * * * * * * * * * * * * * *

"The words 'State bank', 'State banks', 'bank', or 'banks', as used in this section, shall be held to include trust companies, savings banks, or other such corporations or institutions carrying on the banking business under the authority of State laws."

The purpose of this provision is to make clear the right of such a consolidated national bank to succeed to the specific trusteeships, executorships, and other fiduciary appointments under which the State institution was acting prior to the consolidation or in which it had been appointed or designated to act under wills or other instruments which had not become effective at the time of consolidation through the death of a testator, the probate of a will or otherwise; but it does not confer upon such national banks the right to act generally in fiduciary capacities or to undertake any new trust business. It is necessary for the consolidated national bank to have a permit from the Federal Reserve Board to act in fiduciary capacities, therefore, before undertaking to act generally in fiduciary capacities or to accept any new trust business. If the national bank does not desire to act generally in fiduciary capacities or to accept any new trust business, but desires merely to continue to execute the specific trusteeships, executorships and other fiduciary affairs which were actually being executed by the State institution at the time of the consolidation or which the State institution had been designated to execute under wills or other instruments which had not yet become effective through the death of the testator, the probate of the will or otherwise, it is not technically necessary for the national bank to have a permit from the Federal Reserve Board in order to execute such specific trusts; but it is advisable for the national bank to have such a permit, in order that its right to continue to execute these trusts may not be questioned. In all cases involving the consolidation of a State institution having a trust business with a national bank under the provisions of the above mentioned act, therefore, the national bank should obtain from the Federal Reserve Board a permit to act in fiduciary capacities before the consolidation becomes effective, unless such national bank already has such a permit.

#12. Substitute for old Section III, page 25.

SECTION V. SEPARATE TRUST DEPARTMENTS.

Every national bank which obtains from the Federal Reserve Board a permit to act in fiduciary capacities shall establish a separate trust department within six months after the issuance of such permit. Such department shall be established before such bank undertakes to act in any fiduciary capacity and shall be placed under the management of an officer or officers whose duties shall be prescribed by the Board of Directors of the bank, either by an amendment to the by-laws of the bank or by a resolution duly entered in the minutes of the Board of Directors.

#13. Insert on page 25.

SECTION VI. DEPOSIT OF SECURITIES WITH STATE AUTHORITIES.

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, every national bank in such State which obtains a permit from the Federal Reserve Board to act in fiduciary capacities shall, before undertaking to act in such capacities, and at all events within six months after the issuance of such permit, make a similar deposit of securities. Such securities shall be deposited with the State authorities, unless the State authorities refuse to accept them. If the State authorities refuse to accept such securities, they shall be deposited with the Federal Reserve Agent of the District in which such national bank is located. Securities so deposited shall be held for the protection of private or court trusts, as provided by the State law.

#14. Substitute for old Section V, page 26.

SECTION VIII. FUNDS AWAITING INVESTMENT OR DISTRIBUTION.

(a) In General. Funds received or held in the trust department of a national bank awaiting investment or distribution shall be invested or distributed as soon as practicable and shall not be held uninvested by the bank any longer than is reasonably necessary.

(b) Deposits in Commercial or Savings Department of Trustee Bank. - Funds received or held in the trust department of a national bank awaiting investment or distribution may be deposited in the commercial department or savings department of the bank to the credit of the trust department; provided that the bank first delivers to the trust department, as collateral security:

(1) Bonds or certificates of indebtedness of the United States; or

(2) Other readily marketable securities of the classes in which State trust companies or State banks exercising trust powers are authorized or permitted to invest trust funds under the laws of the State in which such bank is located; or

(3) Other readily marketable securities of the classes defined as "investment securities" under the regulations of the Comptroller of the Currency issued pursuant to Section 5136 of the Revised Statutes of the United States as amended by the Act of February 25, 1927.

The United States bonds or other securities so deposited as collateral shall be owned by the bank and shall at all times be at least equal in market value to the amount of trust funds so deposited in the commercial department.

(c) Deposits in other Banks. If funds received or held in the trust department of a national bank awaiting investment or distribution are deposited in another bank, they shall be deposited to the credit of the said national bank as trustee or other fiduciary and the said national bank shall first require the bank in which such funds are deposited to deliver to the said national bank, as collateral security, United States bonds or other readily marketable securities of the kinds specified in Subsection (a) above, which securities shall be owned by the depositary bank, and shall at all times be equal in market value to the amount of funds so deposited. Such collateral security shall be held in the trust department of the said national bank in the manner provided in Section IV of this regulation for the security of the owners of the funds so deposited.

#15. Insert on page 26.

SECTION X. COMPENSATION OF BANK.

A national bank acting in a fiduciary capacity is entitled to receive for its services such fee or compensation as may be allowed by State law or provided for in the will, deed, court order or other instrument creating the trust. If the amount of such fee or compensation is not regulated by State law or stipulated or provided for in the instrument creating the trust, the national bank may charge or deduct not more than a reasonable fee or compensation. Where the bank is acting in a fiduciary capacity under appointment by a court, it may receive such fee or compensation as shall be allowed or approved by that court.

After the deduction of a proper fee or compensation, determined in the manner prescribed above, all income derived from the investment of the funds of a trust shall be paid over to, or credited to the account of, such trust.

#16. Insert on page 27.

SECTION XIII. INSOLVENCY OR VOLUNTARY LIQUIDATION OF BANK.

(a) Insolvency. Whenever a national bank exercising fiduciary powers, becomes insolvent and a receiver is appointed therefor by the Comptroller of the Currency, such receiver will, pursuant to the instructions of the Comptroller of the Currency and to the orders of the court or courts of appropriate jurisdiction, proceed to close such trusts and estates as can be closed promptly and transfer to substitute fiduciaries all trusts and estates which cannot be closed promptly.

(b) Voluntary liquidation. Whenever a national bank exercising fiduciary powers is placed in voluntary liquidation, the liquidating agent shall, in accordance with the laws of the State in which such national bank is located, proceed at once to liquidate the affairs of the trust department as follows:

1. All voluntary trusts which can be cancelled shall be cancelled as soon as possible and all assets and papers thereof shall be delivered to the rightful owner or owners;

2. All court trusts and estates under the jurisdiction of a court shall be closed or disposed of as soon as possible in accordance with the orders or instructions of the court having jurisdiction;

3. All other trusts which can be closed promptly shall be closed as soon as possible and final accounting made therefor;

4. All other trusts which cannot be closed promptly shall be transferred by appropriate legal proceedings to substitute trustees or other fiduciaries.

EXPLANATION OF CHANGES IN REGULATION F.

Section I, page 25. There is inserted at the end of this section the provisions contained in Section 1 of the McFadden Act with reference to the effect of the consolidation of a State bank having trust powers

with a national bank. This was suggested by the Federal Reserve Banks of Boston and St. Louis.

Section II, page 25. There is inserted at the end of this section an explanation of the manner in which applications should be made for trust powers in cases where a new national bank is being organized, a State bank is converted into a national bank, two or more national banks are consolidated, or a State bank is consolidated with a national bank under the charter of the latter.

New Section III, page 25. It is proposed to insert a new Section III stating the effect of the consolidation of two or more national banks one of which has trust powers and the advisability of the consolidated bank obtaining a new fiduciary permit.

New Section IV, page 25. It is proposed to insert a new Section IV stating the effect of the consolidation of a State bank having trust powers with a national bank under the charter of the latter. This was suggested by the Federal Reserve Banks of Boston and St. Louis.

Old Section III, new Section V, page 25. It is proposed to redesignate old Section III as Section V, and to amend the section so as to require every national bank which obtains from the Federal Reserve Board a permit to act in fiduciary capacities to establish a separate trust department within six months after issuance of such permit. This was recommended by the last Governors' Conference and by the last conference of Federal Reserve Agents.

New Section VI, page 25. It is proposed to insert at this place a new section with reference to the deposit of securities with State

authorities which will require such deposits to be made within six months after the issuance of a fiduciary permit. This was suggested by the last conference of Governors and by the last conference of Federal Reserve Agents. It is also proposed to insert here a provision covering the situation where the State law requires a deposit of securities but the State authorities refuse to accept such deposits from national banks.

Old Section V, new Section VIII, page 26. It is proposed to designate old section V as Section VIII and to re-write the entire section so as to cover more completely the handling of funds awaiting investment or distribution. There is incorporated in this section a statement of the principle that funds held awaiting investment or distribution should be invested or distributed as soon as practicable and should not be held by the bank uninvested any longer than is reasonably necessary. The provision with reference to deposits of trust funds in the banking department of the trustee bank to the credit of the trust department is amplified and made more definite. This was suggested by the Federal Reserve Banks of New York and Cleveland. There is inserted a new provision covering deposits of trust funds in other banks and requiring that when this is done the trustee bank shall require the bank in which such funds are deposited to pledge securities with the trustee bank for the protection of such deposits. This is believed to be absolutely necessary in order to afford trust funds the protection which the Federal Reserve Act obviously intended should be afforded. If the trustee deposits trust funds in another bank to the credit of itself as trustee it incurs no liability therefor except in the case of actual negligence or violation of the terms of the trust agree-

ment; and, if the bank in which such funds are deposited should fail, the trust estate would have no prior lien on such funds but would be in the position of a general creditor. Such a result is clearly contrary to the intent of that provision of Section 11(k) which provides that if trust funds are used in the business of the trustee bank the bank shall pledge securities with the trust department for their protection.

Old Section VI, new Section IX, page 26. It is proposed to amend this section so as to state explicitly that funds held in trust must be invested as soon as practicable; and, also, so as to authorize investments to be approved by a committee of directors appointed for that purpose, instead of requiring them to be approved by the entire Board of Directors.

New Section X, page 26. It is proposed to insert a new Section X stating what compensation the bank may receive for acting in fiduciary capacities and providing that, after the deduction of a proper fee or compensation, all income derived from the investment of trust funds shall be paid over or credited to the account of such trust. This is intended to prevent a practice such as that which exists in Kentucky, whereby some banks hold trust funds uninvested, employ them in their business, pay the trust estate a penalty of 5% as required by the State law, and retain for themselves all earnings in excess of 5%. This was suggested by the Federal Reserve Bank of St. Louis.

Old Section VIII, new Section XII, page 27. It is proposed to amend this section so as to authorize separate examinations of the trust department to be made at any time. This was suggested by the Federal Reserve Bank of Minneapolis.

New Section XIII, page 27. It is proposed to insert a new section XIII providing for the winding up of the affairs of the trust department of a national bank which is placed in voluntary liquidation or in the hands of a receiver.

Old Section X, page 27. It has been suggested by the office of the Comptroller of the Currency that there should be eliminated entirely the existing Section X, whereby the Board now reserves the right to revoke permits to act in fiduciary capacities for violations of law; because it is believed that the reservation of this right by the Federal Reserve Board is inconsistent with the policy of Congress as indicated in the McFadden Act. The McFadden Act contains a provision granting national banks indeterminate charters, and it is clear that the purpose of Congress in enacting this provision was to enable national banks to compete with trust companies having indeterminate or perpetual charters. It is argued that this purpose of Congress would be defeated if the Federal Reserve Board should continue to reserve the right to revoke fiduciary permits. While it is believed that the Board technically has such a right under the existing regulations, the legality of this section of the regulations is at least open to doubt, especially since the enactment of the McFadden Act. Moreover, this power has never been exercised, and an equally effective remedy lies in the Board's power to direct the Comptroller of the Currency to bring suit to forfeit the charter of a national bank for violation of law.

REGULATION G.

It is proposed to eliminate entirely the old Regulation G dealing with loans by national banks on farm land and other real estate; since this is a matter within the jurisdiction of the Comptroller of the Currency, and it is understood that he is preparing to issue regulations on this subject.

In order to avoid changing the familiar and well known designation of other existing regulations, it is proposed to redesignate Regulation M as Regulation G and insert it at this place.

REGULATION H.

The following is the text of the proposed new provisions to be inserted in Regulation H:

#17. Insert in table on page 30.

In an outlying district of a city with a population exceeding 50,000 inhabitants; provided State law permits organization of State banks in such location with a capital of $100,000 or less.	$100,000	$60,000

#18. Insert on page 31 at end of Section I.

(c) Branches. - In order to be eligible for membership in a Federal reserve bank, a State bank or trust company must relinquish any branch or branches established by it after February 25, 1927, beyond the limits of the city, town or village in which the parent bank is situated.

#19. Alternative substitute for Section IV, page 32.

SECTION IV. CONDITIONS OF MEMBERSHIP.

Pursuant to the authority contained in the first paragraph of Section 9 of the Federal Reserve Act, which provides that the Federal Reserve Board may permit applying banks to become members of the Federal Reserve System "subject to the provisions of this Act and to such conditions of membership as it may prescribe pursuant thereto", the Federal Reserve Board will prescribe for each bank or trust company hereafter applying for admission to the Federal Reserve System such conditions of membership pursuant to the provisions of the Federal Reserve Act as the Board may consider necessary or advisable in the particular case, and such bank or trust company will be required to agree to such conditions of membership prior to its admission to the Federal Reserve System.

#20. Substitute for Section VI, page 34.

SECTION VI. ESTABLISHMENT OR MAINTENANCE OF BRANCHES.

Every State bank which is, or hereafter becomes, a member of the Federal Reserve System will be required to comply strictly with the following provision of Section 9 of the Federal Reserve Act as amended by the Act of February 25, 1927:

> Any such State bank which, at the date of the approval of this Act, has established and is operating a branch or

branches in conformity with the State law, may retain and operate the same while remaining or upon becoming a stockholder of such Federal reserve bank; but no such State bank may retain or acquire stock in a Federal reserve bank except upon relinquishment of any branch or branches established after the date of the approval of this Act beyond the limits of the city, town, or village in which the parent bank is situated.

This has been interpreted to mean that:

1. Any State member bank which, on February 25, 1927, had established and was actually operating a branch or branches in conformity with the State law is permitted to retain and operate the same while remaining a member of the Federal Reserve System, regardless of the location of such branch or branches.

2. Any nonmember State bank which, on February 25, 1927, had established and was actually operating a branch or branches in conformity with State law may, if otherwise eligible, become a member of the Federal Reserve System and retain and operate such branches, regardless of their location.

3. In order to remain a member of the Federal Reserve System, every State member bank must relinquish any branch or branches established after February 25, 1927, beyond the limits of the city, town or village in which the parent bank is situated.

4. Any State member bank which establishes any branch or branches after February 25, 1927, beyond the limits of the city, town or village in which the parent bank is situated must either (a) relinquish such branch or branches or (b) forfeit all rights and privileges of membership and surrender its stock in the Federal reserve bank.

5. No State bank which has established any branches subsequent to February 25, 1927, beyond the limits of the city, town or village in which the parent bank is situated may become a member of the Federal Reserve System except upon relinquishment of every such branch.

6. State member banks may establish branches within the limits of the city, town or village in which the parent bank is situated without obtaining permission of the Federal Reserve Board.

EXPLANATION OF PROPOSED CHANGES IN REGULATION H.

Section 1, page 30. It is proposed to amend Section 1 so as to permit the admission to the Federal Reserve System of State banks located in outlying districts of the cities having a population exceeding 50,000 inhabitants with a capital of $100,000 or $60,000, in view of the amendment contained

in the McFadden Act permitting national banks so situated to be organized with a capital of only $100,000. It is also proposed to insert at the end of this section a provision conforming to the provisions of the McFadden Act insofar as it affects the eligibility for membership in the Federal Reserve System of State banks having branches.

Section IV, page 32. It is necessary to change this section to conform to the amendment contained in the McFadden Act which authorizes the Board to prescribe only such conditions of membership as are "pursuant to" the provisions of the Federal Reserve Act. Two proposed revisions of this section are submitted. One of them would require certain changes in the existing text of this section, and such changes are noted in red ink on the old regulations. The other alternative draft is submitted herewith as proposed insert number 19. This proposed revision of Section IV would omit entirely the text of all conditions of membership, and probably would lessen materially the antagonism to the Board's practice of prescribing conditions of membership. Such a revision of this section would not prevent the Board from prescribing any condition of membership which it may now prescribe under Section 9 as amended by the McFadden Act, nor would it prevent the Board from adopting a definite policy with reference to conditions of membership, which policy might be incorporated in a resolution to be adopted by the Board or in a circular letter addressed to all Federal Reserve Agents.

Section V, page 33. If the text of Condition Number 1 is omitted from Section IV, it is suggested that Section V should be omitted altogether and the remaining sections renumbered accordingly.

Section VI, page 34. It is proposed to eliminate altogether the old section VI containing "Principles Governing Establishment of Branches", and to substitute therefor the text of the provision of the McFadden Act pertaining to branches of State member banks, together with a statement of the interpretation which has been given to that provision.

Section VIII, page 36. It is proposed to omit entirely the second paragraph of this section, in view of the fact that the Board or the Federal reserve banks may wish to change the existing practice with respect to examinations of State member banks.

REGULATION I.

The few slight changes proposed to be made in Regulation I are noted in red ink on the text of the old regulation and are believed to be self-explanatory. It may be stated, however, that the elimination of the words "if earned" from subdivisions (b) and (c) of Section II are intended to make the regulation conform to the ruling contained in the Board's circular letter of April 17, 1925 (X-4322).

REGULATIONS J, K, AND L.

It is not proposed to make any changes in Regulations J, K, and L.

REGULATION M.

It is not proposed to make any change in Regulation M, except to redesignate it as Regulation G and transfer it to the place formerly occupied by old Regulation G, which it is proposed to eliminate.

252

FEDERAL RESERVE BOARD

WASHINGTON

X-4831

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

April 19, 1927

SUBJECT: Bankers' acceptances secured by terminal grain elevator or warehouse receipts issued by the borrower.

Dear Sir:

Reference is made to the recommendation of the last Governors' Conference "that registered terminal elevator or warehouse receipts which are issued under conditions and practices similar to those prevailing in the case of such receipts issued under the supervision of the Railroad and Warehouse Commission of the State of Minnesota, are within the spirit of the Board's regulations requiring that warehouse receipts to be eligible as to collateral for acceptances must be issued by a warehouse independent of the customer and that, therefore, the Federal Reserve Board should rule that acceptances secured by such warehouse receipts are eligible provided, of course, that such acceptances comply with all of the relevant requirements of the Federal Reserve Act."

After giving careful consideration to this matter the Board has voted to disapprove the recommendation of the Governors' Conference.

The Board has also given careful consideration to the recommendation of a previous Governors' Conference with reference to the matter of adopting an amendment to Section X(3) of its Regulation A 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, and has decided not to adopt such an amendment.

Very truly yours,

D. R. Crissinger
Governor.

TO GOVERNORS OF ALL F. R. BANKS.

COPY

X-4832

253

FEDERAL RESERVE BANK

OF BOSTON

June 17, 1926.

My dear Mr. Hamlin:

Your letter of June 10th was duly received and I am glad to know that, before any change is made as to the existing Federal reserve bank agencies in Cuba, this bank will be given an opportunity to be heard. I note also that you are inclined to think that it will be some little time before the matter is taken up by the Board. The subject was discussed informally at our Directors' meeting yesterday, but no action looking to a change in our present status was taken.

You suggested in your letter that if any further plan occured to me for working out this problem, that I advise you. My personal view is that a Federal reserve agency in Cuba is not justified for the purpose merely of providing the people of Cuba with currency fit for circulation which I think is an obligation of the Cuban Government itself. By paying transportation charges on unfit notes to Washington and on new currency which is to replace the unfit notes, the Cuban Government could keep the currency in circulation throughout the island in a reasonably fit condition, and at a cost no greater than it would incur should it engrave and print its own bills. In fact, I understand that the Cuban treasury has already expressed a willingness to bear one-half of this expense. Nor do I think that an agency in Havana is justified for the purpose of enabling any Federal reserve bank to keep in circulation in Cuba a large volume of its Federal reserve notes. Indeed I think there are certain vital objections to this which will be discussed later on in this letter.

I think, however, that a Federal reserve agency in Cuba is justified upon the ground that the United States government by virtue of the so-called Platt amendment has entered into relations with Cuba which it does not have with any other foreign country, especially in matters of finance and currency, all United States currency having been made legal tender by act of the Cuban Congress, and for the additional reason that in the year 1923, the President of the United States and the Department of State advised the Federal Reserve Board that it was important that a Federal reserve agency should be established in Cuba. By limiting the functions of the agency to the purchase of bills of exchange and to the purchase and sale of cable transfers, which transactions are authorized in section 14 of the Act, exchange rates in Cuba would be stabilized and should sufficient currency be kept on hand by the agency, the banks in Havana which include branches of three member banks of the Federal

Reserve System would be enabled to render more efficient and economical service to the public and with greater safety to all concerned. In this connection, it is well to consider the large investments by Americans in Cuba, the amount of which is variously estimated at from one billion to one billion five hundred million dollars.

About 3 years ago, the Federal Reserve Bank of Boston made application to the Federal Reserve Board for permission to establish an agency in Havana for the purpose of buying bills of exchange and of buying and selling cable transfers. This application was not made with a view of circulating Federal reserve notes in Cuba. While this application was being considered by the Board, the Federal Reserve Bank of Atlanta also applied for permission to establish an agency primarily for the purpose of maintaining the circulation of its Federal reserve notes in Cuba and the Board on July 30, 1923, adopted a resolution establishing two agencies, the effect of which has been that purchases and sales of cable transfers have been made by the Federal Reserve Bank of Boston which bank has received the direct profits resulting therefrom, while the receipts and disbursements of currency involved in these transactions have been handled by the Federal Reserve Bank of Atlanta and at its own expense, without any direct profit although it has thereby been enabled to maintain and possibly to increase its circulation in Cuba.

The delays experienced by this bank in completing cable transfers on the occasion of the run on many of the banks in Havana beginning April 9, 1926, when transfers aggregating $39,200,000 were requested of this bank and could not be completed promptly (some transfers requested on Saturday, April 10, were not completed until Wednesday, April 14) because the Havana Agency of the Federal Reserve Bank of Atlanta had on Saturday, April 10, less than $7,500,000 in currency on hand, calls for consideration of the question whether the two separate reserve bank agencies in Havana should be continued.

The agencies of the Federal Reserve Banks of Atlanta and of Boston exist for a service which either agency alone might render but since one agency undertakes the initial part of each transaction and the other attends to its completion in the receipt or delivery of its equivalent in cash, neither agency has the ability to furnish the complete service and neither has entire responsibility for the proper performance of agency functions. The dual organizations are therefore necessarily cumbersome and unnecessarily expensive for the usual course of business and the absence of a common control or direction of the service which they share militates against their meeting promptly and efficiently emergencies such as the run commencing on April 9, which though in fact handled successfully, could not have been met without the assistance which the representative of this bank was able to obtain from the Cuban government, assistance which was available solely because the Cuban treasury at the moment happened to be able and to be disposed to render it, but which might not be available on another occasion however helpful might be the disposition of the Cuban officials.

Considerations of efficiency and of respect for the favorable opinion of banks and business houses which would undoubtedly hold both agencies responsible for a failure of services such as that which impended on April 9, suggest that one of the two agencies be discontinued; and though the initiative in the establishment of an Havana agency for dealing in cable transfers was taken by this bank and though its agency has been conducted in such a way as to yield a substantial net profit and to receive the good will and commendation both of Havana banks and of the Cuban government, especially during the emergency beginning April 9, I believe, in the interests of trade relations with Cuba and of the Federal Reserve System as a whole, that if the Federal Reserve Board should not be disposed to consolidate the two agencies under the direction and control of the Federal Reserve Bank of Boston, the agency of this bank in Havana should be discontinued.

So far as concerns the service contemplated in this bank's original application for an agency in Havana, experience has demonstrated that a single agency can perform that service more efficiently than two agencies with a division of functions and of responsibility. While it is true that the agency earnings of this bank have been considerable, earnings alone without any consideration of service do not constitute a sufficient reason for the continuance of the two agencies.

Aside from the practical difficulties of effecting cable transfers through two separate agencies, the possibility of serious liability arising out of the paying agency's inability to complete transfers should be borne in mind. In emergencies like the one beginning on April 9, two courses might be open to the first reserve bank, that is, the bank receiving requests for transfers which there is reason to believe the agency of the second or paying reserve bank, may be unable to pay promptly. The first of these courses would be for the reserve bank to decline to receive the requests at all. But even assuming that the reserve bank would be strictly within its legal rights in so doing, and could so decline without incurring liabilities similar to those which might attach for example to a refusal by a common carrier to serve anyone complying with its published tariffs, the availability of this course would be largely theoretical. Absolute declination of service while any possibility of accomplishment exists, would be unthinkable in any crisis involving such consequences of financial disaster as the one in Cuba in April, and though probably under no legal compulsion to accept without condition orders for cable transfers, the reserve bank in view of its inauguration of this service and its peculiar relation to other banks which have come to rely on this service, would be subject to severe condemnation were it to refuse service unconditionally, and would be under a strong moral obligation at least to undertake the service on some basis. As a practical matter, therefore, only one course is open to the first reserve bank, namely, to accept the order and seek to protect itself by stipulation that the transfer is undertaken without guarantee of completion and subject to the ability and readiness of the second reserve bank to make payment.

This course, conditional acceptance, can not be considered free from peril, and liabilities for damages resulting from failure to complete transfers might be entailed if for any reason the conditions which the reserve bank sought to impose could not be established as having been accepted by the other contracting party, or if for any reason the failure of service was not within the scope of those conditions. A state of rush and more or less confusion nearly always characterizes important crises such as the Havana run, orders are given and accepted by telephone and as a rule through the intervention of another Federal reserve bank, and even though confirmed by telegrams and letters as required, it might in some important cases be difficult to establish definite acceptance of the conditions by the bank asking for the transfer and without such acceptance, the stage may be set for serious loss or at least for litigation when it would probably be found that the conditions invoked as a defense for failure of service, if established, would be construed strictly against the contracting reserve bank.

In connection with possible action by the Federal Reserve Board authorizing a single agency in Havana, and in conformity with Section 14(e) of the Federal Reserve Act which provides that whenever a foreign agency has been established by a Federal reserve bank "any other Federal reserve bank may, with the consent and approval of the Federal Reserve Board, be permitted to carry on or conduct, through the Federal Reserve Bank opening such account or appointing such agency or correspondent, any transaction authorized by this section under rules and regulations to be prescribed by the Board," it seems to me that the Federal Reserve Board should permit any Federal reserve bank which cares to do so to share in the facilities, the earnings and the expenses of conducting the single agency as is now the practice with regard to foreign bank accounts carried with the Federal Reserve Bank of New York.

It is my opinion also that the Federal Reserve Board should require the agency to confine its cash disbursements to gold and silver coin, gold certificates, silver certificates, United States notes and National bank notes, and that no Federal reserve notes issued by any Federal reserve bank should be paid out by the agency. If such a course were followed, it would mean that when the agency received Federal reserve notes it would return them in the usual course of business to the United States for redemption, which would bring about a gradual retirement of Federal reserve notes now in circulation. At this time this would cause no embarrassment to any bank having such circulation. It is obvious that in the case of Federal reserve notes circulating in a foreign country, the redemption of such notes is greatly impeded, however easy and frequent communication with that country may be, and while the circulation of Federal reserve notes in foreign countries may not at all times be open to the same objections as excessive bank note circulation within the United States, it is evident from the history and provisions of the Federal Reserve Act, which originally permitted the issue of such notes against rediscounted paper only, and particularly from the provisions of the act with reference to issue and redemption and the penalty against one Federal reserve bank paying out notes issued by another

Federal reserve bank, that the circulation of Federal reserve notes in any considerable volume in foreign countries was not contemplated by the Act. Such circulation, artificially stimulated and maintained by any reserve bank, and bearing no relation to the requirements of commerce and industry in its own district is inflationary; and in the case of Cuba it is entirely possible that Federal reserve notes circulating there might at some future period be returned for redemption at a time when it might be very inconvenient for the issuing bank to redeem them. Furthermore, it should be borne in mind that the so called War amendments (Acts of September 7, 1916 and June 21, 1917) which authorize the issuance of Federal reserve notes against gold or against bills purchased in the open market plus the gold reserve, have been under criticism in certain quarters for some time past upon the theory that they encourage inflation. Any continued artificial circulation of Federal reserve notes in foreign countries is likely to be used as an argument for the repeal of these amendments which, under a proper construction, are useful and salutary.

The sixth paragraph of the preamble to the Board's resolution of July 30, 1923, reads as follows:

> "Whereas, a substantial portion of the currency now in circulation in Cuba consists of Federal reserve notes of the Federal Reserve Bank of Atlanta; and it is feared that the establishment of an agency of another Federal reserve bank in Cuba might result in the retirement of such notes from circulation; and the Federal Reserve Bank of Atlanta desires to establish an agency in Cuba primarily in order that it may maintain the circulation of its Federal reserve notes in Cuba;"

Should the bill which Mr. McFadden introduced near the end of the final session of the last Congress be re-introduced at some future time, the advocates of such a bill could point to this as a horrible example of the effect of the amendments to which reference has been made above, and I sincerely hope that when the Federal Reserve Board has reached a conclusion in the Cuban agency matter, the preamble and resolutions then adopted will at least contain no reference to the use of an agency as a means of enabling any bank to maintain the circulation of its notes in that country.

I expect to be in Washington on Monday to attend the meeting of the Open Market Investment Committee, and hope to have an opportunity of talking with you further on this subject.

Very truly yours,

(Signed) W. P. G. Harding

Governor

Hon. Charles S. Hamlin,
Federal Reserve Board,
Washington, D. C.

SUBJECT: Memorandum regarding Cuban Agency prepared by the Federal Reserve Bank of New York and submitted by Deputy Governor Case at hearing before Federal Reserve Board on November 11, 1926.

The proposal for some kind of Federal Reserve Agency in Cuba appears to have arisen primarily in the search for some means of improving the physical condition of the currency in Cuba. Cuba uses wholly United States currency, which is the only legal tender currency there. The total amount of the circulation in Cuba is estimated at about $100,000,000 as compared with total bank deposits of perhaps something less than $200,000,000. This very high ratio of currency to deposits indicates that the people of Cuba transact their business largely by currency and their use of andconfidence in banks is limited. Before the establishment of Federal Reserve agencies the currency was supplied largely through the branches in Cuba of the National City Bank of New York, the American Foreign Banking Corporation, later absorbed by the Chase National Bank of New York, the Royal Bank of Canada, the Canadian Bank of Commerce, and the Bank of Nova Scotia, which do a large part of the banking business of the island.

The shipment of currency to and from New York or Jacksonville and the maintenance in Cuba of an adequate currency reserve were expensive. Financial disturbances approaching money panics were of frequent occurrence and at such times these banks found it necessary to ship huge amounts of currency to Cuba. It was frequently difficult to get currency there quickly enough to meet emergencies and the currency reserves which the banks found it necessary to carry were probably at times as large as $50,000,000. Shipments of currency from New York to Cuba (either directly or through Atlanta) averaged about $30,000,000 a year for the years from 1920, 1921, and 1922.

The question of Cuban agency of a reserve bank appears to have been first raised in 1921 by Mr. George E. Roberts, vice-president of the National City Bank of New York. With reference to a proposal which had been made to establish in Cuba a central bank, modeled, perhaps, on the Federal Reserve System, Mr. Roberts suggested to Governor Strong in a letter that "the best thing that could possibly be done would be to have a branch of the Federal Reserve Bank of New York located at Havana". Governor Strong stated to Mr. Roberts his opposition to this proposal, saying that he thought Cuba should have a separate bank of issue under American supervision; that in any event he was against the establishment by our bank of issue of offices to carry on normal banking functions outside the United States. The governor advised Mr. Roberts further that means could be found for retiring mutilated and worn-out currency in circulation in Cuba and issuing fresh supplies "without the reserve bank being involved in a banking business in Havana."

In September 1921, to meet an emergency situation, the National City Bank of New York was appointed correspondent and agent of the Federal Reserve Bank of New York in Cuba. The Federal Reserve Board approved of this appointment, with the understanding that no actual transactions would be engaged in until regulations had been prescribed by the Federal Reserve Board. This appointment was made with the object of restoring confidence in Cuba and stopping runs on Cuban branches of the National City Bank. At the same time the National City Bank sent

$5,000,000 to its Cuban branches, in order to afford the desired relief.

In February 1923 Mr. Dwight Morrow proposed that this bank circulate gold notes in Cuba with a view to supplying the Island with paper money fit for circulation. Governor Strong at this time stated that he was opposed to this bank undertaking any expense, duty or responsibility in the matter unless directed to do so by Congress.

In April 1923 the Federal Reserve Bank of Boston applied to the Federal Reserve Board for permission to establish an agency in Cuba, to which application it appeared that the Departments of State and Treasury at least made no objection. A hearing on the application was set by the Federal Reserve Board for April 30, 1923. Governor Strong at that time was absent from the city in Colorado and by telegram he renewed his objection to the proposal, on the ground that it was not authorized by law and for various practical reasons, including expense and the assumption of responsibilities for which the bank had no liability and the fact that a currency clean-up could be effected by other means. Further, that Boston should not open an office to conduct business practically all of which was for New York. The Federal Reserve Banks of New York, Philadelphia, and Atlanta, and others were invited to attend the hearing before the Federal Reserve Board on May 7, 1923, and this bank was represented by Messrs. McGarrah, and Case. Mr. Mitchell, President of National City Bank also attended. The views of this bank were expressed in a formal memorandum, prepared after consultation among all concerned. The memorandum was as follows:

"The Federal Reserve Bank of New York desires to present its views and the following consideration in regard to the application to the Federal Reserve Board by the Federal Reserve Bank of Boston for permission to establish an agency in Havana, Cuba, under Section 14-E of the Federal Reserve Act.

"Attitude of Federal Reserve Bank of New York.

"1. While for reasons set forth in the memorandum it is opposed to any Federal Reserve Bank establishing an agency in Cuba, nevertheless if the Federal Reserve Board reaches the determination that an agency of a Federal Reserve Bank should be established in Havana, the Federal Reserve Bank of New York would prefer NOT to be selected and could not therefore object to the selection of the Federal Reserve Bank of Boston or of any other Federal Reserve Bank.

"Purpose of Application.

"2. At the hearing on this subject before the Federal Reserve Board on April 30, 1923, it appeared that the application was made primarily to improve the quality of the paper money now in circulation in Cuba. It appeared also that branches of American banks in Cuba, as well as other banks operating there, might, if the agency were established, feel justified in carrying a much smaller supply of currency than at present. Our information leads us to believe that the banks would thereby save many hundreds of thousands of dollars.

"It further appeared that it might be ultra vires for the Federal Reserve Board to grant an application for the establishment of an agency for currency purposes alone, since Section 14-E does not include carrying a reserve of currency, and the issuing and redeeming of currency among the purposes for which

a Federal Reserve Bank may establish an agency in a foreign country.

"The application, therefore, takes the form of a proposal to establish an agency in Havana for the purpose of dealing in exchange, presumably for the following two reasons:

"(a) In order that it may comply with the provisions of Section 14-E under which such an agency may be established;
"(b) In order that by dealing in foreign exchange the considerable expense of maintaining the agency may be met.

"Dealings in Foreign Exchange by Federal Reserve Banks.

"3. We have always been opposed, and we believe the Federal Reserve Board has held a similar view to the idea that a Federal reserve bank should deal in exchange in the United States:

"(a) Because the number of dealers and the supply of capital engaged in foreign exchange dealings was ample;
"(b) Because it would put the Federal reserve banks in direct competition with member banks in all parts of the country who have highly developed exchange departments;
"(c) Because of the risks involved.

"With respect to dealings in foreign exchange by Federal reserve banks in foreign countries, it has been our belief that Section 14-E intended to provide not for the establishment of independent agencies in foreign countries but for the appointment of banks in foreign countries as correspondents and agents of Federal reserve banks. Through these agencies, the reserve banks, when such a course seemed desirable, could purchase bills in foreign countries for the purpose of assisting in the stabilization of international gold movements. We have, therefore, with the approval of the Board, entered into agency agreements with a number of foreign banks of issue whereby on order they will purchase for us with their guaranty prime bills in their markets, and likewise, on order, we will purchase prime bills in their markets, and likewise, on order, we will purchase for them with our guaranty prime bills in our markets. In each of these agreements all other Federal reserve banks, in accordance with Section 14-E, have been invited to participate and have done so.

"We are opposed generally to the idea that a Federal reserve bank should conduct a foreign exchange business in a foreign country merely for the profit involved. We are opposed specifically to the idea that a Federal Reserve bank should conduct a foreign exchange business in Cuba merely for the profit involved:

"(a) Because there is no important international credit movement between Cuba and the United States to be stabilized, and if we are correctly advised, (except in times of crisis) the fluctuations in exchange are limited to the cost of shipping currency to or from the United States, say 1/8 of 1 per cent,
"(b) Because such business could be done only in active competition with member and other banks with ample resources, now engaged in it.
"(c) Because of the risk involved,
"(d) Because the paper or the contracts purchased would not have the number of names equivalent to those to which in the United States we restrict our

open market purchases of bills, (i.d., two banking names).

"(e) Because it is a proceeding for which we believe there is no precedent in the experience of other important banks of issue.

"4. We are opposed to the principle of the establishment of a direct agency of a Federal reserve bank in Cuba if any other means can be found of accomplishing the desired results:

"(a) Because it renders some of our assets subject to the laws and the courts of a foreign country.

"(b) Because of the expense involved in an undertaking which is not the responsibility of the Federal Reserve System.

"(c) Because it creates a precedent for the establishment of direct agencies elsewhere.

"(d) Because it raises the question of the responsibility of a Federal reserve bank to redeem in a foreign country in gold or lawful money any or all Federal Reserve notes that may happen to circulate in that country. The law provides that any Federal Reserve note (regardless of the bank of issue) may be redeemed in gold or lawful money at any Federal Reserve Bank, and a foreign agency would in all probability be considered the Reserve Bank in law, just as much as branches in this country are. Consequently, if the present application is approved and the Federal Reserve Bank of Boston actually opens its own office or agency in Cuba might it not be expected as a matter of law 'to redeem in gold or lawful money' all of the Federal Reserve notes now circulating in Cuba, estimated to be well in excess of $100,000,000. As a practical matter it would of course not be feasible for a small agency always to be prepared for redemption on such a large scale."

On May 16, 1923, the Federal Advisory Council asked the Board for an opportunity to be heard. Later, Mr. Warburg and others appeared before the Board and expressed views adverse to the proposal, which were substantially the same as those of the officers of this bank. Mr. Warburg, member of the Federal Advisory Council, prior to his appearance before the Board, asked the counsel of the bank for an opinion as to the legality of the proposal. An opinion was rendered (copy of which will appear later in the record) by letter of May 18, 1923, against the legality of the proposal.

Mr. Warburg suggested to the Board other means by which a currency clean up in Cuba might be effected.

By resolution passed June 27, 1923, and amended July 30, 1923, the Federal Reserve Board granted permission to the Federal Reserve Banks of Boston and Atlanta to establish agencies in Havana, it being understood that the Atlanta bank would furnish the currency required for use on the Island, while the Federal Reserve Bank of Boston would execute all exchange transactions, including cable transfers. The agencies were accordingly set up and the business has been conducted on this basis.

On September 1, 1923, the appointment of the National City Bank of New York as agent and correspondent in Cuba of the Federal Reserve Bank of New York was terminated. This was by direction of the Federal Reserve Board and was coincident with the opening for business of the Cuban agencies of the Federal Reserve Banks of Boston and Atlanta.

On Friday, April 9, 1926, there was a run on the banks in Havana. On Saturday, April 10, this bank was advised of the fact and informed that the run was chiefly on the Royal Bank of Canada; also that large amounts of currency were needed to meet the situation. Several of our member banks in this city deposited Federal reserve notes with us and directed this bank to make wire transfers of large amounts -- a total of $31,950,000 -- with instructions to make payment in Havana in currency. It then developed that the amount of currency held by the Federal Reserve Bank of Atlanta at its agency in Havana did not exceed eight or nine million dollars, while the payments directed to be made amounted to several times that sum, so that the Federal Reserve Bank of Atlanta was unable to satisfy the cable transfers. The Cuban banks passed over the difficulty by closing at noon on Saturday, April 10. The New York correspondents of the Cuban banks urged the Federal Reserve Bank of New York to take steps to see to it that there was an adequate supply of currency there on Monday, April 12, to enable the agencies of the Federal Reserve Banks of Boston and Atlanta in Havana to make the necessary payments. This was finally arranged through the Federal Reserve Board, which ordered the Federal Reserve Bank of Atlanta to charter a special train to take the currency to Jacksonville. The money was then transported to Cuba by a Cuban gun-boat. The fact that the run occurred on Saturday and a Sunday intervened before the next business day was the only thing which prevented the development of a serious situation.

Under date of June 17, 1926, in a letter addressed to Mr. Hamlin of the Federal Reserve Board, Governor Harding outlined his objections to the dual agencies in Havana and in particular his objections to the establishment of an agency of a Federal reserve bank in Cuba for the purpose of providing the people of Cuba with currency fit for circulation and for the purpose of enabling a Federal reserve bank to keep in circulation in Cuba a large volume of its Federal reserve notes. Governor Harding, in commenting generally on the situation, also stated his view that the functions of such an agency should be limited to the purchase of bills of exchange and the purchase and sale of cable transfers, which transaction he regards as authorized under Section 14 of the Federal Reserve Act, since they would result in the stabilization of exchange rates in Cuba, and that the agency should be confined to one Federal reserve bank. He stated that unless the Board were willing to consolidate the two agencies under the direction and control of the Federal Reserve Bank of Boston, the agency of the Federal Reserve Bank of Boston in Havana should be discontinued.

On October 22, 1926, the Federal Reserve Board wrote this bank a letter announcing that a hearing would be held before the Board on November 11, with respect to the following proposals:

"(1) To consolidate the Havana agencies of the Federal reserve banks of Boston and Atlanta, and

"(2) To place under the supervision of the Federal Reserve Bank of Atlanta an agency performing all of the functions now performed by the existing agencies."

The officers of the bank have reviewed the situation in the light of existing conditions and see no reason to change the views which they have hitherto expressed on the matter, i.e., they are opposed to the maintenance of any direct agency of a Federal reserve bank in Cuba.

(The letter referred to by Mr. Case is as follows:)

"FEDERAL RESERVE BANK OF NEW YORK, May 18, 1923.

"Paul M. Warburg, Esq.,

"31 Pine Street,

"New York, N. Y.

"Dear Sir:

"You have asked for my opinion as to the respective rights of Federal reserve banks and their branches and foreign 'agencies' of Federal reserve banks to issue currency.

"Under Section 16 of the Federal Reserve Act it is provided that Federal reserve notes are to be issued at the discretion of the Federal Reserve Board for the purpose of making advances to Federal reserve banks through the Federal reserve agents of the various districts, and for no other purpose.

"Branch offices of Federal reserve banks are provided for in Section 3 of the Act. They may be established on the initiative of the Federal reserve banks or upon the mandate of the Federal Reserve Board within the Federal reserve district of the bank of which they are made a branch, or within the district of any suspended Federal reserve bank. They are subject to such rules and regulations as the Federal Reserve Board may prescribe, and the law provides that they shall be operated under the supervision of a board of directors of not more than seven or less than three, of whom a majority of one shall be appointed by the Federal reserve bank of the district and the remainder by the Federal Reserve Board. It is provided that these directors shall hold office during the pleasure of the Federal Reserve Board. It should be noted that the operations of the banks and their branches are expressly limited to their respective districts. Also it will be noted that the law provides safeguards for the operation of banks and branches, and that the establishment of branches was authorized in order to extend to the various business communities within the Federal reserve district all the facilities of the Federal reserve banks. The Federal Reserve Board has expressed the opinion that branches are merely extensions of the corporate entities of the banks. In my opinion, the note issue power extended to the banks through the Federal Reserve Board applies to branches as well.

"Section 14 provides for the appointment of agencies of Federal reserve banks in foreign countries. The origin and pre-enactment history of this section and its administration are sufficiently well known to you and clearly indicate that its only purpose was to extend in proper cases the exchange operations of the System. No express authority for the extension of the note issue privilege to foreign agencies can be found in this section or elsewhere in the Act, nor can such power be implied in the light of other limitations of the law and the history and purpose of this section.

"You ask also whether the language of Section 14 (e) properly interpreted means that the Federal reserve banks are restricted to the appointment of for-

eign banks or banking firms as agents in foreign countries for the transaction of foreign exchange business. The language of Section 14 (e) is that Federal reserve banks may 'appoint correspondents and establish agencies in such countries' A fair construction of this language makes extremely doubtful, to say the least, the power of the reserve banks to initiate a foreign agency as an integral part of their own organization. That an already existing institution may be designated as a correspondent or agent is clear, but that the reserve banks may establish in the sense of 'found' their own agency would seem to depend on the interpretation of the word 'establish'. This word may mean 'appoint', (see Webster's International Dictionary); and that this meaning, rather than that of 'found', was intended appears from the language of the last sentence of the section, where we find that in providing for the use of a foreign agency of one Federal Reserve bank by the other banks the law says: 'Whenever any such account has been opened or agency or correspondent has been appointed;' and again, we find the language: 'through the Federal reserve bank opening such account or appointing such agency or correspondent.' A further consideration in support of this construction of the law is that all of the purposes sought to be accomplished by Section 14 (e) may be effected by the appointment of an existing foreign bank or banking firm and consequently there can be no need for the extension by a reserve bank of its own organization. There being no such need, it is hardly to be supposed that this method was intended. If a charge should be made that an agency had been founded instead of appointed, and that what was in name an agency was in reality a branch, I think the courts would hold the transaction ultra vires and void.

"You inquire finally as to the obligation on the part of a foreign agency to redeem in gold or lawful money Federal reserve notes.

"The Federal Reserve Act provides in Section 16 that Federal reserve 'notes shall be obligations of the United States' that they 'shall be redeemed in gold on demand at the Treasury Department of the United States or in gold or lawful money at any Federal reserve bank.' From what I have said heretofore the conclusion seems inevitable that a branch of a Federal reserve bank is included in the term Federal reserve bank for this as well as all other purpose. The law, therefore, imposes a plain mandatory duty on Federal reserve banks and branches to redeem these notes in gold or lawful money. If it should appear that the agency was in reality an agency for the purpose contemplated in Section 14, and not a branch, I think the courts would hold that there is no binding legal obligations to redeem Federal reserve notes in Cuba in gold or lawful money, though it seems quite clear that under the apparent arrangement now contemplated in Cuba there would be a practical necessity to do so. If, on the other hand, a Federal reserve bank should establish in Cuba what would prove to be in fact a branch, though purporting to be an agency authorized by Section 14, and the question should arise as to the obligation of such a branch to redeem Federal reserve notes in gold or lawful money, it is my opinion that the courts would hold that the obligation of the branch to redeem in gold or lawful money is absolute, notwithstanding the ultra vires nature of such establishment.

"Very truly yours,

"(Signed) L.R.Mason, General Counsel."

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4834

April 21, 1927.

SUBJECT: Topic for Governors' Conference - Member Bank stamping on cashier's check "not payable through Federal Reserve Bank".

Dear Sir:

The Board has voted to place on the program for the forthcoming Governors' Conference for consideration and discussion certain questions which have arisen as a result of a practice recently adopted by the First National Bank of Hartford, Alabama, of stamping on the face of its cashier's checks the phrase "not payable through the Federal Reserve Bank of Atlanta". There are enclosed herewith for your information on this matter copies of the letters received by the Board calling attention to this practice, together with a memorandum of Counsel to the Federal Reserve Board on the subject.

The Board has taken steps to employ the Honorable Newton D. Baker in this connection, and has referred this matter to him for an opinion as to whether the points involved may be successfully contested in the courts and on what grounds. The Board has requested that Mr. Baker submit his opinion in time for discussion at the forthcoming conference of Governors, and if his opinion is received in time it will be forwarded to you prior to the conference.

Very truly yours,

D. R. Crissinger,
Governor.

Enclosures:

TO GOVERNORS OF ALL F.R.BANKS.

To: The Federal Reserve Board.

From: Mr. Wyatt- General Counsel.

April 15, 1927. X-4834-a
Subject: National Bank stamping on its cashier's checks "Not payable through Federal reserve banks."

The attached correspondence relates to a practice recently adopted by the First National Bank of Hartford, Alabama, of stamping on the face of its cashier's checks the phrase "not payable through the Federal Reserve Bank of Atlanta."

It appears that recently several cashier's checks of the First National Bank of Hartford, Alabama, have been received by the Federal Reserve Bank of Atlanta, several of which were stamped "Not payable through the Federal Reserve Bank of Atlanta." Such checks were presented to the First National Bank of Hartford for payment in the ordinary way in cash letters sent to that bank by the Federal Reserve Bank of Atlanta, and were returned to the Federal Reserve Bank of Atlanta with the notation written on the backs of such checks, "Not payable through the Federal Reserve Bank." The Federal Reserve Bank of Atlanta returned such checks to the banks from which they were received with similar advice, taking the position that such checks are not negotiable and cannot be handled by the Federal reserve bank under the terms of Regulation J because they are not payable at par. The Federal Reserve Bank of Atlanta states that it has had no intimation from the officers of the First National Bank as to their reason for adopting this practice, but that it seems quite apparent that their purpose is to force the presentation of such checks through other channels, presumably to make it possible for the First National Bank to exact exchange charges in remitting for such checks.

Governor Harding suggests that if a national bank can prevent its Federal reserve bank from collecting one of the national bank's own cashier's checks in this manner by stamping on its face the words "Not payable through the Federal Reserve Bank of Atlanta", it could easily have these words printed on all checks which are issued to its customers, thereby preventing the Federal reserve bank from collecting such checks and that, if such a plan were successfully worked by one bank, it would soon be followed by others and the whole par clearance system would be seriously embarrassed.

RECOMMENDATIONS.

I am not yet prepared to make a definite recommendation as to exactly what legal steps should be taken; but, pending the determination of that question, I respectfully submit the following recommendations;

1. That this subject be put on the program for discussion at the next Governors' Conference;

2. That prompt action should be taken with a view of putting an end to the practice outlined above;

3. That whatever action is taken should be taken with a view of obtaining a final decision by the Supreme Court of the United States on the legal questions involved;

4. That, before determining the form of its legal action in the premises, the Board decide whether or not it desires to retain special counsel to handle this matter;

5. That, if the Board decides to retain special counsel, he be retained immediately and be consulted before the Board determines upon its form of legal action in the premises, in order that he might have an opportunity to frame the legal issues which he is to argue before the Supreme Court in accordance with his own views; and

6. That, if the Board decides to retain special counsel, it retain Honorable Newton D. Baker, in order to have the benefit of his recent experience in the Pascagoula Case.

DISCUSSION.

What Governor Harding says is obviously true. If the First National Bank of Hartford is successful in this practice it could extend such practice to all checks used by its customers and could in this way defeat the purpose of Congress to have all member banks remit at par through the Federal reserve banks. Moreover, if one member bank adopts such a practice the example would soon be followed by other member banks and the whole par clearance system would be jeopardized. It is obvious, therefore, that something should be done to stop this practice at its very inception.

The legal problems presented in this matter are much more difficult than those involved in any of the par clearance cases which have been tried heretofore. I believe, therefore, that the matter should be given very thorough consideration and should be discussed at the forthcoming Governors' Conference before the Board decides definitely upon a course of action. The discussion at the Governors' Conference might bring forth very helpful practical suggestions, and would have the advantage of enlisting the interest and support of all the Federal reserve banks in whatever course of action is decided upon.

Governor Harding has suggested that the Board might authorize the Federal reserve banks to charge such checks to the member bank's account, except in cases where such checks have been protested for actual lack of funds. By the provisions of Section V(4) of Regulation J, the Board has already provided that "any Federal reserve bank may reserve the right in its check collection circular to charge such items to the reserve account or clearing account of any such bank at any time when in any particular case the Federal reserve bank deems it necessary to do so;" and the Federal Reserve Bank of Atlanta has reserved the right in its check collection circular to charge checks to the reserve accounts of member banks on which they are drawn at any time when in any particular case it deems it necessary to do so. I seriously doubt, however, that this would be the best way to lay the foundation for a test suit. If this procedure were adopted, the suit probably would be brought by the member bank and this might result in the legal issues being unnecessarily complicated.

Two other possible courses of action have suggested themselves to me:

1. The Board might request the Comptroller of the Currency to institute a suit to forfeit the charter of the offending bank on the ground that its action in this matter is in violation of the provisions of the Federal Reserve Act.

2. The Federal Reserve Bank might become the actual owner of such checks (instead of a mere agent to collect them), by giving final credit for such checks to the bank from which it received them, and then bring suit against the drawee bank to enforce payment without the deduction of exchange charges.

Either of these courses of action, however, would present certain difficulties which will be discussed below.

When a suit is brought to forfeit the charter of a national bank for failure to comply with the provisions of the Federal Reserve Act, it is necessary at the very institution of the suit to state what provision of the Federal Reserve Act the national bank has failed to comply with. This bank has not attempted to exact an exchange charge in remitting to the Federal reserve bank for its checks but has merely declined to remit for such checks, and there is no provision in the Federal Reserve Act which specifically requires member banks to remit to Federal reserve banks for checks drawn on such member banks when presented through the mails for payment by a Federal reserve bank. The Hardwick Amendment merely prohibits the exaction of exchange charges against a Federal reserve bank.

Section 16, however, provides that, "Every Federal reserve bank shall receive on deposit at par from member banks or from Federal reserve banks checks and drafts drawn on any of its depositors", and the Supreme Court of the United States has construed this provision as follows:

> "The depositors in a Federal reserve bank are the United States, other Federal reserve banks, and member banks. It is checks on these depositors which are to be received by the Federal reserve banks. These checks from these depositors the Federal reserve banks must receive. And when received they must be taken at par." (Farmers & Merchants Nat. Bank v. Federal Reserve Bank of Richmond, 262 U. S. 649,665).

As construed by the Supreme Court, therefore, Section 16 provides that a Federal reserve bank must receive from its member banks all checks drawn on other member banks and that when such checks are received they must be received on deposit at par. It would seem that, being required to receive such checks, the Federal reserve banks must be authorized to collect them, and that the refusal of a member bank to pay such checks would be a non-compliance with the provisions of the Federal Reserve Act. Moreover, the legislative history of both Section 16 and Section 13 discloses a legislative intent to make all checks drawn on member banks collectible at par through the Federal Reserve System, and the action of the First National Bank of Hartford in this case is a clear attempt to thwart that legislative intent.

For these reasons, I am inclined to the opinion that the action of the First National Bank of Hartford in stamping upon its cashier's checks the words "Not payable through the Federal Reserve Bank of Atlanta" is in conflict with the intent, if not the letter of the Federal Reserve Act.

If, however, an attempt should be made to establish this proposition through a suit brought to forfeit the charter of the national bank, such suit

would be in the nature of a suit to enforce a penalty and every doubt would be resolved in favor of the defendant bank. I rather hesitate, therefore, to recommend that such a suit be instituted, especially in view of the fact that this bank has not clearly violated any specific provision of the Federal Reserve Act requiring the doing of certain things by member banks, and the court might very easily hold that the bank has not technically subjected itself to a forfeiture of its charter.

I am inclined to believe that a better way to test this question would be to have the Federal Reserve Bank of Atlanta become the actual owner of such cashiers' checks and bring a suit against the drawee bank to enforce payment. The holder of an ordinary check has no rights against the drawee bank, but the holder of a cashier's check can bring suit against the drawee bank to enforce payment. Moreover, such a suit would be an ordinary civil suit and there would be no reason for deciding every doubt in favor of the defendant.

The Hartford National Bank would naturally set up a defense that, by their very terms, such checks are not payable through the Federal Reserve Bank of Atlanta, and, therefore, the Federal Reserve Bank of Atlanta can acquire no rights in such checks which would be enforceable against the First National Bank. The Federal Reserve Bank of Atlanta could then argue along the lines indicated above that such a provision is contrary to the provisions of the Federal Reserve Act and contrary to public policy and therefore void and of no effect. If this proposition could be established the case would be won.

As stated above, the Federal Reserve Bank of Atlanta has taken the position that such checks are not negotiable and that, therefore, the Federal Reserve Bank is not authorized to handle them under the provisions of the Federal Reserve Act and Regulation J. Reference is made to an opinion of Counsel to the Federal Reserve Board published on page 459 of the Federal Reserve Bulletin of September 1916, wherein Judge Elliott held that a Federal Reserve Bank cannot be required to handle a non-negotiable check under section 16 because such an instrument is not a "check" within the meaning of that section. The First National Bank of Hartford might make this argument in defense; but if it did and was successful the necessary result would be that such checks would be held to be non-negotiable, and such a holding would practically put an end to this practice because no one wishes to receive non-negotiable checks in payment. In such an event, therefore, the Federal Reserve Bank would lose the suit but would gain the object of putting a stop to this practice.

I am not at all sure, however, that the words "Not payable through the Federal Reserve Bank of Atlanta" renders such checks non-negotiable. A similar practice has been in force in England for years. It is customary there to make checks payable only through some bank or banker or through a certain bank or banker. Such checks are known in England as "crossed checks" and have been held by the English Courts to be negotiable. 2 Daniel, Negotiable Instruments, (4 ed), Sec. 1585a.

AMERICAN CASES INVOLVING SIMILAR CHECKS.

I know of only two cases decided by the courts of this country involving checks containing provisions similar to that under consideration here. These cases are Commercial National Bank of Charlotte v. First National Bank of Gas-

270

tonia, 118 N.C. 783, and Farmers Bank of Nashville v. Johnson, King & Company, 134 Ga., 486, 68 S. E. 85.

The case of Commercial National Bank of Charlotte v. First National Bank of Gastonia involved the validity of a stipulation stamped on the face of a check to the effect that, "This check will positively not be paid to the Gastonia Banking Company or its agents". The check came into the hands of the plaintiff which forwarded it to the Gastonia Banking Company for collection. The check was presented for payment to the Gastonia Banking Company and payment was refused. Without having the check presented through any other channel, the plaintiff then brought an action against the drawee bank for the amount of the check. The court held that the notation on the face of the check was valid and that the holder could not maintain his action against the drawer until the check had been presented to the drawee by some other agency than the Gastonia Banking Company and payment refused. In so holding the court said:

> "The holder of a check cannot maintain an action against the bank upon which the check is drawn until after the acceptance of the check by the bank. Bank v. Mallard, 10 Wallace, 153; Hawes v. Blackwell, 107 N.C. 196; Marriner v. Lumber Co., 113 N. C. 52. This is the uniform line of decisions in the Federal courts and our own, and it is sustained by the overwhelming weight of authority in other courts, though there are a few decisions in other states to the contrary. The bank is the agent of the drawer; till acceptance of the check, it has assumed no liability to the payee; its liability, if any, is to the drawer whose checks it has agreed to pay if it has the drawer's funds in hand, and for breach of that contract it is liable to the drawer, not to the payee- 'To its own master it must stand or fall.' A check is simply an order given by the principal upon his agent, and it is always open to the principal to countermand an order to its agent before it is executed, and there are occasions when it is important, to prevent imposition, that the drawer should have power to stop the payment of his check, without casting any liability upon the drawee. If the principal, the drawer, die before a check is presented, it becomes invalid, which could not be the case if the mere drawing the check created any liability in the drawee.
>
> "But the more important point, since it is now presented to us for the first time, is the validity of the stipulation stamped on the face of the check: 'This check will positively not be paid to the Gastonia Banking Company or its agents.' It appears that the check has never been presented to the drawee, the defendant bank, except by an agent of the Gastonia Banking Company. Consequently, if this restriction is valid, the holder cannot maintain this action against the drawer till the check has been presented to the drawee by some other agency and payment refused. In England the system of 'crossed checks' has long been recognized as valid. 2 Daniel Neg. Inst., Sec. 1585a; Smith v. Bank, 10 L.R., (O.B.) 295, which was affirmed on appeal, and is reported 1 L.R. 2 B. Div., 31. By that

271

system there is stamped across the face of the check the name of a certain banker through whom it must be presented for payment, and if presented by any one else it will not be honored. This does not destroy the negotiability in any wise. The present case does not go that far, but merely stipulates that the check will not be honored if presented through one agency named. This can not be deemed an unreasonable restriction of trade. Nor is it a boycott. There is no evidence of a conspiracy to injure the agency named, but it is agreed as a fact that it was an effort on the part of the drawer firm to prevent its transactions and the nature and extent of its business becoming known to a rival house by its checks passing through that channel. Besides, if it were a boycott, the parties to it are the drawer and the payee who accepted the check with that restriction stamped on it. And if it was an illegal transaction, the check itself, and not merely the stipulation which is part of it, would be void. Ex mala causa non oritur actio. The restriction is a part of the check, (Tiedman Com. Paper, Section 41 and 42; Benedict v. Cowen, 49 N.Y. 396,) and if it is invalid the court could not separate the good from the bad. (Saratoga v. King, 44 N.Y. 87) but it would all be bad and the holder could not recover. In analogy, a conveyance of property, real or personal, with a condition not to alien to a certain person or class of persons, or for a certain time, is valid. Cowell v. Springs, 100 U. S., 57; Gray v. Blanchard, 8 Pick., 288 Sheppard's Touch Stone, 129, 131; Coke on Littleton, 223.

"In Smith v. Lawrence, 2 N.C., 200 this court held that a note could be limited so as to be payable to the payee only. But it is not necessary to consider here the principle maintained in that case, that the drawee can by stipulation therein make the check not assignable, for this is not attempted here, but there is simply a stipulation that it shall not be paid if presented through the agency named, Wilcoxson v. Logan, 91 N.C. 449 holds merely that where a note is made payable to A.B., without the addition of the words 'or order', or bearer, the holder thereof can maintain an action thereon, being the party in interest. There can be no question raised as to the validity of an express stipulation that the note could not be assigned at all, or would not be honored if presented by a particular party, as in this case, nor by any party except one named as in the case of the English 'cross checks'. These questions could not arise, for there was in that case no stipulation to either effect. On the facts agreed, judgment should have been entered for the defendants."

In the case of Farmers Bank of Nashville v. Johnson, King & Co., supra, decided by the Supreme Court of Georgia in 1910, the facts were as follows: Johnson, King & Company issued certain checks containing on their faces the words, "Payable through the Citizens Bank of Valdosta, Valdosta, Georgia, at current rate." These checks were drawn on the Bank of Nashville, Nashville, Georgia, and were presented to that bank by the Farmers Bank of

Nashville, Georgia. Upon presentation, the Bank of Nashville entered on the back of the checks the words, "Will pay when presented through the Citizens Bank of Valdosta, Georgia." Thereupon, the Farmers Bank of Nashville caused the checks to be protested. Johnson, King & Co., the drawer of the checks, brought a suit for damages against the Farmers Bank of Nashville, alleging that the defendant had wilfully disregarded the terms on which such checks were payable, and for the purpose of casting suspicion upon the credit of the plaintiff before the commercial world, protested the checks and thereby damaged the plaintiff. The Court held that:

1. The words "payable through the Citizens Bank of Valdosta, Valdosta, Georgia, at current rate" was a material part of such checks and that the drawee bank was not required to pay the checks when not presented through the bank thus named;

2. That, since such checks were not presented for payment through the Citizens Bank of Valdosta, the protest of such checks was unauthorized; and

3. That the action of the holder of the checks in unlawfully causing a protest of them to be made and notice to be given to the drawer or endorsers without proper presentation for payment, according to its terms, furnished a cause of action to the drawer.

In other words, the Court held that the Farmers Bank of Nashville was liable in damages to Johnson, King & Company for unlawfully protesting such checks.

In so holding the court said:

> "In England there is a well known usage, which has now been made the subject of an act of Parliament, for the drawer or holder of a check to 'cross' it with the name of a banker.
>
> "In 2 Daniel on Negotiable Instruments (5th Ed.) Sec. 1585a, it is stated that the effect of this was, 'before the statute which now exists, a direction of the drawee bank to pay the check to no one but a banker; or rather, according to the cases, with only a caution or warning to the drawees that care must be used, in paying to any one else.
>
> "In 1 Morse on Banks & Banking (4th Ed.) sec. 245, it was said: 'In this country the system of 'crossed checks', strictly so called, is unknown. But of late the germ of a similar custom has begun to manifest itself. Occasionally checks have stamped or written upon them some form of words which is intended to secure their payment exclusively through the clearing house. No especial form has yet been generally accepted and the legal effect of none of those in use has ever been passed upon. It is safe to say, however, that there is no question but that the drawer could embody in his order or direction to his bank to pay only upon such

presentation of the instrument in the usual course through the clearing house, and that such a direction would be as valid and as binding upon the bank as a direction to pay only to the order of a particular person. If the check be payable to the order of A.B. it is probable that the privilege of including such instruction in his order, when indorsing over, might be accorded to him, certainly indorsements in this form are very frequent, and no bank would be safe in disregarding them. Supposing the direction to be properly given, the collecting and the paying bank must both respect it, and the English cases above mentioned would be precedent directly in force. It would amount to an express designation by the drawer, or the payee, of the manner alone in which payment is authorized to be demanded or made.

"A check being in the nature of an order on a bank or banker to pay a certain sum purporting to be on deposit, there would seem to be no reason why the drawer could not direct the bank to pay only when presented through a specified channel or by a particular person or bank. The drawer is not compelled to make the check payable to bearer or order. Likewise, no sound reason is perceived why, in giving direction to the bank of deposit, he cannot make an addition to the mere order for payment. If the person to whom the check is delivered is not willing to accept it with such direction, he can reject it; but if he accepts it payable only through a particular bank, or through a particular banker, he cannot insist that the bank on which it is drawn must disregard this direction given to it by its depositor on the face of the paper. No ground has been suggested why such a direction by one to his banker in ordering the latter to pay money, is illegal or unreasonable; the banks being in the same state and notfar distant from each other. The case in hand does not present the question of whether the drawer of the check has been wholly or partially discharged by negligence or delay in presentation, but whether, in giving direction to his banker to pay the check, he can lawfully direct payment to be made through a certain medium, and whether the bank, when so instructed, is bound to disregard such direction at the demand of another collecting bank.

* * * * * * * * *

"It follows from what has been said, that under the allegations of the petition, the drawee bank had a right to decline to pay the checks until presented through the Valdosta Bank, and that upon its entering upon the back of the check that it would pay when so presented, the collecting bank was not authorized to cause the check to be presented and notice to be given."

274

QUESTION OF RETAINING SPECIAL COUNSEL.

Since the practice under consideration is one which threatens the existence of the entire par clearance system, it is a matter of the gravest importance to the entire Federal Reserve System, and if a test suit of any character is instituted it should be instituted with a view of carrying the case to the Supreme Court of the United States if necessary in order to get a favorable decision. Unless, therefore, the Board is willing to have the case argued in the Supreme Court by this office or by local counsel to one of the Federal Reserve banks, it would be advisable to retain and consult special counsel before the suit is instituted, in order that such special counsel might frame in accordance with his own views the issues of law which he will have to argue before the Supreme Court.

Both Mr. Vest and I are members of the Bar of the Supreme Court of the United States; and, if the Board so desires, this office is fully prepared to and is perfectly willing to handle such a test case from its inception through the final argument in the Supreme Court. A suit such as this, however, would be infinitely more difficult to win than any of the other par clearance cases which have been tried heretofore and naturally we could not undertake to assure the Board that such a test case would be successful.

If the Board desires to employ special counsel, I respectfully recommend that it retain Honorable Newton D. Baker. In my opinion no one could handle such a suit better than Mr. Baker and it would be especially appropriate to retain him because of his familiarity with the subject due to his recent handling of the Pascagoula case.

If the Board desires to retain special counsel, this office will be very glad to cooperate to the fullest extent with such counsel and I respectfully suggest that he be retained with the understanding that he will consult and cooperate with this office to the fullest extent, in order that he may have the benefit of our specialized knowledge on this subject.

If the Board decides to retain special counsel to represent the Board itself and not the Federal reserve banks, it will be necessary to fix his compensation in advance, in order to comply with the requirements of section 11(e) of the Federal Reserve Act, which authorizes the Board to employ attorneys but provides that,

> "All salaries and fees shall be fixed in advance by said Board."

CONCLUSION.

I shall continue to study this problem with a view of being prepared to recommend to the Board a definite course of action; but in the meantime I respectfully recommend that the Board put the subject on the program for discussion at the next Governors' Conference. It is obviously a matter of system-wide importance and a discussion of it at the Governors' Conference might bring forth very helpful suggestions. It would at least enlist the active interest and support of all the Federal reserve banks and would prepare them to join in employing special counsel if the Board should decide that such a course is advisable.

Respectfully,
(Signed) Walter Wyatt, General Counsel.

COPY

FEDERAL RESERVE BANK

OF ATLANTA

March 25, 1927.

Federal Reserve Board,
Washington, D. C.

Dear Sirs:

I am enclosing herein for your information copy of a telegram from the Cashier of the Federal Reserve Bank of Boston, copies of letters of Mr. M. W. Bell, Cashier of this bank, to the Cashier of the Federal Reserve Bank of Boston, and to Mr. Ellis D. Robb, Chief National Bank Examiner.

These letters relate to the practice recently adopted by the First National Bank of Hartford, Alabama, in stamping on the face of their cashier's checks the phrase "not payable through the Federal Reserve Bank of Atlanta."

Very truly yours,

(s) Oscar Newton,

Federal Reserve Agent.

Enclosures.

COPY

FEDERAL RESERVE BANK

OF ATLANTA

March 24, 1927.

Mr. Ellis D. Robb,
Chief National Bank Examiner,
Atlanta, Georgia.

Dear Mr. Robb:

For your information, I am enclosing copy of a letter today addressed to Mr. William Willett, Cashier of the Federal Reserve Bank of Boston, dealing with a practice recently adopted by The First National Bank of Hartford, Alabama, in using a rubber stamped phrase on the face of their cashier's checks reading "not payable through the Federal Reserve Bank of Atlanta".

Nothing in the way of information can be added to what is stated in our letter to Mr. Willett, but it appears to us that this is a matter which should be brought to the attention of the Comptroller of the Currency, as it is possible that he may have the authority to require the discontinuance of the use of this restriction as to payment of these checks. We know of no remedy that we can employ as we cannot legally exercise any control over our member banks' practices in this respect.

Yours very truly,

M. W. Bell,
C a s h i e r.

COPY

K-4834-C

FEDERAL RESERVE BANK

OF ATLANTA

March 24, 1927.

Mr. William Willett, Cashier,
Federal Reserve Bank of Boston,
Boston, Massachusetts.

Dear Mr. Willett:

I have your wire of this date requesting that we write full particulars relative to the return to you of a check drawn on The First National Bank, Hartford, Alabama, on which is stamped the phrase "not payable through Federal Reserve Bank of Atlanta".

We are unable to determine from our records just what particular check your telegram refers to, but we assume that it is a cashier's check drawn by The First National Bank of Hartford.

In the last few days, several cashier's checks of this bank have reached our transit department and those stamped with the phrase referred to when presented by us in the ordinary way in our cash letters have been returned to us by The First National Bank with notation written on the backs of the checks "not payable through the Federal Reserve Bank". Two of these checks were included in today's business - one of them is drawn under date of March 3, 1927, bearing the number 17215, drawn to the order of Miss Aileen Metcalf for the amount of $100.00. The other is dated March 9, 1927, bearing the number 17229, drawn to the order of Miss Emma Nell Metcalf for the amount of $5.00. Each of these checks bear rubber stamp phrase in two places on the faces thereof reading "not payable through the Federal Reserve Bank of Atlanta". Both of these checks were forwarded to The First National Bank of Hartford in our cash letter dated March 21, 1927 and were today returned to us with the notation on the back of them "not payable through the Federal Reserve Bank."

We have had no intimation from the officers of The First National Bank as to their reason for adopting the use of this restriction, but it seems quite apparent that their purpose is to force the presentation of the checks through channels other than the Federal Reserve Bank, presumably to make it possible for The First National Bank to charge exchange when they are presented through other channels.

278

We understand that the laws of Alabama permit banks to pay checks drawn on them by their customers and also to pay their own cashier's checks by means of drafts or exchange drawn on their commercial depositaries, subject to an exchange or service charge for remitting, and in the past some of our member banks of that State resorted to the practice of stamping on their cashier's checks and also on some of their customers' checks a phrase reading "payable in New York exchange at current rates".

In the opinion of our counsel and we believe also the counsel of the Federal Reserve Board, such checks are not negotiable, in that they are not an unconditional order for the payment of funds in cash, and that as a consequence Federal Reserve Banks have no power or authority to require member banks using this phrase on their checks to remit for such checks at par. Therefore, under the conditions of the Federal Reserve Board's Regulation "J", they cannot be handled by Federal Reserve Banks for collection, because they are not payable at par.

It is our intention to call this situation to the attention of the Comptroller of the Currency through Mr. Ellis D. Robb, the Chief National Bank Examiner of this District, for such action as the Comptroller may desire to take.

Very truly yours,

M. W. Bell,
C a s h i e r.

C O P Y

FEDERAL RESERVE BANK OF
ATLANTA

X-4834-e

103BD R

BOSTON MASS 225 P MAR 24 1927

ATLANTA GA.

PLEASE WRITE FULL PARTICULARS RELATIVE TO RETURNING CHECK ON FIRST NATIONAL BANK HARTFORD ALABAMA ON WHICH IS NOTED "NOT PAYABLE THROUGH FEDERAL RESERVE BANK OF ATLANTA" AS WE ARE UNABLE TO UNDERSTAND IT ON ACCOUNT OF BOARD REGULATION J WHICH REQUIRES FEDL RESERVE BANKS TO COLLECT AT PAR CHECKS DRAWN ON MEMBER BANKS IN THEIR DISTRICT

WILLETT

142 PM.

THE FIRST NATIONAL BANK
Of Hartford.

Hartford, Ala. March 9, 1927 No.17227

Not payable through
Federal Reserve Bank,
Atlanta, Ga.

Pay to the
order of B. Altman & Co.....$6.00

.....Six Dollars.....

CASHIER'S CHECK

(Signed) Q. J. Borland
a/Cashier

COPY

281

FEDERAL RESERVE BANK

OF BOSTON

X-4834-g

March 24, 1927

Dear Governor Crissinger:

A few days ago we received for collection Cashier's check of the First National Bank of Hartford, Alabama, copy of which is enclosed herewith. We sent this check in regular course to the Federal Reserve Bank of Atlanta and have received it back unpaid today. The endorsement shows that the check was duly forwarded to the bank at Hartford, Alabama, by the Federal Reserve Bank of Atlanta, and the reason for dishonor is given on the back as "not payable through the Federal Reserve Bank".

It seems to me that this is a proper matter to bring to your attention for if a National bank can prevent its Federal reserve bank from collecting one of the National bank's own cashier's checks in this manner by stamping it on the face "Not payable through the Federal Reserve Bank Atlanta, Ga.", it could easily have these words printed on all checks which are issued in book form to its customers, thereby preventing the Federal Reserve Bank of the power to collect such checks. Such a plan successfully worked by one bank would soon be followed by others and the whole par collection system would be seriously embarrassed.

It seems to me that in a case like this, the Board might take the bull by the horns and authorize the Federal reserve bank to charge such checks to the member bank's account except in cases where the check may have been protested for actual lack of funds.

Very truly yours

(Signed) W. P. G. Harding,
Governor.

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

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

Statement for the Press. 282

For immediate release:

April 21, 1927.

Condition of Acceptance Market
March 17, 1927 to April 13, 1927.

Acceptances:

The acceptance market was comparatively quiet during the four weeks ending April 13, and rates for all maturities remained relatively unchanged from the lower levels established toward the end of February. The supply of bills, though somewhat below the corresponding period of last year, was considerably larger than in the preceding four weeks with bills drawn chiefly against the export and storage of cotton, and imports of sugar and coffee.

Demand for domestic account was smaller than in the preceding period, but purchases for foreign account especially of 90 day bills was large. Dealers' offerings to the reserve banks, consisting chiefly of the shorter maturities, were in about the same volume as in the preceding period, but considerably greater than last year and their portfolios on April 13 showed some increase from the low levels reached four weeks earlier. As in preceding months the greatest activity occurred in the New York market, especially during the last three weeks of the reporting period. During the first three weeks of the period dealers in Boston and Philadelphia reported very little activity in their markets, while in Chicago bills of shorter maturities remained in fair demand. In the final week of the period some improvement was reported in Philadelphia in contrast to the Chicago market which turned dull. The following table shows the market rates on bills of various maturities at the beginning and end of the period.

Acceptance Rates in the New York Market

Maturity	March 17 Bid	March 17 Offered	April 13 Bid	April 13 Offered
30 days	3-5/8	3½	3-5/8	3½
60 days	3-3/4	3-5/8	3-3/4	3-5/8
90 days	3-3/4	3-5/8	3-3/4	3-5/8
120 days	3-7/8	3-3/4	3-7/8	3-3/4
180 days	4	3-7/8	4	3-7/8

FEDERAL RESERVE BOARD

WASHINGTON

X-4837.

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

April 22, 1927.

SUBJECT: Holidays during May, 1927.

Dear Sir:

On Friday, May 20th, the Havana Agency of the Federal Reserve Bank of Atlanta will be closed in observance of Cuban Independence Day.

On Monday, May 30th, there will be no Gold Settlement Fund or Federal Reserve Note Clearing on account of observance of Memorial Day, and the books of the Board will be closed.

All Federal Reserve Banks and Branches, with the exception of the following, will be closed on that day:

Atlanta, New Orleans, Birmingham,
Jacksonville and Little Rock.
Havana Agency.

Kindly notify Branches.

Very truly yours,

J. C. Noell.
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

2814

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, April 28, 1927.

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

Industrial activity increased further in March and was larger than a year ago, while the general level of prices continued to decline. Distribution of commodities at wholesale and retail was somewhat smaller than a year ago.

Production.-- Industrial production, after increasing continuously for three months, was larger in March, when allowance is made for usual seasonal changes, than in any month since last September. Output of bituminous coal, crude petroleum, and steel ingots, and mill consumption of raw cotton in March were larger than in any previous month. Since April 1, however, steel-mill operations have been somewhat curtailed, and bituminous coal output has been reduced by about 40 per cent since the beginning of the miners' strike on April 1. The consumption of silk and wool, sugar meltings, flour production, and the output of rubber tires increased in March. Production of automobiles has shown seasonal increases since the first of the year but has been in smaller volume than a year ago. The value of building contracts awarded in March was larger than at any previous time, and the production of building materials has increased considerably in recent weeks. The largest increases in contracts, as compared with last year, were in the middle western states, while the largest decreases occurred in the southeastern states. In the first half of April

contracts awarded were in slightly smaller volume than in the same period of last year.

Trade. - Sales of department stores increased less than usual in March and were slightly smaller than last year owing in part to the lateness of Easter. Sales of mail order houses and chain stores, however, were somewhat larger than a year ago. Inventories of department stores increased slightly more than is usual in March in anticipation of the expansion in retail trade before the Easter holidays, and at the end of the month they were in about the same volume as a year ago. Wholesale trade in March continued slightly smaller than in the corresponding period a year ago. Stocks of merchandise carried by wholesale firms were seasonally larger at the end of March than in February, but in most lines continued smaller than last year.

Freight-car loadings which showed seasonal increases in March, declined in the first ten days of April, owing to the smaller shipments of coal, but continued larger than in the corresponding period of previous years. Loadings of miscellaneous freight and of merchandise in less-than-car-load lots were in large volume.

Prices. - The general level of wholesale commodity prices declined further in March, reflecting decreases in most of the important groups of commodities. Prices of nonagricultural commodities as a group declined to the lowest level since the war, while the average for agricultural products, which advanced somewhat from November to February, remained practically unchanged in March. During the first half of April prices of winter wheat, sugar, cotton, silk, bituminous coal, and hides advanced; while those of hogs, crude petroleum, gasoline, and nonferrous metals declined.

Bank credit. - There was some decline in the volume of loans for commercial purposes and in loans on securities at member banks in leading cities between the middle of March and the middle of April. Member bank holdings of United States securities, which had increased considerably in the middle of March in connection with the operations of the Treasury, have declined by more than $100,000,000 since that time, but are still about $200,000,000 larger than in the early months of the year.

At the reserve banks total bills and securities, which have fluctuated near the $1,000,000,000 level since the end of January, showed little change during the six weeks ending April 20. Discounts for member banks were in about the same volume on that date as on March 9, while acceptances showed a decrease and holdings of United States securities a slight increase.

During the first three weeks of April quoted rates on prime commercial paper and on acceptances were the same as in the latter part of March, while call money averaged somewhat higher.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4841.

April 28, 1927

Dear Sir:

For your information, I am enclosing herewith copy of a letter received from the Director of the Bureau of Engraving and Printing, which is self-explanatory.

Very truly yours,

J. C. Noell,
Assistant Secretary.

Enclosure.

To all F. R. Agents.

COPY X-4841-a

TREASURY DEPARTMENT

BUREAU OF ENGRAVING AND PRINTING

Washington, D . C.

April 26, 1927.

The Federal Reserve Board,
Washington, D. C.

Sirs:-

When a new series of serial numbers is started on United States and Federal Reserve currency, the number in the past has started with No. 1. This number has a letter preceding it and a letter following it. As the number of digits increase in the number it is necessary to stop the press, take down the numbering block, and move the letter over the space of one digit. In order to make these changes from time to time it is necessary to carry in stock more than 1500 parts of numbering blocks.

It has been found that by starting the new series at No. 10,000,001, instead of No. 1, a numbering block simpler in construction can be used. In addition there is no lost time in production in making the changes on the blocks, neither is there any necessity for carrying a large stock of small parts of blocks.

The department has approved of the method of using 10,000,001 as a starting number for each new series. Therefore, in the future, a new series will commence with this number.

This plan, of course, does not apply to National Bank currency, and no change will be made in the present method of numbering this class of currency.

Respectfully,

(s) A. W. Hall,

Director.

X-4842

FEDERAL RESERVE BOARD

289

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

April 28, 1927.

Dear Sir:

Through the courtesy of Messrs. Locke, Locke, Stroud and Randolph, Counsel to the Federal Reserve Bank of Dallas, I enclose for your information a copy of an opinion rendered recently by the Supreme Court of Texas in the case of Lane Co. v. Crum, holding that a trade acceptance containing the following clause is non-negotiable:

> "The obligation of the acceptor hereof arises out of the purchase of goods from the drawer, maturity being in conformity with the original terms of purchase."

Although no Federal reserve bank was a party to this suit, the decision is of great importance to the Federal reserve banks, because they frequently purchase trade acceptances containing statements similar to the above.

While it is believed that the decision of the Supreme Court of Texas and a similar decision of the Supreme Court of Florida are wrong, but they have the effect of making such instruments non-negotiable in Texas and Florida and raise doubts as to the negotiability of such acceptances in other States where the Courts have not yet held such acceptances to be negotiable. In view of this fact, I am recommending to the Board that a suggestion made by the General Counsel of the American Bankers' Association be adopted and that the standard form of trade acceptance be changed to read as follows:

> "The transaction which gives rise to this instrument is the purchase of goods by the acceptor from the drawer."

Yours very truly,

Walter Wyatt,
General Counsel.

Enclosure.

C O P Y

NO. 910 - 4764
COMMISSION OF APPEALS,
SECTION A.

THE LANE COMPANY,	*	
	*	
	*	FROM McLENNAN COUNTY,
PLAINTIFF IN ERROR,	*	
	*	
VS	*	
	*	TENTH DISTRICT.
MRS. B. V. CRUM, ET AL,	*	
	*	
DEFENDANTS IN ERROR.	*	

On June 24, 1924, W. E. Williams, under the trade name of Cascade Products Company entered into a contract in writing with The Lane Company, with reference to the delivery by the Cascade Company to The Lane Company of a certain number of washing machines. The contract is set out in full in the majority opinion of the Court of Civil Appeals. It is unnecessary to a decision here, that we determine whether such contract constitutes a sale contract or merely an agency agreement. In September, 1924, the number of machines called for in the contract were delivered by the Cascade Company to The Lane Company, who declined to accept them but held them subject to the order of the Cascade Company.

At the time the contract above mentioned was made, and as a part of the transaction, The Lane Company accepted three trade acceptances or drafts drawn by the Cascade Company, each for the sum of $378.00, and payable respectively sixty, ninety and one hundred and twenty days after date. The form of these instruments is such as to make them negotiable instruments, unless the clause appearing in each of them, which is hereinafter stated, renders them non-negotiable in-

struments.

On October 29, 1924, The Lane Company brought this suit against W. E. Williams and Mrs. B. V. Crum to cancel these three trade acceptances on the ground that the washing machines were not as represented, and the machines were tendered to the defendants. Mrs. Crum answered by a cross-action seeking to recover on the trade acceptances, alleging that she was an innocent holder thereof in due course of trade, for value, before maturity. The cause was tried before a jury and resulted in a judgment being rendered cancelling the three trade acceptances and awarding to Mrs. Crum the washing machines. On appeal, this judgment was reversed by the Court of Civil Appeals, and judgment rendered by that court for Mrs. Crum on the trade acceptances, (284 S.W. 980)- Associate Justice Stanford dissenting.

The contention of The Lane Company is that the following clause of the trade acceptances renders same non-negotiable and therefore subject to the rights and equities of said company growing out of its said contract with the Cascade Company, to wit:

> "The obligation of the acceptor hereof arises out of the purchase of goods from the drawer, maturity being in conformity with the original terms of purchase."

We agree with the conclusion reached by Associate Justice Stanford in his dissenting opinion as to the legal effect of the clause just quoted. In our opinion the clause has effect to render the trade acceptances non-negotiable under the law merchant as well as under the Negotiable Instruments Act. The obligation of the acceptor, according to the terms of said clause, arises not from the instruments themselves,

but from a collateral transaction. For an instrument to be negotiable, the obligation of the maker must arise exclusively from the instrument. No obligation arising from a collateral transaction can be imported into the terms of the instrument without destroying the negotiability of the instrument. 8 Corpus Juris, pp. 113-114. A negotiable instrument has been termed "a courier without luggage," whose countenance is its passport. This apt metaphor does not fit these trade acceptances, for the reason they are ladened with the equipment of a wayfarer who does not travel under safe conduct. By their express terms, these instruments bear burdens whose nature must be sought for beyond the four corners of the instruments themselves. The clause in question is more than a mere "statement of the transaction which gives rise to the instrument," as permitted by paragraph 2, section 3 of Article 5932 of the Revised Statutes. So far from being a mere descriptive reference to the transaction which gave rise to the instrument, the clause, in definite terms, points to that transaction as the source of the acceptor's obligation to pay the amount named in the instrument. The legal effect of the clause is to render the paper subject to all the rights and equities of the parties to the collateral transaction from which the obligation of the acceptor arises. Parker vs American Exchange Bank, 27 S. W. 1072, 8 C. J. 124.

We recommend that the judgment of the Court of Civil Appeals reversing the judgment of the trial court and rendering judgment for

defendant in error, be reversed and that the judgment of the trial court be affirmed.

HARVEY,

_____

Presiding Judge.

Judgment of the Court of Civil Appeals reversed, and that of the District Court affirmed, as recommended by the Commission of Appeals.

C. M. CURETON,
Chief Justice.

March 2, 1927.

X-4848

TREASURY DEPARTMENT
Office of the Secretary
WASHINGTON

May 9, 1927.

The Governor
Federal Reserve Board.

Sir:

You are hereby advised that the Department has referred to the Disbursing Clerk, Treasury Department, for payment, the account of the Bureau of Engraving and Printing for preparing Federal reserve notes during the period April 1, 1927, to April 30, 1927, amounting to $137,067.00, as follows:

	Federal Reserve Notes, Series 1914.				Total	
	$5	$10	$20	$50	sheets	Amount
Boston	200,000	-	-	-	200,000	7,320.00
New York	600,000	650,000	300,000	-	1,550,000	56,730.00
Philadelphia	350,000	300,000	-	25,000	675,000	24,705.00
Cleveland	250,000	-	-	50,000	300,000	10,980.00
Richmond	200,000	50,000	-	20,000	270,000	9,882.00
Atlanta	50,000	100,000	-	-	150,000	5,490.00
Chicago	350,000	100,000	-	-	450,000	16,470.00
Minneapolis	-	50,000	50,000	-	100,000	3,660.00
San Francisco	50,000	-	-	-	50,000	1,830.00
	2,050,000	1,250,000	350,000	95,000	3,745,000	$137,067.00

3,745,000 sheets at $36.60 per M $137,067.00

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

Boston	$ 7,320.00
New York	56,730.00
Philadelphia	24,705.00
Cleveland	10,980.00
Richmond	9,882.00
Atlanta	5,490.00
Chicago	16,470.00
Minneapolis	3,660.00
San Francisco	1,830.00
	$137,067.00

The Bureau appropriations will be reimbursed in the above amount from the indefinite appropriation "Preparation and Issue of Federal Reserve Notes, Reimbursable", and it is requested that your board cause such indefinite appropriation to be reimbursed in like amount.

Respectfully,

S. R. Jacobs,
Deputy Commissioner.

X-4848a

TREASURY DEPARTMENT
Office of the Secretary
WASHINGTON

May 9, 1927.

The Governor
Federal Reserve Board.

Sir:

You are hereby advised that the Department has referred to the Disbursing Clerk, Treasury Department, for payment, the account of the Bureau of Engraving and Printing for preparing Federal reserve notes during the period April 1, 1927, to April 30, 1927, amounting to $183.00, as follows:

Federal Reserve Notes, Series 1918.

5,000 sheets, $500 New York at $36.60 per M $183.00

The Bureau appropriations will be reimbursed in the above amount from the indefinite appropriation "Preparation and Issue of Federal Reserve Notes, Reimbursable", and it is requested that your board cause such indefinite appropriation to be reimbursed in like amount.

Respectfully,

S. R. Jacobs
Deputy Commissioner.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4849

May 10, 1927

SUBJECT: Expense, Main Line, Leased Wire System,
April, 1927

Dear Sir:

Enclosed herewith you will find two mineograph statements, X-4849-a and X-4849-b, covering in detail operations of the main line, Leased Wire System, during the month of April, 1927.

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-4849-a

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINE OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF APRIL, 1927

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	31,592	660	32,252	3,233	-	29,019	3.57
New York	132,970	-	132,970	7,372	502	125,096	15.40
Philadelphia	41,302	521	41,823	3,958	-	37,865	4.66
Cleveland	79,100	2,123	81,223	3,710	-	77,513	9.54
Richmond	47,132	2,205	49,337	3,335	-	46,002	5.66
Atlanta	57,026	2,511	59,537	4,877	-	54,660	6.73
Chicago	104,263	3,163	107,426	5,957	-	101,469	12.49
St. Louis	75,714	2,104	77,818	4,914	-	72,904	8.98
Minneapolis	31,904	2,140	34,044	2,246	-	31,798	3.92
Kansas City	75,141	2,262	77,403	3,765	-	73,638	9.07
Dallas	59,258	4,396	63,654	2,678	-	60,976	7.51
San Francisco	105,310	2,409	107,719	6,453	-	101,266	12.47
Total	840,712	24,494	865,206	52,498	502	812,206	100.00%
F. R. Board			300,484	37,268	465	262,751	
Total			1,165,690	89,766	967	1,074,957	
Percent of total			100.00%	7.70%	.08%	92.22%	

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-4849-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, APRIL, 1927

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	$ 5.00	-	$ 265.00	$ 752.46	$ 265.00	$ 487.46
New York	983.29	-	-	983.29	3,245.89	983.29	2,262.60
Philadelphia	225.00	-	-	225.00	982.20	225.00	757.20
Cleveland	296.66	-	-	296.66	2,010.77	296.66	1,714.11
Richmond	190.00	-	-	190.00	1,192.97	190.00	1,207.64(&)
Atlanta	270.00	-	-	270.00	1,418.50	270.00	1,148.50
Chicago	3,988.67(#)	-	-	3,988.67	2,632.55	3,988.67	1,356.12(*)
St. Louis	224.00	-	-	224.00	1,892.74	224.00	1,668.74
Minneapolis	193.73	-	-	193.73	826.23	193.73	632.50
Kansas City	275.64	-	-	275.64	1,911.70	275.64	1,636.06
Dallas	251.00	-	-	251.00	1,582.90	251.00	1,331.90
San Francisco	370.00	-	-	370.00	2,628.33	370.00	2,258.33
Federal Reserve Board	-	-	$15,315.20	15,315.20	-	-	-
Total	$7,527.99	$ 5.00	$15,315.20	$22,848.19	$21,077.24	$7,532.99	$15,105.04
				1,770.95(a)			1,356.12(b)
				$21,077.24			$13,748.92

(&) Includes $204.67 for branch line business transmitted over main line circuit.
(#) Includes salaries of Washington Operators.
(*) Credit.
(a) Received $1,759.46 from Treasury Department and $11.49 from the War Finance Corporation covering business for the month of April, 1927.
(b) Amount reimbursable to Chicago.

(C O P Y) X-4850

IN THE SUPREME COURT

299

STATE OF NORTH DAKOTA

C. M. Berg, Plaintiff and Respondent,

-vs-

The Federal Reserve Bank
of Minneapolis, Defendant and Appellant.

(1) In the absence of express stipulation negativing or limiting liability, the drawer of a check admits the existence of the payee and his then capacity to indorse; and engages that on due presentation the check will be accepted and paid, or both, according to its tenor, and that if it be dishonored, and the necessary proceedings on dishonor be duly taken, he will pay the amount thereof to the holder or to any subsequent indorser who may be compelled to pay it. (Sec. 6946, C.L. 1913; N.I.L. Sec.61.)

(2) The legal obligation of a bank is to pay its customers' checks in money; but this obligation may be waived by the holder of the check. He is at liberty to accept any medium of value which the bank may offer; and where upon presentment of a check the holder accepts a draft in payment thereof the check is paid and the drawer thereof discharged from all liability thereon.

(Syllabus by the Court)

From a judgment of the district court of Ward County, Lowe, Judge, defendant appeals.

REVERSED.

Opinion of the Court by Christianson, J.

McGee & Goss, of Minot, N.Dak., and A. Ueland, of Minneapolis, Minn., Attorneys for Appellant.

E. R. Sinkler and G. O. Brekke, of Minot, N.Dak., Attorneys for Respondent.

Berg vs. Federal Reserve Bank of Minneapolis 300

Christianson, Judge. The plaintiff, Berg, brought this action against the Federal Reserve Bank of Minneapolis to recover Five Hundred Forty Dollars and Twenty-five cents with interest from October 8, 1923, alleged to be the amount of a check drawn by the plaintiff, Berg, upon the Security State Bank of Hanks and payable to the order of the State Bank of Stady. The case was tried to the court, without a jury, and resulted in a judgment in favor of the plaintiff for the amount demanded and the defendant has appealed.

The material and undisputed facts are as follows: On October 30, 1923, the plaintiff, Berg, had on deposit, subject to check, in the Security State Bank of Hanks the sum of One Thousand Twenty-four Dollars and Twenty-five cents. On that day he went to the State Bank of Stady, in this state, and purchased from that Bank a draft in the sum of Five Hundred Forty Dollars and Fourteen cents, drawn by the said State Bank of Stady on the Midland National Bank of Minneapolis and payable to the order of E. E. Engberg, county treasurer of Divide County in this state. Plaintiff paid the State Bank of Stady for said draft by giving to it his check, dated on that day, drawn on the Security State Bank of Hanks, in the sum of Five Hundred Forty Dollars and Twenty-five cents. The plaintiff, Berg, thereupon transmitted the draft to Engberg, the payee named therein, and the Stady Bank placed upon the check it had received from Berg, it's general and unrestricted endorsement and trans-

mitted the same to the Midland National Bank of Minneapolis. The Midland National Bank is one of the member banks of the defendant. On November 2, 1923, the Midland National Bank endorsed the check and delivered the same to the defendant for collection. On the same day the defendant sent the check, and certain other items on the Security State Bank of Hanks, by mail direct to the Hanks Bank for payment and remittance. On November 7th the defendant received, from the Security State Bank of Hanks, its draft drawn on the First National Bank of Minneapolis for Nine Hundred Ninety-five Dollars and Thirty-two cents, which said draft included the amount of the check in suit. This draft was presented by the defendant for payment on the same day but payment was refused and the draft protested for nonpayment. The Security State Bank of Hanks was closed on November 6, 1923. The Stady Bank refused to pay the draft which it had issued to Engberg for the check in suit and such draft was protested for nonpayment.

It is contended by the appellant that it was authorized to send the check direct to the Security State Bank of Hanks and to accept the draft of that bank in payment by virtue of Regulation J (8) 1920, and defendant's Check Clearing and Collection Circular No. 286, issued on the authority of said regulation. A considerable portion of the argument of both parties is devoted to the question of the liability of a bank which undertakes the collection of commercial paper at a distance. In short, it is contended by the appellant that the so-called "New York" rule is applicable to the transaction in suit and that, hence, plaintiff had no contract

with the defendant concerning the check or its collection; that defendant has violated no duty which it owed the plaintiff. and, consequently, there is no cause of action. On the other hand, the respondent contends that while regulation J (8) 1920 authorized the defendant bank to send checks for collection direct to the drawee, it did not authorize it to accept a draft in payment. Federal Reserve Bank of Richmond vs. Malloy, 264 U. S. 160, 68 L. ed.617. And he further contends that the "Massachusetts", and not the "New York", rule is applicable. We find it unnecessary to determine the correctness of these respective contentions. The plaintiff did not deliver the check in suit to the State Bank of Stady for collection. He delivered it in payment of a draft which he purchased from that Bank. As a result of the execution and delivery of the check to the State Bank of Stady certain definite obligations were created. The plaintiff engaged that on due presentation of the check to the Security State Bank of Hanks the check would be accepted and paid according to its tenor, and that if it was dishonored, and the necessary proceedings on dishonor duly taken, he would pay the amount thereof to the holder, or to any subsequent endorser who might be compelled to pay it. Section 6946 C. L. 1913, N. I. L. Sec.61. And the State Bank of Stady in accepting the check undertook to present it for payment within a reasonable time and with the understanding that if the check was not so presented that the plaintiff as the drawer thereof would "be discharged from liability thereon to the extent

of the loss occasioned by the delay". Section 7070 C. L. 1913 N. I. L. section 1086; Lloyd Mortgage Company vs. Davis 51 N. D. 336, 199 N. W. 869.

The State Bank of Stady did not receive the check in suit for collection. The check was received and accepted in payment of the draft which the Stady Bank issued and delivered to the plaintiff. The check was the property of the State Bank of Stady and not the property of the plaintiff. From the time of the delivery of the check by the plaintiff to the bank "it became the owner of the check; it could have torn it up or thrown it in the fire or made any other use or disposition of it which it chose and no right of defendant would have been infringed." Burton v. United States, 196 U.S. 283, 297; 49 L. ed. 482, 486. The right to collect the check was vested in the State Bank of Stady and the correlative obligations arising from this right rested upon it. The State Bank of Stady transmitted the check to the Midland National Bank as owner, and not as an agent of the plaintiff for the purpose of collecting the amount of the check from the bank upon which it was drawn. The legal relations assumed by the plaintiff and by the State Bank of Stady upon the execution and delivery of the check were definite and certain. If the check was duly presented but dishonored and the necessary proceedings on dishonor duly taken, plaintiff was obligated to pay the amount thereof to the holder or to any subsequent indorser who might be compelled to pay it. Section 6945, C. L. 1913.

The rights of the plaintiff in this case are only those which arise out of his contract with the State Bank of Stady. "If those rights were affected by the act or omission of the defendants, they were affected only because the contract so stipulated. The defendant's duties arose out of its contract with the initial bank or out of its relations with that bank as owner of the paper." Douglas vs. Federal Reserve Bank 271 U. S. 489, 494; 70 L. ed. 1051-1054.

A check is payable in money. If, however, the holder of the check is willing to accept anything else in payment, and the drawee bank is willing to give it, the drawer of the check is not concerned. His contract is fulfilled when the check is paid. 5 R. C. L. p. 498-499. As is said in Morse's authoritative work on Banks and Banking:-

"The legal obligation of the bank is to pay the customer's checks in such paper or coin, and in such quantities of paper or coin of any specific denomination, as the law of the land makes legal tender in the case of any ordinary debt. * * * No other species of tender than that authorized by the laws of the land can relieve the bank from liability to the drawer.

But this obligation of the bank, at strict law, may of course be waived and dispensed with by the express or implied consent of the holder of the check. He is perfectly at liberty to accept any representatives of value which the bank may offer to him. If he does so accept, that is to say, if, at the time when such representatives are offered to him, he does not object to receive them on the ground that they are not what at law he has a right to demand, then this acceptance operates as a complete waiver of the holder's right to refuse anything save legal tender, and the banker is discharged by this payment, both as towards the drawer and the holder of the check. Even if the holder assents to take the promissory note of the banker, it will discharge the check absolutely and without regard to the fact of whether or not it is paid at maturity. Payments are usually offered either in whole or in part in the bank bills or notes, either of the bank on which the check is drawn, or of other banks, which circulate as currency in the community. The holder may refuse these, when offered to him, if he wishes; but if he takes them, in the absence of fraud on the part of the bank he assumes as his own the risk of their value. The waiver was perfected by the very act of acceptance, and cannot be afterward undone. Converse, if it should happen that the funds are at a premium, the profit also is that of the receiver. In short, the money or representatives of value, on the moment when they have been paid over the counter and have been fairly received and accepted without objection by the payee, become the property of the payee, for good or for ill." 2 Morse on Banks and Banking, 5th ed., Sec. 247, pp. 45, 46.

The presenting of a check for payment implies that the holder desires and is ready and willing to accept payment. Simpson vs. Pac. Mut. L. Ins. Co., 44 Cal. 139; Noble vs. Doughten_____ Kansas _____,

83 Pac. 1048; 3 L. R. A. (N.S.) 1167. If the holder of the check procures it to be accepted or certified, the drawer and all indorsers are discharged from liability thereon. Section 7072 C. L. 1913; N. I. L. section 188. If, the holder or his collecting agent presents the check for payment and the drawer has funds on deposit to meet it, which the drawer is then ready and willing to deliver, the contract of the drawer is fulfilled. 5 R.C.L. p. 498. If the holder, instead of receiving money, causes the check to be deposited to the credit of his account in the drawee bank, the check is paid and the drawer released from liability thereon. Burton vs. United States, 196 U. S. 283, 49 L. ed. 482; First National Bank vs. Burkhart, 100 U. S. 686, 25 L. ed. 766. And if the holder in lieu of money accepts a draft from the drawee bank, such acceptance amounts to payment and he takes the draft at his own risk and not at the risk of the drawer of the check. Simpson v. Pac. Mut. Life Ins. Co., 44 Cal. 139; Anderson v. Gill, 79 Md. 312; 47 Am. St. Rep. 402; Comer v. Dufour, 95 Ga. 376, 51 A.S.R. p. 89; Loth et al v. Mothner et al, 13 S. W. 594; 2 Morse on Banks and Banking, 5th ed. Sec. 426; Daniel on Negotiable Instruments, Soc. 1591.

The plaintiff cites and relies upon the decision of this court in Pickett v. Thomas J. Baird Investment Company, 22 N. D. 343, 133 N.W. 1026. In our opinion the decision cited is authority against, rather than for, the plaintiff. In that case the plaintiff, Pickett, received a check from the Baird Investment Company for certain moneys which that company owed him. The check was drawn on a bank at Lakota in this state. On receipt of the check Pickett endorsed and delivered it to the First National Bank of Duluth, where it was credited to his account. The Duluth bank sent the check direct by mail to the drawee bank at

Lakota. That bank accepted the check and sent in payment thereof a draft on a Minneapolis bank. This draft was protested for non-payment. Pickett thereupon brought suit against the Baird Investment Company, the drawer of the check, and it was held that the Baird Investment Company was discharged from liability, and that Pickett could not recover. If the State Bank of Stady had brought suit against the plaintiff, Berg, upon the check in question here, the facts would have been precisely the same as in the Pickett case. In other words, upon the ruling in the Pickett case, the plaintiff, Berg, was and is discharged from all liability upon the check. The Pickett case, it is true, lays stress on the negligence of the collecting bank in transmitting the check direct to the drawee bank, rather than on the acceptance of a draft, instead of cash, in payment of the check. It is obvious, however, that the real reason for the discharge of liability on the part of the drawer of the check in the Pickett case was the acceptance of a draft in payment of the check. If the Lakota bank had paid the check in cash instead of by draft, no injury would have resulted; and if the check had been sent by the Duluth bank to some other bank at Lakota instead of to the drawee bank and such other bank had accepted the same draft, instead of cash, in payment of the check, the resulting loss would have been precisely the same; and, in either event, the drawer of the check would have been discharged from liability.

The ground on which liability is predicated in favor of the owner of a check against a collecting bank for transmitting the check direct to the drawee bank, or for accepting from such bank a draft in

payment of the check, is that the collecting bank was negligent, and breached the obligations which it owed to the owner of the check, in so doing, and that, consequently, the owner of the check is entitled to be compensated by it for the injury which he sustained by reason of such breach of duty. Of course, if the owner of the check sustains no injury, he is entitled to no compensation. Thus, if the collecting bank transmits a check direct to the drawee bank and accepts a draft in payment and the draft is subsequently paid so the owner receives his money, he has no cause of action, even though the collecting bank was negligent in the method it adopted in making the collection. And, clearly, the drawer of a check who is discharged from liability thereon has no cause of action against a collecting bank which accepts the draft of the payee bank in payment thereof. In such case there has been no breach of any duty owing to him, nor has he sustained any injury.

The fact that the State Bank of Stady stopped payment on the draft which it had issued and delivered to the plaintiff, obviously, cannot affect the rights of the parties to this action. That draft belonged to the plaintiff and clothed him with the same rights as though, instead of paying therefor by check, he had paid the State Bank of Stady in actual cash at the time the draft was issued. Whether the defendant, Federal Reserve Bank, was authorized to accept a draft from the Security State Bank of Hanks in payment of the check, and whether such acceptance renders either the Federal Reserve Bank or the Midland National Bank liable to the State Bank of Stady (the owner of the check), for the loss resulting from the acceptance of such draft, is a question not involved in this case and one upon which we express no opinion.

It follows from what has been said that there was and is no such relationship between the plaintiff and the defendant as would entitle the plaintiff to recover for any negligence on the part of the defendant in the collection of the check.

The judgment appealed from is reversed and the action is dismissed.

A. M. CHRISTIANSON

W. L. NUISSLE

JOHN BURKE

A. G. BURR

L. E. BIRDZELL

FEDERAL RESERVE BOARD

X-4852

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

May 14, 1927.

CONFIDENTIAL

SUBJECT: Member banks stamping checks "Not payable through Federal Reserve Bank."

Dear Sir:

It has been brought to the attention of the Federal Reserve Board that several member banks in the Sixth Federal Reserve District have initiated the practice of stamping upon their cashier's checks, and in some instances upon customer's checks, the notation, "Not payable through Federal Reserve Bank, Atlanta, Ga.", or some variant of these words.

The Federal Reserve Board has submitted the questions raised by this practice to its own general and special counsel and is advised that the use of such notations is contrary to, and in violation of, the provisions of the Federal Reserve Act and the Regulations of the Federal Reserve Board. It seems entirely clear that the purposes of the Federal Reserve Act, with regard to check collections through the Federal Reserve Banks, are a part of the general public policy embodied in the Act, and that the duty of this Board and of the Federal Reserve Banks is to carry out that policy and not acquiesce in the growth of any practice which would tend to render it ineffective.

An effort will be made by the officers of the Federal Reserve Bank of Atlanta to secure the cooperation of the member banks in question by a careful and conciliatory explanation of the possible harmful effect of the practice. In the meantime, it seems wise that all federal reserve banks should be informed of this situation, and that a uniform course of procedure should be adopted.

The recent Governors' conference considered the situation with the general counsel of the Board and Mr. Newton D. Baker, who has been asked by the Board to represent the System in the matter. As a result of this conference and of the consideration which the Board has given the subject, the following practice was agreed upon and approved.

1- All federal reserve banks should continue to receive checks from member banks and from non-member clearing banks in accordance with the provisions of Regulation J, even though they bear notations similar to the above.

2- If payable in another district such checks should be forwarded in the usual course to the federal reserve bank or branch of the district in which they are payable.

3- When received by the federal reserve bank of the district in which they are payable, such checks should be forwarded in the regular course to the member bank on which they are drawn in the usual cash letter.

4- In all cases where the member bank returns such checks and gives no other reason for failure to pay except the restriction attempted to be imposed by the legend stamped on the checks, the federal reserve bank should charge the amount of the checks to the reserve account of the member bank in question, return the checks to the member bank, and notify it that it has been so charged. (This course can be taken only in those federal reserve districts where the check collection circular reserves the right to charge checks to members' reserve accounts.)

5- If member banks so notified that such checks have been charged to their reserve account again return them to the federal reserve bank and protest against the action of the federal reserve bank in charging them to the member's reserve account, the federal reserve bank will notify the member bank that it holds the checks in question subject to its orders, and that the charge so made will stand.

All federal reserve banks will keep the Federal Reserve Board fully informed of the situation created in this regard in order that the Board may call to the attention of the Comptroller of the Currency, or otherwise deal with, the situation of any member bank whose reserve is seriously affected by the charges so made as to which exceptions are pending.

Federal reserve banks in dealing with member banks upon this subject will realize that the whole object of the Federal Reserve Board and of the federal reserve banks is to carry out the purpose of Congress by maintaining the efficiency of the check collection and clearing functions entrusted to them by the Act, and that no disciplinary purpose or hostility is involved, but that the action of the federal reserve bank in each case is in the due course of business, and in pursuance of the plain duty of the bank under the law and regulations of the Board.

For your information there is enclosed a copy of a letter this day sent to Governor Wellborn of the Federal Reserve Bank of Atlanta, and should any instance of this practice arise in any other district it is recommended that a similar conciliatory effort be made with the member bank at once.

Very truly yours,

D. R. Crissinger.
Governor.

Enclosure.

TO GOVERNORS AND CHAIRMEN OF ALL FEDERAL RESERVE BANKS

(COPY) X-4852-a

313

May 14, 1927

Hon. M. B. Wellborn, Governor,
Federal Reserve Bank,
Atlanta, Georgia.

Dear Governor Wellborn:

The attention of the Federal Reserve Board has been called to the fact that a few member banks in the Sixth Federal Reserve District have recently adopted the practice of stamping on their cashier's checks the words, "Not payable through Federal Reserve Bank, Atlanta, Ga."

The Federal Reserve Board has submitted the questions raised by this practice to its own general and special counsel and is advised that the use of such notationsis contrary to, and in violation of, the provisions of the Federal Reserve Act and the Regulations of the Federal Reserve Board. It seems entirely clear that the purposes of the Federal Reserve Act, with regard to check collections through the Federal Reserve Banks, are a part of the general public policy embodied in the Act, and that the duty of this Board and of the Federal Reserve Banks is to carry out that policy and not acquiesce in the growth of any practice which would tend to render it ineffective.

In view of the fact that the banks of the country generally are cooperating heartily with the Federal Reserve Banks in this matter, it seems likely that the banks which have been placing such restrictions upon their checks, have not appreciated fully the significance of their action. No doubt they desire to be in full cooperation in the policy established by Congress and to render their share of the public service involved in this matter, in return for the benefits which they and the country generally enjoy from the service rendered by the Federal Reserve System to them and their customers. With this thought in mind, the Federal Reserve Board asks that you secure a conference with the executive officers of these banks; draw their attention to the view which this Board, under legal advice, has of their procedure; and ask its discontinuance.

Very truly yours,

D. R. Crissinger.
Governor.

C O P Y X-4853

314

Law Office of
Locke, Locke, Stroud & Randolph,
American Exchange Building
Dallas, Texas.

May 10, 1927.

Federal Reserve Board,
Washington, D. C.

Gentlemen: Attention Walter Wyatt, General Counsel.

We are enclosing herewith twelve copies of the answer we are filing in the case of Speer Hardware Company v. Federal Reserve Bank of Dallas. This is the answer, a tentative draft of which was discussed with you on the occasion of Mr. Stroud's last visit to Washington.

In view of the number of suits being brought against the various federal reserve banks involving the liability of such banks in the handling of checks for collection under the terms of Regulation J, series of 1924, and current circulars of federal reserve banks, it has occurred to us that it might be desirable for the federal reserve banks to adopt a somewhat uniform answer to be filed in connection with this character of litigation. By adopting such a course, it is believed that the uniform and concerted effort may result in establishing constructive rules of law and obtaining favorable precedents in all the districts.

It is our opinion that the courts need to be more fully advised as to the changes which have occurred in this country in connection with the handling of checks for collection, and to this end we have made our answer rather long, hoping thereby to make admissible testimony showing the change which has taken place, and acquainting the court with the fact that the rules of law heretofore applied are not applicable at the present time. We have sought to make these historical allegations proper by alleging that they were known to the plaintiff.

If you think well of the idea, we would suggest that a copy of this answer be sent to the attorneys for the other federal reserve banks, inviting their suggestions and criticisms, to the end that by joint effort we may be able to arrive at some form of answer which, with small variation, may be used in practically all of this character of litigation.

Very truly yours,

(s) Locke, Locke, Stroud & Randolph.

Enclosures.

COPY X-4854 315

FEDERAL RESERVE BOARD

WASHINGTON

May 18, 1927.

My dear Congressman:

The Federal Reserve Board has considered your letter of May 2nd enclosing a copy of a letter addressed by you to the Comptroller of the Currency with reference to chain banking in the United States through the purchase by holding companies or investment trusts of the controlling stock interests of banks. You suggest that the Federal Reserve Board adopt administrative measures calculated to control or prevent the growth of this form of banking control among State bank members of the Federal Reserve System.

The Federal Reserve Board is powerless under the law to take the action which you suggest. There is no provision of statute which confers upon the Board any authority to regulate or prohibit the holding of the stock of State member banks by any group or corporation. In this connection you will recall that in a letter addressed to you under date of January 8, 1926, (a copy of which is enclosed herewith - see pages 8 to 10) the Federal Reserve Board took occasion to recommend as amendments to your bill H.R. 2, then pending in Congress, provisions designed to secure adequate information regarding national banks and State member banks which are closely related in management, operation or interests to other banking institutions, and in particular to afford some check upon the abuses frequently occurring in chain banking. The suggestion of the Federal Reserve Board on this subject was not adopted.

The Board has attempted in prescribing conditions upon which State banks may be admitted to the Federal Reserve System to effect some degree of control over chain banking. Among the conditions of membership with which State banks entering the Federal Reserve System are required to comply is the following:

> "Such bank or trust company, except after applying for and receiving the permission of the Federal Reserve Board, shall not consolidate with or absorb or purchase the assets of any other bank or branch bank for the purpose of operating such bank or branch bank as a branch of the applying bank; nor directly or indirectly, through affiliated corporations or otherwise, acquire an interest in another bank in excess of 20 per cent of the capital stock of such other bank; nor directly or indirectly promote the establishment of any new bank for the purpose of acquiring such an interest in it; nor make any ar-

rangement to acquire such an interest."

This condition of membership was incorporated in the Board's Regulations of 1924 and has been prescribed for every State bank admitted to membership since that time. Under the provisions of the recently enacted McFadden Act, however, the Board appears to be without authority to continue to impose a condition of membership of this kind. Section 9 of the Federal Reserve Act, as amended by the McFadden Act, provides that the Federal Reserve Board may permit State banks to become members of the Federal Reserve System, subject to the provisions of the Federal Reserve Act "and to such conditions as it may prescribe pursuant thereto." As there is no provision in the Federal Reserve Act which seems expressly or by necessary implication to authorize the imposition of a condition of membership designed to control or prohibit chain banking among State member banks, the Federal Reserve Board will be unable in the future to prescribe such a condition.

Inasmuch as the existing law contains no provision designed to check or control chain banking, the remedy lies with Congress. The Board will be very glad to do anything in its power to assist your Committee in making a study of chain banking.

By direction of the Board.

Very truly yours,

D. R. Crissinger,
Governor.

Honorable Louis T. McFadden,
House of Representatives,
Washington, D. C.

(Enclosure)

Excerpt from Board's letter of January 8, 1926, to Honorable Louis T. McFadden, Chairman of the Committee on Banking and Currency of the House of Representatives (pages 8-10), referred to in the Board's letter of May 18, 1927, to Congressman McFadden.

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

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

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

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

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

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

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

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

May 18, 1927.

SUBJECT: Holidays during June, 1927.

Dear Sir:

The Federal Reserve Banks and Branches listed below will be closed on account of holidays on dates specified, and therefore will not participate in either the Gold Fund Clearing or the Federal Reserve Note Clearing:

Friday, June 3rd, Birthday of Jefferson Davis.

Richmond	Memphis
Atlanta	Dallas
New Orleans	El Paso
Birmingham	Houston
Nashville	
Jacksonville	

Tuesday, June 28th, Special Election Day in the State of Oregon.

Portland.

Please include credits in the Gold Fund Clearing for the offices affected on each of the holidays referred to, with credits for the following business day, and make no shipment of Federal Reserve Notes, fit or unfit, on June 3rd for account of the head offices mentioned.

Please notify Branches.

Very truly yours,

J. C. Noell.
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

321

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4857

May 24, 1927.

SUBJECT: Information regarding Branches of State Banks applying for Membership.

Dear Sir:

Under the provisions of Section 9 of the Federal Reserve Act as amended by Section 9 of the McFadden Act, State banks that have branches beyond the limits of the city, town or village in which the parent bank is situated which were established subsequent to February 25, 1927, the date of the approval of the McFadden Act, are ineligible to become members of the Federal Reserve System except upon the relinquishment of such branches. In view of this fact, it is necessary for the Board in passing upon an application for membership by a State bank to have information as to whether such bank has any branches beyond the limits of the city, town or village in which it is situated which were established subsequent to February 25, 1927. It is requested, therefore, when you forward applications for membership to the Board you advise the Board if the applicant bank has any such branches that were established subsequent to February 25, 1927.

By direction of the Federal Reserve Board.

Very truly yours,

Walter L. Eddy,
Secretary.

TO CHAIRMEN OF ALL F. R. BANKS

LOUISVILLE & NASHVILLE RAILROAD CO. :
:
V. :
:
NASHVILLE BRANCH OF THE FEDERAL :
RESERVE BANK OF ATLANTA, et al. :

Findings and Opinion.

This is a suit to recover of the Nashville Branch of the Federal Reserve Bank of Atlanta and the American National Bank $3995.00, with interest from July 14, 1924.

The suit is predicated upon the failure of the two banks to collect three cashier's checks, drawn by and on the Peoples Bank of Springfield, Tennessee, and endorsed by the complainant and deposited for collection with the American National Bank, and by that bank delivered to the Nashville Branch of the Federal Reserve Bank of Atlanta for collection.

It is alleged that the American National Bank was negligent in selecting the Reserve Bank as its agent to clear or collect these checks, and that the Reserve Bank was negligent in sending these checks to the Peoples' Bank at Springfield, the drawee, and permitting that bank to hold said checks without remitting, until its failure.

The bill further alleges that the regulations of the Federal Reserve Board did not alter the responsibility of the Nashville Branch of the Federal Reserve Bank, nor render non-actionable or non-negligent a practice which, under the laws of Tennessee, is negligent, towit, forwarding a check direct to the bank on which it

is drawn for collection; and that the American National Bank in selecting the Federal Reserve Bank as its agent for handling the checks became responsible to the complainant to the same extent as if the American Bank had itself forwarded these checks direct to the Peoples' Bank of Springfield.

The defendants deny they were negligent and rely upon certain regulations adopted by the Federal Reserve Board and the Federal Reserve Bank of Atlanta, in force and effect when the transaction complained of occurred, authorizing the defendant banks to handle the checks in the manner they did, and that these checks were handled in accordance with the uniform custom and usage obtaining among banks in Nashville and the regulations of the Federal Reserve Board and the Federal Reserve Bank of Atlanta. They aver that these regulations have the legal force and effect of federal statutes, and as such are binding on the complainant with reference to the checks sued on in this case, and that the complainant authorized the American National Bank to follow the general banking custom or usage prevailing in Nashville in making collection of these checks.

The facts material to the determination of the question involved follow:

The Federal reserve system was created by an Act of Congress December 23, 1913. Section 11 of this Act expressly empowers the Federal Reserve Board to make all rules and regulations necessary to enable the Board to effectively perform the duties, functions or services specified in the Act, and to exercise a general supervision over all Federal Reserve Banks. Section 16 of the Act authorizes the Federal Reserve Board to promulgate from

time to time regulations governing the transfer of funds, charges therefor, and in its discretion may exercise the functions of a clearing house for such Federal Reserve Banks, or may designate a Federal Reserve Bank to exercise the function of a clearing house for its member banks. See 38 Statutes at Large, 251-264.

The Federal Reserve Act, (38 Statutes, 251), Secs. 9785-9805, U. S. Compilation Statutes 1916, and the Acts amendatory and supplementary thereof, constitute the charter of the federal reserve system. The general control and supervision of this system is lodged in the Federal Reserve Board, consisting of six members, appointed by the President with the consent of the Senate. The Secretary of the Treasury and the Comptroller of the Currency are members ex-officio of this Board.

The United States is divided into districts, and there is a federal reserve bank in every district. The reserve bank for this district was established in 1914 and located in Atlanta, and a branch thereof was established and located in Nashville in 1919, known as the Nashville Branch of the Federal Reserve Bank of Atlanta. The Nashville Branch of the Federal Reserve Bank of Atlanta clears at par and all national banks are required by law to be members of this system, and upon their failure to become members, their charters are forfeited.

The Federal Reserve Banks are national, not state, institutions, existing and operating under the laws of the Federal Government and those laws provide for a Federal Re-

serve Board appointed by the President, with power to make and promulgate rules and regulations for the government of Federal Reserve Banks and their branches, and of all banks which become members of the federal reserve system.

Regulation J, Series of 1924, adopted by the Federal Reserve Board, is as follows:

"SECTION V. TERMS OF COLLECTION:

"The Federal Reserve Board hereby authorizes the Federal Reserve Banks to handle such checks subject to the following terms and conditions; and each member and nonmember clearing bank which sends checks to any Federal Reserve Bank for deposit or collection shall by such action be deemed (a) to authorize the Federal Reserve Banks to handle such checks subject to the following terms and conditions, (b) to warrant its own authority to give the Federal Reserve Banks such authority and (c) to agree to indemnify any Federal Reserve Bank for any loss resulting from the failure of such sending bank to have such authority.

"(1) A Federal Reserve Bank will act only as agent of the bank from which it receives such checks and will assume no liability except for its own negligence and its guaranty of prior indorsements.

"(2) A Federal Reserve Bank may present such checks for payment or send such checks for collection direct to the bank on which they are drawn or at which they are payable, or in its discretion may forward them to another agent with authority to present them for payment or send them for collection direct to the bank on which they are drawn or at which they are payable.

"(3) A Federal Reserve Bank may in its discretion and at its option, either directly or through an agent, accept either cash or bank drafts in payment of or in remittance for such checks and shall not be held liable for any loss resulting from the acceptance of bank drafts in lieu of cash, nor for the failure of the drawee bank or any agent to remit for such checks, nor for the non-payment of any bank draft accepted in payment or as a remittance from the drawee bank or any agent.

"(4) Checks received by a Federal Reserve Bank on its member or nonmember clearing banks will ordinarily be forwarded or presented direct to such banks, and such banks will be required to remit or pay therefor at par in cash or bank draft acceptable to the collecting Federal Reserve Bank, or at the option of such Federal Reserve Bank to authorize such Federal Reserve Bank to charge their reserve or clearing accounts; provided, however, that any Federal Reserve Bank may reserve the right in its check collection circular to charge such items to the reserve account or clearing account of any such bank at any time when in any particular case the Federal Reserve Bank deems it necessary to do so.

"(5) Checks received by a Federal Reserve Bank payable in other districts will be forwarded for collection upon the terms and conditions herein provided to the Federal Reserve Bank of the district in which such checks are payable.

"(6) The amount of any check for which payment in actually and finally collected funds is not received shall be charged back to the forwarding bank, regardless of whether or not the check itself can be returned."

Circular No. F 5 of the Federal Reserve Bank of Atlanta provides as follows:

"The Federal Reserve Bank of Atlanta will handle checks and other cash items subject to the following terms and conditions, and each member and non-member clearing bank which sends checks for deposit or collection to the Federal Reserve Bank of Atlanta (and branches) or to another Federal Reserve Bank direct, for our account, will be understood to have agreed to said terms and conditions and by such action shall be deemed (a) to authorize the Federal Reserve Bank of Atlanta to handle such checks subject to the following terms and conditions, (b) to warrant its own authority to give the Federal Reserve Bank of Atlanta such authority and (c) to agree to indemnify the Federal Reserve Bank of Atlanta for any loss resulting from the failure of such sending bank to have such authority.

"(1) The Federal Reserve Bank of Atlanta (and branches) will act only as agent of the bank from which it receives such checks and will assume no responsibility or liability except for its own negligence and its guaranty of prior endorsements.

"(2) The Federal Reserve Bank of Atlanta (and

branches) may present such checks for payment or send such checks for collection direct to the bank on which they are drawn or at which they are payable, or in its discretion may forward them to another agent with authority to present them for payment or send them for collection direct to the bank on which they are drawn or at which they are payable.

"(3) The Federal Reserve Bank of Atlanta (and branches) may in its discretion and at its option, either directly or through an agent, accept either cash or bank drafts in payment or of in remittance for such checks and shall not be held liable for any loss resulting from the acceptance of bank drafts in lieu of cash, nor for the failure of the drawee bank or any agent to remit for such checks, nor for the non-payment of any bank draft accepted in payment or as a remittance from the drawee bank or any agent.

"(4) Checks received by the Federal Reserve Bank of Atlanta (and branches) on its member or non-member clearing banks will ordinarily be forwarded or presented direct to such banks, and such banks will be required to remit or pay therefor at par in cash or bank draft acceptable to the Federal Reserve Bank of Atlanta, or at the option of said Federal Reserve Bank to authorize said Federal Reserve Bank to charge their reserve accounts or clearing accounts; and the Federal Reserve Bank of Atlanta (and branches) reserves the right to charge such items to the reserve account or clearing account of any such bank at any time when in any particular case it deems it necessary to do so."

The agent of the complainant at Springfield would take the cash he had received from the business of the L. & N. Railroad at that point to the Peoples' Bank at Springfield, and get cashiers' checks for it, which checks he would deposit with the American National Bank at Nashville. Cashier's check 1090, issued by the Peoples Bank of Springfield on July 7, 1924, payable to the L. & N. R.R. was for $450.00, and was endorsed by the complainant and deposited for collection with the defendant American National Bank on July 8, 1924. The American National Bank endorsed this check on July 8, 1924, and delivered it to the Nashville Branch

328

of the Federal Reserve Bank of Atlanta, which bank endorsed it under date of July 9, 1924, and forwarded it direct to the Peoples Bank of Springfield, and it was received by that bank on July 10, 1924. Cashier's check No. 1091 was issued by the Peoples Bank of Springfield July 8, 1924, payable to the order of the L. & N. R. R. in the sum of $1425.00, and was endorsed by it and deposited for collection in the American National Bank on July 9, 1924, and by that bank on the same day endorsed and delivered for collection to the Nashville Branch of the Federal Reserve Bank of Atlanta, and that bank also endorsed the check on July 9, 1924, and forwarded it for collection direct to the Peoples Bank at Springfield, and it was received by that bank on July 10, 1924. Cashier's check 1092 was issued by the Peoples Bank of Springfield dated July 9, 1924, payable to the order of the L. & N. R. R. for $2120.00 and endorsed by that company and deposited for collection in the American National Bank on July 10, 1924, and by the American Bank endorsed on July 10, 1924, and delivered to the Nashville Branch of the Federal Reserve Bank and that bank on the same day forwarded same for collection direct to the Peoples Bank at Springfield, and the latter bank received it on July 11, 1924. Two of these checks came into the hands of the Peoples Bank on July 10th, and the third on July 11th, and the Peoples Bank was the drawee in each one of these checks.

The Peoples Bank was open for business July 10th, 11th, 12th, and on the 14th, which was Monday, but did not open for business on July 15, 1924, and on that day was taken over by the State Bank Examiner about eleven o'clock A. M. Sunday, July 13th, was a holiday, and Monday, July 14th, was observed as such by the Nashville banks but was not observed at Spring-

field. At no time prior to July 15, 1924, did the Federal Reserve Bank at Nashville, the American National Bank, or the Robertson County Bank & Trust Co., the Springfield Bank and the Commerce-Union Bank, the three banks at Springfield, suspect the insolvency of the Peoples Bank, and all did business with the latter bank. The L. & N. agent at Springfield deposited cash and received cashier's checks on July 10, 12th and 14th, with and from the Peoples Bank. On the 14th he deposited $710.00 and received a cashier's check for that amount, and on July 14th the banks at Springfield did banking business as usual with the Peoples Bank, and this was the last day that bank was open for business.

The L. & N.'s agent at Springfield had deposited with the American National Bank daily for more than four years. The L. & N. had designated the American National Bank as its depositary and instructed its agent at Springfield to deposit his daily receipts with that bank, together with about forty-two local agents throughout Tennessee and Kentucky. The local agent of the L. & N. at Springfield would take his receipts, moneys, checks, drafts, etc., to the Peoples Bank at Springfield and exchange them for cashier's checks drawn on that bank by its cashier, and made payable to the L. & N. and these would be deposited in the American National Bank. He continued to do this up to the time the Peoples Bank closed on July 14th, and on that date, as stated, bought a cashier's check with his daily receipts for $710.00. Mr. Noel, the only official of the L. & N. examined as a witness by the complainant, and who is assistant treasurer of the home office at Louisville, testified that he had been in the treasurer's office for about thirty years and knew through the press that national banks were members of the

330

Federal Reserve banking system. He further testified that no instructions were given to any of its bank depositaries as to the collection of checks delivered to them for collection, but it was left to the general custom of the locality or region where the depositary bank was located to collect the checks in accordance with their custom as stated.

Since the year 1920 the complainant has deposited with the American National Bank for collection items on banks, including the Peoples Bank at Springfield, Tennessee, and has left the American Bank free to follow the banking uses and customs at Nashville with reference to collecting items of this character. The Nashville Branch of the Federal Reserve Bank of Atlanta was established in Nashville in 1919 and since its establishment it has been the uniform custom and usage of members of the Federal Reserve banking system at Nashville, the American National Bank being a member, to use the Reserve Bank for making collections on banks outside of Nashville.

Springfield is known to the Federal Reserve Bank at Nashville as a three-day point, as three days represent the ordinary time in which items are deposited for collection until remittances thereon are received. On July 11th, 1924, Mr. Stratton, one of the officers of the Peoples Bank,was in Nashville and as that bank had been rather slow in its remittances, Mr. Fort, one of theofficials of the reserve bank, spoke to Mr. Stratton about it and was informed by Mr. Stratton that he was expecting to get in three large loans from debtors in Robertson County known to Fort, and was arranging for a loan of $50,000.00 from the American National Bank of Nashville.

331

The next day, July 12, Mr. Fort was informed by the officers of the American National Bank that a loan for $50,000.00 to the Peoples Bank at Springfield was pending and would be consummated. This opinion was so satisfactory to Mr. Fort that the Federal Reserve Bank at Nashville sent to the Peoples Bank at Springfield on July 12th items for collection amounting to over $52,000.00. The banks at Nashville observe Saturday as a half holiday, and July 12th came on Saturday, and the following Monday, July 14th, was observed as a holiday by these banks. When the Peoples Bank closed its doors on July 15th, it had cash on hand of $15,925.15.

In July, 1924, there was no member bank of the Federal Reserve system at Springfield, Tenn., and the Peoples Bank at that point and three other banks there cleared at par items sent them by the Federal Reserve Bank for collection, and the items on the Springfield banks had been forwarded directly to the drawee by the Federal Reserve Bank for collection and remittance.

On July 8, 1924, the Federal Reserve Bank at Nashville forwarded to the Peoples Bank at Springfield items in excess of $33,000.00.

During the week of July 7-12, 1924, the Peoples Bank had remitted to the Federal Reserve Bank at Nashville on account of items forwarded it for collection approximately $118,000.00.

The Federal Reserve Bank at Nashville from July 7-14, 1924, continued to send items to the Peoples National Bank for collection so that on July 14, 1924, the total amount of such items in the Peoples Bank sent by the Reserve Bank amounted to approximately $121,000.00.

332

It has been the custom certain and uniform obtaining in Nashville, to send checks for collection to the drawee bank and this system has prevailed since the establishment of the Nashville Branch of the Federal Reserve Bank in Nashville in 1919, and is expressly authorized by regulations of the Federal Board.

The Congress may vest in Federal Boards the power to issue rules and regulations and these rules and regulations have the force and effect of law . Field v. Clark, 143 U. S. 649; U. S. v. Grimaud, 220 U. S. 506; Morrill v. Jones, 106, U. S. 466; Caha v. U. S. 152 U. S. 211; U. S. v. Eaton, 144 U. S. 677; In re Kellock, 165 U. S. 526; Buttfield v. Stranahan, 129 U. S . 470; U. S. v. United Copper Co., 196 U. S. 207; Union Bridge Co. v. U. S., 204 U. S. 364; Williamson v. U. S. 207 U. S. 425; American Sugar Ref. Co. v. U. S. 211 U. S. 155; U. S. v. Antikamnia Co., 231 U. S. 654; Mutual Film Corp. v. Ohio, 236 U. S. 230; Oceanic Nav. Co. v. Stranahan 214 U. S. 320; Wichita R. Co. v. Kansas, 260 U. S. - ; U. S. v. Mich. Portland Cement Co..46 Sup.Ct. 395 (decided Apr.12, 1926); Thornton, et al. v. U. S., 46 Sup.Ct., 587, (decided June 1, 1926); Tindle, et al v. Heiner, 17 Fed. (2d) 522.

In the case of First National Bank v. Fellows, 244 U. S. 416, the Supreme Court of the United States, discussing this subject, said:

> "Before passing to the question of procedure we think it necessary to do no more than to say that a contention which was pressed in argument which it may be was indirectly referred to in the opinion of the court below, that the authority given by the section to the Reserve Board was void because conferring legislative power on that board is so plainly adversely disposed of by many previous adjudications as

to cause it to be necessary only to refer to them".

In Tennessee, power is often given to boards to make rules and regulations which have the effect of statutes. Bishop v. State, 122 Tenn. 729; Hyde v. State, 131 Tenn. 215; House v. Creveling, 147 Tenn. 597.

Courts, both federal and state, take judicial notice of rules and regulations promulgated by federal boards pursuant to the powers vested in them by the Congress. Caha v. U. S., 152 U. S. 211; Thornton v. U. S., 46 Sup. Ct. 595, decided June 1, 1926; State v. Southern Ry. Co., 141 N. C. 855.

In the Caha case, supra, the Supreme Court of the United States said:

> "It may be laid down as a general rule deducible from the cases, that wherever by the express language of any act of Congress, power is entrusted to either of the principal departments of government to prescribe rules and regulations for the transaction of business in which the public is interested, and in respect to which they have a right to participate, and by which they are to be controlled, the rules and regulations prescribed in pursuance of such authority become a mass of that body of public records of which the Courts take judicial notice."

It was held in the case of Milling Co. v. Bank, 120 Tenn. 225, that a bank was guilty of negligence in sending for collection a check directly to the drawee bank. The reason for this rule is that the drawee bank cannot be the disinterested agent of the creditor to collect the debt, and is not a suitable agent in contemplation of law to enforce in behalf of another a claim against itself, and it is not reasonable care to select an agent known to be interested against the principal and put the latter into the hands of its natural adversary.

It has been held in this State that a custom or usage which violates a settled rule of law cannot be given force and effect. R. R. Co. v. Naive, 112 Tenn. 255.

The case of Savings Bank v. National Bank, 98 Tenn. 340-1, holds that a party who selects a bank as collecting agent and avails himself of the facilities which it holds out in the absence of special directions, is bound by any reasonable usage prevailing and established among the banks at the place where the collection is made, without regard to his knowledge or want of knowledge of its existence and that in choosing such a bank, he impliedly agrees that the collection may be made in accordance with such usage, where it is not in contravention of the general law; but in the instant case, the usage is not in contravention of law but in conformity to law, since Regulation J has the force and effect of a statute, and the complainant was dealing with banks established by the federal government and governed by these laws. It cannot be said that the usage which is in conformity to this regulation is in contravention of law, because in strict keeping with it. It will not do to say that a party dealing with a branch of the federal reserve bank through a national bank which is required by federal laws to be a member of the federal system can plead ignorance of these laws or that the federal reserve system confers upon the federal reserve board only administrative functions, that is, to pass regulations that are binding upon member banks and not upon the public dealing with them. These regulations affect the public because a member bank can only deal with or for people in its transactions with a Branch of the Federal Reserve Bank.

The Massachusetts rules which prevail in this State is after all only a presumption of law as to what the parties to such transaction intended to agree to, and may be abrogated by statute or departed from by mere agreement. Capital, etc. Co. v. Federal Reserve Bank, 3 F. R. 2d Ed. 614; Bank v. Malloy, 264 U. S. 160.

This rule or presumption of law as to what the parties to a certain transaction intend to agree to is not based on public policy and may be varied, modified or changed by contract of the parties, either express or implied. First National Bank v. Butler, 41 Ohio St. 519;

It has been pointedly and expressly held in Tennessee that this rule or presumption of law may be changed by contract. In the case of Bank v. Bank, 127 Tenn. 219, the Court, speaking through Mr. Chief Justice Lansden, said:

> "Nor do we think that the Nashville Bank is liable for not selecting the proper bank to make the collection at Sparta. It is shown in the proof that both the holder and the drawer of these checks agreed with the Nashville bank that remittances might be made directly to the drawee and they of course cannot now complain that such was done."

The custom as to collecting out of town items is uniform and well known, and practiced by all the banks, and a party dealing with a bank will be presumed to have contracted impliedly for the collection of the item in accordance with such custom. Davis v. First National Bank, 118 Calif. 600. This is true, though as a matter of fact he had no knowledge of its existence. Savings Bank v. National Bank, 98 Tenn. 336.

Of course, the custom must be reasonable and established among the banks where the collection is to be made. Sahlien v. Bank, 90 Tenn. 221; Howard v. Walker, 92 Tenn. 452.

In Sahlien v. Bank, 90 Tenn. 229, our Supreme Court said:

> "A bank contracts to use diligence in collections, but it is bound only to reasonable care and diligence in the discharge of its assumed duties. In a case of doubt its best judgment is all the principal has a right to require, especially if the doubt arose by reason of the neglect of the principal to give specific instructions. The bank will be acquitted even if it exercised this discretion erroneously."

Mr. Fort, the official of the Nashville Branch of the Federal Reserve Bank of Atlanta, had no cause to doubt the solvency of the Peoples Bank at Springfield. He knew that the L. & N. agent at that point and other Springfield banks were doing business with this bank as usual, and that the American National Bank was to make it a loan of $50,000.00 and that they had remitted collections between July 7th and 12th of approximately $118,000.00. He did not hesitate to send them a letter on July 12, 1924, containing items aggregating about $52,000.00.

The cases of Malloy v. Federal Reserve Bank of Richmond, 264 U. S. 160, and City of Douglas v. Federal Reserve Bank of Dallas, U. S. Supreme Court, decided June 1, 1926, are not in point. In the Malloy case the Federal Reserve Bank was held liable because it received payment of a check other than in money which was not authorized by the federal regulations at that time; while in the City of Douglas case there was no recovery against the Federal Reserve Bank as the deposit of the check in the initial bank properly endorsed, made that bank the owner of the paper, and the plaintiff having thus surrender-

ed its right to the paper, the only rights remaining were those arising out of its contract with the initial bank.

The case of Fergus County, et al. v. Federal Reserve Bank, 75 Mont. 582, is a case in point. The plaintiff in that case deposited a check in the Empire State Bank of Lewistown. This bank was a member of the federal reserve system. The check was drawn on the First State Bank of Coffee Creek, Montana, also affiliated with the federal reserve system. The defendant Federal Reserve Bank forwarded the check direct to the Coffee Creek bank and the Coffee Creek bank remitted its draft for the amount of the check, but closed its doors before the draft could be presented and it was consequently dishonored. When this transaction took place, Regulation J of the Federal Reserve Board, Series 1920, authorizing Federal Reserve Banks receiving checks for collection to forward them directly to the drawee bank, was in force, but there was no regulation of the Board authorizing the bank to receive drafts instead of cash in payment of checks deposited with it for collection; but Regulation J provided that each Federal Reserve Bank might establish rules governing the details of its collections operations, which rules should be binding on all member and non-member banks clearing through it. Pursuant to this authority, defendant Federal Reserve Bank issued a circular which provided that every bank sending checks to the defendant for collection would be understood to have agreed that the defendant was authorized "to send such items for payment in cash or bank draft direct to the bank on which they were drawn." This rule was upheld by the Supreme Court as

being binding on those making use of the Federal Reserve Bank's collection facilities. The Supreme Court in that case said:

> "(3) When the Lewistown bank, with full knowledge of the conditions imposed by Circular 286, delivered the checks to this defendant for collection, it thereby expressed its acceptance of the offer as made, and the result was a contract by the terms of which the defendant was authorized to send the checks directly to the Coffee Creek bank and to accept in payment 'cash or bank draft;' and when that contract was entered into, defendant became the subagent for the county, and the county became bound by the contract to the same extent that the Lewistown bank was bound."

The federal reserve system is a creature of the Federal government and it operates through Federal Reserve Banks, and banks becoming members thereof. Under this Act, a national bank is required to become a member or forfeit or surrender its charter.

The Federal Reserve Board which is the governing authority of this system, is empowered to make regulations for the government of banks operating under the system. These regulations have the force and effect of statutes and all persons dealing with that system are chargeable with notice of these regulations.

These regulations authorize these banks to send checks direct to the drawee bank for collection and a custom and usage certainly prevailing among banks in Nashville since the establishment of the Nashville Branch of the Federal Reserve Bank of Atlanta in 1919, certain and uniform and known to both complainant and defendants either in fact or presumptively, sanctioned this practice.

It has been held in this State that it is negligence in a collecting bank to send a check direct to the drawee bank for collection, and it is insisted that the defendant banks were guilty of negligence in handling the checks involved in this manner. The complainant in dealing with this system is chargeable with knowledge of the aforesaid regulations and this record shows that if it did not have actual, it had presumptive knowledge of the custom in Nashville which sanctioned the practice of sending such checks direct to the drawee bank.

The question presented is not without difficulty. It is true that a custom cannot change the law, but in this case the custom is strictly in accord with the federal law and the complainant is dealing with federal institutions and charged with knowledge of these regulations which had the force and effect of law. Furthermore, with knowledge of this custom and of these regulations, it deposited for collection the checks with the American National Bank. The principle announced in this State that a collecting bank is guilty of negligence in sending a check to the drawee bank for collection can be waived by contract, either express or implied, and certainly it was waived in this case, if any waiver was necessary, by the complainant with full knowledge through federal law and custom in Nashville, that the defendant bank would send the checks for collection directly to the payee bank, delivered them to the American National Bank, thereby impliedly contracting with it to collect the checks in such manner.

When a citizen of the State deals with a federal agency and employs that agency to transact any business within the scope of its authority, his rights growing out of the contract of employment are governed and determined by the law establishing that agency and directing its operation. This is true, or otherwise a situation would be presented where federal reserve banks, though authorized by law to send checks for collection direct to the drawee bank, could not follow such practice in Tennessee without being guilty of negligence and subjected to suit for doing exactly what the federal law empowered them to do.

The federal reserve system cannot be shackled in this manner and its member banks rendered impotent to do business according to the law creating the system and regulations lawfully adopted for their operation. In the case of Davis v. Elmira Savings Bank, 161 U. S. 275, Mr. Justice White said:

> "National banks are instrumentalities of the federal government, created for a public purpose, and as such necessarily subject to the paramount authority of the United States. It follows that an attempt by a state to define their duties or control the conduct of their affairs is absolutely void, whenever such attempted exercise of authority expressly conflicts with the laws of the United States, and either frustrates the purpose of the national legislation, or impairs the efficiency of these agencies of the federal government to discharge the duties for the performance of which they were created. These principles are axiomatic and are sanctioned by repeated adjudications of this Court."

The collections involved were not handled by the defendants in a negligent manner but they used reasonable care and diligence in discharging the duties assumed by them.

The Court is of opinion that the bill is without equity and should be dismissed.

Decree accordingly.

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,
Friday, May 27, 1927.

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

Industrial output declined in April reflecting reduced activity both in mines and in factories. Distribution of commodities by railroads and retail trade increased, and the level of prices showed a further slight decline.

Production - Decreased output of industry in April, as compared with March, was due chiefly to the coal miners' strike, which caused a large decline in the production of bituminous coal. Among manufacturing industries, which as a whole were somewhat less active in April than during the previous month when allowance is made for usual seasonal changes, reductions were reported in the iron and steel and textile industries, as well as in meat packing and in the production of building materials. The manufacture of motor cars, though it showed the usual seasonal increase in April, continued at a lower level than a year ago. Petroleum production continued in record volume, notwithstanding large stocks and declining prices. Value of building contracts awarded declined slightly in April from the record high figure in March, but was larger than last year. The decline in building between March and April reflected reduced activity in the construction of commercial, industrial, and educational buildings, while contracts for residential and public buildings increased.

On the basis of conditions on May 1, the Department of Agriculture forecasts a winter wheat crop of 594,000,000 bushels, or about 5 per cent less than in 1926. Continued wet cold weather over much of the corn belt and also in the spring wheat area has retarded the planting of spring crops.

Trade - Commodity distribution at retail was larger in April than at the same season of any previous year, owing in part to the lateness of the Easter holiday. Department store sales were approximately 7 per cent larger than in April of last year, and sales of mail order houses and chain stores were also in large volume. Wholesale trade showed about the usual decrease between March and April and continued smaller than in the corresponding month of last year. Inventories of merchandise carried by department stores were in about the same volume at the end of April as in March, while stocks of wholesale firms were smaller.

Railroad car loadings were larger in April than is usual at that season of the year, reflecting chiefly large shipments of iron ore, coke, grain and grain products, but also increased movement of miscellaneous freight and of merchandise in less-than-carload-lots. Coal shipments were 27 per cent smaller in April than in the preceding month.

Prices - In April there was a further slight recession in the general level of wholesale prices, as measured by the index of the Bureau of Labor Statistics, but in the first three weeks of May price conditions were firmer. The decline in April reflected chiefly a decrease in the price of petroleum, lumber, and several of the nonferrous metals. There was little change in the level of agricultural prices which have been fairly constant since the beginning of the year. During the first three weeks of May prices of grain, cotton, iron and steel, petroleum, lumber and hides advanced, while those of livestock, coke and non-ferrous metal declined.

Bank credit - Volume of credit of weekly reporting member banks, as measured by their total loans and investments, increased by more than $300,000,000 during the month ending May 18, and was on that date at the highest level on record. This growth represented for the most part an increase in the banks' holdings of investments and in the volume of their loans on stocks

344

and bonds, while commercial loans showed relatively little change.

At the reserve banks there was a decrease during the month in total volume of credit outstanding, owing to the receipt of a considerable amount of gold from abroad, in addition to the purchase abroad by these banks of about $60,000,000 of gold that is now held earmarked with a foreign correspondent. The banks' holdings of acceptances and of Government securities declined by about $85,000,000, while discounts for member banks increased by about $45,000,000, apparently in response to the increased reserve requirements arising from the growth in the member bank deposits.

Conditions in the money market were comparatively stable during the first three weeks of May and there were no changes in rates quoted on prime commercial paper and on acceptances.

FEDERAL RESERVE BOARD

X-4860

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

May 26, 1927.

SUBJECT: Recommendation of Federal Advisory Council Regarding Agency of the Federal Reserve Bank of Atlanta at Havana, Cuba.

Dear Sir:

At the recent meeting of the Federal Advisory Council, the question of the establishment and maintenance of the Federal Reserve Agency located in Havana, Cuba, was the subject of considerable discussion, and I have been directed by the Board to advise you of the following views of the Council with respect thereto as expressed in its formal report:

> "The Federal Advisory Council recognizes that it is not advisable to discontinue the Cuban Agency at this time. The Council, however, wishes to reiterate the view to which it has given expression on several occasions in the past, to wit: that it does not believe it to be good policy for the Federal reserve banks to establish agencies of the character of the Cuban Agency outside of the Continental United States. The Council, therefore, suggests to the Federal Reserve Board that it study the whole problem to the end that, if possible, some plan be devised which may be an effective substitute for the present arrangement."

Very truly yours,

Walter L. Eddy,
Secretary.

TO CHAIRMEN OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

For immediate release May 25, 1927

CONDITION OF ACCEPTANCE MARKET
April 14, 1927 to May 18, 1927.

The total volume of transactions in the bill market was relatively heavy during the five weeks ending May 18, 1927, but rates for all maturities remained steady. The supply of bills was slightly larger than during either the preceding period or the corresponding period of last year and consisted principally of bills drawn against cotton, sugar, coffee, and tobacco. Over 55 per cent of total purchases by dealers during the period were made from acceptors.

Sales to the market were at about the same rate as in the preceding period but considerably smaller than during the corresponding period last year, with foreign purchases of 90-day maturities constituting an important element in the demand. Dealers' offerings to the reserve banks were also at about the same rate as in the preceding period but considerably larger than last year and consisted chiefly of short maturities. Dealers' aggregate portfolios increased somewhat during the period but remained well below the corresponding totals last year.

The New York market showed the greatest activity in contrast to Chicago, where the market remained quiet. Reports from Boston and Philadelphia indicated some quickening in the demand for short maturities during the latter part of April, but these markets also turned generally quiet during the first part of May. The following table shows the market rate on bills of various maturities at the beginning and end of the period.

Acceptance rates in the New York Market

Maturity	April 14		May 18	
	Bid	Offered	Bid	Offered
30 days	3 5/8	3 1/2	3 5/8	3 1/2
60 days	3 3/4	3 5/8	3 3/4	3 5/8
90 days	3 3/4	3 5/8	3 3/4	3 5/8
120 days	3 7/8	3 3/4	3 7/8	3 3/4
150 days	3 7/8	3 3/4	3 7/8	3 3/4
180 days	4	3 7/8	3 7/8 -4	3¾-3 7/8

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4864

June 2, 1927.

SUBJECT: Special Condition of Membership.

Dear Sir:

The Federal Reserve Board recently received from the Federal Reserve Agent at one of the Federal reserve banks an inquiry as to whether under Section 9 of the Federal Reserve Act, as amended by the Act of February 25, 1927, known as the McFadden Act, the Board may prescribe for a state bank admitted to membership in the Federal Reserve System a condition that the applying bank shall eliminate certain losses or objectionable assets within a reasonable period prescribed by the Board.

For your information, the Board in reply expressed the opinion that it still has power to prescribe such a condition, which would be considered to be "pursuant to" that provision of Section 9 which requires the Board, in acting upon applications of state banks for membership, to consider the financial condition of the applying bank, the general character of its management, and whether or not the corporate powers exercised are consistent with the purposes of the Federal Reserve Act.

By direction of the Federal Reserve Board.

Very truly yours,

Walter L. Eddy,
Secretary.

TO ALL FEDERAL RESERVE AGENTS.

FEDERAL RESERVE BOARD

348

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4867

June 15, 1927.

SUBJECT: Location of Branches of State Member Banks.

Dear Sir:

Inquiry has recently been made of the Federal Reserve Board as to whether a State member bank may properly establish a branch in a town a part of the corporate limits of which coincides with a part of the corporate limits of the city, town, or village in which the parent bank is situated.

Section 9 of the Federal Reserve Act, as amended by the McFadden Act, prohibits a State bank from retaining or acquiring stock in a Federal reserve bank except upon relinquishment of any branch established after February 25, 1927, "beyond the limits of the city, town or village in which the parent bank is situated". In the opinion of the Federal Reserve Board (in cases where an incorporated city, town or village is involved) the word "limits" as used in Section 9 as amended refers to the corporate limits of the city, town or village in which the parent bank is situated. A State member bank, therefore, may not lawfully establish a branch at any place not within the corporate limits of the city, town or village in which the parent bank is situated.

By direction of the Federal Reserve Board.

Very truly yours,

Walter L. Eddy,
Secretary.

TO ALL FEDERAL RESERVE AGENTS.

TREASURY DEPARTMENT
Office of the Secretary
WASHINGTON

X-4870

June 6, 1927

The Governor,
Federal Reserve Board.

Sir:

You are hereby advised that the Department has referred to the Disbursing Clerk, Treasury Department, for payment, the account of the Bureau of Engraving and Printing, for preparing Federal reserve notes during the period May 1, 1927, to May 31, 1927, amounting to $137,542.80, as follows:

Federal Reserve Notes, Series 1914.

	$5	$10	$20	$50	$100	Total
Boston			150,000			150,000
New York	600,000	450,000	250,000	15,000	8,000	1,323,000
Philadelphia	200,000	300,000	50,000			550,000
Cleveland	50,000		50,000	10,000		110,000
Atlanta		200,000				200,000
Chicago	300,000	200,000	100,000	5,000		605,000
Kansas City	100,000					100,000
Dallas	100,000					100,000
San Francisco	400,000	100,000	100,000	10,000	10,000	620,000
	1,750,000	1,250,000	700,000	40,000	18,000	3,758,000

3,758,000 sheets at $36.60 per M.....$137,542.80

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

Boston	$ 5,490.00
New York	48,421.80
Philadelphia	20,130.00
Cleveland	4,026.00
Atlanta	7,320.00
Chicago	22,143.00
Kansas City	3,660.00
Dallas	3,660.00
San Francisco	22,692.00
	$137,542.80

The Bureau appropriations will be reimbursed in the above amount from the indefinite appropriation "Preparation and Issue of Federal Reserve Notes, Reimbursable", and it is requested that your board cause such indefinite appropriation to be reimbursed in like amount.

Respectfully,

S. R. JACOBS,
Deputy Commissioner.

X-4871

COPY

FEDERAL RESERVE BANK

OF NEW YORK

CONFIDENTIAL

May 31, 1927.

Federal Reserve Board,
Washington, D. C.

Attention of Honorable D. R. Crissinger.

Dear Governor Crissinger:

On May 27 I forwarded to the Federal Reserve Board for its confidential use eleven copies of the Secretary's Minutes of the Conference of Governors held in Washington May 9 to 12, 1927. In accordance with our usual custom, I am glad to refer below to all of those paragraphs in the Secretary's Minutes which relate to matters which the conference submits to the Board for its advice or approval or to matters upon which the Board has asked for the opinion or recommendation of the conference. In our opinion, none of the matters discussed at the conference which are not referred to in this letter, requires the Board's action before adoption by the Federal reserve banks.

Paragraphs 1, 2 and 4 - Where the conference considered the procedure to be followed in connection with the collection of certain checks stamped "not payable through the Federal Reserve Bank" and where it was decided that pending the action to be taken by Mr. Baker and the Federal Reserve Board on this subject, each Federal reserve bank should give instructions to its transit department to watch out for checks of this character, to handle them in the usual course and to forward them for collection to the Federal reserve bank of the district in which they are payable.

It was also agreed that the collecting Federal reserve bank should then forward these checks to the member bank for collection and, if returned unpaid, should charge them to the account of the member bank under advice to the member bank.

Paragraph 5 - Where it was voted that the Report of the Standing Committee on Collections should be received and studied by the various Federal reserve banks, with the understanding that each Federal reserve bank should submit its views or comments concerning the proposed Time Schedules to the Standing Committee on Collections before the next Conference of Governors. (A copy of the report is enclosed herewith).

Paragraph 6 - Where it was voted to approve the Report of the Pension Committee, with the recommendations in that report, including the appropriation of $10,000 for further actuarial studies. (A copy of the report is enclosed herewith).

Paragraph 7 - Where the conference discussed the procedure followed in various districts in handling for collection, items which are drawn on nonmember banks, and where it appears to be the opinion of the conference that such items should be sent direct to the nonmember banks on which drawn if they desire them to be so sent and if they are willing to remit in satisfactory exchange; the decision as to whether or not the exchange is satisfactory being a matter for the determination of the Federal reserve bank.

Paragraphs 10, 12, 42 and 43 - Where the subject of non-cash collections was discussed, and where (in paragraph 43) the following votes are recorded:

(a) that as definite recommendations on the subject of non-cash collections have been made at successive Conferences of Governors for the past three years to the Federal Reserve Board, after full discussion, and as all members of the Conference as well as members of the Federal Reserve Board are fully informed on the subject, there is no further information necessary in order to enable anyone to vote intelligently on this subject. (Nine Governors voted in the affirmative. Governors Young, Bailey and Wellborn voted in the negative.)

(b) that the conference believes that this question should not be held in abeyance any longer, and requests the Federal Reserve Board to make, at an early date, a definite ruling on the subject one way or the other. (Ten Governors voted in the affirmative. Governors Young and Wellborn voted in the negative.)

(c) that in the opinion of the conference it is desirable that any ruling made by the Federal Reserve Board should be uniform with respect to its application at all Federal reserve banks. (Nine Governors voted in the affirmative. Governors Young, Bailey and Wellborn voted in the negative.)

(d) that the collection of all non-cash items, including those payable at street addresses, should be continued at all Federal reserve banks. (Nine Governors voted in the affirmative. Governors Young, Bailey and Wellborn voted in the negative.)

Paragraph 11 - Where (as already reported to the Board) the conference voted that it is in favor of having appropriate steps taken to employ Mr. Newton D. Baker to act as special counsel in the par clearance case of the State Bank of Hugo, Minn. vs. the Federal Reserve Bank of Minneapolis.

Paragraph 13 - Where it was voted that Mr. Harrison be requested to confer with the counsel of the Federal Reserve Board with a view to determining whether a revision might not be made in the form of clause now stamped upon trade acceptances so as to avoid the obstacles raised in the decision by the Supreme Court of Texas in the case of Lane Co. vs. Crum et al.

Paragraph 18 - Where it was voted that the Report of the Sub-Committee of General Committee on Bankers Acceptances be received and approved and that a copy should be transmitted to the Federal Reserve Board for its information. (A copy is enclosed herewith.)

Paragraph 22 - Where it was voted that in the opinion of the conference any note offered for rediscount which is endorsed by an officer of a nonmember bank puts the Federal reserve bank on notice to investigate the facts and if the facts show that the note is not being offered in effect for rediscount for the benefit of the nonmember bank, there is nothing in the endorsement to impair the eligibility of the paper. It was also the sense of the conference that there is no need for a ruling by the Federal Reserve Board on this subject.

Paragraph 23 - Where it was voted in connection with the expense involved in paying Federal Farm Loan coupons, to be the sense of the conference that in principle a Federal reserve bank should be reimbursed for services performed for Government agencies other than the Treasury, when the expense involved is sufficient to justify such bank's asking for reimbursement.

Paragraph 24 - Where it was voted that the Federal Reserve Board be asked to reconsider its previous ruling to the effect that bran, flour, cottonseed meal, etc., are not non-perishable readily marketable staple agricultural products within the meaning of Section 13, it being pointed out that the particular paragraph in question does not contain the limitation "in the raw state" as in the previous paragraph of the law. It was understood (as reported in paragraph 19 of the Minutes) that this topic should also be referred to the Advisory Committee of Governors on Legislative Matters for consideration and recommendation in the event that it is not possible for the Federal Reserve Board to accomplish the desired results by an amendment to its regulations.

Paragraph 29 - Where it was voted that the conference recommend to the Federal Reserve Board that, if agreeable to the Board, a

354

Paragraph 29 (cont'd) - committee representing some Federal reserve banks be asked to assist the counsel of the Board in giving consideration to the suggestions made by the various Federal reserve banks relative to the preliminary redraft of the Board's regulations prepared by the counsel of the Federal Reserve Board, and to assist the counsel in redrafting the new regulations, with the request that each Federal reserve bank be given an opportunity to examine such redraft before final promulgation. It was understood that any proposed suggestions would be mailed direct to Mr. Harrison so that they could be available for use by the Federal Reserve Board's counsel and the committee, if approved by the Board.
This action by the conference was reported orally to the Federal Reserve Board, and the Board's action was communicated to me in its letter of May 18.

Paragraph 30 - Where it was understood that the question of amending the regulation relative to the method of computing member bank reserves for penalties, would be referred to the committee which the conference suggested should be appointed to assist the counsel of the Federal Reserve Board in redrafting new regulations.
It is assumed that this matter will be handled in accordance with the suggestion contained in the Board's letter of May 18, referred to in the above paragraph.

Paragraphs 34 and 39 - Where the conference discussed the question of reserves against time deposits, and where it was voted that the Governors of the Federal reserve banks view with grave concern the weakening of the reserve position of the banks of the country due to the constantly growing tendency to transfer what are in effect demand deposits into so-called time certificates or savings accounts, and respectfully suggest that if the Board finds that it cannot adequately cope with this tendency by regulation, steps should be taken to impress upon the Congress, at its next session, the importance of amending the reserve provisions of the Federal Reserve Act in such manner as to safeguard the banking position of the country.

355

Paragraph 37 - Where, in discussion of the Report of the Committee on Safekeeping, previously filed with the Board, the view was expressed that the recommendations contained in the report are consistent with the procedure now generally followed by most Federal reserve banks, and where it was accordingly voted that a report be received and approved. (A copy of the report is attached for convenience.)

Paragraph 40 - Where it was voted that the conference respectfully call to the attention of the Federal Reserve Board the fact that the ruling in its letter of March 24, 1927, (X-4816), in reply to letters from the Federal Reserve Bank of New York dated November 8, 1926 and February 18, 1927, will have the effect, if generally adopted as a practice by member banks, of reducing very considerably the liability in the item "due to banks" upon which the reserve calculation is made, which appears to be unjustifiable because of the fact that the items so deducted need not have been credited to the depositors' accounts under the terms of the Board's ruling.

It is understood that the stenographic record of the conference will be forwarded direct to the Federal Reserve Board by the reporter as is usual, as soon as it is ready for distribution.

If there is any further information concerning the minutes of the conference or the reports submitted herewith, that the Board would like to have, will you please be good enough to advise me.

Very truly yours,

(Signed) George L. Harrison,

Secretary, Governors Conference.

HOUSE CALENDAR NO. 468

69th Congress
2d Session

S. 3657
(Report No. 2278)

IN THE HOUSE OF REPRESENTATIVES

December 18, 1926.

Referred to the Committee on Banking and Currency

February 28, 1927

Referred to the House Calendar and ordered to be printed

AN ACT

To incorporate the Federal Reserve Pension Fund, to define its functions, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That Daniel R. Crissinger, William P. G. Harding, Benjamin Strong, George W. Norris, E. R. Fancher, George J. Seay, M. B. Wellborn, James B. McDougal, David C. Biggs, R. A. Young, W. J. Bailey, Lynn P. Talley, John U. Calkins, and their successors are hereby created a body corporate by the name of the "Federal Reserve Pension Fund," for the following purposes, viz:

(a) To provide pensions or other forms of support for officers and employees of the Federal reserve banks, Federal Reserve Board, and Federal reserve agents, who by reason of long and meritorious service, or by age, disability, or other reasons shall be deemed entitled to the assistance and aid of the corporation, on such terms and conditions, however, as the corporation may from time to time approve and

adopt.

(b) To provide pensions or other forms of support for persons who may be or who may have been dependent upon such officers or employees, and who shall be deemed entitled to the assistance and aid of the corporation, on such terms and conditions, however, as the corporation may from time to time approve and adopt.

(c) To provide pensions or other forms of support for officers and employees (and for persons who may be or who may have been dependent upon such officers or employees) of any bank or trust company that is or shall be a member bank of any Federal reserve bank, and who shall be deemed entitled to the assistance and aid of the corporation, on such terms and conditions, however, as the corporation may from time to time approve and adopt.

(d) In general, to do and perform all things necessary or appropriate to a corporation created for the purpose of providing pensions or other forms of support for officers and employees of Federal reserve banks, Federal Reserve Board, Federal reserve agents, and member banks of Federal reserve banks and for persons who have been or may be dependent upon such officers or employees. The forms of support provided by the corporation may be in the form of annuities, disability payments, life insurance, or other forms which from time to time shall seem expedient to the said corporation, and for the purposes aforesaid the corporation may establish and maintain appropriate activities, agencies, and institutions and may aid or make use of

such activities, agencies, or institutions as may be now or hereafter established for like or similar purposes, provided, that the corporation shall not provide pensions or other forms of support for any member of the Federal Reserve Board or for any person other than those described in sub-sections (a), (b), or (c) of this section.

SEC. 2. The said corporation shall have power to contract, to take and hold by bequest, devise, gift, contract, purchase, or lease either absolutely or in trust for any of its purposes any property, real or personal, without limitation as to amount or value except such limitation, if any, as the Congress shall hereafter impose; to convey such property, to invest and reinvest any principal and deal with and expend the principal and the income of the corporation in such manner as in the judgment of its trustees will best promote its objects. The persons named in the first section of this Act, or a majority of them, shall hold a meeting and adopt a constitution not inconsistent with law, which shall be subject to amendment. The constitution shall prescribe the qualifications of members who may or may not be restricted to the same persons who are trustees of the corporation, the number of members who shall constitute a quorum for the transaction of business at meetings of the corporation, the number of trustees by whom the business and affairs of the corporation shall be managed, and the qualifications, powers, tenure of office, and manner of selection and of fixing the compensation of the trustees, managers, officers, and employees of the corporation: Provided, however, That

the trustees of the corporation shall consist of not more than twenty-six persons, of whom twelve shall be elected, one each by the respective boards of directors of the several Federal reserve banks, and of whom twelve shall be elected, one each by the respective employees of the several Federal reserve banks, and of whom one shall be elected by the Federal Reserve Board and of whom one shall be elected by the employees of the Federal Reserve Board.

SEC.3. The corporation shall be without capital stock and shall conduct its business without profit, and the corporation and its property and the income derived therefrom shall be exempt from all Federal, State, and local taxation, except taxes upon real estate, and except that it shall be liable to such applicable Federal taxation as may be imposed by the Congress. The corporation shall submit its proposed plan of providing pensions or other forms of support to the Federal Reserve Board, who shall approve the same in writing before any such plan or any substantial modification thereof is put in operation by the corporation. The corporation shall render an annual report to the Federal Reserve Board in such form as may be prescribed by the said board, and its business and affairs shall be subject to examination by the said board.

SEC.4. The pensions and other forms of relief to be provided by the corporation shall be based upon the contributory system; that is to say, that the person to whom, or to whose dependents, a pension or other form of relief

shall inure or be payable shall contribute to the corporation a part of the cost of organizing and operating the corporation and establishing the funds out of which the pensions and other forms of relief are to be paid, and a portion of such costs shall be contributed by such person's employer: And provided further, That no pension shall be paid out of the amounts contributed or to be contributed by the Federal reserve banks, the Federal Reserve Board and the Federal reserve agents at a rate in excess of 30 per centum of the maximum annual salary received by such officer or employee. The several Federal reserve banks, the Federal Reserve Board, the Federal reserve agents, and such banks or trust companies as may be now or hereafter be member banks of a Federal reserve bank are hereby authorized to contribute to the cost of the organization and operation of the corporation and the establishment and maintenance of the said funds. The respective amounts to be contributed by an officer or employee and by the employer of such officer or employee, covering both past and current employment, shall be established from time to time by the corporation: Provided, That the total amounts contributed by the Federal reserve banks, the Federal Reserve Board, and the Federal reserve agents shall not exceed the total contributions made by the officers and employees thereof, with interest.

SEC.5. The corporation, subject to the approval of the Federal Reserve Board, may provide pensions and other forms of relief for the officers and employees of member

banks of a Federal reserve bank, and such banks may contribute to the cost of organizing and operating the corporation and establishing the funds out of which the pensions and other forms of relief are to be paid, all under such terms and conditions and rules and regulations as may be established from time to time by the corporation.

SEC.6. The Congress may alter, amend, or repeal this Act, but no contract or individual right made or acquired shall thereby be divested or impaired.

SEC.7. No member bank shall be required to contribute to any fund the creation of which is herein provided for, unless it shall elect to participate in the operation and maintenance of the said Federal Reserve Pension Fund.

SEC.8. This Act shall take effect upon its passage.

Passed the Senate December 17, 1926.

Attest: EDWIN P. THAYER,

Secretary.

X-4871-b
March 11, 1927.

382

REPORT OF THE COMMITTEE ON THE FUNCTION OF CUSTODIES IN FEDERAL RESERVE BANKS

Pursuant to a letter from the Federal Reserve Board, dated January 5, 1927, in regard to the safekeeping of securities by Federal Reserve Banks, the committee designated by the Board, consisting of

R. A. Young, Governor, Federal Reserve Bank of Minneapolis,
Wm. McC. Martin, Chairman and Federal Reserve Agent, Federal Reserve Bank of St. Louis,
J. H. Case, Deputy Governor, Federal Reserve Bank of New York, Chairman,

duly met at the Federal Reserve Bank of New York on March 4 and 5, 1927.

The Board requested that this committee give consideration to all phases of the safekeeping problem. The committee, therefore, after careful consideration, has divided the problem into specific questions and makes the following responses and recommendations in respect thereto, in which are incorporated their views as to the questions specifically raised by the Board, as well as to other questions involved in a general consideration of the safekeeping problem. These questions and responses and recommendations follow:

1. Should Federal reserve banks receive for safekeeping securities which are the property of member banks, and, if so, should any distinction be made as to the location of the member bank; that is, should the same service be rendered to both city and country banks?

The Federal reserve banks are all rendering a safekeeping service to their member banks and it is doubtful if the banks could avoid the rendering of this service to at least a limited extent, even if they desired to do so. For instance, the banks necessarily hold large amounts of securities as collateral to loans. The loans are paid off and the securities generally are

permitted to remain with the reserve bank as a matter of convenience and in anticipation of the need for further borrowing. Securities so held, even though originally pledged as collateral, are held in safekeeping and it would be very difficult, if not quite impossible, to avoid the holding of securities in such cases. In addition, a large number of banks have lodged with their Federal reserve banks for safekeeping all or a substantial part of their security holdings. In some districts the reserve banks are already holding a majority of all of the securities owned by the country member banks within the districts. This represents a service of very great value to the country member bank and, incidentally, to the public interest generally, for the reason that the majority of country banks do not have vaults of proper strength for the safeguarding of their property. Your committee believes that the value of this service to the member banks is far beyond its comparatively small cost to the Federal Reserve System and that it is a service which is incident to the maintenance of the reserve account.

It recommends, therefore, that the Federal reserve banks receive for safekeeping securities which are the property of their country member banks. As to whether or not this service should be rendered to both city and country banks, it is the view of the committee that in general the policy should be to limit the safekeeping of securities to member banks outside of reserve and branch cities, but that the reserve banks should exercise discretion in the case of banks which do not have adequate vault protection of their own, regardless of location.

2. Should Federal reserve banks receive for safekeeping securities the property of correspondents other than member banks, agencies of the Government, etc.?

It is the view of the committee that the reserve banks may properly receive securities to be held for the account of the Secretary of the Treasury

and other agencies of the Government, in cases where the banks are specifically authorized by law to render this service, or where they have been specifically requested by the Secretary of the Treasury to render it as fiscal agents of the United States Government. The committee also believes that the holding of securities for foreign or other correspondents may properly be undertaken.

3. Should Federal reserve banks hold securities in safekeeping for other Federal reserve banks?

It is the view of the committee that this is a service which may properly be rendered by one Federal reserve bank for another, but that it should be strictly limited to the holding of securities which are the property of the depositing Federal reserve bank and should not in any case be extended to include securities which are the property of its member banks or others.

4. Should Federal reserve banks receive for safekeeping from member banks, securities in which third parties have an interest proprietary or otherwise?

Your committee is of the opinion that Federal reserve banks should not in any case render this service, for the reason that it would impose liabilities which it is felt the Federal reserve banks should not assume. Aside from the question of possible lack of legal authority, numerous difficulties could arise in connection with this service if it were undertaken, incident to the accounting for securities held which were known to be the property of a third party, or in which a third party has an interest; for example, the adminstration of the inheritance tax laws, etc. In this connection the committee considered a letter addressed by Mr. Martin to Mr. Case under date of February 1, 1927, a copy of which is attached as Exhibit A. Furthermore, and as a practical matter, if the reserve banks were to undertake to render a service of this character, the possible volume of business which might ultimately be offered is enormous and would impose a very great burden upon the reserve banks, not

only for the expense which would be involved, but for the liability incident to the handling of a great volume of securities. There would also arise the element of competition with member banks which are especially equipped to handle such business for profit.

The committee recommends, therefore, that the Federal reserve banks should not receive for safekeeping from member banks securities which are not the property of the depositing member bank.

5. If Federal reserve banks are to hold securities for safekeeping should a charge be made for this service with respect to any particular class of safekeeping?

It is the view of the committee that in all cases where it recommends that the Federal reserve banks should render a safekeeping service to member banks, this service, the cost of which to the reserve banks is not great, should be rendered free of charge.

In the case of securities held in safekeeping for other than member banks, as, for instance, foreign correspondents, agencies of the Government, etc., it believes that the matter of a charge should be left to the discretion of the reserve bank handling the business.

6. What are the legal responsibilities involved in the handling of securities for safekeeping, and would this legal liability be increased if a charge were to be imposed?

There is attached as Exhibit B copy of an opinion of counsel of the Federal Reserve Bank of New York, dated January 20, 1927, which the committee considered and adopted. This opinion was rendered with reference to the law of the State of New York. The rule of law is that reserve banks holding securities in safekeeping for member banks are not in any case insurers against loss. In any case where a reserve bank is expressly paid for these services, or where it might be found that in fact there is a lawful consideration passing from the member bank to the reserve bank (and the opinion anticipates that in all

these cases there would be found to be in fact a real consideration passing from the member bank to the reserve bank), the reserve bank would be liable in the event of loss of property held by it only if it should be proved that the reserve bank had omitted to give to the property held in custody the same care that would be given by an ordinary prudent banker to the conduct of his own business in like circumstances. In any case where it might be found that the custody of the reserve bank is gratuitous, the reserve bank would be liable for any loss occurring only if gross negligence were proved. These are definitely settled rules of law in the State of New York, and while there might be slight variations, it is believed that they are of quite general application. The opinion expresses the view that while, theoretically, there is a difference between a possible charge to a jury that the reserve bank is liable if it failed to use the care that an ordinarily prudent banker would give to the conduct of his own affairs, and a charge that the reserve bank would be liable only if gross negligence were proved, yet as a practical matter it is doubted that there would be any great advantage to the bank in the event of the latter of these two possible charges.

The opinion refers, also, to the legal effect of the clause in the safekeeping receipt issued by the Federal Reserve Bank of New York, as follows:

> "The Federal Reserve Bank will give to property left in its custody the same care that it gives its own property; but beyond that will not assume responsibility."

At the time the opinion was written it was thought that this provision would be of doubtful effect. However, in an opinion decided in the last month in New York it was held that the liability of a bank holding securities in safekeeping was limited to that expressed in the receipt. The law is contrary to this in many states, where the courts hold that contracts seeking to exempt a party from the consequences of his own negligence will not be given effect.

The opinion also discusses the liability of the banks in safekeeping operations on behalf of various Government departments, and, after expressing the view that probably there would be found to be a consideration moving from the Treasury to the reserve banks for the performance of these services, states that the liability of the reserve banks is to use in the custody of these securities that degree of care which an ordinarily prudent banker would give to the conduct of his own affairs in like circumstances.

7. Should any distinction be made as to the class of securities which will be held in safekeeping?

It is the view of the committee that no distinction should be made as to the class of securities to be held, if its recommendations in other respects are accepted. That is to say, if the securities to be held for member banks are restricted to those which are the property of the member banks for whom held, then any securities which the member banks own should be held by the reserve banks.

In submitting this report the committee desires to point out that it has given careful consideration to the value of the service which the reserve banks might render to themember banks in relation to the cost of that service. It believes that the value of the service is very great, especially to the country member banks, who, in many cases, are without proper facilities for caring for their securities. It believes that by restricting the service for member banks to securities actually owned by member banks, the burden on the reserve system will not be great, and that the expense will be very small compared with the value of the service rendered. The committee is convinced that the service should be restricted to those securities which are the property of the member banks, as, if this were not done, the volume of securities which would ultimately find their way to reserve banks would be very great and would impose a burden on the reserve banks, which they would be unwarranted in assuming.

it would also cause the reserve banks to enter into direct competition with member banks which are equipped to render a safekeeping service for individuals which it believes the reserve banks should not do.

Respectfully submitted,

x R. A. Young,
Wm. McC. Martin
J. H. Case, Chairman.

x While the above report was unanimously adopted by the Committee, nevertheless Governor Young desired to have noted his exception in one regard as follows:

> "Governor Young desired to make an exception to the rule described by Paragraph Four so as to allow the Federal Reserve Bank of Minneapolis and possibly other reserve banks similarly situated to continue to receive from member banks and hold in safekeeping collateral deposited by member banks to secure State or other public deposits, the reasons for such exception being that the Federal Reserve Bank of Minneapolis, and possibly other reserve banks, have done a substantial amount of this business for member banks with mutual satisfaction and further that local conditions are such that the Federal Reserve Bank of Minneapolis, and possibly other reserve banks, have relatively few opportunities for rendering services to members and hence are unwilling to refrain from giving this substantial aid."

COPY EXHIBIT A.

FEDERAL RESERVE BANK
OF
ST. LOUIS.

February 1, 1927

Mr. J. H. Case, Deputy Governor,
Federal Reserve Bank,
New York, N. Y.

Dear Mr. Case:

Referring to your letter of January 14, with which you enclosed agenda for meeting of our Safe Keeping Committee, I believe there is something we should at least have in mind in connection with consideration of the question as to whether or not we should accept custody of securities owned by customers of member banks, and that is the effect of the state inheritance tax laws.

Under the Missouri inheritance tax laws, should we accept the custody of securities owned by customers of member banks we undoubtedly would be under the responsibility of notifying the tax authorities in the event of the death of the individual customer, and in addition to this we, of course, would be under the responsibility, in the event of the death of a member bank's customer, of seeing that the securities reached the proper legal representative of the deceased, which would necessitate scrutiny of letters of administration. All of this responsibility is obviated if we deal only with securities owned by member banks.

We all here think that you have covered the matter very thoroughly in your agenda and that after consideration of this our committee should have an excellent starting point for its discussion. I hope very much that Mr. Young is not still sick. As it may be of assistance to you in setting a date for our meeting, I am advising that I have engagements on February 9th and February 14th.

Yours very truly,

Wm. McC. Martin,
Chairman of the Board.

COPY

870

EXHIBIT B X-4771-b

January 20, 1927.

To Mr. Kenzel

From L. R. Mason

MEMORANDUM
re
BANK'S LIABILITY IN CONNECTION WITH
SAFEKEEPING ACCOUNTS.

Reference is made to the letter of the Federal Reserve Board of January 5, addressed to Mr. Case, in connection with the work of the committee appointed to make a study of the question of the safekeeping of securities by reserve banks.

The Board asks to be advised specifically (a) as to the legal liability of reserve banks acting as bailees of securities for pay and (b) as to the legal liability of reserve banks acting as bailees of securities without compensation. I shall endeavor to answer these questions with reference to the law of the State of New York. In order to answer fully, it seems desirable, first, to state the various circumstances under which this bank engages to act as bailee of securities. We shall then in each case reach a conclusion upon the question of whether the bailment is for hire or gratuitous and, having determined that question, express an opinion as to the measure of care required of the bank.

First, then, this bank receives securities from member banks solely for purposes of safekeeping. Upon the receipt of such securities the bank issues a receipt, of which the following is a provision:

> "the Federal Reserve Bank will give to property left in its custody the same care that it gives its own property; but beyond that will not assume responsibility."

In these transactions there is no express provision for payment for the services of this bank. However, in view of the relation of the bank with its members, the fact might well be established that the transaction involves mutual benefits and is based upon a real consideration. My best judgment is that we would be found in fact to be bailees for hire in these cases.

Now as to liability in cases of this sort. In the first place, whether the bank is a gratuitous bailee or a bailee for hire, it is not in any sense an insurer against loss. If we should be found to be a bailee for hire, as anticipated, we are responsible under the decisions of the courts of this state for the use of ordinary care - that is, the measure of care which an ordinarily prudent banker would render in the conduct of his own business in like circumstances. If, on the other hand, we were found to be in these cases a gratuitous bailee, the courts would instruct a jury considering the matter that the bank was liable only if gross negligence were proved. It is doubtful as a practical matter that any substantial benefit would accrue to the bank, so far as legal liability is concerned, as a result of the latter of these two possible charges by a court.

It might be contended that the clause quoted from the receipt is a general avoidance of liability, if we had shown the property of a member in our bank the same care as our own. However, the courts do not look with favor upon contracts in which parties seek exemption from consequences of their own neglect, and I doubt that this provision would be of any effect at all if there was proof of negligence or if there were circumstances giving rise to an inference of negligence. These remarks concerning the receipt apply, of course, to all cases in which the receipt is issued.[x]

[x](Note - In the case of Sagendorph v. First National Bank of Philmont, (reported 218 N.Y. Supp.,191), decided after this opinion was written, it was held that a stipulation against liability contained in the safekeeping receipt, identical with the one under consideration, limited

the liability of the bank holding property in safekeeping to that expressed in the receipt. This seems now to be the law in New York. However, there is much authority contrary to this in other states, where it is quite generally held that stipulations against negligence are of no effect.)

Another class of cases in which this bank has on occasion in the past received securities for safekeeping from member banks is identical with the one just considered and involves a receipt containing the same provision as the one above referred to, except that the bank is on notice that the securities in this class are the property of some person or corporation other than the member bank. It has long been the policy of this bank not to receive securities on this basis. However, since the question appears to be involved in the considerations of the Board, we shall consider the question of liability in transactions of this sort. So far as concerns the question of whether we are bailees for hire or gratuitous bailees and our consequent liability, the considerations are exactly the same as in the case first discussed. There is, however, another aspect of the question of liability applying peculiarly to cases of the sort now under consideration. This question is as to our duty to inquire into the terms of the trust under which the member bank acts for its customer. The rule of law in the State of New York is that where a trustee deposits funds belonging to a trust the bank acting as bailee is under no obligation to inquire as to the terms of the trust. It is entitled to assume that the trustee will apply the funds to their proper purposes. If the trustee misapplies the funds without this bank's knowledge, it is not responsible therefor. Of course, if this bank had knowledge of such violation or if it profited in any way by it, it would be liable; otherwise not.

A further question which might arise in this class of cases is as to the duty of this bank if, in a given case, it should be advised by a customer of the member bank or by the member bank of any dispute between them as to what disposition should be made of property held in custody. In such cases it is

clear that the duty of this bank would be to release the securities only upon the consent of both parties, or to deliver them over in accordance with an order of court.

The next class of cases for consideration is the one in which we hold securities as collateral for loans to member banks or where we hold them with the understanding that we may use them as collateral if required. The receipt in this class of cases contains the same provision as the one quoted above, and the same remarks as to the legal effect of the provision apply.

In these instances I think we are clearly bailees for hire and are in consequence chargeable not as insurers but with the duty of using the care an ordinarily prudent banker in the conduct of his own business in like circumstances would exercise.

There is a large class of safekeeping operations arising out of our relation as fiscal agent of the Treasury of the United States and as fiscal agent of other corporations organized under Federal law. We in fact hold in many accounts securities of various departments of the Government, either by virtue of a special request of the Treasury or under the Treasury's Circular No. 154 of May 15, 1922, and letter of Mr. Gilbert, addressed to Governor Crissinger under date of July 17, 1923, authorizing reserve banks to take securities tendered by Treasury officers in the ordinary course of their duties. Also, we hold collateral pledged by banks to secure special Government deposit accounts. These securities are held under letter of May 29, 1917, addressed by Secretary McAdoo to the bank and letter of April 25, 1919, addressed to the bank by Assistant Secretary Leffingwell.

In none of these cases do we make any direct charge for our service of safekeeping, except that of the Alien Property Custodian. However, it is thought that in the event of any question about liability it would probably be determined that in fact there is some consideration passing to us, in view of

our relations to the Treasury as its banker. It is not adequate compensation in any safekeeping transaction, but is nevertheless a real consideration.

As to liability in these cases, there is no judicial authority, the question never having been presented to the courts. However, in my opinion, our responsibility in all these cases is not that of insurer but that of an agent to his principal, and in my judgment in all of them we would be held to that degree of care which a reasonably prudent banker would ordinarily give to the conduct of his own business in like circumstances. It is true that the letters of Messrs. McAdoo and Leffingwell, above referred to, are open to the construction that the intention was to make this bank an insurer for the receipt, custody and disposition of collateral for Government deposits.

In some of these accounts we have notice that the property held is subject to rights of third persons. In these cases the same considerations of liability apply as appeared heretofore when we discussed those cases in which the bank has in the past received securities for safekeeping from member banks where this bank is on notice that the securities are the property of some person or corporation other than the member bank.

X-4871-c

May 2, 1927.

REPORT OF SUB-COMMITTEE OF GENERAL COMMITTEE ON BANKERS ACCEPTANCES TO GOVERNORS' CONFERENCE, MAY 9, 1927.

Since the last conference no question has been reported to the Sub-Committee, consequently there is nothing new to report at this time.

Your Committee, however, again respectfully calls attention to the fact that the matters referred to in the report of the General Committee on Bankers Acceptances, submitted to the Conference of March 22, 1926, printed on pages 370-378 of the Stenographic Record of that Conference, outlining certain principles and rules desired by the Conference in its consideration of a general broadening of practice in bankers' domestic acceptance credits, and approved by that Conference, have, your Committee understands, still to be disposed of by action of the Federal Reserve Board.

Respectfully submitted,

W. W. Paddock,
C. R. McKay,
F. J. Zurlinden,
E. R. Kenzel, Chairman.

FEDERAL RESERVE BOARD

376

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4872

June 9, 1927.

SUBJECT: Revision of Regulation K.

Dear Sir:

Effective June 8, 1927, the Federal Reserve Board revised its Regulation K dealing with banking corporations authorized to do foreign banking business under the terms of Section 25(a) of the Federal Reserve Act. A mimeograph copy of the new regulation is enclosed herewith for your information. This regulation will not be printed until the Board is ready to promulgate a complete revision of all its regulations, but the Board will be glad to supply you any additional number of mimeograph copies which you desire.

Very truly yours,

Walter L. Eddy,
Secretary.

TO ALL GOVERNORS AND FEDERAL RESERVE AGENTS.

Enclosure:

EFFECTIVE JUNE 8, 1927. X-4868

REGULATION K, SERIES OF 1927.

(Superseding Regulation K of 1924)

BANKING CORPORATIONS AUTHORIZED TO DO FOREIGN BANKING BUSINESS UNDER THE TERMS OF SECTION 25(a) OF THE FEDERAL RESERVE ACT

SECTION I. ORGANIZATION

Any number of natural persons, not less in any case than five, may form a Corporation* under the provisions of section 25(a) for the purpose of engaging in international or foreign banking or other international or foreign financial operations or in banking or other financial operations in a dependency or insular possession of the United States either directly or through the agency, ownership, or control of local institutions in foreign countries or in such dependencies or insular possessions.

SECTION II. ARTICLES OF ASSOCIATION

Any persons desiring to organize a corporation for any of the purposes defined in section 25(a) shall enter into articles of association (see F. R. B. Form 151 which is suggested as a satisfactory form of articles of association) which shall specify in general terms the objects for which the Corporation is formed, and may contain any other provisions not inconsistent with law which the Corporation may see fit to adopt for the regulation of its business and the conduct of its affairs. The articles of association shall be signed by each person intending to participate in the organization of the Corporation and when signed shall be forwarded to the Federal Reserve Board in whose office they shall be filed.

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*Whenever these regulations refer to a corporation spelled with a capital C, they relate to a corporation organized under section 25(a) of the Federal reserve act.

SECTION III. ORGANIZATION CERTIFICATE

All of the persons signing the articles of association shall under their hands make an organization certificate on F. R. B. Form 152, which is made a part of this regulation, and which shall state specifically:

First. The name assumed by the Corporation.

Second. The place or places where its operations are to be carried on.

Third. The place in the United States where its home office is to be located.

Fourth. The amount of its capital stock and the number of shares into which it shall be divided.

Fifth. The names and places of business or residences of persons executing the organization certificate and the number of shares to which each has subscribed.

Sixth. The fact that the certificate is made to enable the persons subscribing the same and all other persons, firms, companies, and corporations who or which may thereafter subscribe to or purchase shares of the capital stock of such Corporation to avail themselves of the advantages of this section.

The persons signing the organization certificate shall acknowledge the execution thereof before a judge of some court of record or notary public who shall certify thereto under the seal of such court or notary. Thereafter the certificate shall be forwarded to the Federal Reserve Board to be filed in its office.

SECTION IV. TITLE

Inasmuch as the name of the Corporation is subject to the approval of the Federal Reserve Board, a preliminary application for that approval should be filed with the Federal Reserve Board on F. R. B. Form 150, which is made a part of this regulation. This application should state merely that the organization of a

Corporation under the proposed name is contemplated and may request the approval of that name and its reservation for a period of 30 days. No Corporation which issues it own bonds, debentures, or other such obligations will be permitted to have the word "bank" as a part of its title. No Corporation which has the word "Federal" in its title will be permitted also to have the word "bank" as a part of its title. So far as possible the title of the Corporation should indicate the nature or reason of the business contemplated and should in no case resemble the name of any other corporation to the extent that it might result in misleading or deceiving the public as to its identity, purpose, connections, or affiliations.

SECTION V. AUTHORITY TO COMMENCE BUSINESS

After the articles of association and organization certificate have been made and filed with the Federal Reserve Board, and after they have been approved by the Federal Reserve Board and a preliminary permit to begin business has been issued by the Federal Reserve Board, the association shall become and be a body corporate, but none of its powers except such as are incidental and preliminary to its organization shall be exercised until it has been formally authorized by the Federal Reserve Board by a final permit generally to commence business.

Before the Federal Reserve Board will issue its final permit to commence business, the president or cashier, together with at least three of the directors, must certify (a) that each director elected is a citizen of the United States; (b) that a majority of the shares of stock is owned by citizens of the United States, by corporations the controlling interest in which is owned by citizens of the United States, chartered under the laws of the United States, or by firms or companies the controlling interest in which is owned by citizens of the United States; and (c) that of the authorized capital stock specified in the articles of association at least 25 per cent has been paid in in cash and that each shareholder has individuallypaid in in cash at least 25 per cent of his stock subscription. Thereafter the cashier shall certify to the payment of the remaining installments as and when each is paid in, in accordance with law.

SECTION VI. CAPITAL STOCK

No Corporation may be organized under the terms of section 25(a) with a capital stock of less than $2,000,000. The par value of each share of stock shall be specified in the articles of association, and no Corporation will be permitted to issue stock of no par value. If there is more than one class of stock, the name and amount of each class and the obligations, rights, and privileges attaching thereto shall be set forth fully in the articles of association. Each class of stock shall be so named as to indicate to the investor as nearly as possible what is its character and to put him on notice of any unusual attributes.

SECTION VII. TRANSFERS OF STOCK

Section 25(a) provides in part that--

> A majority of the shares of the capital stock of any such corporation shall at all times be held and owned by the citizens of the United States, by corporations the controlling interest in which is owned by citizens of the United States, chartered under the laws of the United States or of a State of the United States, or by firms or companies the controlling interest in which is owned by citizens of the United States.

In order to insure compliance at all times with the requirements of this provision after the organization of the Corporation, shares of stock shall be issuable and transferable only on the books of the Corporation. Every application for the issue or transfer of stock shall be accompanied by an affidavit of the party to whom it is desired to issue or transfer stock, or by his or its duly authorized agent, stating--

In the case of an individual.--(a) Whether he is or is not a citizen of the United States and, if a citizen of the United States, whether he is a natural-born citizen or a citizen by naturalization, and if naturalized, whether he remains for any purpose in the allegiance of any foreign sovereign or State; (b) whether there is or is not any arrangement under which he is to hold the shares or any of the shares which he desires to have issued or transferred to him, in trust

for or in any way under the control of any foreign State or any foreigner, foreign corporation, or any corporation under foreign control; and if so, the nature thereof.

In the case of a corporation.--(a) Whether such corporation is or is not chartered under the laws of the United States or of a State of the United States. If it is not, no further declaration is necessary, but if it is, it must also be stated (b) whether the controlling interest in such corporation is or is not owned by citizens of the United States, and (c) whether there is or is not any arrangement under which such corporation will hold the shares or any of the shares if issued or transferred to such corporation in trust for or in any way under the control of any foreign State or any foreigner or foreign corporation or any corporation under foreign control; and if so, the nature thereof.

In the case of a firm or company.--(a) Whether the controlling interest in such firm or company is or is not owned by citizens of the United States; and, if so, (b) whether there is or is not any arrangement under which such firm or company will hold the shares or any of the shares if issued or transferred to such firm or company in trust for or in any way under the control of any foreign State or any foreigner or foreign corporation or any corporation under foreign control; and if so, the nature thereof.

The Board of directors of the Corporation, whether acting directly or through an agent, may, before making any issue or transfer of stock, require such further evidence as in their discretion they may think necessary in order to determine whether or not the issue or transfer of the stock would result in a violation of the law. No issue or transfer of stock which would cause 50 per cent or more of the total amount of stock issued or outstanding to be held contrary to the provisions of the law or these regulations shall be made upon the books of the Corporation. The decision of the board of directors in each case shall be final and

conclusive and not subject to any question by any person, firm, or corporation on any ground whatsoever.

If at any time by reason of the fact that the holder of any shares of the Corporation ceases to be a citizen of the United States, or, in the opinion of the board of directors, becomes subject to the control of any foreign State or foreigner or foreign corporation or corporation under foreign control, 50 per cent or more of the total amount of capital stock issued or outstanding is held contrary to the provisions of the law or these regulations, the board of directors may, when apprised of that fact, forthwith serve on the holder of the shares in question a notice in writing requiring such holder within two months to transfer such shares to a citizen of the United States, or to a firm, company, or corporation approved by the board of directors as an eligible stockholder. When such notice has been given by the board of directors the shares of stock so held shall cease to confer any vote until they have been transferred as required above and if on the expiration of two months after such notice the shares shall not have been so transferred, the shares shall be forfeited to the Corporation.

The board of directors shall prescribe in the by-laws of the Corporation appropriate regulations for the registration of the shares of stock in accordance with the terms of the law and these regulations. The by-laws must also provide that the certificates of stock issued by the Corporation shall contain provisions sufficient to put the holder on notice of the terms of the law and the regulations of the Federal Reserve Board defining the limitations upon the rights of transfer.

SECTION VIII. OPERATIONS IN THE UNITED STATES

No Corporation shall carry on any part of its business in the United States except such as shall be incidental to its international or foreign business. Agencies may be established in the United States with the approval of the Federal Reserve Board for specific purposes, but not generally to carry on the business

of the Corporation.

SECTION IX. INVESTMENTS IN THE STOCK OF OTHER CORPORATIONS

It is contemplated by the law that a Corporation shall conduct its business abroad either directly or indirectly through the ownership or control of corporations, and it is accordingly provided that with the consent of the Federal Reserve Board a Corporation may invest in the stock, or other certificates of ownership, of any other corporation organized--

(a) Under the provisions of section 25(a) of the Federal reserve act;

(b) Under the laws of any foreign country or a colony or dependency thereof;

(c) Under the laws of any State, dependency, or insular possession of the United States;

provided, first, that such other corporation is not engaged in the general business of buying or selling goods, wares, merchandise, or commodities in the United States; and second, that it is not transacting any business in the United States except such as is incidental to its international or foreign business.

Except with the approval of the Federal Reserve Board, no Corporation shall invest an amount in excess of 15 per cent of its capital and surplus in the stock of any corporation engaged in the business of banking, or an amount in excess of 10 per cent of its capital and surplus in the stock of any other kind of corporation.

No Corporation shall purchase any stock in any other corporation organized under the terms of section 25(a) or under the laws of any State, which is in substantial competition therewith, or which holds stock or certificates of ownership in corporations which are in substantial competition with the purchasing Corporation. This restriction, however, does not apply to corporations organized under foreign laws.

SECTION X. BRANCHES

No Corporation shall establish any branches except with the approval of the Federal Reserve Board, and in no case shall any branch be established in the United States.

SECTION XI. ISSUE OF DEBENTURES, BONDS AND PROMISSORY NOTES

A Corporation is not required by law or by this regulation to make application to or obtain the approval of the Federal Reserve Board before making an issue of its debentures, bonds, notes or other obligations, but corporations issuing their debentures, bonds, notes or other obligations must comply with the rules, regulations and conditions hereinafter set forth.

(a) General Conditions. All debentures, bonds, notes or other such obligations issued by a corporation (except notes payable to banks or bankers within one year) shall:

(1) Be payable only in gold coin of the United States of the standard of weight and fineness existing at the time of issue;

(2) Be payable not more than twenty years after the date of issue;

(3) Be secured by collateral which shall:

(a) Consist of lawful money of the United States and/or securities, notes, drafts, bills of exchange, acceptances, including bankers' acceptances, and other evidences of indebtedness and/or shares of stock in which the corporation is authorized by law to invest its funds;

(b) Have an aggregate market value equal at all times to not less than one hundred and ten per cent of the aggregate principal amount of the obligations issued or to be issued against such securities; and

(c) Be transferred and delivered free of any prior lien, charge

or encumbrance thereon of any kind whatsoever, to a financially responsible bank or trust company, which is a member of the Federal Reserve System, as Trustee under a Trust Indenture executed by the Corporation as security for the obligations of the Corporation issued or to be issued thereunder, which Trust Indenture shall prescribe the general form of such obligations and shall require that every such obligation shall be authenticated by the certificate of the Trustee noted thereon.

(b) Requirements after issuance. Within ten days after the issuance of any such debentures, bonds, notes or other obligations (other than promissory notes payable to banks or bankers within one year) the Corporation issuing the same shall file with the Federal Reserve Board:

A. A statement verified by the affidavit of its President or a Vice President and its Treasurer, Cashier or Comptroller setting forth:

(1) That the requirements of this regulation in respect of the issue of debentures, bonds, notes or other obligations have been complied with in all respects.

(2) The aggregate amount of the debentures, bonds, notes or obligations issued under the Trust Indenture and the net price received by the Corporation therefor.

(3) The various items of the collateral security pledged under the Trust Indenture and the market value, at the time of the issue of such obligations, of each and every item thereof.

(4) The financial condition of the Corporation and, in detail, all its assets and liabilities (fixed and contingent) as of the day immediately following such issue.

B. A copy of the Trust Indenture pursuant to which such obligations of the Corporation were issued, certified as correct by the Trustee therein named.

C. A certificate of the Trustee under such Trust Indenture setting forth:

(1) That it has accepted the trust created by such Trust Indenture and is acting as Trustee thereunder;

(2) The securities and/or cash which have been delivered to it and which it holds as Trustee under the Trust Indenture;

(3) The name and address of the Counsel for the Trustee.

D. The latest published balance sheet of the Corporation, certified as correct by the President or a Vice President and by the Treasurer, an Assistant Treasurer, the Cashier or Assistant Cashier or the Comptroller of the Corporation.

E. An opinion of the Counsel for the Trustee under the Trust Indenture to the effect that:

(1) The Trust Indenture has been validly executed in pursuance of due corporate action.

(2) That all necessary legal formalities have been complied with to make such obligations, when executed by the Corporation and authenticated by the Trustee, valid and enforcible obligations of the Corporation entitled to the benefits afforded by the Trust Indenture;

(3) That the transfers executed to the Trustee of the collateral security held by it under the Trust Indenture are in appropriate and sufficient form.

F. Copies of all prospectuses and other literature issued by the Corporation or its officers or bankers describing or affecting such issue.

In case there shall be any substitution of or change in the securities at any time held under any such Trust Indenture securing an issue of debentures,

bonds, notes or other obligations the Corporation, each time it makes a report to the Federal Reserve Board pursuant to the provisions of Section XVI, shall file with the Federal Reserve Board a statement, verified by the affidavit of the President or a Vice President and the Treasurer, Cashier or Comptroller of the Corporation

A. Giving the details of such substitution or change, and

B. Certifying that at the time of such substitution or change the additional collateral transferred to the Trustee under the Trust Indenture had a market value at least equal to the market value of the collateral security released from the lien of such Trust Indenture.

Such statement shall be accompanied by an acknowledgment by the Trustee under the Trust Indenture that there has been delivered to it and that it holds as such Trustee the additional collateral specified in such statement.

The Federal Reserve Board reserves the right to make public whenever it believes it to be necessary in the public interest any documents filed with it under this subsection.

(c) Advertisements. No circular, prospectus, letter, advertisement or other statement published or issued in any form or manner by a corporation shall contain any matter to indicate that any issue of debentures, bonds, notes or other obligations by such corporation or the collateral securing same has in any way received the approval of the Federal Reserve Board or that the collateral securing same has been appraised or approved in any way by the Federal Reserve Board. This requirement will be strictly enforced in order that there may be no possibility of the public obtaining the impression that the Federal Reserve Board has approved in any way any such issue of debentures, bonds, notes or other such obligations or the collateral securing same.

388

SECTION XII. SALE OF SECURITIES WITH GUARANTY OR INDORSEMENT

Whenever a corporation sells, discounts or negotiates with its indorsement or guaranty any securities, notes, drafts, bills of exchange, acceptances, bankers' acceptances or other evidence of indebtedness it shall enter on its books a proper record thereof, describing in detail each such evidence of indebtedness so sold, discounted or negotiated, the amount thereof, the parties thereto, the maturity thereof, and the nature of the corporation's liability thereon. Every financial statement of the corporation submitted to the Federal Reserve Board or made public in any way shall show the aggregate amount of all such liabilities outstanding as of the date on which such statement purports to show the financial condition of the corporation.

SECTION XIII. ACCEPTANCES

Kinds.--Any Corporation may accept (1) drafts and bills of exchange drawn upon it which grow out of transactions involving the importation or exportation of goods, and (2) drafts and bills of exchange which are drawn by banks or bankers located in foreign countries or dependencies or insular possessions of the United States for the purpose of furnishing dollar exchange as required by the usages of trade in such countries, dependencies, and possessions, provided, however, that, no Corporation shall exercise its power to accept drafts or bills of exchange if at the time such drafts or bills are presented for acceptance it has outstanding any debentures, bonds, notes, or other such obligations issued by it.

Maturity.--No Corporation shall accept any draft or bill of exchange which grows out of a transaction involving the importation or exportation of goods with a maturity in excess of six months, or shall accept any draft or bill of exchange drawn for the purpose of furnishing dollar exchange with a maturity in excess of three months.

Limitations.--(1) Individual drawers: No acceptances shall be made for

the account of any one drawer in an amount aggregating at any time in excess of 10 per cent of the subscribed capital and surplus of the Corporation, unless the transaction be fully secured or represents an exportation or importation of commodities and is guaranteed by a bank or banker of undoubted solvency. (2) Aggregates: Whenever the aggregate of acceptances outstanding at any time (a) exceeds the amount of the subscribed capital and surplus, 50 per cent of all the acceptances in excess of the amount shall be fully secured; or (b) exceeds twice the amount of the subscribed capital and surplus, all the acceptances outstanding in excess of such amount shall be fully secured. (The Corporation shall elect whichever requirement (a) or (b) calls for the smaller amount of secured acceptances.) In no event shall any Corporation have outstanding at any one time acceptances drawn for the purpose of furnishing dollar exchange in an amount aggregating more than 50 per cent of its subscribed capital and surplus.

Reserves.--Against all acceptances outstanding which mature in 30 days or less a reserve of at least 15 per cent shall be maintained, and against all acceptances outstanding which mature in more than 30 days a reserve of at least 3 per cent shall be maintained. Reserves against acceptances must be in liquid assets of any or all of the following kinds: (1) Cash; (2) balances with other banks; (3) acceptances of other banks or bankers, and (4) obligations of the Government of the United States.

SECTION XIV. DEPOSITS

In the United States.--No Corporation shall receive in the United States any deposits except such as are incidental to or for the purpose of carrying out transactions in foreign countries or dependencies of the United States where the Corporation has established agencies, branches, correspondents, or where it operates through the ownership or control of subsidiary corporations. Deposits of this character may be made by individuals, firms, banks, or other corporations,

390

whether foreign or domestic, and may be time deposits or on demand.

Outside the United States.--Outside the United States a Corporation may receive deposits of any kind from individuals, firms, banks, or other corporations, provided, however, that if such corporation has any of its bonds, debentures, or other such obligations outstanding it may receive abroad only such deposits as are incidental to the conduct of its exchange, discount, or loan operations.

Reserves.--Against all deposits received in the United States a reserve of not less than 13 per cent must be maintained. This reserve may consist of cash in vault, a balance with the Federal reserve bank of the district in which the head office of the Corporation is located, or a balance with any member bank. Against all deposits received abroad the Corporation shall maintain such reserves as may be required by local laws and by the dictates of sound business judgment and banking principles.

SECTION XV. GENERAL LIMITATIONS AND RESTRICTIONS

Liabilities of one borrower.--The total liabilities to a Corporation of any person, company, firm, or corporation for money borrowed, including in the liabilities of a company or firm the liabilities of the several members thereof, shall at no time exceed 10 per cent of the amount of its subscribed capital and surplus: Provided, however, That the discount of bills of exchange drawn in good faith against actually existing values and the discount of commercial or business paper actually owned by the person negotiating the same, and the purchase of readily marketable bonds, notes, and other investment securities offered for sale in the open market, shall not be considered as money borrowed within the meaning of this paragraph. The liability of a customer on account of an acceptance made by the Corporation for his account is not a liability for money borrowed within the meaning of this paragraph unless and until he fails to place the Corporation in funds to cover the payment of the acceptance at maturity or unless the Corporation

itself holds the acceptance.

Aggregate liabilities of the Corporation.--The aggregate of the Corporation's liabilities outstanding on account of acceptances, average domestic and foreign deposits, debentures, bonds, notes, guaranties, indorsements, and other such obligations shall not exceed at any one time ten times the amount of the Corporation's subscribed capital and surplus. In determining the amount of the liabilities within the meaning of this paragraph, indorsements of bills of exchange having not more than six months to run, drawn and accepted by others than the Corporation, shall not be included.

Operations abroad.--Except as otherwise provided in the law and these regulations, a Corporation may exercise abroad not only the powers specifically set forth in the law but also such incidental powers as may be usual in the determination of the Federal Reserve Board in connection with the transaction of the business of banking or other financial operations in the countries in which it shall transact business. In the exercise of any of these powers abroad a Corporation must be guided by the laws of the country in which it is operating and by sound business judgment and banking principles.

SECTION XVI. REPORTS AND EXAMINATIONS

Reports.--Each Corporation shall make at least two reports annually to the Federal Reserve Board at such times and in such form as it may require.

Examinations.--Each Corporation shall be examined at least once a year by examiners appointed by the Federal Reserve Board. The cost of examinations shall be paid by the Corporation examined.

SECTION XVII. AMENDMENTS TO REGULATIONS

These regulations are subject to amendment by the Federal Reserve Board from time to time, provided, however, that no such amendment shall prejudice obligations undertaken in good faith under regulations in effect at the time they were assumed.

(CONFIDENTIAL) (C O P Y) X-4873

June 16, 1927. 392

To The Law Committee. SUBJECT: REVISION OF BOARD'S REGULATIONS.

From Mr. Wyatt, General Counsel.

In accordance with the Board's instructions, I have carefully considered all suggestions received from the Federal Reserve Banks and Federal Reserve Agents regarding the Board's Regulations, and respectfully submit herewith a final draft of a proposed revision of all the Board's printed regulations.

IMPORTANCE OF EARLY ACTION.

I respectfully call attention to the importance of amending the regulations as soon as possible so as to conform to the amendments made to the law by the McFadden Act of February 25, 1927.

REASON FOR DELAY.

The delay which has already occurred in the preparation of these regulations is regrettable; but has been due to causes beyond my control, as will be seen from the following chronology:

Feb. 25. - McFadden Act signed by President.
March 4. - Board requested Law Committee to prepare revision of Regulations.
March 4. - Circular letter (X-4804) sent to Governors and Chairmen of all Federal Reserve Banks inviting them to suggest amendments to Regulations.
April 12. - Board placed proposed revision of Regulations on program for discussion at Governors' Conference.
April 15. - Last of suggestions submitted pursuant to letter X-4804 received.
April 23. - Board mailed to each Governor tentative draft of revision of Regulations. (X-4830)
April 25. - Copy of tentative draft of revised Regulations delivered to each Board member.
May 2. - Board invited suggestions of all Federal Reserve Agents re tentative draft of revised Regulations.
May 9 to 13. - Governors' Conference met at Washington, failed to discuss Regulations, and suggested appointment of committee to confer with Board's Counsel on the subject.
May 18. - Law Committee requested to prepare and submit to Board for action proposed revision of Regulations after consideration of all suggestions received from Federal Reserve Agents and suggestions

filed with Secretary of Governors' Conference by individual Governors during the Conference.

May 18. - Secretary of Governors' Conference requested to send Board suggestions filed with him during Conference.

May 31. - Last suggestions re tentative draft received from Federal Reserve Agents.

June 11. - Suggestions filed at Governors' Conference received from Secretary of Conference.

From this it will be seen that most of the delay in the preparation of these regulations has resulted from the very material delay of the Federal Reserve Banks in submitting their suggestions to the Federal Reserve Board.

EXPLANATION OF PROPOSED CHANGES.

Each amendment incorporated in the attached draft of the regulations is explained below, and attention is especially called to every amendment which has been the subject of any serious difference of opinion. For the further information of the Law Committee, there are attached hereto all written suggestions regarding the regulations which have been received from any source, and my comments on each suggestion are noted on the margin.

REGULATION A.

Section I, page 1.

The provisions regarding the rediscount of paper secured by bonds or notes of the War Finance Corporation are omitted; because, as a practical matter, they are obsolete. It appears that all such bonds are now overdue and that the amount outstanding is only about $17,000.

The phrasecology of subdivision (c) is also changed to conform more closely to the language of the law.

It is also proposed to eliminate from next to the last paragraph of this section the words "under the terms of Section 5200 of the United States Revised Statutes, as amended". This was suggested by Governor Harding for the following reason:

394

"That portion of Section 9 of the Federal Reserve Act which applies to the subject makes no mention of Section 5200 and while it may be that as a practical matter this question would be determined only by the provisions of Section 5200, there might be a question whether Section 24 of the Federal Reserve Act regulating real estate loans by national banks, and Section 5136 of the Revised Statutes regulating the amount of investment securities of any one obligor or maker which a national bank may take, would have a bearing on the subject."

Section II, page 2.

The obsolete provisions regarding the bonds and notes of the War Finance Corporation are omitted.

Section III, page 3.

It is suggested that there be incorporated in this section the requirement previously contained in Section IV(b) requiring the application for rediscount to state whether the paper offered was acquired from a non-member bank.

It is also proposed to eliminate the words "under the terms of Section 5200 of the United States Revised Statutes, as amended", for the reason stated above under Section I.

Section IV(b), page 3.

It is proposed to eliminate from this section the requirement that the application for rediscount shall state whether the note offered for rediscount has been discounted for a depositor other than a bank or for a nondepositor and, if discounted for a bank, whether for a member or a non-member bank. This suggestion was originally made by the Federal Reserve Bank of San Francisco as a result of the decision in the Grimm Alfalfa Case. It will be remembered that, in a circular letter addressed to all Federal reserve banks under date of February 27, 1926, (X-4544), the Board waived compliance with this requirement, on condition that the application for

rediscount should require member banks to designate whether the paper offered for rediscount, if any, was acquired from nonmember banks and should contain a certificate that none of the paper offered for rediscount, except that so designated, was acquired from nonmember banks. It is proposed to climinate the old requirement entirely from Section IV(b) and, in lieu thereof, to insert in Section III a requirement that the bank certify that the paper offered for rediscount has not been acquired from a nonmember bank, or if so acquired, that the applying member bank has received permission from the Federal Reserve Board to rediscount with the Federal reserve bank paper acquired from nonmember banks.

It is also proposed to amend subdivision 2 of Section IV(b) so as to require financial statements whenever the amount involved equals or exceeds $1000, instead of $5000 as heretofore. The Federal Reserve Bank of Minneapolis originally suggested that financial statements be required whenever the amount involved equals or exceeds $500, on the ground that that is the amount fixed by national bank examiners as the maximum amount of unsecured credit which should be extended unless supported by a signed financial statement. In the tentative draft of the new Regulation it was proposed to require such statements wherever the amount involved equals or exceeds $500, and this developed considerable difference of opinion among the Federal reserve banks. Some of them advocated it; others stated that they had been requiring it for some time wherever the amount involved exceeds $1000; and others opposed it on the ground that the change would be too drastic and that such statements are not really necessary. It is believed that it would be a fair compromise to require such statements wherever the amount involved exceeds $1000.

It is also proposed to change the first paragraph regarding financial statements in such a way as to clarify the meaning thereof without

making any change in the substance.

396

It is also proposed to eliminate from Section IV an obsolete proviso to the paragraph regarding statements of borrowers having closely affiliated or subsidiary corporations or firms.

New Section IX.

It is proposed to insert in Regulation A a new Section IX containing the substance of the Board's existing rulings with reference to the rediscount of paper acquired from nonmember banks. (See rulings published on page 891 of the 1923 Bulletin and page 252 of the 1926 Bulletin.)

Section XI, page 7.

The change suggested in subdivision (3) is designed to conform the regulation to the rulings published on page 740 of the 1919 Bulletin and page 638 of the 1924 Bulletin. This was suggested by the Federal Reserve Bank of San Francisco.

REGULATION B.

It is not proposed to make any changes in this regulation.

REGULATION C.

It is not proposed to make any changes in this regulation.

REGULATION D.

In general, it may be said that both the original recommendations received from the Federal reserve banks and their comments on the first tentative draft of the regulations evidenced more interest in the tendency of member banks to evade the reserve requirements than in any other subject. Numerous suggestions were made to remedy this situation; but, unfortunately, many of them could not be adopted without an amendment to the law. Such of these suggestions as are believed to be consistent with existing law were

incorporated in the tentative draft, however, and the entire regulation was considered with a view of strengthening the enforcement of the reserve requirements and checking the tendency of member banks to evade them.

Section II(d), page 16.

The amendments are designed to check the tendency of member banks to evade the reserve requirements by classifyinf as "savings accounts" deposits which are permitted to be withdrawn at will, by check or otherwise, without the actual presentation of the pass-book. (See the Board's ruling on page 677 of the 1923 Bulletin). Amendments of this general character were suggested by the Federal Reserve Banks of Boston and Chicago.

It is also proposed to insert at the end of Section II(d) a provision to the effect that, "Deposits of one bank in another shall not in any case be considered 'savings accounts' within the meaning of this regulation." This was suggested by the Federal Reserve Banks of New York and Chicago, and is designed to discourage the practice of some banks receiving so-called "savings account" deposits from other banks and classifying them as time deposits while the depositing banks treat them as "balances due from banks."

Section II(e), pages 16 and 17.

It is proposed to change the language of this subsection so as to clarify and strengthen the definition of "time certificates of deposit."

It is also proposed to insert at the end of subdivision (e) two new provisions:

(1) A statement to the effect that the retention of the certificate, or a duplicate of same, by the bank and the presentation of same by the bank to itself is not an"actual presentation" of same within the meaning of this regulation.

(2) A statement incorporating in the regulations the substance of

the Board's ruling published on page 655 of the 1919 Bulletin. 398

Section III(a), page 17½.

The new paragraph was suggested by the Federal Reserve Bank of New York and is designed to incorporate in the Regulation the substance of the ruling on page 572 of the 1922 Bulletin with reference to reserves against trust funds.

It is also proposed to insert as a foot-note at the bottom of page 17½ the definition of "outlying districts" recommended by Mr. Collins, Deputy Comptroller of the Currency, and the undersigned under date of June 11, 1927.

Section III(b), page 18.

This amendment was suggested by Mr. Smead, and is designed to make the regulation conform to the practice under the Board's existing forms of reports.

Section IV, pages 18 and 19.

The proposed revision of this Section is designed primarily to base the computation of reserves for the purpose of assessing penalties on actual daily balances, instead of average balances for weekly or semi-monthly periods, in order to "prevent some of the wide fluctuations in actual reserves which now takes place." This was originally suggested by the Federal Reserve Bank of New York, and has given rise to much difference of opinion.

The difference of opinion which exists, however, is based largely on grounds of expediency and there is a surprising uniformity of opinion that some change along this general line is desirable. Four of the Federal reserve banks favor this amendment with a modification permitting daily reserve requirements to be based on deposit balances as of the previous day; four are

opposed to the change for practical reasons, most of which could be eliminated by the same modification; one favors the general idea but advises "making haste slowly"; and three suggest alternatives having the same general purpose.

The combined discussion of this subject by all the Federal reserve banks is quite voluminous, but the views expressed on behalf of each Federal reserve bank may be summarized very briefly as follows:

BOSTON — Suggests computation on daily basis for city banks and on average basis for country banks.

NEW YORK — Favors some change but suggests "making haste slowly" and discussing the subject with member banks before making such a change.

PHILADELPHIA — Favors adoption of proposed change with modification permitting reserves to be computed each day on basis of deposits for preceding day.

CLEVELAND — Believes computation on daily basis unworkable; but practical objections raised by Cleveland would be met by modification suggested by Philadelphia and Richmond.

RICHMOND — Favors computation on daily basis, provided reserves for each day are computed on basis of deposits for previous day.

ATLANTA — Favors the change without suggesting any modifications.

CHICAGO — Fears that computation on a daily basis would result in financial loss to member banks and suggests a substitute plan.

ST. LOUIS — Favors a change with the same modification as suggested by Philadelphia and Richmond.

MINNEAPOLIS — Opposes the requirement for computations on a daily

basis, "because it is practically impossible for bank to guess its reserve requirements before close of business." (This would be cured by modification suggested by Philadelphia and Richmond).

KANSAS CITY — Opposes the change because of practical difficulties, which would largely be obviated by the modification suggested by Philadelphia and Richmond.

DALLAS — Mildly opposed to the change for practical reasons; but suggests as alternative that reserves of banks in central reserve cities be computed on daily basis, that reserves of banks in reserve cities be computed on weekly basis, and that reserves of country banks be computed on monthly basis, provided compulsory progressive penalty is adopted.

SAN FRANCISCO — Points out practical difficulties, which would be overcome by the modification suggested by Philadelphia and Richmond.

In accordance with the suggestions made by the Federal Reserve Banks of Philadelphia, Richmond and St. Louis, the new Section IV, as submitted in the attached draft, is modified so as to permit the reserves for each day to be computed at the close of business each day on the basis of net deposit balances of the member bank for the preceding business day. This would give the member banks twenty-four hours in which to restore their reserves in the event of unexpected fluctuations, and it is believed that it would overcome most of the practical objections to the computation of reserves on a daily basis. I have talked with Governor Seay, Mr. Smead, Mr. Herson and several others about this, and they assure me that, with this modification, the requirement for daily computation of reserves is entirely practical and is

a big step in the right direction. It would impose no new burdens on member banks in the matter of making reports; because the reports now submitted are required to show deposit balances and reserves as of each day. It would increase to some extent the accounting work at the Federal reserve banks, but it is believed that this would be justified in view of the good it will accomplish.

If adopted as revised, this Section would also prescribe a compulsory progressive penalty for all Districts and relieve the Federal reserve banks of the necessity of taking the initiative in this matter.

There was some difference of opinion as to this provision for a compulsory progressive penalty; but only two Federal reserve banks (Minneapolis and New York) opposed it. Because of unfortunate experiences during the so-called "deflation period", Minneapolis is opposed to any progressive penalty. New York recognizes the merits of the suggested change, but believes that the old regulation "will permit of more flexibility in the treatment of individual cases". Of the other ten banks, seven favor the amendment, two suggest a clarification of its provisions, and one makes no comment.

The duty of prescribing penalties for deficiencies in reserves is placed by the law on the Federal Reserve Board, and it is believed that the Board rather than the Federal reserve banks should take the initiative in the matter, especially in view of the fact that at times there has been a feeling on the part of some member banks that the Federal reserve banks are influenced by the possibility of increasing their profits.

Subdivision 5 of the proposed new Section IV is designed to correct the view entertained by some member banks that, so long as they pay the penalties, they have a right to permit their reserves to remain deficient. An amendment for this general purpose was suggested by the Federal Reserve Bank of Philadelphia and favored by a majority of the Federal reserve banks. There was no strong opposition to it.

Section V, page 19½

402

The elimination of the last sentence of the present regulation is suggested in order to harmonize this section with the proposed amendments to Section IV.

The proposed new provision to be inserted at the end of this Section is designed to provide for the enforcement of the prohibition against member banks making loans or paying dividends while their reserves are deficient. None of the Federal reserve banks indicated much opposition to this provision; but three expressed doubts as to its wisdom and two considered it too rigid. One said it was "heartily in accord" with the idea; and the others made no comment. As now submitted, the provision has been slightly modified so as to require reports only in cases of "wilful disregard" of the law.

REGULATION E.

It is not proposed to make any changes in this Regulation.

REGULATION F.

Section II, page 25.

There is inserted at the end of this section an explanation of the manner in which applications should be made for trust powers in cases where a new national bank is being organized, a State bank is converted into a national bank, two or more national banks are consolidated, or a State bank is consolidated with a national bank under the charter of the latter.

Insofar as this pertains to applications for fiduciary powers by new national banks at the time of their organization, it is inconsistent with the Board's present practice of requiring new national banks to wait six months or a year before obtaining fiduciary powers. However, in view of the fact that State banks and trust companies may exercise fiduciary powers from the date they are open for business, and the adoption of the McFadden Act indicates

that it is the policy of Congress to place national banks on a better competitive basis with State institutions, it would seem that national banks should be given the same privilege. Moreover this provision of the Regulation would not prevent the Board from withholding action in any individual case if it doubts the wisdom of granting trust powers to the applying bank. None of the Federal reserve banks expressed opposition to this proposed change. 403

New Section III, page 25a.

It is proposed to insert a new Section III stating the effect of the consolidation of two or more national banks one of which has trust powers and the advisability of the consolidated bank obtaining a new fiduciary permit.

New Section IV, page 25a.

It is proposed to insert a new Section IV stating the effect of the consolidation of a State bank having trust powers with a national bank under the charter of the latter. This was suggested by the Federal Reserve Banks of Boston and St. Louis.

Old Section III, new Section V, page 25c.

It is proposed to redesignate old Section III as Section V, and to amend the section so as to require every national bank which obtains from the Federal Reserve Board a permit to act in fiduciary capacities to establish a separate trust department within six months after issuance of such permit. This was recommended by the Governors' Conference and by the conference of Federal Reserve Agents in the fall of 1926.

New Section VI, page 25c.

It is proposed to insert at this place a new section with reference to the deposit of securities with State authorities which will require such

deposits to be made within six months after the issuance of a fiduciary permit. This was suggested by the conference of Governors and by the conference of Federal Reserve Agents in the fall of 1926. It is also proposed to insert here a provision covering the situation where the State law requires a deposit of securities but the State authorities refuse to accept such deposits from national banks.

Old Section V, new Section VIII, page 26.

It is proposed to designate old section V as Section VIII and to rewrite the entire section so as to cover more completely the handling of funds awaiting investment or distribution. The principal changes may be summarized briefly as follows:

(1) There is incorporated in this section a statement of the principle that funds held awaiting investment or distribution should be invested or distributed as soon as practicable and should not be held by the bank uninvested any longer than is reasonably necessary.

(2) The provision with reference to deposits of trust funds in the banking department of the trustee bank to the credit of the trust department is amplified and made more definite. This was suggested by the Federal Reserve Banks of New York and Cleveland.

(3) There is inserted as Subsection (c) a new provision covering deposits of trust funds in other banks and requiring that when this is done the trustee bank shall require the bank in which such funds are deposited to pledge securities with the trustee bank for the protection of such deposits. This is believed to be absolutely necessary in order to afford trust funds the protection which the Federal Reserve Act contemplates. If the trustee deposits trust funds in another bank to the credit of itself as trustee it incurs no liability therefor except in the case of actual negligence or violation of the terms of the trust agreement; and, if the bank in which such

funds are deposited should fail, the trust estate would have no prior lien on such funds but would be in the position of a general creditor. Such a result is clearly contrary to the intent of that provision of Section 11(k) which provides that if trust funds are used in the business of the trustee bank the bank shall pledge securities with the trust department for their protection.

With reference to this proposed new Subsection (c), Mr. Austin makes the following comment, due to a peculiar local situation in Pennsylvania:

> "We very much regret that it was found necessary to put such a provision in the regulations; the Pennsylvania law requires that uninvested trust funds shall be deposited by the trustee bank with another banking institution, no securities are required from such institution, and the plan for many many years has worked well. To require national banks now to acquire collateral security from institutions with which they deposit uninvested trust funds is going to make no end of trouble and ill feelings, and we think will practically result in national banks keeping such trust funds in their own institutions and absolutely disregarding the Pennsylvania State law, which requires uninvested trust funds to be deposited in some other institution."

The Federal Reserve Board has consistently held, however, that national banks in Pennsylvania exercising trust powers may deposit their uninvested trust funds in their commercial departments under the terms and conditions prescribed in Section 11(k) of the Federal Reserve Act and the Board's regulations. The right of a national bank to do this, regardless of the requirements of State law, would seem to have been definitely settled by the case of In re Turner's Estate, decided by the Supreme Court of Pennsylvania in 1923.

It would seem unfortunate to omit a very wholesome provision from the Board's regulations merely because one State of the Union has an unsound statute with which national banks cannot be compelled to comply.

Old Section VI, new Section IX, page 26a.

It is proposed to amend this ~~section so~~ as to state explicitly that funds held in trust must be invested as soon as practicable; and, also, so as

to authorize investments to be approved by a committee of directors appointed for that purpose, instead of requiring them to be approved by the entire Board of Directors.

New Section X, page 26a.

It is proposed to insert a new Section X stating what compensation the bank may receive for acting in fiduciary capacities and providing that, after the deduction of a proper fee or compensation, all income derived from the investment of trust funds shall be paid over or credited to the account of such trust. This is intended to prevent a practice such as that which exists in Kentucky, whereby some banks hold trust funds uninvested, employ them in their business, pay the trust estate a penalty of 5% as required by the State law, and retain for themselves all earnings in excess of 5%. This was suggested by the Federal Reserve Bank of St. Louis; and, on February 23, 1927, the Board requested the Law Committee to prepare such an amendment.

Old Section VIII, new Section XII, page 26b.

It is proposed to amend this section so as to authorize separate examinations of the trust department to be made at any time. This was suggested by the Federal Reserve Bank of Minneapolis.

New Section XIII, page 26b.

It is proposed to insert a new section XIII providing for the winding up of the affairs of the trust department of a national bank which is placed in voluntary liquidation or in the hands of a receiver.

It has been suggested by Mr. Awalt on behalf of the Comptroller of the Currency that there should be inserted at this point a provision for the winding up of the trust department of a national bank which voluntarily surrenders its trust permit and discontinues the exercise of trust powers. In view of the fact that this happens so seldom and the proper practice in

such cases has never been decided upon by the Federal Reserve Board, I doubt the advisability of attempting to promulgate a regulation on this subject at the present time. If, however, the Board desires to promulgate such a regulation, the following section could be inserted immediately after new Section XIII on page 27:

"SECTION XIV. DISCONTINUANCE OF THE EXERCISE OF TRUST POWERS.

"Whenever a national bank exercising fiduciary powers decides to discontinue exercising such powers and to terminate the operation of its trust department, it shall give written notice to that effect to the Federal Reserve Board. When such notice has been given, the bank shall thereupon proceed to settle the affairs of the trust department in the manner provided in the paragraphs numbered 1 to 4 of Section XIII (b) of this regulation.

"When the affairs of the trust department of such national bank have been finally settled and disposed of in accordance with the provisions of this regulation, the bank shall so advise the Federal Reserve Board."

Old Section X, page 27.

It has been suggested by the office of the Comptroller of the Currency that there should be eliminated entirely the existing Section X, whereby the Board now reserves the right to revoke permits to act in fiduciary capacities for violations of law; because it is believed that the reservation of this right by the Federal Reserve Board is inconsistent with the policy of Congress as indicated in the McFadden Act. The McFadden Act contains a provision granting national banks indeterminate charters, and it is clear that the purpose of Congress in enacting this provision was to enable national banks to compete with trust companies having indeterminate or perpetual charters. It is argued that this purpose of Congress would be defeated if the Federal Reserve Board should continue to reserve the right to revoke fiduciary permits. While it is believed that the Board technically has such a right under the existing regulations, the legality of

this section of the regulations is at least open to doubt, especially since the enactment of the McFadden Act. Moreover, this power has never been exercised, and an equally effective remedy lies in the Board's power to direct the Comptroller of the Currency to bring suit to forfeit the charter of a national bank for violation of law.

REGULATION G.

It is proposed to eliminate entirely the old Regulation G dealing with loans by national banks on farm land and other real estate; since this is a matter within the jurisdiction of the Comptroller of the Currency, and it is understood that he is preparing to issue regulations on this subject.

In order to avoid changing the familiar and well known designation of other existing regulations, it is proposed to redesignate Regulation M as Regulation G and insert it at this place.

REGULATION H.

Section I, page 30.

It is proposed to amend Section I so as to permit the admission to the Federal Reserve System of State banks located in outlying districts of cities having a population exceeding 50,000 inhabitants with a capital of $100,000 or $60,000, in view of the amendment contained in the McFadden Act permitting national banks so situated to be organized with a capital of only $100,000. It is also proposed to insert a foot note at the bottom of the page defining "outlying districts."

It is also proposed to insert at the end of this section a provision conforming to the provisions of the McFadden Act insofar as it affects the eligibility for membership in the Federal Reserve System of State banks having branches.

409

Section III, page 32.

It is proposed to change the last paragraph of this Section so as to conform to the law as amended by the McFadden Act and also so as to conform to the Board's actual practice in approving applications for membership subject to conditions. Mr. Austin has twice called attention to the fact that the Board does not issue any formal certificate of approval until after the conditions of membership are accepted by the applying bank.

Section IV, page 32.

It is necessary to change this section to conform to the amendment contained in the McFadden Act which authorizes the Board to prescribe only such conditions of membership as are "pursuant to" the provisions of the Federal Reserve Act. In the attached draft of the regulation only such changes are made in Section IV as are made necessary by the amendment contained in the McFadden Act. As an alternative, the following could be inserted in lieu of the present Section IV:

"SECTION IV. CONDITIONS OF MEMBERSHIP.

"Pursuant to the authority contained in the first paragraph of Section 9 of the Federal Reserve Act, which provides that the Federal Reserve Board may permit applying banks to become members of the Federal Reserve System 'subject to the provisions of this Act and to such conditions of membership as it may prescribe pursuant thereto', the Federal Reserve Board will prescribe for each bank or trust company hereafter applying for admission to the Federal Reserve System such conditions of membership pursuant to the provisions of the Federal Reserve Act as the Board may consider necessary or advisable in the particular case, and such bank or trust company will be required to agree to such conditions of membership prior to its admission to the Federal Reserve System."

This revision of Section IV would omit entirely the text of all conditions of membership, and probably would lessen materially the antagonism to the Board's practice of prescribing conditions of membership. It would not prevent the Board from prescribing any condition of membership which it may now prescribe under Section 9 as amended by the McFadden Act,

nor would it prevent the Board from adopting a definite policy with reference to conditions of membership, which policy might be incorporated in a resolution to be adopted by the Board or in a circular letter addressed to all Federal Reserve Agents.

Both alternative revisions of Section IV were submitted to the Federal Reserve banks; but only five of them stated their preference. New York, Philadelphia, and Minneapolis prefer the short form quoted above. Richmond and St. Louis prefer the longer form embodied in the attached draft of the regulations.

Section V, page 33.

If the shorter form of Section IV is adopted, Section V would have to be omitted altogether.

Regardless of which form of Section IV is adopted, there is very serious opposition to Section V on the part of the Federal Reserve Agents and Federal reserve banks, who claim that it is unworkable and causes them much embarrassment. I make no recommendation on this question; but suggest that while it has the regulations under consideration it would be advisable for the Board to weigh the practical advantages and disadvantages of this Section and decide whether or not to omit it.

Section VI, page 34.

It is proposed to eliminate altogether the old Section VI containing "Principles Governing Establishment of Branches", and to substitute therefor the text of the provision of the McFadden Act pertaining to branches of State member banks, together with a statement of the interpretation which has been given to that provision.

Section VIII, page 36.

It is proposed to omit entirely the second paragraph of this section,

in view of the fact that the Board or the Federal reserve banks may wish to change the existing practice with respect to examinations of State member banks. The omission of this paragraph would not of itself make any change in the existing practice, but would merely leave the Board free to make such achange if and when it sees fit.

In the last paragraph of this Section it is proposed to eliminate all reference to Form 107a, because the Board no longer requires State member banks to furnish special notifications of dividends.

REGULATION I.

Section II(a), page 39.

It is proposed to amend this section so as to state the existing rule in the case where a member bank reduces its surplus.

Section II(b), page 39.

The elimination of the words "if earned" is suggested in order to make the Regulation conform to the ruling contained in the Board's circular letter of April 17, 1925, (X-4322).

Section II(c), pages 39 and 40.

At the suggestion of the Federal Reserve Bank of Chicago, it is proposed to amend this section so as to require the cancellation and surrender of Federal reserve bank stock by a member bank in voluntary liquidation, even though no liquidating agent is appointed. The law does not require the appointment of a liquidating agent; but it does require that sufficient legal steps be taken to place the bank in voluntary liquidation, and this latter requirement will have to be retained in the regulation. The amendment to the regulation, therefore, will not cure the situation where a member bank sells out its business but does not go into liquidation. It will require an amendment to the law to correct that situation.

The elimination of the words "if earned" is suggested in order to make the Regulation conform to the ruling contained in the Board's circular letter of April 17, 1925,(X-4322).

REGULATION J.

Regulation J, Series of 1924, has proven so satisfactory and has stood the test of the courts so well that no change appears to be necessary.

At the suggestion of Mr. Baker, however, it is proposed to change the period at the end of the second paragraph of Section II to a comma and add the following:

> "and each member bank and nonmember clearing bank shall cooperate fully in the system of check clearance and collection for which provision is herein made."

This can do no harm and might be very helpful in dealing with the practice of member banks stamping their checks, "Not payable through Federal Reserve Banks." Mr. Baker, Mr. Parker, and I are agreed that this practice should not be specifically mentioned, lest it serve to "educate the Devil".

REGULATION K.

It is proposed to incorporate in the new edition of the regulations the text of Regulation K as amended June 8, 1927, with only a few changes in capitalization, punctuation, and numbering to make it conform to the general style of the regulations.

REGULATION L.

It is not proposed to make any changes in Regulation L.

REGULATION M.

It is not proposed to make any change in Regulation M, except to redesignate it as Regulation G and transfer it to the place formerly

occupied by old Regulation G, which is to be eliminated.

CONCLUSION.

It is respectfully recommended that the new regulations be promulgated as soon as possible; because the existing regulations are in some respects in conflict with the law as amended by the McFadden Act of February 25, 1927.

Respectfully,

Walter Wyatt,
General Counsel.

FEDERAL RESERVE BOARD

X-4874

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 15, 1927.

SUBJECT: Collection of Non-cash Items.

Dear Sir:

The Federal Reserve Board in its letter of September 24, 1926 (X-4677), advised all Federal Reserve banks that the provisions of the Federal Reserve Act authorize, but do not require the Federal Reserve banks to handle non-cash items and suggested 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. Subsequent to the date mentioned, the Board approved a proposal of the Federal Reserve Bank of Minneapolis to discontinue the direct presentation of non-cash items drawn on Minneapolis and Helena and to handle all non-cash items received by it from its own member banks and from member banks in other Federal Reserve Districts by forwarding such items to member banks for collection and returns. At the same time, proposals were received from two other Federal Reserve banks, both limiting collection items which the banks would handle to those drawn on or payable at banks. The Board requested the two banks referred to to make no change in their procedure of handling non-cash collection items until after the changed procedure at the Minneapolis bank had been followed by that bank for sufficient length of time to determine whether or not the effect thereof would be detrimental upon the collection system as a whole.

The Board is of the opinion, and has advised the Federal Reserve Bank of Minneapolis that the change in the procedure of that bank in the handling of non-cash items drawn on Minneapolis and Helena is having a detrimental effect upon the collection system as a whole, and the Board's authority under which the changed procedure was inaugurated by that bank has been rescinded effective July 1, 1927. When the Board granted permission to the Minneapolis bank to change its procedure with respect to the handling of non-cash items drawn on Minneapolis and Helena, it was understood by both the Board and the Minneapolis bank that if it should appear at any time that the new procedure was having a detrimental effect upon the Federal Reserve Collection System as a whole, the Minneapolis bank would, at the request of the Board, revert to the practice which had been followed in the handling of Minneapolis and Helena items. The Board has, therefore, requested the Minneapolis bank to handle all non-cash items drawn on Minneapolis and Helena in accordance with the procedure followed by it prior to February 1, 1927.

The discussions which have ensued during the period of the establishment and development of the present Federal Reserve Collection System, and the reports made by various committees of officials of the Federal Reserve banks relative to the operation thereof, clearly indicate that uniformity of procedure, insofar as is practicable, on the part of the twelve Federal Reserve banks in the matter of handling items received by them for collection, has always been deemed desirable, if not indeed essential, to the successful operation of the collection system. The Board, therefore, feels that so long as the Federal Reserve banks continue to afford collection facilities to their member banks the function should be regarded as a System function, based upon a common policy, questions concerning which to be determined by the Federal Reserve Board after consultation with all of the Federal Reserve banks, and with uniformity of procedure prevailing at all points, insofar as may be practicable.

The Board understands that with the reversion on July 1, 1927, by the Federal Reserve Bank of Minneapolis to the procedure followed by it prior to February 1, 1927, in the matter of handling non-cash collections, the collection procedure followed by all Federal Reserve banks will be on practically a uniform basis, and the Board now requests that no Federal Reserve bank make any material change in its procedure prior to submitting a proposal to the Federal Reserve Board and securing its approval thereto.

Very truly yours,

D. R. Crissinger,
Governor.

TO CHAIRMEN & GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD X-4876

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 16, 1927.

SUBJECT: Holidays during July, 1927.

Dear Sir:

On Monday, July 4th, Independence Day, there will be neither Gold Settlement Fund nor Federal Reserve Note Clearing, and the books of the Federal Reserve Board will be closed.

The following branches will also be closed on the dates specified:

Wednesday, July 13	Nashville Memphis	General Forrest's birthday
Monday, July 25	Salt Lake City	Pioneer Day

On the dates indicated, the branches affected will not participate in either the regular Gold Fund Clearing or the Federal Reserve Note Clearing.

Credits of July 13th for Memphis Branch and of July 25th for Salt Lake City Branch should be included with your credits for the following business days in your Gold Fund Clearing telegrams.

Please notify Branches.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

X-4877

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 16, 1927.

SUBJECT: Expense, Main Line, Leased Wire System, May, 1927.

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-4877-a and X-4877-b, covering in detail operations of the main line, Leased Wire System, during the month of May, 1927.

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 MAY, 1927

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	32,195	1,023	33,218	3,703	-	29,515	3.66
New York	140,860	-	140,860	7,772	421	132,667	16.44
Philadelphia	40,972	941	41,913	3,875	-	38,038	4.72
Cleveland	73,570	2,022	75,592	3,690	-	71,902	8.91
Richmond	43,115	2,961	46,076	3,782	-	42,294	5.24
Atlanta	54,551	3,945	58,496	4,963	-	53,533	6.64
Chicago	102,641	2,955	105,596	5,221	29	100,346	12.44
St. Louis	73,841	2,839	76,680	4,890	-	71,790	8.90
Minneapolis	32,151	2,656	34,807	2,129	-	32,678	4.05
Kansas City	74,870	2,790	77,660	3,949	-	73,711	9.14
Dallas	56,278	5,247	61,525	2,290	-	59,235	7.34
San Francisco	103,774	3,128	106,902	5,877	-	101,025	12.52
Total	828,818	30,507	859,325	52,141	450	806,734	100.00
F. R. Board			355,160	90,510	343	264,307	
Total			1,214,485	142,651	793	1,071,041	
Percent of total			100.00%	11.75%	.06%	88.19%	

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-4877-b).

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

REPORT OF EXPENSE MAIN LINE
FEDERAL RESERVE LEASED WIRE SYSTEM, MAY, 1927

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	$ 740.63	$ 260.00	$ 480.63
New York	976.41	1.00	-	977.41	3,326.75	977.41	2,349.34
Philadelphia	225.00	-	-	225.00	955.13	225.00	730.13
Cleveland	296.66	-	-	296.66	1,803.00	296.66	1,506.34
Richmond	190.00	-	-	190.00	1,060.35	190.00	1,075.02(&)
Atlanta	270.00	-	-	270.00	1,343.65	270.00	1,073.65
Chicago	4,048.33(#)	-	-	4,048.33	2,517.33	4,048.33	1,531.00(*)
St. Louis	275.00	-	-	275.00	1,800.98	275.00	1,525.98
Minneapolis	193.73	-	-	193.73	819.55	193.73	625.82
Kansas City	275.64	-	-	275.64	1,849.55	275.64	1,573.91
Dallas	251.00	-	-	251.00	1,485.30	251.00	1,234.30
San Francisco	370.00	-	-	370.00	2,533.51	370.00	2,163.51
Federal Reserve Board	-	-	15,308.77	15,308.77			
Total	$7,631.77	$1.00	$15,308.77	$22,941.54	$20,235.73	$7,632.77	$14,338.63
				2,705.81(a)			1,531.00(b)
				$20,235.73			$12,807.63

(&) Includes $204.67 for branch line business transmitted over main line circuit.
(#) Includes salaries of Washington operators.
(*) Credit.
(a) Received $2,694.67 from Treasury Department and $11.14 from War Finance Corporation covering business for the month of May, 1927.
(b) Amount reimbursable to Chicago.

FEDERAL RESERVE BOARD

X-4878

WASHINGTON

June 21, 1927

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

SUBJECT: Revision of Board's Regulations.

Dear Sir:

There is enclosed for your information a copy of a draft of a revision of all the Board's printed regulations, together with a copy of a memorandum prepared by the Board's General Counsel explaining each proposed change in the old regulations.

The enclosed draft of the regulations has been approved tentatively by the Federal Reserve Board, except that:

(1) The Board directed the preparation of an alternative draft of Section II(d) of Regulation D, defining savings accounts;

(2) In the matter of assessing penalties for deficiencies in reserves, the Board voted that, as to member banks located in reserve and central reserve cities, deficiencies should be computed on an actual daily basis instead of an average basis as heretofore, it being understood that the reserves for each day will be based upon the net deposit balances of the member bank at the close of business the preceding day; and, as to banks outside of reserve and central reserve cities, deficiencies should be computed on the basis of average reserves for weekly periods; and

(3) The Board directed that there should be prepared and added to the regulations a regulation on the subject of non-cash collections.

An alternative draft of Section II(d) of Regulation D, a redraft of Section IV of Regulation D to conform to the Board's views with reference to penalties for deficiencies in reserves, and a draft of a proposed regulation on non-cash collections are also enclosed herewith; and the Board requests an early expression of your views on the enclosed draft of the regulations with these changes. The proposed new regulation on non-cash collections was prepared very hastily, and you are requested to examine it with special care and to criticize it in detail.

Inasmuch as the Board's existing regulations are in some respects in conflict with the law as amended by the McFadden Act of February 25, 1927, the Board desires to promulgate a new edition of its regulations as soon as possible. The Board, therefore, has set July 20 as the date upon which it will take final action on these regulations, and, in order to receive any consideration, it will be necessary for your suggestions and comments to be received not later than July 15, 1927.

By order of the Federal Reserve Board.

Very truly yours,

Walter L. Eddy,
Secretary.

Enclosures.

To Governors & Chairmen of all F. R. Banks.

(Alternative substitute for Section II(d) of Regulation D.)

(d) Savings Accounts. The term "savings accounts" is defined generally as accounts to the credit of which are deposited the savings or accumulations of small depositors, which bear interest, which are represented by pass books delivered to the depositors, which are not subject to check in the usual sense but can be withdrawn only upon the presentation of the pass book, and as to which the bank reserves the right to require the depositor to give notice of an intended withdrawal not less than thirty days before a withdrawal is made.

In order to constitute a "savings account" within the meaning of this regulation, a deposit must comply with the following requirements:

(1) It must be the deposit of an individual or of a religious, charitable or similar corporation and not the deposit of one bank in another or the deposit of a business corporation or firm;

(2) It must bear interest;

(3) It must be evidenced by a pass book, certificate or other similar form of receipt delivered to the depositor, which must actually be required to be presented to the bank whenever a withdrawal is made;

(4) It must not be subject to check in the usual sense and must not be permitted to be withdrawn except upon the actual presentation of the pass book, certificate or other similar form of receipt whenever a withdrawal is made;

(5) The amount must not exceed $5,000; and

(6) The bank must reserve the right to require the depositor to give notice of an intended withdrawal not less than thirty days before a withdrawal is made.

(Substitute for Section IV of Regulation D)

SECTION IV. PENALTIES FOR DEFICIENCIES IN RESERVES.

Inasmuch as it is essential that the law in respect to the maintenance by member banks of the required minimum reserve balance shall be strictly complied with, the Federal Reserve Board, under authority vested in it by section 19 of the Federal Reserve Act, hereby prescribes the following rules governing deficiencies in reserves:

(a) Banks in Central Reserve and Reserve Cities.

(1) Deficiencies in reserve balances of all member banks located in central reserve and reserve cities will be computed on the basis of actual net deposit balances, the required reserve balance of each member bank at the close of business each day being based on its net deposit balances at the close of business on the preceding business day;

(2) Penalties for such deficiencies will be assessed monthly on the basis of actual daily deficiencies during the preceding month;

(3) Such penalties shall be assessed at a basic rate of 2% per annum above the Federal reserve bank discount rate on 90-day commercial paper;

(4) When a member bank in a central reserve or reserve city has an actual deficiency in reserves for fifteen or more days in any month, there shall be assessed, in addition to the penalty at the basic rate, a progressive penalty on daily reserve deficiencies, until such member bank has maintained the required reserves every day for a month. Such progressive penalty shall be at the rate of 1% for the first month and shall increase at the rate of 1% for each subsequent month thereafter in which the bank's actual reserves have been deficient for fifteen days or more; provided that the maximum penalty charged shall not exceed 10%.

(b) Banks not in Reserve or Central Reserve Cities.

(1) Deficiencies in reserve balances of member banks not located in central reserve and reserve cities will be computed on the basis of average daily net deposit balances covering a weekly period of seven days.

(2) Penalties for such deficiencies will be assessed monthly on the basis of average daily deficiencies during each of the weekly periods ending in the preceding month.

(3) Such penalties shall be assessed at a basic rate of 2% per annum above the Federal reserve bank discount rate on 90-day commercial paper.

(4) When a member bank not located in a central reserve or reserve city has had an average deficiency in reserves for four consecutive weekly periods, there shall be assessed, in addition to the penalty at the basic rate, a progressive penalty on weekly deficiencies until the required reserve has been restored and maintained for four consecutive weekly periods. Such progressive penalty shall be at the rate of 1% for the first four weeks and shall increase at the rate of 1/4 of 1% for each subsequent week thereafter in which the bank's average reserves have been deficient; provided that the maximum penalty charged shall not exceed 10%.

(c) Continued Deficiencies.

Whenever any member bank is subject to the maximum penalty of 10%, the Federal Reserve Agent shall promptly report the fact to the Federal Reserve Board with a recommendation as to whether or not the Board should:

(1) In the case of a national bank, direct the Comptroller of the Currency to bring a suit to forfeit the charter of such national bank under the provisions of Section 2 of the Federal Reserve Act; or

(2) In the case of a State member bank, institute proceedings to re-

quire such bank to surrender its stock in the Federal reserve bank and to forfeit all rights and privileges of membership, pursuant to the provisions of Section 9 of the Federal Reserve Act; or

(3) In either case, to take such other action as the Federal Reserve Agent may recommend or the Federal Reserve Board may consider advisable.

(Note: Make this Regulation K; change old K to G; don't change designation of M.)

REGULATION K, SERIES OF 1927.

COLLECTION OF MATURING NOTES AND BILLS.

SECTION I. STATUTORY PROVISIONS.

Section 13 of the Federal Reserve Act authorizes Federal reserve banks to receive from their member banks and non-member clearing banks, for collection, maturing notes and bills and to receive from other Federal reserve banks for collection maturing notes and bills payable within the district of the Federal reserve bank receiving such items. The authority to receive such items for collection includes the authority to take such steps and perform such acts as may be necessary to effect collection, and to exercise such other powers as are reasonably incidental to the collection of such items.

SECTION II. DEFINITIONS.

(a) Maturing Notes and Bills. The term "maturing notes and bills" has been construed, and is hereby defined, to include:

1. Maturing notes, drafts, bills of exchange, acceptances, bankers' acceptances, and certificates of deposit;

2. Drafts on savings accounts with pass-books attached;

3. Checks, drafts and other cash items which have previously been dishonored;

4. Maturing bonds and coupons; and

5. All other negotiable instruments payable in the United States, except checks, bank drafts, and other cash items which have not been previously dishonored.

The term "maturing notes and bills" does not include checks, bank drafts, or certificates of deposit drawn on or payable by non-member banks and which cannot be collected at par in funds acceptable to the collecting Federal reserve bank.

(b) Nonmember Clearing Bank. The term "nonmember clearing bank" is defined to mean a nonmember bank or trust company which maintains with the Federal reserve bank of the district in which it is located a balance sufficient to qualify it under Section 13 of the Federal Reserve Act to send cash items to the Federal reserve bank for purposes of exchange or collection under Regulation J.

SECTION III. GENERAL REQUIREMENTS.

The Federal Reserve Board, desiring to afford to the public and to the various banks of the country a direct, expeditious and economical system for the collection of maturing notes and bills, has arranged to have all Federal reserve banks collect maturing notes and bills on a uniform basis and on the terms and conditions hereinafter prescribed.

SECTION IV. ITEMS RECEIVED FOR COLLECTION.

(a) Each Federal reserve bank will receive from its member and nonmember clearing banks, for collection on the terms and conditions hereinafter prescribed, all items defined in Section II as "maturing notes and bills."

(b) Each Federal reserve bank will receive from other Federal reserve banks, and from all member banks and nonmember clearing banks in other districts which are authorized to route direct for the credit of their respective Federal reserve banks, for collection on the terms and conditions hereinafter prescribed, all items defined in Section II as "maturing notes and bills".

(c) No Federal reserve bank shall receive for collection any check, bank draft, or certificate of deposit drawn on or payable by a nonmember bank which cannot be collected at par in funds acceptable to the Federal reserve bank of the district in which such non-member bank is located, nor any item payable outside of the Continental United States.

SECTION V. TERMS OF COLLECTION.

427

The Federal Reserve Board hereby authorizes the Federal reserve banks to handle such maturing notes and bills subject to the following terms and conditions; and each member bank and nonmember clearing bank which sends maturing notes and bills to any Federal reserve bank for collection shall by such action be deemed: (a) to have agreed to all the terms and conditions of this regulation; (b) to have warranted to the Federal reserve banks that it has authority to empower the Federal reserve banks to handle items in the manner hereinafter provided; and (c) to have agreed to indemnify any Federal reserve bank for any loss resulting from the failure of such sending bank to have such authority.

1. Federal reserve banks will act only as the collecting agents of the sending banks and will be responsible only for due diligence and care in forwarding or presenting such items.

2. Federal reserve banks may present or forward such items for payment in cash or bank draft, direct to the banks on which they are drawn, at which they are payable, or through which they are collectible; or present them direct to the person, firm or corporation on which they are drawn, for payment in cash or bank check; or, if the item is not payable in a city in which there is a Federal reserve bank or a branch of a Federal reserve bank, then they may, in their discretion, forward them to another agent with the same authority that they have to present or forward them for payment.

3. Items payable in another district will be forwarded to the Federal reserve bank of such district or to a branch of such

Federal reserve bank for collection on the terms and conditions herein prescribed.

4. Except as herein provided, Federal reserve banks shall be held liable only when they have received actual payment in cash or in the proceeds of any bank draft or check received in remittance.

SECTION VI. CREDIT FOR REMITTANCES.

No Federal reserve bank shall credit the reserve account of any member or nonmember clearing bank with the amount of any maturing note or bill until a remittance for such item has actually been received in funds acceptable to such Federal reserve bank. Upon the receipt of such a remittance, the Federal reserve bank will give credit in the reserve account of the member bank from which such item was received or in the clearing account of the nonmember clearing bank from which such item was received. Such credit, however, shall be subject to final payment of the remittance so received and, in the event of the failure of the Federal reserve bank to receive payment of any remittance in actually and finally collected funds, the amount thereof shall be charged to the reserve account or clearing account of the bank from which the item or items covered by such remittance were received.

SECTION VII. CHARGES FOR COLLECTION.

(a) Charges by Federal Reserve Banks.

No charge shall be made by any Federal reserve bank for the service performed by it in the collection of maturing notes and bills, except that:

(1) Any charge made by another collecting agent shall be deducted and credit given for the actual net proceeds;

(2) The actual expense of registration, insurance, or transportation of bonds and coupons forwarded to other points for collection shall be deducted and credit given for the actual net proceeds;

(3) All telegraph and telephone charges in connection with the collection of maturing notes and bills shall be charged to the bank making the request involving such expense; and

(4) A service charge of fifteen cents per item on all maturing notes and bills returned unpaid and unprotested shall be charged to the bank from which such items were received for collection. This charge shall not be made on items that are protested.

(b) Charges by Collecting Agents.

Any member bank or nonmember bank selected by the Federal reserve bank as an agent to collect maturing notes and bills received under the terms of this regulation may make a reasonable charge for its services in handling such maturing notes and bills.

(c) Charges by Member Banks and Nonmember Banks from which Items are received.

Any member bank or nonmember clearing bank sending maturing notes and bills to a Federal reserve bank for collection under the terms of this regulation may, at its option, make a reasonable charge to its customers for its services in handling such items.

SECTION VIII. OTHER RULES AND REGULATIONS.

Each Federal reserve bank shall also promulgate rules and regulations not inconsistent with the terms of the law or of this regulation governing the details of the collection of maturing notes and bills by such Federal reserve bank. Such rules and regulations shall be set forth by each Federal reserve bank in its letter of instructions to its member and nonmember clearing banks and shall be binding upon any member or nonmember clearing bank which sends maturing notes and bills for collection to such Federal reserve bank or to any other Federal reserve bank for the account of such Federal reserve bank.

FEDERAL RESERVE BOARD

X-4879

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 20, 1927.

CONFIDENTIAL

SUBJECT: Code words to be used by Federal Reserve Bank of New York in advices re Bank of England Account.

Dear Sir:

In order to reduce the length of telegrams between the Federal Reserve Bank of New York and other Federal reserve banks in connection with participation in the Bank of England account, it has been suggested that additional code words be supplied from the Federal Reserve Telegraph Code.

The Board has approved this suggestion, and effective at once, the following code words will be used between the Federal Reserve Bank of New York and other Federal reserve banks in the messages referred to:

KISSABLE: We have today sold from gold held abroad for which we have received payment in sterling equivalent to a dollar value of $_____, your participation being $_____. Please make entry on your books as follows: Debit: Participation in due from foreign banks-Bank of England $_____Credit: Participation in gold held abroad $_____.

KISSED: The Bank of England has today made investments for our account in sterling bills having a face dollar value of $_____. Your participation amounts to $_____. Make following entry on your books: Debit: Investments through foreign banks $_____ Credit: Due from foreign banks-Bank of England $_____.

KISSING: Your proportion of daily accrual on investments through foreign banks beginning (date)_____ is $_____ daily. Until further notice we shall credit you daily through settlement with this amount. Charge us and credit appropriate earning account.

KITCHEN: Today's maturities of bills held in account "Investments through foreign banks" amount to $_____ (in excess of the amount being reinvested in other sterling bills). Your proportion of this reduction in the account is $_____. Make entry on your books as follows: Debit: Participation in due from foreign banks-Bank of England $_____ Credit: Participation in investments through foreign banks $_____.

KITTENISH: The Bank of England is employing at interest sterling having a dollar value of $_____. Your proportion is $_____. Make entry on your books as follows: Debit: Participation in due from foreign banks-Bank of England special interest account $_____ Credit: Participation in due from foreign banks-Bank of England $_____.

KITTISH: The amount of our sterling balance with the Bank of England employed at interest has been reduced to the extent of a dollar value of $_____, your proportion being $_____. Make entry on your books as follows: Debit: Participation in due from foreign banks-Bank of England $_____ Credit: Participation in due from foreign banks-Bank of England special interest account $_____.

KLICK: Bank of England advise that they have credited our account with sterling having a dollar value of $_____, representing interest at _____% on the employed balance of our account for the week ended _____. Your proportion is $_____. Make following entry on your books: Debit: Participation in due from foreign banks-Bank of England $_____ Credit: Miscellaneous Income, or other appropriate account $_____.

These words should be inserted in the Federal Reserve Telegraph Code, following the supplemental code word "JUSTNESS" at the bottom of page 130.

There are enclosed herewith a sufficient number of extra copies of this letter to enable you to insert these code words in all of the code books in the possession of your bank.

Very truly yours,

Walter L. Eddy,
Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

X-4880

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 21, 1927.

SUBJECT: Decision of the Supreme Court of Texas as to negotiability of trade acceptances.

Dear Sir:

There is enclosed herewith for your information a copy of an opinion recently rendered by the Supreme Court of Texas in the case of Lane Co. v. Crum, in which it was held that a trade acceptance is rendered non-negotiable by a statement contained thereon as follows: "The obligation of the acceptor hereof arises out of the purchase of goods from the drawer, maturity being in conformity with the original terms of purchase". There are also enclosed for your further information on this subject copies of certain correspondence which the Board has had in this connection and a copy of a memorandum of the Board's General Counsel with regard to this question.

A similar decision has also been rendered by the Supreme Court of Florida with regard to trade acceptances bearing an endorsement of this kind.

These decisions raise serious doubt as to the negotiability of acceptances containing statements of this kind in all jurisdictions where the courts of last resort have not yet held such acceptances to be negotiable. The Federal Reserve Board considers that it is advisable to change the standard form of trade acceptance now in use by eliminating therefrom the clause giving rise to this doubt and by inserting in lieu thereof a provision to read as follows: "The transaction which gives rise to this instrument is the purchase of goods by the acceptor from the drawer."

Very truly yours,

D. R. Crissinger,
Governor.

Enclosures: To Governors & Chairmen of all F. R. Banks.

(COPY)

X-4880-a

April 28, 1927. 434

To Federal Reserve Board

From Mr. Wyatt - General Counsel

SUBJECT: Negotiability of Trade Acceptances containing statement that, "The obligation of the acceptor hereof arises out of the purchase of goods from the drawer."

The attached correspondence relates to an opinion recently rendered by the Supreme Court of Texas in the case of Lane Company v. Crum, wherein the Court held a trade acceptance is rendered non-negotiable by the appearance thereon of the following clause:

> "The obligation of the acceptor hereof arises out of the purchase of goods from the drawer, maturity being in conformity with the original terms of purchase."

No Federal reserve bank was a party to this suit, but the decision is of importance to all Federal reserve banks because they frequently discount or purchase trade acceptances containing similar statements. It is also of importance to the Federal Reserve Board, because the Board has heretofore ruled that such acceptances are negotiable; and, relying upon such ruling, the American Acceptance Council has prepared and furnished to its members standard forms of trade acceptances containing a similar clause.

I have delayed reporting on this matter because Mr. Stroud advised me that a motion for a re-hearing had been filed in the above entitled case; but I was advised yesterday that such motion was denied.

It appears from the attached memorandum forwarded to me by the General Counsel of the American Bankers Association that the Supreme Court of Florida has also held such acceptances to be non-negotiable.

OPINION

With all due respect to the Supreme Courts of Texas and Florida, I believe that their decisions on this question are wrong. They are contrary to a number of decisions in other States and, in my opinion, are contrary to that section of the Negotiable Instruments Act which provides in substance that an instrument is negotiable even though coupled with "a statement of the transaction which gives rise to the instrument."

I believe it is unlikely that these decisions will be followed by many of the other State Courts; but they render such acceptances non-negotiable in the States of Texas and Florida and raise serious doubts as to the negotiability of such acceptances in all States where the Courts of last resort have not yet held them to be negotiable.

It is advisable, therefore, to change the standard form of trade acceptance so as to eliminate this doubt. In my opinion, this could be accomplished by changing the standard clause to read as follows:

> "The transaction giving rise to this instrument is a purchase of goods by the acceptor from the drawer."

RECOMMENDATIONS.

It is respectfully recommended that:

1. Copies of the attached opinion, the attached correspondence and this memorandum be sent to all Federal reserve banks for their information as soon as possible; and

2. That the attached opinion of the Supreme Court of Texas be published in the Federal Reserve Bulletin with a statement suggesting that, in view of the doubts raised by these decisions, it is advisable to change the wording of the standard clause of trade acceptances as suggested above.

DISCUSSION.

Section 3 of the uniform Negotiable Instruments Act, which has been adopted in all of the States, reads in part as follows:

> "An unqualified order or promise to pay is unconditional within the meaning of this Act, though coupled with:
>
> * * * * * * * * * * * * * *
>
> "2. A statement of the transaction which gives rise to the instrument."

This means, in effect, that an instrument which is otherwise negotiable is not rendered non-negotiable by the appearance thereon of a statement of the transaction which gives rise to the instrument.

Relying upon this provision of the Negotiable Instruments Act, the Board provided in its Regulation P, issued under date of July 15, 1915, that:

> "A trade acceptance must bear on its face, or be accompanied by, evidence in form satisfactory to the Federal Reserve Bank, that it was drawn by the seller of the goods on the purchaser of such goods. Such evidence may consist of a certificate on or accompanying the acceptance, to the following effect. 'The obligation of the acceptor of this bill arises out of the purchase of goods from the drawer.' Such certificate may be accepted by the Federal Reserve Bank as sufficient evidence; provided, however, that the Federal Reserve Bank, in its discretion, may inquire into the exact nature of the transaction underlying the acceptance."

Subsequently, there was published on page 142 of the Federal Reserve Bulletin for February, 1919, an opinion of the Board's Counsel holding that a trade acceptance is negotiable although it contains a statement that, "The obligation of the acceptor hereof arises out of the purchase of goods from the drawer as per invoices, a record of which is given in the subjoined statement."

It appears that, relying upon these rulings, the American Acceptance Council has prepared and distributed to its members a standard form of trade acceptance containing the following statement:

> "The obligation of the acceptor hereof arises out of the purchase of goods from the drawer."

It is acceptances of this general character which have been held to be non-negotiable by the Supreme Courts of Texas and Florida.

With all due respect to the Supreme Court of Texas, I am of the opinion that its decision in the case of Lane Company v. Crum is wrong. The clear intent of the clause quoted was merely to state the transaction out of which the instrument arose, as permitted under the above quoted provision of the Negotiable Instruments Act; but the Court ruled that:

> "The obligation of the acceptor, according to the terms of said clause, arises not from the instruments themselves, but from a collateral transaction. For an instrument to be negotiable, the obligation of the maker must arise exclusively from the instrument."

Except in the case of an accommodation maker or endorser, I hardly see how the obligation of a party to any negotiable instrument could arise out of the instrument itself. Negotiable instruments are merely promises or orders to pay certain sums of money arising out of obligations resulting from business transactions and, except in the case of an accommodation maker or endorser, the obligation cannot possibly arise from the instrument itself. On the contrary, the instrument is merely evidence of a pre-existing obligation, which, in order to be negotiable, is stripped of all details of the contract or other transaction out of which it arose except a bare unconditional promise or order to pay to bearer, or to a certain person or order, a sum certain in money on demand or at a specified time. The fact that such an instrument contains on its face the statement that the obligation evidenced by the instrument arises out of some other transaction does not, in my opinion, have the effect of importing into the instrument itself the terms of the transaction out of which it arose, and the above quoted provision of the Negotiable Instruments Act is clearly intended to provide expressly that it shall not have such effect.

The Supreme Court of Texas, however, first reached the conclusion that such an instrument was non-negotiable and then endeavored to support its conclusion by arguing that the above quoted clause had the effect of making the holder of the instrument subject to all equities in favor of the acceptor resulting from the transaction out of which the instrument arose. This reasoning, however, merely "begs the question". A bona fide holder for value would not be subjected to any equities existing in favor of the acceptor, unless the instrument is non-negotiable, and the Negotiable Instruments Act provides that an instrument is not rendered non-negotiable by the appearance thereon of a statement of the transaction which gave rise to the instrument.

The Court apparently considered the above clause as more than a statement of the transaction which gave rise to the instrument, because it used the words "obligation of the acceptor."

Although I believe the decision of the Supreme Court of Texas to be wrong, it renders such instruments non-negotiable in the State of Texas and apparently the same rule has been established in Florida by a decision of the Florida Supreme Court. While it appears from the memorandum submitted by the General Counsel of the American Bankers' Association that such acceptances have been held to be negotiable in a number of other States, the Texas and Florida decisions at least raise a doubt as to the negotiability of such instruments in all States in which such instruments have not yet been held to be negotiable. It is highly desirable, that this doubt be eliminated, therefore, and I am of the opinion the best way to eliminate it is to adopt the suggestions made by Judge Paton that the clause contained in the standard form of trade acceptances be changed to read as follows:

> "The transaction which gives rise to this instrument is the purchase of goods by the acceptor from the drawer."

This would conform more closely to the language of the Negotiable Instruments Act and would eliminate the troublesome word "obligation".

In view of the importance of this decision to all the Federal reserve banks, I feel that it should be communicated promptly to them, together with copies of this memorandum and of the attached correspondence. I note that the Federal Reserve Bank of Dallas has placed this subject on the program for discussion at the Governors' Conference, and the information contained in this file would be helpful in connection with that discussion.

In view of the fact that the Board has heretofore published statements to the effect that trade acceptances containing the statement that "the obligation of the acceptor hereof arises out of the purchase of goods from the drawer" are negotiable, I believe it would be advisable to publish in the Federal Reserve Bulletin the opinion of the Texas Supreme Court and at the same time to suggest that the standard clause used in trade acceptances be changed to read as suggested above. This would prevent the public from being mislead by the statement heretofore published by the Board and would suggest a means of minimizing or eliminating altogether the harm which has been done by the decisions rendered by the courts of Texas and Florida. The only apparent disadvantage of publishing this decision in the Federal Reserve Bulletin is that it might provoke further attacks upon the negotiability of trade acceptances now outstanding which contain this clause. I believe, however, that it is only fair to advise the member banks of the doubts as to the negotiability of such acceptances and to suggest a new clause which would eliminate such doubts.

Respectfully,

(Signed) Walter Wyatt,
General Counsel.

COPY

FEDERAL RESERVE BANK
OF DALLAS

X-4880-b

March 29, 1927

Federal Reserve Board,
Washington, D. C.

Gentlemen:

Our Counsel, Messrs. Locke, Locke, Stroud & Randolph, has called our attention to a recent decision of the Supreme Court of this state in the case of Lane Co. vs. Crum et al, the language of which it would seem to us would have a very far-reaching effect. The court held that the following language in a trade acceptance, to-wit:

> "The obligation of the acceptor hereof arises out of the purchase of goods from the drawer, maturity being in conformity with the original terms of purchase,"

renders the same non-negotiable.

The language used by the court in rendering this decision is as follows:

> "For an instrument to be negotiable, the obligation of the maker must arise exclusively from the instrument. No obligation arising from a collateral transaction can be imported into the terms of the instrument without destroying the negotiability of the instrument."

Although a motion for re-hearing is now being prepared this is law in Texas at the present time. The judgment of the Supreme Court is so at variance with the expressed opinion of some of the best legal talent of the country that I feel sure that the Board will be interested in having the action of the Texas Supreme Court called to its attention.

Yours very truly,

(Signed) Lynn P. Talley,
Governor

COPY

X-4880-c

April 28, 1927

Mr. Robert H. Bean, Executive Secretary,
American Acceptance Council,
120 Broadway,
New York City.

My dear Mr. Bean:

I received your letter of April 21st referring to a memorandum prepared by Judge Paton, General Counsel to the American Bankers Association, with reference to the negotiability of trade acceptances containing the statement that "the obligation of the acceptor hereof arises out of the purchase of goods from the drawer."

I should have replied more promptly to your letter but I have been waiting to see whether the Supreme Court of Texas would grant a re-hearing in the case of Lane Company v. Crum, wherein it held such acceptances to be non-negotiable. I am now advised that the Supreme Court of Texas denied a re-hearing in that case.

I agree with Judge Paton that the holding of the Supreme Court of Texas appears to be wrong and that it is out of line with the decisions of other States; but it certainly establishes the law in the State of Texas and at least raises doubts as to the negotiability of such acceptances in other States where the Courts have not already held such acceptances to be negotiable. In view of these facts, I am of the opinion that it would be very unwise for the American Acceptance Council to distribute any further forms of trade acceptances bearing this clause. I think it would be wise to adopt Judge Paton's suggestion and change the clause to read:

> "The transaction which gives rise to this instrument is the purchase of goods by the acceptor from the drawer."

In view of the provisions of section 3 of the uniform Negotiable Instruments Law, I believe that acceptances bearing this clause would be held to be negotiable even in Texas andFlorida.

I am taking the matter up with the Federal Reserve Board and the Board may decide to publish a new ruling suggesting the adoption of the form proposed by Judge Paton.

With all best wishes, I am

Cordially yours,

Walter Wyatt,
General Counsel.

COPY

X-4880-d

AMERICAN ACCEPTANCE COUNCIL
120 BROADWAY
NEW YORK

April 21, 1927

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

My Dear Mr. Wyatt:

Judge Paton, General Counsel of the American Bankers Association, has sent me a copy of a memo prepared in his office on the subject of the negotiability of Trade Acceptances which contain the clause which has been in use for the past several years, this question having been raised by a recent decision of the Supreme Court of Texas. Judge Paton has also sent me a copy of his letter to you suggesting a change in the wording of the clause under consideration so that it will completely conform to the provision of the Negotiable Instrument Act.

This is quite an important matter as we are continuing the sale and distribution of a considerable quantity of Standard Trade Acceptance forms that bear the disputed clause. If there is to be a change I am inclined to think that we should withhold further distribution and advise inquirers that a revised wording of the Trade Acceptance is under consideration.

I would appreciate very much you letting me know whether in your opinion the action of the Supreme Courts of Texas and Florida declaring that the present clause destroys the negotiability of the instrument warrants a change in the form for use in other states. I am in doubt whether the Council should give any publicity to the recent decision at this time and on this point I would like your opinion.

With kind regards, I am

Very sincerely yours,

(Signed) Robert H. Bean
Executive Secretary.

COPY

442

X-4880-c

April 28, 1927

Mr. Thomas B. Paton, General Counsel,
American Bankers' Association,
110 East 42nd Street,
New York City.

Dear Judge Paton:

I have received and read with much interest your letter of April 12th and the enclosed memorandum with reference to the recent decision of the Supreme Court of Texas holding that a trade acceptance is rendered non-negotiable by the appearance of the following clause on the face thereof:

> "The obligation of the acceptor hereof arises out of the purchase of goods from the drawer, maturity being in conformity with the original terms of purchase."

I should have replied more promptly to your letter, but I was advised that there was pending in the Supreme Court of Texas a petition for a rehearing in the case of Lane Company v. Crum and I was waiting to see whether such re-hearing would be granted. I am now advised that the court denied a re-hearing.

I agree with you that the decision of the Supreme Courts of Texas and Florida appear to be inconsistent with the provisions of the Negotiable Instruments Law and with the holdings in other States. They have the effect, however, of rendering such instruments non-negotiable in the States of Florida and Texas and these decisions at least raise a doubt as to the negotiability of such instruments in other States where the Courts have not yet specifically held such instruments to be negotiable. In view of this fact, I think it would be very wise to adopt your suggestion and change the standard clause on trade acceptances to read as follows:

> "The transaction giving rise to this instrument is the purchase of goods by the acceptor from the drawer."

Such a statement would, I believe fully serve the purposes to be served by the clause now in use and would follow so closely the language of the Negotiable Instruments Act that I believe such acceptances bearing this clause would be held to be negotiable even in the States of Texas and Florida.

I am taking the liberty of submitting your valuable suggestion to the Federal Reserve Board with the recommendation that it be adopted. Inasmuch as the Board has not yet acted upon this matter, I should appreciate it if you would kindly consider this letter as purely personal and confidential. It expresses merely my own views and not those of the Federal Reserve Board.

With all best wishes, I am,

Cordially yours,

Walter Wyatt,
General Counsel.

COPY

THOMAS B. PATON
110 East 42nd Street
New York.

X-4880-f

April 12, 1927.

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

Dear Mr. Wyatt:-

The Supreme Court of Texas has recently held, following the decision of the Supreme Court of Florida, a year or so ago, that the standard clause in the trade acceptance which has been prescribed, I believe, under authority of the Federal Reserve Board, namely,

> "The obligation of the acceptor hereof arises out of the purchase of goods from the drawer"

destroys the negotiability of the instrument. I am enclosing a statement prepared in this office which explains the situation more fully.

The theory of the Texas court is that the quoted clause must be construed as meaning that the obligation of the acceptor does not arise from the instrument itself by reason of the terms of the acceptance or by reason of accepting the acceptance, but arises out of a collateral transaction, namely, the fact that the acceptor has purchased goods from the drawer and that it is necessary for the purchaser, in order to know what such obligation is, to look into the transaction itself. In other words, the purchaser is put on inquiry as to the terms and conditions of the transaction.

Of course, the phrase "obligation of the acceptor" is intended to mean the instrument as an accepted obligation, or the acceptance itself, and it seems to me a misinterpretation of its clear meaning to hold that the obligation of the acceptor arises out of his making of the acceptance rather than out of the transaction which gives rise to the instrument. It might just as well be held where A makes his note "for goods sold" that the note arises out of itself and not out of the sale of the goods.

Nevertheless, the fact remains that the Supreme Courts of two states have now held that the standard clause is not a statement of the transaction which gives rise to the instrument under the Negotiable Instruments Act but couples the trade acceptance with the transaction of sale of goods to the acceptor so as to make the obligation depend upon the terms and conditions of such transaction.

In view of this, it might be well to consider the question of

reframing the standard clause of trade acceptance somewhat along the following lines:

> "The transaction which gives rise to this instrument is the purchase of goods by the acceptor from the drawer."

This would strictly conform to the provision of the Negotiable Instruments Act that the negotiability is not affected by a statement of the transaction which gives rise to the instrument.

I am taking the liberty of sending a copy of this letter and enclosure to Mr. Robert H. Bean, Executive Secretary, American Acceptance Council, 120 Broadway, N. Y. City, for his information.

Very truly yours,

(Signed) Thomas B. Paton.

COPY

X-4380-g

Legal memorandum from Office of General Counsel of American Bankers Association.

File No. 1808 (168).
Prepared by: D. W.

Trade acceptance--Negotiability--Texas Decision--Suggested change in form of trade acceptance to render instrument negotiable even in Texas and Florida--

On March 2, 1927 the supreme court of Texas held a trade acceptance nonnegotiable. This decision followed an opinion of section A of the Commission of Appeals of Texas, Lane Company v. Crum, not yet reported. The trade acceptance contained the following phrase: (first clause) "The obligation of the acceptor hereof arises out of the purchase of goods from the drawer, (second clause) maturity being in conformity with the original terms of purchase." The opinion is quoted below so far as it relates to the negotiability of the trade acceptance. (The underlining is used to bring out such wording of the court as is most important and striking.)

> "We agree with the conclusion reached by Associate Justice Stanford in his dissenting opinion as to the legal effect of the clause just quoted. In our opinion the clause has effect to render the trade acceptances non-negotiable under the law merchant as well as under the Negotiable Instruments Act. The obligation of the acceptor, according to the terms of said clause, arises not from the instruments themselves, but from a collateral transaction. For an instrument to be negotiable, the obligation of the maker must arise exclusively from the instrument. No obligation arising from a collateral transaction can be imported into the terms of the instrument without destroying the negotiability of the instrument. 8 Corpus Juris, pp. 113-114. A negotiable instrument has been termed 'a courier without luggage,' whose countenance is its passport. This apt metaphor does not fit these trade acceptances, for the reason they are ladened with the equipment of a wayfarer who does not travel under safe conduct. By their express terms, these instruments bear burdens whose nature must be sought for beyond the four corners of the instruments themselves. The clause in question is more than a mere 'statement of the transaction which gives rise to the instrument,' as permitted by paragraph 2, section 3 of Article 5932 of the Revised Statutes. So far from being a mere descriptive reference to the transaction which gave rise to the instrument, the clause, in definite terms, points to that transaction as the source of the acceptor's obligation to pay the amount named in the instrument. The legal effect of the clause is to render the paper subject to all the rights and equities of the parties to the collateral transaction from which the obligation of the acceptor arises. Parker vs American Exchange Bank, 27 S. W. 1072, 8 C.J. 124."

The opinion of Justice Stanford to which reference is made is found in 284 S. W. 980, at page 982. This opinion so far as it deals with the negotiability of the trade acceptance is as follows: (As in the above, quotations of the most striking phrases are underlined.)

"There are two matters that stand out very prominently by rea-

son of the above indorsement, to wit: That 'the obligation of the acceptor arises,'not by reason of the terms of the acceptance, nor by reason of the accepting of said acceptance, but out of the fact that acceptor has purchased goods from the dealer. Then, in order for Mrs. Crum to know what the obligation of the acceptor was, she would necessarily have to look beyond the acceptance, she would have to examine the supposed contract of purchase, and when she did this she would learn there was no purchase of said goods, but only a 'special agency agreement.' Again, said acceptances on their face appear to fall due in 30, 90 and 120 days, but said clause above referred to recites: 'Maturity being in conformity with the original terms of purchase.' If the original terms of purchase had provided that said acceptances matured in 6, 9, and 12 months after date, then would not such provision of the contract have been controlling? And if this be true, before Mrs. Crum could know definitely when said acceptance matured, would she not be required to examine the original terms of said supposed purchase? And when she did this, she would have learned there was no purchase of said goods, but only a 'special agency agreement,' entered into, by the termsof which, in effect, said goods were so left at the place of business of the Lane Company and the Cascade Products Company agreed to put on a special campaign and sell said goods itself, and, if it failed to sell said goods in 60 days, to take them back, etc. In fact, it is thought, under the terms of the contract, the obligation of the acceptor, as well as the maturity of all said acceptances, was dependent upon a sale of said goods by the Cascade Company or by the joint efforts of the Cascade Company and the Lane Company, and that Mrs. Crum was chargeable with notice of the provisions of said supposed contract of purchase as they affected the obligation of the acceptor, and also the maturity of said acceptances, and this being true, said acceptances were not negotiable, and that the trial court was correct in so holding and admitting appellee's evidence of fraud, etc."

It is possible to construe the phrase "maturity being in conformity with the original terms of purchase" as the particular provision that renders the instrument nonnegotiable. So far as this phrase is concerned it would seem that there could be a reasonable difference of opinion as to the effect on negotiability. While the opinion of the Commission of Appeals does not segregate its treatment of the first clause from that of the second clause such segregation is made by Justice Stanford. Consequently, with the decision that the second clause renders the instrument nonnegotiable this office has no particular quarrel, especially in view of the fact that this clause is not embodied in the recommended form for trade acceptance. However, this office is vitally concerned with the question whether the first phrase, "The obligation of the acceptor hereof arises out of a purchase of goods from the drawer?" renders the instrument nonnegotiable. This matter is considered in detail in Paton's Digest, 1926, opinion 168 and the following. Opinion 168a in the second volume is a criticism of the decision of the Florida supreme court in Citizens' State Bank of Marianna v. Carmichael, 103 So.111, holding a trade acceptance nonnegotiable. In this Florida case the opinion is a short "per curiam" opinion which does not give any extended reasoning in support of the holding; in fact it is quite difficult to ascertain from the opinion exactly what the decision of the court is. This lack of clearness weakens the effect of the Florida decision as a precedent. In addition to the decisions cited in the Digest there have been several rendered subsequent to the publication of the Digest, some of which are digested below:

Alabama: Exchange National Bank v. Abbott Nursery Co.,--Ala.-- 110 So. 809. The trade acceptance on its face contained the following: "Part payment for 5,000 Vlag automatic grove heaters and contingent upon delivery prior to October 1st, 1923." The court considered the trade acceptance nonnegotiable but this may have been entirely due to the quoted provision.

California: Fagin v. Schilling, 250 Pac. (Cal. App.) 574. The opinion does not give the form of the trade acceptances involved but it is presumed that they were in the standard form and contained the first clause quoted in the Texas decision. The court stated "that the acceptances were subject to the same defenses as if they were nonnegotiable" because the holder was not a bona fide purchaser.

Kansas: Howard v. Reiter, 243 Pac. 278; rehearing denied 244 Pac. 4. The Kansas supreme court definitely committed itself to the proposition that a trade acceptance is a negotiable instrument. It stated in support of such conclusion:

> "There is nothing new in this case, and it is controlled by the recent decisions involving similar instruments executed by other victims of the same derelict oil company. Bank v. Fowler, 113 Kan. 440, 215 P. 290; National Bank v. Greathouse, 114 Kan. 903, 220 P. 1053; State Bank v. Harford Bros., 116 Kan. 262, 226 P. 750; State Bank v. Grennan, 116 Kan. 442, 227 P. 530; Bray v. Wetzel, 118 Kan 283, 234 P. 965."

New Jersey: Asbury Park Electric Supply Co. v. McGill, 133 Atl. (Sup.) 181. The trade acceptance is quoted in the opinion which shows that it is in the regular form with the standard clause: "The obligation of the acceptor hereof arises out of the purchase of goods from the drawer." The court seems to assume that the instrument was negotiable since it quoted Sec. 14 of the Negotiable Instruments Act, which is confined in its application to negotiable instruments. It also stated that the plaintiff was not a holder in due course. Such a statement implies that the instrument was negotiable for if it were nonnegotiable it would be immaterial whether the holder was a holder in due course or not.

North Carolina: First National Bank of Columbus v. Rochamora, 136 S. E. 259. While the form of the trade acceptance is not given in the opinion nevertheless it is assumed as above, that such acceptance was in the standard form. The court said: "The 'bill of exchange' or 'trade acceptance' was a negotiable instrument. This is conceded on the record. Sherrill v. Trust Co., 176 N. C. 591, 97 S. E. 471."

Oklahoma: American Trust Company v. Walker, 246 Pac. 833. The form of the trade acceptance is quoted in the opinion which shows that the standard form was used. The court stated that there was no evidence "that the plaintiff was not the holder of the notes (trade acceptances), in due course, for value and before maturity, and without notice of any claim of fraud." This phraseology is material only if the instrument be considered negotiable; consequently the use of the above wording shows that the court considered the instrument negotiable.

Rhode Island: Salem Trading & Finance Co. v. Peterson, 136 Atl. 445.

The form of the trade acceptance is not given but, as above, the presumption is that the standard form was employed. The court assumed that the trade acceptance was negotiable and left to the jury the question whether the owner was a holder in due course. If the instrument were a nonnegotiable one, to leave such question to the jury would have been erroneous.

The above list of digested decisions may not be exclusive. It, however, shows the opinion of the courts outside of Texas and Florida to the effect that trade acceptances in the standard form are negotiable.

It is well known that federal reserve banks discount trade acceptances. This is expressly authorized by Regulation A of the Federal Reserve Board, series of 1924. See particularly paragraph 1009 on page 859 of Paton's Digest. Furthermore federal reserve banks are authorized to purchase in the open market trade acceptances. Regulation B, series of 1924, quoted on page 861 of Paton's Digest. The standard form of trade acceptance has been approved by the Federal Reserve Board. Mathewson's "Acceptances, Trade and Banker's, "p. 21. The original Regulation P of the Federal Reserve Board as quoted on page 42 of Mathewson's book reads in part as follows:

> "Such evidence", that the trade acceptance is drawn by the seller on the purchaser of goods, "may consist of a certificate on or accompanying the acceptance to the following effect: 'The obligation of the acceptor of this bill arises out of a purchase of goods from the drawer.'"

(In passing it may be well to quote the following sentence from page 15 of this book: "A trade acceptance is a negotiable acknowledgment of the receipt of goods." This statement the author quotes with approval from the president of a large national bank.) The statements immediately above are of particular value if it is the invariable custom of federal reserve banks not to rediscount nonnegotiable paper. Such custom would seem to be inevitable for it would be decidedly improper for a federal reserve bank to take paper which would be subject to defenses which the purchaser of goods might have against the seller. That such is the custom of federal reserve banks is made absolutely certain by a ruling of the Federal Reserve Board given in the May, 1923 Federal Reserve Bulletin, p. 559. Certain extracts from this ruling follow:

> "Although negotiability is not required in specific terms by the Federal reserve act or by the board's regulations as a condition of the eligibility of notes, drafts, or bills of exchange for rediscount, it has always been contemplated by the board as one of the primary requisites of eligibility. .....The definition of a draft or bill of exchange contained in the board's Regulation A is substantially the same as the definition of abill of exchange set forth in the negotiable instruments law, thus indicating clearly that these instruments also must be negotiable in order to be eligible for rediscount.
>
> "All nonnegotiable notes, drafts, and bills of exchange, therefore, are ineligible for rediscount at Federal reserve banks."

It appears from the above that neither the Federal Reserve Board nor the federal reserve banks had prior to the decisions in Florida and Texas any doubt as

to the negotiability of a trade acceptance in the standard form. This means that the standard form was so interpreted in commercial circles as not to render the instrument nonnegotiable. It would certainly seem that the courts should put into effect this practically universal commercial interpretation of the form of the trade acceptance.

We come now to the merits of the Florida and the Texas decisions. We have already considered the Florida decision and as above noted this is criticized in Paton's Digest, opinion 168a. However, the Texas decision needs more extended treatment since the court gives reasons for its conclusions. The court states in substance that the form, "The obligation of the acceptor hereof arises out of a purchase of goods from the drawer," makes the instrument nonnegotiable since if the obligation arises from a collateral transaction that collateral transaction must be resorted to in order to ascertain the exact obligation. In the light of the Texas decision it is seen that the statement, that the obligation of the acceptor arises out of the purchase of goods, is subject to certain technical objections. It is true that the obligation of the acceptor as acceptor arises from his acceptance. Only indirectly does it arise from the purchase of goods. The obligation arising from the purchase of goods is normally a nonnegotiable obligation. An obligation arising from an acceptance is usually negotiable. The distinction between negotiable instruments and nonnegotiable instruments is very marked. The former are not subject to defenses between the original parties while the latter are. Notwithstanding the fact that the phrase used in the standard form is subject to technical objection nevertheless, as above stated, it seems that the courts should take the real meaning of the phrase and construe the instrument accordingly. It is undoubtedly true that the parties to trade acceptances from their very inception have considered that such instruments were not subject to any collateral transactions. In other words, such parties considered that the face of the instrument itself embodied the whole obligation of the acceptor irrespective of any collateral transactions between the parties. This is the test of negotiability so far as the phrase in question is concerned.

Although the Texas and Florida decisions may be erroneous (and this office considers them such) nevertheless such decisions do actually exist and if the courts in two states have so held it is not beyond the realm of possibility that the courts in some other states may follow these decisions as precedents. Under these decisions of Texas and Florida trade acceptances are nonnegotiable. (This is on the assumption that it is not the second clause in the Texas form which alone renders the instrument nonnegotiable.) Trade acceptances accepted in Texas and Florida undoubtedly circulate to a large extent throughout the other states; consequently the question is not merely a local one for the two jurisdictions mentioned.

Suggested amendment to standard form of trade acceptance.

The above discussion leads to the suggestion that it may be possible so to alter the wording of the standard form of trade acceptance that the courts of Texas and Florida as well of other jurisdictions will be compelled to hold a trade acceptance negotiable. In other words, the question is presented whether it is possible to make the case for negotiability so clear that no court can go so far wrong as to hold them nonnegotiable. Sec. 3 of the Negotiable Instruments Act reads as follows:

"An unqualified order or promise to pay is unconditional, within the meaning of this act, though coupled with:- ....(2.) A statement of the transaction which gives rise to the instrument."

It should be noted that the standard form of trade acceptance states that the obligation of the acceptor arises out of the purchase of goods while the Negotiable Instruments Act makes reference to the "Instrument" which arises out of the transaction. There is a distinction of course between an obligation and an instrument. The very words of the Negotiable Instruments Act may be incorporated in a trade acceptance by the use of the following phrase:

"The transaction giving rise to this instrument is a purchase of goods by the acceptor from the drawer."

I do not see how the above suggested form could be so misinterpreted by any court that it would hold the instrument nonnegotiable. Consequently this form is recommended as a substitute for the present form used. Other forms might be suggested. These, however, to a lesser extent embody the very wording of the Negotiable Instruments Act, and consequently would seem to be less desirable. One of these, more concise than that above quoted, is as follows:

"This instrument arises out of a purchase of goods by the acceptor from the drawer."

It should be noted that both these forms follow the Negotiable Instruments Act in making an instrument rather than an obligation arise from the transaction.

COPY X-4840

NO. 910 - 4764
COMMISSION OF APPEALS
SECTION A.

THE LANE COMPANY,	*	
	*	
	*	FROM McLENNAN COUNTY,
PLAINTIFF IN ERROR,	*	
	*	
VS	*	
	*	TENTH DISTRICT.
MRS. B. V. CRUM, ET AL,	*	
	*	
DEFENDANTS IN ERROR.	*	

On June 24, 1924, W. E. Williams, under the trade name of Cascade Products Company entered into a contract in writing with The Lane Company, with reference to the delivery by the Cascade Company to The Lane Company of a certain number of washing machines. The contract is set out in full in the majority opinion of the Court of Civil Appeals. It is unnecessary to a decision here, that we determine whether such contract constitutes a sale contract or merely an agency agreement. In September, 1924, the number of machines called for in the contract were delivered by the Cascade Company to The Lane Company, who declined to accept them but held them subject to the order of the Cascade Company.

At the time the contract above mentioned was made, and as a part of the transaction, The Lane Company accepted three trade acceptances or drafts drawn by the Cascade Company, each for the sum of $378.00, and payable respectively sixty, ninety and one hundred and twenty days after date. The form of these instruments is such as to make them negotiable instruments, unless the clause appearing in each of them, which is hereinafter stated, renders them non-negotiable in-

struments.

On October 29, 1924, The Lane Company brought this suit against W. E. Williams and Mrs. B. V. Crum to cancel these three trade acceptances on the ground that the washing machines were not as represented, and the machines were tendered to the defendants. Mrs. Crum answered by a cross-action seeking to recover on the trade acceptances, alleging that she was an innocent holder thereof in due course of trade, for value, before maturity. The cause was tried before a jury and resulted in a judgment being rendered cancelling the three trade acceptances and awarding to Mrs. Crum the washing machines. On appeal, this judgment was reversed by the Court of Civil Appeals, and judgment rendered by that court for Mrs. Crum on the trade acceptances, (284 S.W. 980)- Associate Justice Stanford dissenting.

The contention of The Lane Company is that the following clause of the trade acceptances renders same non-negotiable and therefore subject to the rights and equities of said company growing out of its said contract with the Cascade Company, to wit:

> "The obligation of the acceptor hereof arises out of the purchase of goods from the drawer, maturity being in conformity with the original terms of purchase."

We agree with the conclusion reached by Associate Justice Stanford in his dissenting opinion as to the legal effect of the clause just quoted. In our opinion the clause has effect to render the trade acceptances non-negotiable under the law merchant as well as under the Negotiable Instruments Act. The obligation of the acceptor, according to the terms of said clause, arises not from the instruments themselves,

but from a collateral transaction. For an instrument to be negotiable, the obligation of the maker must arise exclusively from the instrument. No obligation arising from a collateral transaction can be imported into the terms of the instrument without destroying the negotiability of the instrument. 8 Corpus Juris, pp. 113-114. A negotiable instrument has been termed "a courier without luggage," whose countenance is its passport. This apt metaphor does not fit these trade acceptances, for the reason they are ladened with the equipment of a wayfarer who does not travel under safe conduct. By their express terms, these instruments bear burdens whose nature must be sought for beyond the four corners of the instruments themselves. The clause in question is more than a mere "statement of the transaction which gives rise to the instrument," as permitted by paragraph 2, section 3 of Article 5932 of the Revised Statutes. So far from being a mere descriptive reference to the transaction which gave rise to the instrument, the clause, in definite terms, points to that transaction as the source of the acceptor's obligation to pay the amount named in the instrument. The legal effect of the clause is to render the paper subject to all the rights and equities of the parties to the collateral transaction from which the obligation of the acceptor arises. Parker vs American Exchange Bank, 27 S. W. 1072, 8 C. J. 124.

We recommend that the judgment of the Court of Civil Appeals reversing the judgment of the trial court and rendering judgment for

defendant in error, be reversed and that the judgment of the trial court be affirmed.

HARVEY,

Presiding Judge.

Judgment of the Court of Civil Appeals reversed, and that of the District Court affirmed, as recommended by the Commission of Appeals.

C. M. CURETON,
Chief Justice.

March 2, 1927.

FEDERAL RESERVE BOARD

456

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4881

June 21, 1927.

SUBJECT: Assessment for general expenses of Federal Reserve Board, July 1 to December 31, 1927.

Dear Sir:

Confirming telegraphic advice of this date, there is enclosed herewith copy of a resolution adopted by the Federal Reserve Board at a meeting held on June 21, 1927, levying an assessment upon the several Federal reserve banks of an amount equal to one hundred three thousandths of one per cent (.00103) of the total paid-in capital stock and surplus of such banks as at close of business June 30, 1927, to defray the estimated general expenses of the Federal Reserve Board from July 1 to December 31, 1927.

Kindly deposit one-half of the amount of your assessment in the General Account, Treasurer, U. S., on your books July 1, 1927, and one-half September 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 a duplicate C/D to the Federal Reserve Board. Also please furnish a statement of your capital and surplus used as a basis for the assessment.

Very truly yours,

Enclosure.

Fiscal Agent.

(Sent to Chairman of each Federal reserve bank).

X-4881-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 three thousandths of one per cent (.00103) 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 three thousandths of one per cent (.00103) of the total paid-in capital and surplus of such banks as of June 30, 1927, 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 July 1, 1927, and the second half on September 1, 1927.

X-4882

FEDERAL RESERVE BOARD
STATEMENT FOR THE PRESS

For immediate release. June 22, 1927.

CONDITION OF THE ACCEPTANCE MARKET
May 19, 1927 to June 15, 1927

The supply of bills in the New York acceptance market was steady and in good volume during the four weeks ending June 15, although slightly less than during preceding weeks. The bulk of bills bought by dealers was based on cotton, silk, coffee and sugar. There was a distinct decline in demand early in the period on account of a falling off in orders for foreign account, and rates on 6 months bills were increased by some dealers but exceptionally heavy foreign buying of 90-day bills occurred toward the middle of June. Dealers' portfolios were thus reduced to moderate proportions with small offerings to the Federal reserve bank. An inadequate supply of short bills was reported from Boston and Chicago, with a surplus of 90-day bills during the first three weeks of the period.

Market rates remained unchanged, except for an advance in 6 months bills on June 8, and stood as follows at the beginning and end of the period:

Acceptance rates in the New York market

Maturity	May 19 Bid	May 19 Asked	June 15 Bid	June 15 Asked
30 days	3 5/8	3 1/2	3 5/8	3 1/2
60 "	3 3/4	3 5/8	3 3/4	3 5/8
90 "	3 3/4	3 5/8	3 3/4	3 5/8
120 "	3 7/8	3 3/4	3 7/8	3 3/4
180 "	3 7/8 - 4	3 3/4 - 3 7/8	4	3 7/8

X-4883

FEDERAL RESERVE BOARD

WASHINGTON

459

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 23, 1927.

SUBJECT: Code word designating
San Antonio Branch.

Dear Sir:

The Board has been advised by the Federal Reserve Bank of Dallas that its San Antonio Branch will be opened for business on Tuesday, July 5, 1927.

Accordingly, the code word "DREDGING" has been designated to indicate the San Antonio Branch of the Federal Reserve Bank of Dallas, which word should be inserted on page 76 of the Federal Reserve Telegraph Code.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

TO GOVERNORS OF ALL F.R.BANKS.

FEDERAL RESERVE BOARD

460

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4885

June 23, 1927.

SUBJECT: Report of the Pension Committee.

Dear Sir:

The Pension Committee submitted to the Governors' Conference held here last May a report recommending among other things that there be appropriated an additional $10,000 for the expenses of the Committee which, with the balance remaining from the original appropriation, the Committee believes will be sufficient to permit the new actuarial work recommended by it and to pay such other necessary expenses as will be incurred within one year.

The Board approves of the Federal reserve banks making the additional appropriation recommended by the Committee and has requested the Federal Reserve Bank of New York to call upon the other Federal reserve banks for their pro rata share thereof.

Very truly yours,

D. R. Crissinger,
Governor.

TO ALL GOVERNORS.

FEDERAL RESERVE BOARD

WASHINGTON

X-4886

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 23, 1927.

SUBJECT: Report of the Standing Committee on Collections.

Dear Sir:

The Federal Reserve Board has considered and approved of the action of the Governors' Conference in referring the report of the Standing Committee on Collections to all Federal reserve banks for study and comment upon the suggestions contained therein prior to the next Governors' Conference.

Very truly yours,

D. R. Crissinger,
Governor.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

462

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4887

June 24, 1927.

SUBJECT: Expense of services rendered for Government Agencies.

Dear Sir:

At the recent Governors' Conference consideration was given to the question of whether or not Federal reserve banks should be reimbursed by Federal land banks for expenses involved in paying Federal farm loan coupons. It was reported to the Board to be the sense of the Conference that in principle the Federal reserve banks should be reimbursed for services performed for Government agencies other than the Treasury, when the expense involved is sufficient to justify the banks asking for reimbursement.

I am requested to advise you that the view of the Board with respect to the Federal reserve banks seeking reimbursement for such expense incurred by them is not in harmony with the view of the Conference, as expressed above.

Very truly yours,

D. R. Crissinger,
Governor.

TO ALL GOVERNORS.

FEDERAL RESERVE BOARD

463

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4888

June 24, 1927.

Dear Sir:

The Federal Reserve Board has been viewing with some concern the constant growth of time deposits and the weakening of the reserve position of the banks of the country due to the practice which, it is believed, prevails to some extent of transferring what are in effect demand deposits into so-called time certificates or savings accounts. This matter was also made the subject of discussion at the recent Governors' Conference, and the Conference suggested that if the Board finds that it cannot adequately cope with this tendency by regulation, steps should be taken to impress upon the Congress, at its next session, the importance of amending the reserve provisions of the Federal Reserve Act in such manner as to safeguard the banking position of the country.

For its information and guidance, the Board desires from each Governor, Federal Reserve Agent and from the Federal Advisory Council any suggestions which they may have to make as to action which can be taken by the Board, under existing law, to deal with the tendency toward the conversion of deposits from demand to time classification.

Very truly yours,

D. R. Crissinger,
Governor.

TO ALL GOVERNORS AND FEDERAL RESERVE AGENTS.

X-4890

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

For immediate release: June 25, 1927.

The Federal Reserve Board is advised by the Federal Reserve Bank of Dallas that the branch of that bank to be established at San Antonio, Texas, will open for business on July 5, 1927.

The personnel of the directorate of the San Antonio Branch will comprise the following:

Appointed by the Federal Reserve Bank of Dallas:

Mr. M. Crump, Managing Director.	San Antonio, Tex.
Mr. Ernest Steves.	San Antonio, Tex.
Mr. Franz C. Groos.	San Antonio, Tex.
Mr. R. T. Hunnicutt.	Del Rio, Texas.

Appointed by the Federal Reserve Board:

Mr. H. H. Rogers.	San Antonio, Tex.
Mr. Reagan Houston.	San Antonio, Tex.
Mr. F. E. Scobey.	San Antonio, Tex.

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, June 27, 1927.

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

Industrial production increased in May and continued at a higher level than a year ago, while distribution of commodities was in smaller volume than last year. The general level of wholesale commodity prices has changed but little in the past two months.

Production:

Output of manufactures increased considerably in May, while production of minerals was maintained at the April level. Increased activity was shown in cotton and woolen mills, in meat packing, and in the production of lumber; the output of iron and steel, nonferrous metals, automobiles, and building materials, after allowance for usual seasonal variations, was maintained at practically the same level as in April. Since the latter part of May, however, production of steel and automobiles has declined. The total value of building contracts awarded continued slightly larger in May and in the first two weeks of June than in the corresponding period of last year. Production of winter wheat was estimated by the Department of Agriculture on the basis of June 1 condition at 537,000,000 bushels, or 90,000,000 bushels less than last year. The indicated rye production was placed at 48,600,000 bushels, which is 20 per cent larger than the crop in 1926.

Trade:

Sales of retail stores in May showed more than the usual seasonal decline

from the high April level. Compared with May of last year, department store sales were about 4 per cent smaller, while those of mail order houses were slightly larger. Value of wholesale trade of all leading lines, except groceries and meats, was smaller in May than in April and in the corresponding month of 1926. Inventories of merchandise carried by department stores showed slightly more than the usual seasonal decline in May and at the end of the month were somewhat smaller than a year ago. Stocks of wholesale firms were also smaller than last year. Freight car loadings increased in May by less than the usual seasonal amount, and for the first time in over a year daily average loadings were in smaller volume than in the corresponding month of the preceding year. Loadings of all classes of commodities except livestock, ore, and miscellaneous products were smaller than last year.

Prices:

The general level of wholesale commodity prices has remained practically unchanged since the middle of April. Prices of grains, cotton, and hides and skins have advanced, but these advances have been offset in the general index by declines in the prices of livestock, wool, silk, metals, and rubber.

Bank Credit:

Demand for bank credit to finance trade and industry remained at a constant level between the middle of May and the middle of June, and the growth in the volume of credit extended by member banks in leading cities during the period was in holdings of securities and in loans on stocks and bonds. Loans to brokers and dealers in securities by reporting member banks in New York City increased rapidly and on June 15 were in larger volume than at any previous time covered by the reports.

At the Federal reserve banks there was little net change in the volume of bills and securities between May 25 and June 22, the fluctuations during the period reflecting largely the effects of Treasury operations. Discounts for member

banks toward the end of June were in about the same volume as a month earlier while there was a decline in the reserve banks' holdings of acceptances and an increase in their portfolio of United States securities.

Conditions in the money market were fairly stable throughout the period, with slight advances in the rates on commercial paper and more recently on bankers acceptances.

TREASURY DEPARTMENT
Office of the Secretary
Washington

June 25, 1927.

The Governor
Federal Reserve Board.

Sir:

You are hereby advised that the Department has referred to the Disbursing Clerk, Treasury Department, for payment, the account of the Bureau of Engraving and Printing for preparing Federal reserve notes during the period June 1, 1927, to June 24, 1927, amounting to $105,188.40, as follows:

	Federal Reserve Notes, Series 1914					
	$5	$10	$20	$50	$100	Total
Boston	69,000					69,000
New York	452,000	272,000	200,000	10,000	15,000	949,000
Philadelphia	200,000	61,000				261,000
Cleveland		100,000	25,000			125,000
Richmond		50,000				50,000
Atlanta	37,000	32,000				69,000
Chicago	348,000	200,000	94,000			642,000
Minneapolis	23,000	50,000				73,000
Kansas City	54,000	50,000				104,000
Dallas	23,000					23,000
San Francisco	250,000	139,000	100,000	10,000	10,000	509,000
	1,456,000	954,000	419,000	20,000	25,000	2,874,000

2,874,000 sheets @ $36.60 per M $105,188.40

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

Boston	$ 2,525.40
New York	34,733.40
Philadelphia	9,552.60
Cleveland	4,575.00
Richmond	1,830.00
Atlanta	2,525.40
Chicago	23,497.20
Minneapolis	2,671.80
Kansas City	3,806.40
Dallas	841.80
San Francisco	18,629.40
	$105,188.40

The Bureau appropriations will be reimbursed in the above amount from the indefinite appropriation "Preparation and Issue of Federal Reserve Notes, Reimbursable", and it is requested that your board cause such indefinite appropriation to be reimbursed in like amount.

Respectfully,
S. R. Jacobs,
Deputy Commissioner.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 28, 1927.

SUBJECT: Inclusion of San Antonio in Inter-district Time Schedule.

Dear Sir:

At the request of the Federal Reserve Bank of Dallas, and upon the understanding that the proposal has been taken up with, and is satisfactory to, all other Federal Reserve Banks, the Federal Reserve Board has included the San Antonio Branch of the Federal Reserve Bank of Dallas in the Inter-district time schedule, with time between it and other Federal reserve points as follows:

One Day:	Dallas	Houston
Two days:	Birmingham	Memphis
	Chicago	Nashville
	El Paso	New Orleans
	Kansas City	Oklahoma City
	Little Rock	St. Louis
	Louisville	
Three Days:	Atlanta	Jacksonville
	Baltimore	Los Angeles
	Buffalo	Minneapolis
	Cincinnati	New York
	Cleveland	Omaha
	Denver	Philadelphia
	Detroit	Pittsburgh
Four Days:	Boston	Richmond
	Helena	Salt Lake City
	Portland	San Francisco
Five Days:	Seattle	Spokane

Very truly yours,

Walter L. Eddy,
Secretary.

TO GOVERNORS OF ALL F.R.BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

X-4894

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 29, 1927.

SUBJECT: Redemption by Veterans Bureau of Renewal Notes Secured by Adjusted Service Certificates.

Dear Sir:

One of the Federal reserve banks recently requested the Federal Reserve Board to obtain from the U. S. Veterans Bureau a ruling on the question whether the note of a veteran, secured by an adjusted service certificate, if renewed by the bank making the loan, will be redeemed by the Veterans Bureau in case the note is not paid.

The Veterans Bureau has advised the Board as follows:

> "You are informed that renewals will be considered by the Bureau as new loans and new notes will be redeemed not less than six months from the date of such notes.
>
> "In order to relieve any anxiety which the banks may have concerning the Bureau's policy for redeeming loans, you are informed that although the Regulation states that redemption may be refused under the discretion authorized by law, the Bureau will not exercise this discretion except under very extraordinary circumstances and will redeem notes and certificates properly presented at any time they may be forwarded after the necessary six months, required by law, have expired."

Very truly yours,

Walter L. Eddy,
Secretary.

TO GOVERNORS OF ALL F.R.BANKS.

FEDERAL RESERVE BOARD

January 4, 1927.
For immediate release St.5215.

STATEMENT FOR THE PRESS

Gross earnings of the twelve Federal reserve banks for 1926 were $47,600,000 or about $5,800,000 more than for 1925, while current operating expenses amounted to $27,360,000 or $170,000 less than for 1925. The banks set aside from their earnings $3,630,000 as reserves to cover depreciation charges and reserves for losses on discounted paper, etc. and paid dividends to member banks amounting to $7,329,000. Net earnings for 1926 amounted to $16,610,000 as against $9,450,000 for 1925.

The Federal Reserve Banks of Boston, Richmond, Minneapolis and Kansas City paid a total of $818,150.51 into the Treasury of the United States as franchise tax. All of the net earnings of the eight other reserve banks were transferred to their surplus accounts as required by law, the surplus accounts of these banks at the end of the year being materially less than their subscribed capital. The total subscribed capital of the twelve Federal reserve banks on January 1, 1927, amounted to $249,628,000, and combined surplus accounts to $228,775,000.

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

FEDERAL RESERVE BOARD

WASHINGTON

January 5, 1927,
St. 5214.

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

Dear Sir:

There is enclosed herewith a list of member and non-member banks reported to the Board as having suspended operations during the month of December 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 as soon as practicable whether or not any corrections or additions are necessary therein.

We are also enclosing a statement showing the number of bank suspensions in each state in your district by months during 1926 and it will be appreciated if you will have this statement checked against your records and advise us of any changes that appear necessary. In notifying us of changes in this statement kindly give the names, locations, etc., of the banks added or eliminated. The names of these banks may be ascertained by referring to the monthly lists of bank suspensions furnished to you for checking each month, since the number shown in the attached statement for each month is the same as that contained in the regular monthly statement with such changes therein as you have requested us to make, and which have been shown on the last page of subsequent statements.

Very truly yours,

Walter L. Eddy,
Secretary.

LETTER TO ALL FEDERAL RESERVE AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 6, 1927.
St.5218.

SUBJECT: Schedule of Federal Reserve Bank Personnel.

Dear Sir:

Will you kindly furnish the Board with a statement relating to the personnel of your bank (including branches, if any) as at close of business on December 31, 1925 and 1926, and as of January 1, 1926 and 1927, made out in accordance with the form attached hereto. The figures for December 31, 1925 and 1926 will be published in the Board's 1926 annual report, and accordingly should not take account of changes in either the number or salaries of officers or employees that are put into effect as of January 1. The figures for January 1 should include any changes in salary made after January 1, if retroactive to that date. In determining whether or not a given individual should be listed as an officer or an employee the Board's letter X-3532 of October 5, 1922 should be used as a guide. After the statement has been completed it should be compared with data published on pages 261-265 of the Board's 1925 annual report, so that any differences may be reconciled before the report is transmitted to the Board and in order that the figures for all dates may be on the same basis.

Kindly supplement the schedule with a statement showing, by functions and units, the number and salaries of "other employees" whose salaries are reimbursed to the bank.

Very truly yours,

Walter L. Eddy,
Secretary.

Enclosure.

TO CHAIRMAN OF EACH FEDERAL RESERVE BANK*

St.5218a

FEDERAL RESERVE BANK OF _____

(Including branches)

	Number				Annual Salaries			
	Jan. 1 1927	Jan. 1 1926	Dec. 31 1926	Dec. 31 1925	Jan. 1 1927	Jan. 1 1926	Dec. 31 1926	Dec. 31 1925
Officers:								
Chairman and Federal Reserve Agent								
Governor								
Other officers								
Employees by departments:								
Banking department								
Federal Reserve Agent's department								
Auditing Department								
Fiscal Agency Department								
Total								
Employees whose salaries are reimbursed to bank:								
Fiscal Agency department								
Other employees*								
Grand Total								
Temporary employees (not to be included above)								

*Subdivide by functions and units on separate sheet.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 10, 1927
St. 5221

SUBJECT: Forms for use during 1927.

Dear Sir:

There are being forwarded to you today under separate cover a supply of the following forms for use during 1927:

Form 38,	copies
Form E,	copies
Form 95,	copies
Form 96,	copies
Form 97,	copies
Form 171,	copies

In connection with the monthly report of current expenses, form 96, it is requested that all contributions, other than for employees' education, made to the Federal Reserve Club or Federal Reserve Society, whether directly or indirectly, including any part of the cost of printing the Federal Reserve Club magazine paid by the bank, be reported against sub-item 25 on the reverse side of the form. Contributions made for employees' education, whether through the Federal Reserve Club or otherwise, should be reported against sub-items 23 and 24.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

TO GOVERNORS OF ALL F. R. BANKS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 13, 1927.
St. 5226.

SUBJECT: Reports of Condition of State Banks and Trust Companies.

Dear Sir:

It will be greatly appreciated if in accordance with your usual practice you will kindly furnish the Federal Reserve Board, as soon as available, with a copy of the abstract of reports of condition of State banks and trust companies in your state on December 31, 1926, or other recent date in case you did not issue a call for reports of condition as of December 31, and for any other date since June 30 for which a call for condition reports was issued.

In submitting the above mentioned data it is requested that the number of banks be stated and that separate figures be furnished for mutual savings banks providing there are any such banks operating in your state, also that the figures be segregated by Federal reserve districts.

A franked and self-addressed envelope, requiring no postage, is enclosed for use in transmitting the data requested.

Very truly yours,

J. C. Noell,
Assistant Secretary.

Enclosure.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 13, 1927
St. 5227

SUBJECT: Reports of Condition of State Banks and Trust Companies.

Dear Sir:

It will be greatly appreciated if in accordance with your usual practice you will kindly furnish the Federal Reserve Board, as soon as available, with a copy of the abstract of reports of condition of state banks and trust companies in your state on December 31, 1926, or other recent date in case you did not issue a call for reports of condition as of December 31, and for any other date since June 30 for which a call for condition reports was issued.

In submitting the above mentioned data it is requested that the number of banks be stated and that separate figures be furnished for mutual savings banks providing there are any such banks operating in your state.

A franked and self-addressed envelope, requiring no postage, is enclosed for use in transmitting the data requested.

Very truly yours,

J. C. Noell,
Assistant Secretary.

Enclosure.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 13, 1927.
St.5229

SUBJECT: Reports of Condition of State Banks and Trust Companies.

Dear Sir:

It will be greatly appreciated if in accordance with your usual practice you will kindly furnish the Federal Reserve Board, as soon as available, with a copy of the abstract of reports of condition of state banks and trust companies in your state on December 31, 1926, or other recent date in case you did not issue a call for reports of condition as of December 31.

In submitting the above mentioned data it is requested that the number of banks be stated and that separate figures be furnished for mutual savings banks providing there are any such banks operating in your state.

A franked and self-addressed envelope, requiring no postage, is enclosed for use in transmitting the data requested.

Very truly yours,

J. C. Noell,
Assistant Secretary.

Enclosure.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 13, 1927.
St. 5230

SUBJECT: Reports of Condition of State Banks and Trust Companies.

Dear Sir:

It will be greatly appreciated if in accordance with your usual practice you will kindly furnish the Federal Reserve Board, as soon as available, with a copy of the abstract of reports of condition of state banks and trust companies in your state on December 31, 1926, or other recent date in case you did not issue a call for reports of condition as of December 31.

In submitting the above mentioned data it is requested that the number of banks be stated and that separate figures be furnished for mutual savings banks providing there are any such banks operating in your state, also that the figures be segregated by Federal reserve districts.

A franked and self-addressed envelope, requiring no postage, is enclosed for use in transmitting the data requested.

Very truly yours,

J. C. Noell,
Assistant Secretary.

Enclosure.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 13, 1927
St. 5232

SUBJECT: Paper Secured by Adjusted Service Certificates, and Revised Form A.

Dear Sir:

In order that the method of reporting paper secured by adjusted service certificates discounted for member and nonmember banks may be substantially the same at all Federal reserve banks, it is requested that such paper be designated by the symbol ASC on BD-4 discount schedules, and that paper discounted for nonmember banks be grouped together under a general head or the word "NONMEMBER" shown in capitals immediately following the name of the nonmember bank for which discounted.

The number of member and of non-member banks accommodated by the discount of paper secured by adjusted service certificates should be reported separately each month on Form A as indicated on the revised form, a supply of which for use in 1927 is enclosed herewith.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Enclosure.

LETTER TO GOVERNORS OF ALL F. R. BANKS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 14, 1927.
St.5234.

SUBJECT: Debits to Individual Accounts.

Dear Sir:

In compiling monthly figures of debits to individual accounts from weekly reports received in 1927, it is proposed, as in the past two years, to prorate the figures for each city for those weeks which do not fall entirely within a given month, on the basis of actual business days. By reference to data available at the Board's offices we find that the report weeks in 1927 which begin in one month and end in another, i.e., the report weeks for which the figures must be prorated between two months, contain the following days observed as holidays in the states specified:

January 1, 1927	All states and the District of Columbia
March 1	Alabama, Florida, Louisiana (Parish of Orleans)
March 2	Texas
April 4	Michigan
April 28	New Hampshire
May 2	Wyoming
May 30	District of Columbia and all states except Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, North Carolina, South Carolina.
July 4	All states and the District of Columbia
August 1	Colorado
October 31	Nevada
November 1	Louisiana
January 2, 1928	All states and the District of Columbia

In case the above list is not correct for any of the states in your district or there are any additional holidays observed locally by cities for which debit figures are published by the Board, it will be appreciated if you will furnish the Board with a corrected list at your early convenience.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

LETTER TO ALL FEDERAL RESERVE AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

January 17, 1927,
St. 5235.

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

SUBJECT: Bank Suspensions, 1921-1923.

Dear Sir:

There is enclosed herewith a list of member and nonmember bank suspensions (banks closed to depositors by supervisory banking authorities or by the banks' directors on account of financial difficulties) in your district during the years 1921, 1922 and 1923, compiled from such data as are available at the Board's offices. It will be appreciated if you will kindly have the statement checked in so far as your records permit and advise us of any changes which you find necessary. The Board realizes that information on nonmember bank suspensions for these years may not be readily available in all cases but will appreciate greatly your cooperation in order that its records on this important subject may be as complete as practicable.

Very truly yours,

Walter L. Eddy,
Secretary.

Enclosure.

LETTER TO ALL FEDERAL RESERVE AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO THE FEDERAL RESERVE BOARD

January 17, 1927.
St. 5236

SUBJECT: Relationship of Federal reserve banks to clearing house associations or other associations (clearing arrangements) for the clearing of checks.

Dear Sir:

In order that there may be available in the Board's files a comprehensive statement of the relationship of each Federal reserve bank and branch to the local clearing house association, and other associations (clearing arrangements) for the clearing of checks, it is requested that you kindly furnish the Board with the following information:

Federal reserve bank and branch cities.

1. (a) Is the Federal reserve bank or branch a member of the local clearing house association, and if so -
   (b) What dues is it required to pay per annum.
   (c) What fines is it subject to.
   (d) Does it have any vote in the management of the association.

2. (a) Is the local clearing conducted by the clearing house association.
   (b) Does the Federal reserve bank or branch exercise the functions of a clearing house for local banks.
   (c) If conducted by the clearing house association, does the Federal reserve bank or branch participate regularly in the clearing.
   (d) If conducted by the Federal reserve bank or branch, when was this function taken over, and what functions are still performed by the clearing house association.

3. (a) To what extent are items assorted or bundled when presented in the clearing.
   (b) Are items sorted according to drawee banks when such banks are not members of the clearing house association but clear through members, or are they sorted according to the names of the clearing-house member banks through which the items are payable.
   (c) Are items drawn on branches of clearing house banks sorted separately for each branch.

4. (a) How many of the local banks are members of the clearing house but not of the Federal Reserve System.
   (b) How many of the local banks are members of the Federal Reserve System but not of the clearing house, and how does the Federal reserve bank or branch collect items drawn on such banks.

(c) How many of the local banks are not members either of the clearing house or of the Federal Reserve System, and how does the Federal reserve bank or branch collect items drawn on such banks.

(d) What items, other than those drawn on local banks, are collected through the local clearing.

5. (a) Is the settlement for daily clearings made on the books of the Federal reserve bank or branch, and if so, is this done by making both debit and credit entries for the gross amount of checks presented and received, or by a debit or credit entry for the net balance in the settlement.

(b) Does the Reserve bank receive checks from clearing house banks in payment of debit balances.

(c) If the settlement for the daily clearings is made by check, by whom are the checks drawn.

6. Is the local clearing house association housed in the Federal reserve bank or branch building, and if so, what annual rental is received.

Outside of Federal reserve bank and branch cities.

Arrangements have been made in certain cases whereby banks located in a given city, county, or group of cities or counties, settle for checks drawn on one another by debit and credit entries on the books of the Federal reserve bank. Please advise the Board --

1. The name of each city, county, or group, if any, in your district in which such special clearing arrangements have been made, state when the plan was put into effect, and describe briefly the nature of the arrangements, setting forth particularly

(a) the extent to which the Federal reserve bank is called upon to handle the items or transactions,

(b) the number of member banks of the Federal reserve system (located in the city, county, or group) which participate in the arrangement, and the number which do not participate,

(c) the number of nonmember banks of the Federal reserve system (located in the city, county, or group) which participate in the arrangement, and the number which do not participate.

If any clearing arrangements other than those of the kinds specified above are in effect at your bank, or if there is any additional information on this subject that may be of interest to the Board, please advise us fully in regard thereto in your reply to the questions enumerated above. It will also be appreciated if you will advise us as of January 1 of each year what changes, if any, were made in your clearing arrangements during the preceding year.

Very truly yours,

Walter L. Eddy,
Secretary.

TO AGENTS OF ALL FEDERAL RESERVE BANKS

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 26, 1927.
St. 5245.

SUBJECT: Member Banks Borrowing Continuously at Federal Reserve Banks.

Dear Sir:

It will be appreciated if you will kindly have prepared and furnish the Board with a statement listing all member banks which were borrowing continuously from your bank during 1926, showing their capital and surplus, borrowings and deposits, in accordance with the attached form. In case you have any continuous borrowing banks which are not considered to be in an unsafe or overextended condition, it will be appreciated if you will state whether you expect such banks to liquidate their indebtedness some time during 1927. This information, it will be noted, is similar to that requested in letter X-4578 of April 6, 1926, covering the year 1925.

Very truly yours,

Walter L. Eddy,
Secretary.

Enclosure.

LETTER TO CHAIRMAN OF ALL FEDERAL RESERVE BANKS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

February 25, 1927
St. 5261

SUBJECT: Functional Expenses,
Second Half, 1926.

Dear Sir:

There are enclosed herewith copies of the consolidated Functional Expense exhibit for the half year ending December 31, 1926. A copy of the exhibit is also being mailed to the Governor of the bank.

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

February 11, 1927
St. 5267

SUBJECT: Circulars Issued by Federal Reserve Banks.

Dear Sir:

It will be greatly appreciated if you will kindly furnish this division with a complete set of the circulars or other formal instructions issued by your bank to member banks in its district, which are now in effect, and also place the division on the mailing list to receive copies of future circulars or instructions as issued. We would also like to have a copy of each of the forms supplied by your bank to member banks for use in submitting reports to the Federal reserve bank, such as forms used in reporting deposit liabilities for reserve computation purposes, in applying for discount accommodation, etc., and samples of forms used by member banks in obtaining credit statements covering paper offered for rediscount at the reserve bank.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

LETTER TO ALL AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

February 15, 1927.
St. 5268.

SUBJECT: Condition of Member Banks
as of December 31, 1926.

Dear Sir:

For your information there is enclosed herewith a preliminary statement regarding the condition of all member banks combined as of December 31, 1926. The data for all member banks should be treated as confidential until the publication of the national bank figures by the Comptroller of the Currency.

The Board's abstract (No. 34) 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*

490

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

February 16, 1927,
St. 5271.

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 January, 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 February 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,

J. C. Noell,
Assistant Secretary.

Enclosure

LETTER TO ALL FEDERAL RESERVE AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

February 16, 1927,
St. 5273.

SUBJECT: Classification of Borrowings and Reserve Balances, by Size of Cities.

Dear Sir:

On a number of occasions in the past the Board has attempted to determine the relative amount of accommodation extended to member banks for agricultural and livestock purposes by classifying paper held under discount into agricultural paper and other paper, also by classifying member bank loans, borrowings, etc., according to agricultural, semi-agricultural, and non-agricultural counties. While the latter figures were of more value than the former, neither of them were reasonably satisfactory indicators of the amount of accommodation that the Federal reserve banks were extending for agricultural and livestock purposes. More recently we have attempted to classify the volume of bills discounted according to the size of the city in which the discounting member banks are located, adjusting the volume discounted for each group to a common maturity basis. Such data have not been of much value, principally because of the large amount of paper rebated. It is believed, however, that a classification of borrowings according to the size of city or town in which the rediscounting bank is located would be helpful in following the trend of borrowings and would throw as much light on the general purposes for which the funds are borrowed as can be well obtained. To give a fairly accurate picture of the relative amount of accommodation received by the various classes of banks, however, the amount of borrowings should be related to the size of the borrowing banks, and it occurs to us that this might be well brought out by a comparison of borrowings with reserve balances.

In order to enable us to go a little more fully into the value of such figures, it will be appreciated if you will classify your member banks by states and population groups in accordance with the form shown below and furnish the Board with a statement showing, as of January 26, 1927, the total amount of paper held under discount for member banks in each group and the total amount of reserve balances actually maintained with the reserve bank by all banks in each group (including those not borrowing from the Federal reserve bank):

BORROWINGS FROM FEDERAL RESERVE BANK AND RESERVE BALANCES OF MEMBER BANKS, BY POPULATION GROUPS, ON JANUARY 26, 1927.

District No. _____

(Amounts in thousands of dollars)

State and population group	Borrowings from Federal reserve bank	Reserve balances of all banks in group	Ratio of borrowings to reserve balances (Per cent)
(Name of State)			
Less than 2,500			
2,500 to 5,000			
5,000 to 10,000			
10,000 to 25,000			
25,000 to 100,000			
100,000 or more			
Total			

It is understood, of course, that these figures, like any others, are subject to possible misinterpretation, particularly as member banks in the larger centers frequently make substantial loans to country correspondents, nonmembers as well as members, at the same time that they are borrowing from the Federal reserve bank. The amount of Federal reserve bank accommodation going to banks in small communities in this indirect way is, however, extremely difficult if not impossible of measurement.

In submitting your report we shall appreciate any suggestions which you may care to offer regarding the value of data of this character for the purpose of following the trend of borrowings at the reserve banks and of giving a better idea of the purposes for which the borrowed funds are being used, as well as suggestions for the classifications of borrowings in any other manner which you feel might be more helpful for the purpose in mind.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

ALL FEDERAL RESERVE AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

March 15, 1927,
St. 5302.

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 February, 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 March 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*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

March 19, 1927,
St. 5306.

SUBJECT: Member Bank Call Report showing Condition of All Member banks on Dec. 31, 1926.

Dear Sir:

We are forwarding to you under separate cover copies of the Board's Member Bank Call Report No. 34, showing the condition of all member banks on December 31, 1926. You will note that the report is now printed in Bulletin size, whereas the former abstract was 11½ by 18½ inches, also that it gives complete figures for all member banks and district and retrospective figures for national banks, in addition to the complete figures for state bank members shown heretofore.

Please forward a copy of the abstract to each member bank in your district that has expressed a desire to receive copies of call reports as issued.

Very truly yours,

J. C. Noell,
Assistant Secretary.

LETTER TO ALL F. R. AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

March 21, 1927,
St. 5308.

SUBJECT: Condition Reports of State Member banks, form 105.

Dear Sir:

There are being forwarded to you today under separate cover copies of form 105, which has been revised to show acceptances of other banks and foreign bills of exchange or drafts sold with endorsement as a separate item instead of with notes and bills rediscounted as heretofore. 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 member bank call report may not be unduly delayed, it is requested that the condition 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.

It is important that these reports be completely filled out in all cases and particular attention is invited to the requirement that the reporting bank insert an amount or the word "none" against each item both on the face and on the reverse side of the report. In case a bank fails to comply with this requirement, it is requested that it be asked for the information necessary to complete the report and that such information be furnished the Board. It is also requested that on receipt of condition reports for the forthcoming call, the amount of time deposits and of net demand deposits subject to reserve requirements be calculated for each national and state member bank and that the deposits as thus determined be compared with deposit liabilities as reported by the respective banks for the same date in their regular weekly or semi-monthly reports of deposits subject to reserve requirements. In the event that any marked differences are found in the two reports it will be appreciated if they are brought to the Board's attention.

Very truly yours,

Walter L. Eddy,
Secretary.

LETTER TO ALL F. R. AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

March 30, 1927,
St. 5320.

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

SUBJECT: Corrections in Weekly Statements.

Dear Sir:

For your information, and in order that correct comparative figures may be published in the consolidated statement of condition of the Federal reserve banks, if issued at your bank, there are shown below corrections made in the weekly Federal reserve bank press statements issued during 1926, which were received too late to be shown in the comparative column of the following week's statement:

		CHANGED	
		From	To
May 26	- Bonds	97,123	102,990
	Treasury notes	167,364	161,497
June 30	- Bills discounted:		
	Secured by U.S.Govt. obligations	263,106	252,929
	Other bills discounted	251,925	262,102
July 14	- Gold Settlement Fund	671,297	671,516
	Total gold reserves	2,845,392	2,845,611
	Total reserves	2,991,052	2,991,271
	Uncollected items	791,025	790,806
July 21	- Member bank - reserve account	2,208,327	2,208,307
	Other deposits	16,687	16,707
August 4	- Gold Settlement Fund	685,170	685,178
	Total gold reserves	2,836,948	2,836,956
	Total reserves	2,976,588	2,976,596
	Total resources	4,885,277	4,885,285
	F.R. notes in actual circulation	1,678,088	1,678,096
	Total liabilities	4,885,277	4,885,285
November 3	-		
	Gold & gold certificates held by banks	617,997	618,186
	Total gold reserves	2,807,274	2,807,463
	Reserves other than gold	127,411	127,222

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

TO ALL FEDERAL RESERVE AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

April 14, 1927,
St. 5336

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 March 23, 1927, or other recent date in case you did not issue a call for reports of condition as of March 23.

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

April 14, 1927,
St. 5337.

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 March 23, 1927, or other recent date in case you did not issue a call for reports of condition as of March 23.

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

April 18, 1927,
St. 5341.

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 March, 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 April 27, by telegraph if necessary, whether or not any corrections or additions are necessary therein, in order that correct summaries by districts may be published in the Federal Reserve Bulletin.

Very truly yours,

Walter L. Eddy,
Secretary.

Enclosure

LETTER TO ALL FEDERAL RESERVE AGENTS*

500

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

May 19, 1927.
St. 5359

SUBJECT: Increase in Operating Efficiency
at Federal Reserve Banks.

Dear Sir:

A report was recently prepared for the information of the Federal Reserve Board, in which an effort was made to measure the increase in operating efficiency at the head offices of the several Federal reserve banks since 1923. While it is recognized that the results shown cannot be taken as an accurate measurement in each instance of the increase in operating efficiency, it is thought that they are sufficiently correct to constitute a fairly reliable measure of the very gratifying improvement achieved in operating efficiency during the past few years. The Board feels that you and your bank will be interested in this report, and accordingly a copy is enclosed herewith for your confidential use.

Very truly yours,

Walter L. Eddy,
Secretary.

Enclosure.

CHAIRMAN OF EACH FEDERAL RESERVE BANK. *

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

May 7, 1927,
St. 5361.

SUBJECT: Condition of Member Banks
as of March 23, 1927.

Dear Sir:

For your information there is enclosed herewith a preliminary statement regarding the condition of all member banks combined as of March 23, 1927. The Board's Member Bank Call Report (No. 35) showing detailed figures for all member banks and for State bank members will be ready for distribution in the near future.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

Enclosure.

LETTER TO ALL FEDERAL RESERVE AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

May 12, 1927,
St. 5368.

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 April, 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 May 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*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

May 26, 1927,
St. 5382.

SUBJECT: Payment of Dividends on
June 30, 1927.

Dear Sir:

In submitting the usual semi-annual resolution of your board of directors with reference to the payment of the June 30 dividend, kindly furnish the Board with statements showing the following information as of May 31 for (1) failed banks, and (2) member banks considered to be in a seriously overextended condition:

Name and location of bank.
Unpaid indebtedness to Federal reserve bank.
Character of security, if any.
Estimated loss to Federal reserve bank.

Very truly yours,

Walter L. Eddy,
Secretary.

LETTER TO ALL CHAIRMEN*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 3, 1927.
St. 5392

SUBJECT: Member Bank Call Report showing Condition of All Member Banks on March 23, 1927.

Dear Sir:

We are forwarding to you under separate cover copies of the Board's Member Bank Call Report No. 35, showing the condition of all member banks on March 23, 1927. Please forward a copy to each member bank in your district that has expressed a desire to receive copies of call reports as issued.

Very truly yours,

J. C. Noell,
Assistant Secretary.

LETTER TO ALL F. R. AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 7, 1927
St. 5397

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 May, 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 June 21, by telegraph if necessary, whether or not any corrections or additions are necessary therein, in order that correct summaries by districts may be published in the Federal Reserve Bulletin.

Very truly yours,

Walter L. Eddy,
Secretary.

Enclosure.

LETTER TO ALL FEDERAL RESERVE AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 15, 1927,
St. 5406.

SUBJECT: Earnings, Expenses, and Dividends.
Reports of State Bank 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 members in submitting their reports of earnings, expenses, and dividend payments for the six months ending June 30, 1927.

As the form revised last October contained several new interest items among both income and expenses it was anticipated that the records of a number of the banks would not be in sufficient detail to enable them to fill in all the additional information called for on the first report following the change. The attention of those banks which failed to furnish the detailed information for the past call should be directed to the omission, however, and they should be asked to use particular care to see that all information called for in the report form is filled out in the June, 1927, and subsequent reports.

Very truly yours,

Walter L. Eddy,
Secretary.

TO ALL FEDERAL RESERVE AGENTS*

FEDERAL RESERVE BOARD

507

WASHINGTON

June 21, 1927,
St. 5414.

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

SUBJECT: Condition Reports of State Member banks,
Form 105.

Dear Sir:

There are being forwarded to you today under separate cover copies of form 105. 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 member bank call report may not be unduly delayed, it is requested that the condition 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.

It is important that these reports be completely filled out in all cases and particular attention is invited to the requirement that the reporting bank insert an amount or the word "none" against each item both on the face and on the reverse side of the report. In case a bank fails to comply with this requirement, it is requested that it be asked for the information necessary to complete the report and that such information be furnished the Board.

Very truly yours,

Walter L. Eddy,
Secretary.

LETTER TO ALL F. R. AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 22, 1927
St. 5415

SUBJECT: Gold Bullion and Foreign Gold Coin held by Federal Reserve Banks.

Dear Sir:

For some time we have been compiling figures relating to the cash holdings of the Federal reserve banks for the earlier years in order that certain revisions may be made in the Treasury department's circulation statement from the beginning of the System to date. In going into this matter we find that we have no information on file showing the amount of foreign gold coin and of gold bullion held by your bank (including amount pledged with agent) on the last day of each month from November 1914 to November 1920. We assume that your bank held very little, if any, foreign gold coin or gold bullion during this period, but would like to have you furnish us with a statement as of the end of each month during this period, in order that the revision to be made in the circulation statement may be as accurate as possible.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

TO ALL F. R. AGENTS EXCEPT NEW YORK*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 29, 1927.
St. 5424

SUBJECT: Bank Premises Accounting and
Functional Expense Reports.

Dear Sir:

The Board recently asked representatives of six of the Federal reserve banks to meet with a representative of the Board at Chicago for the purpose of discussing the accounting procedure with reference to bank premises and certain phases of the functional expense reports. This committee met on June 2 and 3, 1927, and submitted a report, a copy of which is attached hereto.

Before taking any action on the report of the committee, the Board would like to be advised whether or not your bank concurs in the committee's recommendations. If there are any recommendations of the committee in which your bank does not concur, it will be appreciated if you will set forth your views in some detail for presentation to the Board along with the committee's report.

Very truly yours,

Walter L. Eddy,
Secretary.

Enclosure.

LETTER TO GOVERNOR OF EACH FEDERAL RESERVE BANK*

The Committee appointed to discuss certain questions in connection with accounting of bank premises and functional expense reports, met at the Federal Reserve Bank of Chicago on June 2nd and 3rd, 1927. The members of the Committee present were:

E. L. Smead,	Federal Reserve Board
L. R. Rounds,	Federal Reserve Bank of New York
M. J. Fleming,	Federal Reserve Bank of Cleveland
J. S. Walden, Jr.,	Federal Reserve Bank of Richmond
J. H. Dillard,	Federal Reserve Bank of Chicago
F. C. Dunlop,	Federal Reserve Bank of Minneapolis
J. W. White,	Federal Reserve Bank of St. Louis

The meeting was also attended by G. H. Wagner and A. C. Black, of the Federal Reserve Banks of Cleveland and Chicago, respectively.

Previous to the discussion of the specific topics referred to the Committee, Mr. James of the Federal Reserve Board, and Messrs. Heath, Blair and McKay of the Federal Reserve Bank of Chicago, discussed in a general way the subjects to be considered by the conference, and expressed their opinions regarding various phases of bank premises accounting.

After this informal discussion the Committee considered the following questions:

1. Should the annual depreciation allowances on bank buildings and on fixed machinery and equipment be set up as depreciation reserve or should they be actually charged off?

It was the consensus of opinion that the present procedure of carrying the annual depreciation allowances on buildings and on fixed machinery and equipment as a reserve be continued. The net results obtained under that plan or that of actually reducing the buildings and fixed machinery and equipment accounts each year are practically the same, but it was thought advisable to preserve the replacement cost of buildings and the cost of fixed machinery and equipment on the daily balance sheet of each bank, and deduct the reserve carried against each account showing the net result.

2. What should be the accounting procedure with reference to replacements of fixed machinery and equipment?

It was decided to continue crediting to the reserve account the annual depreciation allowances on fixed machinery and equipment, and to charge the cost of replacements less salvage, if any, to this reserve account. Should the cost of replacements materially exceed the cost of original equipment consideration should be given to the advisability of charging the excess cost to fixed machinery and equipment. When purchases of equipment not included in the original installation are made the cost of such items should be charged to fixed machinery and equipment account.

When the use of any fixed machinery and equipment is discontinued and is not replaced but sold for salvage, the original cost should be credited to fixed machinery and equipment account, and the difference between the original cost and the amount of salvage obtained should be charged to reserve for depreciation account.

Under ordinary conditions some of the Federal Reserve Banks will accumulate within the next ten years a reserve account equal to fixed machinery and equipment account. When they equal each other depreciation allowances should be discontinued until an increase in the fixed machinery and equipment account or a decrease in the reserve for depreciation account occurs. Provision should then be made for annual depreciation allowances in order to increase or restore the reserve account upon a fair depreciation basis.

The classification of certain items as replacements or as repairs and alterations was thoroughly discussed. The Committee appreciated the fact that the amount involved often affects to a great extent the classification determined, but it was the consensus of opinion that if a whole unit is replaced, such an item should usually be considered as a replacement even though the amount involved may seem small. Similar classification should be given to the replacement of part of a unit if the amount involved is large.

2 A - Alterations for tenants.

It was the consensus of opinion that the cost of repairs and alterations made for the use of tenants should be amortized over the period of the lease for the premises affected, as provided in the functional expense manual.

Mr. Dillard did not concur in this opinion, but recommended, in view of the fact that the cost of repairs and alterations for tenants does not add to the value of the building, that the cost of these items be charged to current expense, particularly if the amount is relatively small when compared with the amount of rent to be received; or if the expense incurred in making repairs and alterations for a tenant is large enough to materially affect the current expense account from a comparative standpoint, that this item be carried in a special account and charged direct to profit and loss at the end of the current year in the same manner that we now charge furniture and fixtures.

3. How much, if any, of the data shown in the functional expense reports is it advisable to make public?

It was the opinion of the Committee that it is not advisable to publish data with regard to functional expense reports, but the Committee appreciated the fact that this subject is a matter of policy, and makes no recommendation.

4. Are the indices shown in Memorandum St. 5359 dated May 7, 1927, from the Federal Reserve Board a satisfactory means of measuring the trend in operating efficiency of the Federal reserve banks?

The Committee thought that the indices presented showed a fairly good picture of the trend of expenses in the individual Federal reserve banks and that it would be worth while to prepare such information periodically. It was thought inadvisable to publish figures similar to those shown in the memorandum, but that the memorandum may be used as a basis for general discussion of the System's operating efficiency.

The suggestion to discontinue or simplify functional expense report Form E was presented to the Committee, and this subject was thoroughly discussed.

It was the opinion of each member of the Committee that the functional expense plan had undoubtedly accomplished many beneficial results, and although additional benefits might be derived from the comparison of expenses of the various Federal reserve banks, report Form E would probably not be as valuable in the future as it has been for the past few years.

All of the Federal reserve banks now have in operation a budget for expenses, and in some banks the budget plan has been in operation for some time with the result that as far as those individual banks are concerned the information obtained from the budget is adequate, but it was agreed that the system of budgeting expenses could not be substituted for the functional expense plan at this time.

It was also agreed that the work necessary for the preparation of Form E is a negligible item and its simplification would not provide much of a saving in labor.

It was likewise thought advisable to continue some form of functional expense report and, therefore, the Committee agreed that for the present the functional expense plan now in operation should be continued.

Respectfully submitted,

(signed) M. J. Fleming
L. R. Rounds
J. H. Dillard
F. C. Dunlop
J. W. White
J. S. Walden, Jr.

For immediate release

Federal Reserve Board
June 30, 1927
St. 5428

STATEMENT FOR THE PRESS

Arrangements have been perfected whereby reporting member banks in New York City and Chicago will hereafter submit their weekly condition reports as at close of business each Wednesday to the respective Federal reserve banks on the following morning in time to have the combined figures reach the Federal reserve Board and be released to the press Thursday afternoon. Figures showing the condition of reporting member banks in these two cities at close of business yesterday, June 29, will therefore be released by the Board late today. It is not practicable to obtain figures for all of the other weekly reporting member banks in sufficient time to release them along with the figures for banks in New York City and Chicago, and accordingly the complete statement showing the condition of all weekly reporting member banks will be issued on Monday afternoons as heretofore. The complete statement for June 29 will be issued on Tuesday, July 5, because of the holiday Monday.